KazTransOil JSC

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2007

Contents

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

24 April 2008

The accompanying consolidated financial statements of KazTransOil JSC and its subsidiaries (collectively the "Group") as of and for the year ended 31 December 2007 were prepared by management of the Group which is responsible for their integrity and objectivity. Management believes these consolidated financial statements of the Group, which require the use of certain estimates and judgments, fairly and accurately reflect the financial position, results of operations, and cash flows of the Group as of and for the year ended 31 December 2007 in accordance with International Financial Reporting Standards.

Management maintains appropriate policies, procedures and systems of internal control to ensure its reporting practices, accounting and administrative procedures are appropriate, consistent, and undertaken at reasonable cost. These policies and procedures are designed to provide reasonable assurance that transactions are properly recorded and summarised so that reliable financial records and reports can be prepared and assets safeguarded.

F.A. Mamonov
Acting General Director

M.M. Mazhenov
Deputy General Director on Economics and Finance

Zh.O. Sultangaliyeva
Chief Accountant

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
29/6 Satpaev Avenue
Hyatt Regency Hotel
Office Tower, 4th Floor
Almaty 050040 Kazakhstan
Telephone: +7 (727) 298-0448
Facsimile: +7 (727) 298-0252
www.pwc.com

INDEPENDENT AUDITOR'S REPORT

24 April 2008

To the Shareholder and Management of KazTransOil JSC:

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

Management's Responsibility for the Financial Statements

2 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 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.

Auditor's Responsibility

3 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 financial statements are free from material misstatement.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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.

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

Opinion

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

Almaty, Kazakhstan

Approved by:	Signed by:
Zhanbota T. Bekenov General Director, PricewaterhouseCoopers LLP (General State License from the Ministry of Finance of the Republic of Kazakhstan № 0000005 dated 21 October 1999)	Baurzhan Burkhanbekov Auditor in charge (Qualified Auditor's Certificate №0000586 dated 30 October 2006)

Our report has been prepared in Russian and in English. In all matters of interpretation of information, views or opinions, the Russian version of our report takes precedence over the English version

KazTransOil JSC
Consolidated Balance Sheet

In thousands of Kazakhstani Tenge	Notes	31 December 2007	31 December 2006
ASSETS			
Current assets:			
Cash and cash equivalents	9	25,403,345	22,573,424
Trade accounts receivable and other receivables	10	4,501,516	2,836,434
Other financial assets	11	3,361,339	2,885,670
Advances to suppliers	12	368,796	578,604
Prepaid income tax		85,434	516
Other taxes prepaid	14	4,981,394	10,221,894
Other current assets	15	2,713,879	2,216,575
Inventories	16	3,143,377	3,265,760
		44,559,080	44,578,877
Non-current assets classified as held for sale	17	2,324,524	1,322,734
Total current assets		46,883,604	45,901,611
Non-current assets:			
Property, plant and equipment	18	265,733,871	223,128,895
Goodwill	19	2,781,018	-
Intangible assets	20	1,354,198	1,462,587
Available-for-sale investments	21	99,920	99,920
Other non-current financial assets	22	1,203,609	1,528,731
Advances to suppliers for non-current assets	23	1,502,571	524,085
Other non-current assets	24	1,818,237	2,165,916
Total non-current assets		274,493,424	228,910,134
Total assets		**321,377,028**	**274,811,745**
LIABILITIES			
Current liabilities:			
Current portion of borrowings	25	2,001,697	1,300,328
Current portion of corporate bonds	26	375,436	1,148,948
Current portion of financial leasing	27	11,933	-
Current portion of employee benefits	31	105,000	-
Trade accounts payable and other payables	29	6,850,658	6,327,105
Advances received	30	9,530,274	9,209,315
Income tax payable		1,096,646	123,042
Other taxes payable	28	653,219	1,095,381
Other current liabilities	32	9,860,035	8,047,356
Total current liabilities		30,484,898	27,251,475
Non-current liabilities:			
Borrowings	25	7,960,824	11,300,503
Corporate bonds	26	36,884,827	37,683,780
Financial leasing	27	92,470	-
Financial guarantee	42	352,863	-
Other non-current accounts payable		71,908	32,780
Employee benefits	31	1,926,000	-
Deferred tax liabilities	13	26,475,206	14,470,973
Other non-current liabilities	33	243,389	401,482
Total non-current liabilities		74,007,487	63,889,518
Total liabilities		104,492,385	91,140,993
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	34	32,916,055	32,916,055
Revaluation reserve	34	67,660,719	55,800,150
Other reserves	34	17,104	19,770,393
Foreign currency translation reserve		(227,064)	(10,353)
Retained earnings		113,451,726	75,194,507
		213,818,540	183,670,752
Minority interest		3,066,103	-
Total equity		216,884,643	183,670,752
Total liabilities and equity		**321,377,028**	**274,811,745**

Approved on behalf of the Board of Directors

F.A. Mamonov, Acting General Director

M.M. Mazhenov, Deputy General Director on Economics and Finance

Zh.O. Sultangaliyeva, Chief Accountant

KazTransOil JSC
Consolidated Income Statement

In thousands of Kazakhstani Tenge	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Sales	35	94,993,806	75,227,520
Cost of sales	36	(57,775,365)	(41,094,111)
Gross profit		37,218,441	34,133,409
General and administrative expenses	37	(13,760,010)	(13,156,096)
Other operating income	38	1,926,852	583,159
Other operating loss	39	(1,371,719)	(1,362,850)
Net foreign exchange gain / (loss)		68,779	(766,827)
Operating income		24,082,343	19,430,795
Finance income	40	1,882,613	2,122,456
Finance cost	41	(4,756,464)	(5,707,194)
Foreign exchange gain from financing activities		11,613,304	10,820,578
Foreign exchange loss from financing activities		(8,920,359)	(8,063,399)
Share loss		(240,202)	-
Profit before income tax		23,661,235	18,603,236
Income tax expense	13	(9,481,204)	(8,073,210)
Profit for the year		**14,180,031**	**10,530,026**
Profit attributable to:			
Equity holders of the Group		13,562,627	10,530,026
Minority interest		617,404	-
		14,180,031	**10,530,026**

The accompanying notes are an integral part of these consolidated financial statements

KazTransOil JSC
Consolidated Statement of Cash Flows

In thousands of Kazakhstani Tenge	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Cash flows from operating activities			
Profit before income tax		23,661,235	18,603,236
Adjustments:			
Depreciation of property, plant and equipment	18	20,467,675	13,492,426
Amortisation of intangible assets	20	321,537	257,649
Allowance for doubtful debts	37	(103,178)	58,737
Loss on disposal of property, plant and equipment and intangible assets, net	39	940,441	1,340,387
Employee benefits (flats)	32, 36, 37	2,047,714	-
Employee benefits	31	2,019,000	-
Unrealised foreign exchange gain		(2,696,406)	(2,716,834)
Finance income	40	(1,882,613)	(2,122,456)
Interest expense	41	4,408,628	5,387,413
Other finance costs	41	347,836	311,715
Loss on initial recognition of financial guarantee	39	431,278	-
Amortization of financial guarantee	38	(47,325)	-
Impairment of property, plant and equipment		1,567,606	1,086,091
Income from write-off of payables	38	(15,253)	(31,885)
Income from stock excess	38	(369,356)	(42,129)
Allowance for obsolete inventory	37	(158,900)	389,930
Operating income before changes in working capital		50,939,919	36,014,280
Decrease in inventories		153,511	3,361,154
Increase in trade accounts receivable and other receivables		(1,287,308)	(1,794,243)
Decrease in advances to suppliers		467,560	1,597,738
Decrease / (increase) in other taxes prepaid, other current and non-current assets, and other non-current financial assets		5,272,785	(727,947)
Decrease in trade accounts payable and other payables		(1,137,795)	(2,549,162)
Increase in advances received		165,063	1,588,073
(Decrease) / increase in other taxes payable		(762,231)	520,939
(Decrease) / increase in other current and non-current liabilities, and other non-current accounts payable		(106,314)	800,677
Cash flows provided by operating activities		53,705,190	38,811,509
Income tax paid		(4,053,128)	(3,434,953)
Interest paid		(3,541,374)	(4,359,091)
Interest received on short-term deposits		1,471,246	429,637
Dividends received		99,920	-
Employee benefits paid		(101,000)	(97,000)
Net cash flows from operating activities		47,580,854	31,350,102
Cash flows from investing activities			
Time deposits withdrawn		9,231,669	44,159,011
Time deposits placed		(9,707,338)	(8,245,267)
Acquisitions		(6,831,147)	-
Purchase of property, plant and equipment		(30,262,911)	(38,519,120)
(Increase) / decrease in advances for non-current assets		(1,064,447)	430,305
Proceeds from sale of property, plant and equipment, intangible assets and long-term assets classified as held for sale		473,691	560,364
Purchase of intangible assets		(213,148)	(340,626)
Net cash flows used in investing activities		(38,373,631)	(1,955,333)
Cash flows from financing activities			
Dividends paid		(2,316,632)	(1,045,742)
Proceeds from borrowings		680,026	1,270,000
Repayment of borrowings		(4,713,067)	(3,414,769)
Repayment of corporate bonds		-	(17,782,435)
Net cash flows used in financing activities		(6,349,673)	(20,972,946)
Net increase in cash and cash equivalents		2,857,550	8,421,823
Effect of exchange rate changes on cash and cash equivalents		(27,629)	(257,767)
Cash and cash equivalents at the beginning of the year	9	22,573,424	14,409,368
Cash and cash equivalents at the end of the year	9	25,403,345	22,573,424

The accompanying notes are an integral part of these consolidated financial statements

KazTransOil JSC
Consolidated Statement of Changes in Equity

In thousands of Kazakhstani Tenge	Attributable to equity holders of the Group Share Capital	Revaluation Reserve	Other reserves	Foreign currency translation reserve	Retained Earnings	Minority interest	Total
Notes	**34**	**34**	**34**				
As at 31 December 2005	**32,916,055**	**58,359,128**	**20,471,378**	**-**	**63,055,625**	**-**	**174,802,186**
Translation of foreign currencies	-	-	-	(10,353)	-	-	(10,353)
Transferred to retained earnings	-	-	(579,535)	-	579,535	-	-
Amortisation of revaluation reserve	-	(2,051,113)	(23,950)	-	2,075,063	-	-
Disposal of assets	-	-	(97,500)	-	-	-	(97,500)
Impairment loss of revalued assets	-	(507,865)	-	-	-	-	(507,865)
Net income recognized directly in equity	-	**(2,558,978)**	**(700,985)**	**(10,353)**	**2,654,598**	-	**(615,718)**
Net profit for the year	-	-	-	-	10,530,026	-	10,530,026
Total recognized income for 2006	-	**(2,558,978)**	**(700,985)**	**(10,353)**	**13,184,624**	-	**9,914,308**
Dividends declared	-	-	-	-	(1,045,742)	-	(1,045,742)
As at 31 December 2006	**32,916,055**	**55,800,150**	**19,770,393**	**(10,353)**	**75,194,507**	**-**	**183,670,752**
Translation of foreign currencies	-	-	-	(216,711)	-	(126,551)	(343,262)
Transferred to retained earnings	-	-	(19,753,220)	-	19,753,220	-	-
Amortisation of revaluation reserve	-	(7,258,004)	-	-	7,258,004	-	-
Disposal of assets	-	-	(69)	-	-	-	(69)
Revaluation of property, plant and equipment	-	19,118,573	-	-	-	-	19,118,573
Net income recognized directly in equity	-	**11,860,569**	**(19,753,289)**	**(216,711)**	**27,011,224**	**(126,551)**	**18,775,242**
Net profit for the year	-	-	-		13,562,627	617,404	14,180,031
Total recognized income for 2007	-	**11,860,569**	**(19,753,289)**	**(216,711)**	**40,573,851**	**490,853**	**32,955,273**
Acquisitions (Note 1)	-	-	-	-	-	3,269,593	3,269,593
Dividends declared	-	-	-		(2,316,632)	(694,343)	(3,010,975)
As at 31 December 2007	**32,916,055**	**67,660,719**	**17,104**	**(227,064)**	**113,451,726**	**3,066,103**	**216,884,643**

The accompanying notes are an integral part of these consolidated financial statements

1. The Group and its Operations

On 2 April 1997, in accordance with Resolution No. 461 of the Government of the Republic of Kazakhstan (the "Government"), the state owned entities – Yuzhnefteprovod PO (Aktau) and Magistralnye Nefteprovody of Kazakhstan and Central Asia PO (Pavlodar) - were reorganised and merged into a new entity named Kazakhnefteprovod. Subsequently, Kazakhnefteprovod was renamed to KazTransOil National Oil Transportation Company CJSC ("KazTransOil NOTC CJSC").

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

On 31 May 2004 the Company was reregistered as KazTransOil Joint Stock Company.

On 20 February 2002, based on a resolution of the Government TNG and National Oil and Gas Company "KazakhOil" CJSC merged. As a result of this merger, a new company, National Company KazMunayGas JSC ("KMG" or the "Parent company"), which became the Company's sole shareholder, was formed. KMG, a national oil and gas company owned by the Kazakhstan Holding for Management of State Assets Samruk Joint Stock Company and ultimately owned by the government of the Republic of Kazakhstan.

During 2003 the Company created KazTransOil - Service JSC ("KazTransOil-Service") in which it holds a 100 percent interest.

On 29 June 2004, the Company together with the Chinese National Corporation for oil and gas exploration and production established the Kazakhstan – Chinese Pipeline LLP ("KCP"). The Company owns a 50 percent interest in KCP. KCP owns 100 percent of shares in the KCP subsidiary, KCP Finance B.V., registered in the Netherlands. This entity was established for the purpose of issuing bonds (Note 26).

