



ANNUAL REPORT OF JSC NC "KAZMUNAYGAS" FOR 2008

Astana



KULIBAYEV T.A.

Chairman of Board of Directors
JSC NC «KazMunayGas»



KABYLDIN K.M.

Chairman of the Management
Board of JSC NC «KazMunayGas»

Dear Ladies and Gentlemen!

Allow us to bring to your attention Annual Report of JSC «National Company» «KazMunayGas» for 2008

The Annual Report has been prepared as required by the Charter of JSC NC «KazMunayGas» and in accordance with the principles of good corporate governance in respect of transparency and impartiality of disclosure of information. In the current conditions of the global financial downturn, «KazMunayGas» is actively implementing anti-crisis measures and doing its utmost to minimize negative effects for Kazakhstan's economy.

During a relatively short period of its activities, the National Company made a considerable breakthrough in the development of the oil-and-gas sector of the country.

National Company «KazMunayGas» is taking part in realization of a number of major projects on production, processing and transportation of hydrocarbons that enter the number of the largest world-class projects. Acquisition of a number strategic assets in the RoK, including ownership interests in such companies as «KazGerMunai», «Karazhanbasmunay» and «PetroKazakhstan», and also a purchase of a block of shares in «Rompetrol» have considerably enhance KMG's significance in the international business community.

Being perfectly aware that developing the Caspian shelf will become a powerful stimulus to development of Kazakhstan's economy, the National Company is carrying out the cor-

responding work on the shelf of the Caspian Sea. In conformity with the instructions the country's President, «KazMunayGas» is working at diversification of hydrocarbons transportation routes, expansion of the CPC project, construction of oil-and-gas pipelines to the East, as well as formation of a multimodal hydrocarbons transportation system in the Caspian region.

«KazMunayGas» is studying the best practices of oil-and-gas operations of foreign companies. It continues systematic work at developing corporate governance targeted at sustainable growth of capitalization and satisfaction of the interests of the Sole Shareholder and the key stakeholders – the state, strategic partners and employees.

Today, «KazMunayGas» takes the leading positions in the country's oil-and-gas sector, providing a quarter of oil production, 80% of oil transportation, practically entire volume of gas transportation and 50% of oil refining. Investment in social sphere over the Group of Companies amount to 100 mln USD, being one example of corporate social responsibility.

Implementing the message the RoK's President of 6 March 2009, the National Company is actively engaged in implementation of a number of breakthrough projects, including those on development of petrochemistry in Kazakhstan – creation of the first integrated gas and chemical complex, road bitumens production and

aromatics production complex, which will create a synergetic effect for development of the respective economic sectors in our republic.

«KazMunayGas» pay special attention to development of Kazakhstan content and local oil-and-gas engineering industry. This will create jobs for the citizens, high level of social responsibility of the petroleum business and increased revenues to the state budget.

On the whole, the set of tasks of the National Company is quite comprehensive and «KazMunayGas» will do its best for efficient execution of the instructions of the Head of State, the Government and the Sovereign Welfare Fund «Samruk-Kazyna».

Chairman of Board of Directors
JSC NC «KazMunayGas»
T.A.Kulibayev

Chairman of the Management Board
of JSC NC «KazMunayGas»
K.M.Kabyldin

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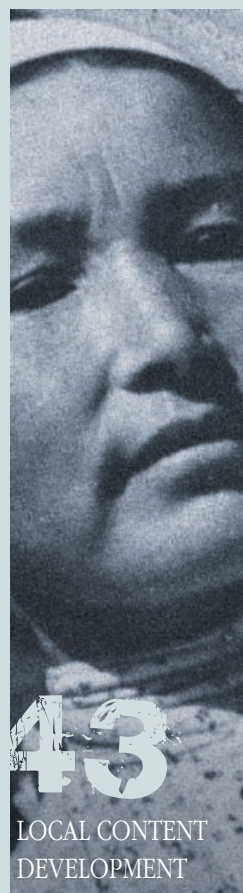
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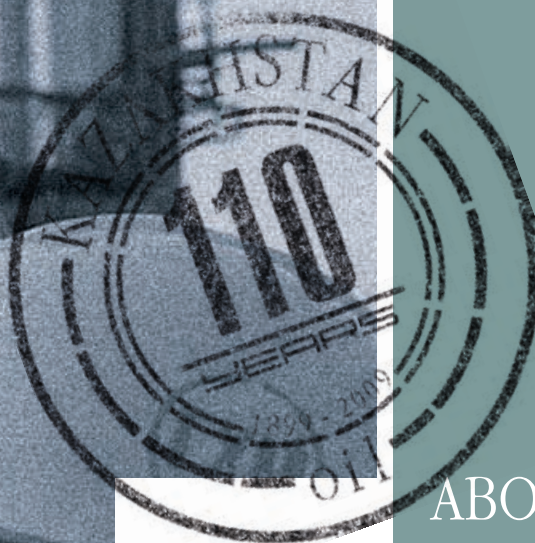
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LOCAL CONTENT DEVELOPMENT





MISSION

Ensuring of the maximal benefits for the Republic of Kazakhstan from participation in development of national oil and gas sector

VISION

«KazMunayGas» is a highly effective oil-and-gas company of the international class

ABOUT THE COMPANY

THE FOLLOWING WERE DETERMINED AS THE MAIN SUBJECT OF KMG'S ACTIVITY:

- PARTICIPATION IN IMPLEMENTATION OF THE UNIFORM STATE POLICY IN THE OIL AND GAS SECTOR
- ENSURING OF EFFECTIVE AND RATIONAL DEVELOPMENT OF OIL AND GAS RESOURCES OF THE REPUBLIC
- PARTICIPATION IN THE DEVELOPMENT OF THE STRATEGY OF USE, REHABILITATION AND FURTHER INCREASE OF RESOURCES OF OIL AND GAS
- REPRESENTATION OF THE STATE INTERESTS IN CONTRACTS WITH THE CONTRACTORS CARRYING OUT OIL AND GAS OPERATIONS, BY MEANS OF OBLIGATORY INDIVIDUAL PARTICIPATION IN CONTRACTS
- PARTICIPATION IN ORGANIZATION OF TENDERS FOR OIL AND GAS OPERATIONS ON THE TERRITORY OF THE REPUBLIC OF KAZAKHSTAN
- CORPORATE MANAGEMENT AND MONITORING ON ISSUES OF EXPLORATION, DEVELOPMENT, PRODUCTION, PROCESSING, IMPLEMENTATION, TRANSPORTATION OF HYDROCARBONS, DESIGNING, BUILDING, OPERATING OF OIL AND GAS PIPELINES AND INFRASTRUCTURE
- PARTICIPATION IN INTERNAL AND INTERNATIONAL PROJECTS OF THE REPUBLIC OF KAZAKHSTAN IN IMPLEMENTATION OF OIL AND GAS OPERATIONS ACCORDING TO THE PROCEDURE ESTABLISHED BY THE LEGISLATION



ABOUT THE COMPANY

National Company “KazMunayGas” (KMG) is a Kazakhstan national operator in exploration, production, processing and transportation of hydrocarbons representing the interests of the State in the oil-and-gas sector of Kazakhstan. 100 percent of shares belong to the JSC “National Welfare Fund “Samruk-Kazyna”.

Mission

Ensuring of the maximal benefits for the Republic of Kazakhstan from participation in development of national oil and gas sector

Vision

JSC «KazMunayGas» is a highly effective oil-and-gas company of the international class.

JSC NC «KazMunayGas» was created by the merger of the National oil and gas company «KazakhOil» and National company «Transport of oil and gas» on the basis of the Decree of the President of the Republic of Kazakhstan dated February 20, 2002 № 811 «On the Measures to Further Secure the Government Interests in the Oil and Gas Sector of the Country's Economy». The following were determined as the main

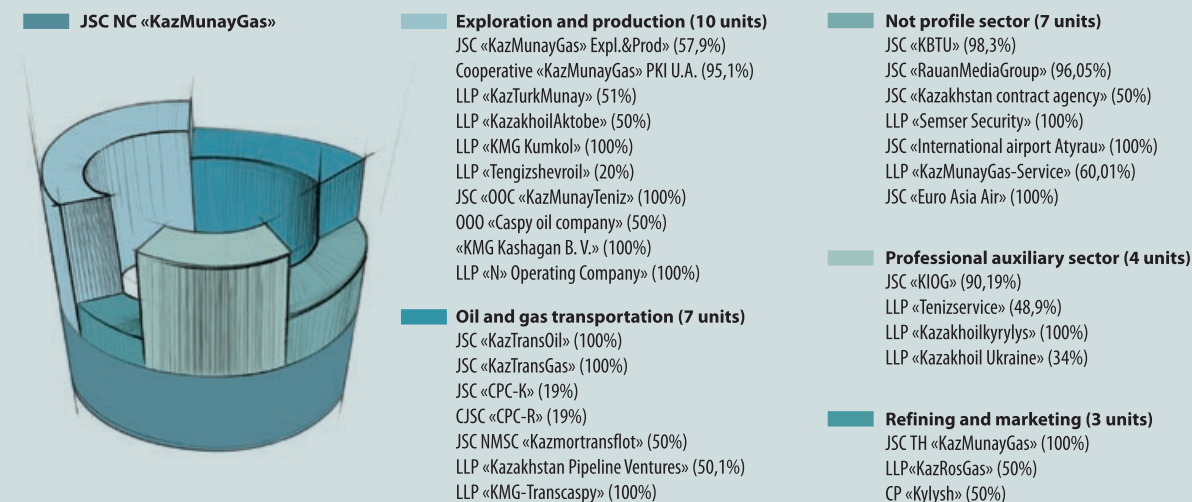
subject of KMG's activity:

- participation in implementation of the uniform state policy in the oil and gas sector;
- ensuring of effective and rational development of oil and gas resources of the republic;
- participation in the development of the strategy of use, rehabilitation and further increase of resources of oil and gas;
- representation of the state interests in contracts with the contractors carrying out oil and gas operations, by means of obligatory individual participation in contracts;
- participation in organization of tenders for oil and gas operations on the territory of the Republic of Kazakhstan;
- corporate management and monitoring on issues of exploration, development, production,

processing, sales, transportation of hydrocarbons, designing, building, operating of oil and gas pipelines and infrastructure;

- participation in internal and international projects of the Republic of Kazakhstan in implementation of oil and gas operations according to the procedure established by the legislation.

NC «KazMunayGas» is a vertically integrated oil and gas company which carries out exploration, production, transportation, refining of hydrocarbon raw material, marketing and sale operations, services. KMG takes the leading positions in the in the oil and gas sector of the country, ensuring one quarter of oil production, 80 % of oil transportation, practically all volume of gas transportation, and also 50 % of oil processing in Kazakhstan.



Structure of assets of JSC NC “KazMunayGas” as of December 31, 2008

MAIN FINANCIAL INDICATORS

	mln.tenge		
	2008	2007	2008 / 2007
Returns, total including:	2 682 602	1 482 906	181%
Profit from production sales and service rendering	2 537 391	1 414 326	179%
Expenditures, total including:	2 065 404	905 167	228,2%
Cost of goods sold and services rendered	1 385 985	643 343	215%
Expenditures on corporate income tax (including excess profit tax)	254 062	271 079	93,7%
Total income	292 680	292 093	100,2%

MAIN INDUSTRIAL INDICATORS

	2008	2007	2006
Oil production and gas condensate, th. tons	18 051 ¹	16 690	12 886 ²
Gas production ³ , mln m ³	3 786	3 532	3 224
Oil transportation by mains ⁴ , mln tons	60,65	50,8	46,85
Marine oil transportation ⁵ , '000 tons	2 869	2 280	2 424
TGas transportation by gas mains, bn m3	116,7	114,2	121,9
Oil processing, th. tons	10 316	4 712 ⁶	3 746
Oil A, B, C1 reserves (proven) as of year-end ⁷ , mln tons	701,1	611,3	604,8
Remaining reserves of natural gas A, B, C ₁ ⁸ as of the end-year, bn m ³	69,3	62,4	52,7
Average headcount of staff as of 31 December, persons	70 121	52 829	33 566

¹ Consolidated production volume including the share of «PetroKazakhstan» in oil production.

² Net of «KazTransGas's» gas condensate production and «Kazgermunay's» and «PetroKazakhstan's» shares in oil production.

³ Natural and associated gas. Includes «KMG» EP's and «Kazgermunay's» volumes.

⁴ Includes the oil transportation volumes of JSC «KazTransOil» by mains and transportation volumes by JSC «North-western pipeline company «MunayTas» and LLP «Kazakhstan-China Pipeline».

⁵ With consideration of 50-% participation in NMSC «KazMorTransFlot».

⁶ Consolidated indicator – with consideration of the processing volume of the Shymkent Refinery and acquisition in July 2007 of 49,72% share.

⁷ Consolidated proven oil reserves of JSC NC «KazMunayGas», including the shares in «KMG» EP, «Kazakhoil-Aktobe», TCO, AgipKCO, «PetroKazakhstan», «KazakhstanMunay», «KarazhanbasMunay».

⁸ Consolidated remaining recoverable reserves of natural gas of JSC NC «KazMunayGas», including free gas and gas of the gas-cap.



STRUCTURE OF ASSETS OF JSC NC «KAZMUNAYGAS» as of December 31, 2008

ASSETS OF THE AFFILIATED AND ASSOCIATED COMPANIES OF THE JSC NC «KAZMUNAYGAS»

Organization	KMG NC's Equity, %	Subsidiary and Dependent Organizations	Equity, %
KazMunayGas EP JSC	57,9	Embasauletkurylys LLP	100
		CEKB LLP	100
		Akniyet-Emba LLP	100
		Embaenergomunay LLP	100
		Embaokuortalygy LLP	100
		KRUZ LLP	100
		Zhondeu LLP	100
		Munayenergosservis LLP	51
		Ken-Kurylysservis LLP	100
		Gas-Service LLP	55
		Sharaina LLP	100
		Ozen-Yeles LLP	100
		KazGPP LLP	100
		UDTV LLP	100
		KazMunayGas-Service LLP	39,99
		KazgerMunay JV LLP	50
		KING JSC	9,80
		Kazakhstan Petrochemical Industries JSC	50
		Munayshy Holdings Limited	100
		KMG EP NETHERLANDS ENERGY COÖPERATIEF U.A.	95,1
		Munayshy Finance B.V.	100
		Atyrau Balyk JSC	0,1089
KazMunayTeniz OOC JSC	100	Tyub Karagan Operating Company B.V. Branch	50
		Kurmangazy Petroleum LLP	100
		Atash Company LLP	50
		Caspi Meruerty Operating Company B.V. Branch	40
		Teniz Burgylau LLP	100
		Zhambai LLP	50
		Caspi Development Centre LLP	6,8
KazTransGas JSC	100	KazTransOil-Service JSC	100
		Asian Gas Pipeline LLP	50
		KazTransGas AG Company	50
		KyrKazGas OsOO	50
		Intergas International B.V.	100
		KazTransGas-Aimak JSC	100
		KazTransGas-LNG LLP	100
		Amangeldy Gas LLP	100
		Intergas Finance B.V.	100

CONTINUED

ASSETS OF THE AFFILIATED AND ASSOCIATED COMPANIES OF THE JSC NC «KAZMUNAYGAS»

Organization	KMG NC's Equity, %	Subsidiary and Dependent Organizations	Equity, %
		Almaty Power Consolidated JSC	100
		KazTransGas-Almaty JSC	100
		KazTransGas-Tbilisi OOO	100
		Samruk-Energo JSC	6,58
KazTransOil JSC	100	KazTransOil-Service JSC	100
		"MunayGas" North-Western Pipeline Company JSC	51
		Kazakhstan-China Pipeline LLP	50
		"Accumulative Pension Fund of Halyk Bank of Kazakhstan" JSC	9,992
		Batumi Capital Partners (Cyprus)	50
		Batumi Industrial Holdings (Cyprus)	100
Kazmorttransflot NMSC JSC	50	Kazmorttransflot LTD	100
		Teniz Service LLP	0,001
		Mangistau Oblast Ship-Repair Yard LLP	30
KazMunayGas TH JSC	100	KMG-Astana LLP (Astana)	100
		KMG-Alatau LLP (Almaty)	100
		KMG-Zhaiyk LLP (Atyrau)	100
		Kazkor-Transservice JSC (Aktau)	12,87
		TransMunay OOO (Kiev)	50
		UHRDC PE (Astana)	9,9
		Karamai plus LLP (Almaty)	100
		TH KazMunayGas N.V. (Amsterdam)	100
		KMG PKOP Finance B.V.	100
		KMG PKOP Investment B.V.	100
		Atyrau Refinery LLP	99,17321
		The Rompetrol Group	75
KazRosGas LLP	50	"KazRosGaz" AG	100
"Kazakhoil-Ukraina" LLP	34,04	"Ukrnefteprodukt" TH" LLP	99,996
KMG-Service LLP	60,01	Borzhomi-Likani OOO	100
		"KMGS-Georgia" OOO	100
		Aisir Tourism ve Inshaat anonym Shirketi JSC	75
		Peska Tourism ve Yatyrym anonym Shirketi JSC	75
		KMGS-Kurylys LLP	100
		KazMunayGasService-Compass LLP	40
		AstanaEnergoService JSC	0,1



CONTINUED
ASSETS OF THE AFFILIATED AND ASSOCIATED COMPANIES OF THE JSC NC «KAZMUNAYGAS»

Organization	KMG NC's Equity, %	Subsidiary and Dependent Organizations	Equity, %
Kazakh-British Technical University JSC	98,33	"Research and Development Center of the KBTU" LLP	100
		KBTU Business School LLP	100
		"Education and Research Center of New Technology" LLP	25
"Kazakh Institute of Oil and Gas" JSC	90,1925	"NIPI KaspiMunaygas" JSC	100
		KazNIPIMunaygas JSC	100
		"Petrodata Kazakhstan" JSC	50
		Naukograd LLP	100
		Technip-Kazakhstan JV LLP	50
Rauan Media Group JSC	96,05	"Rauan" Publishing House LLP	100
		New Television-Kazakhstan LLP	100
		Izvestiya-Kazakhstan LLP	80
		"NS" Television and Radio Broadcasting Company-Nationwide Network LLP	100
		"Television of the City of Astana" LLP	40
KMG-Kumkol LLP	100		
"International Airport of Atyrau" JSC	100		
Kazakhoil-Aktobe LLP	50		
KazakhturkMunay LLP	51		
Kashagan b.v. LLC	100		
Kazakhstan Pipeline Ventures LLC	50,1		
Teniz Service LLP	48,99		
Kazakhoilkurylys LLP	100	"Kazakhoil Bouygues Offshore" JV LLP	50
CPC-K JSC	19		
CPC-R CJSC	19		
Kazakhstan Contract Agency JSC	50		
Caspian Oil-and-gas Company OOO	50		
Tengizchevroil JV LLP	20	Tengizchevroil Finance Company	100
"Kilysh" Commercial Partnership	50		
Cooperative KazMunaiGaz PKI U.A.	95,1	KMG PKI Finance B.V.	100
		KazMunaiGaz Finance Sub B.V.	100
		KazMunaiGaz Finance B.V.	100
		Kazakhstan Energy Reinsurance Company Ltd	100
"Euro-Asia Air" JSC	100		
"Semser Security" LLP	100	"Semser Ort Sondirushi" LLP	100
"N" Operating Company" LLP	100		
KMG-Transcaspi LLP	100		

STRATEGIC OBJECTIVES

Strategic objectives in 2008 according to the Development Strategy of JSC NC "KazMunayGas":

- Increase in the company's value
- Improvement of the financial-and-economic performance
- Reserves growth
- Output growth
- Ensuring the strategic interest of the state
- Increase of the economic benefit from implementation of major petroleum project (Tengiz Project, North-Caspian Project, Karachaganak Project)
- Development of the transportation capacity
- Assistance to development of petrochemical ventures with high added value
- Building a highly efficient oil-and-gas company
- Improvement of the company's governance system

INTEGRATED MANAGEMENT SYSTEM

In compliance with the Development Strategy of the Republic of Kazakhstan up to 2030, and the Work Plan for Accelerated Transition of the Kazakh Ventures to the International Standards (approved by ordinance No.28 dated 6 February 2004 of the RoK's Prime Minister), a governance system in the sphere of quality, environmental protection, health and safety up to the ISO 9001 and ISO 14001 international standards and the OHSAS 18001 specification were implemented and certified in JSC NC «KazMunayGas».

Since the beginning of the works for creation of the integrated management system (IMS), the system of cooperation between the Company's structural units has been improved, their roles and responsibilities more clearly delimited, a uniform procedure for development, coordination and approval of the internal documents has been established. There is a positive trend of rising the level of the corporate culture and ideology in the sphere of quality, environmental protection, health and safety. Currently, opera-

tion of the IMS allows increasing the efficiency of the Company's corporate governance.

The IMS has been implemented in almost every subsidiary of the Company. «KazMunayGas» performs monitoring of implementation and operations of the IMS in them on a quarterly basis. Last year monitoring of the IMS almost in a half of the subsidiaries in the structure of the «KazMunayGas» group of companies was performed. As of 1 January 2009, 9 subsidiaries, along with «KazMunayGas», have been certified to three standards. 5 entities received compliance certificates for the quality management systems in compliance with the requirements of the ISO 9001 standard.

