KazTransOil
Joint Stock Company

Consolidated Financial Statements

Year ended December 31, 2005
with Independent Auditors' Report

CONTENTS

ERNST & YOUNG

INDEPENDENT AUDITORS' REPORT

To the Shareholder of KazTransOil Joint Stock Company

We have audited the accompanying consolidated balance sheet of KazTransOil Joint Stock Company (the "Company") as at December 31, 2005, and the related consolidated statement of income, cash flows and changes in shareholder's equity for the year then ended. These consolidated financial statements are the responsibility of the Company's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at December 31, 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Kazakhstan LLP

April 21, 2006
Almaty, Kazakhstan

CONSOLIDATED BALANCE SHEET

In thousand Tenge	Notes	As at December 31, 2005	2004 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	5	**203,023,964**	163,025,167
Intangible assets	6	**1,440,671**	1,016,557
Available-for-sale investments	7	**99,920**	99,920
Financial investments	8	**2,700,000**	18,200,000
Advances to suppliers for non-current assets		**954,387**	363,333
Other non-current assets	9	**6,173,853**	5,543,587
Total non-current assets		**214,392,795**	188,248,564
Current assets			
Inventories	10	**6,320,884**	7,032,955
Trade accounts receivable	11	**383,666**	313,702
Advances to suppliers	12	**4,329,792**	6,410,973
Corporate income tax advances		**200,719**	1,645,961
Tax advances	13	**8,036,131**	5,583,274
Assets held for sale	14	**233,145**	–
Other current assets	15	**3,839,450**	2,314,456
Financial assets	17	**33,878,600**	6,528,000
Cash and cash equivalents	18	**14,409,368**	39,789,721
Total current assets		**71,631,755**	69,619,042
TOTAL ASSETS		**286,024,550**	257,867,606
EQUITY AND LIABILITIES			
Equity			
Share capital	19	**32,916,055**	32,916,055
Revaluation reserve	19	**58,359,128**	64,041,859
Reserve fund	19	**20,471,378**	20,473,974
Retained earnings		**63,055,625**	52,606,207
Total equity		**174,802,186**	170,038,095
Non-current liabilities			
Interest bearing loans and borrowings	21	**12,481,281**	13,961,173
Long-term financial liabilities	22	**–**	508,512
Corporate bonds	23	**40,179,620**	38,817,318
Deferred income		**202,226**	51,537
Deferred tax liabilities	32	**11,017,903**	10,029,503
Other non-current liabilities		**28,469**	–
Total non-current liabilities		**63,909,499**	63,368,043
Current liabilities			
Current portion of interest bearing loans and borrowings	21	**2,649,871**	1,931,020
Current portion of long-term financial liabilities	22	**516,874**	287,170
Current portion of corporate bonds	23	**20,065,500**	–
Trade accounts payable	24	**8,042,131**	5,570,049
Advances received	25	**12,365,262**	13,120,646
Current portion of deferred income		**224,131**	457,854
Taxes payable	26	**561,922**	289,378
Other current liabilities	27	**2,887,174**	2,805,351
Total current liabilities		**47,312,865**	24,461,468
TOTAL EQUITY AND LIABILITIES		**286,024,550**	257,867,606

The accounting policies and explanatory notes on pages 6 through 36 form an integral part of these consolidated financial statements.

Deputy General Director for Economics and Finance ____ Elshibekov S. K.

Chief Accountant ____ Sultangaliyeva Zh. O.

CONSOLIDATED STATEMENT OF INCOME

		For the years ended December 31,	
In thousand Tenge	**Notes**	**2005**	2004 (restated)
Sales	28	**63,741,093**	63,773,638
Cost of sales	29	**(37,556,703)**	(38,185,101)
Gross profit		**26,184,390**	25,588,537
General and administrative expenses	30	**(14,077,295)**	(14,131,060)
Other operating income/ (loss), net	31	**2,000,141**	(4,754,882)
Finance income		**3,272,115**	4,146,746
Interest expense		**(5,080,738)**	(3,176,815)
Net foreign exchange (loss)/ gain		**(809,308)**	1,231,453
Profit before income tax expense		**11,489,305**	8,903,979
Income tax expense	32	**(5,865,484)**	(5,151,822)
Net profit for the year		**5,623,821**	3,752,157
Earnings per share (in Tenge)	20	**171**	114

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Deputy General Director for Economics and Finance — *Elshibekov S. K.*

Chief Accountant — *Sultangaliyeva Zh. O.*

CONSOLIDATED STATEMENT OF CASH FLOWS

		For the years ended December 31,	
In thousand Tenge	Notes	2005	2004 (restated)
Cash flows from operating activities			
Profit before income tax expense		**11,489,305**	8,903,979
Adjustments:			
Depreciation of property, plant and equipment	5	**11,969,194**	12,511,773
Amortization of intangible assets	6	**164,126**	115,171
Change in allowance for doubtful debts	30	**(35,875)**	(377,594)
(Gain)/ loss on disposal of property, plant and equipment	31	**(501,233)**	949,496
Impairment on available-for-sale investments	30	**–**	16,056
Deferred income		**(83,034)**	(40,821)
Unrealized foreign exchange loss/ (gain)		**521,807**	(1,367,592)
Finance income		**(3,272,115)**	(4,146,746)
Interest expense		**5,080,738**	3,176,815
Impairment of property, plant and equipment	30	**1,781,769**	3,278,879
Income from write-off of payables	31	**(5,113)**	(106,135)
Allowance for obsolete inventory	30	**322,611**	–
Loss on revaluation of property plant and equipment	31	**–**	4,079,140
Operating income before changes in working capital		**27,432,180**	26,992,421
Decrease/ (increase) in inventories		**389,460**	(3,220,913)
Decrease/ (increase) in trade accounts receivable		**157,093**	(119,061)
Decrease/ (increase) in advances to suppliers		**2,048,944**	(3,302,581)
Decrease in other current and non-current assets		**4,960,508**	16,878,956
Increase in VAT receivable		**(3,511,511)**	(1,024,199)
Increase in trade accounts payable		**2,477,195**	1,821,161
(Decrease)/ increase in advances received		**(755,384)**	4,885,593
Decrease in taxes payable other than income tax		**(2,180,313)**	(349,145)
Increase in other current and non-current liabilities		**110,292**	1,356,570
Cash flows provided by operating activities		**31,128,464**	43,918,802
Income tax paid		**(3,512,690)**	(3,780,702)
Interest paid		**(5,001,286)**	(2,567,858)
Net cash flows from operating activities		**22,614,488**	37,570,242

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousand Tenge	Notes	For the years ended December 31, 2005	2004 (restated)
Cash flows from investing activities			
Change in financial investments		**15,500,000**	(11,450,504)
Purchase of financial assets		**(27,350,600)**	(6,528,000)
Purchase of property, plant and equipment		**(55,674,691)**	(23,470,850)
Proceeds from sale of property, plant and equipment and intangible assets		**2,119,191**	60,007
Purchase of intangible assets		**(252,706)**	(543,442)
(Increase)/ decrease in advances for non-current assets		**(591,054)**	363,333
Proceeds from settlements of notes		**–**	2,728,612
Interest received		**1,107,475**	3,003,337
Financial aid issued to related parties		**(1,980,000)**	–
Net cash flows used in investing activities		**(67,122,385)**	(35,837,507)
Cash flows from financing activities			
Dividends paid		**(857,134)**	(930,365)
Proceeds from loans and financial liabilities		**1,339,800**	1,341,945
Repayment of loans and financial liabilities		**(1,493,422)**	(3,166,500)
Proceeds from issuance of corporate bonds		**19,850,799**	20,840,037
Net cash flows from financing activities		**18,840,043**	18,085,117
Net (decrease)/ increase in cash and cash equivalents		**(25,667,854)**	19,817,852
Effect of exchange rate changes on cash and cash equivalents		**287,501**	136,139
Cash and cash equivalents at the beginning of the year	18	**39,789,721**	19,835,730
Cash and cash equivalents at the end of the year	18	**14,409,368**	39,789,721

The accounting policies and explanatory notes on pages 6 through 36 form an integral part of these consolidated financial statements.

Deputy General Director for Economics and Finance — *Elshibekov S. K.*

Chief Accountant — *Sultangaliyeva Zh. O.*

KazTransOil

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2005 and 2004

1. CORPORATE INFORMATION

On April 2, 1997, in accordance with Resolution # 461 of the Government of the Republic of Kazakhstan ("Government"), the state owned entities–Yuzhnefteprovod PO (Aktau) and Magistralnye Nefteprovody of Kazakhstan and Central Asia PO (Pavlodar) - were reorganized and merged into a new entity named Kazakhnefteprovod. Subsequently, Kazakhnefteprovod was renamed KazTransOil National Oil Transportation Company CJSC ("KazTransOil NOTC CJSC").

On May 2, 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 Privatization of the Ministry of Finance of the Republic of Kazakhstan transferred the ownership of KazTransOil NOTC CJSC shares to TNG, and as a result of this KazTransOil NOTC CJSC was re-registered and renamed KazTransOil Closed Joint Stock Company (the "Company").

On February 20, 2002, based on a resolution of the Government of the Republic of Kazakhstan the Company's shareholder TNG and National Oil and Gas Company "KazakhOil" CJSC, merged. As a result of this merger, a new company, National Company KazMunayGas Closed Joint Stock Company ("KMG"), which became the Company's sole shareholder, was formed. KMG is wholly owned by the Government as represented by the Committee for State Property and Privatization of the Ministry of Finance of the Republic of Kazakhstan.

As at May 31, 2004 the Company was reregistered as KazTransOil Joint Stock Company.

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

On June 29, 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% interest in KCP. KCP owns 100% 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 23).

