

**Joint Stock Company**  
**KazMunaiGas Exploration Production**

Condensed Consolidated Interim Financial Information (Unaudited)

For the nine months ended September 30, 2007

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## Report on Review of Condensed Consolidated Interim Financial Information

To the shareholders and management 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 of September 30, 2007 and the related condensed consolidated interim statement of income, changes in equity and cash flow for the nine-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*

November 26, 2007

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

		September 30, 2007	December 31, 2006
	Notes	Unaudited	Audited
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	251,470,296	259,333,372
Other financial assets	7	2,109,780	102,841,401
Intangible assets		6,286,865	7,921,252
Investments in associates and joint ventures	8	130,263,934	2,884,207
Other assets		5,009,143	3,843,312
<b>Total non-current assets</b>		<b>395,140,018</b>	<b>376,823,544</b>
<b>Current assets</b>			
Inventories		12,149,071	15,131,619
Taxes prepaid and VAT recoverable		6,894,742	11,690,358
Prepaid and deferred expenses		5,680,352	4,952,828
Trade and other receivables	7	43,769,426	37,356,601
Other financial assets	7	254,395,389	226,523,024
Cash and cash equivalents	7	71,768,764	62,459,415
<b>Total current assets</b>		<b>394,657,744</b>	<b>358,113,845</b>
<b>Total assets</b>		<b>789,797,762</b>	<b>734,937,389</b>
<b>EQUITY</b>			
Share capital		259,276,481	259,276,481
Other equity		1,581,262	92,249
Retained earnings		332,856,189	266,383,385
Equity holders of the Company		593,713,932	525,752,115
Minority interest		–	5,700
<b>Total equity</b>		<b>593,713,932</b>	<b>525,757,815</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		18,625,161	37,972,387
Deferred tax		8,327,552	10,715,701
Provisions	10	51,908,332	52,155,874
<b>Total non-current liabilities</b>		<b>78,861,045</b>	<b>100,843,962</b>
<b>Current liabilities</b>			
Borrowings		18,886,724	21,695,307
Income taxes payable		40,958,237	25,551,751
Trade and other payables		33,417,708	40,457,729
Provisions	10	23,960,116	20,630,825
<b>Total current liabilities</b>		<b>117,222,785</b>	<b>108,335,612</b>
<b>Total liabilities</b>		<b>196,083,830</b>	<b>209,179,574</b>
<b>Total liabilities and equity</b>		<b>789,797,762</b>	<b>734,937,389</b>

*The notes on pages 5 to 15 are an integral part of this condensed consolidated interim financial information.*

JSC KAZMUNAIGAS EXPLORATION PRODUCTION

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

*Tenge thousands*

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2007	2006	2007	2006
Revenue	11	128,899,423	111,001,389	338,838,358	313,724,848
Operating expenses	12	(52,353,455)	(52,553,742)	(152,252,593)	(135,250,932)
<b>Profit from operations</b>		<b>76,545,968</b>	<b>58,447,647</b>	<b>186,585,765</b>	<b>178,473,916</b>
Finance income		6,778,161	2,879,777	20,914,253	5,986,730
Finance expense		(869,283)	(2,364,448)	(4,660,391)	(6,082,407)
Foreign exchange loss		(1,863,878)	(193,229)	(7,488,577)	(4,039,342)
Gain on sale of subsidiaries	9	643,946	–	859,828	(75,772)
Share of result of associates and joint ventures	8	6,233,479	(254,701)	8,893,215	(402,123)
<b>Profit before tax and minority interest</b>		<b>87,468,393</b>	<b>58,515,046</b>	<b>205,104,093</b>	<b>173,861,002</b>
Income tax expense	13	(42,082,861)	(40,911,265)	(101,623,533)	(106,037,732)
<b>Profit for the period</b>		<b>45,385,532</b>	<b>17,603,781</b>	<b>103,480,560</b>	<b>67,823,270</b>
Attributable to:					
Equity holders of the Company		45,385,532	17,603,628	103,480,560	67,823,173
Minority interest		–	153	–	97
		<b>45,385,532</b>	<b>17,603,781</b>	<b>103,480,560</b>	<b>67,823,270</b>
<b>EARNINGS PER SHARE</b>					
Attributable to equity holders of the Company – basic and diluted		0.61	0.37	1.40	1.42