Audit of IMS is conducted on an annual basis. During audits by the independent certification body (Intercertifica, TUV Thuringen), compliance of the IMS of JSC NC «KazMunayGas» and its subsidiaries to the said standards is continuously proved. A considerable achievement of operation of the subsidiaries' management

systems last year was winning by JSC «KazTransOil» of the RoK's Presidents award «For Achievements in Quality» in the «Best Business Rendering Services» nomination. Winning this competition has proven not only compliance of the management system with the requirements of the global standards, but also recognition of «KazTransOil's» best practices in this sphere.





BOARD OF DIRECTORS OF JSC NC «KAZMUNAYGAS» as of 31 December 2008



**Kairat
Nematovich
KELIMBETOV**

**Chairman of the Board
of Directors of JSC NC
«KazMunayGas»**

Since mid-90s in the governmental economic authorities of the Republic of Kazakhstan – Senior Expert of the Supreme Economic Council under the President, Deputy Director, Director of the Agency for Strategic Planning, Head of the Social-and Economic Analysis Department of the President's Administration, Chairman of the Agency for Strategic Planning, Senior Vice Minister of Finance, Minister of Economy and Budget Planning. In 2006-2008 – Chairman of the Management Board of the «Kazyna» Sustainable Development Fund JSC. Head of the President's Administration. No fees are received.



**Bolat
Uralovich
AKCHULAKOV**

**Managing Director of the
«Samruk-Kazyna»
Sovereign Welfare Fund JSC**

Has track record in the banking sphere: worked as an Economist in AlemBank, Director of a department in the Central-Asian Bank for Cooperation and Development. Had held the position of Principal Expert, Manager, and Deputy Director of the TCO's Assets Management Department of the «Kazakhoil» NOC. Has worked as an Analyst and Chief Financial Officer in Commonwealth & British Services Ltd. From 2003 to 2006 worked as an Executive Director of JSC NC «KazMunayGas». Born in 1971. No fees are received.



**Galiaussat
Kairbekovich
KESHUBAYEV**

**Director, Oil-and-Gas
Assets Management,
«Samruk-Kazyna» Sovereign Welfare Fund JSC**

He began his work in the oil and gas sphere in 1972 in the position of a Foreman of the «Uzenneft» Oil and Gas Production Department. Has held executive posts in the Ministry of Energy and Fuel Resources, RoK's Ministry of Oil Industry, «Kazakhoil» National Oil and Gas Company. Worked as Deputy Head of the RoK's Prime Minister Office, held executive posts in JSC NC «KazMunayGas». At different times he headed work and was a member of the boards of directors of Companies «UzenMunaygas», JV «Arman», «Kazakhoil», «National Savings Bank of Kazakhstan», «Kazakhtelecom». Born in 1950. No fees are received.



**Peter William
LANE**

Independent Director

Chief Executive Officer, The Exchange Insurance Company Ltd., London (insurance company in the sphere of real estate), Executive Chairman, Campi&Co., London (a business development company). Insurance business: business development of the Lloyd insurer in the UK, USA and Japan. Oil business: global development of the Shell brand, development of interests and investments of the company's shareholders in the Caribbean and South America, restructuring of the marketing-and-sales operations. Economic Adviser specializing in rendering services in a developing business, insurance, business restructuring. Receives a fixed fee at the rate of 100,000 US dollars per annum.



**Frank S.V.
KUIJLAARS**

Independent Director

He is holding the position of the Executive Vice President, Managing Director for Energy and Resources, Global Head, Oil and Gas, ABN AMRO. Has worked in the ABN AMRO system since 1984. Has been a member of the Industrial Advisory Panel of the Energy Charter of the European Union. He has led the energy division of ABN AMRO for the Central Europe, Middle East, and Africa. Has worked as a Country Manager in Argentina and Russia. Born in 1958. Receives a fixed fee at the rate of 100,000 US dollars per annum.



**Kaigeldy
Maksutovich
KABYLDIN**

**President (Chairman of the
Management Board)
of JSC NC «KazMunayGas»**

Vice Chairman of the Management Board of «Samruk» Kazakhstan Holding Company for Assets Management JSC. Has held the position of Managing Director and Vice President of the «KazMunayGas» National company. Has worked as Vice President of the «KazTransOil» National Oil Transportation Company, First Deputy General Director of the «Transport of Oil and Gas» National company. Worked in the RoK's Ministry of Energy and Fuel Resources, «Transneft» system of the USSR's Ministry of Oil Industry. Born in 1953. No fees are received.

COMMITTEES OF THE BOARD OF DIRECTORS

Audit Committee under the Board of Directors

Chairman of the Committee Frank S.V. KUIJLAARS

Members of the Committee: Peter LANE, Andrei KUSKE, Kaldybai Un-aibayevich TULEKESHEV

Strategic Planning Committee under the Board of Directors

Chairman of the Committee Galiaussat Kairbekovich KESHUBAYEV

Members of the Committee: Frank S.V. KUIJLAARS, Peter LANE

Appointment Committee under the Board of Directors

Chairman of the Committee Bolat Uralovich AKCHULAKOV

Members of the Committee: Kairat Nematovich KELIMBETOV, Peter LANE, Frank S.V. KUIJLAARS

Remuneration Committee under the Board of Directors

Chairman of the Committee Kairat Nematovich KELIMBETOV

Members of the Committee: Peter LANE, Frank S.V. KUIJLAARS

MANAGEMENT BOARD OF JSC NC «KAZMUNAYGAS»

as of 31 December 2008



**Kaigeldy
Maksutovich
KABYLDIN**

President (Chairman of the
Management Board)
of JSC NC «KazMunayGas»



**Maksat Bagitovich
IDENOV**

Senior Vice President

Has worked in the «Munaygas» State Holding Company, Ministry of Oil and Gas Industry of the Republic of Kazakhstan. He has an extensive track record in the oil and gas sector and financial sphere. Has held the position of Regional Vice President in Shell. Has worked as the Adviser to the President of the Republic of Kazakhstan on Caspian Energy and Export Oil and Gas Pipelines.



**Daniyar
Amirbayevich
BERLIBAYEV**

Vice President, Transportation
and Refining

He has been working in the «KazMunayGas» companies' group since 1997. Has held executive posts in the «KazTransOil» NOTC, JSC «KazTransGas», JSC NC «KazMunayGas», JSC NMSC «Kazmortransflot». Has worked as General Director of JSC «Intergas Central Asia».



**Kenzhebek
Niyazovich
IBRASHEV**

Vice President, Upstream

Has been working in the oil and gas sector since 1975. He has been through every stage of professional development in the oil and gas business, beginning his career as Assistant Driller. Over a number of years, he has held major posts in production associations «Embaneft», «Guryevneftegasgeologiya», «KazakhstanCaspianShelf». Has held the position of General Director of JSC OOC «KazMunayTeniz».



**Tolegen
Jumadovich
BOZZHANOV**

Vice President, Economy and
Finance

Has worked as General Director of JSC «Trade House «KazMunayGas». He has held the positions of Executive Director of JSC NC «KazMunayGas», Deputy General Director of «Kar-Tel» LLP, Managing Director of the Kazkommertsecurities OJSC.





OIL AND GAS UPSTREAM

IN 2008 WE ACHIEVED CONSIDERABLE GROWTH OF THE OIL RESOURCES, AMONG OTHER THINGS, DUE TO THE ACQUISITION OF INTERESTS IN MAJOR OIL-AND-GAS PROJECTS ON THE TERRITORY OF KAZAKHSTAN. THE CONSOLIDATED PROVEN RESERVES OF OIL AND GAS AS OF DECEMBER 31, 2008 AMOUNTED, RESPECTIVELY, TO 701.1 MILLION TONS AND 69.3 BILLION CUBIC METERS.



RESERVES

In 2008 we achieved considerable growth of the oil resources, among other things, due to the acquisition of interests in major oil-and-gas projects on the territory of Kazakhstan. The consolidated proven reserves of oil and gas as of December 31, 2008 amounted, respectively, to 701.1 million tons and 69.3 billion cubic meters.

A, B, C₁¹ Category Consolidated (Proven) Hydrocarbon Reserves of the "KazMunayGas" Group of Companies

	As of 31 Dec 2008	Reconfir- mation ²	Explora- tion	Reap- praisal	Purchase	Produc- tion	As of 31 Dec 2008
Oil, mln. tons	611,3		35,638	7,73	64,533	- 18,064	701,1
Gas condensate, mln. tons	4,21		-	0,72	-	- 0,04	4,9
Natural Gas, bln. m ³	62,4		0,095	7,699	-	- 0,922	69,3

¹ Calculated according to the Instruction on Classification of the Oil and Gas Fields Reserves, Oil and Natural Hydrocarbon Gas Prospective and Forecast Resources (order No. 283 dated 27 October 2005 of the Minister of Energy and Mineral Resources of the Republic of Kazakhstan).

² Reconfirmation of the reserves of the deposits by the State Committee of the Republic of Kazakhstan.

OIL PRODUCTION

In 2008 the consolidated oil production of the «KazMunayGas» group was 18,051 million tons, which is 7.5 percent above the 2007 figure (16,690 thousand tons). The considerable increase in the production volumes became

possible due to the active acquisition of interests in Kazakh producing assets. At present, «KazMunayGas» has participating interest in «Kazgermunay» (50%), «PetroKazakhstan» (33%) and CITIC Canada Energy Limited (CCEL) (50%).

In the group of «KazMunayGas» companies, «KazMunayGas» Exploration Production» JSC and LLP JV «Tengizchevroil» account for the bulk of oil production.

Consolidated Oil and Gas Condensate Production in the Entities with Participation of JSC NC «KazMunayGas»

(thousand tons)

	2008	2007	2006	2005
KazMunayGas Exploration Production	9 486	9 548	9 551	9 364
Tengizchevroil (20%)	3 455	2 786	2 664	2 712
PetroKazakhstan (33%)	2 109	2 238	-	-
Kazgermunay (50%)	1 570	1 527	-	-
Karazhanbasmunay (50%)	914	-	-	-
Kazakhoil-Aktobe (50%)	380	435	509	639
Kazakhturkmunay (51%)	111	129	163	205
KazTransGas (Amangeldy Gas)	26	26	-	-
TOTAL	18 051	16 689	12 887	12 920

«KMG» EP is developing 46 onshore oil and gas fields in Western Kazakhstan. The Company's key business assets are its two production branches: «Uzenmunaygas» (UMG) and «Embamunaygas» (EMG).

As a result of transitioning to new technology and revision of the development plans, the

periods have been extended and the efficiency of production increased at the assets developed by the main producing enterprise of the «KazMunayGas» group – «KazMunayGas» Exploration Production» («KMG» EP). Hydraulic fracturing is one of the most efficient methods of oil well stimulation, ensuring not only stabilization of

oil production, but also considerable increase in oil production at the Uzen deposit over almost two years.

Results of Applying the HF Technology at the Deposits of JSC NC «KazMunayGas»

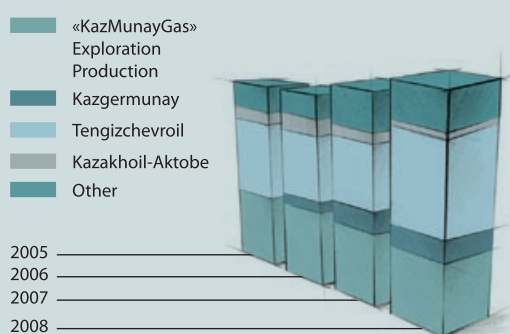
	2008	2007	2006	2005
Number of Jobs	241	210	210	235
Incremental Ultimate Recovery by HF, thousand tons	355,3	434,6	360,3	524,5



GAS PRODUCTION

In 2008 the consolidated production of natural and associated gas in the «KazMunayGas» group of companies was 3.78 bcm, that is 6.7 percent above the 2007 volumes (3.5 bcm). The main gas-producing assets in the «KazMunayGas» group are the «KazMunayGas» Exploration Production» JSC and «Tengizchevroil» JV LLP.

Gas Production in Companies with Participation of JSC NC «KazMunayGas», mln. m³



	2008	2007	2006	2005
KazMunayGas Exploration Production	1 018	1 098	1 181	1 242
Kazgermunay	262	276	118	-
Tengizchevroil	1 798	1 445	1 382	1 464
Kazakhoil-Aktobe	107	140	224	199
Other	601	573	319	357
TOTAL	3 786	3 532	3 224	3 262

As part of developing its own production of natural gas, and for the purpose of lowering the dependence of the southern regions of Kazakhstan on the seasonal disruptions in deliveries of natural gas from Uzbekistan and its unauthorized siphoning on the territory of Kyrgyzstan, development of the Amangeldy gas-condensate deposit was begun using the resources of the «Amangeldy Gas» LLP (a wholly-owned subsidiary of the «KazTransGas» JSC).

The Amangeldy gas-condensate deposit was discovered in 1975. It is located 170 kilometres

to the north of the city of Taraz (administrative centre of Zhambyl oblast on the south of Kazakhstan). The approved in-place reserves recalculated as of 1 January 2006 are: gas - 25,019 Mcm, gas-condensate - 2,152 thousand tons. The first supply of gas to the consumers in Taraz began in 2003, the accumulated production of gas as of 1/1/2009 was 1,446 Mcm, of condensate - 128,193 tons.

Totally, as of the end of 2008, twenty-five producing wells have been commissioned, the well design and the producing reservoir drilling-in

technique optimal for the deposit have been determined. For the wells in which the new technology was applied, the daily gas flow rates amount to more than 80 thousand cubic meters (for the Amangeldy deposit the minimally profitable flow rate is determined in the volume of 5 thousand cubic meters per well daily).



Natural Gas Production at the Amangeldy Field

338 mln. m ³	2008
320 mln. m ³	2007
280 mln. m ³	2006
239 mln. m ³	2005

PARTICIPATION IN MAJOR OIL AND GAS PROJECTS

Tengiz Project

As a representative of the state interests as part of implementing the Tengiz deposit development project, JSC NC «KazMunayGas» is involved into partnerships with foreign contractors through participation in the «Tengizchevroil» LLP joint venture (TCO). TCO was established on 6 April 1993. The license to explore and produce hydrocarbons has been issued for 40 years and will expire in 2033. TCO's core business is exploration, production and sales of hydrocarbon feedstocks from the Tengiz and Koroilevskoye deposit in Atyrau oblast. The Tengiz deposit was discovered in 1979. It is one of the largest in the world. Participants of the «Tengizchevroil» JV LLP as of 31 December 2008 are: Chevron (50 %), ExxonMobil (25 %), JSC NC «KazMunayGas» (20 %), LUKArco (5 %). The total oil production by Tengizchevroil in 2008 was 17.3 million tons. As part of expanding its production capacity, TCO has fully put into operation all the facilities of the Second Generation Plant in September, 2008. The principal objective of the project is increasing the field producing and refining capacity to the level of 25 mln. tons of crude per annum.

Currently, the project of injection of sour gas into the reservoir is underway at the Tengiz deposit that will allow increasing oil production by 3.8 mln. tons per annum. The special feature of the project is the unique technology of re-injecting gas with high hydrogen sulfide content into the reservoir under high pressure and temperature.

North-Caspian Project

The Production Sharing Agreement on the North Caspian Project (PSA) was signed in 1997 with the duration until 2041. Pursuant to the PSA, the contract area of the consortium's drilling works is comprised of four oil-bearing structures: Kashagan, Kalamkas, Aktoty, Kairan, comprised of 11 offshore blocks with the total territory of around 5,600 square kilometres. Development of the deposits of the North-Caspian Project (NCP) is carried out by a consortium of foreign companies comprised of ENI, ExxonMobil, Shell, Total, ConocoPhillips and INPEX. The NCP Exploration Program was fully executed during 1998-2004. After acquisition in 2008 of a 8.33% interest from other participants of the NCP, JSC NC «KazMu-

nayGas» has become a full-fledged participant of the project, representing the interests of the state. Participatory interest structure of the North Caspian PSA: «KazMunayGas», ENI, ExxonMobil, Shell, Total (16.81% each), ConocoPhillips (8.4%), INPEX (7.56%). According to the new operational model, a new company North Caspian Operating Company (NCOC) has been established in the Netherlands, which has assumed its responsibilities as the Operator of the North-Caspian Project.

Currently, implementation of the project of pilot commercial development of the Kashagan deposit is underway. Other discovered deposits are at the stage of appraisal works.

Oil Reserves at the North-Caspian Project Fields, mln.tons

	In-place	Recoverable
Kashagan	4 850	2 023
Kalamkas-more	114	32
South-Western Kashagan	20	6
Aktoty	269	100
Kairan	112	36
TOTAL	5 365	2 197

The Kashagan field discovered in 2000 has become one of the largest world discoveries in the oil and gas industry for the last 30 years. Kashagan is a key point in Kazakhstan's plans to increase the volumes of oil production, and is capable of securing the country a place among the ten largest oil producers in the world.



Karachaganak Project

The Final Production Sharing Agreement (FPSA) on the Karachaganak project was signed between the Government of the Republic of Kazakhstan and an alliance of foreign companies in November, 1997 for the duration of 40 years. The field's reserves are about 1.2 billion tons of liquid hydrocarbons and 1.3 trillion cubic meters of gas.

For the purposes of implementing the Karachaganak Project, the foreign participants have been integrated into consortium Karachaganak

Petroleum Operating B.V. (KPO). Participation interests in the project as of December 31, 2008 are as follows: BG Group – 32.5 %, Eni – 32.5 %, Chevron - 20 %, LUKoil - 15 %.

A resolution of the Government of the Republic of Kazakhstan has determined JSC NC «KazMunayGas» as the Authority for the project, representing the interests of the state, starting from 25 February 2002. KMG does not have a share in this project.

In 2008, production of liquid hydrocarbons by Karachaganak Petroleum Operating was 11.6

million tons and 15.0 billion cubic meters of gas. The volume of gas re-injection was 6.4 bcm or 42.5% of the produced gas volume. The company continues exploring the feasibility of implementing the third stage of the field development contemplating maximization of the liquid hydrocarbons delivery volumes for exports in consideration of the reservoir technical capabilities, export capabilities and economic attractiveness of the project.

GEOLOGIC EXPLORATION PROJECTS ON THE CASPIAN SHELF

Geologic exploration projects in the offshore zone and near-shore areas of the Caspian Sea are one of the priority directions of the Company's development

Apart from participation in the North Caspian project, «KazMunayGas» jointly with foreign companies is carrying out a set of prospecting and research works on other perspective blocks of the Caspian Sea, including Kurmangazy, Zhemchuzhiny, Tuyb-Karagan, Zhambai, Zhambyl, N, Myortvyi Kultuk and other areas. The «KazMunayTeniz» JSC established specifically for carrying out oil operations in the Kazakh part of the Caspian Sea shelf acts as an operator on a great many of offshore projects.

Notable events of the last year are execution by JSC NC «KazMunayGas»:

- with the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan:
 - of the contract for exploration of hydrocarbon feedstocks in the Zhambyl area;
 - of the contract for exploration and production in the Myortvyi Kultuk area;
- of the Agreement on Increasing the Interest of JSC NC «KazMunayGas» in the North-Caspian Project to 16.81% and Changing the Operational Model of the Project;
- of the Joint Operating Agreement on the Myortvyi Kultuk Area with the Caspian Tristar LLP;
- of the Agreement with the Korean Consortium on the Zhambyl Project;
- of the Head of Agreement (HOA) on the N Project with ConocoPhillips Exploration Kazakhstan Ltd. and Energy & Industry Holding Co. (subsidiary Mubadala Development Company);
- of the Agreement on Cooperation in Exploration for Hydrocarbons with BG Group and «KazMunayGas» Exploration Production» JSC.



SERVICE INFRASTRUCTURE

Understanding the importance of the appropriate infrastructure required for servicing offshore oil upstream projects for successful implementation of oil offshore operations, as part of the implementation of the State Program for Development of the Kazakh sector of the Caspian Sea (KSCS), the Company has completed creation of almost every high-priority infrastructure facility determined by the Integrated Plan for Development of the KSCS Coastline.

The Bautino township in the Tyub-Karagan gulf of the Northern part of the Caspian Sea has been determined as the most suitable and convenient site for establishment of the Offshore Oil Operations Support Base. The base is intended for rendering services to vessels, services in reception and offloading of various cargoes, including rock, leasing of warehouses and open sites, preparation of drilling fluids, water bunkering etc.

The Base berth complex for offloading rocks with the capacity of 250 thousand tons of rock per month carries out offloading of stone blocks for construction of artificial islands in the working zone of the Kashagan deposit.

A site has been prepared for waste disposal and burial of sludge from offshore drilling rigs. In 2008 the «Kaz M-I» LLP joint venture was established between the «TenizService» LLP and M-I SWACO – a leading supplier on the market of drilling muds, equipment for drilling waste treatment and disposal, oilfield reagents and tools for borehole cleanout. The principal objective of establishment and operation of the JV is rendering services for supply of drilling muds, waste disposal, supply of equipment and industrial chemicals to the companies and operators carrying out petroleum operations both onshore, and on the shelf.