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

The Company's main business activities include, but are not limited to:

- the coordination and management of crude oil transported within Kazakhstan and for export;
- the transportation of water supplies for the technological, production and economic needs of the Mangistau and Atyrau regions of Kazakhstan;
- cooperation with oil transportation companies of other countries regarding the transportation of oil in accordance with intergovernmental agreements;
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. CORPORATE INFORMATION (continued)

On December 24, 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. On December 24, 2003, MunayTas concluded a similar contract ("Investment Contract 2") with the Committee for Investment. On October 13, 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 (MunayTas – five years), beginning from January 1 of the year following the year when fixed assets entered in operation;
- an exemption from property tax for a period of three years for fixed assets that were newly entered into operation (MunayTas – five years), beginning from January 1 of the year following the year when fixed assets entered in operation;
- 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 (MunayTas – five years), beginning from January 1 of the year following the year when the fixed assets entered in operation.

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.

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 center located in Almaty, a Multiaccess computing center in Astana, and representative offices in Moscow, Orsk and Samara in the Russian Federation, and Kiev, Ukraine.

The accompanying consolidated financial statements were authorized for issue by the Deputy General Director for Economics and Finance and the Chief Accountant of the Company on April 21, 2006.

2. CURRENT ECONOMIC ENVIRONMENT

Political and economic environment

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 continued success and stability of the Kazakh economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

Meanwhile, 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.

Tariff setting

The Company is considered to be a 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 (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.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

In thousand Tenge	Share Capital	Revaluation Reserve	Reserve Fund	Retained Earnings	Total
Notes	19	19	19		
As at December 31, 2003 (restated)	32,884,575	48,783,918	19,905,842	45,026,855	146,601,190
Contribution to the share capital	31,480	–	–	–	31,480
Increase in Reserve fund	–	–	579,535	(579,535)	–
Disposal of assets	–	–	(11,403)	–	(11,403)
Net profit for the year	–	–	–	3,752,157	3,752,157
Amortization of revaluation reserve	–	(5,340,081)	–	5,340,081	–
Revaluation of property, plant and equipment (net of the related deferred tax)	–	20,598,022	–	–	20,598,022
Dividends declared	–	–	–	(930,365)	(930,365)
Change in accounting policy	–	–	–	(2,986)	(2,986)
As at December 31, 2004 (restated)	**32,916,055**	**64,041,859**	**20,473,974**	**52,606,207**	**170,038,095**
Disposal of assets	–	–	**(2,596)**	–	**(2,596)**
Net profit for the year	–	–	–	**5,623,821**	**5,623,821**
Amortization of revaluation reserve	–	**(5,682,731)**	–	**5,682,731**	–
Dividends declared	–	–	–	**(857,134)**	**(857,134)**
As at December 31, 2005	**32,916,055**	**58,359,128**	**20,471,378**	**63,055,625**	**174,802,186**

The accounting policies and explanatory notes on pages 6 through 36 form an integral part of these consolidated financial statements.

Deputy General Director for Economics and Finance — *Elshibekov S. K.*

Chief Accountant — *Sultangaliyeva Zh. O.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Company maintains its accounting records in Kazakhstan Tenge ("Tenge" or "KZT").

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except that the Company has adopted those new/revised standards mandatory for financial years beginning on or after January, 2005.

- IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations";
- IAS 8 (revised) "Accounting Policies, Changes in Accounting Estimates and Errors".

The principal effects of these changes in policies are discussed below.

IFRS 5 "Non-Current Assets Held For Sale and Discontinued Operations"

The Company has applied IFRS 5 prospectively in accordance with the transitional provisions of IFRS 5, which has resulted in a change in accounting policy on the recognition of assets held for sale. An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The result of this change in accounting policy is that property, plant and equipment classified as held for sale are recorded in the consolidated balance sheet separately from non-current assets, within current assets.

IAS 8 (revised) "Accounting Policies, Changes in Accounting Estimates and Errors"

Prior to 2005, according to the accounting policy effective during that period, the Company capitalized borrowing costs if they were directly attributable to the acquisition, construction or production of a qualifying asset. In 2005 the Company changed its accounting policy with respect to borrowing costs, according to which borrowing costs are expensed. Accordingly, the Company has applied the new accounting policy retrospectively, which has resulted in restatement of the consolidated financial statements for the year ended December 31, 2003 with respect to capitalization of borrowing costs. This restatement resulted in a decrease of the property, plant and equipment and retained earnings, as at December 31, 2004, by 1,064,325 thousand Tenge (2003:1,025,711 thousand Tenge).

Significant errors of prior year

1) Prior to 2005, the Company accrued interest income on cash deposits based on cash method of accounting. This was not in compliance with IAS 18. This error resulted in a net increase of retained earnings by 800,386 thousand Tenge, and increase in deferred tax liability by 343,023 thousand Tenge, as at December 31, 2004.

2) Prior to 2004, the Company treated investments in Accumulative Pension fund of Halyk Bank of Kazakhstan ("the Pension fund") of 20% as investments in associates and accounted it under the equity method which was in compliance under IFRS. During 2004, the Company decreased its share in the Pension fund by re-distribution of 10% of the Pension fund shares, and continued accounting of the investments under the equity method. Investments in Pension fund represent available-for-sale investments and according to IAS 39 should be accounted at fair market value as at December 31, 2005 and 2004. The Company restated its prior year financial statements for proper accounting of available-for-sale investments. This error resulted in a decrease of retained earnings by 31,912 thousand Tenge as at December 31, 2003, and in a change in accounting policy of 2,986 thousand Tenge which was done through retained earnings 2004.

Measurement Currency

Based on the economic substance of the underlying events and circumstances relevant to the Company the measurement currency of the Company has been determined to be the Kazakhstan Tenge. Transactions in other currencies are treated as transactions in foreign currencies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. BASIS OF PREPARATION (continued)

Management Estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to the fair values and useful lives of property, plant and equipment, allowance for obsolete and slow moving inventories, allowance for bad and doubtful debts and deferred taxation as discussed in Notes 5, 10, 16 and 32, respectively. Actual results could differ from those estimates.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates prevailing at the balance sheet dates. Transactions denominated in foreign currencies are recorded at the exchange rate prevailing at the date of the transaction. Any exchange gains and losses arising from assets and liabilities denominated in foreign currencies subsequent to the date of the underlying transaction are credited or charged to operations.

Prior to January 1, 2003, daily currency exchange rates established by the National Bank of Kazakhstan were used as official currency exchange rates in Kazakhstan. Starting from January 1, 2003, weighted average currency exchange rates established by the Kazakhstan Stock Exchange ("KASE") are used as official currency exchange rates in Kazakhstan.

The currency exchange rate for KASE gives an equivalent exchange of 133.77 Tenge to 1 US Dollar which was used to translate monetary assets and liabilities denominated in US Dollars as at December 31, 2005 (2004: 130 Tenge to 1 US Dollar). The currency exchange rate of KASE as at April 21, 2006, was 124.98 Tenge to 1 US Dollar.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

Consolidated financial statements comprise the accounts of the Company, its 100% subsidiary and jointly controlled companies, after all material intercompany transactions have been eliminated. Subsidiaries are consolidated from the date that the Company obtains control until such time as control ceases. The financial statements of subsidiaries are prepared for the same reporting period as for the Company, using consistent accounting policies. Adjustments are made to ensure that no dissimilar accounting policies exist.

As discussed in Note 1, the Company has control over one subsidiary, KazTransOil-Service, which has been fully consolidated in these consolidated financial statements.

Interest in Joint Venture

As discussed in Note 1, the Company participates in two jointly controlled entities, KCP and MunayTas. Investments in entities where the Company has joint control are consolidated on a prorata basis by including the Company's share of each of the assets, liabilities, revenues and expenses of the joint venture on a line-by-line basis with similar items in the consolidated financial statements.

Investments

The Company has classified its investments into the following categories: trading, held-to-maturity and available-for-sale. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and are included in current assets. Investments with fixed maturity that management intend and is able to hold to maturity are classified as held-to-maturity and are included in non-current assets. Investments that are to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, are classified as available-for-sale; these are reported as non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of purchase.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

All purchases and sales of investments are recognised on the settlement date, which is the date that the investment is delivered to or by the Company. All investments are initially recognised at cost, being the fair value of the consideration given and including transaction costs. Trading and available-for-sale investments are subsequently carried at fair value, whilst held-to-maturity investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading investments and of available-for-sale investments are included in the statement of operations in the period in which they arise.

Property, plant and equipment

Property, plant and equipment are stated at revalued cost less accumulated depreciation and accumulated impairment loss. The initial cost of the fixed assets at the acquisition comprises its purchase price, including import duties and non-refundable taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is computed on a straight-line basis over the estimated useful lives. The estimated useful life of certain fixed assets is presented as follows (in years):

	Years
Buildings and constructions	40 – 50
Machinery and equipment	8 – 12
Pipelines and other transportation assets	10 – 33
Other	5 – 15

Improvements to property, plant and equipment that increase the useful lives of the same are capitalized. Recurring repair and maintenance costs are expensed as incurred. When property, plant and equipment is sold or retired, the cost and related accumulated depreciation are eliminated from accounts, including any revaluation reserve related to the asset being sold or retired. Any resulting gains or losses are included in the determination of net income or loss.

Impairment

Financial instruments

Financial instruments are reviewed for impairment at each balance sheet date. For financial assets carried at amortised cost, whenever it is probable that the Company will not collect all amounts due according to the contractual terms of accounts receivable, an impairment or allowance for doubtful debt is recognised in the income statement. Reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be objectively related to an event occurring after the write-down. Such reversal is recorded as income in the income statement.

Other assets

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price or value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recorded in the income statement. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognised only to the extent it does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for that asset in prior years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revaluation of property, plant and equipment

The Company periodically engages independent appraisers to revalue property, plant and equipment to their depreciated replacement cost. An increase in an asset's carrying amount as a result of a revaluation is recorded in the revaluation reserve account net of the related deferred tax amount. If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized as an expense. However, a revaluation decrease is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset.

Revaluation reserve is amortized on the same basis as the property, plant and equipment through a charge directly to retaining earnings. A transfer from revaluation reserve to retained earnings is not made through the statements of income.