*The notes on pages 5 to 15 are an integral part of this condensed consolidated interim financial information.*

JSC KAZMUNAIGAS EXPLORATION PRODUCTION

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

*Tenge thousands*

	Notes	Nine months ended September 30,	
		2007	2006
<b>Cash flows from operating activities</b>			
Cash receipts from customers		331,710,039	310,036,199
Cash paid to suppliers and employees		(143,406,910)	(143,805,204)
Income tax paid		(78,980,944)	(101,056,667)
<b>Net cash generated from operating activities</b>		<b>109,322,185</b>	<b>65,174,328</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment (PPE)		(28,438,159)	(36,250,375)
Proceeds from sale of PPE		19,786	805,467
Purchases of intangible assets		(26,464)	(8,649,300)
Purchase of interest in a joint venture		(118,713,074)	–
Purchases of financial assets held to maturity, net		(18,242,051)	–
Purchases of available for sale financial assets, net		(6,767,606)	(98,145,813)
Loan granted to related parties		–	(24,371,325)
Loan repayments received from related parties		97,440,000	10,640,529
Proceeds received related to disposal of subsidiaries		10,346,935	3,644,982
Interest received		12,739,905	2,810,900
<b>Net cash used in investing activities</b>		<b>(51,640,728)</b>	<b>(149,514,935)</b>
<b>Cash flows from financing activities</b>			
Issue of shares		–	1,025,355
Proceeds from borrowings		1,995,378	101,628,709
Repayment of borrowings		(8,135,563)	(1,627,679)
Dividends paid to Company's shareholders		(35,560,134)	(38,610)
Interest paid		(2,606,186)	(3,040,797)
<b>Net cash used in financing activities</b>		<b>(44,306,505)</b>	<b>97,946,978</b>
Net change in cash and cash equivalents		13,374,952	13,606,371
Cash and cash equivalents at beginning of the year	7	62,459,415	20,187,588
Exchange losses on cash and cash equivalents		(4,065,603)	(653,617)
<b>Cash and cash equivalents at end of the period</b>	<b>7</b>	<b>71,768,764</b>	<b>33,140,342</b>

*The notes on pages 5 to 15 are an integral part of this condensed consolidated interim financial information.*

JSC KAZMUNAIGAS EXPLORATION PRODUCTION

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

*Tenge thousands*

	Attributable to equity holders of the Company						Total equity
	Share capital	Treasury stock	Other reserves	Translation reserve	Retained earnings	Minority interest	
<b>As at December 31, 2005</b>	<b>11,792,208</b>	–	–	–	<b>161,860,819</b>	<b>79,536</b>	<b>173,732,563</b>
Issue of shares	1,025,355	–	–	–	–	–	1,025,355
Changes in ownership of subsidiaries	–	–	–	–	(139,814)	(73,749)	(213,563)
Other distribution to owners	–	–	–	–	525,357	–	525,357
Dividends	–	–	–	–	(18,025,525)	–	(18,025,525)
Profit for the period	–	–	–	–	67,823,173	97	67,823,270
<b>As at September 30, 2006</b>	<b>12,817,563</b>	–	–	–	<b>212,044,010</b>	<b>5,884</b>	<b>224,867,457</b>
<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	–	–	–	–	–	(5,700)	(5,700)
Foreign currency translation	–	–	–	(68,248)	–	–	(68,248)
Recognition of share-based payments	–	–	1,483,165	–	–	–	1,483,165
Net gains on available-for-sale financial investments	–	–	74,096	–	–	–	74,096
Dividends	–	–	–	–	(37,007,756)	–	(37,007,756)
Profit for the period	–	–	–	–	103,480,560	–	103,480,560
<b>As at September 30, 2007</b>	<b>263,094,581</b>	<b>(3,818,100)</b>	<b>1,649,510</b>	<b>(68,248)</b>	<b>332,856,189</b>	–	<b>593,713,932</b>