The Fueling Station for rendering services for filling marine vessels and tank trucks of the companies carrying out offshore oil operations in the KSCS has been built. The station consists of diesel fuel storage tanks, process pipes, equipment, a service motor road, and a break-water with a moorage wall. The total capacity of the tanks is 15 thousand m³. The designed capacity of the station is 140.7 thousand m³ per annum. Signing contracts with Agip KCO and Caspi Meruerty Operating Company for the station's services is anticipated.

On the whole, following the 2008 results, income from rendering services by the Base was received in the amount of 1,431 mln. tenge (168% of the plan), of which those from the berth operation – 328 mln. tenge (100% of the plan), from the site operation – 341 mln. tenge (100% of the plan).

In the meantime, new service infrastructure facilities are developing. The project for construction of a small vessel repair and overhaul plant in the Bautino township with 30% participation of the «Kazmortransflot» NMSC JSC is being implemented. This plant is designed for servicing the vessels operating in the Kazakh sector of the Caspian Sea and will ensure simultaneous overhaul of up to 8 units (length – up to 60 m, width – 16.5 m, weight – up to 600 tons), and routine

(inter-run) repair of all types of vessels.

Actions are taken on the project for construction of the North-Caspian Oil Spills Response Environmental Base (NCOSREB), which is on the list of the priority investment projects of JSC NC «KazMunayGas». To date, the construction site of the base has been determined jointly with the akimat of Atyrau oblast, ministries and departments concerned, the procedure for granting and registration of the rights to the land parcels for the base is being determined.

IMPLEMENTATION OF PROJECT «CONSTRUCTION OF THE PRODUCTION SITE FOR THE MACDERMOTT METALWORK PLANT» BEGAN IN 2008 IN THE PROXIMITY OF THE OFFSHORE OIL OPERATIONS SUPPORT BASE IN THE BAUTINO TOWNSHIP







REFINING

IN 2008 OIL REFINING IN THE COMPANY WAS 10.3 MILLION TONS, THAT IS IN COMPARISON WITH 4.7 MILLION TONS IN 2007. SUCH SUBSTANTIAL GROWTH BECAME POSSIBLE DUE TO PURCHASE OF PARTICIPATION SHARE IN THE ROMPETROL GROUP, TRG (ROMANIA), THAT OWNS "PERTROMEDIA" OIL REFINERY IN ROMANIA.



OIL REFINING

In 2008 oil refining in the company was 10.3 million tons, that is in comparison with 4.7 million tons in 2007. Such substantial growth became possible due to purchase of participation share in the Rompetrol Group, TRG (Romania), that owns “Pertromedia” oil refinery in Romania.

Oil refining volume in the refineries of the “KazMunayGas” group

	thousand tons			
	2008	2007	2006	2005
Atyrau Refinery	3 925	3 701	3 746	3 514
Shymkent Refinery	2 154	1 011 ¹	-	-
Petromedia Refinery	4 237	-	-	-
TOTAL	10 316	4 712	3 746	3 514

¹ The consolidated indicator with account of interest of 49.72 % and volume of refining in Shymkent Refinery for the period from the moment of purchase in July, 2007.

Atyrau Refinery

Atyrau Refinery (AR) was put into operation in 1945. Capacity of oil refining is 5 million tons per year. In 2006 the first stage of the project of reconstruction of the refinery after the full modernization and reconstruction of the refinery is completed as a result of which the depth of oil

refining has increased from 57 up to 61%, the sulphur content in gasoline has substantially decreased from 1.000 ppm to 30 ppm, in diesel fuel from 2.000 ppm to 50 ppm, content of mineral oil in effluents from 205 thousand tons to 154 thousand tons per year, water consumption from Ural river from 99,500 thousand cubic me-

ters per year to 3,500 thousand cubic meters per year. The refinery produces petroleum products of 16 names. In 2008 AR's share in total amount of oil refining in Kazakhstan was 29 %.

Production of main petroleum products

	thousand tons			
	2008	2007	2006	2005
Gasoline	493	470	493	509
Diesel fuel	1 175	1 019	995	958
Aviation kerosine	47	21	5	21
Fuel oil	1 566	1 096	1 343	1 345
Other products	330	747	569	466
TOTAL	3 611	3 353	3 405	3 299



Within the frame of the second stage of reconstruction of AR the following projects shall be realized:

- construction of the complex on aromatic hydrocarbons manufacture is aimed on improvement of ecological parameters of automobile gasoline due to benzene and aromatic hydrocarbons extraction. Received aromatic hydrocarbons (benzene and paraxylene) are supposed to be used as base petrochemical raw material for

the project «Petrochemical complex on the basis of benzene and paraxylene»;

- reconstruction of the vacuum block of the CDU- ADU- 3 unit and delayed cokers, shall allow to increase primary and secondary processing, the depth of refining up to 72 %, and also production of additional volumes of target - oriented petroleum products with the added value.

- The project for construction of the complex for deep oil refining which will allow to increase the depth of refining up to 82 % with the subsequent refining of residual heavy petroleum products to high-quality motor fuel, that will correspond to Euro 3 and Euro 4 standard levels will become the third stage.



Shymkent Refinery

Shymkent Refinery was put into operation in 1985. Shymkent Refinery is controlled by LLP

«PetroKazakhstan Oil Products» (PKOP). Since July, 2007, 49.72 % belongs to JSC «Trade House «KazMunayGas». Capacity of refining is 5.25 mil-

lion tons per year. In 2008 share of PKOP in full volume of oil refining in Kazakhstan is 31.8 %.

Production of main petroleum products

	thousand tons			
	2008	2007	2006	2005
Gasoline	843	853	837	843
Diesel fuel	1 408	1 381	1 287	1 276
Aviation kerosene	275	159	183	133
Fuel oil	635	552	565	767
Other products	886	853	905	656
TOTAL	4 047	3 798	3 777	3 675

The project of reconstruction is realized within the frame of the development of Shymkent Refinery, the primary objectives of which are the following: increasing of oil refining depth up to 85 %, improvement of the quality of ecological parameters of engine fuel up to Euro - 3, 4 standard level.

THE INTERNATIONAL ACTIVITY IN OIL REFINING SECTOR

Acquisition of 75 % of Romanian oil and gas company The Rompetrol Group (TRG) allowed to get access to two Romanian oil refineries, as well as extensive retail network of gasoline stations in Europe

Rompetrol consists of two oil refineries (Petromedia and Vega) and 902 retail stations in Europe countries (Romania, France, Spain, Moldova, Ukraine, Albania, Georgia). Rompetrol supplies oil products to Turkey, Ukraine, Croatia, Moldova, as well as has the long – term contract for five years on tanker lease. Rompetrol is the leading producer of polyethylene and polypropylene both on the domestic market of

Romania, and on the market of the East Europe. The head office of the company is located in Netherlands, the majority of operations and activities are in France, Romania, Spain and Southeast Europe. For today more than eight thousand highly skilled employees are working in 13 countries of the world in the structure of Rompetrol.

Petromedia Refinery is the key asset of TRG, the largest and integrated oil plant in Romania. The estimated capacity of oil refining plant is 5.0 million tons per year, that is 29% of all oil refining capacity in Romania. The plant can process heavy crude with the high sulphur content. The plant was constructed in 1974 -1979, modernized in the 90 – th and in 2005, located on the coast of the Black Sea, it is 225

kilometers from Bucharest and 20 kilometers from the largest port in Romania – Constanta. It has one of the highest Nelson complexity factors in Mediterranean Europe – 11.2.

In 2008 4.24 million tons of crude oil was processed in the refinery, this refining volume is a record for all time of the refinery's operation. The output of production according to the standards of the European Union 2009 (Euro standard 5) – diesel fuel 100 %, gasoline 40% has been implemented.

Vega Refinery is a specialized plant, which is located on the 70 ha not far from Bucharest in the city of Ploesti. It was constructed in 1905, modernized in the 70s. The estimated capacity of oil refining is 500 thousand tons per year. Vega is specializing in the alternative types of feed (naphta, heavy hydrocarbon fraction, fuel oil). Technologies of the refinery allow producing an extensive range of dissolvants in accordance with specifications, various bitumens and other specialized production. Production is used in chemical, petrochemical, rubber, textile and shoes industry.

Petrochemical PCC – petrochemical complex Petrochemical has been integrated with the Petromidia Refinery. The existing facilities of the complex produce polypropylene, low-pressure and high-pressure polyethylene of various brands. The source of feed is propylene produced in the Petromidia Refinery and purchased ethylene. Within the framework of joint activity JSC NC «KazMunayGas» is interested in creation of a

vertically integrated company of the international level, implementing both exploration, and oil refining, relying on TRG's experience on the European market of oil products.

«KazMunayGas» and TRG intend to carry out cooperation in the sphere of services in oil production and refining, services on industrial objects of NC «KazMunayGas», involve highly skilled professionals.

The priority directions of the development of TRG are the extension of the retail chain for sales of oil products and implementation of the Petromidia Upgrade project (Project - 2010) with starting of a new hydrotreating facility. Implementation of this project allows TRG company to comply with new environmental regulations of the European Union for motor fuels effected in the countries of the European Union since 1 January 2009 (Euro 5) and to achieve well-balanced operation of the process units with the maximum capacity up to 5.0 million tons per year.

Main TRG events during 2008:

1. Shipping of the first lot of fuel-oil «Euro - 5» in the amount of 3,000 tons and RON95 gasoline of Euro-5 standard in the amount of 4,600 tons for French oil company «Total» in Turkey from its own port 9A (port Midia). In the future the Euro-5 standard fuel will be supplied primarily to the own retail stations of the Rompetrol Group in Romania, Bulgaria, and other European countries.
2. The number of service stations has increased by 72 units.
3. Implementation of the investment program

for construction of a tanker loading unit next to the Petromidia Refinery completed.

4. TRG became a member of CONCAWE (The Oil Companies' European Organization for Environmental and Health Protection).

JSC NC «KazMunayGas» is considering the opportunity of construction of a refinery with an integrated petrochemical complex with the capacity of 15 million tons per year in Ceyhan on the Mediterranean coast of Turkey.



ROMPETROL IS THE LEADING PRODUCER OF POLYETHYLENE AND POLYPROPYLENE BOTH ON THE DOMESTIC MARKET OF ROMANIA, AND ON THE MARKET OF THE EAST EUROPE



ACTIVITY IN GAS PROCESSING

In accordance with the Agreement between the Government of the Republic of Kazakhstan and the Government of the Russian Federation on cooperation in establishing a commercial partnership on the basis of the Orenburg Gas-Processing Plant (OGPP) dated 3 October 2006, in 2008 JSC NC «KazMunayGas» and OJSC «GazProm» continued working on the project of creating a joint venture on the basis of OGPP. The objective was provision of mutually profit-

able terms on ensuring efficient processing of the hydrocarbon feedstock of the Orenburg (Russia) and Karachaganak (Kazakhstan) gas-condensate deposits. Evaluation of the property of OGPP transferred to the joint venture, and updating of the feasibility report on upgrade and reconstruction of the plant facilities shall be carried out as part of the design works. The Orenburg Gas-Processing Plant belonging to OJSC «Gazprom» was created on the basis of

the Orenburg gas condensate deposit discovered in 1966. The basic conversion products in OGPP are stripped gas, stable condensate and stable oil, technical sulfur, broad fraction of light hydrocarbons, odorant, liquefied gas, and fuel gas.

PETROCHEMISTRY PROJECTS

One of the major directions of activities of NC «KazMunayGas» is development of petrochemical facilities. Implementation of petrochemical projects will ensure deep processing of hydrocarbon feedstock, create additional production areas for processing of hydrocarbons and give rise to high tech production in the republic, allowing to output competitive products with high added value.

Creation of new petrochemical facilities will have additional multiplier effect, since it will allow creating sectors of economy outputting a wide assortment of the ready consumer goods made from petrochemicals.

Projects of petrochemical production development implemented by the national company is a part of the State Program for Development of the Petrochemical Industry.

First integrated gas chemical complex

The project of the first integrated gas chemical complex is carried out by Kazakhstan Petrochemical Industries (KPI), established by «KazMunayGas» Exploration Production (50 %) and SAT & Co (50 %).

Feedstock for the project will be associated hydrocarbon gas of the Tengiz deposit in the volume of 7.0 billion cubic metres per year. According to the feasibility study, 7.6 billion cubic metres of ethane (13-15%) annually will be

separated from the Tengiz gas and transmitted 200 kilometers by the pipe to station Karabatan (40 kilometers from Atyrau). It is planned to construct 16 major petrochemical facilities and gas-turbine station of 270-300 megawatt on the site (2x3 km). Beginning of construction is planned in 2009, commissioning - in 2013. The cost of the project will be about 6.0 billion US dollars.

Long-term contracts have been signed with the «Tengizchevroil» company on delivery of feedstock for the project – propane and dry gas in accordance with the agreed prices and volumes. On the site of the complex special economic zone «National industrial petrochemical science park» has been established, with the purpose of attracting investments to construction and integrated development of petrochemical facilities on the basis of special administrative, economic, scientific and technical and social conditions with the use of innovative technologies and equipment of the world standards. Organization

of external financing for the project is realized by the HSBC Bank. This project has been included in Program «30 Corporate Leaders of Kazakhstan».

In 2008 the contract was concluded between «KPI Inc» and «LyondellBasell» on participation of «LyondellBasell» as a strategic partner in project implementation. «International Petroleum Investment Company» (UAE) has received a proposal from JSC NC «KazMunayGas» to participate in the project. Participation of three consortiums in the tender on selection of the EPC – Contractor for 'turn-key' implementation of this project is planned.

Petrochemical complex on the basis of benzene and paraxylene

On the basis of aromatic hydrocarbons (benzene and paraxylene) of the Atyrau Refinery, production of ethylene glycol – 70 tons per year, terephthalic acid – 170 thousand tons per year, poly ethylene terephthalate (PETP - feedstock for production of plastic bottles) – 200 thousand tons per year, ethyl benzene – 127 thousand tons per year, polyvinylchloride – 200 thousand tons per year is planned.

Location of the project is station Karabatan of Atyrau region, a 300 hectares area near the planned location of operating areas of the first integrated gas chemical complex. Expected volumes of investment will be about 150 billions tenge. Products may be used for production of synthetic fibres in the textile industry, PET – forms, containers and many other things.

Production of road bitumen in the Aktau Plastics Plant

The project provides for production of high-quality bitumen which meets the requirements of the northern, central and southern climatic zones of Kazakhstan. According to the preliminary studies performed by Shell Global Solutions, the opportunity of producing high-quality road bitumen from the oil of the Karazhanbas deposit meeting the climatic conditions of Kazakhstan has been confirmed. The Karazhanbas deposit absolutely corresponds

to requirements for production of high-quality road bitumen as it contains a small amount of paraffins and significant amount of pitches and asphaltenes. The Memorandum of understanding on delivery of feedstock has been signed with the Karazhanbasmunai JSC.

In accordance with the results of the performed additional researches and taking into account the opportunity of separate oil delivery, the optimum option for location of the bitumen plant was determined the area of the Aktau Plastics Plant. At present the participants of the Project are being determined.

Complex for production of aromatic hydrocarbons on the basis of the Atyrau Refinery

The project provides for production of aromatic hydrocarbons - benzene and paraxylene - from the gasoline cut. Benzene and paraxylene being valuable petrochemical feedstock allow to produce styrene, polyethylene terephthalate, and other products. The project was supposed to be implemented in two stages:

Stage 1: Construction of the catalytic reformer with a benzene extraction block (fulfilled: feasibility study in 2006, design-and-estimate documents in 2007);

Stage 2: Construction of the aromatics production complex (feasibility study in 2007).

Due to financial problems of the first stage of the Project, combination of the first and the

second stages of this project and extension of the construction deadline to the second half of 2009 has been approved by the Investment Committee of JSC NC «KazMunayGas» (Minutes N30 dated 8 August 2008). Combination of these two stages of the investment project realization allows the Atyrau Refinery to obtain the acceptable terms of credit financing as project financing, that is only for the project itself. On 20 August 2008 the contract was signed between Atyrau Refinery and general designer «Omskneftechimproject» on purchasing planning and surveying work on the project, and works on the development of the design and estimate documentation have been started. The «Aksens» company has determined as the licensor of technology for production of aromatic hydrocarbons.



The main petrochemical projects of the JSC NC «KazMunayGas»

	Product	Capacity (thousand tons per year)	Location	Term of commissioning
First integrated gaschemical complex	Polyethylene Polypropylene	800 450	Township of Karabatan (located 40 km from Atyrau)	2013
Petrochemical complex on the basis of benzene and paraxylene	Ethyl benzene Polyethylene terephthalate	178 100	Township of Karabatan	2012
Production of road bitumen on Atyrau plant of plastics	Road bitumen Light oil	420 560	Plastics plant in Aktau	2010 2011
Complex for production of aromatic hydrocarbons	Benzene Paraxylene	133 496	Atyrau Refinery, Atyrau	2012





MARKETING AND SALES

THE TOTAL AMOUNT OF OIL EXPORTS BY THE «TRADE HOUSE «KAZMUNAYGAS» COMPANY WAS 9,406.9 THOUSAND TONS IN 2008, THAT IS 98.7 PERCENT OF THE LEVEL OF 2007. DECREASE IN DELIVERIES WAS A RESULT OF DISCONTINUATION OF RECEPTION OF CRUDE OIL FROM SUBSOIL USERS TOWARDS PAYMENT OF THE ROYALTY FROM JULY, 2008, AFTER INTRODUCTION OF THE OIL EXPORT DUTY.

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CRUDE AND OIL PRODUCTS

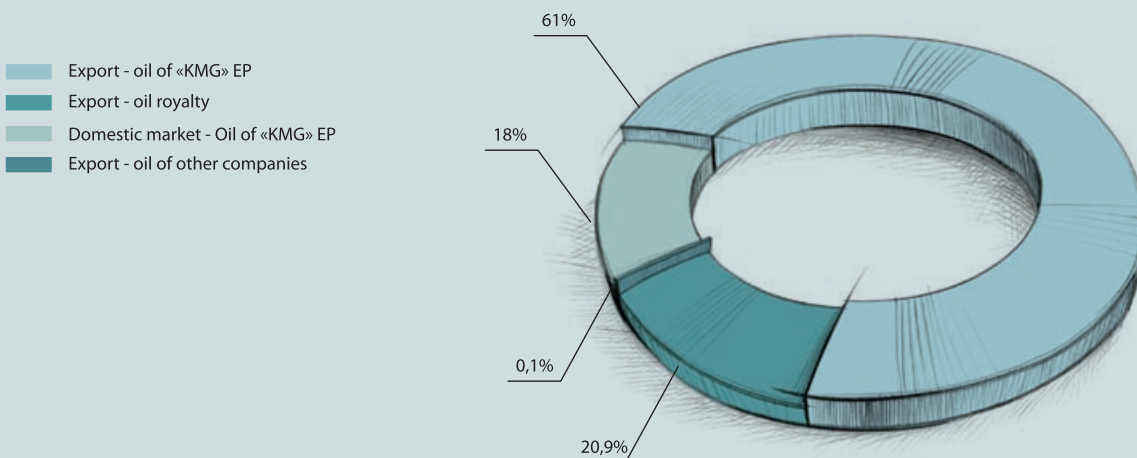
Marketing and sales of crude and oil products on the domestic and foreign markets are carried out by the JSC "Trade House "KazMunayGas" (TH "KMG")

The bulk of exports by TH "KazMunayGas" is crude produced by the "KMG" Exploration Production JSC and oil volumes received from Kazakhstan subsoil users as royalty. Almost all the export oil deliveries are carried out through the Russian system of main oil pipelines of LLP "Trasneft" and oil pipeline of the Caspian

Pipeline Consortium. These routes are optimal in terms of the economics of transporting crude to the world markets of energy carriers, and full use of the available quotas of oil pumping. The total amount of oil exports by "Trade House "KazMunayGas" in 2008 was 9,406.9 thousand tons, that is 98.7 percent of the level of 2007.

Decrease in deliveries was a result of discontinuation of reception of crude oil from subsoil users towards payment of the royalty from July, 2008, after introduction of the oil export customs duty.

Structure of oil sales by JSC "Trade House "KazMunayGas" in 2008



Retail sales of oil products on the domestic market are carried out through a network of service stations of JSC "Trade House "KazMunayGas" located in Astana, Almaty, western, northern and eastern regions of Kazakhstan. TH "KMG" sells a wide range of oil products, including high-quality gasoline, diesel fuel and jet fuel.

In 2008 TH "KMG" continued implementation of the program for expansion of the own retail chain under trade mark "KazMunayGas". On 31 December 2007, 245 gasoline stations (an 18 % increase vs. 2007) were in property of TH "KMG".

The program for expansion of the own retail network under trade mark TH "KMG" is carried out both through construction of the new gas stations, and by purchase and reequipping of the existing stations.

In construction of "KazMunayGas" service stations the best world experience is applied: modular complexes, newest fuel-dispensing units, advanced software. It allows improving labour productivity, and consumer satisfaction. TH "KMG" plans to increase the retail network up to 314 service stations by 2010.

In the period of spring sowing and harvesting

works "Trade House "KMG" regularly carries out deliveries of petrol, oil and lubricants for reduced prices to agricultural producers. In 2008 229 thousand tons of diesel fuel were delivered for the agricultural needs, that by 30 % exceeds the volume of deliveries of 2007).

