Key performance indicators (2/2)

Financial indicators

USD'000	31 Dec 2006 Audited	31 Dec 2007 Audited	30 Jun 2008 Reviewed
Financial position			
Fixed assets	311,460	539,511	601,998
Accounts receivables	149,563	214,359	290,700
Taxes payable	(24,101)	(27,205)	(80,946)
Net working capital	111,823	191,126	202,611
Long-term borrowings	(374,986)	(471,299)	(411,600)
Retained earnings	102,473	202,871	321,799
Financial performance			
Sales	236,198	286,399	311,960
Gross profit	171,544	189,944	238,598

Source: IFRS financial statements

Financial indicators

- Fixed assets at 30 June 2008 comprise oil and gas assets (KPM: USD194 million, TNG: USD280 million) and costs capitalized to the LPG plant (TNG) of USD193 million
- USD205 million (70%) of accounts receivables as at that date are due from General Affinity and from Stadoil
- Taxes payable consist mainly of accrued Corporate Income Tax payable in December 2008
- As a result of its related party sales mechanism, approximately one month's sales receipts are held by a related party outside the Group resulting in extra working capital in this balance sheet
- Long-term borrowings comprise the senior debt issued by TRN valued at fair value as required under IFRS. Upon change of control a buy back offer must be made to current bondholders. Management expects a potential buyer to assume any remaining liabilities to bondholders that do not accept the buy back offer
- Both operating companies have demonstrated strong financial performance in 2006 to H1 2008. 2007 combined sales grew by 21% from USD236 million in 2006 to USD286 million in 2007, and by 195% from USD106 million in H1 2007 to USD312 million in H1 2008. Revenues benefited both from a significant increase in international crude oil prices and the increase in TNG's hydrocarbon production volume
- The Group's gross profit margin grew from 66% for 2007 to 76% for H1 2008, mainly due to an increase in the crude oil margin.
- TNG's gross profit margin steadily increased from 70% in 2006 to 80% in H1 2008. This was a result of favourable crude market price trends, growth in sales volumes due to the launch of the second gas processing facility and relatively stable production costs over the period
- KPM's gross profit margin decreased from 75% for 2006 to 67% for H1 2008, due to growth in production costs and a decrease in the volume produced, the combined impact of which exceeded the favourable increase in the crude sales price
- In July 2008 both KPM and TNG kept benefiting from growth of crude market prices resulting into further increase of crude average realised price per boe by around 30% compared to H1 2008. The positive impact of crude price increase was partly offset primarily by 12% decrease of TNG's gas sales volume resulted from lower seasonable demand for gas on the domestic market. As a result in accordance with the statutory accounts the aggregated TNG and KPM gross profit margin was approximately 83% staying at almost the same level as for H1 2008 (82%)

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Key considerations (1/8)

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Key issue/ consideration	Key observation	Page reference
Related party transactions	• The Group's operations are highly dependent on related parties. The impact on the Group's financial position and performance of a change of control and a potential change of the Group's current related party buyers and suppliers to other companies, requires further analysis and investigation **Sales** • General Affinity and Stadoil are related parties that purchased 99.9% of the Group's crude sales volume in H1 2008 (2007: 97.7%). All of TNG's export sales are performed via General Affinity and Stadoil is the exclusive export customer of KPM. These entities resell crude through Montvale, another related party of the Group, which resells to Vitol, a Swiss energy trader • According to management, Montvale has the right to request up to USD105 million of prepayments from Vitol at LIBOR plus 4.0% for future deliveries of TNG and KPM crude oil. Management represented that Vitol pays to Montvale on an average of some five months, approximately one month earlier than payments are made to TNG and KPM via Stadoil and General Affinity. General Affinity's payment terms with the Group are 170 days after delivery, those of Stadoil are 170 days after shipment • The profitability of Montvale, General Affinity and Stadoil and margins earned were not disclosed by us **Supply** • Kasco provides various construction and drilling services to both TNG and KPM. According to management Kasco operates with the Group at cost plus a 5% to 8% margin and, in order to meet KZ legislative requirements, TNG and KPM regularly organise tenders on the purchase of construction and drilling services on the local market. Due to Kasco's extensive experience and better knowledge of TNG and KPM's fields and the close proximity of Kasco's production base to the fields, Kasco has always been successful in the tenders • ~~Perkwood supplies equipment to TNG for the construction of the LPG plant procured mainly from Tractebel Gas Engineering. Details of the profit margin on these supplies have not been provided to us~~ **Financing** • TRN charges TNG and KPM a fixed annual interest rate of 16% to 17.65% gross of taxes withheld at source (13.6% to 15% net of taxes) for funds which it obtained through the issue of senior secured notes at 10.5% • Of the USD420 million of proceeds from the issue of senior secured notes during the period 2006-H1 2008 the Group provided USD75 million to Terra Raf in the form of an interest-free promissory note and made early repayment of a USD68.2 million loan to Ascom **Proposed transaction** • Management informed us that it expects balances with related parties to be settled prior to completion of any proposed transaction	p.