*The notes on pages 5 to 15 are an integral part of this condensed consolidated interim financial information.*

**Notes to the Condensed Consolidated Interim Financial Information (unaudited)**

*Tenge thousands unless otherwise stated*

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

Joint Stock Company KazMunaiGas Exploration Production (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 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 and a joint venture interest in JV Kazgermunai LLP (“Kazgermunai”). These consolidated financial statements reflect the financial position and results of operations of those divisions and joint venture in addition to certain other controlling and non-controlling interests in predominantly non-core entities. Such other interests represented approximately 3% of the Company’s net assets at September 30, 2007 (at December 31, 2006: 3%). The Company plans to dispose of the remaining non-core businesses by the end of 2008.

This condensed consolidated interim financial information was authorized for issue by the Company’s Chief Executive Officer, Chief Financial Officer and Financial Controller on November 26, 2007.

**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, 2006.

**3. SEASONALITY OF OPERATIONS**

The Company’s operating costs and expenditures are subject to seasonal fluctuations, with higher expenditures for materials, operational and capital repairs and 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 in the first few months of the year after the approval of the annual budget.

**4. SIGNIFICANT NON-CASH TRANSACTIONS**

During the nine months ended September 30, 2007 the Company settled in crude oil 13,689,073 thousand Tenge due under the terms of a financing agreement (nine months of 2006: 12,768,316 thousand Tenge).

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

**5. ACCOUNTING POLICIES**

Except as discussed below, the accounting policies applied in preparation of this condensed consolidated interim financial information are consistent with those applied in preparation of the annual financial statements for the year ended December 31, 2006:

**Interests in joint ventures**

The Company has acquired an interest in a joint venture, which is a jointly controlled entity (Note 8). A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest. The Company recognizes its interest in the joint venture using the equity method. The financial statements of the joint venture are prepared for the same reporting period as the parent company, using consistent accounting policies.

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

**Notes to the Condensed Consolidated Interim Financial Information (unaudited)**

*Tenge thousands unless otherwise stated*

**5. ACCOUNTING POLICIES (continued)**

***Foreign currency translation***

The functional currency of the joint venture, JV KazGerMunai LLP, is the US Dollar. As at the reporting date, the assets and liabilities of this joint venture are translated into the presentation currency of the Company (the Tenge) at the rate of exchange ruling at the balance sheet date and their income statement is translated at the weighted average exchange rate for the period. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of the joint venture, the deferred cumulative amount recognised in equity relating to that particular operation is recognised in the income statement.

**Adopted accounting standards and interpretations**

The Company has adopted the following new and amended IFRIC interpretations. Adoption of these interpretations did not have any effect on the financial performance or position of the Company:

- IFRIC 8            Scope of IFRS 2, “Share-based Payment”
- IFRIC 9            Reassessment of Embedded Derivatives
- IFRIC 10          Interim Financial Reporting and Impairment

IFRIC 8, *Scope of IFRS 2* requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share scheme, the interpretation had no impact on the financial position or performance of the Company.

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

IFRIC 10, *Interim Financial Reporting and Impairment*, requires an entity not to reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Company had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Company.

**New accounting developments**

The adoption of the following IFRS and IFRIC interpretations will not have any effect on the financial performance or position of the Company. They did however give rise to additional disclosures, including revisions to accounting policies:

- IFRS 7            Financial Instruments: Disclosures
- IFRS 8            Operating Segments
- IAS 23            Amendment - Borrowing costs
- 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

IFRS 7, *Financial Instruments: Disclosures*, and a Complementary Amendment to IAS 1, *Presentation of Financial Statements—Capital Disclosures*, are effective for annual periods beginning on or after January 1, 2007. The adoption of IFRS 7 and the amendment to IAS 1 will result in additional disclosures, including sensitivity analysis for market risks and capital management disclosures.