Sales of the Atyrau Refinery products by JSC "Trade House "KazMunayGas" in 2008

	Volume thousand tons	Domestic market	Export
Gasoline	228,5	100%	—
Jet fuel	11,3	100%	—
Diesel fuel	618,7	100%	—
Propane	3,9	13,9%	86,1%
Fuel oil	1 066,5	60,9%	39,1%
Heating oil	12,1	100%	—
Calcinated coke	20,2	49,4%	50,6%
White-spirit	1,1	25,8%	74,2%
Vacuum gas oil	39,1	91,0%	9,0%
TOTAL	2 001,5	78,3%	21,7%

GAS

In the KMG companies group marketing of natural gas on the domestic market is carried out by the JSC "KazTransGas Aimak" company

One of the functions of «KazTransGas Aimak» is sales of natural gas on the domestic market, including storage and transportation of gas through regional gas-distributing networks, operation of gas-distributing facilities and network of pipelines, purchase, marketing and wholesale of natural gas on the domestic market. Exports of gas to foreign markets and sales of gas for the domestic market requirements, including by way of mutual deliveries (SWOP-

operations) is carried out by LLP «KazRosGas» which was established in 2002 by JSC NC «Kas-MunayGas» and russian OJSC «Gazprom» on a parity basis. LLP «KazRosGas» receives volumes for sale under the long-term Contract for Purchase and Sale of Sour Gas of the Karachaganak deposit with the duration of 15 years, and the long-term Contract for Purchase and Sale of Dry Gas of the Karachaganak deposit with the duration of 15 years. The main terms of purchase

and sale of gas from the Karachaganak deposit for the period up to 2022 have been stipulated in the said contracts. «KazRosGas» implements purchases and marketing of gas from the Karachaganak, Tolky (Mangistau region) and Tengiz deposits. Gas reception for SWOP operations is carried out on the Kazakhstan-Russian border in the township of Alexandrov Gay.

Gas volumes sold by LLP "KazRosGas"

	2008	2007	2006
Karachaganak (dry gas)	6 816	6 490	5 932
TCO	100	120	429
LLP "Tolkynneftegas"	—	—	608
TOTAL	6 916	6 610	6 969

mln. m³





TRANSPORTATION OF OIL AND GAS

TO KAZAKHSTAN, AS TO A LAND-LOCKED STATE, OF SPECIAL IMPORTANCE IS AN OPPORTUNITY TO TRANSPORT HYDROCARBON RESOURCES TO THE WORLD MARKETS. WITH A VIEW TO DIVERSIFY THE TRANSPORTATION DIRECTIONS OF THE KAZAKH OIL, KMG IMPLEMENTS DEVELOPMENT OF VARIOUS EXPORT DIRECTIONS.





OIL TRANSPORTATION BY MAIN OIL PIPELINES

Oil transportation through the main oil pipelines of Kazakhstan is carried out by a subsidiary company of JSC NC “KazMunayGas” – JSC “KazTransOil” (KTO)

In 2008 the consolidated volume of oil transportation through main oil pipelines amounted to 60.65 million tons, having exceeded the indicator of 2007 by 19% (50.83 million)¹.

A network of KTO main pipelines amounts to about 5.2 thousand kilometers. JSC «KazTransOil» has crude tank farms with the total capacity of 1.3 million cubic metres, 38 oil pumping stations, 59 oil heating stations, and three water-pump stations as well. JSC «KazTransOil»

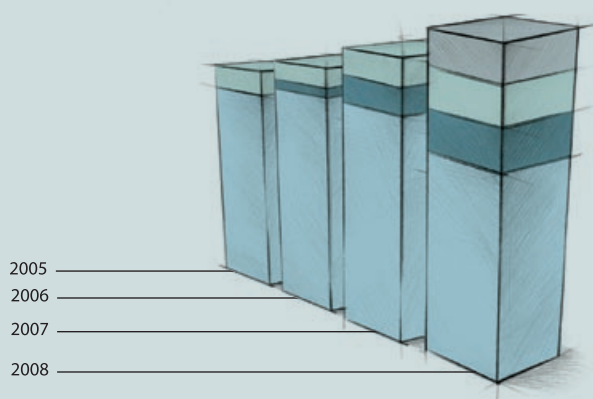
is implementing the Program for Development of the Main Pipelines System for 2007-2011 the purpose of which is to increase reliability and upgrade the facilities of main oil pipelines, and expand the industrial assets of the existing main oil pipelines and create new ones for a long-term period.

JSC «KazTransOil» owns 51% of participation interest in the «MunaiTas» North-West Pipeline Company» JSC and 50% in LLP «Kazakhstan-

China Pipeline» which are the operators of main oil pipelines Kenkiyak-Atyrau and Atasu-Alashankou. Besides, KTO owns 100% of the assets in the Batumi Sea Port and Batumi Oil Terminal.

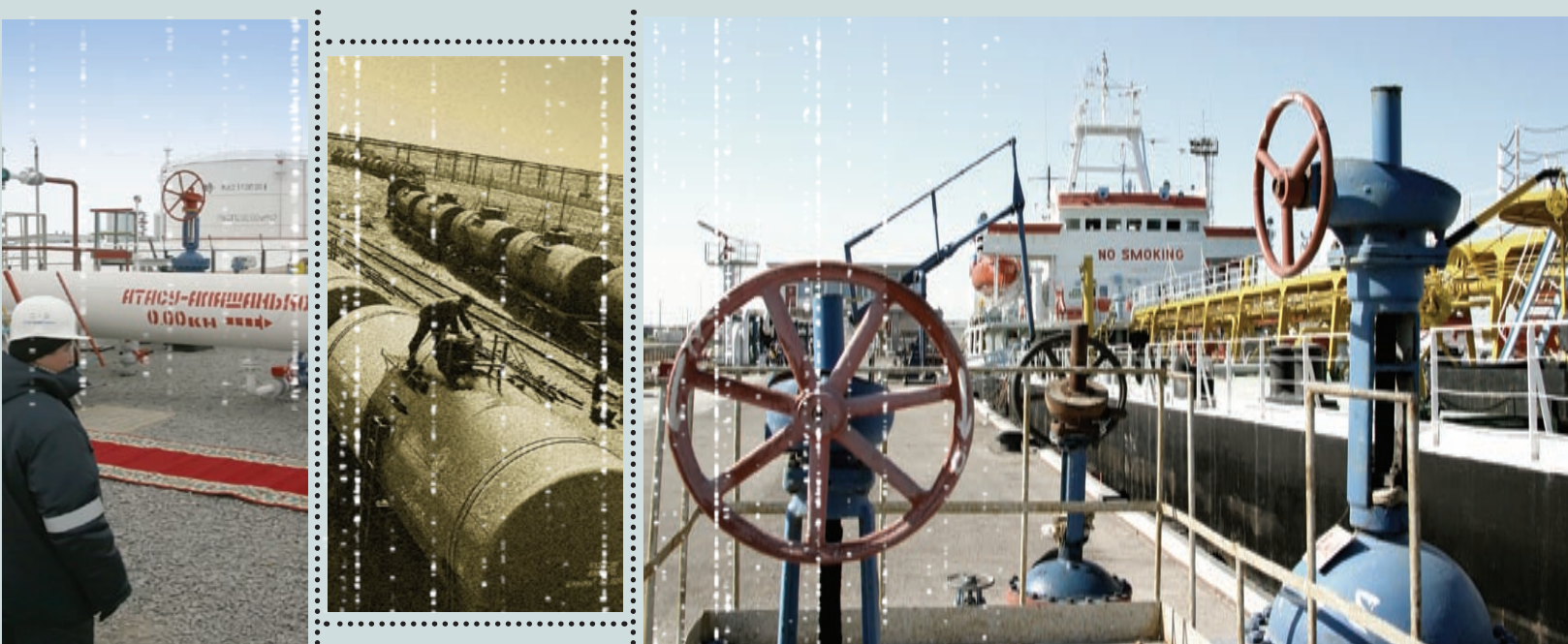
Consolidated oil transportation by the “KazMunayGas” group

KazTransOil (100%)
 Kazakhstan –China pipeline (50%)
 Munaitas (51%)
 Batumi Oil Terminal (100%)



	mln. tons			
	2008	2007	2006	2005
KazTransOil (100%)	47,46	45,68	43,26	38,19
Kazakhstan–China pipeline (50%)	6,12	4,8	1,76	
Munaitas (51%)	5,78	5,4	5,3	5,5
Batumi Oil Terminal (100%)	7,18			
TOTAL	60,65	50,83	46,85	40,96

¹ This includes oil transportation volumes by the main pipelines of JSC «KazTransOil» and transportation volumes by the «Munaitas» North-West Pipeline Company» JSC and LLP «Kazakhstan-China Pipeline».



DEVELOPMENT OF THE BASIC ROUTES OF KAZAKHSTAN OIL EXPORTS

To Kazakhstan, as to a land-locked state, of special importance is an opportunity to transport hydrocarbon resources to the world markets. With a view to diversify the transportation directions of the Kazakh oil, KMG develops various export directions.

The Kazakhstan Caspian transportation system (KCTS – Transcaspian project)

A large-scale Kazakhstan oil transportation project is to create the Kazakhstan Caspian Transportation System (KCTS) designed to export growing volumes of the Kazakh oil which will be produced, first of all, in Kashagan and Tengiz across the Caspian Sea to the international markets through the Baku-Tbilisi-Ceyhan oil

pipeline and/or other multi-mode oil transportation systems of Trans-Caucasian corridor.

KCTS will join the oil pipeline of 770 km from the township of Yeskene (40 km from Atyrau) to the township of Kuryk on the coast of the Caspian Sea (70 km to the south of Aktau) and facilities of the Trans-Caspian system: oil terminal of SPM (single point mooring) in Kuryk, tanker fleet and support vessels, import terminal on the Azerbaijan coast of the Caspian Sea and

connecting facilities up to the Baku-Tbilisi-Ceyhan oil pipeline.

At the initial stage KCTS' capacity will amount to 23 mln tons per year with a subsequent increase up to 35-56 mln tons per year. It is to be commissioned prior to the beginning of Commercial Production in Kashagan in 2012-13.



In October 2008 the Second Supplementary Agreement to the Production Sharing Agreement with respect to the North Caspian Project (NSP) with the agreed main principles of the Kashagan oil transportation by the Yeskene-Kuryk oil pipeline was signed. JSC NC «KMG» jointly with the NSP Contracting Companies is currently preparing the draft Memorandum on Implementation of the Oil Pipeline Construction Project. KTO is implementing the Yeskene-Kuryk oil pipeline construction project. The feasibility study is being developed by engineering company ILF (Germany).

In order to implement the Trans-Caspian project, JSC NC «KMG» and the State Oil

Company of Azerbaijan Republic (SOCAR) signed the Heads of Agreement with respect to the Trans-Caspian project in November, 2008. This agreement defines terms and principles of the joint implementation of the Trans-Caspian project, creation of a joint special purpose vehicle to develop the feasibility study, financing, rate design, terms of access to the facilities and staged development of the Trans-Caspian system. To ensure participation of the Kazakhstan side in the project on an equal share basis with the Azerbaijani side and coordinate activities on all KCTS segments and solve the issue of further oil transportation to the international markets, a subsidiary of JSC NC «KMG» – «KMG-

Transcapii» LLP has been created. In accordance with the Heads of Agreement with respect to the Trans-Caspian project JSC NC «KMG» and SOCAR are negotiating with the contracting companies – NCP participants key issues of the project implementation including possible creation of a joint business structure, ensuring of proper oil volumes, conduct of the feasibility study, provision by shippers of guarantees of oil volumes for transportation through the Trans-Caspian system.

The project of the Caspian Pipeline Consortium

The oil pipeline of the Caspian Pipeline Consortium (CPC) with the total length of 1,510 km connects Tengiz and South Ozereevka on the Russian coast of the Black Sea near the port of Novorossiysk. Since CPC was commissioned in 2001 it has transported 176 mln. tons of oil, including 150 mln. tons of the Kazakh oil (85%). In 2008 32 mln. tons were transported including 26.5 mln. tons of the Kazakh oil. An important

event for the CPC participants is signing of the Memorandum on Principles of the CPC Expansion Project (hereinafter - Memorandum) on 17 December by the representatives of the shareholders and the Ministry of Energy of Russia and the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan. Furthermore, 17-18 December 2008 the Shareholders and the Board of Directors of CPC approved certain

principles of this Memorandum specifying performance of a number of activities in 2009 which are necessary to implement the CPC Expansion Project including updating of the Project Documentation, making necessary amendments to the existing contracts and other essential issues.

Kazakhstan-China oil pipeline

Construction of the Kazakhstan-China oil pipeline is intended to be done in two stages. The Atasu-Alashankou oil pipeline has been constructed and commissioned as part of the first stage. In 2008 about 4.8 million tons of oil were transported by the Atasu-Alashankou oil pipeline. Kazakh companies PetroKazakhstan, Trade House «KazMunayGas», «Kazgermunay»,

and Russian companies TNK-BP and «Gazpromneft» became the main oil shippers. Implementation of the second stage of the project provides for construction of the Kenkiyak-Kumkol oil pipeline. The oil pipeline is being constructed by the «Kazakhstan-China Pipeline» established on a parity basis between JSC «KazTransOil» and CNODC. The oil pipeline

length will be 792 km, pipe diameter - 813 mm. The contemplated total capacity is 20 mln. tons a year including the first stage – 10 mln. tons a year. Commissioning is planned for the end of 2009.



MARINE OIL TRANSPORTATION

Marine oil transportation is carried out by JSC NMSC "Kazmortransflot".

In 2008 "Kazmortransflot" transported 2,869 thousand tons of oil which is 26% higher vs. 2007 (2,280 thousand tons). Oil was transported from the port of Aktau to Makhachkala, Neka and Baku. Besides, in 2008 oil was transported to the Black Sea for the first time.

Within the navigation period of 2008 Kazmortransflot transshipped and transported 1,550 thousand tons of rock which exceeded the transportation volume of 2007 by 44%. Furthermore, 1,919 thousand tons of shell stone were

delivered to the Bautino base (land transportation of rock) for the artificial islands of the North Caspian Project.

"Kazmortransflot's" fleet consists of 16 vessels, including: 3 oil tankers with the deadweight of

12 thousand tons, 5 tugs including those used for transportation of rock, and 8 barges. The majority of Kazmortransflot's vessels are new and certified. Vessel Safe Operations Management System is in place.

GAS TRANSPORTATION BY MAIN GAS PIPELINES

In 2008 the volume of gas transportation by main gas pipelines totaled 116.7 bln. cubic metres, which is 2.2 % higher than the indicator of 2007 (114.2 bln. cub.m). The volume of international transit amounted to 97.2 bln. cub. m, Kazakhstan gas exported – 9.6 bln. cub. m, gas supply to the domestic market – 8 bln. cub. m. Freight turnover of natural gas by main gas

pipelines last year amounted to 58.1 bln. cub. m, showing growth of 2.8%. Annual volume of commercial gas storage in underground gas storage facilities (UGS) amounted to 15.9 bln. cub. m which is over one and a half time higher than the volume of 2007. The network of main pipelines about 11.3 th.km in length with the annual capacity of around 130.5 bln. cub. m

is under control of JSC "KazTransGas" (KTG). KTG has 22 compressor stations, where 284 gas compressor units are installed, and 3 UGS's. International transit accounts for the bulk of income from natural gas transportation through Kazakhstan's main pipelines system.

«KAZMORTRANSFLOT'S» FLEET
CONSISTS OF 16 VESSELS,
INCLUDING: 3 OIL TANKERS (12
DWT), 5 TUGS INCLUDING THOSE
USED FOR TRANSPORTATION OF
ROCK, AND 8 BARGES





International transit accounts for the bulk of income from natural gas transportation through Kazakhstan's main pipelines system. Transit of the Turkmen natural gas to the central regions of Russia and Ukraine by main pipeline Central Asia-Center (CAC) makes the greatest contribution. As of 31 December 2008 the «CAC's» capacity totaled 60.2 cub.m per year. In October 2008 project «Construction of New Sites and Looping of the CAC-4 MGP and Compressor Section No 4 of the Opornaya CS» designed to increase the «CAC's» capacity was implemented. In December, 2008, a reserve run of the Uzen Aktau main pipeline was commissioned at the

Uzen –Zhetybai section. It allowed increasing the capacity of the Mangistau oblast gas transportation system from 1,740 to 3,640 mln cub.m per year.

Beineu-Bozoi-Akbulak main gas pipeline project

Sustained supply of gas to the southern regions where natural gas has been conventionally supplied from Uzbekistan is one of the most topical issues of the country's energy security. The contemplated Beineu- Bozoi-Akbulak gas pipeline will allow supplying gas from main gas-producing regions in the west of Kazakhstan to the south of the country.

The project is planned to be implemented in two stages:

- 2009-2011: construction of the main pipeline from the township of Beineu to the township of Akbulak, construction of the main compressor station in Beineu (to ensure the capacity up to 5 bln. cub.m per year), additional compressor station in the vicinity of UGS Bozoi (to ensure use of UGS Bozoi in the mode of gas supply to the country's southern regions)
- 2012-2014: construction of three linear compressor stations with an increase in the gas pipeline capacity up to 10 bln. cub.m per year.

Parameters of the contemplated Beineu–Bozoi-Akbulak gas pipeline

Gas pipeline length	1,510 km
Designed pressure	9.81 MPa
Pipe diameter	1,016/711 mm
Number of compressor stations	5
Type of drive	Gas turbine
First Stage Capacity	5 bln.m ³ per year
Second Stage Capacity	10 bln. m ³ per year

The total estimated cost of the project as per the feasibility study amounts to KZT465,121 mln. in the then-current prices of 2008-2014 including the estimated construction budget: stage 1 – KZT 418,106.75 mln., stage 2 – KZT 47,014.25 mln.

Opinion of the «Gosexpertiza» Republican State Enterprise on the feasibility study of the project has been obtained. Development of the design estimates at the expense of the republican budget has commenced. A working group on negotiating gas purchase with subsoil users has been formed.

EXPORT GAS PIPELINES PROJECTS

Kazakhstan-China Gas Pipeline

Implementation of the Kazakhstan-China gas pipeline construction project will ensure transit gas transportation from Turkmenistan across the territory of Uzbekistan and the Republic of Kazakhstan to China, increase the transit potential, allowing to diversify the export routes of the Kazakh gas, and will promote the country's energy security through supply of the own gas to the domestic market.

The project is implemented based on the following agreements:

- Agreement on Cooperation in Construction and Operation of the Kazakhstan-China Gas Pipeline between the Government of the RoK and the Government of China dated 18 August 2007.
- Heads of Agreement on Construction and Operation of the Kazakhstan-China Gas Pipeline

between KMG and CNPC dated 8 November 2007;

- Agreement on Joint Development of the Investment Substantiation of the Kazakhstan-China Gas Pipeline Construction between KMG and CNPC dated 31 August 2005.

THE FIRST SECTION OF THE GAS PIPELINE: from the Uzbek-Kazakh border to the Kazakh-Chinese border through Shymken (RoK) to Khorgos (China). The basic tentative parameters of the first section: capacity of 30-40 bln. cub. m per year, length – 1,300 km, diameter - 1,067 mm. Implementation period – 2008-2012, completion of the first stage construction – 2009.

THE SECOND SECTION OF THE GAS PIPELINE: Beineu-Bozoi-Kzylorda-Shymkent. The basic tentative parameters of the 2nd section:

capacity - 10 bln. cub. m of gas per year, length -1,480 km, diameter – 1,016 mm.

The first section of the Kazakhstan-China project is being constructed by the Asian Gas Pipeline LLP (AGP) created on 15 February 2008.

The AGP LLP's participants are JSC «KTG» and Trans-Asia Gas Pipeline Limited – an affiliate of CNPC registered in Beijing; the ownership structure - 50/50.

Financing is made through the Facility Agreement with China Development Bank to the amount of USD 7.5 bln.

