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## **THE SUMMARY REPORT**

on verification of receipts and payments to the Governmental budget data presented by the companies operating in extracting industries and Ministry of Finance of The Republic of Kazakhstan (the Authorized body) for calendar year 2006 within the scope of republican program “Realization of the Extractive Industries Transparency Initiative of the Republic of Kazakhstan”

The project was accomplished by “Inaudit”, LLP in accordance with the contract № 33-2008 dated 22 August 2008 signed with the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan.

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## **SUMMARY REPORT ON DATA VERIFICATION**

**№ 02-02/38            from 24 December 2008.**

To the Members of the National Board of Interested Parties on realization of the Extractive Industries Transparency Initiative (“EITI”) of the Republic of Kazakhstan:

We have lead verification of reports presented by the extracting Companies and the Ministry of Finance of Republic Kazakhstan (further - the Authorized body) on receipts and payments to the budget for calendar year 2006. The given verification is prepared on the basis of Memorandum of Understanding (the “MOU”) dated October 5, 2005, signed by deputies of the Parliament of the Republic of Kazakhstan, companies operating in the extractive industries of the Republic of Kazakhstan, non-governmental organizations and the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan and on the basis of contract № 33-2008 dated August 22, 2008 signed with the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan. The given summary was executed in accordance with International standard concerning information acknowledgement and Technical task of the contract described above. Thus, it included examinations, analysis of data and comparison versus primary documents, versus data of Treasury and implementation of other procedures that we have found necessary in the current circumstances.

The information for verification included the information presented by the Companies party to MOU, and confirming proofs on the payments/receipts received by Authorized body which have been presented by the Companies and the Authorized body.

Our goal was to acknowledge reliability of the presented information, and at revealing divergences between data of the Authorized body and the Companies, to check these divergences with the purpose of establishment of the reasons of each divergence,

their elimination and development of recommendations on elimination of such divergences in the future.

During carrying out of the verification, we had lead the following procedures:

1. Consultations were provided to all extracting Companies on filling the form of the report on EITI according to the approved instruction on filling the report.
2. Participation in the Conference on EITI in Ust-Kamenogorsk where separate questions of the reporting have been clarified.
3. Upon our request the Customs committee provided us with the data received not only from regions, but also from the Treasury, similar exercises were accomplished by Tax Committee.
4. Besides, through the Ministry of Energy and Mineral Resources of RK we requested the information regarding payments made by 65 Companies from the Treasury of the Ministry of Finance of RK (to exclude the human factor) and cleared out the data of Tax and Customs committees.
5. In accordance with the Technical task, after specification of data of the Tax and Customs committees that was executed via comparing to data of the Treasury, we directed inquiries to the Companies on divergences in granting confirming documents (bank clearance sheets, payment orders, tax account statements, etc.) and in case of full explanation of divergences the companies repeatedly presented corrections with corresponding explanations.
6. The list of the Companies subject to verification and the reasons due to which several companies that signed the memorandum of EITI were not included in the list described above was finalized and completed.
7. Recalculation/ conversion of foreign currency to tenge was executed regarding 6 companies with foreign participation, that provided the report on EITI in US dollars for 2006.

As a result of the work accomplished, we believe, that the verification lead by us is sufficient for expression of our opinion.

### **Brief description of work performed**

The final list of the Companies, reports of which are subject to verification and Companies that did not present the report though signed MOU of EITI was clarified and completed - Appendix 1.

At verification of reports on the payments/receipts received from Authorized body and prepared by the Companies (parties to MOU) specified in Appendix 1. We have lead procedures necessary in the current circumstances, for identification of the reasons of divergences between the above-stated reports.

Results of verification are presented below:

## **Section I – Taxes**

Companies’ report	584 863 097 thous.tenge
Report of the Authorized body	889 786 542 thous.tenge
Difference	-304 923 445 thous.tenge

The difference in the sum of -304 923 445 thousand tenge in “Taxes” line arisen due to divergences of corporate income tax in the sum of – 301 064 744 thousand tenge, namely:

1) Upon Code number (101 102) in the sum of - 87 046 996 thousand tenge as a consequence of the fact that six Companies have presented the reports on taxes in US dollars while the Authorized body has reflected all payments received in tenge in its report.