IFRS 8, *Operating Segments*, is effective for annual periods beginning on or after January 1, 2009. Management does not expect the interpretation to have a material impact on the Company’s financial position or results of operations.

**Notes to the Condensed Consolidated Interim Financial Information (unaudited)***Tenge thousands unless otherwise stated***5. ACCOUNTING POLICIES (continued)****New accounting developments (continued)**

Amendment to IAS 23, *Borrowing costs*, is effective for annual periods beginning on or after January 1, 2009. Management does not expect the interpretation to have a material impact on the Company's financial position or results of operations.

IFRIC 11, *IFRS 2 – Group and Treasury Share Transaction*, is effective for annual periods beginning on or after March 1, 2007. Management does not expect the interpretation to have a material impact on the Company's financial position or results of operations.

IFRIC 12, *Service Concession Arrangements*, is effective for annual periods beginning on or after March 1, 2007. Management does not expect the interpretation to have a material impact on the Company's financial position or results of operations.

IFRIC 13, *Customer Loyalty Programmes*, is effective for annual periods beginning on or after July 1, 2008. Management does not expect the interpretation to have a material impact on the Company's financial position or results of operations.

IFRIC 14, *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, is effective for annual periods beginning on or after January 1, 2008. Management does not expect the interpretation to have a material impact on the Company's financial position or results of operations.

**6. PROPERTY, PLANT AND EQUIPMENT**

During the nine months ended September 30, 2007, total cost of fixed assets additions of the Company was 26,536,553 thousand Tenge.

Assets with the net book value of 10,169,020 thousand Tenge were disposed of by the Company during the nine months ended September 30, 2007, including 8,515,814 thousand Tenge related to the disposal of subsidiaries.

**7. FINANCIAL ASSETS****Other financial assets**

	September 30, 2007	December 31, 2006
	Unaudited	Audited
Loan receivable from NC KMG	–	100,786,068
Other	2,109,780	2,055,333
<b>Total non-current</b>	<b>2,109,780</b>	<b>102,841,401</b>
Tenge-denominated held-to-maturity deposits	182,564,421	131,995,651
US dollar-denominated held-to-maturity deposits	65,080,447	90,461,651
Available-for-sale financial assets	6,750,521	–
Other	–	4,065,722
<b>Total current</b>	<b>254,395,389</b>	<b>226,523,024</b>
	<b>256,505,169</b>	<b>329,364,425</b>

**Trade and other receivables**

	September 30, 2007	December 31, 2006
	Unaudited	Audited
Trade receivables	44,755,649	37,273,438
Other	826,787	3,378,453
Allowance for doubtful receivables	(1,813,010)	(3,295,290)
	<b>43,769,426</b>	<b>37,356,601</b>

**Notes to the Condensed Consolidated Interim Financial Information (unaudited)***Tenge thousands unless otherwise stated***7. FINANCIAL ASSETS (continued)****Cash and cash equivalents**

	September 30, 2007	December 31, 2006
	Unaudited	Audited
Term deposits with Kazakhstani banks	66,410,561	58,399,928
Cash in bank and in hand	5,358,203	4,059,487
	<b>71,768,764</b>	<b>62,459,415</b>

**8. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES**

	September 30, 2007	December 31, 2006
	Unaudited	Audited
Interest in Kazgermunai	127,667,388	-
Other	2,596,546	2,884,207
	<b>130,263,934</b>	<b>2,884,207</b>

**Acquisition of Kazgermunai**

On April 24, 2007 the Company acquired from "NC KMG a 50% participation interest in Kazgermunai which is involved in oil and gas production in South Central Kazakhstan. This condensed consolidated interim financial information includes the results of Kazgermunai for the period from acquisition date.