Circum-Caspian Gas Pipeline

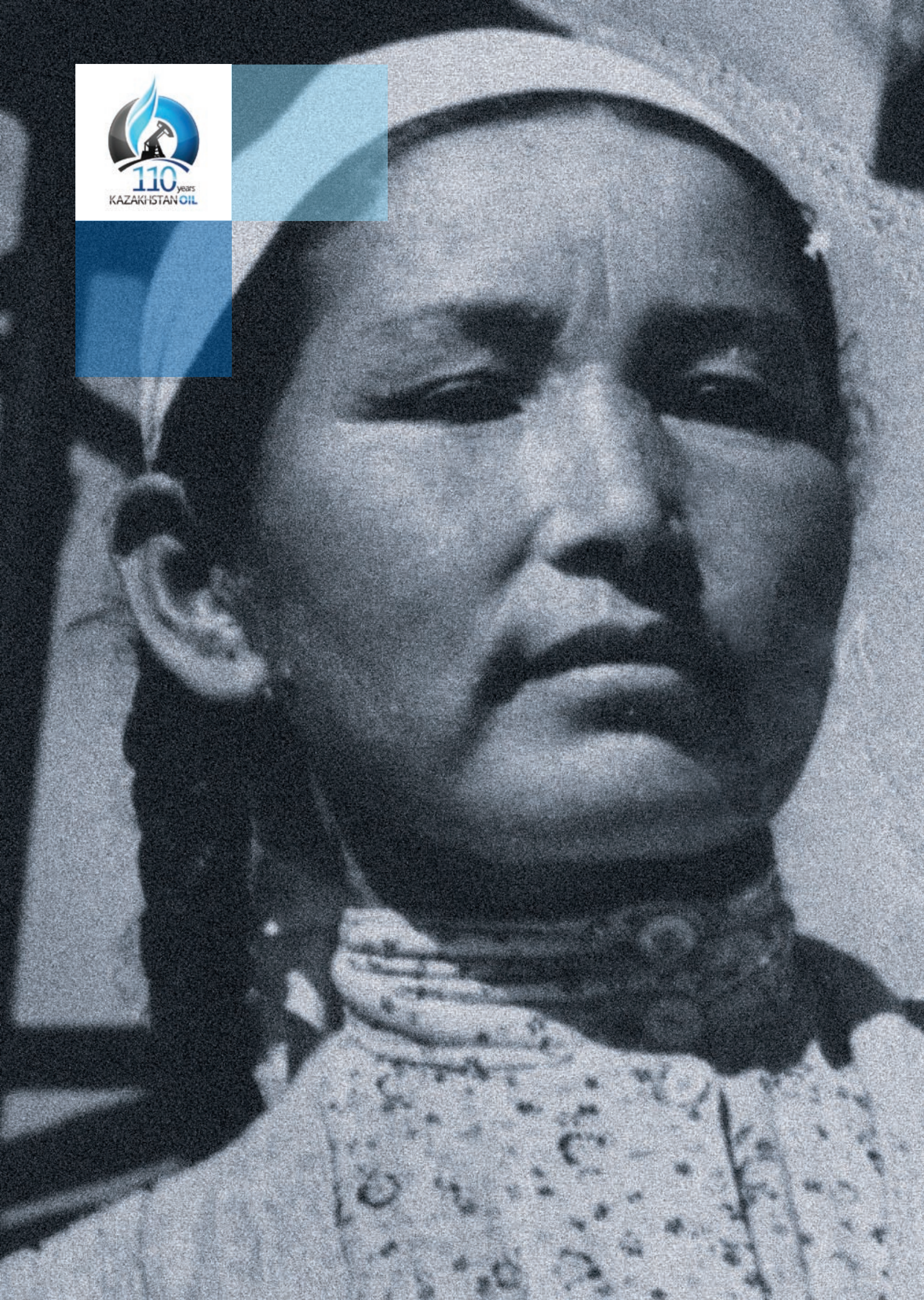
Circum-Caspian Gas Pipeline construction project is being implemented in accordance with the Declaration on Circum-Caspian Gas Pipeline Construction signed in May 2007 by the presidents of Kazakhstan, Russia and Turkmenistan. It is planned to construct the gas pipeline from the Belek compressor station (Turkmenistan) to the Aleksandrov Gai compressor station (Russia) with account of reconstruction of the existing Okarem-Beineu gas pipeline to transport Turkmen and Kazakh natural gas across the territories of Turkmenistan, Kazakhstan and Russia.

In order to implement the particular objectives of the declaration, an intergovernmental agreement has signed, and further the Heads of Agreement on Cooperation in Construction of the Circum-Caspian Gas Pipeline between KMG, OJSC «Gazprom» and «Turkmengas» was signed on 11 September 2008. In 2008 the Basic Design Specification for the feasibility study of the Circum-Caspian gas pipeline construction was approved. The parties began preparing the feasibility study of the project, which started actual implementation of the project.

Construction of the Kazakhstan part of the Cir-

cum-Caspian Gas Pipeline is tentatively contemplated from the beginning on the border with Turkmenistan (527.4 km of main gas pipeline Okarem-Beineu) along the coast of the Caspian Sea with passage to plateau Mangushlak along the technological corridor of the existing Central Asia Center gas transportation system of main gas pipelines following the route: Bekdash (Turkmenistan) – Zhana Ozen (Kazakhstan) - Beineu – Opornaya – Kulsary – Makat – Inder-Jangala (Kazakhstan) – Aleksandrov Gai (Russia). The total length of the Kazakh part of the gas pipeline will be 1,216.6 km.







LOCAL CONTENT DEVELOPMENT

IN COMPLIANCE WITH THE STRATEGY FOR INDUSTRIAL AND INNOVATIVE DEVELOPMENT (SIID) OF THE REPUBLIC OF KAZAKHSTAN FOR THE YEARS 2003-2015 APPROVED BY ORDER NO.1096 OF THE ROK'S PRESIDENT OF 17 MAY 2003, ONE OF THE PRIORITY BUSINESS AREAS FOR JSC NC "KAZMUNAYGAS" AND ITS AFFILIATED COMPANIES IS ASSISTANCE TO DEVELOPMENT OF THE LOCAL CONTENT DURING IMPLEMENTATION OF OIL AND GAS PROJECTS.



LOCAL CONTENT DEVELOPMENT

In compliance with the Strategy for Industrial and Innovative Development (SIID) of the Republic of Kazakhstan for the years 2003-2015 approved by Order No.1096 of the RoK' President of 17 May 2003, one of the priority business areas for JSC NC "KazMunayGas" and its affiliated companies is assistance to development of the local content during implementation of oil and gas projects

SIID's priorities are: development and creation of potentially competitive and high-tech capacities in non-raw materials sectors of economy. Capacities that can accumulate major investment projects and output products that can be reprocessed and transformed several times with the added value being enhanced at each step shall be a basis for development and formation of competitive and export-oriented capacities by the value chain method.

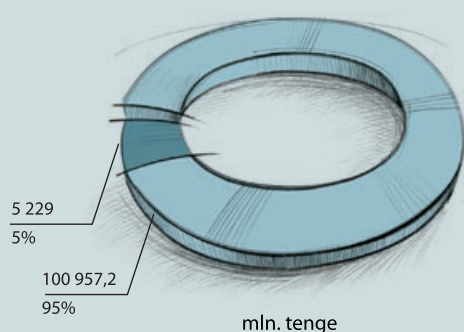
SIID defines as the top-priority direction the use of the financial industrial and technological potential of the energy sector to establish competi-

tive and export-oriented capacities operating in the non-raw materials sectors of economy. The share of the local goods, works and services during development and operation of oil and gas deposits depends on the competitiveness of the local products.

The Program for the Development-Supporting Production of New Types of Oil and Gas Equipment in the RoK's factories is a continuation of work performed to develop interaction between machinery construction and O&G sectors of the Republic as part of the Strategy for Industrial and Innovative Development of

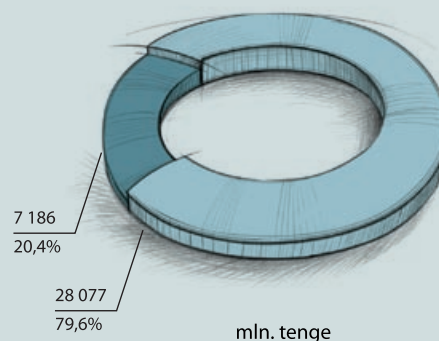
the RoK. The first Program was developed by Kazakhoil and brought into force in 1998. Over the 10 years of implementing these Programs various machinery construction factories of the Republic have produced over 300 types of oil and gas equipment, machinery and materials which had not been produced in Kazakhstan earlier. Machinery construction companies from practically all regions of the Republic have been involved in these activities, including Northern Kazakhstan, Western Kazakhstan, Eastern Kazakhstan, Karaganda, Pavlodar, Mangistau oblast, and Almaty.

Foreign suppliers
Local suppliers



Works and services

Foreign goods
Local goods



Goods

In order to further develop cooperation with the machinery construction companies of the Republic, the Company has developed and put in place the Program for Development-Supporting Production of New Types of Oil and Gas Equipment for 2008-2010.

This Program has been adopted by the subsidiaries and first results have already been obtained.

The total volume of goods, works and services procured by JSC NC «KazMunayGas» and its affiliated companies such as «KazMunayGas» EP JSC, JSC «KazTransOil», JSC «KazTransGas», AR LLP, JSC OOC «KazMunayTeniz», amounted to 141 bln. 449 mln. KZT, meanwhile, the local content purchases were 108 bln. 143 mln. KZT or 76.5 %.

Procurement of works and services constitutes a significant share of the total volume. Thus, out of the total value of agreements executed (106 bln. 186 mln. KZT) the share of Kazakh suppliers amounted to 100 bln. 957 mln. KZT. The total cost of goods purchased in 2008 was 35 bln.

263 mln. KZT, the cost of goods purchased from the domestic producers totaled 7 bln. 186 mln. or 20.4%.

When the PSAs for the Karachaganak and North Caspian Project and the Tengiz Partnership Agreement were signed, they contained articles stipulating the requirement for the subsoil users to purchase Kazakh goods, works and services on a parity basis.

As a result of the work conducted in 2008 the total amount of payments made to Kazakh companies in major oil and gas projects amounted to 2 bln. 703 mln. US dollars or 38% including:

- Karachaganak Project – 378 mln. USD or 48%;
- North Caspian Project – 997 mln. USD or 24%;
- Tengiz Project – 1 bln. 328 mln. USD or 61%.

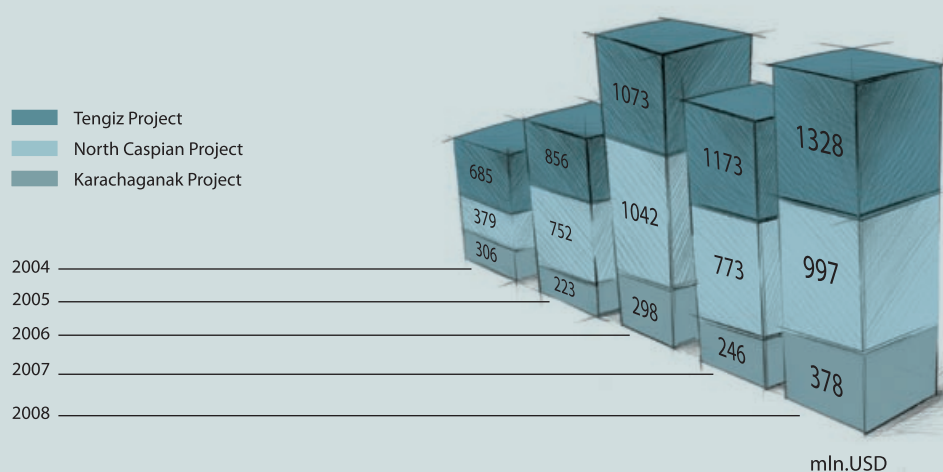
It should be noted that a significant share of all services procured were done by Kazakh companies with the value of 2,424 mln. US dollars (90% of all purchases) and the value of the

Kazakhstan-originating goods totaled in 278.4 mln. USD (10%).

Development of the oil and gas industry is based on the said projects and the total volume of equipment procured under these projects is estimated to cost 8-10 bln. USD which predetermines the opportunity for expansion of the local production of equipment and spare parts.



Local content dynamics in major projects







CORPORATE SOCIAL RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY MEANS PERFORMANCE OF VOLUNTARY OBLIGATIONS WHICH MEET MUTUAL INTERESTS OF THE SOCIETY, THE STATE AND THE BUSINESS. NATIONAL COMPANY «KAZMUNAYGAS» CONSIDERS SOCIAL RESPONSIBILITY AS VOLUNTARY CONTRIBUTION TO DEVELOPMENT OF THE SOCIETY IN THE SOCIAL, ECONOMIC AND ENVIRONMENTAL SPHERES, CONNECTED WITH THE BASIC ACTIVITY OF THE COMPANY AND OVER THE MINIMUM DEFINED BY THE LAW IN ACCORDANCE WITH THE RESOURCES OF THE COMPANY.



CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility means performance of voluntary obligations which meet mutual interests of the society, the state and the business

National Company «KazMunayGas» considers social responsibility as voluntary contribution to development of the society in the social, economic and environmental spheres, connected with the basic activity of the Company and over the minimum defined by the law in accordance with the resources of the Company.

As a socially responsible company JSC NC «KazMunayGas» constantly performs and improves the level of social events under the following principle directions:

- | | | |
|----------------------------------|----------------------------------|--|
| ■ Internal Social Responsibility | ■ External Social Responsibility | ■ Social partnership |
| – Human resources development | – Charity and Sponsorship | – Participation in implementation of state and industry social programs, in republic-wide events |
| – Motivation system | – Environment Protection | – Participation in international initiatives |
| – Health care | | – Regional development |
| – Labour safety | | |



IN 2008 JSC NC «KAZMUNAYGAS» AND ITS SUBSIDIARIES PROVIDED SPONSORSHIP IN THE AMOUNT OF MORE THAN 4.5 BILLION KZT. FROM THE MOMENT WHEN THE COMPANY WAS BASED, SINCE 2002 TILL 2008, JSC NC «KAZMUNAYGAS» ALLOCATED 68 BILLION KZT FOR CONSTRUCTION OF OVER 50 SOCIAL FACILITIES

SOCIAL PARTNERSHIP AND SPONSORSHIP

JSC «National Company «KazMunayGas» annually provides considerable amounts of money to the social sector and vulnerable groups

To provide sponsorship and support to socially **vulnerable groups** JSC NC «KazMunayGas» regularly renders financial help to war and labour veterans, disabled people, pensioners, low-income citizens, distinguished oil and gas workers through «Munayshy» social fund and other dedicated associations and foundations. Every year the Company sponsors the orphan asylums «Ak Bota» in Atyrau and «Svetoch» in Astana, the Residential Home for the Elderly, Association of Disabled Women «Shyrak» in Almaty, and Kazakhstan's Veterans social association «Bobek» social fund in Almaty, Komek Council of Veterans at the Prime Minister's Office» social association in Almaty, National Paralympic Committee of Disabled Sportsmen in Astana. About 1214 children, among whom there were alumni from Zhasulan School and Zerenda boarding school enjoyed their time at the health improving center «Sunkar» in summer, 2008.

JSC NC «KazMunayGas» is involved in **social partnership**, arranging social events, implementing joint projects and programs, assisting in building and creating modern engineering-transport infrastructure for administrative centres. The Company sponsored social and corporate funds for them to be able to run the events dedicated to the 10th anniversary of the Capital of Kazakhstan – the city of Astana to strengthen prestige of the country all over the world.

To **support culture and art** JSC NC «KazMunayGas» carries out annual projects as part of the government program «Cultural heritage». Much attention is paid to support children's creative work. The company also sponsors international tours of National Music Academy.

The National Company pays special attention to development and **support of sports and promotes healthy life-style**, annually sponsoring National Olympic Committee,

National Golf and Tennis Federations of the Republic of Kazakhstan, Federations of amateur boxing, rhythmic gymnastics and cycling of Kazakhstan as well as providing one-time help to different sports associations and events.

During «We chose healthy future» campaign, organized by «KazTransOil» JSC 3500 trees and bushes have been planted in 14 cities and towns of the country.

In 2008 JSC NC «KazMunayGas» and its subsidiaries provided sponsorship in the amount of more than 4.5 billion KZT.

From the moment when the Company was based, since 2002 till 2008, JSC NC «KazMunayGas» allocated 68 billion KZT for construction of over 50 social facilities, which include:

- Houses as a part of natural disaster consequences elimination in Makat district of Atyrau oblast;
- Gas Supply System in Dossor village in Atyrau oblast;
- A stadium for 3000 seats and a fitness complex in Zhanaozen of Mangistau oblast
- A child-care centre, «Meirim» medical centre and «The Caspian» fitness complex, Duman Hotel in Astana,
- «Kenderli» recreation site on the coast of the Caspian sea,
- «Sunkar» health complex for children and and «Zeren» vacation house in Akmola oblast,
- «Ak-Bulak» sports-fitness complex in Almaty oblast,
- «Altyn-Bulak» sanatorium in Western-Kazakhstan oblast;
- Community facilities as part of flooding consequences elimination in Southern-Kazakhstan oblast.
- Sports and health centre, Indoor swimming pool in Atyrau;

- Social infrastructure facilities under Zhambay Project;
 - Culture and sports centre in Amangeldy village, Zhambyl oblast;
 - «Boxing Palace» sports complex in Taraz;
 - One and two-room apartment blocks in Amangeldy village, Western-Kazakhstan oblast;
 - A pier in Aktau
- and other infrastructure, residential and sports-and-health objects.





DEVELOPMENT OF PERSONNEL POTENTIAL

JSC NC “KazMunayGas” pays particular attention to human resources development and training. At present, there are 5 educational centers which render educational services for students, retraining and advanced training for administrative and managerial staff and workers of the “KazMunayGas” group.

Kazakh-British Technical University fulfils training of engineers and managers. The university implements joint educational programs with leading higher educational institutions of the world.

The “**United Human Resources Development Centre**” (UHRDC) educational centre provides training for «KazMunayGas» employees, renders services in organizing training sessions and seminars, evaluating personnel and selecting competent specialists. The important factor of successful activity of the centre are international contacts and partner relations with international universities, leading training centers and business schools of different countries (among the partners there are such as: Herriot-Watt University, Cambridge Energy Research Associate, Schlumberger, Ernst & Young, etc.). UHRDC annually provides training for more than 5000 employees of the «KazMunayGas» group.

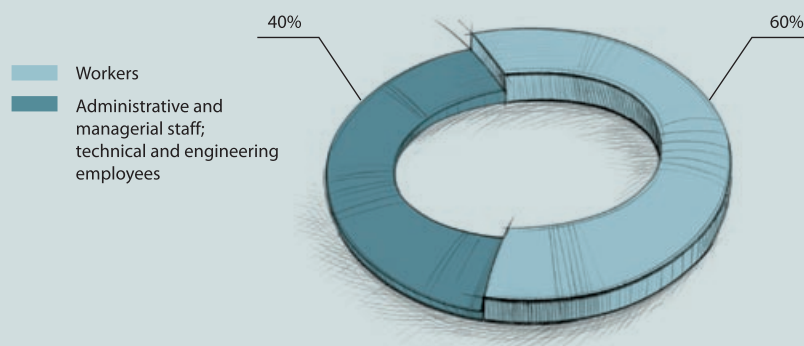
Special attention is paid to development and training of the middle level technical personnel and workforce in oil and gas companies. In 2008, in addition to the existing educational centers, «KazMunayGas» E&P JSC founded Workforce Training Centre in Zhanaozen. The educational centers are provided with all the necessary equipment, software and methodical materials and hold a certificate for the right to provide training, retraining and advanced training in industrial safety. Annually these training centres provide training and improvement of professional skills to more than 70 professions.

Besides short-term programs of advanced training and skills enhancement there is an ongoing process of selecting personnel pool for management positions.

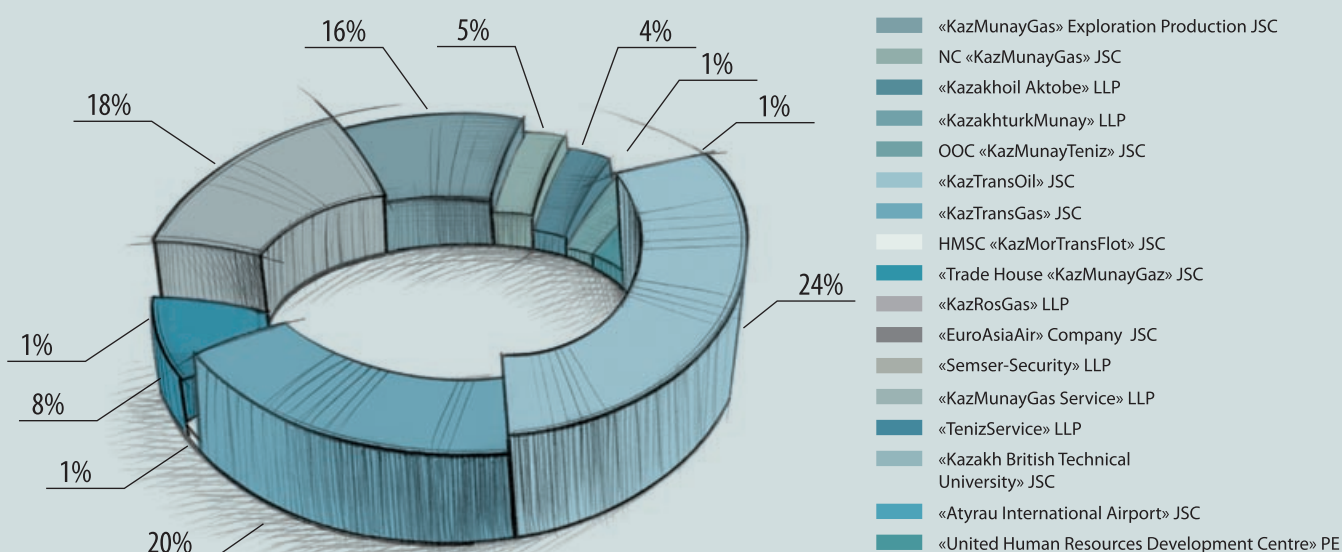
For this purpose employees of JSC NC «KazMunayGas» and its subsidiaries are assigned to obtain Master's Degree in the leading educational institutions of the states of the Former

Soviet Union (mostly the Russian Federation) and abroad (the UK, the USA). 132 employees of JSC NC «KazMunayGas» and its subsidiaries were sent to obtain Master's Degree in 2008. Moreover, Corporate Master Program is planned to be developed to create unitary standards for the training sphere and advantages when rotating the staff within the «KazMunayGas» group.