Upon the retirement or disposal of property, plant and equipment the surplus of the revaluation reserve is transferred directly to retained earnings. This transfer is shown in the consolidated statement of changes in equity as a release for the disposals of property, plant and equipment.

Construction-in-progress

Assets in the course of construction are capitalized as a separate component of property, plant and equipment. On completion, the cost of construction is transferred to the appropriate category.

The cost of a tangible fixed asset comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use.

Construction-in-progress is not depreciated.

Intangible assets

Intangible assets, which represent the cost of software acquired, license agreements and other intangible assets, are recorded at historical cost less accumulated amortization. Amortization is provided on a straight line basis over the estimated useful economic life of the assets. Intangible assets are generally amortized over five years.

Financial Instruments

The Company recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognized using trade date accounting.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. Any gain or loss at initial recognition is recognized in the current period's income statement, unless the initial gain or loss results from a financial instrument obtained from the shareholder. Initial gain or loss resulting from shareholder transactions are credited or charged to equity as a contribution from or distribution to shareholder. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Investments purchased principally for the purpose of generating a profit from short-term fluctuations in price or dealers' margin are classified as trading investments. Trading investments are initially recognized under the policy for financial instruments and are subsequently measured at fair value, based on market values as at the balance sheet date. Realized and unrealized gains and losses resulting from operations with trading investments are recognized in the statement of income.

In determining estimated fair value, investments are valued at quoted bid prices. When quoted prices on an active market are not available, fair value is determined by reference to price quotations for similar instruments traded.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

The Company classifies investments depending upon the intent of management at the time of the purchase. Investments with fixed maturities and fixed or determinable payments that management has both the positive intent and the ability to hold to maturity are classified as held-to-maturity.

Loans and receivables are loans and receivables created by the Company providing money to a debtor other than those created with the intention of short-term profit taking. Loans and receivables comprise loans and advances other than purchased loans.

Held-to-maturity investments and originated loans and receivables are initially recognized in accordance with the policy stated above and subsequently re-measured at amortized cost using the effective interest method. Allowance for impairment is estimated on a case-by-case basis.

Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the Company.

Inventories

Inventories are stated at the lower of cost and net realizable value on a first-in first-out ("FIFO") basis. Cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition.

Trade and Other Receivables

Trade and Other receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade and other 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 carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers. The amount of the provision is recognized in the statement of operations.

Value Added Tax

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

Cash and cash equivalents

Cash in the balance sheet comprises cash at banks and in hand and short-term deposits with an original maturity of three months or less.

Borrowings

Borrowings are initially recognised at cost, being the fair value of the consideration received, net of transaction costs incurred. In subsequent periods, borrowings are measured at amortised cost using the effective interest rate method; any difference between the fair value of the consideration received (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings. Borrowing costs are expensed.

Debt securities issued

Debt securities are initially recognized at cost, which is the fair value of consideration received, net of any transaction costs incurred. Subsequently, debt securities issued are stated at amortized cost over the period of the borrowings using the effective interest method.

Corporate bonds

Corporate bonds are non-callable registered coupon bonds that are carried at par less discount. Discount is amortized over the term of the bonds' lives and includes costs related to the bonds' issuance. In 2002 the Company decided to establish and maintain a special sinking fund in the form of deposits held with banks (Notes 8, 17, 18) to provide for the future cash outflow associated with interest payments and bond retirement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Trade and other accounts payable

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Offsetting

Assets and liabilities are only offset and reported at the net amount in the consolidated balance sheet when there is a legally enforceable right to offset the recognized amounts and the Company intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Dividends

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

Revenue recognition

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

Expense Recognition

Expenses are accounted for at the time the actual flow of the related goods or services occur, regardless of when cash or its equivalent is paid, and are reported in the financial statements in the period to which they relate.

Income taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rate and tax law used to compute the amount are those that are enacted or substantially enacted by the balance sheet date in the Republic of Kazakhstan.

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for the financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

The carrying amount of the deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised, and when there is uncertainty regarding tax treatment of the differences under the tax law.

Deferred income tax assets and liabilities are measured at the rate that is expected to apply to the year when the asset is realised or the liability is settled, based on the tax rate (and tax law) that has been enacted or substantially enacted at the balance sheet date.

Deferred income tax assets and liabilities are offset, if legally enforceable rights exist to offset current tax assets against current tax liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefit obligation and social tax

The Company pays social tax to the Kazakhstan budget. The Company also withholds 10% from the salaries of its employees in the form of the employees' contribution to their designated pension funds. According to legislation, employees are responsible for their retirement benefits and the Company has no present or future obligation to pay its employees upon their retirement.

Subsequent Events

The results of post-year-end events that provide evidence of conditions that existed at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

Reclassifications and restatements

Reclassifications

Certain reclassifications have been made to the previous year consolidated balance sheet and consolidated statement of income and cash-flows in order to conform to the current year presentation. The major reclassifications refer to the following:

- Advances for non-current assets were reclassified from current to non-current;
- Tax advances and taxes payable were presented separately on the balance sheet and were reclassified from other current assets and other current liabilities, respectively;
- Impairment expenses on property, plant and equipment were reclassified from other operating expenses to general and administrative expenses.

None of the above reclassifications impacted net profit or shareholder's equity.

Restatements

The reconciliation of retained earnings presented in financial statements 2004 and restated in financial statements 2005 is as follows:

In thousand Tenge	**2004**	2003
Retained earnings as at December 31, (as presented in 2004)	**52,929,874**	46,084,478
Change in accounting policy	**(1,124,053)**	(1,025,711)
Restatement of interest income, net of deferred tax	**800,386**	–
Restatement of investments in the Pension Fund	**–**	(31,912)
Retained earnings as at December 31, (restated)	**52,606,207**	45,026,855

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the year ended December 31, 2004, was as follows:

In thousand Tenge	Land	Buildings	Machinery and equipment	Pipelines and other transportation assets	Other	Construction-in-progress	Total
As at January 1, 2004, net of accumulated depreciation (restated)	363,579	19,733,623	41,868,941	49,465,297	1,292,932	21,830,130	134,554,502
Additions	57,024	583,463	820,252	498,691	464,533	18,118,845	20,542,808
Disposals	(24,493)	(751,787)	(352,421)	(563,330)	(134,301)	(219,073)	(2,045,405)
Transfer from construction in progress	–	5,228,898	12,881,883	8,202,436	97,290	(26,410,507)	–
Revaluation	–	615,940	1,453,790	23,290,670	(6,328)	–	25,354,072
Impairment charge	–	(2,479,060)	(587,278)	–	(212,541)	–	(3,278,879)
Depreciation charge	–	(880,645)	(6,826,360)	(4,177,485)	(627,283)	–	(12,511,773)
Depreciation on disposals	–	152,398	180,973	60,551	15,920	–	409,842
As at December 31, 2004, net of accumulated depreciation	396,110	22,202,830	49,439,780	76,776,830	890,222	13,319,395	163,025,167
As at January 1, 2004							
Cost or revalued amount (restated)	363,579	22,837,093	83,153,502	58,500,824	1,614,543	21,830,130	188,299,671
Accumulated depreciation	–	(3,103,470)	(41,284,561)	(9,035,527)	(321,611)	–	(53,745,169)
Net carrying amount	363,579	19,733,623	41,868,941	49,465,297	1,292,932	21,830,130	134,554,502
As at December 31, 2004							
Cost or revalued amount (restated)	396,110	24,908,016	50,705,938	77,791,647	1,603,876	13,319,395	168,724,982
Impairment	–	(2,479,060)	(587,278)	–	(212,541)	–	(3,278,879)
Accumulated depreciation	–	(226,126)	(678,880)	(1,014,817)	(501,113)	–	(2,420,936)
Net carrying amount	396,110	22,202,830	49,439,780	76,776,830	890,222	13,319,395	163,025,167

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. PROPERTY, PLANT AND EQUIPMENT (continued)

The movement of property, plant and equipment for the year ended December 31, 2005, was as follows:

In thousand Tenge	Land	Buildings	Machinery and equipment	Pipelines and other transportation assets	Other	Construction-in-progress	Total
As at January 1, 2005, net of accumulated depreciation (restated)	396,110	22,202,830	49,439,780	76,776,830	890,222	13,319,395	163,025,167
Additions	31,764	1,399,919	1,129,935	1,044,868	676,878	51,560,456	55,843,820
Disposals	(39,832)	(1,495,098)	(820,686)	(765,162)	(489,178)	(669,448)	(4,279,404)
Transfers and adjustments	–	(131,740)	(2,294,327)	(270,692)	2,696,759	–	–
Transfer from construction in progress	–	2,915,958	6,631,723	6,933,478	3,164,631	(20,119,310)	(473,520)
Impairment (charge)/ release of impairment, net	–	(154,406)	(220,302)	(146,701)	(24,993)	–	(546,402)
Depreciation charge	–	(1,191,764)	(5,411,694)	(4,600,355)	(765,381)	–	(11,969,194)
Depreciation on disposals	–	143,536	819,733	126,310	333,918	–	1,423,497
As at December 31, 2005, net of accumulated depreciation	388,042	23,689,235	49,274,162	79,098,576	6,482,856	44,091,093	203,023,964
As at January 1, 2005							
Cost or revalued amount (restated)	396,110	24,908,016	50,705,938	77,791,647	1,603,876	13,319,395	168,724,982
Impairment	–	(2,479,060)	(587,278)	–	(212,541)	–	(3,278,879)
Accumulated depreciation	–	(226,126)	(678,880)	(1,014,817)	(501,113)	–	(2,420,936)
Net carrying amount	396,110	22,202,830	49,439,780	76,776,830	890,222	13,319,395	163,025,167
As at December 31, 2005							
Cost or revalued amount	388,042	27,597,055	55,352,583	84,734,139	7,652,966	44,091,093	219,815,878
Impairment	–	(2,633,466)	(807,580)	(146,701)	(237,534)	–	(3,825,281)
Accumulated depreciation	–	(1,274,354)	(5,270,841)	(5,488,862)	(932,576)	–	(12,966,633)
Net carrying amount	388,042	23,689,235	49,274,162	79,098,576	6,482,856	44,091,093	203,023,964

Construction-in-progress ("CIP") mainly includes pump stations, tanks and transportation assets under construction. The construction-in-progress balance as at December 31, 2005, is mainly represented by the costs incurred by Kazakhstan-China Pipeline LLP for the construction of the Atasu-Alashankou trunk pipeline. The construction started in September 2004 and completion is expected in 2006. As at December 31, 2005, the total costs incurred are 30,640,972 thousand Tenge (2004: 266,964 thousand Tenge).