2) Upon Code number (101 103) in the sum of - 975 000 тыс.тенге because one Company has reflected it under the given code whereas the Authorized body has reflected this sum under the code number (101 106).

3) Upon Code number (101 104) in the sum of 21 244 311 thousand tenge because:

a) One Company has shown payments in US dollars (264 thousand US dollars), while the Authorized body has reflected it in tenge in the sum of - 33 348 thousand tenge.

b) One Company has not considered return under the given tax made by the Authorized body in the sum of 40 648 thousand tenge.

c) Four Companies have reflected tax payments under the given code - 21 237 011 thousand tenge, whereas the Authorized body has reflected this sum under the code number (101 107).

4) Upon Code number (101 105) - One Company has reflected payments in foreign currency - 1 228 402 thousand US dollars, while the Authorized body has reflected it in tenge in the sum of - 162 208 152 thousand tenge.

5) Upon Code number (101 106) – same situation as the one described above: one Company has reflected payments in foreign currency - 67 830 thousand US dollars, while the Authorized body has reflected it in tenge in the sum of - 8 523 459 thousand tenge. The other Company reflected the sum of 975 000 thousand tenge under the code number (101 103).

6) Upon Code number (101 107) - One Company has reflected payments in foreign currency - 345 431 thousand US dollars, whereas the Authorized body has reflected it in tenge in the sum of - 43 293 438 thousand tenge. In addition, the Authorized body has reflected the sum of - 21 237 011 thousand tenge under the given code whereas four Companies have reflected this sum under the code number (101 104).

The difference in "Taxes" line was affected with divergences of the social tax, the land tax, personal income tax, the tax on vehicles and the tax on property because one Company has reflected payments in foreign currency, correspondingly - 15 695 thousand

US dollars; 14 thousand US dollars; 7 250 thousand US dollars; 119 thousand US dollars and 7464 thousand US dollars, and the Authorized body has reflected it in tenge, including:-1 972 937 thousand tenge; 1 800,8 thousand tenge; 912 836 thousand tenge; 14 067 thousand tenge and 953 960 thousand tenge.

Besides, one Company did not include the fine in the sum of 121,0 thousand tenge referring to the land tax and one Company not considered the tax on vehicles in the sum of - 2 980 thousand tenge.

We have confirmed all given divergences via reception of primary payment documents from the Companies and check of tax account statements of the Companies presented by Authorized body and data of Treasury that prove the transfer of monetary resources in foreign currency to the corresponding account of the Treasury, and also (upon the assignment of National Board of Interested Bodies, further - NBIP) via carrying out of the recalculation/ conversion of foreign currency to tenge and its comparison.

## **Section II - Special payments of subsurface users**

Companies' report	184 929 181 thous.tenge
Report of the Authorized body	323 383 309 thous.tenge
Difference	-138 454 129 thous.tenge

The difference in the sum of 138 454 129 thousand tenge has arisen because of the following:

1) Upon code number (105 306 - 105 326) “Royalty” - one Company has reflected payments in foreign currency - 827 029 thousand US dollars, whilst the Authorized body has reflected it in the sum of - 104 034 099 thousand tenge.

It is necessary to note, that the line “Compensation of historical cost” has the same code as the line “Royalty”, in connection to this fact, thirteen Companies have separated “Compensation of historical cost” line from “Royalty” line in the sum of 4 051 671 thousand tenge, while the Authorized body has not separated it. However, it has not affected the “Royalty” as a whole.

2) Upon code number (105 308 - 325) - “SHARE of the Republic of Kazakhstan in the Profit oil” – the case is identical to the previous one: one Company has reflected payments in foreign currency - 274 492 thousand US dollars, whereas the Authorized body has reflected it in tenge - 34 420 030 thousand tenge.

We have confirmed all given divergences via reception of primary payment documents from the Companies and check of tax account statements of the Companies presented by Authorized body and data of Treasury that prove the transfer of monetary resources in foreign currency to the corresponding account of the Treasury, and also (upon the assignment of NBIP) via carrying out of the recalculation/ conversion of foreign currency to tenge and its comparison.