On 28 July 2004, the Company acquired 51 percent of the shares of the North-West Pipeline Company MunaiTas Joint Stock Company ("MunaiTas") from KMG. 49 percent of the shares of MunaiTas belong to "CNPC International in Kazakhstan" LLP.

On 6 November 2006 the Company signed an agreement to purchase 50 percent of the shares of Naftrans Capital Partners Limited ("NCPL"). NCPL is a holding company that has investment in 61.88 percent shares of Batumi Terminals Limited, which operates the oil-loading terminal in Batumi, Georgia. The total consideration paid under the agreement amounted to USD 64,000 thousand. The agreement envisages the parties executing certain preliminary conditions prior to transferring ownership to the Company. The preliminary conditions, namely, settlement of purchase price consideration took place on 11 January 2007, accordingly, NCPL was proportionately consolidated in these consolidated financial statements.

The Company and its subsidiaries are hereafter referred to as the "Group".

The Group's and its joint ventures' main business activities include, but are not limited to:

- the coordination and management of crude oil transported within Kazakhstan and for export;
- the storage, loading and unloading, transhipment or transfer of crude oil to other related pipeline systems;
- transporting water supplies for the technological, production and economic needs of the Mangistau and Atyrau regions of Kazakhstan;
- performing activities to operate, service and repair mainline pipelines belonging to other legal entities;
- cooperation with oil transportation companies of other countries regarding the transportation of oil in accordance with intergovernmental agreements, including oil transportation coordination services;
- the management of investment activity for the overall development of the main oil pipeline systems within Kazakhstan and other activities as described in the Company's charter;
- the forwarding, transshipment and storage of oil and oil products through a port terminal in Batumi, Republic of Georgia.

1. The Group and its Operations (Continued)

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

- for corporate income tax purposes the Company has been provided with the right to deduct the cost of fixed assets entered into operation from aggregate annual income in equal shares for a period of two years (MunaiTas – five years) beginning from 1 January of the year following the year when fixed assets entered in operation. The Company used the preferences in 2005 and 2006 and MunaiTas is using the preferences from 2004 to 2008.
- an exemption from property tax for a period of three years for fixed assets that were newly entered into operation (MunaiTas – five years) beginning from 1 January of the year following the year when fixed assets entered in operation. The Company used the preferences in 2005 – 2007 and MunaiTas is using the preferences from 2004 to 2008.
- an exemption from land tax for a period of three years for plots of land purchased and used for the implementation of an investment project (MunaiTas – five years) beginning from 1 January of the year following the year when the fixed assets entered in operation. The Company will use the preferences in 2005 – 2007 and MunaiTas is using the preferences in 2004 – 2008.

Under Investment Contract 3, KCP has been provided with a 1 year exemption from customs duties for the import of equipment and for components that have been imported to implement an investment project. The exemption period may be extended for a period that does not exceed 5 years. KCP used the exemption in 2004 and 2005.

On 13 October 2006 the Company entered into an investment contract ("Investment Contract 4") with the Committee for Investment for the provision of the following investment tax concessions from 1 January 2007 when implementing the investment project "Construction of the Supply Oil Pipeline "North Buzachi-Karazhanbas":

- for corporate income tax purposes the Company has been provided with the right to deduct the cost of fixed assets commissioned as part of the investment project from aggregate annual income for one year from 1 January of the year following the year fixed assets are commissioned as part of the investment project;
- an exemption from property tax on newly commissioned fixed assets as part of the investment project, for three years from 1 January of the year following the year fixed assets are commissioned as part of the investment project.

The Company's head office is located in Astana, Kazakhstan, at 20 Kabanbay Batyr Avenue. The Company has 4 branches, which are located in Atyrau (Western branch), Pavlodar (Eastern branch), a scientific-technical centre located in Almaty, a Multiaccess computing centre in Astana, and representative offices in Moscow, Orsk and Samara in the Russian Federation, and Kiev, Ukraine.

These consolidated financial statements have been approved for issue by the management of the Group on 24 April 2008.

Tariff setting. The Company is considered to be a natural monopolist, and as such, is regulated by the Agency for the Regulation of Natural Monopolies and the Protection of Competition of the Republic of Kazakhstan (the "Antimonopoly Committee"). This agency is responsible for approving the methodology for calculating tariffs and tariff rates, under which the Company derives substantially all of its primary revenues. Tariffs are generally based on the cost of capital for assets used. According to legislation of the Republic of Kazakhstan on the regulation of the activities of natural monopolies, tariffs may not be lower than costs to provide services, and should take into consideration the possibility of generating profit that ensures the effective performance of a natural monopoly.

1. The Group and its Operations (Continued)

Oil transportation services tariffs for mainline pipelines were approved by the Order of the Antimonopoly Committee dated 20 February 2003. The Order of the Company's General Director dated 5 May 2004 reduces oil pumping tariffs due to changes in Kazakhstan legislation. In this respect, tariffs are calculated based on the weighted tariff of 2,413 Tenge for the transportation of 1 tonne of oil for 1,000 km for export and 1,303 Tenge for the transportation of 1 tonne of oil for 1,000 km for local market.

In accordance with the Order of the Antimonopoly Committee dated 21 November 2007 starting from 1 January 2008 new tariffs were introduced based on the weighted tariff of 3,015 Tenge for the transportation of 1 tonne of oil for 1,000 km for export and 1,303 Tenge for the transportation of 1 tonne of oil for 1,000 km for local market.

Water is supplied to oil and gas producers and other consumers in the Western Kazakhstan region, and also to the local population.

Current water supply tariffs were approved by the Order of the Chairman of the Antimonopoly Committee dated 21 November 2006, and were entered into force from 1 January 2007. Water supply tariffs were set for four groups of consumers: the population, budget and non-commercial organisation, agricultural producers, industrial companies and other commercial organisations, and oil and gas production companies.

2. Basis of Presentation and Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). They have been prepared under the historical cost convention as modified by the revaluation of property, plant and equipment. 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 periods presented.

Presentation currency. All amounts in these consolidated financial statements are presented in thousands of Kazakhstani Tenge ("Tenge"), unless otherwise stated. The functional currency of the Group's entities is Tenge. The functional currency of the Group's joint ventures, except for NCPL, is Tenge. NCPL's functional currency is US Dollar.

Accounting for the effects of inflation. The Republic of Kazakhstan has previously experienced relatively high levels of inflation, and was considered to be a hyperinflationary economy as defined by IAS 29 *Financial Reporting in Hyperinflationary Economies* ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Republic of Kazakhstan indicate that hyperinflation has ceased, effective from 1 January 1999 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 1998 are treated as the basis for the carrying amounts in these consolidated financial statements.

Consolidated financial statements.

(i) Subsidiaries

Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

2. Basis of Presentation and Significant Accounting Policies (Continued)

The excess of the cost of acquisition over the fair value of the net assets of the acquiree at each exchange transaction represents goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Intercompany transactions, balances and unrealised gains on transactions are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Minority interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company. Minority interest forms a separate component of the Group's equity.

(ii) Joint ventures

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's consolidated financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

The purchase method of accounting is used to account for the acquisition of joint ventures. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where purchase of a share in joint venture is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the fair value of the net assets of the acquired joint venture at each exchange transaction represents goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a purchase of a share in joint venture are measured at respective proportion of fair values at the acquisition date.

Intercompany transactions, balances and unrealised gains on transactions are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its joint ventures use uniform accounting policies consistent with the Group's policies.

Minority interest relating to jointly controlled entity is that part of the net results and of the net assets of a jointly controlled entity, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by that jointly controlled entity. Minority interest forms a separate component of the Group's equity.

Transactions with minorities. The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in the equity.

2. Basis of Presentation and Significant Accounting Policies (Continued)

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium, are not presented separately and are included in the carrying values of related consolidated balance sheet items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest.

Classification of financial assets. The Group classifies its financial assets into the following measurement categories: trading, available for sale, held to maturity and loans and receivables.

Trading investments are securities or other financial assets, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are included in a portfolio in which a pattern of short-term trading exists. The Group classifies financial assets into trading investments if it has an intention to sell them within a short period after acquisition. Trading investments are not reclassified out of this class even when the Group's intentions subsequently change. Trading investments are carried at fair value. Interest earned on trading investments calculated using the effective interest method is presented in the consolidated income statement as finance income. Dividends are included in dividend income within finance income when the Group's right to receive the dividend payment is established and inflow of benefits is probable. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise. As of 31 December 2007 and 31 December 2006 the Group has no trading investments.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Held to maturity classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses

2. Basis of Presentation and Significant Accounting Policies (Continued)

the appropriateness of that classification at each balance sheet date. Held-to-maturity investments are carried at amortised cost using the effective interest method, net of a provision for incurred impairment losses. As of 31 December 2007 and 31 December 2006 trading the Group has no held to maturity investments.

All other financial assets are designated as available for sale.

Available-for-sale investments. Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established and inflow of benefits is probable. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Classification of financial liabilities. The Group classifies its financial liabilities into the following major classes: borrowings, corporate bonds, trade and other payables, financial leasing, financial guarantee, and other (Note 7).

Borrowings and corporate bonds are recognised initially at fair value, net of transaction costs incurred. Borrowings and corporate bonds are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Interest costs on borrowings and corporate bonds are recognised as an expense in the period in which they are incurred. Borrowings and corporate bonds are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Trade and other payables are accrued when the counterparty performed its obligations under the contract. The Group recognises trade payables and other payables at fair value. Subsequently trade payables and other payables are carried at amortised cost using the effective interest method.

Initial recognition of financial instruments. Trading investments and derivatives are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Financial aid provided to related parties at interest rates different from market rates is re-measured at origination to its fair value, being future interest payments and principal repayments discounted at market interest rates for similar loans. The difference between the fair value of the financial aid at origination and its cost (fair value of the contribution to the borrower) represents an origination gain or loss. The origination gain or loss is recorded in the income statement within finance income/costs unless it qualifies for recognition as a charge to equity in accordance with the substance of the arrangement. Subsequently, the carrying amount of the financial aid is adjusted for amortisation of the gains/losses on origination and the amortisation is recorded as finance income/costs using the effective interest method.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date recognised in equity for assets classified as available for sale.

2. Basis of Presentation and Significant Accounting Policies (Continued)

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Property, plant and equipment. Property, plant and equipment are stated at revalued cost less accumulated depreciation and provision for impairment, where required.

Property, plant and equipment are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve directly in equity; all other decreases are charged to the consolidated income statement. The revaluation reserve in equity is transferred directly to retained earnings when the surplus is realised either on the retirement or disposal of the asset or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the consolidated income statement to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Included within property, plant and equipment there is a technological oil. Technological oil represents oil within pipelines necessary for supporting uninterrupted transportation services. Sale of technological oil by the Group is restricted by the regulations set by the Antimonopoly Committee of the Republic of Kazakhstan. Residual value of technological oil is not less than its carrying value, accordingly, its accumulated depreciation as of 31 December 2007 and 2006 and depreciation charge for the years then ended are zero.

Depreciation. Land and construction in progress are not depreciated. Depreciation is computed on a straight-line basis over the estimated useful lives. The estimated remaining useful life of main classes of fixed assets is presented as follows (in years):

	Years **New assets**	**Years** **Revalued assets**
Buildings	5 – 68	1 – 51
Machinery and equipment	2 – 55	1 – 35
Pipelines and other transportation assets (excluding technological oil)	2 – 58	1 – 31
Other	1– 50	1 – 48

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2. Basis of Presentation and Significant Accounting Policies (Continued)

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or joint ventures at the date of exchange. Goodwill on acquisitions of subsidiaries or joint ventures is presented separately in the consolidated balance sheet. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination.

Other intangible assets. All other Group's intangible assets have definite useful lives and primarily include capitalised computer software and licenses. Acquired computer software licenses, patents are capitalised on the basis of the costs incurred to acquire and bring them into use.

Other intangible assets are amortized on a straight-line basis over their estimated useful lives varying from 1 to 10 years. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

	Useful lives Years
Licenses	3 – 10
Software	1 – 10
Other	3

Income taxes. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and joint ventures operate and generate taxable income. The income tax charge or credit comprises current tax and deferred tax and is recognised in the consolidated income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is assigned on the first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

2. Basis of Presentation and Significant Accounting Policies (Continued)

Trade and other receivables. Trade and other receivables are initially recognised at fair value. Trade and other receivables are subsequently carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. If there is an indication that the goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, cash in current accounts at banks, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Non-current assets classified as held for sale. Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the consolidated balance sheet as 'Non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction within twelve months after the balance sheet date. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected to occur within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's consolidated balance sheet are not reclassified or re-presented in the comparative consolidated balance sheet to reflect the classification at the end of the current period.

A disposal group is assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the balance sheet date. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale property, plant and equipment or disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment are not depreciated or amortised. Reclassified non-current financial instruments that are part of a disposal group are not subject to the write down to the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated balance sheet.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

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 consolidated financial statements are authorised for issue.

Value added tax ("VAT"). Value-added tax related to sales is payable to the Kazakhstani budget when goods are shipped or services are rendered. Input VAT can be offset against output VAT upon the receipt of a tax invoice from a supplier. Tax legislation allows the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases unsettled at the balance sheet date is stated in the balance sheet on a net basis. Due to specifics of Tax legislation and the Group's operations certain part of input VAT can be offset against output VAT which will be generated only after period exceeding 12 months. Such portion of VAT is classified as long-term asset and assessed for impairment in accordance with provisions of IAS 36 being considered as a corporate asset and allocated to existing cash generating units.

