

**KazMunaiGas Exploration Production  
Joint Stock Company**

Condensed Consolidated Interim Financial Information (Unaudited)

For the six months ended June 30, 2008

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## REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

To Board of Directors and Shareholders of Joint Stock Company KazMunaiGas Exploration Production:

### **Introduction**

We have reviewed the accompanying condensed consolidated interim balance sheet of Joint Stock Company KazMunaiGas Exploration Production and its subsidiaries as at June 30, 2008 and the related condensed consolidated interim statements of income, changes in equity and cash flow for the six-months period then ended and explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

### **Scope of Review**

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34.

*Ernst & Young LLP*

September 24, 2008

**Condensed Consolidated Interim Balance Sheet***Tenge thousands*

	Notes	June 30, 2008 Unaudited	December 31, 2007 Audited
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	244,013,498	246,673,657
Other financial assets		2,138,847	1,953,799
Receivable from jointly controlled entity		19,682,647	18,478,228
Intangible assets		3,979,112	5,548,240
Investments in associates and joint ventures		121,643,111	102,999,132
Other assets		10,310,309	4,045,763
<b>Total non-current assets</b>		<b>401,767,524</b>	<b>379,698,819</b>
<b>Current assets</b>			
Inventories		12,075,588	11,583,258
Taxes prepaid and VAT recoverable		4,552,912	5,378,089
Prepaid and deferred expenses		8,016,386	4,845,333
Trade and other receivables	7	85,995,263	50,083,867
Other financial assets	7	461,117,130	378,603,924
Cash and cash equivalents	7	27,129,348	21,658,451
<b>Total current assets</b>		<b>598,886,627</b>	<b>472,152,922</b>
<b>Total assets</b>		<b>1,000,654,151</b>	<b>851,851,741</b>
<b>EQUITY</b>			
Share capital		260,229,846	259,365,914
Other equity		919,436	580,988
Retained earnings		492,291,458	386,494,710
<b>Total equity</b>		<b>753,440,740</b>	<b>646,441,612</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		5,378,001	14,135,480
Deferred tax		3,755,314	7,784,439
Provisions	8	48,690,504	48,157,460
<b>Total non-current liabilities</b>		<b>57,823,819</b>	<b>70,077,379</b>
<b>Current liabilities</b>			
Borrowings		18,773,366	18,713,954
Income taxes payable		63,287,633	59,356,770
Trade and other payables		41,432,786	34,768,205
Dividends payable		42,112,982	416,280
Provisions	8	23,782,825	22,077,541
<b>Total current liabilities</b>		<b>189,389,592</b>	<b>135,332,750</b>
<b>Total liabilities</b>		<b>247,213,411</b>	<b>205,410,129</b>
<b>Total liabilities and equity</b>		<b>1,000,654,151</b>	<b>851,851,741</b>

The notes on pages 5 to 10 are an integral part of this condensed consolidated interim financial information.

**Condensed Consolidated Interim Statement of Income (unaudited)***Tenge thousands*

	Notes	Three months ended June 30,		Six months ended June 30,	
		2008	2007	2008	2007
Revenue	9	193,548,353	111,755,303	337,031,637	209,938,935
Operating expenses	10	(72,464,771)	(50,730,631)	(121,777,194)	(99,899,138)
<b>Profit from operations</b>		<b>121,083,582</b>	<b>61,024,672</b>	<b>215,254,443</b>	<b>110,039,797</b>
Interest income		10,451,668	5,500,496	20,452,017	13,156,788
Interest expense		(628,548)	(935,544)	(1,732,044)	(2,811,804)
Foreign exchange gain (loss)		128,362	(1,482,052)	962,372	(5,624,699)
Gain on sale of subsidiaries		–	215,882	–	215,882
Share of result of associates and joint ventures		18,204,437	2,754,664	27,254,763	2,659,736
<b>Profit before tax</b>		<b>149,239,501</b>	<b>67,078,118</b>	<b>262,191,551</b>	<b>117,635,700</b>
Income tax expense	11	(65,183,668)	(32,830,259)	(114,676,674)	(59,540,672)
<b>Profit for the period</b>		<b>84,055,833</b>	<b>34,247,859</b>	<b>147,514,877</b>	<b>58,095,028</b>
Attributable to:					
Equity holders of the Company		84,055,833	34,247,906	147,514,877	58,095,028
Minority interest		–	(47)	–	–
		84,055,833	34,247,859	147,514,877	58,095,028
<b>EARNINGS PER SHARE</b>					
Attributable to equity holders of the Company – basic and Diluted					
		1.13	0.46	1.99	0.78