### **Section III – Fees**

Companies’ report	15 199 108thous.tenge
<u>Report of the Authorized body</u>	<u>18 864 932 thous.tenge</u>
Difference	-3 665 825 thous.tenge

The difference in the sum of - 3 665 825 thousand tenge has arisen due to one single reason, one Company has included payments in foreign currency in the total sum of 28 845 thousand US dollars in the line 14 – “Land use fee” (105 315);; 15 “Environmental protection fee” (105 316); 16 “Water use fee” (105 303); 18 “Radio spectrum fee” (105 309) and 19 “Stamp duties and other budgetary duties”, while the Authorized body has shown payments corresponding to the given taxes in tenge - in a total sum of - 3 665 825 thousand tenge.

We have confirmed all given divergences via reception of primary payment documents from the Companies and check of tax account statements of the Companies presented by Authorized body and data of Treasury that prove the transfer of monetary resources in foreign currency to the corresponding account of the Treasury, and also (upon the assignment of NBIP) via carrying out of the recalculation/ conversion of foreign currency to tenge and its comparison.

### **Section IV – Customs payments**

Companies’ report	11 781 173 thous.tenge
<u>Report of the Authorized body</u>	<u>11 813 161 thous.tenge</u>
Difference	-31 988 thous.tenge

The difference in the sum of - 31 988 thousand tenge has arisen because one Company has included payments in foreign currency in the sum of – 266 thousand US dollars in its reports, while the Authorized body has shown given payments in tenge in the sum of - 31 988 thousand tenge.

We have confirmed all given divergences via reception of primary payment documents from the Companies and check of tax account statements of the Companies presented by Authorized body and data of Treasury that prove the transfer of monetary resources in foreign currency to the corresponding account of the Treasury, and also (upon the assignment of NBIP) via carrying out of the recalculation/ conversion of foreign currency to tenge and its comparison.

**Payments specified in foreign currency (US. Dollar)**

Companies' report	3 555 250 thous. US dollars
<u>Report of the Authorized body</u>	<u>0.</u>
Difference	3 555 250 thous. US dollars

The divergence in payments in foreign currency (US dollars) is explained by the fact that six Companies keep their records in US dollars and reflect payments in the same currency in the reports, whereas the Authorized body reflects all of the payments received in tenge. We have confirmed the given divergence via reception of primary payment documents from the Companies that prove the transfer of monetary resources in foreign currency to the corresponding account of the Treasury, and also (upon the assignment of NBIP) via carrying out of the recalculation/ conversion of foreign currency to tenge which has made - 447 286 700 thousand tenge. According to the Authorized body it is reflected in the sum of - 447 112 933 thousand tenge, a divergence is equal to 173 768,8 thousand tenge. The competent body could not provide recalculation of foreign currency to tenge regarding each payment and each date for verification. Due to this fact, the given difference has remained unexplainable.

**Payments specified in tenge**

Companies' report	796 772 558 thous.tenge
<u>Report of the Authorized body</u>	<u>1 243 847 944 thous.tenge</u>
Difference	447 075 386 thous.tenge

The difference in the sum – 447 075 386 thousand tenge has arisen, as it was explained earlier, because the Authorized body made a tax return in the sum of 40 648 thousand tenge specified in section "Taxes" under the code (101 104); and because of 2 980 thousand tenge, which was not included sum of the tax on transport specified under the code number (104 401), also due to the sum of the fine attributable to the land tax in the sum of 121 thousand tenge, reflected under (104 307 – 104 308) codes, and due to the sum of taxes of 447 112 933 thousand tenge, specified by the Authorized body in national currency whereas 6 companies with foreign participation have shown the given sum of taxes in US dollars.

During the given verification we clarified that according to the international standards of financial reporting, for the period ended December, 31st, 2006, 51 companies were audited.

We find it necessary to inform that both the Companies and the Authorized body have not submitted data on division of production in natural expression in their reports, that is why it was not reflected in the present report.

## **Basis for Qualified Opinion**

6 Companies reflected in Appendix 1 did not provide reports for verification even though they signed MOU of EITI. As a result, we could not analyze reports of payments and receipts of these Companies.

## **Qualified Opinion- Summary**

As a result of the accomplished work, i.e. after studying primary documents requested from extracting Companies and from Authorized body, after analysis and comparison of this data with the data of the Treasury, and also after carrying out of the recalculation/ conversion of the foreign currency to tenge and after identifying the reasons for divergences, we came to the conclusion that reporting of the extracting Companies and Authorized body for calendar year 2006 mostly reflect truthful and just view, i.e. drawn up in accordance with the approved instruction, comparable and fairly stated in all material respects.