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

	Provisional fair value recognized on acquisition	Carrying value
Current assets	45,392,798	43,263,905
Non-current assets	95,029,273	14,071,248
	140,422,071	57,335,153
Current liabilities	3,349,764	3,349,764
Non-current liabilities	18,359,233	18,359,233
	21,708,997	21,708,997
<b>Net assets acquired</b>	<b>118,713,074</b>	<b>35,626,156</b>

The adjustments to the carrying value of net assets relate to valuation adjustments and are provisional, based on management's best estimates. The Company may recognize amendments to the provisional fair value recognized within twelve months of the acquisition date. Changes to the fair values, if any, will be applied from the date of acquisition.

The total acquisition cost of 118,713,074 thousand Tenge comprised a cash payment of 118,250,000 thousand Tenge and costs of 463,074 thousand Tenge directly attributable to the acquisition.

The difference of 83,086,918 thousand Tenge between the consideration and the carrying value of the net assets acquired has been primarily attributed to the value of the license of Kazgermunai based on its proved reserves. The license will be amortized over the total proved reserves of the joint venture using the unit-of-production method.

**JSC KAZMUNAIGAS EXPLORATION PRODUCTION**

**Notes to the Condensed Consolidated Interim Financial Information (unaudited)**

*Tenge thousands unless otherwise stated*

**8. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)**

**Acquisition of Kazgermunai (continued)**

The share of results of the joint venture included into the condensed consolidated interim financial information of the Company is:

Revenues	31,258,383
Operating expenses	(13,377,782)
Profit from operations	17,880,601
Finance costs, net	(15,775)
Profit before tax	17,864,826
Income tax expense	(8,842,264)
<b>Profit for the period</b>	<b>9,022,562</b>
<b>Foreign currency translation loss recognized directly in equity</b>	<b>(68,248)</b>

The profit for the period of 9,022,562 thousand Tenge includes an adjustment to the Company's share of profit for the period reported by Kazgermunai of 15,780,982 thousand Tenge to reflect the effect of the fair valuation of inventory of 2,130,743 thousand Tenge and amortization of the fair valuation of the license of 4,627,677 thousand Tenge.

Net cash outflow on acquisition:

	<b>Unaudited</b>
Net cash acquired with subsidiary	33,127,485
Cash paid	(118,250,000)
Acquisition costs	(463,074)
<b>Net cash outflow</b>	<b>(85,585,589)</b>

**9. DISPOSAL OF SUBSIDIARIES**

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

Current assets	2,145,821
Non-current assets	8,526,860
	10,672,681
Current liabilities	836,509
Non-current liabilities	—
	836,509
<b>Net assets disposed of</b>	<b>9,836,172</b>

**10. PROVISIONS**

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
	<b>Unaudited</b>	<b>Audited</b>
Environmental remediation	29,826,918	30,018,963
Asset retirement obligation	21,286,199	21,757,268
Taxes	21,008,324	17,785,480
Other	3,747,007	3,224,988
	<b>75,868,448</b>	<b>72,786,699</b>

A description of these provisions, including critical estimates and judgments, is disclosed in Note 5 of the Company's annual financial statements for the year ended December 31, 2006.

JSC KAZMUNAIGAS EXPLORATION PRODUCTION

Notes to the Condensed Consolidated Interim Financial Information (unaudited)

Tenge thousands unless otherwise stated

11. REVENUE

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	Unaudited	Unaudited	Unaudited	Unaudited
Export				
Crude oil	115,796,926	93,901,056	304,490,643	271,858,150
Domestic				
Crude oil	9,693,356	12,958,544	27,118,981	29,305,780
Refined products	–	1,261,097	–	6,166,875
Gas products	1,316,076	1,028,374	3,352,501	2,733,209
Other sales and services	2,093,065	1,852,318	3,876,233	3,660,834
	<b>128,899,423</b>	<b>111,001,389</b>	<b>338,838,358</b>	<b>313,724,848</b>