Qualitative composition of the employees sent to train and enhance skills in 2008



Quantitative composition of the employees sent to train and enhance skills in 2008



Besides, such methods of personnel development as secondment and traineeship have been actively implemented. The secondment of employees is fulfilled within the frameworks of joint projects with foreign partners (Karachaganak), the newly established divisions (Kashagan Project). Every year, as a part of partnership under these projects (Agip KCO) and due to im-

proved relations with oil companies of foreign countries (JOGMEC and others) employees are seconded to international offices of the partners for experience exchange with leading companies in the oil and gas industry. Secondment and traineeship allow employees to adopt advanced experience of leading oil and gas companies. Understanding the necessity of

competent human resources due to implementation of new projects, Intergaz-Central Asia JSC is building a training centre in Shymkent.

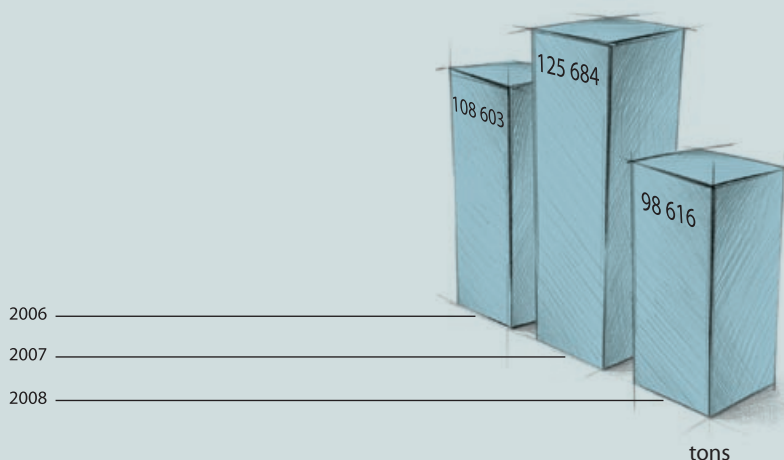




ENVIRONMENT PROTECTION

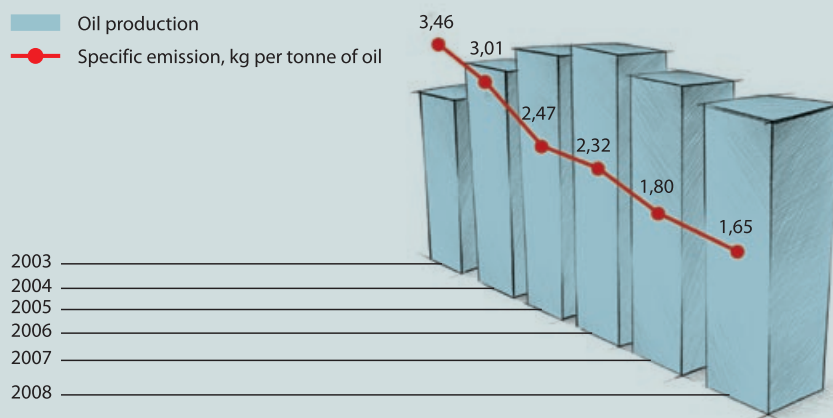
JSC NC "KazMunayGas" carries out environment protection in full conformity with requirements of the nature protection legislation of the Republic of Kazakhstan

Total amount of total emissions of polluting substances in atmosphere



In 2008 the tendency of reduction of the basic subsidiaries' influence on environment remained. At the same time, introduction of new production facilities of the KMG group had an impact on general ecological indices. In 2008 the total volume of emissions of the basic subsidiaries amounted to 98,6 thousand tons which is 21,6% less than the index of the similar period of the previous year. Notwithstanding the increase of production volumes, reduction of emissions per a product unit is taking place.

Volumes of emissions per one unit of oil produced *



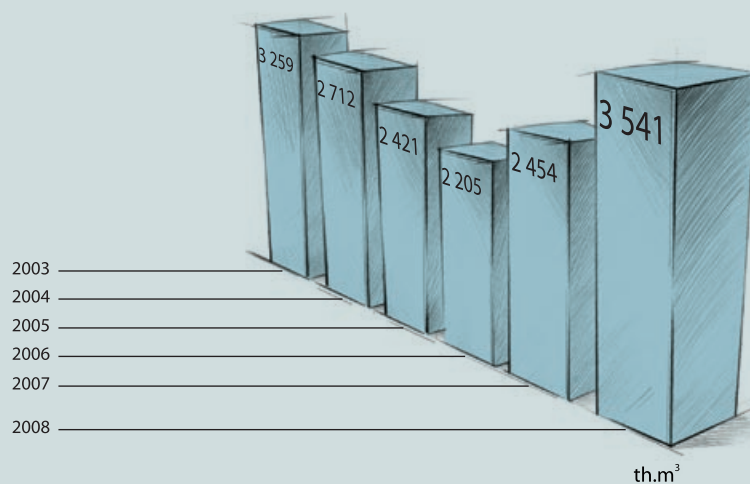
* volumes of crude produced by JSC EP «KazMunayGas»



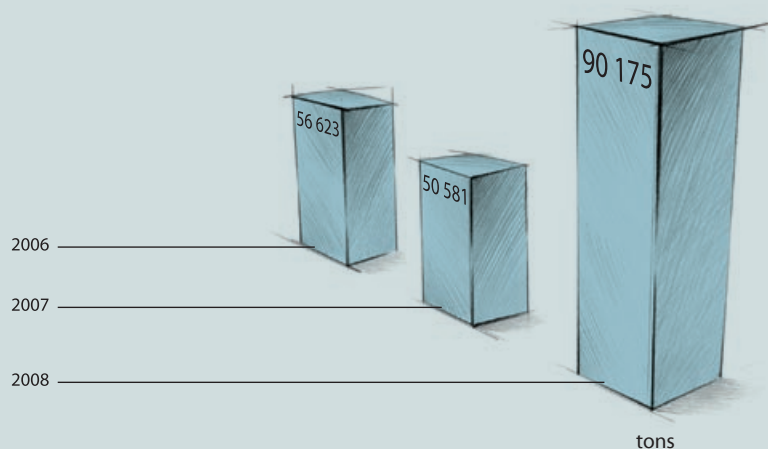
Waste water volumes

Total volume of waste water was 3541 thousand m³ which is 30,6% higher than the level of the same period of the previous year.

Increase of waste water emissions took place primarily at Atyrau Refinery due to installation of new units under the upgrade projects. At the same time, as a result of introduction of the Waste Water Biotreatment Unit the content of contaminants was significantly reduced. For instance, the content of petroleum products in waste water reduced by 90 %, phenol - by 92%.



Volumes of disposed production wastes



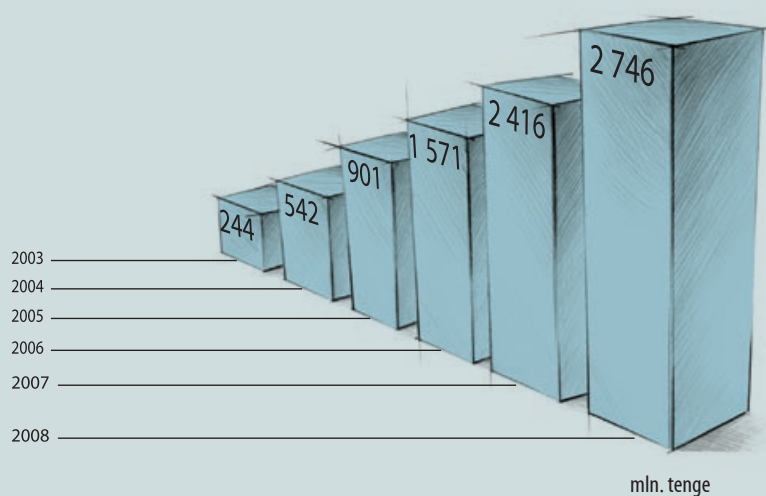
Production volumes of wastes located at waste disposal sites increased by 39 593 tons or by 43,9%. The waste volumes primarily increased in «KazMunayGas» Exploration and Production» JSC, due to work scope increase in land reclamation that were historically contaminated, and placement of wastes in temporary waste disposal sites.

The majority of wastes formed by «KMG's» subsidiaries are low toxic and refer to less hazardous classifications (4 and 5).

In order to meet the requirements of the environmental legislation the subsidiaries developed and approved the Environmental Activities Plan for 2008 with authorized bodies.



Environmental fees



At the same time despite of all the activities conducted to reduce the level of hazardous emissions, every year ecological fees to local budgets increase due to the growth of fee rates. Last year the ecological fees amounted to 2 746 mln. KZT, 12,0% higher in comparison with 2007.

Oil pollution elimination, first of all historical one, continued. Works on petroleum residue cleaning, technical reclamation and cleaning from petroleum residue by biological methods, elimination of industrial oil sumps were fulfilled.

Last year, total amount of over 2,2 bln. KZT was spent for these purposes.

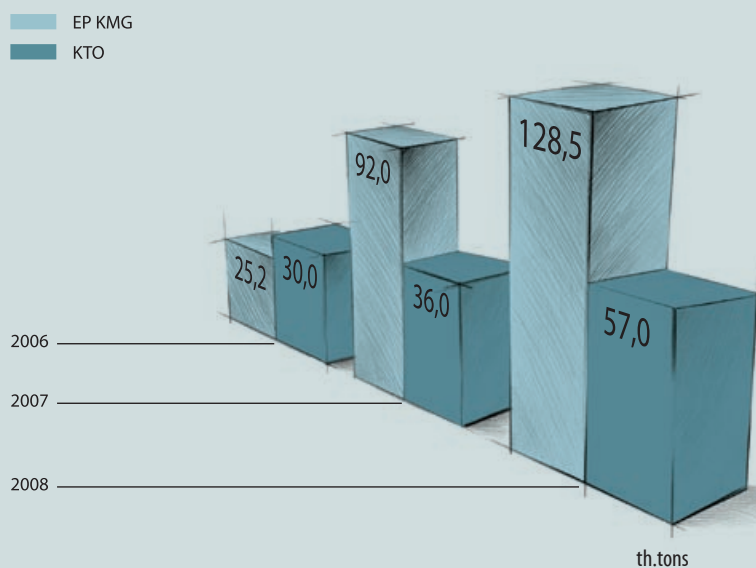
«KazMunayGas» Exploration Production JSC and «KazTransOil» JSC together processed over 180 thousand tons of contaminated soil and petroleum sludge by involving a specialized contractor. In total, 64,4 ha of contaminated land was reclaimed.

Elimination of Central Processing Facility oil sump located in Uzen field is under special control.

Over the period of implementing the Long Term Program to Eliminate the Process Sludge Pit at the Central Processing Facility intended for 2004 to 2010, the area of the sludge pit has been reduced from 84 to 60 ha. Total financial expenditures amounted to 606 mln. KZT.

In general, the Company annually allocates significant funds for implementation of environmental activities. Thus, during the last year, the basic subsidiaries spent over 8 bln. KZT for these purposes.

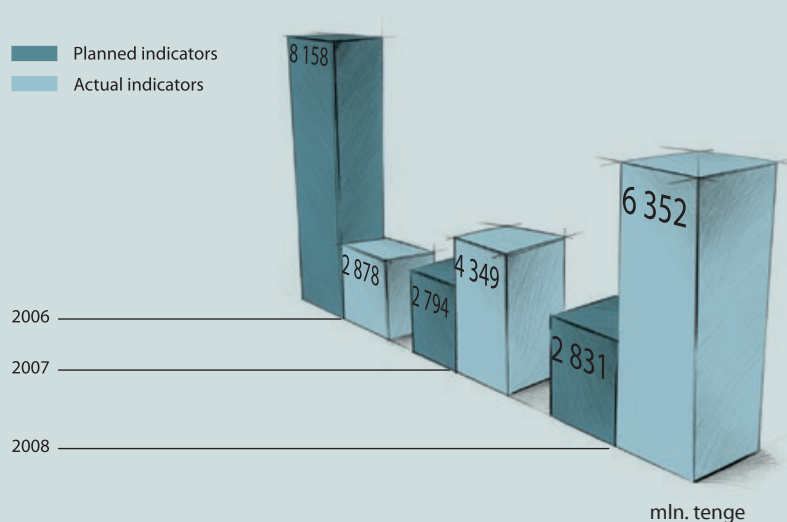
Volumes of treated soil



Comprehensive Environmental program

JSC NC «KazMunayGas» developed and approved a Comprehensive Environmental Program (CEP) for 2006-2015 the main objective of which is to ensure a systematic approach to environmental activities for sustainable development of the Company. Below the volumes of investment into the environmental activities under the framework of the Comprehensive Program over the last three years are shown.

Volumes of investments within the limits of CEP



The affiliated companies successfully implement own programs on the environment protection, developed on the basis of the corporate program, taking into account their specific features. Introduction of the Ecological code of the Republic of Kazakhstan, considerable strengthening of requirements to nature protection activity of enterprises, occurrence of new problems in this area there appears a necessity of certain upgrading of the CEP.

The Corporate system of industrial ecological monitoring

The most important element of environment protection control system is industrial ecological monitoring.

Implementation of the Corporate system of industrial ecological monitoring project began in 2005. Within the frameworks of the first stage of the project the system of space ecological monitoring was created on the basis of geoinformation technologies, an electronic ecological map of production activity territories was developed. The second stage of the project of the corporate ecological monitoring system is organization of the optimal network of recording and changing environment parameters and ecological laboratories

In 2008 work on actualization and perfection of space monitoring database was continued. New software was introduced which allows increasing capacities of the geoinformation system and the base of ecological data.

The space ecological monitoring also can be considered as one of the tools of prevention and elimination system of possible oil emergencies

in the Caspian Sea. The project of the National Caspian sea environment protection for 2009-2012, developed by the Ministry of environment protection of the Republic of Kazakhstan positively estimated the corporate system of space ecological monitoring.

Oil pollution elimination

Contamination of the oil field territories by residue and historical pollution remain an urgent problem. To eliminate the polluted sites the company «KazMunayGas» Exploration Production» carries out recultivation and restoration of soils polluted. Almost half of the general expenses for ecological events make up expenses on elimination of historical pollutions.

Large-scale events for localization of polluted areas, elimination of possible industrial water flows from reservoir pressure maintenance system, all-round embanking of producing facilities, strengthening of the coastal line, preparation of dugs and access roads, and other events for the infrastructure – all these allow reducing risks of ecological consequences of oil deposit development.

Other environment protection activities

Taking into account that the basic prospects of increasing volumes of hydrocarbons production in Kazakhstan are connected with the development of the Caspian sea shelf, «KazMunayGas» is actively creating an infrastructure for reacting to possible emergency technogenic situations.

According to the Government program of development of the Kazakhstani sector of the Caspian sea, in 2004 a subsidiary – «Teniz-Servise» — together with Agip KCO implemented the project on building a base for reacting to oil spills in Atyrau oblast. The project is directed to oil spills reacting services, delivery of personnel, storage of materials and so on during production of oil in Kashagan and other objects in the northern part of the Caspian sea. The base includes the oil spill reaction centre, ecological and meteorological supervision services.

The important activity of the company is rendering methodical and practical help to subsidiaries in the sphere of nature protection. Much attention is paid to problems of specialists' training in the subsidiaries. Annually seminars concerning



labour safety and environment protection are held.

Together with daily work on measures in the sphere of environment protection, «KazMunayGas» pays attention to perspective problems of global character.

Beginning with 2006, the company started studying questions connected with greenhouse gases. Experts of the Climate Change Coordination Centre and Kazakh research institute of ecology and climate were involved in it. Within the framework of the research, pilot inventory of greenhouse gas emissions in the main subsidiaries was carried out, analysis of quantitative possibilities of their reduction was fulfilled, and internal methods of greenhouse gas emissions inventory was developed. According to the results of the inventory the general emissions in the enterprises of the Company made up 12,3 million tons in CO₂ equivalent, and the

reduction potential of their reduction made up from 2, 4 million to 3,1 million tons per year.

The Company plans to continue its work on creating a corporate greenhouse gas emissions control system, based on use of the economic mechanisms of Kyoto Protocol.

Besides, it is planned to prepare a portfolio of pilot projects involving external investments. The main criterion of investment is replacement of technologies and equipment by energy and resource saving and non-polluting ones. Due to increased attention to problems of energy saving and rational use of resources, the National Company initiated development of a corporate program of energy saving.

The Company clearly understands that achievement of the purposes of energy and resource saving is possible, first of all, at the expense of introduction of progressive non-polluting technologies and equipment which, in their

turn, lead to decrease of polluting substance emissions

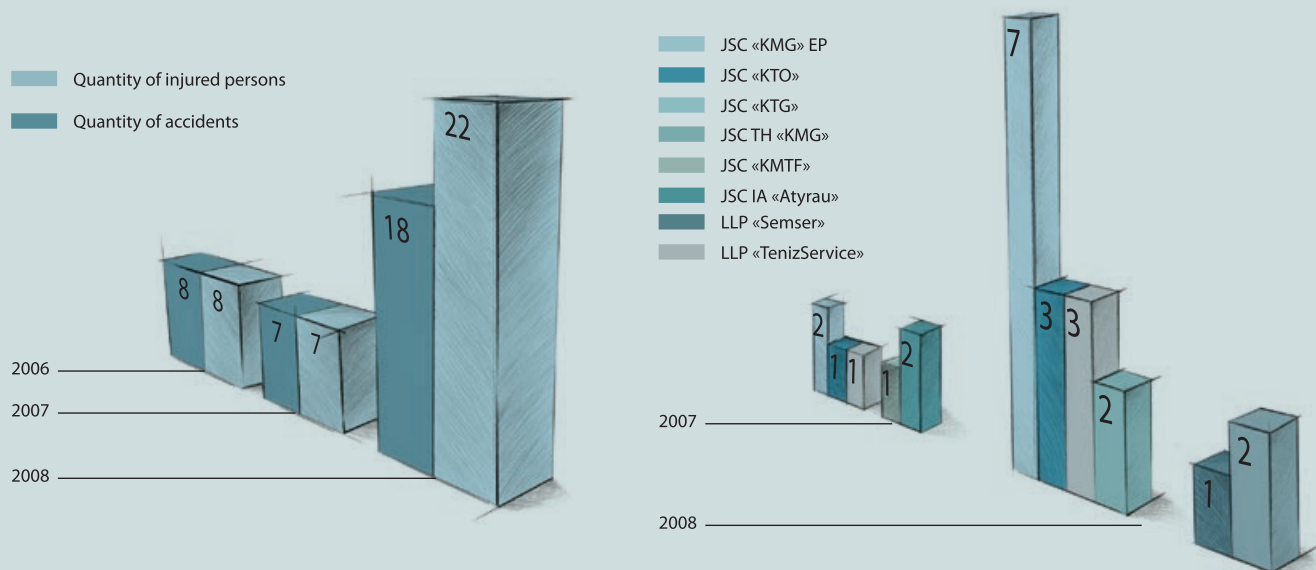
All the above mentioned activities are carried out as a part of shifting to the principles of sustainable development of the Company which are one of the priorities of the Long-term Development Strategy of JSC NC «KazMunayGas». At present basic target indicators of sustainable development of the Company are under the process of workin-out.

LABOUR SAFETY AND INDUSTRIAL SAFETY

In 2008 activities in labor safety and industrial safety were carried out under the approved plan and in accordance with requirements of the

legislation of the Republic of Kazakhstan. Most of the focus was on taking efficient measures to prevent emergencies and accidents.

In 2008 18 accidents were recorded, at the same time the quantity of injured persons made up 22 ones.



A great amount of accidents took place in «KazMunayGas» EP - 7 cases, «KazTransOil» and «KazTransGas» - 3 cases, TH «KazMunayGas» and «TenizService» LLP - 2 cases, «Semser» LLP - 1 case.

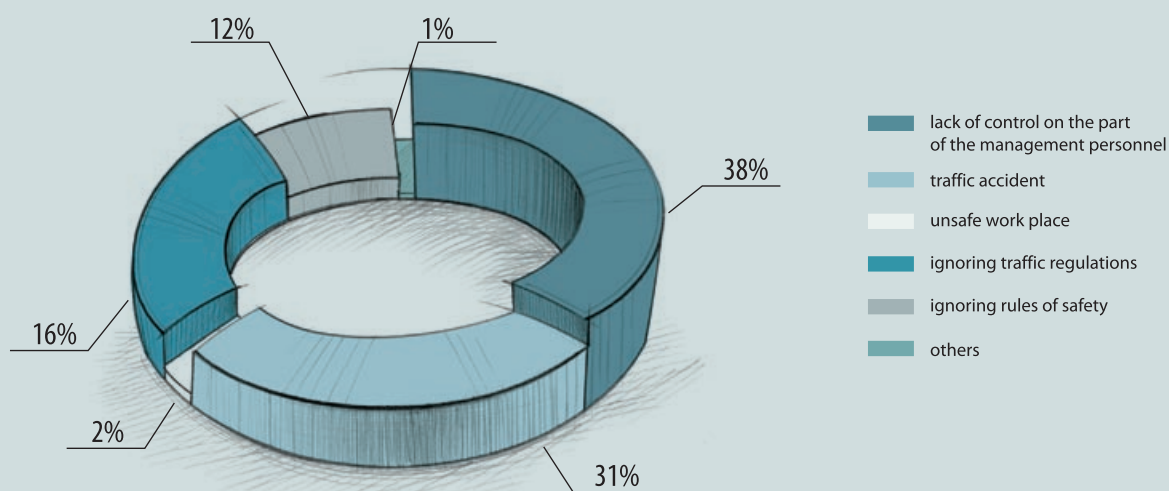
6 cases out of the total number of accidents were fatal.