## **Limitation of use**

The report is intended for the use of the signatory parties to the MOU only and should not be used by other parties or for uses/ objectives other than as prescribed by the MOU.

**Appendix 1. List of Oil&Gas and Mining Sectors party to the Memorandum of Understanding on realization of Extractive Industries Transparency Initiative of the Republic of Kazakhstan for which reports examination has been conducted**

№	List of the companies
1	“Adai Petroleum Company”, LLP
2	AITI*
3	“Karachaganak Petroleum Operating B.V.” Kazakhstan Branch ****
4	“Lukoil Overseas Karachaganak B.V.” Kazakhstan Branch
5	“BG Karachaganak Limited” (Aksai)
6	“Chevron International Petroleum Company”
7	“Agip Karachaganak B.V.”
8	“Agip Kazakhstan North Caspian Operating Company N.B.” *****
9	“Agip Caspian Sea B.V.”
10	Branch of the company “Inpex North Caspian Sea.Ltd” in the Republic of Kazakhstan
11	Branch of the Company “ConocoPhillips North Caspian. Ltd.” in the Republic of Kazakhstan
12	Branch “TOTAL E&P Kazakhstan”
13	Branch of the company “Shell Kazakhstan Development B.V.” in the Republic of Kazakhstan
14	Branch of the Corporation “ExxonMobil Kazakhstan Inc.” in the Republic of Kazakhstan
15	Branch of the company “Alties Petroleum International B.V.” in Aktobe
16	Branch of the company “Alties Petroleum International B.V.” in Atyrau
17	“Altyn KTD”, LLP **
18	“Altyn Ken”, LLP *
19	Mining Company “Altyn Kulager” **
20	“Aluminum of Kazakhstan” (PAZ), JSC
21	Krasnooktyabr bauxite ore management - Branch of “Aluminum of Kazakhstan”, JSC
22	“Kergetas” (KIR) mine - Branch of “Aluminum of Kazakhstan”, JSC
23	Representative office of “Aluminum of Kazakhstan”, JSC in Almaty
24	Representative office of “Aluminum of Kazakhstan”, JSC in Astana
25	Torgai bauxite ore management - Branch of “Aluminum of Kazakhstan”, JSC
26	“ANACO”, LLP
27	“Aral Petroleum Capital”, LLP
28	“Arnaoil”, LLP
29	Joint venture “Arman”, LLP
30	“Arman 100”, LLP *
31	“Alga CaspiGas”, LLP
32	“Artel Staratelei Gornyak”, LLP
33	“SNPS - Aktobemunaigas”, JSC
34	“FIK Alel”, JSC
35	“Betonit &Co”, LLP
36	“Bes Tas”, LLP **
37	“Betbastau-Nedra”, LLP *

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38	“Bogatyr Akses Komir”, LLP
39	“Belogorskiy GOK”, LLP
40	Branch of the company "Buzachi Operating Ltd"
41	“Bast”, LLP
42	“Vasilkovskiy GOK”, JSC
43	Joint venture “Vasilkovskoe zoloto”, JSC
44	“Voshod Oriol”, LLP
45	“Gural”, LLP
46	“Jentek International Kazakhstan”, LLP **
47	“Degelen”, LLP
48	“Eurasian Energy Corporation”, JSC
49	“Zhaikmunai”, LLP
50	“ Zhairemiski gorno-obogotitelnyi kombinat”, JSC
51	“Zhaikhydrogeology”, LLP
52	“Zhalair”, LLP
53	“Zherek”, LLP
54	“Zhalgiztobemunai” DTOO
55	Joint venture “Inkai” *
56	Joint venture “KATCO”, LLP
57	NSC “Kazatomprom”, JSC
58	New Projects Management – Branch of SC of NSC “Kazatomprom”
59	“Kazakhmys Corporation”, LLP
60	“Kazakhoil Aktobe”, LLP
61	“KazakhTurkMunai”, LLP
62	Joint venture “Kazgermunai”, LLP
63	“KazMunaiGas” JS of National Company
64	“Kazneftehim Kopa”, LLP
65	‘Kazpolmunay’ LLP
66	Transnational company “Kazchrom”, JSC
67	“Kazzink”, JSC
68	“Karazhanbasmunai”, JSC
69	“Karakudukmunai”, LLP
70	“Caspi oil TME”, JSC
71	“Caspi oil”, JSC
72	“Ken Shygys”, LLP **
73	“Kor-Tazh”, LLP
74	“Kumkol Trans service”, LLP
75	“GRK Kazakhstanskiy Nikel”, LLP
76	“Lains Jump”, LLP
77	“Lancaster Petroleum”, JSC
78	Kazakhstan branch of “Maersk Oil Kazakhstan GmbX” company
79	“Mangistaumunaigas”, JSC
80	Joint venture “Matin”, LLP
81	Metal Still Temirtau *