2. Basis of Presentation and Significant Accounting Policies (Continued)

Provisions for liabilities and charges. Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Financial guarantees. Financial guarantees are contracts that requires the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are recognised when the borrower receives the money from the financing entity. When the Group issues premium-free guarantee fair value is determined using valuation techniques (e.g. market prices of similar instruments, interest –rate differentials, etc). Losses at initial recognition of financial guarantee liability are recognised in the income statements within other operating expenses. Financial guarantee liability is amortised on a straight line basis over the life of the guarantee with respective income presented within other operating income. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the balance sheet date.

Foreign currency transactions. Monetary assets and liabilities, which are held by the Group and denominated in foreign currencies at 31 December 2007 and 31 December 2006, are translated into Kazakhstani Tenge at the official exchange rate of the Kazakhstani Stock Exchange ("KASE") at that date. Foreign currency transactions are accounted for at the exchange rate of the KASE prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

At 31 December 2007, the official rate of exchange used for translating foreign currency balances were: US dollar (USD) 1= Tenge 120.30 (31 December 2006: USD 1= Tenge 127.00); Euro (EUR) 1 = Tenge 177.17 (31 December 2006: EUR 1 = Tenge 167.12); Russian Rouble (RR) 1 = Tenge 4.92 (31 December 2006: RR 1 = Tenge 4.82). Tenge is not freely convertible in most countries outside of the Republic of Kazakhstan.

Income recognition. Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably. Sales are recognised net of related taxes (VAT). Revenue from transportation services is recognised based on actual volumes of crude oil or water transported during the reporting period. Income from sale of inventory and plant, property and equipment is recognised when the significant risks and rewards of ownership of the inventory and plant, property and equipment have passed to the buyer and the amount of income can be measured reliably.

Finance income and costs. Finance income and costs comprise interest expense on borrowings and loans payable, deposits, loans to own employees, interest income/expense from unwinding of discount on other financial assets and liabilities and employee benefits; and foreign currency gain/loss related to financing activities. Interest income/expense is recognised using the effective yield on the asset/liability.

Employee benefits. The Company provides long-term employee benefits to employees before, on and after retirement, in accordance with the Rules on social support of employees (the "Social rules") approved by the Company's Shareholder. The Rules provide for one-off retirement payments, financial aid for employees' disability and retired employees, significant anniversaries and funeral aid to the Company's employees. The entitlement to benefits is usually conditional on the employee remaining in service up to retirement age.

The expected costs of the benefits associated with one-off retirement payments are accrued over the period of employment using the same accounting methodology as used for defined benefit post-employment plans. Actuarial gains and losses arising in the year are taken to the income statement. For this purpose, actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred. Other movements are recognised in the income statement, including current service cost, any past service cost and the effect of any curtailments or settlements.

The most significant assumptions used in accounting for defined benefit obligations are discount rate and mortality assumptions. The discount rate is used to determine the net present value of future liabilities and each year the unwinding of the discount on those liabilities is charged to the income statement as interest cost. The mortality assumption is used to project the future stream of benefit payments, which is then discounted to arrive at a net present value of liabilities.

2. Basis of Presentation and Significant Accounting Policies (Continued)

Employee benefits other than one-off retirement payments are considered as other long-term employee benefits. The expected cost of these benefits is accrued over the period of employment using the same accounting methodology as used for the defined benefit plan.

These obligations are valued by independent qualified actuaries.

Payroll expense and related contributions. Wages, salaries, social tax, contributions to social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group.

Pension payments, except for described above in employee benefits. The Group does not incur any expenses in relation to pension payments for its employees. In accordance with the legal requirements of the Republic of Kazakhstan, the Group withholds pension contributions from employees' salary and transfers them into the employee's designated pension fund. Upon retirement of employees, all pension payments are administered by such pension funds.

Reclassifications. Certain 2006 corresponding amounts were reclassified to comply with 2007 presentation. These reclassification are as follows:

In thousands of Kazakhstani Tenge	Amount
Consolidated balance sheet	
Advances to suppliers for oil transportation coordination services were reclassified to other current assets	2,142,189
Other current assets were reclassified to trade accounts receivable and other receivables	1,884,602
Short-term bank deposits were reclassified to other financial assets	2,869,086
Other current assets were reclassified to other financial assets	16,584
Non-current assets classified as held for sale were reclassified to property, plant and equipment	3,415,549
Other non-current assets were reclassified to other non-current financial assets	1,528,731
Advances received for oil transportation coordination services were reclassified to other current liabilities	4,744,020
Other current liabilities were reclassified to trade accounts payable and other payables	295,559
Other current liabilities were reclassified to other taxes payable	12,520
Other non-current liabilities were reclassified to other non-current accounts payable	32,780
Consolidated income statement	
Impairment of property, plant and equipment was reclassified from other operating loss to cost of sales	878,602
Impairment of property, plant and equipment was reclassified from other operating loss to general and administrative expenses	207,489
Foreign exchange gain on borrowings and bonds was reclassified from net foreign exchange gain to foreign exchange gain from financing activities	10,820,578
Foreign exchange loss on borrowings and bonds was reclassified from net foreign exchange gain to foreign exchange loss from financing activities	8,063,399

Non current assets held for sale

At 31 December 2006 non-current assets classified as held for sale included certain social facilities (sanatorium Saryagash, Saryagash universal sports facility and canteen) amounted to Tenge 3,415,549 thousand. The management initiated a plan to sell these assets, however there was no active programme to locate a buyer. There is no such an active program as of 31 December 2006, hence these assets were reclassified back to Property, Plant and Equipment.

The comparative information was restated and adjusted. Presented below is the effect of such restatement which does not have any impact on the operational results for 2007:

In thousands of Kazakhstani Tenge	Effect for 2006
Increase in property, plant and equipment	3,415,549
Decrease in non current assets held for sale	(3,415,549)

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Asset retirement obligation. Current Kazakhstani legislation in respect to environmental obligations prescribes the companies operating in extracting industries liquidation works to dismantle certain assets and reclaim a land. However, management of the Company believes that environmental law as applicable to the Company's operations does not require dismantling of pipeline and land reclamation upon retirement. As a result, no asset retirement obligation as of 31 December 2007 and 2006 were recognised in these consolidated financial statements.

Revaluation of property, plant and equipment. Property, plant and equipment were revalued to fair value as of 30 June 2007. The revaluation was performed on the basis of an appraisal performed by an independent professional real estate appraisal company operating in the Republic of Kazakhstan under an appropriate license. The methodology used was based on using market-based evidence or, if not available, using depreciated replacement cost approach.

In applying the depreciated replacement cost, certain key elements needed to be considered, such as:

- function, and environment of the asset;
- remaining physical life (to estimate physical deterioration) and economic life of the asset;
- business requirements (to estimate functional/technical obsolescence);
- available market data;
- construction techniques and materials (to estimate the cost of a modern equivalent asset); and
- the impact of economic/external obsolescence.

Changes to the assumptions could affect the carrying amount and the remaining useful lives of the items of property, plant and equipment.

The valuation was performed in accordance with the International Valuation Standards.

The valuation must be subject to a test of adequate profitability of the entity to sustain the valuation. The Company used its judgement to select the assumptions for this analysis. The most significant assumptions affecting profitability test are:

- transportation volumes;
- tariffs annual increase rate – 6 percent;
- annual inflation – 11 percent;
- discount rate – 13.69 percent.

The revalued amount of property, plant and equipment would not be changed if the discount rate used in the cash flow analysis differs by 10 percent from management's.

Revaluation of technological oil

The following considerations were taken into account by Company's management and professional appraiser when determining fair value of technological oil:

- technological oil is an essential part of the process of operating the pipeline without which the transportation is not possible;
- technological oil cannot be sold or otherwise disposed due to regulations imposed by Antimonopoly committee;
- tariffs are being closely monitored by Antimonopoly committee and government to ensure it will not adversely affect general price index in the country and thus may be set at the level which will not allow to recover cost of oil if it was valued at international market price;
- the Company is affected by regulations set by KMG and, should there be a decision to sell some part of oil, subject for approval of Antimonopoly Committee, it would be sold only to the KMG-group's trading division at internal price; and should the Company need to buy additional oil to fill in new parts of pipeline it would buy from the KMG-group entities at the same internal price.

Taking into account all these factors management concluded that the most appropriate price for the technological oil in pipeline to reflect fair value that would be determined by informed market participant would be USD 200 (Tenge 24,000) per ton.

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

As of 31 December 2007 the market prices observed from sales of local producers for export were in the range of USD 550 (Tenge 66,165) and USD 620 (Tenge 74,586) per ton; observed transportation costs were in the range of USD 40 (Tenge 4,828) to USD 70 (Tenge 8,450) per ton. As of 31 December 2007 the amount of oil in the pipeline included as part of property, plant and equipment is 2,100 thousand tons.

Impairment indicators. The Group reviews the carrying amounts of its property, plant and equipment and other long-term assets to determine whether there is any indication that these assets are impaired. Based on an analysis of internal and external factors management has assessed that no impairment indicators exist at the balance sheet date.

Land usage rights. The Group has a right to use land plots where underground pipelines are located under the long-term rent agreements with local administration with maturity varying from 2008 to 2054. These agreements have been renewed at a nominal cost in the past and the Group's management believes that the rent agreements will be prolonged until the useful life of pipelines.

Non-current assets held for sale. The Group has certain social sphere assets classified held for sale. In 2007 management approved a plan to sell these assets. The management initiated a plan to sell these assets and there is an active programme to locate a buyer. The Group expects the sale to complete by the end of 2008 through the tender procedures. The assets are proposed for a sale based on their book value which is believed to be their fair value as a revaluation by professional appraiser was performed and accounted for.

Employee benefits. In accordance with the Company's Rules on social support of employees ("the Social rules") effective since 3 November 2006, the Company provides long-term employee benefits to employees before, on and after retirement. In January 2007, KMG issued an order to all KMG-group companies to impose Samruk-developed "Rules on remuneration of labor and social support". Those rules did not specify any special social benefits covered by the Social rules of the Company. Therefore, the Company had expected that its Social rules shall be ceased. Accordingly, employee benefits liability had not been recognized in the Company's 2006 consolidated financial statements. Subsequently in December 2007, Samruk issued a letter to all KMG-group companies in which it recommended development of a social support program to employees. Therefore, the Company assumed reinstatement of its Social rules and, accordingly, recognized employee benefits liability as assessed by actuary in its 2007 consolidated financial statements (Note 31).

In addition the Company provides certain qualifying employees with rent free flats. The Company has determined that the leases do not transfer substantially all the risks and rewards incidental to ownership of the flats and, therefore, the leases are classified as an operating leases. Flat lease contracts do not provide for subsequent sale of flats, and are concluded for one year. Some of those flats are subsequently sold to employees at discounted prices based on approval of the Company's Board. As of 31 December 2007 due to the established past pattern for selling of the flats to the employees at discounted price the management assessed and recognised an obligation, which represents management's best estimate of the fair value of the benefit to be provided to employees in the form of sale of the flats at discounted prices. The estimate was based on the assumptions made by the management in respect of: number of employees having a valid expectation to buy a flat at discount prices; amount of discount and timing of sale of the flats to the employees (Note 32).

Tax legislation. Kazakhstani tax, currency and customs legislation is subject to varying interpretations. Refer to Note 42.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the consolidated balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

Fair value of financial instruments. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date (Note 5).

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses.

4. New Accounting Pronouncements

Certain new IFRSs became effective for the Group from 1 January 2007. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies.

(i) Standards, amendments and interpretations effective in 2007

- **IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007).** The IFRS introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaced IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these consolidated financial statements.

- **IFRIC 10, 'Interim financial reporting and impairment'**, prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation does not have any impact on the group's consolidated financial statements.

- **IFRIC 9, 'Re-assessment of embedded derivatives'**, requires assessment whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. IFRIC requires determining whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flows on the contract. This interpretation does not have any impact on the group's consolidated financial statements.

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

- **IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009).** The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its consolidated financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

- **IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009).** The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Amended) from 1 January 2009. The Group is currently assessing what impact the amendment to IAS 23 will have on its consolidated financial statements.

- **IAS 27, 'Consolidated and separate financial statements' (effective from 1 July 2009)** - IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value and a gain or loss is recognised in profit or loss. The Group is currently assessing what impact the amendment to IAS 27 will have on its consolidated financial statements.

4. New Accounting Pronouncements (Continued)

- **IFRS 3, 'Business combinations' (effective from 1 July 2009)** - The standard IFRS 3 (revised) continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently remeasured at fair value through income. Goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest. All transaction costs will be expensed. The Group will apply IFRS 3 (Revised) from 1 July 2009. The Group is currently assessing what impact IFRS 3 will have on its consolidated financial statements.

(iii) Standards, amendments and interpretations effective in 2007 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- IFRS 4, 'Insurance contracts';
- IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies';
- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions; and
- IFRIC 8, 'Scope of IFRS 2'.

(iv) Interpretations to existing standards that are not yet effective and not relevant for the group's operations

The following interpretations to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the group's operations:

- IAS 32, Financial instruments: Presentation and IAS 1, Presentation of financial statements - Puttable financial instruments and obligations arising on liquidation (Amendment) (effective from 1 January 2009). The amendment requires entities to classify the following types of financial instruments as equity, provided they have particular features and meet specific conditions: 1) Puttable financial instruments (for example, some shares issued by co-operative entities and some partnership interests); 2) Instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation (for example, some shares issued by limited life entities). The Group does not anticipate any significant impact from application of this standard.

- IFRS 8, Operating segments (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. IFRS 8 is not relevant to the Group's operations because the Group is not public.

- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008). IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant to the Group's operations because the Group does not provide for public sector services.

- IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points of free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement in using fair values. IFRIC 13 is not relevant to the Group's operations because the Group does not operate any loyalty programmes.