As permitted by IAS 16 "Property, Plant and Equipment", the fixed assets of the Company were revalued on the basis of an independent appraisal performed as at December 31, 2004.

Accumulated depreciation of revalued assets was eliminated against the gross carrying amount of the assets and the net amount restated to the revalued amount of the asset.

Disposal of property, plant and equipment that occurred in 2005 includes apartments given to Company employees with a carrying amount of 1,013,587 thousand Tenge (2004: 769,611 thousand Tenge), disposal of social sphere assets with a carrying amount of 12,898 thousand Tenge (2004: 483,048 thousand Tenge) and other disposals and write-offs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. PROPERTY, PLANT AND EQUIPMENT (continued)

An impairment reserve for social assets represents recognized losses on non-profitable assets mainly including sanatoriums, medial and sport centres, a ceremonial palace in Astana and other similar assets not used by the Company's employees with a total net book value as at December 31, 2005 (before impairment) of 2,677,009 thousand Tenge (2004: 8,314,150 thousand Tenge). Management believes that other social assets do not need to be impaired as they are mainly used by the Company's employees: kindergartens, apartments, etc. with a net book value of approximately 2,633,480 thousand Tenge (2004: 655,850 thousand Tenge) serve as employee benefits. During December 2005, the Company constructed a universal sports-ground in Sary-Agash with a cost of 2,329,141 thousand Tenge, which is considered as social asset.

As at December 31, 2005, the Company had fully depreciated fixed assets with a cost of 542,925 thousand Tenge (2004: 2,913,950 thousand Tenge).

6. INTANGIBLE ASSETS

The movement of intangible assets for the year ended December 31, 2004, was as follows:

In thousand Tenge	Licenses	Software	Other	Total
Balance as at January 1, 2004, net of accumulated amortization	2,163	586,110	5,625	593,898
Additions	2,344	504,122	31,772	538,238
Disposals	–	(408)	–	(408)
Amortization charge	(347)	(113,784)	(1,040)	(115,171)
Balance as at December 31, 2004, net of accumulated amortization	4,160	976,040	36,357	1,016,557
Balance as at January 1, 2004				
At cost	2,596	830,996	5,625	839,217
Accumulated amortization	(433)	(244,886)	–	(245,319)
Net book value	2,163	586,110	5,625	593,898
Balance as at December 31, 2004				
At cost	4,940	1,334,710	37,397	1,377,047
Accumulated amortization	(780)	(358,670)	(1,040)	(360,490)
Net book value	4,160	976,040	36,357	1,016,557

The movement of intangible assets for the year ended December 31, 2005, was as follows:

In thousand Tenge	Licenses	Software	Other	Total
Balance as at January 1, 2005, net of accumulated amortization	**4,160**	**976,040**	**36,357**	**1,016,557**
Additions	–	**125,990**	–	**125,990**
Disposals	–	**(19,532)**	**(11,681)**	**(31,213)**
Transfer from construction-in-progress	–	**473,520**	–	**473,520**
Amortization charge	**(500)**	**(163,626)**	–	**(164,126)**
Amortization on disposals	–	**18,903**	**1,040**	**19,943**
Balance as at December 31, 2005, net of accumulated amortization	**3,660**	**1,411,295**	**25,716**	**1,440,671**
Balance as at January 1, 2005				
At cost	**4,940**	**1,334,710**	**37,397**	**1,377,047**
Accumulated amortization	**(780)**	**(358,670)**	**(1,040)**	**(360,490)**
Net book value	**4,160**	**976,040**	**36,357**	**1,016,557**
Balance as at December 31, 2005				
At cost	**4,940**	**1,914,688**	**25,716**	**1,945,344**
Accumulated amortization	**(1,280)**	**(503,393)**	–	**(504,673)**
Net book value	**3,660**	**1,411,295**	**25,716**	**1,440,671**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. INTANGIBLE ASSETS (continued)

As at December 31, 2005, the transfer from construction-in-progress mainly represents cost associated with geological information system for main pipelines which has been under development for two years and more appropriately classified as intangible assets.

7. AVAILABLE-FOR-SALE INVESTMENTS

As at December 31, 2005 and 2004, available-for-sale investments comprised:

In thousand Tenge	2005		2004 (restated)	
	Ownership interest	**Book Value**	Ownership interest	Book Value
Cost method				
Accumulative Pension Fund of Halyk Bank of Kazakhstan JSC	**10%**	**99,920**	10%	99,920
		99,920		99,920

8. FINANCIAL INVESTMENTS

As at December 31, 2005 and 2004, financial investments comprised:

In thousand Tenge	2005	2004
Tenge denominated time deposits with Kazakhstan Banks with maturity more than 1 year	**2,700,000**	–
Foreign currency denominated time deposits with Kazakhstan Banks with maturity more than 1 year	–	18,200,000
	2,700,000	18,200,000

As at December 31, 2005, Tenge denominated time deposit included deposit placed in Kazakhstan Bank with interest rate of 10% per annum and maturing on February 1, 2009.

As at December 31, 2004, US dollar denominated time deposits included deposits placed in Kazakhstan Banks with interest rates ranging from 8.5% to 9% per annum and maturing on periods ranging from June 26, 2006 to July 1, 2006.

9. OTHER NON-CURRENT ASSETS

As at December 31, 2005 and 2004, other non-current assets comprised:

In thousand Tenge	2005	2004
VAT receivable (a)	**4,373,451**	3,226,340
Financial aid to related parties (Note 34) (b)	**1,529,354**	149,370
Financial aid to third parties	**193,773**	300,170
Loans to employees (c)	**165,620**	556,790
Deferred expenses	**4,105**	–
Cash collateral in bank (d)	–	1,557,270
Other (e)	**809,337**	773,627
	7,075,640	6,563,567
Less allowance for doubtful debts (Note 16)	**(901,787)**	(1,019,980)
	6,173,853	5,543,587

(a) The Company estimated that VAT of 4,373,451 thousand Tenge will only be recovered subsequent to 2006. Accordingly, the above VAT was classified as a non-current asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. OTHER NON-CURRENT ASSETS (continued)

(b) As at December 31, 2005, due from related parties mainly included receivables from "KazMunayGaz-Service" LLP and "Trade House KazMunayGaz" JSC amounting to 1,385,537 thousand Tenge and 143,817 thousand Tenge, respectively (2004: nil and 146,510 thousand Tenge, respectively). At initial recognition due from "KazMunayGaz-Service" LLP and "Trade House KazMunayGaz" JSC were recorded at the fair values using 7.5% and 8% discount rates, respectively, and thereafter carried at amortized cost. Discount rates represent refinancing rate of the National Bank of Kazakhstan as at origination date.

(c) As at December 31, 2005 and 2004, the amount of due from employees represents interest-free Tenge denominated loans, given to employees, under loan-term contracts repayable within 15 years. At initial recognition, loans were recorded at the fair value using 13 % discount rate, and thereafter carried at amortized cost.

(d) As at December 31, 2004, a time deposit denominated in US Dollar, of 1,557,270 thousand Tenge served as a collateral for construction of a pipeline and a bank guarantee issued to the supplier of equipment on behalf of "InterGas Central Asia" JSC, a related party. The deposit was placed for the period of 3 months, conditional upon payment schedule of "InterGas Central Asia" JSC, and had an interest rate at 9%. During 2005, "InterGas Central Asia" JSC repaid it's debt to suppliers; accordingly, this deposit was withdrawn by the Company.

(e) Other non-current receivables include amounts due for oil transportation and other receivables.

As at December 31, 2005 and 2004, other non-current assets were mainly denominated in Tenge.

10. INVENTORIES

As at December 31, 2005 and 2004, inventories comprised:

In thousand Tenge	**2005**	2004
Spare parts	**5,948,966**	6,387,555
Fuel	**379,855**	431,080
Construction materials	**153,942**	200,280
Other materials	**160,732**	14,040
	6,643,495	7,032,955
Less - allowance for obsolete inventory	**(322,611)**	–
	6,320,884	7,032,955

11. TRADE ACCOUNTS RECEIVABLE

As at December 31, 2005 and 2004, trade accounts receivable comprised:

In thousand Tenge	**2005**	2004
Receivables from crude oil transportation	**75,794**	380
Receivables from related parties (Note 34)	**71,178**	214,350
Receivables from water transportation	**64,410**	97,890
Receivables from storage services	**560**	390
Other receivables	**172,044**	1,082
	383,986	314,092
Less allowance for doubtful debts (Note 16)	**(320)**	(390)
	383,666	313,702

As at December 31, 2005 and 2004, trade accounts receivable were mainly denominated in Tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. ADVANCES TO SUPPLIERS

As at December 31, 2005 and 2004, advances to suppliers comprised:

In thousand Tenge	2005	2004
Advances for work and services	**4,160,456**	4,198,946
Advances for inventory	**186,483**	2,193,360
Advances given to related parties (Note 34)	**15,091**	18,667
	4,362,030	6,410,973
Less allowance for doubtful debts (Note 16)	**(32,238)**	–
	4,329,792	6,410,973

As at December 31, 2005, advances to suppliers of 3,020,654 thousand Tenge were denominated in US Dollar (2004: 3,289,000 thousand Tenge). As at December 31, 2005 and 2004, other advances to suppliers were mainly denominated in Tenge.