12. OPERATING EXPENSES

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	Unaudited	Unaudited	Unaudited	Unaudited
Transportation	11,787,725	10,939,072	36,872,580	33,673,858
Employee benefits	9,588,195	8,258,086	28,323,751	25,539,595
Depreciation, depletion and amortization	8,895,928	8,766,813	25,593,385	23,236,618
Repairs, maintenance and other services	6,678,864	4,737,791	14,243,238	13,130,120
Royalties	4,971,404	4,387,114	12,261,164	11,783,140
Materials	3,391,952	4,579,684	9,607,506	10,199,565
Management fees and sales commissions	1,979,576	1,960,645	6,024,199	5,733,957
Energy	1,677,884	1,736,079	5,674,582	4,997,522
Taxes other than on income	1,220,779	2,139,086	3,837,866	5,507,847
Social infrastructure projects	844,040	786,736	2,494,036	4,574,624
Fines and penalties	500,656	482,473	2,665,115	201,463
Release of environmental fine	–	–	–	(11,427,958)
Other	816,452	3,780,163	4,655,171	8,100,581
	<b>52,353,455</b>	<b>52,553,742</b>	<b>152,252,593</b>	<b>135,250,932</b>

13. INCOME TAX EXPENSE

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	Unaudited	Unaudited	Unaudited	Unaudited
Corporate income tax	26,180,270	22,228,307	66,921,421	59,919,013
Excess profit tax	15,194,868	19,219,711	37,125,534	48,265,732
<b>Current income tax</b>	<b>41,375,138</b>	<b>41,448,018</b>	<b>104,046,955</b>	<b>108,184,745</b>
Corporate income tax	420,633	(297,285)	(1,234,969)	(1,027,252)
Excess profit tax	287,090	(239,468)	(1,188,453)	(1,119,761)
<b>Deferred income tax</b>	<b>707,723</b>	<b>(536,753)</b>	<b>(2,423,422)</b>	<b>(2,147,013)</b>
<b>Income tax expense</b>	<b>42,082,861</b>	<b>40,911,265</b>	<b>101,623,533</b>	<b>106,037,732</b>

**Notes to the Condensed Consolidated Interim Financial Information (unaudited)***Tenge thousands unless otherwise stated***14. RELATED PARTY TRANSACTIONS**

The category 'entities under common control' comprises entities of the Parent 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 nine months ended September 30, 2007 and 2006 and the balances with related parties at September 30, 2007 and December 31, 2006 are as follows:

	<b>2007</b>	<b>2006</b>
	<b>Unaudited</b>	<b>Unaudited</b>
<b>Sales of goods and services</b>		
Entities under common control	278,221,759	230,236,407
Associates	6,662	5,959
Halyk Bank of Kazakhstan affiliates	61,051	-
<b>Purchases of goods and services</b>		
Entities under common control	29,661,626	27,522,399
Parent Company	4,605,860	5,449,037
Associates	281,057	463,917
Halyk Bank of Kazakhstan affiliates	525,214	-
<b>Interest earned on financial assets</b>		
Parent Company	2,933,230	2,330,935
Halyk Bank of Kazakhstan	1,225,246	451,734
<b>Key management compensation</b>		
Salaries and other short-term benefits	298,197	342,603
Share-based payments	306,647	-
Termination benefits	-	10,491
	<b>Unaudited</b>	<b>Audited</b>
<b>Trade and other receivables</b>		
Entities under common control	36,937,503	31,996,067
Associates	10,961	226
<b>Trade payables</b>		
Entities under common control	763,342	1,725,051
Parent Company	2,443,893	2,114,180
Associates	186,249	293,088
<b>Loans receivable</b>		
Entities under common control	100,000	94,185
Parent Company	-	100,786,068
<b>Loans payable</b>		
Parent Company	52,345	5,720,113