- IFRIC 14, 'IAS 19' – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. IFRIC 14 is not relevant to the Group's operations because the Group does not have a defined benefit asset.

5. Financial Risk Management

Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out under policies set by the Group's Shareholder. The Board provides principles for risk management, covering specific areas, such as credit risk and liquidity risk.

(a) Market Risk

Foreign exchange risk. The Group attracts substantial amount of foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. The table below shows the total amount of foreign currency denominated assets and liabilities that give rise to foreign exchange exposure.

In thousands of Kazakhstani Tenge	US dollar	Russian Ruble	Georgian Lari	Euro	Total
At 31 December 2007					
Assets	1,785,393	1,702	-	-	1,787,095
Liabilities	48,244,116	28,684	416,098	65,730	48,754,628
At 31 December 2006					
Assets	397,796	440	-	-	398,236
Liabilities	51,776,537	-	-	-	51,776,537

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations. At 31 December 2007, if the functional currency had weakened/strengthened by 10 percent against the US dollar with all other variables held constant, post-tax profit for the year would have been Tenge 3,252,111 thousand (2006: Tenge 3,596,512 thousand) lower/higher, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated cash and cash equivalents and US dollar denominated borrowings. Profit is less sensitive to movement in Tenge/US dollar exchange rates in 2007 than 2006 because of the decreased amount of US dollar denominated borrowings.

Cash flow and fair value interest rate risk. The Group's income and operating cash flows are exposed to changes in market interest rates. The Group's interest rate risk arises mainly from borrowings. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

In case of floating interest rate borrowings, the Group is exposed to potential market risk of 3-month LIBOR quotas at London Stock Exchange. At 31 December 2007, if LIBOR on US dollar denominated floating rate borrowings had been 1 percent higher with all other variables held constant, post-tax profit for the year would have been Tenge 103,543 thousand lower (2006: Tenge 119,502 thousand).

Short term deposits held by the Group bear fixed interest rate and therefore are not exposed to cash flow interest rate risk.

The Company does not have formal arrangements to analyze and mitigate its interest rate exposure.

(b) Credit Risk

Credit risk mainly arises from cash and cash equivalents, bank deposits, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only highly rated institutions operating on local market are accepted. Accordingly as of 31 December 2007 and 31 December 2006 the Group has mainly outstanding balances with such highly rated institutions (Note 8).

The Group has policies in place to ensure that sales of services are made to customers with good financial position and credit history. Accordingly as of 31 December 2007 and 31 December 2006 outstanding receivables are mainly due from customers with stable financial position and credit history. Similarly, as of 31 December 2007 and 31 December 2006 the Group's outstanding other accounts receivable are mainly receivables from counterparties with stable financial position and credit history. The sales of crude oil

5. Financial Risk Management (Continued)

transportation services are made on 100 percent prepayment basis. The collection of financial aid provided to related party (entity under common control) could be influenced by economic factors, however management believes that there is no significant risk of loss to the Group. Management believes that in case the related party will experience liquidity or other financial difficulties KMG will provide aid in settlement of its debt.

The Group's maximum exposure to credit risk by class of assets is as follows:

In thousands of Kazakhstani Tenge	Notes	31 December 2007	31 December 2006
Cash and cash equivalents	9	25,403,345	22,573,424
Trade accounts receivable and other receivables	10		
Financial aid provided to related parties		2,497,478	1,512,919
Trade accounts receivable from third parties		1,017,352	318,677
Other accounts receivable from related parties		589,530	246,972
Other accounts receivable from third parties		457,104	428,066
Short-term loans receivable		98,417	-
Trade accounts receivable from related parties		83,867	453,305
Trade accounts receivable from joint ventures		79,263	196,201
Due from employees		51,361	77,249
Provision for impairment		(372,856)	(396,955)
Other financial assets	11		
Short-term bank deposits		3,247,493	2,869,086
Interest on deposits		113,846	16,584
Available-for-sale investments	21	99,920	99,920
Other non-current financial assets	22		
Financial aid provided to related parties		1,017,697	1,268,797
Non-current accounts receivables		152,423	613,642
Loans to employees		134,022	206,582
Provision for impairment		(100,533)	(560,290)
Total on-balance sheet exposure		**34,569,729**	**29,924,179**
Financial guarantees – amount of guaranteed loans		4,844,257	5,266,341
Total maximum exposure to credit risk		**39,413,986**	**35,190,520**

The Company does not have policies in place to assign internal ratings and set credit limits to its counterparties. The table below shows the rating and balances with major banks at 31 December 2007 and 2006:

In thousands of Kazakhstani Tenge	Rating agency	Rating	31 December 2007	31 December 2006
Halyk Bank	Standard & Poor's	BB+	16,358,892	13,543,248
Kazkommertsbank	Standard & Poor's	BB	9,176,421	1,500,182
KazInvestBank	Moody's	B2	1,412,700	346,800
ABN AMRO Bank	Standard & Poor's	AA-	1,332,520	15,015
Fortis Bank (Netherlands)	Standard & Poor's	AA	94,042	73,411
Citibank	Standard & Poor's	AA	7,236	238,004
Bank of China (Kazakhstan)	Moody's	A1	3,582	335,960
ATF Bank	Standard & Poor's	BB+	870	9,363,398
Bank of Cyprus	Fitch	BBB	14,326	-
Bank of Georgia	Fitch	B	340	-
TBC Bank	Fitch	B	206	-
Banks without credit risk rating			240,446	435
Total cash and cash equivalents and short-term deposits			**28,641,581**	**25,416,453**

*The rest of the balance sheet item 'cash and cash equivalents' is cash on hand and transit

5. Financial Risk Management (Continued)

(c) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table represent undiscounted contractual cash flows.

In thousands of Kazakhstani Tenge	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 Years	Total
At 31 December 2007					
Borrowings	2,636,240	2,370,908	5,764,972	1,675,079	12,447,199
Corporate bonds	2,526,300	2,851,110	9,527,760	59,909,400	74,814,570
Financial leasing	12,723	-	50,893	381,698	445,314
Trade accounts payable and other payables	6,850,658	71,908	-	-	6,922,566
Total financial liabilities	**12,025,921**	**5,293,926**	**15,343,625**	**61,966,177**	**94,629,649**
At 31 December 2006					
Borrowings	2,091,442	2,338,474	8,648,276	2,729,095	15,807,287
Corporate bonds	2,526,300	2,526,300	9,202,950	63,085,320	77,340,870
Trade accounts payable and other payables	6,327,105	32,780	-	-	6,359,885
Total financial liabilities	**10,944,847**	**4,897,554**	**17,851,226**	**65,814,415**	**99,508,042**

As discussed in Note 42 the Group guaranteed to EBRD for the loan obtained by MunaiTas from EBRD (Note 25). The amount of guaranteed loan is Tenge 4,844,257 thousand (excluding Tenge 4,844,257 thousand which was recognized in the Group's consolidated balance sheet). As of the date of report there were no indicators of MunaiTas being unable to repay the loan.

(d) Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Debt represents total borrowings (including 'current and non-current borrowings' as shown in the balance sheet). Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

During 2007, the Group's strategy, which was unchanged from 2006, was to minimize the gearing ratio. In 2007 the Group managed to decrease its gearing ratio. The gearing ratios at 31 December 2007 and 2006 were as follows:

5. Financial Risk Management (Continued)

In thousands of Kazakhstani Tenge	Notes	31 December 2007	31 December 2006
Total borrowings and corporate bonds	25, 26	47,222,784	51,433,559
Less: cash and cash equivalents	9	(25,403,345)	(22,573,424)
Net debt		21,819,439	28,860,135
Total equity		216,884,643	183,670,752
Total capital		238,704,082	212,530,887
Gearing ratio		9%	14%

(e) Fair Value Estimation

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Republic of Kazakhstan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of current financial assets and non-current financial assets approximate fair values (Notes 10, 11, 21 and 22).

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with a stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 25, 26, 29, for the estimated fair values of liabilities and borrowings.

6. Employee Information

The average number of employees (including key management personnel) employed by the Group was 7,150 and 6,615 for the years ended 31 December 2007 and 2006, accordingly.

Total staff costs (including key management personnel) for the Group were:

In thousands of Kazakhstani Tenge	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Wages, salaries and short-term employee benefits		22,115,389	14,365,974
Post-employment and other long-term benefits	31	2,019,000	-
Total staff costs		**24,134,389**	**14,365,974**

Key management compensation: The total remuneration of members of the key management personnel is disclosed in the Note 45.

7. Financial Instruments by Classes

The accounting policies for financial instruments have been applied to line items below:

In thousands of Kazakhstani Tenge	Notes	31 December 2007	31 December 2006
Financial assets			
Cash and cash equivalents	9	25,403,345	22,573,424
Trade accounts receivable and other receivables	10		
Financial aid provided to related parties		2,497,478	1,512,919
Trade accounts receivable from third parties		1,017,352	318,677
Other accounts receivable from related parties		589,530	246,972
Other accounts receivable from third parties		457,104	428,066
Short-term loans receivable		98,417	-
Trade accounts receivable from related parties		83,867	453,305
Trade accounts receivable from joint ventures		79,263	196,201
Due from employees		51,361	77,249
Provision for impairment		(372,856)	(396,955)
Other financial assets	11		
Short-term bank deposits		3,247,493	2,869,086
Interest on deposits		113,846	16,584
Other non-current financial assets	22		
Financial aid provided to related parties		1,017,697	1,268,797
Non-current accounts receivables		152,423	613,642
Loans to employees		134,022	206,582
Provision for impairment of other non-current financial assets		(100,533)	(560,290)
Available-for-sale financial assets			
Available-for-sale investments	21	99,920	99,920
Total financial assets		**34,569,729**	**29,924,179**
Financial liabilities			
Borrowings	25	9,962,521	12,600,831
Corporate bonds	26	37,260,263	38,832,728
Financial leasing	27	104,403	-
Financial guarantee	42	352,863	-
Trade accounts payable and other payables	29	6,850,658	6,327,105
Other non-current accounts payable		71,908	32,780
Total financial liabilities		**54,602,616**	**57,793,444**

8. Credit Quality of Financial Assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
*Cash and cash equivalents**		
Counterparties with external credit rating (Standard and Poor's):		
AA	101,278	311,415
AA-	1,332,520	15,015
BB+	14,524,969	20,205,860
BB	9,176,421	1,500,182
Counterparties with external credit rating (Moody's):		
A1	3,582	335,960
B2	-	178,500
Counterparties with external credit rating (Fitch):		
BBB	14,326	-
B	546	-
Counterparties without external credit rating:		
Banks	240,446	435
Total cash and cash equivalents	**25,394,088**	**22,547,367**

*The rest of the balance sheet item 'cash and cash equivalents' is cash on hand and transit

8. Credit Quality of Financial Assets (Continued)

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
Short-term bank deposits including interest accrued		
Counterparties with external credit rating (Standard and Poor's):		
AA-	1,744	-
BB+	1,886,056	2,717,370
BB	32,586	-
Counterparties with external credit rating (Moody's):		
B2	1,440,953	168,300
Total other financial assets	**3,361,339**	**2,885,670**

Trade accounts receivable and other receivables, available-for-sale investments and other non-current financial assets have no external credit rating. Credit quality of these financial assets is discussed in Note 5.

9. Cash and Cash Equivalents

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
Time deposits (Tenge)	24,374,083	21,432,572
Current accounts (US dollar)	728,858	397,796
Current accounts (Tenge)	286,845	716,378
Current accounts (Russian Rouble)	1,702	440
Cash on hand and transit	9,257	26,057
Other bank accounts	2,600	181
Total cash and cash equivalents	**25,403,345**	**22,573,424**

At 31 December 2007 Tenge denominated time deposits included deposits in Kazakhstani banks with interest rates ranging from 9 percent and 11 percent per annum (2006: 4 percent and 7.5 percent) and maturing in January 2008 (2006: January 2007). At 31 December 2007 and 2006, most current accounts with Kazakhstani banks carried interest ranging from 1 percent and 1.5 percent per annum.

10. Trade Accounts Receivable and Other Receivables

In thousands of Kazakhstani Tenge	Notes	31 December 2007	31 December 2006
Financial aid provided to related parties	45	2,497,478	1,512,919
Trade accounts receivable from third parties		1,017,352	318,677
Other accounts receivable from related parties	45	589,530	246,972
Other accounts receivable from third parties		457,104	428,066
Short-term loans receivable		98,417	-
Trade accounts receivable from related parties	45	83,867	453,305
Trade accounts receivable from joint ventures	45	79,263	196,201
Due from employees		51,361	77,249
Provision for impairment		(372,856)	(396,955)
Total trade accounts receivable and other receivables, net		**4,501,516**	**2,836,434**

As at 31 December 2007 financial aid provided to related parties represent interest-free financing provided to KazMunayGas-Service LLP amounting to Tenge 2,497,478 thousand due within 12 months. At initial recognition amounts due from KazMunayGas-Service LLP were recorded at the fair values using 8 percent and 9 percent discount rates and thereafter carried at amortized cost.

As at 31 December 2006 financial aid provided to related parties represent interest-free financing provided to KazMunayGas-Service LLP amounting to Tenge 1,512,919 thousand due within 12 months. As of 31 December 2007 this financial aid was not repaid by KazMunayGas-Service LLP. At initial recognition the amounts due from KazMunayGas-Service LLP were recorded at the fair values using 8 percent discount rate and thereafter carried at amortized cost.

10. Trade Accounts Receivable and Other Receivables (Continued)

At 31 December 2007 short-term loans receivable represent US dollar denominated, unsecured loans to third parties with interest rate varying from 1 percent to 6.25 percent per annum and maturity less than 12 month or on demand.