13. TAX ADVANCES

As at December 31, 2005 and 2004, tax advances comprised:

In thousand Tenge	2005	2004
VAT recoverable	**7,813,728**	5,368,480
Other taxes	**222,403**	214,794
	8,036,131	5,583,274

As at December 31, 2005 and 2004, tax advances were denominated in Tenge.

14. ASSETS HELD FOR SALE

As at December 31, 2005, assets held for sale of 233,145 thousand Tenge mainly represented apartments that planned to be sold in 2006.

15. OTHER CURRENT ASSETS

As at December 31, 2005 and 2004, other current assets comprised:

In thousand Tenge	2005	2004 (restated)
Interest on deposits receivable	**3,313,141**	1,148,501
Accounts receivable from related parties (Note 34)	**145,228**	589,030
Due from employees	**94,630**	23,907
Prepaid insurance	**79,248**	15,730
Deferred expenses	**49,733**	83,714
Deferred expenses from related parties (Note 34)	**3,194**	4,356
Other	**226,184**	504,728
	3,911,358	2,369,966
Less allowance for doubtful debts (Note 16)	**(71,908)**	(55,510)
	3,839,450	2,314,456

As at December 31, 2005 and 2004, other current assets were mainly denominated in Tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. ALLOWANCE FOR DOUBTFUL DEBTS

As at December 31, 2005 and 2004, allowance for doubtful debts comprised:

In thousand Tenge	**Other non-current assets**	**Trade accounts receivable**	**Advances to suppliers**	**Other current assets**	**Total**
Allowance for doubtful debts as at December 31, 2003	313,534	106,146	182,294	911,507	1,513,481
Charge for the year	307,110	9,253	–	–	316,363
Reversal of a provision for doubtful debts	(26,534)	(91,031)	(136)	(576,256)	(693,957)
Reclassifications	485,605	(23,706)	(182,158)	(279,741)	–
Write-offs of receivables	(59,735)	(272)	–	–	(60,007)
Allowance for doubtful debts as at December 31, 2004	**1,019,980**	**390**	**–**	**55,510**	**1,075,880**
Charge for the year	**18,110**	**792**	**32,374**	**71,908**	**123,184**
Reversal of a provision for doubtful debts	**(158,828)**	**(94)**	**(137)**	**–**	**(159,059)**
Reclassifications	**55,510**	**–**	**–**	**(55,510)**	**–**
Write-offs of receivables	**(32,985)**	**(768)**	**1**	**–**	**(33,752)**
Allowance for doubtful debts as at December 31, 2005	**901,787**	**320**	**32,238**	**71,908**	**1,006,253**

17. FINANCIAL ASSETS

As at December 31, 2005 and 2004, financial assets comprised:

In thousand Tenge	**2005**	2004
Tenge denominated time deposits with Kazakhstan Banks with maturity from 3 months to 12 months	**8,000,793**	4,500,000
Foreign currency denominated time deposits with Kazakhstan Banks with maturity from 3 months to 12 months	**25,877,807**	2,028,000
	33,878,600	6,528,000

As at December 31, 2005, Tenge denominated time deposits included deposits placed in Kazakhstan Banks with interest rates ranging from 5% to 8.5% per annum (2004: from 4% to 8.5%) and maturing on periods ranging from January 18, 2006 to November 29, 2006 (2004: from January 27, 2005 to March 1, 2005).

As at December 31, 2005, US dollar denominated time deposits included deposits placed in Kazakhstan Banks with interest rates ranging from 5.5% to 9% per annum (2004: 7.5%) and maturing on periods ranging from January 4, 2006 to October 23, 2006 (2004: February 6, 2005).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. CASH AND CASH EQUIVALENTS

As at December 31, 2005 and 2004, cash and cash equivalents comprised:

In thousand Tenge	2005	2004
Tenge denominated time deposits with Kazakhstan Banks	**8,447,388**	24,516,834
Tenge denominated current accounts with Kazakhstan Banks	**2,687,637**	3,831,771
US Dollar denominated time deposits with Kazakhstan Banks	**2,245,818**	9,173,786
Foreign currency denominated current accounts with Kazakhstan Banks	**815,782**	2,243,280
Letter of credit	**200,338**	–
Tenge denominated petty cash	**12,405**	24,050
	14,409,368	39,789,721

As at December 31, 2005, Tenge denominated time deposits included deposits placed in Kazakhstan Banks with interest rates ranging from 1.5% to 4.5% per annum (2004: from 1.9% to 4.7%) and maturing on periods ranging from January 5, 2006 to March 16, 2006 (2004: from January 5, 2005 to February 1, 2005).

As at December 31, 2005, US Dollar denominated time deposits included deposits placed in Kazakhstan Banks with interest rates ranging from 3.5 % to 4.8% per annum (2004: from 1.75% to 4.7%) and maturing on periods ranging from January 4, 2006 to March 16, 2006 (2004: from January 5, 2005 to January 28, 2005).

As at December 31, 2005 and 2004, most current accounts with Kazakhstan Banks carried interest at 2% per annum.

19. SHAREHOLDER'S EQUITY

Share capital

As at December 31, 2005 and 2004, share capital of the Company comprised the following:

	Authorized	Issued and Fully paid	Par value, Tenge	Amount, thousand Tenge
December 31, 2004	32,916,055	32,916,055	1,000	32,916,055
December 31, 2005	**32,916,055**	**32,916,055**	**1,000**	**32,916,055**

As at December 31, 2005 and 2004, all issued shares of the Company were owned by KMG.

During 2005, the Company declared dividends for 2004, totaling 857,134 thousand Tenge (2004: 930,365 thousand Tenge) of which 857,134 thousand Tenge was paid by December 31, 2005 (2004: 930,365 thousand Tenge). The Company declared a dividend of 26.04 Tenge per common stock (2004: 28.29 Tenge).

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 December 31, 2004 and January 1, 2000. The movement of revaluation reserve for the years ended December 31, 2005 and 2004, was as follows:

In thousand Tenge	2005	2004
Balance as at January 1	**64,041,859**	48,783,918
Amortization	**(5,682,731)**	(5,340,081)
Revaluation increase	–	40,781,692
Revaluation decrease	–	(11,348,480)
Deferred income tax from revaluation of property, plant and equipment	–	(8,835,190)
Balance as at December 31	**58,359,128**	64,041,859

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. SHAREHOLDER'S EQUI TY

Reserve fund

As stated in the charter, the Company is required to maintain a general reserve fund of not less than 15% of its share capital. In addition to that, the Company reserves other amounts depending on its net profit.

As at December 31, 2005 and 2004, the reserve capital included amount of 138,623 thousand Tenge and 141,219 thousand Tenge, respectively, which comprised the social objects contributed by the Government of the Republic of Kazakhstan to the Company in 1997. These social objects were recorded as part of the property, plant and equipment back in 1997. The right for disposal of these assets requires approval of the Government. During 2005 and 2004 net book value of certain social objects amounting to 2,596 thousand Tenge and 11,403 thousand Tenge, respectively, were disposed under the resolution of Antimonopoly Committee of the Republic of Kazakhstan, in accordance with the "Law on privatization". No gain or loss were recognized by the Company on these disposals.

20. EARNINGS PER SHARE

Basic and diluted earnings per share amounts are calculated by dividing net profit for the year attributable to common stockholders of the Company by the weighted average number of common stocks issued during the year.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

In thousand Tenge, except share amounts	2005	2004 (restated)
Weighted average number of shares issued	**32,916,055**	32,890,181
Net Income	**5,623,821**	3,752,157
Basic and diluted earnings per share (in Tenge)	**171**	114

21. INTEREST BEARING LOANS AND BORROWINGS

As at December 31, 2005 and 2004, interest bearing loans and borrowings were as follows:

	Date of contract	Maturity	Annual interest rate	2005	2004
Long–term loans					
Citibank	December, 2002	December, 2011	LIBOR+2.25%	**6,987,250**	7,817,503
EBRD	July, 2004	July, 2014	LIBOR+2.25%	**5,559,574**	5,422,170
HSBC	October, 2005	October, 2006	LIBOR+1.60%	**1,351,633**	–
ABN AMRO Bank	December, 2003	December, 2007	LIBOR+2.75%	**1,232,695**	1,498,380
NordKap Bank	April, 2001	April, 2006	LIBOR+3.75%	**–**	1,154,140
				15,131,152	15,892,193
Current portion of long–term loans				**(2,649,871)**	(1,931,020)
				12,481,281	13,961,173

Citibank

As at December 31, 2005, the Company's share in a loan received from Citibank N.A. (Singapore branch) amounted to US $52,233 thousand or 6,987,250 thousand Tenge (2004: US $60,135 thousand or 7,817,503 thousand Tenge). On December 4, 2002 MunayTas entered into an agreement for a US $80,000 thousand or 12,360,000 thousand Tenge credit facility with Citibank N.A., acting through its Singapore branch. On June 30, 2003 Citibank agreed to increase the facility limit to US $102,000 thousand or 15,096,000 thousand Tenge. On June 8, 2005 Citibank agreed to decrease an interest rate from 8.8% to LIBOR + 2.25% and maturity on December 4, 2011. Under the terms of the loan agreement, MunayTas should not sell, lease, transfer or otherwise dispose of all or any part (book value of which is 20% or more of the book value of all assets) of its revenues or its assets. As at December 31, 2005, the current portion of loan comprised US $4,548 thousand or 608,408 thousand Tenge (2004: US $6,490 thousand or 843,776 thousand Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. INTEREST BEARING LOANS AND BORROWINGS (continued)

EBRD

As at December 31, 2005, the Company's share in a loan received from EBRD amounted to US $41,561 thousand or 5,559,574 thousand Tenge (2004: US $41,709 thousand or 5,422,170 thousand Tenge). On July 29, 2004 MunayTas entered into an agreement for a US $81,600 thousand or 11,127,792 thousand Tenge credit facility with EBRD with an annual interest rate of LIBOR+2.25% and maturity on July 14, 2014. The purpose of this loan was to repay MunayTas liabilities to Halyk Bank. As at December 31, 2005, current portion of loan comprised US $430 thousand or 57,475 thousand Tenge (2004: US $93 thousand or 12,084 thousand Tenge).