**Notes to the Condensed Consolidated Interim Financial Information (unaudited)**

*Tenge thousands unless otherwise stated*

**15. CONTINGENCIES**

**Operating environment**

All of the Company's production assets, including those of its subsidiaries, associates and joint ventures are located in Kazakhstan. The Kazakh economy, while deemed to be of market status beginning in 2002, continues to display certain characteristics consistent with that of an economy in transition. These characteristics have in the past included higher than normal historical inflation, lack of liquidity in the capital markets, and the existence of currency controls, which cause the national currency to be illiquid outside of Kazakhstan.

The Company's operations and financial position will continue to be affected by Kazakh political developments including the application of existing and future legislation and tax regulations.

**Local market obligation**

The Kazakhstan government requires oil producers to supply a portion of their crude oil production to meet domestic energy requirements. While the price for such additional supplies of crude oil is agreed with the Company's Parent, this price may be materially below international market prices and may even be set at the cost of production. If the Government does require additional crude oil to be delivered over and above the quantities currently supplied by the Company, such supplies will take precedence over market sales and will generate substantially less revenue than crude oil sold on the export market, which may materially and adversely affect the Company's business, prospects, financial condition and results of operations. During the current year, in accordance with their obligations, the Company delivered 1,621,020 tons of oil (2006: 2,015,049 tons) on the domestic market.

**Taxation**

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at September 30, 2007. As at September 30, 2007 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Company's tax positions will be sustained, except as provided for in this condensed consolidated interim financial information (Note 10).

**Environment**

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. Potential liabilities which may arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation cannot be reasonably estimated. Other than those amounts provided for in provisions (Note 10) management believes that there are no probable or possible environmental liabilities which could have a material adverse effect on the Company's financial position, statement of income or cash flows.

**Notes to the Condensed Consolidated Interim Financial Information (unaudited)***Tenge thousands unless otherwise stated***15. CONTINGENCIES (continued)****Legal proceedings**

During the nine months ended September 30, 2007, the Company was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. There are no current legal proceedings or claims outstanding which management believes could have a material effect on the Company's financial position, statement of income or cash flows and which have not been accrued or disclosed in this condensed consolidated interim financial information.

**Oilfield licenses**

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

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

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

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

Management believes that the Company will be successful in its attempts to extend its licenses beyond the initial expiration date under existing legislation where such extension is in the economic interest of the Company.

**Kazgermunai oilfield licenses**

Kazgermunai is the sole operator of Akshabulak, Nuraly, and Aksay oil fields in South-Central Kazakhstan, Kyzylorda oblast. Kazgermunai's licenses for all three fields were issued by the Government of the Republic of Kazakhstan for a 30-year period and expire on March 1, 2024. The operations of Kazgermunai are stipulated in the Foundation Agreement dated November 9, 1993 (the "Foundation Agreement") and all amendments thereafter.

**Contingencies related to the interest in Kazgermunai***Gas utilization project*

In accordance with Kazakhstan legislation severe limitations are in place to discourage gas flaring. Kazgermunai, in accordance with the Foundation Documents, are required to use associated produced gas in their operations and participate in development of infrastructure for use of gas in the region.

**Notes to the Condensed Consolidated Interim Financial Information (unaudited)***Tenge thousands unless otherwise stated***15. CONTINGENCIES (continued)****Contingencies related to the interest in Kazgermunai (continued)***Gas utilization project (continued)*

In accordance with the Memorandum of the Ministry of Environmental Protection and the Ministry of Energy and Mineral Resources dated April 30, 2005, Kazgermunai's production may be stopped and licenses and subsoil use contracts be suspended if a suitable plan is not in place. Kazgermunai has received flaring permits from the Ministry of Environmental Protection till December 31, 2007. Management believes that, under the current annual allocation process with the Ministry of Environmental Protection, Kazgermunai will continue to receive flaring permits for their expected flaring of gas under their existing gas utilisation plan.