The carrying amounts of the Group's trade accounts receivable and other receivables are denominated in the following currencies:

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
Tenge	3,447,153	2,836,434
Foreign currency	1,054,363	-
Total trade accounts receivable and other receivables	**4,501,516**	**2,836,434**

The carrying values of trade accounts receivable and other receivables approximate their fair values because of the short maturities of these instruments.

As of 31 December 2007, other accounts receivable from third parties in amount of Tenge 183,880 thousand (2006: Tenge 47,815 thousand) were past due but not impaired. These relate to a number of independent debtors for whom there is no recent history of default. The ageing analysis of these other accounts receivable from third parties is as follows:

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
1 month – 3 months	36,555	21,281
3 months – 6 months	135,791	14,390
6 months – 1 year	11,534	12,144
Total other accounts receivable from third parties past due but not impaired	**183,880**	**47,815**

As of 31 December 2007, other accounts receivable from third parties in amount of Tenge 350,232 thousand (2006: Tenge 378,935 thousand) were impaired and provided for. The individually impaired receivables mainly relate to debtors, which are in unexpectedly difficult economic situations. The ageing analysis of these other account receivable from third parties is as follows:

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
Over 1 year	350,232	378,935
Total other accounts receivable from third parties past due and impaired	**350,232**	**378,935**

Movements on the Group provision for impairment of other accounts receivable from third parties are as follows:

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
Provision for impairment of other accounts receivable from third parties at 1 January	396,955	72,228
Provision for impairment	85,453	132,223
Written off during the year	(431)	(533)
Reclassification from other non-current	-	223,714
Reverse of impairment	(109,121)	(30,677)
Provision for impairment of other accounts receivable from third parties at 31 December	**372,856**	**396,955**

The creation and release of provision for impaired other accounts receivable from third parties have been included in the general and administrative expenses (Note 37). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

11. Other Financial Assets

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
Short-term bank deposits	3,247,493	2,869,086
Interest on deposits	113,846	16,584
Total other assets	**3,361,339**	**2,885,670**

11. Other Financial Assets (Continued)

At 31 December 2007, short-term bank deposits represent term deposits denominated in Tenge, which earn interest at rate varying from 6.5 percent to 11.5 percent (2006: from 4 percent to 10 percent). The period of maturity of the deposits varies from 3 months to one year.

12. Advances to Suppliers

In thousands of Kazakhstani Tenge	Notes	31 December 2007	31 December 2006
Advances to third parties		333,512	525,130
Advances to related parties	45	36,954	96,973
Provision for impairment of advances		(1,670)	(43,499)
Total advances to suppliers, net		**368,796**	**578,604**

Movements on the Group provision for impairment of advances to suppliers are as follows:

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
Provision for impairment of advances to suppliers at 1 January	43,499	32,238
Provision for advances impairment	626	60,127
Advances written off during the year as uncollectible	(113)	-
Reclass to other non-current assets	(1,113)	-
Impaired advances reversed	(41,229)	(48,866)
Provision for impairment of advances to suppliers at 31 December	**1,670**	**43,499**

13. Income Taxes

Income tax expense of the Group for the years ended 31 December 2007 and 2006 is a follows:

In thousands of Kazakhstani Tenge	Year ended 31 December 2007	Year ended 31 December 2006
Current income tax expense	5,022,237	4,402,484
Deferred income tax expense	4,458,967	3,670,726
Income tax expense	**9,481,204**	**8,073,210**

Presented below is reconciliation between the income tax expense and theoretical income tax determined by applying the statutory tax rate (30 percent) to income before income tax expense and minority interest:

In thousands of Kazakhstani Tenge	Year ended 31 December 2007	Year ended 31 December 2006
Income before income tax expense	**23,661,235**	**18,603,236**
Theoretical income tax expense at statutory rate of 30 percent	**7,098,371**	**5,580,971**
Increase (decrease) due to:		
Non-deductible employee benefits	609,300	-
Non-deductible interest expense	403,546	113,587
Non-deductible entertainment and personnel expenses	472,463	376,978
Non-deductible financial aid and sponsorship	350,139	341,929
Non-recoverable VAT	172,023	159,300
Effect from different tax rates	154,391	-
Taxable income from excess stock not recognized in accounting	102,118	-
Environment expenses	41,235	-
Tax effect of temporary differences not recognized as measured by the change in the unrecognized deferred tax asset	(330,396)	887,258
Non-taxable income of minority	(185,221)	-
Taxes other than VAT	(147,644)	185,046
Non-taxable dividend income from available for sale investments	(29,976)	-
Other permanent differences	770,855	428,141
Income tax expense	**9,481,204**	**8,073,210**

13. Income Taxes (Continued)

Differences between IFRS and Kazakhstani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the effective tax rates.

In thousands of Kazakhstani Tenge	31 December 2007	Credited (charged) to income statement	Effect of translation	Debited to revaluation reserve	31 December 2006	Credited (charged) to income statement	Credited to revaluation reserve	31 December 2005
Tax effects of deductible temporary differences:								
Property, plant and equipment	1,438,772	(197,999)	-	-	1,636,771	525,311	-	1,111,460
Loss carry-forward	1,189,504	144,067	-	-	1,045,437	233,986	-	811,451
Bonuses and other employee compensation and related costs	566,282	214,084	-	-	352,198	(361,161)	-	713,359
Financial guarantee liability	105,859	105,859	-	-	-	-	-	-
Allowance for doubtful debt	167,874	(131,909)	-	-	299,783	(2,093)	-	301,876
Allowance for obsolete inventory	94,978	(54,358)	-	-	149,336	52,553	-	96,783
Taxes payable	23,730	23,730	-	-	-	(69,684)	-	69,684
Investment income	-	-	-	-	-	(98,613)	-	98,613
Payables for environment damages	-	(145,609)	-	-	145,609	145,609	-	-
Financial aid to related parties and loans to employees	176,748	176,748	-	-	-	-	-	-
Due to employees in the form of flats	331,706	331,706	-	-	-	-	-	-
Other temporary differences	4,998	4,998	-	-	-	-	-	-
Unrecognized deferred tax asset	(2,265,134)	330,396	-	-	(2,595,530)	(887,258)	-	(1,708,272)
	1,835,317	801,713	-	-	1,033,604	(461,350)	-	1,494,954
Tax effects of taxable temporary differences:								
Taxes	(5,354)	492	-	-	(5,846)	(5,846)	-	-
Property, plant and equipment	(28,305,169)	(5,261,172)	955	(7,546,221)	(15,498,731)	(3,203,530)	217,656	(12,512,857)
Deferred income tax liability	**(26,475,206)**	**(4,458,967)**	**955**	**(7,546,221)**	**(14,470,973)**	**(3,670,726)**	**217,656**	**(11,017,903)**

Deferred income tax assets and liabilities for individual entities included in the Group are offset because there is a legally enforceable right to set off current tax assets against current tax liabilities if the deferred income taxes relate to the same fiscal authority. Net deferred income tax position of individual entities, included in the Group, are not offset against each other.

As at 31 December 2007 and 2006, deferred income tax assets in the amounts of Tenge 573,694 thousand and Tenge 386,461 thousand, respectively, were expected to be recovered after more than twelve months.

As at 31 December 2007 and 2006, deferred income tax liabilities in the amounts of Tenge 26,683,694 thousand and Tenge 10,243,897 thousand, respectively, were expected to be settled after more than twelve months.

14. Other Taxes Prepaid

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
VAT receivable	4,502,191	10,133,361
Other taxes	479,203	88,533
Total other taxes prepaid	**4,981,394**	**10,221,894**

15. Other Current Assets

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
Accounts receivable for oil transportation coordination	2,277,231	2,142,189
Dividends receivable	379,041	-
Deferred expenses	48,422	11,027
Prepaid insurance	9,185	63,359
Total other current assets	**2,713,879**	**2,216,575**

The Company provides oil transportation coordination services to its customers being an agent between its customers and foreign pipeline operators for transportation of oil outside of Kazakhstan territory (Note 1). These services are provided on a 100 percent prepayment basis. Accounts receivable for oil transportation coordination services represent advances to foreign pipeline operators transferred by the Company on behalf of its customers.

16. Inventories

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
Spare parts	2,227,536	2,878,592
Fuel	689,970	350,583
Construction materials	35,477	84,149
Other	515,426	450,222
Provision for slow moving and obsolete inventories	(325,032)	(497,786)
Total inventories, net	**3,143,377**	**3,265,760**

Movements on the Group provision for impairment of inventories are as follows:

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
Provision for slow moving and obsolete inventories at 1 January	497,786	322,611
Charge	-	562,134
Write-off of inventories	(13,854)	(214,755)
Recovery	(158,900)	(172,204)
Provision for slow moving and obsolete inventories at 31 December	**325,032**	**497,786**

17. Non-current Assets Classified as Held for Sale

The Group is required to dispose of the assets based on the resolution of KMG and the Antimonopoly Law, which requires all state owned companies to dispose of non-core assets. The Group will dispose of the assets by holding a tender and selecting the buyer offering the highest price.

At 31 December 2007 non-current assets classified as held for sale by the Group of Tenge 2,324,524 thousand were mainly represented by social facilities of KazTransOil-Service, including Kaspi fitness center and administration and on-site facilities. In 2007 management approved a plan to sell these assets. The Group actively markets these assets and expects the sale to complete by the end of 2008 through the tender procedures.

At 31 December 2006 non-current assets classified as held for sale by the Group included social facilities, such as Meirim medical centre and a closed parking lot totalling Tenge 1,183,416 thousand. The disposal of the assets was initially planned to be completed within one year from the balance sheet date. However, disposal of these assets has not taken place and in 2007 these assets have been transferred to property, plant and equipment. Accordingly, depreciation of these assets have been recalculated as though assets would not been classified as held-for-sale.

18. Property, Plant and Equipment

The movement of property, plant and equipment for the year ended 31 December 2007 was as follows:

In thousands of Kazakhstani Tenge	Land	Buildings	Machinery and equipment	Pipelines and other transportation assets	Technological oil	Other	Construction in Progress	Total
Balance at 31 December 2006	**594,079**	**27,699,713**	**57,803,535**	**87,663,624**	**30,260,750**	**8,829,371**	**10,277,823**	**223,128,895**
Acquisition of share in joint venture	1,102,738	5,752,257	2,477,554	581,194	-	-	51,816	9,965,559
Additions	19,885	538,462	2,557,619	3,794,335	640,610	573,086	23,904,202	32,028,199
Disposals	(29,876)	(1,121,710)	(246,405)	(761,259)	(81,889)	(63,674)	(115,772)	(2,420,585)
Transfers from /(to) non-current assets classified as held for sale	(815,888)	(658,903)	436,841	9,104	-	(167,853)	-	(1,196,699)
Transfers	-	7,058,905	12,518,852	1,497,368	-	(786,061)	(20,289,064)	-
Revaluation (equity)	1,384,249	363,530	3,147,030	3,179,748	19,074,559	310,526	-	27,459,642
Impairment (equity)	-	(20,705)	(7,104)	(763,590)	-	(3,449)	-	(794,848)
Revaluation (charge to Income statement)	(1,554)	(2,402,186)	(490,980)	(156,331)	(78,310)	(284,291)	(163,779)	(3,577,431)
Reversal of impairment (Income statement)	75,167	1,044,379	282,473	620,366	-	112,111	22,195	2,156,691
Impairment	-	-	(165)	(146,701)	-	-	-	(146,866)
Depreciation	-	(2,000,502)	(7,926,691)	(9,218,449)	-	(1,339,970)	-	(20,485,612)
Effect of foreign currency translation	(43,158)	(219,496)	(95,952)	(21,728)	-	-	(2,740)	(383,074)
Balance at 31 December 2007	**2,285,642**	**36,033,744**	**70,456,607**	**86,277,681**	**49,815,720**	**7,179,796**	**13,684,681**	**265,733,871**
As at 31 December 2007								
Cost or revalued amount	2,285,642	37,346,946	74,815,017	94,170,772	49,815,720	7,800,726	13,684,681	279,919,504
Impairment	-	-	(165)	(146,701)	-	-	-	(146,866)
Accumulated depreciation	-	(1,313,202)	(4,358,245)	(7,746,390)	-	(620,930)	-	(14,038,767)
Net carrying amount	**2,285,642**	**36,033,744**	**70,456,607**	**86,277,681**	**49,815,720**	**7,179,796**	**13,684,681**	**265,733,871**

Property, plant and equipment have been revalued to market value at 30 June 2007. The revaluation was performed based on the reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was market value for land, buildings, vehicles, furniture and technological oil, and replacement cost for the other assets. Where market value was used the valuation was based on observable market prices in an active market.

Accumulated depreciation has been eliminated against carrying value of property, plant and equipment and net amount has been resulted in revalued value of property, plant and equipment.

As of 31 December 2007 and 2006 construction-in-progress ("CIP") mainly includes pump stations, tanks and transportation assets under construction.

As of 31 December 2007 and 2006 construction-in-progress includes inventories in the amounts of Tenge 116,987 thousand and Tenge 384,081 thousand, respectively, which were purchased for construction purposes.

As of 31 December 2007 and 2006 the cost of fully depreciated but still in use property, plant and equipment was nil and 199,793 thousand Tenge, respectively. As of 31 December 2007 and 2006 cost of property, plant and equipment which temporarily are not in use is 469,230 thousand Tenge and 96,842 thousand Tenge, respectively.