HSBC

On October 27, 2005, the Company received a loan of US $10,000 thousand or 1,338,200 thousand Tenge in accordance with Agreement on state procurements of banking services # US 440/05 from June 2, 2005, supplementary agreement #1 from October 27, 2005. Principal is stated in USD and is payable in a 1 year period, on October 27, 2006. Interest is accrued using 3-month USD LIBOR + 1.6% and is payable on a quarterly basis. As at December 31, 2005, the current portion of loan comprised US $10,104 thousand or 1,351,633 thousand Tenge.

ABN AMRO Bank

As at December 31, 2005, the Company's share in a loan received from ABN AMRO Bank amounted to US $9,215 thousand or 1,232,695 thousand Tenge (2004: US $11,526 thousand or 1,498,380 thousand Tenge). On December 12, 2003, MunayTas entered into an agreement for a US $23,000 thousand or 3,337,990 thousand Tenge credit facility with ABN AMRO Bank. The principal and interest is to be repaid on December 12, 2007. On May 13, 2005 the addendum was signed to decrease the interest rate to LIBOR + 2.75%. MunayTas should also pay commission of 0.1% per annum for any unused amounts of the credit line. The collateral for this loan is a guarantee letter from KMG for 3,341,900 thousand Tenge or US $24,982 thousand. As at December 31, 2005, the current portion of the loan comprised US $4,727 thousand or 632,355 thousand Tenge (2004: US $2,346 thousand or 304,980 thousand Tenge).

NordKap Bank

On April 23, 2001, the Company entered into an agreement for a US $43 million credit facility or 6,258,650 thousand Tenge with the ABB Export Bank (renamed in 2003 as NordKap Bank) to purchase materials and equipment from ABB Process Industries Gmbh. On October 21, 2002, the Company changed the terms of the facility, reducing the credit amount to US $25,799 thousand or 3,979,478 thousand Tenge. The principal is to be repaid quarterly in equal installments of US $1,477 thousand or about 234,097 thousand Tenge. Cash receipts to a current bank account from one of the Company's customers are used as collateral for the loan. The loan funds may only be used to finance the capital project performed by the supplier. The loan was fully repaid in September 2005 ahead of schedule and the facility was terminated. The current portion of the loan as at December 31, 2004, comprised US $5,925 thousand or 770,180 thousand Tenge.

Future Maturities of Loans

Maturities of interest bearing loans and borrowings for the years succeeding December 31, 2005 and 2004, were as follows:

In thousand Tenge	**2005**	2004
Within one year	**2,649,871**	1,931,020
In the second year	**1,919,214**	2,271,360
In the third to the fifth years inclusive	**5,785,681**	5,145,790
After five years	**4,776,386**	6,544,023
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(2,649,871)**	(1,931,020)
	12,481,281	13,961,173

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. LONG-TERM FINANCIAL LIABILITIES

As at December 31, 2005 and 2004, long-term financial debt comprised the following:

In thousand Tenge	Date of contract	Maturity	Annual interest rate	2005	2004
Long–term financial liabilities					
Sumitomo(Fujikura Consortium	Jun, 2001	Feb, 2007	3 month LIBOR + 3.75%	**516,874**	795,682
Current portion of long–term financial liabilities				**(516,874)**	(287,170)
				–	508,512

On June 8, 2001, the Company entered into an agreement to modernize a telecommunication network with Sumitomo-Fujikura Consortium for a value of US $31,991 thousand or 4,680,247 thousand Tenge. In accordance with the agreement, inventories and equipment related to the construction are purchased in 20 equal quarterly instalments starting from February 2003, along with interest accrued at the rate of 3 month LIBOR + 3.75%. This loan was paid ahead of schedule in March 2006.

23. CORPORATE BONDS

As at December 31, 2005 and 2004, corporate bonds comprised:

In thousand Tenge	2005	2004
Corporate bonds	**20,065,500**	19,500,000
KCP corporate bonds	**40,179,620**	19,317,318
	60,245,120	38,817,318
Current portion of corporate bonds	**(20,065,500)**	–
	40,179,620	38,817,318

Corporate bonds

On July 6, 2001, the Company issued 150,000,000 unsecured Eurobonds with a par value of US $1 each, for a total amount of US $150,000 thousand or 21,990,000 thousand Tenge. Net proceeds amounted to US $148,965 thousand or 21,838,269 thousand Tenge. As at December 31, 2001, all bonds had been sold, whereas in September 2002, the Company redeemed its bonds with a value of US $4,620 thousand or 711,613 thousand Tenge. In January 2004, the Company redeemed its bonds with a value of US $4.9 million or 683,109 thousand Tenge and re-sold all previously redeemed bonds in April, 2004 for US $9.8 million or 1,357,000 thousand Tenge. The Eurobonds mature on July 6, 2006, and pay 8.5% annual interest on par value, payable twice a year, in January and July. As at December 31, 2005, the entire balance of corporate bonds was classified as current.

KCP corporate bonds

As at December 31, 2005, the Company's share in liabilities on Kazakhstan–China Pipeline LLP (KCP) bonds amounted to US $300,363 thousand or 40,179,620 thousand Tenge. In 2005 KCP issued bonds worth US $150,000 thousand or 19,850,799 thousand Tenge with an interest rate of 7% for the period between September 22, 2005 and September 22, 2009, and with an annual interest rate of 8.8% between September 22, 2009, and September 22, 2020. The bonds mature on September 22, 2020. The bonds were issued through the subsidiary KCP Finance B.V. against a guarantee from China National Petroleum Company JSC (CNPC). The change in the interest rate from September 22, 2009, until the bonds mature is due to the expiry of the guarantee issued by CNPC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. TRADE ACCOUNTS PAYABLE

As at December 31, 2005 and 2004, trade payables comprised:

In thousand Tenge	**2005**	2004
Payables for construction services	**3,420,212**	658,710
Due to related parties (Note 34)	**1,325,458**	2,829,460
Payables for supplies	**1,669,691**	1,441,310
Payables for transportation services	**6,432**	5,980
Payables for other services	**1,620,338**	634,589
	8,042,131	5,570,049

As at December 31, 2005, trade accounts payable of 1,577,165 thousand Tenge (2004: 1,599,000 thousand Tenge) were denominated in US Dollars. Other payables were mainly denominated in Tenge.

25. ADVANCES RECEIVED

As at December 31, 2005 and 2004, advances received from customers comprised:

In thousand Tenge	**2005**	2004
Advances from related parties (Note 34)	**6,091,071**	7,059,018
Advances for oil and water transportation	**4,998,798**	2,687,602
Advances for oil transportation coordination services	**775,862**	3,133,000
Other	**499,531**	241,026
	12,365,262	13,120,646

As at December 31, 2005, advances received of 342,565 thousand Tenge (2004: 325,910 thousand Tenge) were denominated in US Dollars. As at December 31, 2005 and 2004, other advances received were mainly denominated in Tenge.

26. TAXES PAYABLE

As at December 31, 2005 and 2004, taxes payable comprised:

In thousand Tenge	**2005**	2004
Property tax	**151,068**	15,779
Personal income tax	**115,132**	50,549
Social tax	**85,881**	124,073
Withholding Tax	**198,409**	70,896
Other taxes	**11,432**	28,081
	561,922	289,378

27. OTHER CURRENT LIABILITIES

As at December 31, 2005 and 2004, other current liabilities comprised:

In thousand Tenge	**2005**	2004
Due to employees	**2,732,257**	2,422,030
Payable to pension fund	**84,951**	109,590
Liability to related parties (Note 34)	**280**	8,190
Other	**69,686**	265,541
	2,887,174	2,805,351

As at December 31, 2005 and 2004, other current liabilities were mainly denominated in Tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. SALES

The composition of sales for the years ended December 31, 2005 and 2004, was as follows:

In thousand Tenge	2005	2004
Crude oil transportation	**60,916,319**	60,721,918
Water transportation	**1,817,331**	1,803,336
Oil transportation coordination services	**729,775**	716,953
Oil storage services	**70,131**	134,029
Other	**207,537**	397,402
	63,741,093	63,773,638

29. COST OF SALES

The composition of the cost of sales for the years ended December 31, 2005 and 2004, was as follows:

In thousand Tenge	2005	2004
Depreciation	**11,158,732**	12,055,042
Bonuses and other employee compensation and related costs	**9,197,846**	10,179,818
Overhaul	**4,854,711**	5,153,379
Materials and fuel	**3,842,813**	3,418,487
Energy	**1,567,996**	1,598,959
Taxes other than Income Tax	**971,706**	935,305
Communication services	**905,988**	853,537
Security services	**896,684**	878,332
Air services	**726,379**	750,018
Diagnostics	**589,075**	585,781
Insurance	**324,779**	353,646
Other	**2,519,994**	1,422,797
	37,556,703	38,185,101

30. GENERAL AND ADMINISTRATIVE EXPENSES

The composition of general and administrative expenses for the years ended December 31, 2005 and 2004, was as follows:

In thousand Tenge	2005	2004
Bonuses and other employee compensation and related costs	**5,155,178**	4,275,307
Impairment of property, plant and equipment	**1,781,769**	3,278,879
Management fees	**1,200,000**	1,200,001
Taxes, other than Income Tax and VAT	**1,094,012**	1,064,244
Depreciation and amortization	**974,588**	571,902
Social sphere expenses	**596,481**	630,004
VAT expenses	**501,764**	1,266,676
Communication	**384,352**	201,822
Charity expenses	**374,987**	418,823
Consulting	**363,094**	134,548
Provision for obsolete inventory	**322,611**	–
Office maintenance	**258,597**	160,154
Bank costs	**244,980**	241,932
Business trip expenses	**230,605**	35,907
Advertising	**163,126**	156,889
Insurance and security	**118,379**	25,681
Training	**99,580**	14,184
Change in allowance for doubtful debts	**(35,875)**	(377,594)
Impairment on available-for-sale investments	**–**	16,056
Other	**249,067**	815,645
	14,077,295	14,131,060