The notes on pages 5 to 10 are an integral part of this condensed consolidated interim financial information.

**Condensed Consolidated Interim Cash Flow Statement (unaudited)***Tenge thousands*

	Notes	Six months ended June 30,	
		2008	2007
<b>Cash flows from operating activities</b>			
Cash receipts from customers		312,361,566	204,375,592
Cash paid to suppliers and employees		(125,398,260)	(90,537,743)
Income tax paid		(111,571,738)	(59,597,848)
<b>Net cash generated from operating activities</b>		<b>75,391,568</b>	<b>54,240,001</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment (PPE)		(20,169,237)	(20,744,757)
Proceeds from sale of PPE		511,610	17,410
Purchases of intangible assets		(5,814)	(24,273)
Purchase of interest in a joint venture		–	(118,250,000)
Dividends received from joint ventures and associates		9,063,750	–
Sale (purchase) of available-for-sale financial assets		6,449,113	(6,767,606)
Purchase of held-to-maturity financial assets, net		(84,146,098)	(1,418,600)
Loan repayments received from related parties		–	97,440,000
Proceeds received related to disposal of subsidiaries		–	10,612,500
Interest received		19,001,810	14,035,089
<b>Net cash used in investing activities</b>		<b>(69,294,866)</b>	<b>(25,100,237)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		–	1,990,522
Repayment of borrowings		(8,484)	(1,556,272)
Dividends paid to Company's shareholders		(21,427)	(339,874)
Interest paid		(617,712)	(4,732,554)
<b>Net cash used in financing activities</b>		<b>(647,623)</b>	<b>(4,638,178)</b>
Net change in cash and cash equivalents		5,449,079	24,501,586
Cash and cash equivalents at beginning of the year	7	21,658,451	62,459,415
Exchange gains (losses) on cash and cash equivalents		21,818	(1,812,855)
<b>Cash and cash equivalents at end of the period</b>	<b>7</b>	<b>27,129,348</b>	<b>85,148,146</b>

The notes on pages 5 to 10 are an integral part of this condensed consolidated interim financial information.

## Condensed Consolidated Interim Statement of Changes in Equity (unaudited)

Tenge thousands

	Attributable to equity holders of the Company					
	Share capital	Treasury stock	Other equity	Retained earnings	Minority interest	Total Equity
<b>As at December 31, 2006</b>	<b>263,094,581</b>	<b>(3,818,100)</b>	<b>92,249</b>	<b>266,383,385</b>	<b>5,700</b>	<b>525,757,815</b>
Disposal of subsidiaries	–	–	–	(109,654)	(5,700)	(115,354)
Foreign currency translation	–	–	1,404,585	–	–	1,404,585
Recognition of share-based payments	–	–	998,013	–	–	998,013
Net gains on available-for-sale financial investments	–	–	243,517	–	–	243,517
Dividends	–	–	–	(37,007,756)	–	(37,007,756)
Profit for the period	–	–	–	58,095,028	–	58,095,028
<b>As at June 30, 2007</b>	<b>263,094,581</b>	<b>(3,818,100)</b>	<b>2,738,364</b>	<b>287,361,003</b>	<b>–</b>	<b>549,375,848</b>
<b>As at December 31, 2007</b>	<b>263,094,581</b>	<b>(3,728,667)</b>	<b>580,988</b>	<b>386,494,710</b>	<b>–</b>	<b>646,441,612</b>
Foreign currency translation	–	–	333,930	–	–	333,930
Recognition of share-based payments	–	–	210,433	–	–	210,433
Execution of share based options	–	863,932	(641,801)	–	–	222,131
Sale of available-for-sale financial investments	–	–	435,886	–	–	435,886
Dividends	–	–	–	(41,718,129)	–	(41,718,129)
Profit for the period	–	–	–	147,514,877	–	147,514,877
<b>As at June 30, 2008</b>	<b>263,094,581</b>	<b>(2,864,735)</b>	<b>919,436</b>	<b>492,291,458</b>	<b>–</b>	<b>753,440,740</b>