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Key considerations (2/8)

? Tabyl ?

This high level summary should be read in conjunction the other sections of this report

Key issue/ consideration	Key observation	Page reference
Uncertainties apply to the proposed carve out of the Tabyl block	• Under the proposed transaction, the sellers wish to retain ownership of the so-called "Tabyl-Block" consisting of the three geological structures 1) East Munaibay, 2) Bakhyt and 3) Pionerskiy. The ownership of the exploration licence and certain other assets relating to the Tabyl Block currently lie with TNG • To enable the sellers to retain the Tabyl Block, a carve out of the related assets is required and management is currently reviewing different options for such a carve out. None of the proposed options had reached a sufficiently detailed stage at the time we finished our field work to develop an action plan and proceed with the carve out • The assets held by TNG in relation to the Tabyl block are small according to management and it has not yet performed a detailed identification and count of such assets. During our work we have identified the following items: – TNG's fixed assets contain exploration costs for three wells, Tabyl #1, Tabyl #2, and Tabyl #3. The naming of these wells is somewhat misleading, as they are located within the geographical area of the Tabyl block but geologists reports confirm that these wells are part of the geological structure of the neighbouring Tolkyn oil field that is part of the proposed transaction. Management has started the procedures of re-registering these wells to the Tolkyn oil field which had not been completed at the time we finished our fieldwork. Potential buyers will need to consider separate issues involved here and respective rights and obligations will need to be set out in the SPA – TNG's balance sheet as at 30 June 2008 contains USD12.9 million capitalized exploration costs relating to a well called East Munaibay #1. Management expects to spend a further USD3.4 million in exploration costs until completion of the work in December 2008. As at the same date, TNG had capitalised an intangible assets of USD5.1 million for the cost of the Tabyl block licence • The above mentioned assets will have to be included in any carve out to be performed. Management has not yet performed a detailed identification and valuation of any other assets that may have to be included in the carve out and it may prove beneficial to include in the SPA provisions to govern any potential assets that may required after completion of the proposed transaction • ~~We have been informed by management that the carve out option analyzed most intensively at present is to perform an asset swap between KPM and TNG to ultimately transfer all assets to be sold into TNG while KPM would contain only asset relating to the Tabyl Block. We understand that the Group has started the process of applying to the relevant state authorities for the waivers and permits necessary to perform the asset exchange:~~ – ~~Such an asset swap may prove complicated to perform as it would likely not only involve to individual assets. The proposed structures implies that KPM would remain in the ownership of the sellers. As a result all agreements entered into by KPM concerning business activities to be sold would have to transferred as well including but not limited to a) permits and licences, b) sales contracts, c) supplier contracts, d) employment contracts etc. Renegotiating all of these may require significant time and effort~~	p.

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Key considerations (3/8)

This high level summary should be read in conjunction the other sections of this report

Key issue/ consideration	Key observation	Page reference
ARO	• As at 30 June 2008 the Group had not booked an asset retirement obligation, for either the Tolkyn or the Borankol field on grounds of materiality • Management has provided us with its estimates for ARO based on the actual costs of decommissioning one well in November 2007 at the cost of USD33,000. Other work typically associated with field restoration such as removing field infrastructure, pipelines, tanks and land clean-up costs are not included in managements estimates on the grounds that relevant cost data is not available: – Based on the above assumptions and a discount period of 12 years management estimates the NPV of the ARO for the Tolkyn field to amount to USD0.8 million as at 30 June 2008 – Based on the same assumptions and a discount period of 19 years, management estimates the NPV of the ARO for the Borankol field to amount to USD1.8 million as at 30 June 2008 • ARO's will have to be recognised in the Group's accounts in the future once materiality thresholds have been reached with decreasing discount periods, inflation and as more dependable cost estimations, the ARO will be capitalised in oil and gas assets and amortised over the remaining licence period • A potential buyer's accounting policies and cost estimates may lead to an estimation of ARO's that is significantly different to that of the Group	p.
Senior Secured Notes	• KPM and TNG are guarantors of the 10.5% senior secured notes due in 2012 issued under an indenture among TRN, KPM, TNG and Wells Fargo Bank, N.A. as the trustee, dated 20 December 2006. As of 30 June 2008 USD420 million of the principal amount of the notes is outstanding under the indenture • In the event of a change of control (sale of more than 50% of the voting stock of KPM or TNG, TRN must make an offer to investors who purchased the senior secured notes to redeem the notes at 101% of the principal plus accrued and unpaid interest. After a change of control, the acquired guarantor (KPM and/or TNG) will remain a guarantor and continue to be bound by the terms and provisions of the Indenture • A certain unquantifiable risk remains that not all bondholders accept a repurchase offer. We understand from management that it expects potential purchasers to assume any such debt	
Taxes payable	• The Group records taxes payable of USD81 million as at 30 June 2008. Thereof USD47.1 million are accrued in TNG and USD33.9 million in KPM. Corporate Income Tax is accrued at the beginning of the year based on management's annual budget. Monthly prepayments of USD11.6 million are made on the 20th day of each month reducing the accrued balance • We understand that management monitors sales prices, the key driver in profitability, on a monthly basis to verify its tax estimate. We were informed that the total tax due is expected to move by no more than +/- 10% for 2008	