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. OTHER OPERATING INCOME/ (LOSS), NET

The composition of results from other activities for the years ended December 31, 2005 and 2004, was as follows:

In thousand Tenge	2005	2004
Gain/ (loss) on disposal of property, plant and equipment, net	**501,233**	(949,496)
Income from fines and penalties	**1,057,635**	54,866
Gain from providing operating services, net	**167,518**	206,554
Loss from sales of inventory, net	**(21,013)**	(197,110)
Income/ (loss) from stock excess/ (shortage)	**155,802**	(52,969)
Income from write-off of payables	**5,113**	106,135
Other income, net	**133,853**	156,278
Loss on revaluation of property, plant and equipment (Note 5)	–	(4,079,140)
	2,000,141	(4,754,882)

32. INCOME TAX EXPENSE

The Company, its subsidiary and jointly controlled companies are subject to corporate income tax at the prevailing statutory rate of 30%. Income tax expenses for the years ended December 31, 2005 and 2004 were as follows:

In thousand Tenge	2005	2004 (restated)
Current income tax	**4,877,084**	4,123,601
Deferred income tax	**988,400**	1,028,221
	5,865,484	5,151,822

Current corporate income tax expenses are based on the taxable income of the Company prepared in accordance with the requirements of Kazakhstan tax legislation. As at December 31, 2005 and 2004, the reconciliation of income tax expenses recorded in financial statements, and income prior to taxation multiplied by the statutory tax rate of 30%, is as follows:

In thousand Tenge	2005	2004 (restated)
Income before corporate income tax	**11,489,305**	8,903,979
	30%	30%
Income tax expense computed on financial income before tax at statutory rate of 30%	**3,446,792**	2,671,194
Add/ (deduct) tax effect of:		
Loss on impairment of social assets	**91,484**	983,664
(Gain)/ loss on disposal of property, plant and equipment, net	**(130,304)**	275,678
Foreign exchange (gain)/ loss, net	**(17,938)**	114,707
Tax expenses (other than VAT)	**96,552**	257,308
VAT non-deductible expenses	**150,529**	260,302
Interest expenses	**846,109**	213,222
Entertainment expenses	**399,705**	49,655
Other permanent differences	**345,770**	47,139
Unrecognized deferred assets movement	**512,360**	38,109
Revision of tax base of property, plant and equipment	**124,425**	240,844
Income tax expense	**5,865,484**	5,151,822

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

32. INCOME TAX EXPENSE (continued)

Deferred corporate income taxes are provided for all temporary differences between the financial statement and tax basis of the Company's assets and liabilities. As at December 31, 2005 and 2004, the Company's net deferred tax position comprised of the following:

In thousand Tenge	**2005**	2004 (restated)
Deferred tax assets:		
Bonuses and other employee compensation and related costs	**713,359**	595,140
Allowance for doubtful debts	**301,876**	322,790
Taxes	**69,684**	210
Allowance for obsolete inventory	**96,783**	–
Investment income	**98,613**	–
Loss carry-forward	**474,370**	31,460
Property, plant and equipment	**349,775**	67,636
Allowance for unrecognized deferred tax assets	**(609,506)**	(97,146)
	1,494,954	920,090
Deferred tax liabilities:		
Interest receivable	**–**	(343,023)
Property, plant and equipment	**(12,512,857)**	(10,606,570)
	(12,512,857)	(10,949,593)
Net deferred tax liabilities	**(11,017,903)**	(10,029,503)

Aggregate deferred tax relating to items charged to shareholder equity due to the revaluation of fixed assets consisted of the following for the years ended December 31:

In thousand Tenge	**2005**	2004
Deferred Tax related to the revaluation of property, plant and equipment	–	8,835,190

33. CONSOLIDATION

The following entities, registered in Kazakhstan, have been included in these consolidated financial statements:

Subsidiaries	**Company's Ownership in 2005**	Company's Ownership in 2004	Business Activity
KazTransOil-Service JSC	**100%**	100%	Medical and entertainment services

The following joint ventures have been proportionally consolidated according to their percentage ownership by the Company.

Subsidiaries	**Company's Ownership in 2005**	Company's Ownership in 2004	Business Activity
North-West Pipeline Company MunayTas JSC	**51%**	51%	Transportation of oil
Kazakhstan- Chinese PipelineLLP	**50%**	50%	Transportation of oil

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. CONSOLIDATION (continued)

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:

In thousands of Tenge	**2005**	2004
Assets:		
Property, Plant and Equipment	**44,534,173**	15,529,706
Other long-term assets	**515,650**	216,808
Inventory	**21,409**	55,795
Other current assets	**17,147,553**	28,151,525
Total assets	**62,218,785**	43,953,834
Liabilities:		
Long-term liabilities	**52,243,427**	33,077,253
Deferred tax liabilities	**730,383**	649,713
Current portion of long-term liabilities	**1,247,302**	603,330
Trade accounts payable	**1,928,247**	142,006
Taxes payable	**137,149**	15,632
Other current liabilities	**869,209**	601,043
Total liabilities	**57,155,717**	35,088,977
Revenues and expenses		
Revenues	**3,093,709**	2,982,745
Expenses	**5,418,224**	1,259,489
Cash flow information		
Cash flows (used in)/ from operating activities	**(33,115,954)**	907,114
Cash flows used in investing activities	**(437,774)**	(2,199,290)
Cash flows from financing activities	**18,851,486**	26,533,364

34. RELATED PARTIES TRANSACTIONS

In 2005 and 2004, the Company concluded the following significant transactions with related parties:

Sales

In thousand Tenge	**2005**	2004
Exploration and Production KazMunayGas JSC	**17,718,117**	18,411,087
AktobeMunayGas JSC	**8,128,053**	7,066,406
Trade House KazMunayGas JSC	**2,320,604**	2,634,723
KazakhOil-Aktobe LLP	**1,269,449**	963,648
KazakhTurkMunay JV LLP	**697,967**	776,824
TengizChevrOil LLP	**499,710**	678,581
KazTransGas JSC	**18,785**	17,825
Kazakhstan Temir Zholy JSC NC	**8,085**	6,428
KazTransCom JSC	–	359,089
Tenge JV	–	36,467
EmbaVedOil LLP	–	26,806
KazStroiService JSC	–	14,423
	30,660,770	30,992,307

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. RELATED PARTIES TRANSACTIONS (continued)

Income from other activities

In thousand Tenge	2005	2004
KazMunayGas-Service LLP	**56,916**	136
KazMunayGas JSC NC	**41,433**	29,527
Tengiz Chevroil LLP	**40,412**	–
Exploration and Production KazMunayGas JSC	**22,638**	31,296
Trade House KazmunayGas JSC	**20,448**	–
KazTransGas JSC	**918**	139,200
Kazakhstan Oil and Gas Institute JSC	–	2,041
Kazakhtelecom JSC	–	550
KEGOK JSC	–	217
EurAsia Air JSC	–	136
Other	**861**	–
	183,626	203,103

Services received

In thousand Tenge	2005	2004
KazMunayGas JSC NC	**1,251,004**	1,200,001
Trade House KazMunayGas JSC	**1,014,914**	924,460
EurAsia Air JSC	**814,039**	788,254
KazMunayGas-Service LLP	**408,099**	160,290
Kazatomprom NAC	**340,241**	337,228
KazTransGas JSC	**46,551**	269,010
Kazakhtelecom JSC	**44,824**	65,155
Exploration and Production KazMunayGas JSC	**41,294**	44,631
KazMunayGas Consulting JSC	**29,289**	51,843
Kazakh-British Technical University JSC	**18,498**	–
Kazakhstan Temir Zholy JSC	**17,233**	14,991
Kazpost JSC	**15,457**	9,989
Kazakhstan Oil and Gas Institution JSC	**4,111**	108,448
KazakhOil Aktobe JSC	**763**	–
KazStroiService CJSC	–	3,741,517
KazTransCom JSC	–	961,743
TengizChevroil LLP	–	317,451
KazRosGas JSC	–	136
	4,046,317	8,995,147

As a result of the above transactions, the Company had the following balances with related parties of KMG as at December 31, 2005 and 2004:

Non-current assets

In thousand Tenge	2005	2004
KazMunayGas-Service LLP	**1,385,537**	–
Trade House KazMunayGas JSC	**143,817**	146,510
KazMorTransFlot JSC	–	2,860
	1,529,354	149,370

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. RELATED PARTIES TRANSACTIONS (continued)

Advances given

In thousand Tenge	**2005**	2004
Kazakhstan Temir Zholy JSC NC	**7,658**	11,647
EurAsia Air JSC	**7,382**	–
KazTransGas JSC	**51**	–
TengizChevrOil LLP	**–**	4,160
Kazakhstan Oil and Gas Institute JSC	**–**	2,860
	15,091	18,667

Trade accounts receivable

In thousand Tenge	**2005**	2004
KazakhOil Aktobe LLP	**42,087**	–
Trade House KazMunayGas JSC	**18,464**	–
KazTransGas JSC	**6,788**	7,020
Exploration and Production KazMunayGas JSC	**1,699**	11,700
KazakhTurkMunay JV LLP	**1,120**	–
CNPC AktobeMunayGas	**1,006**	195,370
TengizChevroil LLP	**14**	260
	71,178	214,350

Other current assets

In thousand Tenge	**2005**	2004
Trade House KazMunayGas JSC	**138,325**	238,290
KazMunayGas-Service LLP	**5,182**	–
KazPost JSC	**3,194**	4,356
CNPC AktobeMunayGas JSC	**1,721**	–
KazTransGas JSC	**–**	171,210
KazTransCom JSC	**–**	138,060
Kazakhstan Oil and Gas Institute JSC	**–**	32,630
KazMunayGas JSC NC	**–**	7,150
Exploration and Production KazMunayGas JSC	**–**	1,300
KazStroiService JSC	**–**	390
	148,422	593,386