18. Property, Plant and Equipment (Continued)

The movement of property, plant and equipment for the year ended 31 December 2006 was as follows:

In thousands of Kazakhstani Tenge	Land	Buildings	Machinery and equipment	Pipelines and other transporta-tion assets	Technological oil	Other	Construction in Progress	Total
Balance at 31 December 2005	**388,042**	**23,689,235**	**49,274,162**	**48,738,913**	**30,359,663**	**6,482,856**	**44,091,093**	**203,023,964**
Additions	522,649	688,277	2,229,196	3,477,195	-	578,056	31,951,248	39,446,621
Disposals	(244,442)	(127,355)	(267,415)	(1,105,558)	(98,913)	(124,237)	(527,110)	(2,495,030)
Transfers from /(to) non-current assets classified as held for sale	2,997	1,234,241	(432,093)	(10,169)	-	(2,337,598)	-	(1,542,622)
Transfers	-	3,862,564	12,660,830	43,007,068	-	5,421,484	(64,951,946)	-
Change in impairment	(75,167)	(377,705)	(41,721)	(1,013,572)	-	(17,985)	(285,462)	(1,811,612)
Depreciation	-	(1,269,544)	(5,619,424)	(5,430,253)	-	(1,173,205)	-	(13,492,426)
Balance at 31 December 2006	**594,079**	**27,699,713**	**57,803,535**	**87,663,624**	**30,260,750**	**8,829,371**	**10,277,823**	**223,128,895**
As at 31 December 2006								
Cost or revalued amount	669,246	33,033,543	69,287,179	98,960,454	30,260,750	10,882,730	10,563,285	253,657,187
Impairment	(75,167)	(3,011,171)	(849,301)	(912,400)	-	(255,519)	(285,462)	(5,389,020)
Accumulated depreciation	-	(2,322,659)	(10,634,343)	(10,384,430)	-	(1,797,840)	-	(25,139,272)
Net carrying amount	**594,079**	**27,699,713**	**57,803,535**	**87,663,624**	**30,260,750**	**8,829,371**	**10,277,823**	**223,128,895**

Depreciation charge

In thousands of Kazakhstani Tenge	Year ended 31 December 2007	Year ended 31 December 2006
Cost of sales	19,669,042	12,709,931
General and administrative expenses	798,633	782,495
Capitalized depreciation	17,937	-
Total depreciation charge	**20,485,612**	**13,492,426**

The carrying value of each revalued class of property, plant and equipment that would have been recognized in the consolidated financial statements had the assets been carried at cost less any accumulated depreciation and any accumulated impairment loss was as follows:

In thousands of Kazakhstani Tenge	Land	Buildings	Machinery and equipment	Pipelines and other transportation assets	Technological oil	Other	Construction in Progress	Total
At 31 December 2006	594,079	20,180,177	37,532,456	69,481,542	480,464	8,252,721	10,227,822	146,749,261
At 31 December 2007	**902,947**	**28,754,341**	**48,874,316**	**66,753,631**	**756,963**	**6,177,338**	**13,684,681**	**165,904,217**

19. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the joint venture at the date of exchange (Note 44). Because the exercise of measuring of synergy effects and analyses to which cash generating units this synergy from the acquisition relates have not been completed as of 31 December 2007, the Group has not performed the assessment of impairment of the goodwill as of 31 December 2007. The Group will complete the allocation of goodwill to specific cash generating units and the assessment of the goodwill for impairment in 2008.

20. Intangible Assets

The movement of intangible assets for the year ended 31 December 2007 was as follows:

In thousands of Kazakhstani Tenge	Licenses	Software	Other	Total
Balance at 31 December 2006	**45,027**	**1,417,560**	**-**	**1,462,587**
Additions	1,926	170,315	45,243	217,484
Disposals	(4,021)	(315)	-	(4,336)
Amortization charge	(10,914)	(310,591)	(32)	(321,537)
Balance at 31 December 2007	**32,018**	**1,276,969**	**45,211**	**1,354,198**
As at December 31, 2007				
At cost	45,188	2,333,788	45,243	2,424,219
Accumulated amortization	(13,170)	(1,056,819)	(32)	(1,070,021)
Net carrying amount	**32,018**	**1,276,969**	**45,211**	**1,354,198**

The movement of intangible assets for the year ended 31 December 2006 was as follows:

In thousands of Kazakhstani Tenge	Licenses	Software	Other	Total
Balance at 31 December 2005	**3,660**	**1,411,295**	**25,716**	**1,440,671**
Additions	48,393	266,517	-	314,910
Disposals	(4,948)	(4,681)	(25,716)	(35,345)
Amortization charge	(2,078)	(255,571)	-	(257,649)
Balance at 31 December 2006	**45,027**	**1,417,560**	**-**	**1,462,587**
As at 31 December 2006				
At cost	47,957	2,164,999	-	2,212,956
Accumulated amortization	(2,930)	(747,439)	-	(750,369)
Net carrying amount	**45,027**	**1,417,560**	**-**	**1,462,587**

21. Available-for-Sale Investments

As of 31 December 2007 and 2006, available-for-sale investments comprised:

In thousands of Kazakhstani Tenge	31 December 2007		31 December 2006	
	Ownership interest	Carrying value	Ownership interest	Carrying value
Accumulative Pension Fund of Halyk Bank of Kazakhstan JSC	10%	99,920	10%	99,920
Total available-for-sale investments		99,920		99,920

As of 31 December 2007 and 2006 the carrying amount of the available-for-sale investments approximates their fair value.

22. Other Non-current Financial Assets

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
Financial aid provided to related parties	1,017,697	1,268,797
Non-current accounts receivable	152,423	613,642
Loans to employees	134,022	206,582
Provision for impairment of non-current accounts receivable	(100,533)	(560,290)
Total other non-current financial assets, net	**1,203,609**	**1,528,731**

22. Other Non-current Financial Assets (Continued)

As at 31 December 2007 financial aid provided to related parties represents interest-free financing provided to KazMunayGas-Service LLP amounting to Tenge 1,017,697 thousand. The financial aid is repayable by the end of 2009. At initial recognition amounts due from KazMunayGas-Service LLP were recorded at the fair values using 9 percent discount rate and thereafter carried at amortized cost.

As at 31 December 2006 financial aid provided to related parties represents interest-free financing provided to KazMunayGas-Service LLP and Trade House KazMunayGas JSC amounting to Tenge 1,220,279 thousand and Tenge 48,518 thousand, respectively. The financial aids are repayable by the end of 2008. As of 31 December 2007 financial aid provided to KazMunayGas-Service LLP was presented as current within trade accounts receivable and other receivables (Note 10). Financial aid provided to Trade House KazMunayGas JSC was repaid in 2007. At initial recognition amounts due from KazMunayGas-Service LLP and Trade House KazMunayGas JSC were recorded at the fair values using 9 percent and 7.5 percent discount rates, respectively, and thereafter carried at amortized cost.

The carrying amounts of other non-current financial assets are denominated in Tenge. The carrying values of other non-current accounts receivable at 31 December 2007 and 2006 approximate their fair values.

As of 31 December 2007, non-current accounts receivable in amount of Tenge 100,533 thousand (2006: Tenge 560,290 thousand) were impaired and provided for. The individually impaired receivables mainly relate to counterparties, which are in unexpectedly difficult economic situations.

Movements on the provision for impairment of non-current accounts receivable are as follows:

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
Provision for impairment of non-current accounts receivable at 1 January	560,290	901,787
Provision for impairment	16,617	65,143
Written off during the year	(336,003)	(63,713)
Reclassification	1,113	(223,714)
Reverse of impairment	(141,484)	(119,213)
Provision for impairment of non-current accounts receivable at 31 December	**100,533**	**560,290**

The creation and release of provision for impaired non-current accounts receivable have been included in the general and administrative expenses (Note 37). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

23. Advances to Suppliers for Non-current Assets

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
Advances to third parties for non-current assets	1,588,531	524,085
Provision for impairment of advances for non-current assets	(85,960)	-
Total other non-current assets, net	**1,502,571**	**524,085**

Movements on the Group provision for impairment of advances for non-current assets are as follows:

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
Provision for impairment of advances for non-current assets at 1 January	-	-
Provision for impairment	85,960	-
Provision for impairment of advances for non-current assets at 31 December	**85,960**	**-**

The creation and release of provision for impaired advances for non-current assets have been included in the general and administrative expenses (Note 37).

24. Other Non-current Assets

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
VAT receivable	1,800,854	2,042,965
Deferred expenses	17,383	38,085
Other	-	84,866
Total other non-current assets	**1,818,237**	**2,165,916**

Under the Tax Code, VAT receivable related to the zero rate turnover may be claimed for refund after the tax authorities examination. The Company applied for refund, however, based on the results of the tax examinations conducted in February, September, October and November 2007, the tax authorities did not allow refund of Tenge 1,644,987 thousand on the basis that it relates to suppliers which have been liquidated, are missing or cannot be located. The Company has appealed the decision of the tax authorities in the Court for certain amounts of the disallowed refund, and plans to appeal for the remaining, and believes that the Company will be successful in defending its position. As at 31 December 2007 the amount of disputed VAT receivable of Tenge 1,644,987 thousand (2006: Tenge 1,448,123 thousand) is included in other non-current assets.

25. Borrowings

In thousands of Kazakhstani Tenge	Base currency	Effective interest rate	31 December 2007	31 December 2006
Current portion of borrowings				
Citibank	US dollar	LIBOR+2.25%	1,063,251	1,126,670
EBRD	US dollar	LIBOR+2.25%	517,312	169,874
Cartu Bank	Georgian Lari	12%	416,098	-
Georgian Maritime Bank	US dollar	14%	4,916	-
TBC Bank	US dollar	12%	120	-
Bank of China	US dollar	LIBOR+0.85%	-	3,784
Total current portion of borrowings			**2,001,697**	**1,300,328**
Non-current portion of borrowings				
EBRD	US dollar	LIBOR+2.25%	4,326,945	5,096,467
Citibank	US dollar	LIBOR+2.25%	3,633,879	4,934,036
Bank of China	US dollar	LIBOR+0.85%	-	1,270,000
Total non-current portion of borrowings			**7,960,824**	**11,300,503**
Total borrowings			**9,962,521**	**12,600,831**

Since major borrowings bear variable interest rate their carrying values approximate fair values.

Citibank. On 4 December 2002 MunaiTas entered into an agreement for a USD 80,000 thousand or Tenge 12,360,000 thousand credit facility with Citibank N.A., acting through its Singapore branch. As at 31 December 2007 the Group's share of a loan received from Citibank N.A. (Singapore branch) was USD 39,045 thousand or Tenge 4,697,130 thousand (2006: USD 47,722 thousand or Tenge 6,060,706 thousand).

On 30 June 2003 Citibank agreed to increase the facility limit to USD 102,000 thousand or 15,096,000 thousand Tenge. On 8 June 2005 Citibank agreed to decrease an interest rate from 8.8 percent to LIBOR + 2.25 percent and maturity on 4 December 2011. Under the terms of the loan agreement, MunaiTas should not sell, lease, transfer or otherwise dispose of all or any part (book value of which is 20 percent or more of the book value of all assets) of its revenues or its assets. As at 31 December 2007 and 2006 MunaiTas complied with all loan agreement conditions.

European Bank for Reconstruction and Development (EBRD). On 29 July 2004 MunaiTas entered into an agreement for a USD 81,600 thousand or Tenge 11,127,792 thousand credit facility with EBRD with an annual interest rate of LIBOR+2.25 percent and maturity on 14 July 2014. The purpose of this loan was to repay MunaiTas liabilities to Halyk Bank. According to the loan agreement and a guarantee agreement, the Company and MunaiTas are obligated to comply with certain financial and non-financial covenants. As at 31 December 2007 and 2006 the Company and MunaiTas complied with all loan agreement and guarantee agreement conditions (Note 42). As at 31 December 2007, the Group's share in a loan received from EBRD amounted to USD 40,268 thousand or Tenge 4,844,257 thousand (2006: USD 41,467 thousand or Tenge 5,266,341 thousand).

25. Borrowings (Continued)

Cartu Bank. As at 31 December 2007, the Group's share in a loan received from Cartu Bank amounted to GEL 5,515 thousand or Tenge 416,098 thousand (2006: nil). The loan caries interest at the rate of 12 percent per annum and secured over the land plot, oil reservoir and the platform owned by the Group in Batumi, Republic of Georgia. The loan is repayable in June 2008.

Georgian Maritime Bank. As at 31 December 2007, the Groups share in a loan received from Georgian Maritime Bank amounted to USD 41 thousand or Tenge 4,916 thousand (2006: nil). The loan is repayable in August 2017, but was classified as current due to the liquidation of the bank.

TBC Bank. As at 31 December 2007, the Group's share in loan received from TBC Bank amounted to USD 1 thousand or Tenge 120 thousand (2006: nil). The loan is repayable in August 2008 and secured over the Group's office in Batumi, Republic of Georgia.

26. Corporate Bonds

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
KCP corporate bonds	36,884,827	37,683,780
Current portion of KCP corporate bonds	375,436	1,148,948
Total KCP corporate bonds	**37,260,263**	**38,832,728**

On 22 December 2004, KCP issued notes for the amount of 300 million US dollars for the period of 15 years. On 22 December 2005, KCP additionally issued notes for the amount of 300 million US dollars for the period of 15 years. Notes were issued at 7 percent rate for the first 4 years and 8.8 percent rate for the remaining period up to the full repayment. Notes were issued through the KCP's subsidiary company, KCP Finance B.V., against the guarantee of CNPC. Change in interest rate from 7 percent to 8.8 percent is caused by expiration of the guarantee issued by CNPC. The interest expense related to the notes is paid semi-annually. Notes issued were sold in the full amount through J.P. Morgan Securities LTD. As at 31 December 2007, the Group's share in liabilities of KCP bonds amounted to USD 309,728 thousand or Tenge 37,260,263 thousand (2006: USD 305,770 thousand or Tenge 38,832,728 thousand), including interest. The carrying amounts of borrowings as of 31 December 2007 and 2006 approximate their fair value. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 9 percent (2006: 10 percent).