**16. COMMITMENTS****Oilfield licenses and contracts**

<b>Year</b>	<b>Capital expenditures</b>	<b>Operational expenditures</b>
2007	7,339,164	885,372
2008	1,471,190	4,240,886
2009	858,000	3,875,761
2010	841,000	3,875,126
2011	841,000	3,875,126
2012-2021	–	30,377,170
<b>Total</b>	<b>11,350,354</b>	<b>47,129,441</b>

**Crude oil supply commitments**

Under the provisions of a pre-export financing agreement the Company has committed to deliver 150 thousand tons of crude oil per month to the lender until September 2009 at market prices determined at the date of shipment. The Company has further obligations to supply oil and oil products to the local market under government directives (Note 15).

**Commitments related to the interest in Kazgermunai***Local market obligation*

On a monthly basis Kazgermunai receives letters from state agencies confirming the monthly volumes of crude oil to be transferred to PetroKazakhstan Oil Products LLP ("PKOP"). Based on these letters Kazgermunai had an obligation to transfer 220 thousand tons of crude oil to PKOP for the period ended September 30, 2007. The joint venture processed 220 thousand tons of crude oil in the period ended September 30, 2007 at PKOP.

*Annual work program*

In accordance with the annual work programs for the 2007 year for Akshabulak, Nuraly and Aksai fields Kazgermunai is obliged to invest 106,201 thousand US Dollars (12,846 thousand Tenge at the exchange rate as of September 30, 2007), including capital investments of 71,723 thousand US Dollars (8,676 thousand Tenge at the exchange rate as of September 30, 2007) thousand and production expenditures of 31,449 thousand US Dollars (3,804 thousand Tenge at the exchange rate as of September 30, 2007). These programs carry forward any still relevant unfulfilled prior year commitments.

**Notes to the Condensed Consolidated Interim Financial Information (unaudited)**

*Tenge thousands unless otherwise stated*

**17. SUBSEQUENT EVENTS**

**Acquisition of a 50% interest in CITIC Canada Energy Limited**

On May 29, 2007 the Company acquired the right to exercise NC KMG's option to purchase 50% of CITIC Canada Energy Limited ("CCEL") in return for a payment equal to CITIC's original acquisition price subject to certain price adjustments. On October 2, 2007 the Board of Directors of the Company approved the exercise of an option to acquire a 50% interest in CCEL from CITIC Group for approximately 930 million US dollars (112,493,000 thousand Tenge at the exchange rate as of September 30, 2007). The Company believes the fair value of CCEL is equivalent to the exercise price and therefore no value has attributed to this option.

On November 8, 2007 the Company signed an Agreement for the Sale and Purchase ("SPA") of a 50% interest in CCEL. The acquisition is subject to certain regulatory approvals and is expected to be completed before the end of 2007. Under the terms of the Agreement 150 million US dollars (18,144,000 thousand Tenge at the exchange rate as of September 30, 2007) will be paid by the Company as an equity contribution. The equity contribution will have the right of a preferred return of 26.2 million US dollars per annum (3,169,000 thousand Tenge at exchange rate as of September 30, 2007). The remaining portion of the acquisition cost of approximately 780 million US dollars (94,249,000 thousand Tenge at the exchange rate as of September 30, 2007) will be financed through a limited recourse loan provided by CITIC Group to the Company. The SPA provides the Company with joint control in CCEL and the interest will be accounted for using the equity method.

**Dividends declared by Kazgermunai**

On November 22, 2007 the partners of Kazgermunai declared a 600 million US Dollar dividend. The Company expects to receive its 50% share of the above dividend amount prior to the year end.

This report has been signed below by the following persons on behalf of the Company and in the capacities indicated on November 26, 2007.

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

## **JSC KAZMUNAIGAS EXPLORATION PRODUCTION**

### **Contact information**

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