The analysis of accidents' causes shows:

- 38% cases occurred because of lack of control on the part of the management personnel;
- 31% cases happened because of traffic regulations violation;
- 12 % accidents took place because of safety

rules violation;

- Improper use of specialities of the employees- 16%;
- Unsatisfactory preparation of work place - 2%;
- others (attacks at gas stations) - 1%.



To provide safe conditions at work places the Company checks labour safety condition. Measures for eliminating discovered violations are taken. Thus, in November of the last year «Semser» LLP, «KazMunayGas» EP, «KazTransOil», TH «KazMunayGas» in Mangistau, Atyrau, Karaganda oblasts were checked against obser-

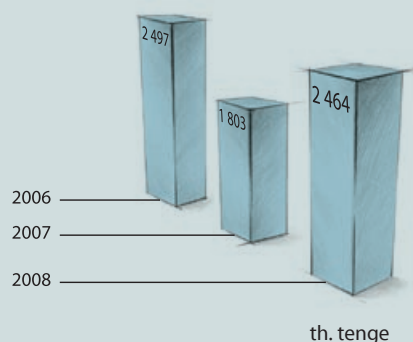
vation of requirements of transport and special equipment use.

In May 2008 there was an inspection held together with specialists from the Moscow branch and Kazakhstan's branch of Lukoil Overseas Service Ltd for checking condition of fire and

industrial safety, labour safety and environment protection in KazakoilAktobe LLP.

In 2008 2 464 billion tenge were spent for labour safety and accident prevention.

Financial expenses



Every month, beginning with 2008, labour and industrial safety problems are considered during meetings of Board of directors and the Management Board. As a result, to provide industrial safety and fulfillment of norms and requirements set for labour protection the following measures are planned:

1. creation of supervisors;
2. organization of accidents prevention and industrial traumatism system on the basis of production risks analysis;
3. introduction of traffic safety management system;
4. provision of sufficient financing for labour protection, fire and industrial safety;
5. strict control over observation of safety rules at work places.





CORPORATE GOVERNANCE

THE BASIC PRINCIPLES OF JSC NC "KAZMUNAYGAS" CORPORATE GOVERNANCE ARE AS FOLLOWS:

- PROTECTION OF RIGHTS AND INTERESTS OF THE SOLE SHAREHOLDER
- EFFICIENT CONTROL OF COMPANY BY THE BOARD OF DIRECTORS AND THE BOARD
- INDEPENDENT ACTIVITY OF THE COMPANY
- TRANSPARENCY AND OBJECTIVITY OF INFORMATION DISCLOSURE ON THE COMPANY'S ACTIVITY
- LEGALITY AND ETHICS
- EFFECTIVE DIVIDEND POLICY
- EFFECTIVE PERSONNEL POLICY
- ENVIRONMENT PROTECTION
- POLICY OF REGULATION OF CORPORATE CONFLICTS AND CONFLICT OF INTERESTS
- RESPONSIBILITY

The process of development and implementation of corporate governance progressive methods is under way. The system of corporate governance in JSC NC «KazMunayGas» is based upon respect of rights and interests of the Sole Shareholder and key parties involved – the state, partners, employees, and is directed to reduce investment risks, increase investment attractiveness, decrease of borrowed and own capital and increase of the company value.

In 2008 Within the frameworks of the measures on improving corporate governance the Program assumption of office for newly selected members of the Board of directors was developed.



BODIES OF CORPORATE GOVERNANCE

The Board of Directors of the JSC NC “KazMunayGas” is responsible before the Sole Shareholder for efficient control and appropriate control over the Company’s activity, ensuring of appropriate dialogue with the Sole Shareholder

The Board of Directors determines directions of strategic development of the Company, considers and makes decisions on issues of potential purchases and other essential issues of financial character.

The Board of Directors of the Company includes six members, including two independent directors. In 2007 Committee On Audit, Committee On Assignments and Committee On Remunerations were formed within the Board of Directors.

In 2008 Committee on strategic planning was formed within the Board of Directors.

JSC NC “KAZMUNAYGAS” BOARD OF DIRECTORS COMMITTEES:

Committee On Audit	Considers issues of internal and external audit, financial statements. In 2008 twelve sessions were carried out by Committee on audit.
Committee On Strategic Planning	Prepares recommendations for the Board of Directors on the following questions: - working out strategic purposes of the Company’s development - analyzing concept, plans and programs of the Company’s strategic development In 2008 one session was carried out by Committee on Strategic Planning.
Committee On Remunerations	Develops recommendations on policy and structure of remunerations of the members of the Board of Directors, members of the Management Board, Head of Service of internal audit, Corporate secretary. Proposes the recommendations on other questions in accordance with the Board of Directors assignments and/or with the internal provisions of the Company. In 2008 5 sessions were carried out by Committee on remunerations.
Committee On Remunerations	Develops recommendations on policy and structure of remunerations of the members of the Board of Directors, members of the Executive Board, Head of Service of internal audit, Corporate secretary and other staff of the Company. In 2008 5 sessions were carried out by Committee on remunerations.

The Management Board is responsible for realization of the Company’s strategy and current activity. The Management Board accounts to the Board of Directors about the executed work on achievement of the Company’s goals.

Committee on risks	Considers and preliminarily approves issues on risks management which are considered at sessions of the Committees of the Board of Directors, participates in development and execution of plans/ programs on realization of measures for introduction and improvement of corporate risks management system. In 2008 two sessions were carried out by Committee on risks.
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SOLE SHAREHOLDER

JSC «National Welfare Fund «Samruk-Kazyna»
Supreme Body

Board of Directors

Is responsible for development of the Company's strategy, general
administration of its activity and control of the Board's activity

Management Board

The Collegial Executive Body which manages the current activity of the
Company and realizes the strategy, determined by the Board of Directors
and the Sole Shareholder

Service of Internal Audit

The body which carries out control of financial and economic activities of
the Company, estimation in the field of internal control, risks management,
executions of documents in the field of corporate governance and
consulting to improve the Company's activity



COOPERATION WITH SHAREHOLDERS

As of December 31, 2008

the Sole Shareholder of JSC NC "KazMunayGas" is JSC "National Welfare Fund "Samruk-Kazyna" which holds 100% of shares of JSC NC "KazMunayGas"

The Board of Directors understands importance of constant and effective cooperation with the Sole Shareholder. The company informs the Sole Shareholder in due time and in full manner on its activity affecting the Sole Shareholder's in the order, stipulated by the Charter and internal documents of the Company.

The following statements shall be submitted to the Company's Board of directors:

- semi-annual: about management of affiliated, dependent and jointly - controllable organizations, about influence of results of financial
- economic activities affiliated, dependent and jointly - controllable organizations on indicators of the Company's activity;
- annual: about realization of the Company's Development Plan (medium-term business-plan) and the Society's budget.

Resolutions of the Sole Shareholder accepted within the framework of its competence are obligatory for the Board of Directors of the Company.

COOPERATION WITH THE AFFILIATED AND DEPENDENT ORGANIZATIONS

Cooperation with affiliated and dependent organizations (ADO) is carried out within the framework of the approved corporate procedures through the appropriate bodies of the company and ADO

The basic purposes of cooperation of the Company with the affiliated and dependent organizations are:

- Ensuring of stable financial development, profitability, increase of investment attractiveness of the Company and ADO;
- ensuring of protection of rights and interests of the Sole shareholder and ADO shareholders protected by the law;
- harmonization of relations between shareholders, officials and employees of the Company and ADO, acceptance of system measures under prevention of conflicts between them and inside the specified groups;
- development and realization of the coordinated and effective strategy and investment policy of the Company and ADO.

Mechanisms of ADO Corporate Governance

- construction of ADO vertical governance system by organizing corporate governance through creation of managing companies and supervisory control;
- implementation of unitary corporate standards in ADO;
- promotion of own representatives to the managing body of ADO;
- supervisor's appointment, ensuring of joint voting of representatives on discussed questions on the basis of recommendations to the representatives of NC «KazMunayGas» JSC in the boards of directors of ADO due to the agenda;

- control of ADO activity by representatives in managing bodies and supervisors, revision of financial-economic activity, selection of auditors, etc.

The important corporate events 2008 related to the corporate governance:

- The Boards of Directors of JSC «Trade House «KazMunayGas», JSC «KazTransOil», JSC «KazTransGas» and JSC OOC «KazMunayTeniz» were established as well as the appropriate Corporate Secretary Services;
- The Corporate Governance Codes of JSC «Trade House «KazMunayGas», JSC «KazTransOil», JSC «KazTransGas», JSC OOC «KazMunayTeniz», JSC «KBTU», JSC «KIOG», JSC



DUE TO THE RESULTS OF
FINANCIAL-ECONOMIC
ACTIVITY OF JSC NC
"KAZMUNAYGAS" IN 2008
THE BOARD OF DIRECTORS
PROPOSED THE SOLE
SHAREHOLDER TO AFFIRM
DIVIDENDS OF 2007 AT THE
RATE OF 29 209 331 000 TENGE
OR 92.4 TENGE PER ONE
ORDINARY SHARE



«Kazakhstan Contract Agency» and JSC «Euro-Asia Air» were approved;
– The Regulations on the Board of Directors of JSC «Trade House «KazMunayGas», JSC «KazTransOil», JSC «KazTransGas», JSC OOC «KazMunayTeniz», JSC «KIOG» and JSC NMSC «Kazmortransflot» were approved.
– The Regulations on the Corporate Secretary of JSC «Trade House «KazMunayGas», JSC

«KazTransOil», JSC «KazTransGas», JSC OOC «KazMunayTeniz», JSC NMSC «Kazmortransflot», JSC «KBTU» and JSC «KIOG» were approved.

Corporate Secretariat

In April 2009 Corporate secretary of NC «KazMunayGas» JSC was elected by the Board of Directors.

Dividends

Due to the results of financial-economic activity of NC «KazMunayGas» JSC in 2008 the Board of Directors proposed the Sole Shareholder to affirm dividends of 2007 at the rate of 29 209 331 000 tenge or 92.4 tenge per one ordinary share.







RISK MANAGEMENT

IN 2008 A NUMBER OF MEASURES WERE TAKEN TO IMPROVE THE CORPORATE INSURANCE COVERAGE SYSTEM, DEVELOP AND IMPLEMENT THE INTERNAL CONTROL SYSTEM, IDENTIFY AND ASSESS RISKS, INTEGRATE THE RISK MANAGEMENT INTO THE BUSINESS-PROCESSES OF INVESTMENT PLANNING



RISK MANAGEMENT

JSC NC «KazMunayGas» introduces the risk management system on the consolidated base given the cover of risks of its subsidiary and dependent organizations by creating a corporate risk management system (CRMS)

The CRMS technique corresponds to the accepted international practice of risk management in the oil-and-gas industry and is based on the technique of the Committee of Sponsoring Organizations of the Treadway Commission. Introduction of effective CRMS, which allows identifying, forecasting and managing the essential risks, implies the stage-by-stage performance of actions as well as regular implementation of the corporate risk management process, including:

- development of the internal environment of the corporate risk management system;
- determination of the CRMS goals and tasks;
- integration of risk management into other business-processes;
- risk identification and estimation;
- development of effective measures on risk management;
- implementation of measures on risk manage-

ment and risk monitoring;

- constant improvement of the CRMS procedures.

In 2008 a number of measures were taken to improve the corporate insurance coverage system, develop and implement the internal control system, identify and assess risks, integrate the risk management into the business-processes of investment planning.



THE CRMS TECHNIQUE
CORRESPONDS TO THE
ACCEPTED INTERNATIONAL
PRACTICE OF RISK
MANAGEMENT IN THE OIL-AND-
GAS INDUSTRY AND IS BASED
ON THE TECHNIQUE OF THE
COMMITTEE OF SPONSORING
ORGANIZATIONS OF THE
TREADWAY COMMISSION



MAIN ACTIVITIES FOR THE CRMS INTRODUCTION IN 2008

April - November

Using the interviewing method of the JSC NC «KazMunayGas» structural subdivisions, the risks were identified and assessed. It was formed the risks Register and the risks Chart of the Company.
The Risk Management Programme of JSC NC «KazMunayGas» for 2008-2010 was developed. The Risk Management Programme was approved by the Company's Management Board.

April – October

The Internal Control System Policy of JSC NC «KazMunayGas» was developed and approved.

March-December

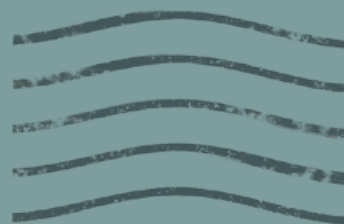
New Rules of Insurance Coverage of the JSC NC «KazMunayGas» group of companies were developed.







BASIC EVENTS 2008





ASSET ACQUISITION AND DISPOSAL

Batumi Oil Terminal

The transaction on purchase of 100% block of shares of Batumi Industrial Holdings Limited owning the Batumi oil terminal and the port was completed. The transaction value amounted to USD 325 million. The Batumi terminal became the first foreign transshipment asset of Kazakhstan having access to the open sea.

KazMunayGas Finance B.V.

100% of the KazMunayGas Finance B.V. share capital was sold in favor of Cooperative KazMunayGas PKI U.A. to arrange funding for purchase of JSC MangistauMunaiGas. BoD Minutes No.10/2008 of 19.09.2008.

JSC MangistauMunaiGas

The Contract was concluded with Central Asia Petroleum Ltd. on purchase of 50 % + 2 voting shares of JSC MangistauMunaiGas. The transaction will be completed after receiving the appropriate approvals by the Antimonopoly Agency of the Republic of Kazakhstan, European Commission as well as fulfillment of the previously reached agreements.

JSC Atyrau International Airport

It was resolved to sell 100 % of block of shares of JSC Atyrau International Airport in exchange for 50 % of block of shares of JSC NMSC «KazMorTransFlot» between JSC NC «KazMunayGas» and JSC NWF «Samruk-Kazyna».

Mertvyi Kultuk Project

It was approved to establish a joint operating company for implementation of the Mertvyi Kultuk Project with Caspian Tristar LLP.

Kazakhstan Pipeline Ventures

It was approved to acquire the BP participatory share in Kazakhstan Pipeline Ventures (KPV). The transaction value amounted to USD 250 million.

“N” Operating Company LLP

To implement the «N» project, «N» Operating Company LLP was established (Aktau).



INDEPENDENT AUDITOR'S REPORT



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INDEPENDENT AUDITORS' REPORT

To the Shareholder of JSC "National Company "KazMunayGas":

We have audited the accompanying consolidated financial statements of JSC "National Company "KazMunayGas" and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at December 31, 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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



CONTINUED
INDEPENDENT AUDITOR'S REPORT



Opinion

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

Ernst & Young LLP


Gulmira Turmagambetova
Auditor

Auditor Qualification Certificate No.
0000374 dated 21 February 1998


Evgeny Zhemaletdinov
General Director
Ernst & Young LLP


State Audit License for audit activities on the
territory of the Republic of Kazakhstan:
series МФЮ-2 No. 0000003 issued by the
Ministry of Finance of the Republic of
Kazakhstan on 15 July 2005

March 27, 2009

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended on December 31, 2008

CONSOLIDATED BALANCE SHEET

In KZT thousands	As at December 31	
	2008	2007
ASSETS		
Long-term assets		
Capital assets	2.730.407.761	2.135.458.891
Intangible assets	76.794.956	78.059.381
Long-term bank deposits	30.058.832	34.175.534
Investments in associates	127.020.703	156.645.369
Deferred income tax assets	6.412.580	6.538.525
Royalty prepaid and VAT recoverable	14.240.493	11.411.167
Advances for non-current assets	39.448.950	11.433.286
Note receivable from the shareholder of a joint venture	9.431.009	9.239.114
Other long-term assets	8.545.861	5.843.995
	3.042.361.145	2.448.805.262
Current assets		
Inventories	119.081.894	112.435.727
VAT recoverable	56.095.032	46.598.909
Income taxes prepaid	15.911.866	11.346.708
Trade receivables	128.564.308	220.780.376
Short-term financial assets	565.331.625	451.058.616
Other current assets	85.630.150	79.167.770
Cash and cash equivalents	567.565.323	386.878.700
	1.538.180.198	1.308.266.806
Assets classified as held for sale	902.024	20.832.902
	1.539.082.222	1.329.099.708
TOTAL ASSETS	4.581.443.367	3.777.904.970



CONTINUED CONSOLIDATED BALANCE SHEET

In KZT thousands

As at December 31

	2008	2007
EQUITY AND LIABILITIES		
Equity		
Share capital	158,049.442	158,049.442
Additional paid-in capital	13,017.827	13,017.827
Other equity	1,385.035	1,465.300
Reporting currency translation reserve	(27,766.729)	(30,756.757)
Retained earnings	1,456,450.564	1,196,375.192
Attributable to equity shareholder of the parent company	1,601,136.139	1,338,151.004
Minority interest	421,965.722	353,346.501
Total equity	2,023,101.861	1,691,497.505
Long-term liabilities		
Borrowings	1,268,745.936	520,007.729
Payable for the acquisition of additional interest in project	239,500.799	—
Loan payable to the shareholder of a joint venture	89,054.612	96,083.536
Provisions	75,308.046	69,654.023
Deferred income tax liabilities	154,917.443	254,454.131
Other long-term liabilities	22,993.011	18,819.963
	1,850,519.847	959,019.382
Current liabilities		
Borrowings	215,684.611	694,689.890
Provisions	41,343.425	37,794.690
Income taxes payable	66,692.494	73,536.643
Trade accounts payable	187,573.410	155,335.884
Other taxes payable	57,278.570	49,249.423
Payable to the shareholder of a joint venture	74,397.258	13,043.435
Put option liability	14,895.525	34,387.421
Derivatives	105.791	1,337.564
Other current liabilities	49,850.575	57,631.838
	707,821.659	1,117,006.788
Liabilities directly associated with the assets classified as held for sale	—	10,381.295
Total liabilities	2,558,341.506	2,086,407.465
TOTAL EQUITY AND LIABILITIES	4,581,443.367	3,777,904.970

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

In KZT thousands

As at December 31

	2008	2007
Revenue from production sold and services delivered	2.537.390.600	1.413.357.773
Net cost of production sold and services delivered	(1.385.984.749)	(637.504.276)
Gross profit	1.151.405.851	775.853.497
General and administrative expenses	(189.525.412)	(107.327.496)
Transportation and selling expenses	(215.929.607)	(91.772.724)
Impairment of goodwill	(23.553.133)	–
(Impairment) / reversal of impairment of property, plant and equipment	(8.821.357)	609.084
Write-off of exploratory dry wells	(3.494.522)	(415.057)
Loss from disposal of property, plant and equipment, net	(1.220.830)	(2.840.448)
Profit from disposal of subsidiaries	2.839.531	4.964.182
Other operating income	11.090.672	10.207.638
Other operating loss	(7.325.723)	(8.924.823)
Profit from operating activities	715.465.470	580.353.853
Foreign exchange loss / gain, net	(14.741.532)	7.427.645
Financial income	103.051.321	42.894.273
Financial costs	(186.577.960)	(65.031.416)
Share in associates' revenues	22.374.758	58.949.348
Profit before income tax	639.572.057	624.593.703
Income tax expenses	(254.061.820)	(271.078.881)
Profit for the year from continuing operations	385.510.237	353.514.822
Discontinued operations		
Loss after corporate income tax for the year from discontinued operations	–	(3.279.404)
Net profit for the year	385.510.237	350.235.418
Attributable to:		
Shareholder of the parent company	292.680.281	282.922.339
Minority interest	92.829.956	67.313.079
	385.510.237	350.235.418