The notes on pages 5 to 10 are an integral part of this condensed consolidated interim financial information.

## Notes to the Condensed Consolidated Interim Financial Information

*Tenge thousands unless otherwise stated*

### 1. Organization and principal activities

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

The Company conducts its principal operations through the UzenMunaiGas and EmbaMunaiGas production divisions. In addition the Company has a 50% interest in a jointly controlled oil and natural gas producer and a receivable from a jointly controlled entity. This condensed consolidated interim financial information reflect the financial position and results of operations of those divisions, jointly controlled entities and certain other controlling and non-controlling interests in predominantly non-core entities.

This condensed consolidated interim financial information was authorized for issue by the Company's Chief Executive Officer, Chief Financial Officer and Financial Controller on September 24, 2008.

### 2. Basis of preparation

This condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard No. 34, *Interim Financial Reporting* ("IAS 34") and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2007.

#### Exchange rates

The official rate of the Kazakhstan Tenge to the US Dollar at June 30, 2008 and December 31, 2007 was 120.75 and 120.30, respectively. Any translation of Tenge amounts to US Dollar or any other hard currency should not be construed as a representation that such Tenge amounts have been, could be or will in the future be converted into hard currency at the exchange rate shown or at any other exchange rate.

### 3. Seasonality of operations

The Company's operating costs are subject to seasonal fluctuations, with higher expenses for materials and repair, maintenance and other services usually expected in the latter part of the year than in the first six months. These fluctuations are mainly due to the requirement to conduct formal public tenders in accordance with state procurement laws.

### 4. Significant non-cash transactions

During the six months ended June 30, 2008 the Company settled in crude oil 8,949,587 thousand Tenge due under the terms of a financing agreement (six months of 2007: 9,118,461 thousand Tenge).

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

### 5. Accounting policies

The accounting policies applied in the preparation of this condensed consolidated interim financial information are consistent with those applied in the preparation of the annual financial statements for the year ended December 31, 2007.

## Notes to the Condensed Consolidated Interim Financial Information

*Tenge thousands unless otherwise stated*

### 5. Accounting policies (continued)

New accounting developments

The following IFRS and IFRIC interpretations are not yet in effect as at June 30, 2008:

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

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

### 6. Property, plant and equipment

During the six months ended June 30, 2008, the Company acquired assets with a cost of 13,408,468 thousand Tenge.

Assets with the net book value of 775,908 thousand Tenge were disposed of by the Company during the six months ended 30 June 2008, resulting in a net loss on disposal of 264,298 thousand Tenge.