27. Financial Leasing

The Group has entered into a lease agreement with Batumi Sea Port Limited to lease a mooring complex, including quays and connected installations, for a period of ten years, with the option to prolong the lease in ten-year-period increments up to a maximum of 99 years to be used for the operations of the Group, which is expected to be exercised by the Group. The lease (USD 3,702 thousand or Tenge 445,314 thousand) comprises four hundred and twenty monthly instalments of USD 9 thousand or Tenge 1,060 thousand each, being the period equal to the remaining weighted average remaining life of the underlying assets. Financial leasing liabilities are payable as follows:

In thousands of Kazakhstani Tenge	Lease payments	Interest	Present value
Less than 1 year	12,723	790	11,933
Between 2 and 5 years	50,893	15,162	35,731
More than 5 years	381,698	324,959	56,739
Total financial lease liabilities	**445,314**	**340,911**	**104,403**

28. Other Taxes Payable

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
Social tax	265,640	210,084
Personal income tax	199,640	230,347
Property tax	100,049	72,876
Withholding tax	-	569,335
Other	87,890	12,739
Total other taxes payable	**653,219**	**1,095,381**

29. Trade Accounts Payable and Other Payables

In thousands of Kazakhstani Tenge	Notes	31 December 2007	31 December 2006
Accounts payable to third parties for goods and services		5,197,826	4,874,282
Accounts payable to related parties for goods and services	45	866,730	1,157,264
Other payables		786,102	295,559
Total trade accounts payable and other payables		**6,850,658**	**6,327,105**

The carrying amounts of the Group's trade accounts payable and other payables are denominated in the following currencies:

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
Tenge	5,776,080	5,984,127
Foreign currency	1,074,578	342,978
Total trade accounts payable and other payables	**6,850,658**	**6,327,105**

30. Advances Received

In thousands of Kazakhstani Tenge	Notes	31 December 2007	31 December 2006
Advances received from third parties		3,576,813	3,063,111
Advances received form related parties	45	5,953,461	6,146,204
Total advances received		**9,530,274**	**9,209,315**

31. Employee Benefits

When preparing the consolidated financial statements for the year ended 31 December 2007, management assessed the requirements of IAS 19 in respect of provisions outlined in the Rules on social support of employees (Note 3). Based on the analysis performed, management concluded that provisions of the Rules on social support in respect of retirement payments should be accounted similarly to defined benefit post-employment plans.

Employee benefits other than one-off retirement payments are considered as other long-term employee benefits. The entitlement to these benefits is usually conditional on the completion of a minimum service period. The expected cost of these benefits is accrued over the period of employment using the same accounting methodology as used for the defined benefit plan. Since all transactions related to employee benefits in previous periods were not significant, in accordance with IAS 8, compliance with IAS 19 was treated as adoption of new accounting policy without retrospective application.

Changes in defined benefit obligations are as follows:

In thousands of Kazakhstani Tenge	31 December 2007
Present value of defined benefit obligation at the beginning of year	-
Past service cost	1,879,000
Current service cost	140,000
Interest expense	113,000
Benefits paid	(101,000)
Present value of defined benefit obligation at the end of year	2,031,000
Less: current portion of present value of defined benefit obligation	(105,000)
Non-current portion of present value of defined benefit obligation	**1,926,000**

Amounts recognized in the balance sheet and income statement are as follows:

31. Employee Benefits (Continued)

In thousands of Kazakhstani Tenge	31 December 2007
Present value of defined benefit obligation at end of year	2,031,000
Net liability	**2,031,000**
Current service expense	140,000
Past service expense	1,879,000
Unwinding of present value discount	113,000
Expense recognised in profit and loss	**2,132,000**

Unwinding of discount was included in the finance costs (Note 41).

Current service cost is included in the income statement as part of 'general and administrative expenses' for the amount of Tenge 140,000 thousand. Past service cost is included in the income statement as part of 'cost of sales' and 'general and administrative expenses' for the amount of Tenge 1,559,570 thousand and Tenge 319,430 thousand, respectively.

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
Present value of defined benefit obligation at end of year	2,031,000	-

Principal actuarial assumptions at the balance sheet date are as follows:

	31 December 2007
Discount rate at 31 December	6.0%
Future salary increases	4.0%
Mortality rate	12%

32. Other Current Liabilities

In thousands of Kazakhstani Tenge	Notes	31 December 2007	31 December 2006
Accounts payable for oil transportation coordination for third parties		2,637,673	2,204,433
Salaries and wages		2,636,369	2,530,393
Accounts payable for oil transportation coordination for related parties	45	2,254,250	2,539,587
Employee benefits (flats)		1,105,685	-
Dividends payable		842,070	-
Payable to pension fund		197,353	243,628
Current portion of deferred income from related parties	45	137,675	-
Current portion of deferred income from third parties		48,960	45,781
Estimated liability for environment protection		-	483,534
Total other current liabilities		**9,860,035**	**8,047,356**

Accounts payable for oil transportation coordination services represent advances received from customers which then are to be transferred to foreign pipeline operators for transportation of oil abroad.

According to the Company's Rules on rent and sale of flats to employees effective since 1 November 2004 ("the Rules"), in 2007 the Company transferred 95 flats to its employees at discounted price. The Company's loss on disposal of these flats amounted to Tenge 942,029 thousand were included as part of personnel costs within "cost of sales" for the amount of Tenge 545,435 thousand (Note 36) and "general and administrative expenses" for the amount of Tenge 396,594 thousand (Note 37). The Company has fulfilled all of its liabilities for the flats already transferred.

Amounts included in Employee benefits (flats) represent a constructive obligation recognized by the Company to provide certain qualifying employees with benefits in form of selling them flats at prices below their market value in future periods. The obligation is measured as a discounted value of the difference between expected fair value of the flats at the expected time of sale and amount to be reimbursed by employees. Corresponding expenses amounted to Tenge 1,105,685 thousand were included as part of personnel costs within 'cost of sales' for the amount of Tenge 541,446 thousand (Note 36) and 'general and administrative expenses' for the amount of Tenge 564,239 thousand (Note 37). As of 31 December 31 2007 and 2006, these flats have been provided for free-rent operational lease to the certain qualifying employees (Note 3).

33. Other Non-current Liabilities

In thousands of Kazakhstani Tenge	Notes	31 December 2007	31 December 2006
Deferred income from related parties	45	241,624	394,931
Other		1,765	6,551
Total other non-current liabilities		**243,389**	**401,482**

34. Equity

Authorised, issued and paid share capital at 31 December 2007 and 2006 is Tenge 32,916,055 thousand divided into 32,916,055 ordinary shares with a nominal value of Tenge 1,000 each. At 31 December 2007 and 2006, all issued shares of the Company were owned by KMG.

During 2007, the Company declared and paid dividends for 2006, totalling Tenge 2,316,632 thousand out of year 2006 profit (2006: Tenge 1,045,742 thousand out of year 2005 profit). The dividend per share amount was 70.38 Tenge per common stock (2006: Tenge 31.77). Dividends are not paid if (a) the equity becomes negative, (b) the Company becomes insolvent, (c) the Shareholder decided to liquidate the Company. The immediate parent company has the right to decide not to pay dividends on the Company's shares with obligatory publication in newspapers within 10 days from the day of such decision.

Revaluation reserve. Revaluation reserve was formed based on a revaluation of property, plant and equipment performed by an independent appraisal firm for certain groups of assets as at 30 June 2007, 31 December 2004 and 31 December 1999. The movement of revaluation reserve for the years ended 31 December 2007 and 2006 was as follows:

In thousands of Kazakhstani Tenge	Notes	31 December 2007	31 December 2006
Balance as at January 1		55,800,150	58,359,128
Revaluation of property, plant and equipment	18	27,459,642	-
Impairment of previously revalued property, plant and equipment	18	(794,848)	(507,865)
Deferred tax	13	(7,546,221)	-
Amortisation, net of deferred tax		(7,258,004)	(2,051,113)
Balance as at 31 December		**67,660,719**	**55,800,150**

Other reserves. Prior to 2007, as it was stated in the charter, the Company is required to maintain a general reserve fund of not less than 15 percent of its share capital. During 2007, due to changes to legislation and based on approval of the Company's Shareholder, the reserve capital of the Group amounting to Tenge 19,753,220 thousand was transferred to retained earnings.

At 31 December 2007 and 2006, the reserve capital included amounts of Tenge 17,169 thousand and Tenge 17,173 thousand, respectively, which comprised the social objects contributed by the Government of the Republic of Kazakhstan to the Group in 1997. These social objects were recorded as property, plant and equipment in 1997. The right for disposal of these assets requires Government approval in the form of the Committee for State Property and Privatisation of the Republic of Kazakhstan. During 2007 and 2006 certain social facilities with carrying value of Tenge 4 thousand and Tenge 97,500 thousand, respectively, were disposed under the resolution of Anti-Monopoly Committee of the Republic of Kazakhstan, in accordance with the "Law on privatisation". The remaining part of reserve capital on the disposed facilities of Tenge 23,950 thousand in 2006 represents accumulated depreciation of the disposed facilities accrued for the period from inception to the date of disposal was reclassified to retained earnings. No gain or loss was recognized by the Company on these disposals.

35. Sales

In thousands of Kazakhstani Tenge	Year ended 31 December 2007	Year ended 31 December 2006
Crude oil transportation	81,903,732	71,047,386
Water transportation	5,216,872	1,974,113
Transhipment of oil and oil products and railway forwarding	5,140,566	-
Pipeline operation services	1,419,939	843,441
Oil transportation coordination services	778,166	737,028
Oil storage services	95,499	110,455
Other	439,032	515,097
Total sales	**94,993,806**	**75,227,520**

35. Sales (Continued)

Sales of oil transportation coordination services represent an agency fee for cooperation with foreign pipelines operators with respect of oil transportation coordination outside of Kazakhstan territory (Notes 15, 32).

36. Cost of Sales

In thousands of Kazakhstani Tenge	Year ended 31 December 2007	Year ended 31 December 2006
Depreciation and amortization	19,953,944	12,950,769
Personnel cost	16,574,331	9,882,541
Materials and fuel	4,924,768	3,954,245
Repair and maintenance costs	4,172,445	4,885,868
Energy	2,381,056	1,950,425
Taxes other than income tax	1,663,951	1,423,291
Air services	1,526,877	901,118
Security services	1,325,651	973,558
Impairment of property, plant and equipment (Note 18)	1,688,070	878,602
Environmental protection	519,350	365,042
Business trip expenses	407,732	243,717
Insurance	342,051	330,789
Railway services	300,895	-
Diagnostics	196,550	518,173
Communication services	140,274	159,729
Other	1,657,420	1,676,244
Total cost of sales	**57,775,365**	**41,094,111**

Personnel cost in 2007 includes losses on flats sold to employees at discounted price in the amount of Tenge 545,435 thousand (Note 32) and accrual of estimated expenses from obligations to provide certain employees with flats at discounted price in the amount of Tenge 541,446 thousand (Note 32).

37. General and Administrative Expenses

In thousands of Kazakhstani Tenge	Year ended 31 December 2007	Year ended 31 December 2006
Personnel costs	7,560,058	5,013,271
Social sphere expenses	983,868	658,339
Depreciation and amortization	830,680	799,306
VAT expenses	491,467	539,174
Taxes other than income tax and VAT	646,806	1,174,630
Office maintenance	279,118	243,498
Business trip expenses	464,467	211,433
Charity expenses	347,880	387,287
Consulting	292,660	155,311
Insurance and security	266,732	137,773
Communication services	238,500	221,150
Operational lease expenses	197,761	143,447
Bank costs	165,363	123,755
Advertising	159,619	95,708
Materials	149,080	208,322
Training	87,075	112,066
Provision for obsolete inventory	(158,900)	389,930
Impairment of property, plant and equipment (Note 18)	(120,464)	207,489
Provision for impairment for doubtful debts	(103,178)	58,737
Management fees	-	1,200,000
Provision for environmental damages	-	483,534
Other	981,418	591,936
Total general and administrative expenses	**13,760,010**	**13,156,096**

Personnel cost in 2007 includes losses on flats to employees at discounted price in the amount of Tenge 396,594 thousand (Note 32) and accrual of estimated expenses from obligations to provide certain employees with flats at discounted price in the amount of Tenge 564,239 thousand (Note 32).

38. Other Operating Income

In thousands of Kazakhstani Tenge	Year ended 31 December 2007	Year ended 31 December 2006
Income from fines and penalties	1,219,643	356,221
Income from stock excess	369,356	42,129
Income / (loss) from sale of inventory, net	127,764	(2,070)
Amortization of financial guarantee	47,325	-
Income from write-off of payables	15,253	31,885
Other income	147,511	154,994
Total other operating income	**1,926,852**	**583,159**

39. Other Operating Loss

In thousands of Kazakhstani Tenge	Year ended 31 December 2007	Year ended 31 December 2006
Loss on disposal of property, plant and equipment and intangible assets, net	940,441	1,340,387
Loss on initial recognition of financial guarantee	431,278	-
Loss from sale of investments	-	22,463
Total other operating loss	**1,371,719**	**1,362,850**

40. Finance Income

In thousands of Kazakhstani Tenge	Year ended 31 December 2007	Year ended 31 December 2006
Interest income on bank deposits	1,471,246	1,885,610
Employees and related parties loans unwinding of present value discount	311,447	236,846
Dividends income from available for sale investments	99,920	-
Finance income	**1,882,613**	**2,122,456**

41. Finance Cost

In thousands of Kazakhstani Tenge	Year ended 31 December 2007	Year ended 31 December 2006
Interest on KCP corporate bonds	3,363,929	4,388,809
Interest on borrowings	1,044,699	998,604
Loss on initial recognition of employees and related parties loans	220,285	319,781
Employee benefits: Unwinding of present value discount	113,000	-
Other interest expense	14,551	-
Finance cost	**4,756,464**	**5,707,194**

42. Commitments, Contingent Liabilities and Provisions

Political and economic conditions in Kazakhstan. Whilst there have been improvements in the economic situation in the Republic of Kazakhstan in recent years, its economy continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country and a low level of liquidity of debt and equity securities in the markets.