82	“Montazhmalikmunai”, LLP *
83	“Muzbel”, LLP ***
84	“GRK Narymaltyn”, LLP
85	Branch of “CNPC International (Buzachi) Inc.” company
86	Branch of the company “Nelson Petroleum Buzachi B.V.” in the Republic of Kazakhstan
87	“PetroKazakhstan Kumkol Resources”, JSC
88	“Ravninnoe Oil”, LLP
89	Razvedka-dobycha “KazMunaiGas”, LLP
90	Branch of “Repsol Exploracion Kazahtsan C.A.”
91	JSC “National Company” SPK “Saryarka” **
92	“Samek International”, LLP
93	“Samek Development Enterprises”, LLP
94	“Satpayevsk Titanium Mines LTD”, LLP
95	“Svetland oil”, LLP
96	“Sauts oil”, LLP
97	“Sokolov-Sarybay mountain-concentrating association”, JSC
98	Alekseevskiy Dolgomatoviy Mine - Branch of “Sokolov-Sarybay mountain-concentrating association”, JSC
99	Branch of “Statoil North Caspian AC” Company
100	“Syarymbet”, JSC
101	Joint venture “Tenge”, LLP
102	“Tabynai”, LLP
103	“Tasbulat oil Corporation”, LLP
104	“Tengizchevroil”, LLP
105	“Tetis Aral Gas”, LLP
106	“Tobearal Oil”, LLP
107	“Tolkynneftegaz”, LLP
108	GOK “Tory Kuduk”
109	“Electrometallurgical combine of Temirtau”, LLP
110	Akmolinskyi branch of “Electrometallurgical combine of Temirtau”, LLP
111	“Metal factory of Ulbinsk”, JSC
112	“Ural oil and Gas”, LLP
113	“Ferro-Tau”, LLP ***
114	“FML Kazakhstan”, LLP
115	“KhazarMunai”, LLP
116	“Cvetmet engineering”, LLP
117	“Shalkiya Zink LTD.”, LLP
118	“Shinzhir”, LLP
119	“Embavedoil”, LLP

\* - The list of the Companies that are not included in EITI report for calendar year 2006, but that are parties of MOU of EITI, that did not provide their report based on the data of the Ministry of Energy and Mineral Resources(MEMR) of the Republic of Kazakhstan.

\*\* - The list of the Companies which data is not included in the EITI report for 2006 based on the data from MEMR that the Company did not make payments to the budget in 2006.

\*\*\*- The list of the Companies which data is not included in the EITI report for 2006 based on the data from MEMR that the Companies transferred the right for extraction or the contract on extraction was terminated.

\*\*\*\* - The Company, which is not the party to MOU, is the operational Company of the Consortium of the contracting Companies (“Lukoil Overseas Karachaganak B.V.”, “BG Karachaganak Limited”, “Chevron Texaco International Co.”, “Agip Karachaganak B.V.”) which are parties to MOU. All the payments/receipts made by the operating Company, have been reflected in the reports presented by the contracting Companies according to the share of their participation in the operating Company. The analysis of the report on payments/receipts regarding the given Company was conducted.

\*\*\*\*\* - The company, which is not the party to MOU, is the operational Company of the Consortium of the contracting Companies (“Agip Caspian Sea B.V.”, “Inpex North Caspian Sea Ltd.”, “TOTAL E&P Kazakhstan”, “Shell Kazakhstan Development B.V.”, “Exxon Mobil Kazakhstan Inc.”, “ConocoPhillips North Caspian. Ltd.”) which are parties to MOU. The given operating company had presented the summary report on the contracting companies. All the payments/receipts made by the operating Company, have been reflected in the reports presented by the contracting Companies according to the share of their participation in the operating Company. The analysis of the report on payments/receipts regarding the given Company was conducted.