### 7. Financial assets

*Other financial assets*

	June 30, 2008	December 31, 2007
	Unaudited	Audited
US dollar-denominated term deposits	329,463,235	187,559,204
Tenge-denominated term deposits	131,653,625	184,767,036
Available-for-sale financial assets	–	6,277,414
Other	270	270
<b>Total current</b>	<b>461,117,130</b>	<b>378,603,924</b>

**Notes to the Condensed Consolidated Interim Financial Information***Tenge thousands unless otherwise stated***7. Financial assets (continued)**

## Trade and other receivables

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
	<b>Unaudited</b>	<b>Audited</b>
Trade receivables	86,723,149	51,213,760
Other	700,152	511,192
Allowance for doubtful receivables	(1,428,038)	(1,641,085)
	<b>85,995,263</b>	<b>50,083,867</b>

*Cash and cash equivalents*

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
	<b>Unaudited</b>	<b>Audited</b>
Tenge denominated term deposits with banks	17,706,159	19,824,415
Held-to-maturity treasury notes	7,063,596	-
US dollar denominated term deposits with banks	810,033	818,040
Cash in bank and on hand	1,549,560	1,015,996
	<b>27,129,348</b>	<b>21,658,451</b>

**8. Provisions**

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
	<b>Unaudited</b>	<b>Audited</b>
Environmental remediation	27,681,221	28,242,849
Asset retirement obligation	21,672,622	20,778,251
Taxes	19,255,457	17,637,623
Other	3,864,029	3,576,278
	<b>72,473,329</b>	<b>70,235,001</b>

A description of these provisions, including critical estimates and judgments, is disclosed in Note 4 of the Company's annual financial statements for the year ended December 31, 2007.

**9. Revenue**

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>Unaudited</b>	<b>Unaudited</b>	<b>Unaudited</b>	<b>Unaudited</b>
Export:				
Crude oil	178,724,659	99,944,861	310,038,730	188,693,717
Domestic:				
Crude oil	10,877,566	9,755,295	20,237,469	17,425,625
Gas products	1,600,797	1,146,013	2,898,446	2,036,425
Other sales and services	2,345,331	909,134	3,856,992	1,783,168
	<b>193,548,353</b>	<b>111,755,303</b>	<b>337,031,637</b>	<b>209,938,935</b>

**Notes to the Condensed Consolidated Interim Financial Information***Tenge thousands unless otherwise stated***10. Operating expenses**

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
	Unaudited	Unaudited	Unaudited	Unaudited
Export customs duty	15,802,878	–	15,802,878	–
Transportation	12,409,708	11,695,327	25,754,744	25,084,855
Employee benefits	9,250,164	9,541,495	17,964,080	18,735,556
Depreciation, depletion and amortization	8,459,796	8,185,196	16,196,667	16,697,457
Royalties	7,839,379	3,874,037	13,960,349	7,289,760
Repairs, maintenance and other services	5,605,755	4,661,266	9,231,626	7,564,374
Materials	3,837,223	3,841,301	6,732,637	6,215,554
Energy	2,537,127	1,569,643	4,661,620	3,996,698
Management fees and sales commissions	2,109,076	2,015,588	4,212,971	4,044,623
Fines and penalties	1,029,894	1,367,036	1,420,407	2,164,459
Taxes other than on income	967,492	1,341,973	2,095,078	2,617,087
Social infrastructure projects	357,609	1,346,664	1,294,422	1,649,996
Loss on disposal of fixed assets	31,905	387,973	264,298	1,148,522
Change in crude oil balance	(198,318)	(356,414)	(2,110,287)	887,281
Other	2,425,083	1,259,546	4,295,704	1,802,916
	<b>72,464,771</b>	<b>50,730,631</b>	<b>121,777,194</b>	<b>99,899,138</b>

**11. Income tax expense**

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
	Unaudited	Unaudited	Unaudited	Unaudited
Corporate income tax	42,778,343	23,054,992	76,100,270	40,741,151
Excess profit tax	24,338,123	12,611,501	42,605,529	21,930,666
<b>Current income tax</b>	<b>67,116,466</b>	<b>35,666,493</b>	<b>118,705,799</b>	<b>62,671,817</b>
Corporate income tax	(1,138,403)	(1,690,875)	(2,373,141)	(1,655,602)
Excess profit tax	(794,395)	(1,145,359)	(1,655,984)	(1,475,543)
<b>Deferred income tax</b>	<b>(1,932,798)</b>	<b>(2,836,234)</b>	<b>(4,029,125)</b>	<b>(3,131,145)</b>
<b>Income tax expense</b>	<b>65,183,668</b>	<b>32,830,259</b>	<b>114,676,674</b>	<b>59,540,672</b>