CONSOLIDATED CASH FLOW STATEMENT

In KZT thousands

As at December 31

	2008	2007
Cash flows from operating activities:		
Profit before corporate income tax from continuing operations	639.572.057	624.593.703
Loss before corporate income tax from discontinued operations	–	(3.162.219)
Profit before income tax	639.572.057	621.431.484
Adjustments for:		
Depreciation, depletion and amortization	154.370.510	103.654.381
Share of income in associated companies	(22.374.758)	(58.949.348)
Financial costs	186.577.960	65.031.416
Financial income	(103.051.321)	(42.894.273)
Impairment / (reversal of impairment) of capital assets	8.821.357	(609.084)
Impairment of goodwill	23.553.133	–
Write-off of exploratory dry wells	3.494.522	415.057
Provisions	17.766.767	5.436.747
Loss from disposal of capital assets, net	1.220.830	2.840.448
Gain from disposal of subsidiaries	(2.839.531)	(4.964.182)
Inventory provisions	3.441.678	3.930.305
Doubtful debt provisions	15.267.703	4.486.721
Unrealized foreign exchange gain	837.483	(7.443.558)
Profit from operating activity before changes in working capital	926.658.390	692.366.114
Change in inventory	(32.552.008)	(16.949.479)
Change in royalty prepaid and VAT recoverable	(11.228.437)	65.729
Change in trade receivables	80.589.380	(58.020.211)
Change in other current assets	(5.924.908)	(25.766.266)
Change in other taxes payable	7.906.008	29.529.056
Change in trade accounts payable	16.511.997	13.863.741
Change in other current liabilities	(9.156.108)	(39.641.647)
Cash generated from operating activity	972.804.315	595.447.037
Income taxes paid	(366.435.374)	(216.331.699)
Interest received	78.242.473	42.894.273
Interest paid	(99.305.341)	(62.771.411)
Net cash flow from operating activities	585.306.072	359.238.200
Cash flows from investment activities:		
Placement of bank deposits, net	(112.241.776)	(211.063.064)
Acquisition of subsidiaries, net of cash acquired	(37.903.770)	(187.617.386)
Acquisition of joint ventures, net of cash acquired	–	(32.565.266)
Cash of subsidiaries reclassified from assets held for sale	105.033	–
Cash of subsidiaries being disposed of	–	(1.699.482)
Purchase of capital assets and intangible assets	(541.323.037)	(279.538.063)
Acquisition of minority interest	(2.671.077)	–

CONTINUED
CONSOLIDATED CASH FLOW STATEMENT

In KZT thousands

As at December 31

	2008	2007
Distributions received from associates	48.116.000	72.613.243
Payments based on equity instruments in subsidiaries	(249.480)	—
Subsidiary's purchase of its own shares	(521.318)	—
Cash inflow from sale of investments	3.811.702	18.642.133
Cash inflow from sale of capital assets	25.995.590	31.518.168
Net cash flow used in investment activities	(616.882.133)	(589.709.717)
Cash flows from financing activities:		
Proceeds of loans	1.012.004.428	723.884.524
Repayment of loans	(752.176.142)	(305.532.121)
Contribution to additional paid-in capital	—	3.036.366
Dividends paid	(46.558.818)	(24.924.654)
Other distributions	(2.288.590)	—
Net cash flow from financing activities	210.980.878	396.464.115
Effects of changes in foreign exchange rate on cash and cash equivalents	1.281.806	(9.098.228)
Net increase in cash and cash equivalents	180.686.623	156.894.370
Cash and cash equivalents at the beginning of the year	386.878.700	229.984.330
Cash and cash equivalents at the end of the year	567.565.323	386.878.700



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to the Company's shareholder								
In KZT thousands	Charter capital	Additional paid-in capital	Other equity	Currency translation reserve	Retained earnings	Total	Minority interest	Total
As at December 31, 2006	158.049.442	9.572.244	92.249	(10.881.029)	922.982.924	1.079.815.830	222.299.751	1.302.115.581
Foreign currency translation	—	—	—	(20.605.582)	—	(20.605.582)	(126.551)	(20.732.133)
Net unrealized loss on investments available for sale	—	—	(435.886)	—	—	(435.886)	—	(435.886)
Translation adjustment related to change of functional currency of a joint venture	—	—	—	729.854	(729.854)	—	—	—
Total amount of income and expense for the year reflected in the equity	—	—	(435.886)	(19.875.728)	(729.854)	(21.041.468)	(126.551)	(21.168.019)
Net profit for the year	—	—	—	—	292.093.312	292.093.312	67.313.079	359.406.391
Restatement of the comparative information upon finalization of accounting estimate	—	—	—	—	(9.170.973)	(9.170.973)	56.033.312	46.862.339
Total amount of income and expenses for the year	—	—	(435.886)	(19.875.728)	282.192.485	261.880.871	123.219.840	385.100.711
Dividends	—	—	—	—	(8.766.059)	(8.766.059)	(16.158.595)	(24.924.654)
Recognition of equity instruments based payments	—	—	1.808.937	—	—	1.808.937	—	1.808.937
Contributions to charter capital	—	3.445.583	—	—	—	3.445.583	—	3,445.583
Minority interest in acquired subsidiaries and joint ventures	—	—	—	—	—	—	24.043.531	24.043.531
Change in subsidiaries' ownership	—	—	—	—	(34.158)	(34.158)	(58.026)	(92.184)
As at December 31, 2007								
(Restated)	158.049.442	13.017.827	1.465.300	(30.756.757)	1.196.375.192	1.338.151.004	353.346.501	1.691.497.505

CONTINUED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to the Company's shareholder								
In KZT thousands	Charter capital	Additional paid-in capital	Other equity	Currency translation reserve	Retained earnings	Total	Minority interest	Total
Foreign currency translation	—	—	—	2.990.028	—	2.990.028	92.864	3.082.892
Sale of investments available for sale	—	—	435.886	—	—	435.886	—	435.886
Total amount of income and expenses for the year reflected in equity	—	—	435.886	2.990.028	—	3.425.914	92.864	3.518.778
Net profit for the year	—	—	—	—	292.680.281	292.680.281	92.829.956	385.510.237
Total amount of income and expenses for the year	—	—	435.886	2.990.028	292.680.281	296.106.195	92.922.820	389.029.015
Dividends	—	—	—	—	(29.209.331)	(29.209.331)	(17.349.487)	(46.558.818)
Recognition of equity instruments based payments	—	—	1.314.775	—	—	1.314.775	—	1,314.775
Payments based on equity instruments	—	—	(1.830.926)	—	880.251	(950.675)	701.195	(249.480)
Buy back by subsidiary of own shares from the market	—	—	—	—	(521.318)	(521.318)	—	(521.318)
Other distributions of subsidiaries	—	—	—	—	(2.288.590)	(2.288.590)	—	(2,288.590)
Changes in subsidiaries' ownership – acquisition of minority interest	—	—	—	—	(1.465.921)	(1,465.921)	(4.271.259)	(5,737.180)
Change in subsidiaries' ownership – withdrawal of subsidiary	—	—	—	—	—	—	(3.384.048)	(3,384.048)
As at December 31, 2008	158.049.442	13.017.827	1.385.035	(27.766.729)	1.456.450.564	1.601.136.139	421.965.722	2.023.101.861





APPENDICES TO
THE ANNUAL
REPORT OF JSC NC
«KAZMUNAYGAS»
FOR 2008





SUMMARY REPORT OF PERFORMANCE OF THE MANAGEMENT BOARD OF JSC NC «KAZMUNAYGAS» FOR 2008

For the accounting period the KMG Management Board submitted to the Board of Directors 149 issues concerning the Company's core activity, in particular, on implementation and improvement of the Corporate Risk Management System (CRMS), on implementation of the Management Reporting System (MRS), on the Policy of Internal Control System, on the Program of Accession for the newly elected members of the Board of Directors and other aspects of the corporate governance.

Some issues of re-structuring and alienation of assets were also considered. The issues on main principles of cooperation in construction of the Pre-Caspian Gas Pipeline were considered. A large set of issues on the Company's financial activity was considered, in particular, the consolidated financial reporting and individual financial reporting 2007, the procedure of the total profit distribution for 2007, the amount of dividends, the issues on conclusion of the interested-party transactions, the principles of development of the system of administrative and financial accounting of the Company for 2008-2010, as well as adjustment of the Budget 2008 and Budget 2009. Besides, the strategic issues were also considered, in particular, the Development Plan 2009-2013 and the draft Long-Term Strategy. The issues of the Company's Policy in the field of sponsor's and charity activities were also considered.

Within 2008 the Management Board approved the documents regulating the procedure and the plan of work of the newly created Committees of the Management Board - on strategic management and risks.

The rules, regulations, plans and the policy of the Company defining and directed to enhancement of the corporate governance of the subsidiary and dependent organizations, development of information technologies and control of access to information systems; recruitment, assessment and remuneration of the personnel; formation of monthly reporting in terms of basic industrial, financial and economic indicators, the dividend policy and granting of financial aid to the subsidiary and dependent organizations; receiving the corporate governance rating; promotion of the Company facilities' safety; procurement procedures; in the field of health, safety and environment and in the field

of quality, strategic initiatives (Strategic Plan of Development) for 2008-2012; submission of information on production and technical well characteristics and seismic data.

The Management Board provided recommendations to the employees representing the Company's interests as the members of the Boards of Directors and members of the supervisory boards of the JSC NC «KazMunayGas» subsidiary organizations on the agendas of the Board of Directors' meetings and the supervisory boards of respective subsidiary organizations and dependent joint-stock companies.

MAJOR TRANSACTIONS DECISIONS IN 2008

Approved by the Board of Directors of JSC NC «KazMunayGas»

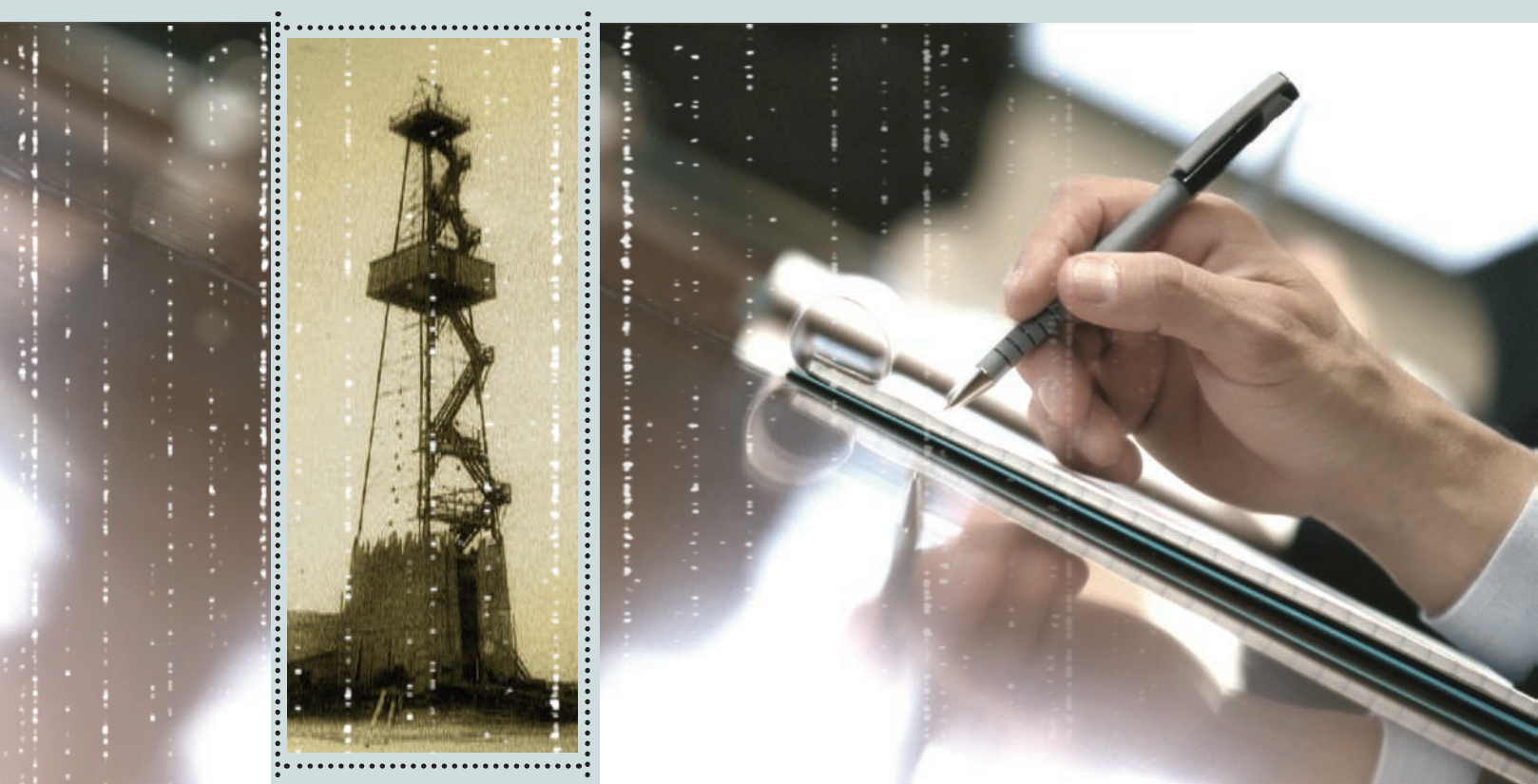
«On increase in the KMG Kashagan B.V. charter capital to the amount of 2 000 000 000 US dollars and the Company's additional contribution to the KMG Kashagan B.V charter capital by cash to the amount of 3 680 290 000 US dollars by concluding a major transaction and an interested-party transaction».

Miscellaneous:

1.a. «On some issues of the KazMunayGas Finance B.V activity»

1.b. «On conclusion of a major transaction – Indemnity Contract between JSC NC «KazMunayGas» and Central Asia Petroleum LTD.»

1.c. «On conclusion of a major transaction and an interested-party transaction – Indemnity Contract between JSC NC «KazMunayGas» and «KazMunayGas» EP JSC.»



FINANCIAL SUPPORT INFORMATION

The JSC NC «KazMunayGas» warranties before the State and the third parties as of December 31 2008:

1. Guarantee No.12 of July 5 2005 for the RK Ministry of Energy and Mineral Resources on enforcement by JSC OOC «KazMunayTeniz» of the PSA terms and conditions with regard to the Kurmangazy structure of July 6 2005 for the amount of USD 25,8 million.
2. Guarantee No.15 of December 1 2005 for Societe General, ABN AMRO Bank N.V. on securing the JSC AC «Euro-Asia Air» obligations for the amount of Euro 17,5 million

3. Guarantee No.16 of December 1 2005 for Societe General, ABN AMRO Bank N.V. on securing the JSC AC «Euro-Asia Air» obligations for the amount of Euro 3 million

4. Guarantee No.20 of June 15 2006 for SB HSBC Bank of Kazakhstan for securing the «Teniz Service» LLP obligations pursuant to Credit Line Agreement No.CIB0206 of June 16 2006 for the amount of USD 29,904 mln.

5. Guarantee w/o of September 4 2008 for Deutsche Bank AG on securing the KMG PKOP Investment B.V. obligations for the amount of USD 2,5 bln.

6. Guarantee No. 317-28 of October 09 2008 for HSBC Bank Plc for securing the JSC AC «Euro-Asia Air» obligations (purchase of airplanes) for the amount of USD 43 mln.

7. Guarantee No. 319-28 of December 11 2008 for JSC SB RBS (Kazakhstan) for securing the JSC NMSC «Kazmortransflot» obligations (construction/purchase of 2 multipurpose tows) for the amount of USD 8 mln.



THE LIST OF THE JSC NC «KAZMUNAYGAS» INTERESTED-PARTY TRANSACTIONS CONCLUDED IN 2008

Approved by the Board of Directors of JSC NC «KazMunayGas»:

On participation of JSC NC «KazMunayGas» in the KMG Kashagan B.V. activity by concluding an interested-party transaction - Additional contribution to the KMG Kashagan B.V. charter capital by cash for the amount of USD 558 000 000.

On participation of JSC NC «KazMunayGas» in the activity of its subsidiary JSC NC «KazTransGas» by concluding an interested-party transaction – Supplementary Agreements No.1 and No.2 to the Heads of Agreement on Construction and Operation of the Kazakhstan – China Gas Pipeline of November, 8th, 2007.

On conclusion by JSC NC «KazMunayGas» of an interested-party transactions - Assignment Agreements under License Agreements for the Atyrau Refinery LLP reconstruction on turn-key terms.

On conclusion of a transaction – Loan Agreement for the amount of USD 2 850 000 000 between the Company, bank syndicates and KazMunayGas PKOP Investment B.V.

On conclusion by the Company of the interested-party transactions (Trust Agreement,

Dealer Agreement, Agent Agreement).

On conclusion of Supplementary Agreement No.1 to Financial Aid Agreement No.140-28 of June 20 2007 between JSC NC «KazMunayGas» and JSC NMSC «Kazmortransflot».

On conclusion of Supplementary Agreement No.1 to Financial Aid Agreement No.98-28 of April 25 2007 between JSC NC «KazMunayGas» and JSC NMSC «Kazmortransflot».

On conclusion of Supplementary Agreement No.1 to Financial Aid Agreement No.322-28 of October, 31th 2006 between JSC NC «KazMunayGas» and JSC Almaty Power Consolidated.

On conclusion by JSC «KazTransGas» of an interested-party transaction - Supplementary Agreement No.3 to the Heads of Agreement on Construction and Operation of the Kazakhstan-China Gas Pipeline between the Company and Chinese National Petroleum Corporation, JSC «KazTransGas» and Trans-Asia Gas Pipeline Company Limited.

On conclusion by JSC «KazTransOil» of the interested-party transactions - Agreement on

Investments to the Reconstruction of the Atyrau PS Production Loading Facility between JSC «KazTransOil», «Tengizchevroil» JV LLP and Contractor's Agreement for Reconstruction of the Atyrau PS Production Loading Facility between JSC «KazTransOil», «Tengizchevroil» JV LLP and Construction Service No.99 LLP.

On conclusion by JSC «KazTransOil» of an interested-party transaction – Freight Forwarding Agreement between JSC «KazTransOil» and «Tengizchevroil» JV LLP.

On conclusion by JSC TH «KazMunayGas» of a major transaction and an interested-party transaction, - Supplementary Agreement No.3 to Agreement of Sale and Purchase of Petroleum Refinery Products No.108-2008 of March 03 2008 between JSC TH «KazMunayGas» and TH KazMunayGasAG.

On conclusion by JSC TH «KazMunayGas» of an interested-party transaction - Agreement between JSC TH «KazMunayGas» and LLP «Atyrau Refinery» on assignment of license rights and obligations.

DURING 2008 THE ISSUES OF A
STRATEGIC CHARACTER WERE
CONSIDERED, IN PARTICULAR, THE
DEVELOPMENT PLAN 2009-2013 AND
THE DRAFT LONG-TERM STRATEGY



On conclusion by JSC TH «KazMunayGas» of an interested-party transaction (Morgan Stanley).

On increase in the KMG Kashagan B.V. charter capital for the amount of USD 2 000 000 000 and the Company's additional contribution into the KMG Kashagan B.V charter capital for the amount of USD 3 680 290 000 by concluding a major transaction and an interested-party transaction.

On conclusion by JSC NC «KazMunayGas» of an interested-party transaction - Supplementary Agreement to Money Pledge Agreement of July, 11th, 2006 No.5394/216-28, Supplementary Agreement to Money Pledge Agreement of November, 29th, 2007 No.1683 between JSC National Savings Bank of Kazakhstan and JSC NC «KazMunayGas» and Money Pledge Agreement between JSC National Savings Bank of Kazakhstan and JSC NC «KazMunayGas» (under financing the Caspian Petroleum Company LLC activity in 2008).

On conclusion by JSC NC «KazMunayGas» of an interested-party transaction - Financial Aid Agreement between JSC NC «KazMunayGas» and JSC «Kazakh Institute of Oil and Gas» (directed to be finalized for submission of supplementary material).

On approval of an interested-party transaction - Supplementary Agreement No.1 to Agreement No.7 of February 08 2008 between Caspian Petroleum Company LLC and JSC NC «KazMunayGas».

On conclusion of the Second Supplementary Agreement to the North Caspian PSA of November, 18th, 1997 and approval of associated documents.

On approval of conclusion by JSC NC «KazMunayGas» of an interested-party transaction - Memorandum of Understanding to the CPC-R and CPC-K Shareholders Agreement on the Principles of the CPC Expansion Project Implementation.

On conclusion of an interested-party transaction - Heads of Agreement between Amoco Kazakhstan (CPC) Inc. and JSC NC «KazMunayGas».

On conclusion by JSC NC «KazMunayGas» of an interested-party transaction - granting of a corporate guarantee for securing the JSC «KazMorTransFlot» obligations on the loan attracted to JSC RBS (Kazakhstan) to the amount USD 8 000 000.

On conclusion of a major transaction and an interested-party transaction - Indemnity Agreement between «KazMunayGas» EP JSC and JSC NC «KazMunayGas».

On conclusion of an interested-party transaction - Financing Agreement between KazMunayGas Finance B.V., JSC NC «KazMunayGas» and «KazMunayGas» EP JSC.

On conclusion of an interested-party transaction - Agreement on Limitation of Liability between JSC NC «KazMunayGas», KazMunayGas Finance B.V. and RBS Corporate Finance Limited under the contract between KazMunayGas Finance

B.V. and RBS Corporate Finance Limited.

On approval of conclusion by JSC NC «KazMunayGas» of an interested-party transaction - Memorandum of Understanding to the CPC-R and CPC-K Shareholders Agreement on the principles of the CPC Expansion Project Implementation.

On conclusion of an interested-party transaction - Terms and Conditions of Secondment to Secondment Agreement No. 280-19 of September, 15th, 2006 between JSC NC «KazMunayGas», «Tengizchevriol» JV LLP and PF United Human Recourses Development Center.

On conclusion of an interested-party transaction - Agreement on Cancellation of Property Trust Agreement of December 30 2005 No. 519-7.

President (Chairman of the Management Board)

K.Kabyldin





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