Deferred income

In thousand Tenge	**2005**	2004
TengizChevrOil LLP	**188,347**	384,800
Trade House KazMunayGas JSC	**33,489**	78,130
KazTransCom JSC	**–**	44,720
Other	**–**	1,690
	221,836	509,340

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. RELATED PARTIES TRANSACTIONS (continued)

Trade accounts payable

In thousand Tenge	2005	2004
CPPE	600,741	–
CNPC	279,203	–
KazMunayGas JSC NC	115,000	–
Trade House KazMunayGas JSC	109,200	124,800
CNODC	50,012	–
Exploration and Production KazMunayGas JSC	46,951	7,410
KazMunayGas-Service LLP	36,720	14,950
Kazatomprom NAC	23,356	28,561
Cooder Brothers	20,017	–
KazMunayGas Consulting JSC	17,382	40,170
KazTransGas JSC	14,363	18,070
KazakhTelecom JSC	5,671	7,663
EurAsia Air JSC	2,738	90,610
Kazakhstan Oil and Gas Institute JSC	2,441	72,410
KazakhstanTemirZholy JSC NC	932	485
Kazakh-British Technical University JSC	665	–
CPTDC	57	–
KazPost JSC	9	91
KazStroiService JSC	–	2,055,300
KazMorTransFlot JSC	–	269,750
KazTransCom JSC	–	99,190
	1,325,458	2,829,460

Advances received from customers

In thousand Tenge	2005	2004
Trade House KazMunayGas JSC	4,089,105	5,468,840
CNPC AktobeMunayGas	1,736,716	1,282,338
KazakhTurkMunay LLP	145,842	153,400
KazakhOil – Aktobe LLP	66,659	65,520
TengizChevrOil LLP	45,070	75,140
KazMunayGas-Service JSC	4,834	–
Exploration and Production KazMunayGas JSC	2,217	3,640
Kazakhstan Temir Zholy JSC NC	522	–
KazMunayGas Consulting JSC	106	–
Embavedoil LLP	–	4,680
KazStroiService JSC	–	4,030
Tenge JV	–	1,430
	6,091,071	7,059,018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. RELATED PARTIES TRANSACTIONS (continued)

Other current liabilities

In thousand Tenge	**2005**	2004
Kazakhstan Temir Zholy JSC NC	**275**	–
KazPost JSC	**5**	–
KazMunayGas-Service LLP	**–**	5,330
KazStroiService JSC	**–**	2,730
KazTransCom JSC	**–**	130
KazMunayGas JSC NC	**–**	–
	280	8,190

Exploration & Production KazMunayGas JSC, an entity under common control of the Group, transported 9,219,459 tons of crude oil (2004: 8,725,242 tons).

Trade House KazMunayGas JSC, an entity under common control of the Group, transported 3,692,021 tons of crude oil (2004: 4,819,867 tons).

KazakhOil Aktobe LLP, an entity under common control of the Group, transported 1,276,521 tons of crude oil (2004: 1,017,212 tons).

KazakhturkMunay LLP, an entity under common control of the Group, transported during 449,931 tons of crude oil (2004: 458,316 tons).

TengizChevroil LLP, a related entity, transported 5,886 tons (2004: 168,280 tons) of crude oil and 4,199,582 tons of water (2004: 4,069,060 tons).

AktobeMunayGas JSC, a related party of the Group, transported 9,048,219 tons of crude oil (2004: 8,773,354 tons).

KazMunayGas JSC NC, is the parent company, which provided management services under a partnership agreement.

Trade House KazMunayGas JSC, an entity under common control of the Group, provided guard services.

EurAsia-Air JSC, an entity under common control of the Group, provided air transportation services.

KazMunayGas-Service LLP, an entity under common control of the Group, provided services in respect to maintenance of the Company's administrative building.

Compensation to Key Management Personnel

Key management personnel totaled 52 and 46 persons as at December 31, 2005 and 2004, respectively. Total compensation to key management personnel included in general and administrative expenses in the accompanying consolidated income statement amounted to 448,101 thousand Tenge and 344,761 thousand Tenge for the years ended December 31, 2005 and 2004, respectively. Compensation to the key management personnel consists of contractual salary and performance bonus based on operating results.

35. SIGNIFICANT NON-CASH TRANSACTIONS

In 2005 the Company made an offset of trade receivables arising from the disposal of property, plant and equipment against trade payables for 31,157 thousand Tenge (2004: 375,553 thousand Tenge).

These non cash flows are excluded from the consolidated statement of cash flows.

36. FINANCIAL COMMITMENTS AND CONTINGENT LIABILITIES

Taxation

The various legislative acts and regulations are not always clearly written and their interpretation is subject to the opinions of local tax inspectors and officials of the Ministry of Finance. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. FINANCIAL COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Taxation (continued)

The current regime of penalties and interest related to reported and discovered violations of Kazakhstan law are severe. Fines are generally 50% of any taxes additionally assessed and interest is assessed at rate 20% per annum. As a result, fines and interest can amount to multiples of any unreported taxes.

The Company believes that it has paid or accrued all taxes that are applicable. Where practice concerning tax application is unclear, the Company has accrued tax liabilities based on management's best estimate. The Company's policy is to accrue contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, fines and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2005. Although, such amounts are possible and may be material, it is the opinion of Company management that these amounts are either not probable, not reasonably determinable, or both.

The Company's operations and financial position may be affected by Kazakhstan political developments, including the application of existing and future legislation and tax regulations. The Company does not believe that these contingencies, as related to its operations, are any more significant than those of similar enterprises in Kazakhstan.

Investment commitments

In accordance with the investment contract # 0393-12-2503 signed on December 24, 2003, and amendments dated February 15, 2005, between KazTransOil JSC and Invetment Committee of Ministry of Industry and Trade of the Republic of Kazakhstan, KazTransOil JSC is obliged to invest in construction of Oil-trunk Pipeline AlibekMola-Kenkiyak in amount of 1,410,392 thousand Tenge till December 31, 2007. In accordance with investment contract # 0391-12-2003 signed on December 24, 2003, between North-West Pipeline Company MunayTas JSC and Investment Committee of the Ministry of Industry and Trade of the Republic of Kazakhstan, North-West Pipeline Company MunayTas JSC is obliged to invest in construction of Lineal Part of pipeline Atyrau-Kenkiyak in amount of 18,834,538 thousand Tenge. In accordance with the investment contract #0462-10-2004 signed on October 13, 2004 and amendments dated May 30, 2005 and October 28, 2005, between the Kazakhstan-China Pipeline LLP and Investment Committee of the Ministry of Industry and Trade of the Republic of Kazakhstan , Kazakhstan-China Pipeline LLP obtained certain investor preferences. In accordance with this Investment Contract Kazakhstan-China Pipeline LLP is obliged to invest in the acquisition of the pipeline equipment in the amount of 17,571,983 thousand Tenge. As at April 21, 2006, the Company and its jointly controlled entities fully discharged their investment liabilities under these contracts.

Capital commitments

The Company generally enters into contracts for the completion of construction projects. As at April 21, 2006, the Company had entered into contracts related to various types of construction work and total overhaul that result in contractual obligations approximating 14,952,755 thousand Tenge. Contractual obligations of jointly controlled entities amounted to 43,736,389 thousand Tenge.

Environmental matters

The Company is subject to various environmental laws and regulations of the Republic of Kazakhstan. While management believes that substantial compliance with such laws and regulations has been achieved, there can be no assurances that contingent liabilities do not exist.

Site Restoration Liabilities

Currently, management does not believe that the Company has or will have any material liability related to the environmental impact or the restoration upon decommissioning of the pipeline project for activities through December 31, 2005. Therefore, no accrual for such liabilities has been reflected in these financial statements. Future changes to regulations or future incidents could require or oblige the Company to incur environmental liabilities or take certain actions upon decommissioning.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. FINANCIAL COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Legal issues

In the ordinary course of business, the Company can be subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or the results of future operations of the Company.

Insurance matters

On March 1, 2005 the Company obtained full insurance coverage including business interruption and third party environmental liability coverage for its pipeline facilities through March 1, 2006. On March 30, 2006, the Company obtained full insurance coverage including property damage and force-majeure through March 31, 2007.

37. FINANCIAL INSTRUMENTS

Foreign Exchange Risk

The Company's operations are carried out primarily in Kazakhstan and, as such, a significant portion of the Company's business is transacted in Tenge. The Company has a number of other financial instruments denominated in US Dollars. These include amounts in advances made to suppliers, certain accounts payable, long-term loans and corporate bond obligations. The Company does not hedge these financial instruments since management does not believe the foreign exchange risk is significant.

Interest Rate Risk

The Company's only potential interest rate risk relates to interest payable associated with its borrowings (Notes 21-23), which bear fixed interest rates.

Credit Risks

Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit approvals, limits and monitoring procedures. The extent of the Company's credit exposure is represented by aggregate balance of accounts receivable and advances to suppliers.

Counterparties to financial instruments consist primarily of a large Kazakh oil producers, represented by both domestic companies and international oil companies. After considering provisions made for allowances for doubtful accounts, the Company does not expect any counterparties to fail to meet their obligations. As at December 31, 2005, two customers accounted for 51.2% (2004: two customers accounted for 46%) of total trade accounts receivable and 94% of advances to suppliers relates to two suppliers (2004: 64% relates to two suppliers) of advances to suppliers relates to two suppliers.

Fair Value of Financial Instruments

The carrying amount of cash, trade accounts receivable and payable, short-term debts and other current monetary assets and liabilities approximates their fair value due to the short-term maturity of these financial instruments. Similarly, the carrying amounts of receivables and payables, which are all subject to normal trade credit terms, approximate their fair values.

The fair value of long-term borrowings is estimated using discounted cash flow analysis based on borrowing rates currently available to the Company for bank loans with similar terms and average maturities. The fair value of long-term debts is estimated to approximate carrying value.