**Notes to the Condensed Consolidated Interim Financial Information***Tenge thousands unless otherwise stated***12. Related party transactions**

The category 'entities under common control' comprises entities of the Parents and all of those entities that are state-controlled. Halyk Bank of Kazakhstan was a related party until August 2007 at which time the individual who controls the bank ceased to be a member of the Parent Company's Board of Directors. Sales and purchases with related parties during the six months ended June 30, 2008 and 2007 and the balances with related parties at June 30, 2008 and December 31, 2007 are as follows:

	<b>2008</b>	<b>2007</b>
	<b>Unaudited</b>	<b>Unaudited</b>
<b>Sales of goods and services</b>		
Entities under common control	258,989,332	168,837,682
Parent Company	–	2,933,230
Other state controlled entities	20,179	–
Joint ventures	119,578	–
Associates	1,432	1,991
Halyk Bank of Kazakhstan affiliates	–	7,010
<b>Purchases of goods and services</b>		
Entities under common control	13,297,780	12,985,038
Parent Company	2,003,575	1,249,294
Other state controlled entities	1,098,789	975,906
Associates	36,746	143,810
Halyk Bank of Kazakhstan affiliates	–	1,371,414
<b>Interest earned on financial assets</b>		
Halyk Bank of Kazakhstan	–	1,159,279
Average interest rate on deposits	–	4.54%
Parent Company	–	2,933,230
<b>Salaries and other short-term benefits</b>		
Members of the Management Board	130,358	61,212
Members of the Board of Directors	39,570	48,895
<b>Share-based payments</b>		
Members of the Management Board	33,606	204,219
Members of the Board of Directors	–	41,313
	<b>2008</b>	<b>2007</b>
	<b>Unaudited</b>	<b>Audited</b>
<b>Trade and other receivables</b>		
Entities under common control	72,543,307	41,302,095
Other state-controlled entities	153,046	147,874
Joint ventures	19,707,987	18,509,130
Associates	–	7,254
<b>Trade payables</b>		
Entities under common control	837,770	823,812
Parent Company	2,264,040	2,439,600
Other state-controlled entities	–	104,525
Associates	31,114	215,036

**Notes to the Condensed Consolidated Interim Financial Information***Tenge thousands unless otherwise stated***13. Commitments**

Oilfield licenses and contracts

<b>Year</b>	<b>Capital Expenditures</b>	<b>Operational expenditures</b>
2008	21,542,755	2,734,380
2009	858,000	3,832,420
2010	841,000	3,831,819
2011	841,000	3,831,819
2012	–	3,831,819
2013-2021	–	26,391,847
<b>Total</b>	<b>24,082,755</b>	<b>44,454,104</b>

Crude oil supply commitments

Under the provisions of a pre-export financing agreement the Company has committed to deliver 150,000 tons of crude oil per month to the lender until September 2009 at market prices determined at the date of shipment.

Commitments of joint ventures

As at June 30, 2008 the Company's share in the commitments of JV Kazgermunai LLP is as follows:

<b>Year</b>	<b>Capital expenditures</b>
2008	4,057,442
<b>Total</b>	<b>4,057,442</b>

**14. Subsequent events**

On July 3, 2008 the partners of Kazgermunai agreed to distribute 300 million US Dollars (36,225,000 thousand Tenge) as a dividend payment. The Company received its 50% share of the above dividend amount on July 18, 2008.

On September 11, 2008 the Government of the Republic of Kazakhstan declared an increase in export customs duty from 109.91 US Dollars to 203.80 US Dollars per ton of crude oil effective from October 11, 2008.

This report has been signed below by the following persons on behalf of the Company and in the capacities indicated on September 24, 2008:

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

## **Contact information**

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