Additionally, the oil and gas sector in Kazakhstan is impacted by political, legislative, fiscal and regulatory developments in Kazakhstan. The prospects for future economic stability in Kazakhstan are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory and political developments, which are beyond the Group's control.

The financial condition and future operations of the Group may be adversely affected by continued economic difficulties that are characteristic of an emerging market. Management is unable to predict the extent and duration of the economic difficulties, nor quantify the impact, if any, on these consolidated financial statements.

Taxation. Kazakhstani tax legislation and practice is in a state of continuous development and therefore is subject to varying interpretations and frequent changes, which may be retroactive. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Group may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Group may be assessed additional taxes, penalties and interest (Notes 13 and 28). Tax periods remain open to retroactive review by the tax authorities for five years.

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained.

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
Not later than 1 year	194,470	200,988
Later than 1 year and not later than 5 years	44,990	150,627
Later than 5 years	71,424	15,267
Total operating lease commitments	**310,884**	**366,882**

Guarantees. Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. At 31 December 2007 KazTransOil ("the Guarantor") has guaranteed to EBRD in respect of the obligations of MunaiTas under the loan agreement with EBRD (Note 25). According to the Guarantee Agreement concluded between the Company and EBRD ("the Bank") the Company has to comply with the following covenants:

- A Current Ratio of not less than 1:1;
- A ratio of Earnings before interest and income tax to Interest of not less than 2:1; and
- A ratio of Debt to Equity of not more that 2:1.

In addition, the Guarantor shall not create any restrictions other than those permitted by Bank. The Guarantor shall not enter into any transaction that are not based on arm's-length arrangements unless it is approved by regulatory bodies. The Guarantor shall not sell, lease or dispose its assets in excess of 30 percent of total assets or undertake any merger or reorganization.

As of 31 December 2007 and 2006 the Company complied with these covenants.

Environmental liabilities. Certain activities in the oil and gas industry may create environmental problems. Environmental regulations are currently in a state of transition in the Republic of Kazakhstan and the Group is assessing its obligations related thereto. As obligations are determined, they will be provided for over the estimated remaining lives of the assets or recognized immediately, depending on their nature. Potential liabilities which might arise as a result of changes in environmental legislation in the future cannot reliably be estimated at present, but could be material.

The management believes that under existing legislation there are no significant liabilities that are in addition to amounts, which have already been accrued, in the consolidated financial statements, which will have a materially adverse effect on the operating results or financial position of the Group.

42. Commitments, Contingent Liabilities and Provisions (Continued)

Contractual commitments for acquisition of property, plant and equipment and construction services. As of 31 December 2007 and 2006, the Company had contractual obligations to acquire property, plant and equipment and construction services in the amounts of Tenge 26,566,199 thousand and Tenge 25,376,446 thousand, respectively.

Oil for pipeline filling. As disclosed in Notes 3 and 18, the Group possesses technological oil in the pipeline. At the same time, MunaiTas, the Group's joint venture, obtained oil for the pipeline filling, required for its operation, from the clients under the transportation contracts. The oil is provided by clients to the MunaiTas free of charge and the MunaiTas is fully responsible for safety of such oil and returns it to the clients in case of decommission of the pipeline or at the expiration of transportation contracts. MunaiTas does not record any asset or liability in respect to this oil at the balance sheet dates. As at 31 December 2007, oil for the pipeline filling was 99 thousand tons (2006: 100 thousand tons).

Similarly, KCP obtained 401 thousand tons of oil for its pipeline filling from its related party PetroChina International Kazakhstan LLP. KCP is fully responsible for safety of the oil and will return it to PetroChina International Kazakhstan LLP in case of decommission of the pipeline or at the expiration of transportation contracts. The Group does not record any liability in respect to this oil at the balance sheet date.

Sales agreements. MunaiTas signed agreements to transport the following guaranteed minimum oil volumes through pipeline for the nearest five years:

	Oil per year (thousand tons)
2007	6,401
2008	6,394
2009	6,510
2010	6,533
2011	6,509

The terms of agreements can change, in case of certain conditions such as world oil prices decrease.

If MunaiTas is not able to transport such minimum oil volumes, penalties in the amount of non-rendered services can be imposed on MunaiTas. The Company itself does not have sales commitments.

Recent volatility in global financial markets. Since the second half of 2007 there has been a sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond the US housing market as global investors have re-evaluated their exposure to risks, resulting in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. The volume of financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and refinance its existing borrowings at terms and conditions that applied to similar transactions in recent periods. Debtors of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their amounts owed. Management is unable to reliably estimate the effects on the Group's financial position of any further possible deterioration in the liquidity of the financial markets and their increased volatility.

43. Joint Ventures

The following jointly controlled entities have been proportionally consolidated according to the percentage ownership by the Company.

Jointly-controlled entities	Company's Ownership in 2007	Company's Ownership in 2006	Business Activity
MunaiTas	51%	51%	Transportation of oil
KCP	50%	50%	Transportation of oil
NCPL	50%	-	Forwarding, transhipment and storage of oil and oil products

The Company's share of the jointly controlled assets, liabilities, incurred expenses and revenue employed in the joint ventures included in the consolidated balance sheet and statements of income are as follows:

43. Joint Ventures (Continued)

In thousands of Tenge	Year ended 31 December 2007	Year ended 31 December 2006
Assets		
Non-current assets	61,703,536	50,963,903
Current assets	7,355,735	7,853,826
Total assets	69,059,271	58,817,729
Liabilities		
Non-current liabilities	47,065,905	50,629,056
Current liabilities	7,321,522	4,568,451
Total liabilities	54,387,427	55,197,507
Revenues and expenses		
Revenues	15,216,897	4,836,779
Expenses	11,022,917	5,607,875

44. Acquisition of Share in NCPL

On 11 January 2007 the Group acquired 50 percent of the share capital of Naftrans Capital Partners Limited ("NCPL"). The acquired joint venture contributed revenue of Tenge 5,628,774 thousand and profit of Tenge 998,368 thousand to the Group for the period from the date of acquisition to 31 December 2007.

Details of the assets and liabilities acquired and goodwill arising are as follows:

In thousands of Kazakhstani Tenge	**IFRS carrying amount immediately before acquisition**	**Attributed fair value**
Cash and cash equivalents	1,181,653	1,181,653
Trade accounts receivable and other receivables	280,114	280,114
Advances to suppliers	217,149	217,149
Other taxes prepaid	130,670	130,670
Inventories	148,728	148,728
Property, plant and equipment	9,547,724	9,965,559
Current portion of borrowings	(1,953,256)	(1,953,256)
Current portion of financial leasing	(12,213)	(12,213)
Trade accounts payable and other payables	(874,182)	(874,182)
Advances received	(155,896)	(155,896)
Other taxes payable	(332,131)	(332,131)
Financial leasing	(94,820)	(94,820)
Fair value of net assets of joint venture		**8,501,375**
Less: minority interest		(3,269,593)
Fair value of acquired interest in net assets of joint venture		**5,231,782**
Goodwill arising from the acquisition		2,781,018
Total purchase consideration		**8,012,800**
Less: cash and cash equivalents of joint venture acquired		(1,181,653)
Outflow of cash and cash equivalents on acquisition		**6,831,147**

The purchase consideration comprises cash and cash equivalents paid of US Dollar 64,000 thousand or Tenge 8,012,800 thousand.

The valuation of property, plant and equipment was performed by an independent professional appraiser. The basis used for the appraisal was replacement cost.

45. Related Party Balances and Transactions

Related parties are defined in IAS 24 'Related Party Disclosures'. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Company's ultimate controlling party is disclosed in Note 1.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2007 and 31 December 2006 are detailed below.

Entities under common control comprise entities included in the group of KMG, the Parent Company of the Group. Entities under Samruk comprise state entities, other than those included in group of KMG, owned by the Kazakhstan Holding for Management of State Assets Samruk JSC (Note 1). Joint ventures include MunaiTas, KCP and NCPL.

Trade accounts receivable and other current receivables from related parties are detailed in the table below:

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
Financial aid provided to related parties		
Financial aid to entities under common control	2,497,478	1,512,919
Total financial aid provided to related parties	**2,497,478**	**1,512,919**
Other accounts receivable from related parties		
Other accounts receivables from related parties of NCPL	393,904	-
Other accounts receivables from entities under common control	186,077	238,420
Other accounts receivables from entities under Samruk	9,549	8,552
Total other accounts receivable from related parties	**589,530**	**246,972**
Trade accounts receivable from related parties		
Accounts receivable from entities under common control	83,845	453,066
Accounts receivable from entities under Samruk	22	239
Total trade accounts receivable from related parties	**83,867**	**453,305**
Trade accounts receivable from joint ventures		
Trade accounts receivable from joint ventures	79,263	196,201
Total trade accounts receivable from joint ventures	**79,263**	**196,201**
Total trade accounts receivable and other receivables	**3,250,138**	**2,409,397**

Advances provided to the related parties are detailed in the table below:

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
Advances to related parties		
Advance to entities under common control	27,998	93,736
Advance to entities under Samruk	8,956	3,237
Total advances to related parties	**36,954**	**96,973**

Financial aid provided to related parties (non-current) is detailed in the table below:

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
Financial aid provided to related parties (non-current)		
Financial aid to entities under common control	1,017,697	1,268,797
Total financial aid provided to related parties	**1,017,697**	**1,268,797**

45. Related Party Balances and Transactions (Continued)

Trade accounts payable and other payables to related parties are detailed in the table below:

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
Accounts payable to related parties for goods and services		
Accounts payable to entities under common control	568,309	1,129,215
Accounts payable to related parties of NCPL	206,088	-
Accounts payable to entities under Samruk	92,333	28,049
Total accounts payable to related parties for goods and services	**866,730**	**1,157,264**

Advances received from the related parties are detailed in the table below:

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
Advances received from related parties		
Advances received from entities under common control	5,953,461	6,146,204
Total advances received from related parties	**5,953,461**	**6,146,204**

Other current liabilities to the related parties are detailed in the table below:

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
Accounts payable for oil transportation coordination for related parties		
Accounts payable for oil transportation coordination for entities under common control	2,254,250	2,539,587
Accounts payable for oil transportation coordination for related parties	**2,254,250**	**2,539,587**
Current portion of deferred income from related parties		
Current portion of deferred income from entities under common control	137,675	-
Total current portion of deferred income from related parties	**137,675**	**-**
Total other current liabilities due to related parties	**2,391,925**	**2,539,587**

Other non-current liabilities to the related parties are detailed in the table below:

In thousands of Kazakhstani Tenge	31 December 2007	31 December 2006
Deferred income from related parties		
Deferred income from entities under common control	241,624	394,931
Total deferred income from related parties	**241,624**	**394,931**
Employee benefits		
Employee benefits of key management personnel	170,000	-
Total employee benefits of related parties	**170,000**	**-**
Total non-current liabilities due to related parties	**411,624**	**394,931**

During 2007 and 2006 the Group had the following transactions with the related parties:

In thousands of Kazakhstani Tenge	Year ended 31 December 2007	Year ended 31 December 2006
Sales to related parties:		
Transportation services to entities under common control	47,472,050	42,132,151
Income from other activities from entities under common control	1,446,505	734,728
Income from other activities from entities under Samruk	312,603	50,576
Income from other activities from related parties of NCPL	196,080	-
Income from joint ventures	833,026	413,214
Total sales to related parties	**50,260,264**	**43,330,669**

45. Related Party Balances and Transactions (Continued)

In thousands of Kazakhstani Tenge	Year ended 31 December 2007	Year ended 31 December 2006
Purchases from related parties		
Purchases of services from entities under common control	4,215,358	3,331,820
Purchases of services from entities under Samruk	772,998	879,664
Purchases of services from related parties of NCPL	94,070	-
Purchases of services from shareholder	-	1,234,761
Purchases of inventory from entities under common control	1,022,658	3,706
Purchases of inventory from entities under Samruk	13	-
Purchases of inventory from shareholder	-	109
Total purchases from related parties	**6,105,097**	**5,450,060**

During 2007 the Company increased the number of security points along the pipelines which resulted in increase of security service purchases from Semser JSC by Tenge 590,135 thousand.

In 2006 services received from shareholder included management fees of 1,200,000 thousand Tenge. In 2007 there were no management services provided by shareholder.

Purchases of inventory from entities under common control represented mainly purchases of heating oil from PetroKazakhstan Kumkol Resources JSC. In 2006 heating oil was purchased from third parties.

The total remuneration of members of the key management personnel comprised:

In thousands of Kazakhstani Tenge	Year ended 31 December 2007	Year ended 31 December 2006
Salary	131,696	120,620
Bonuses	34,508	67,662
Post-employment benefits	20,400	-
Total	**186,604**	**188,282**
Number of persons	**14**	**12**

46. Events after the Balance Sheet Date

After the balance sheet date, on 5 February 2008, the Group acquired 100 percent of the share capital of Batumi Industrial Holdings Limited, which owns 50 percent shares of NCPL, as well as 100 percent of shares of Port Capital Partners, engaged in management of Batumi Sea Port in Georgia. The purchase consideration comprises cash and cash equivalents paid of US Dollar 325,000 thousand.