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Executive summary

Key considerations (4/8)

This high level summary should be read in conjunction the other sections of this report

Key issue/ consideration	Key observation	Page reference

CAPEX, minimum work programmes

Capex under annual work programmes

USD million	H2 2008	2009-2019	2020-2025	Total
TNG				
Tolkyn minimum work programme	52.9	143.4	-	196.3
Tabyl minimum work programme	3.4	n/a	n/a	3.4
	56.2	143.4	-	199.6
KPM				
Borankol minimum work programme	28.3	74.5	2.9	105.7
	28.3	74.5	2.9	105.7
Total	84.5	217.9	2.9	305.3

Source: Minimum work programmes

- According to management, the Group has consistently fulfilled its capital expenditure obligations imposed by annual minimum work programmes. Management also represents that fulfillment is evaluated on an overall basis and that a minor underspend in one category may be compensated by an overspend in another category. Historically the Group has managed to either meet its obligations under the annual minimum work programmes or prove to the authorities that underspends were due to objective causes
- In 2008 both KPM and TNG drafted minimum work programmes covering 2008 to 2025 and 2008 to 2019 periods respectively. The programmes were submitted to MEMR for review and approval. The TNG programme stipulates aggregate capital expenditures of USD199.6 million for the period H2 2008-2019. The KPM programme assumes aggregate capital expenditures of USD105.7 million for the period H2 2008-2025
- The Tabyl 2008 annual minimum work programme requires TNG to spend USD3.4 million on exploration of the Tabyl block in H2 2008. No other CAPEX forecasts in relates to the Tabyl block are available
- In H2 2008 to 2019 the Group has to invest in aggregate a minimum of USD302.4 million in accordance with the draft relevant minimum work programmes
- The Group also plans to spend up to USD53 million from H2 2008 to H1 2009 for completion of the LPG plant which is scheduled to be launched ~~in April 2009~~ → Q2, 2009
- The contractual obligation under the minimum work programmes are considered by management as CAPEX forecasts, i.e. no other CAPEX is planned by management

Page reference: p.

CAPEX Miller and Lents estimate

CAPEX under Miller and Lents estimate

USD million	H2 2008*	2009-2019	2020-2025	Total
TNG				
Tolkyn	26.6	78.1	0.1	104.8
Tabyl	n/a	n/a	n/a	n/a
	26.6	78.1	0.1	104.8
KPM				
Borankol	22.3	300.6	106.7	429.6
	22.3	300.6	106.7	429.6
Total	48.9	378.7	106.8	534.5

Source: Miller and Lents reserve report as at 31 Dec 2007

- As at ~~31 December 2007~~ January 1, 2008, Miller and Lents provided their own estimation of CAPEX for the development of the Borankol and Tolkyn fields:
  - In total, this estimate is significantly higher than the annual minimum work programmes drafted by management. However a different production profile is assumed:
  - Management's estimate for H2 2008 is USD35.6 million (42%) higher than that of Miller and Lents. Miller and Lents estimate USD91.6 million (87%) less CAPEX for the Tolkyn field than management
  - For the Borankol field, Miller and Lents estimate an increase of USD323.9 million (306%) in estimated CAPEX than annual work programmes that total only USD105.7 million

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Key considerations (5/8)

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Key issue/ consideration	Key observation	Page reference
KPM production costs	**Development of average production cost (USD/bbl)** Chart: 2006: 11.1; DDA: 8.5; Royalty: 1.5; Other: 1.2; 2007: 22.5; H1 2008: 29.1 numbers do not match 11.2 vs 11.4 • KPM's average production costs increased by USD11.4/bbl in 2007 over 2006 and by USD6.6/bbl in H1 2008 over 2007: - Some 75% (USD8.5/bbl) of the 2007 increase are due to an increase in DDA charges. Based on management data, we estimate that USD1.3/bbl thereof result form additions to oil and gas producing assets of some USD 47 million. The remaining estimated amount of USD7.2/bbl results from a reduction in 2P reserves of 45.4 MMboe, as estimated by Miller and Lents who used a different approach for reserve estimation then the previous provider Ryder Scott → not accurate - The remaining increase of USD2.7/bbl results from increased royalty payments as KPM's increased production has led to a higher applicable Royalty rate and from other cost increases such as rising payroll, increased water cut, etc. - The main driver for the USD6.6/bbl increase in H1 2008 is decreasing reservoir pressure and the resulting costs for a higher water cut	p.
Domestic sales	• Neither Tolkyn nor Borankol exploration and production contracts require TNG and KPM to deliver a specific volume of crude oil and gas to the domestic market. However, on an irregular basis the MEMR requires KPM to deliver certain amount of oil to the domestic market, mainly to meet ANPZ's demand for oil. ANPZ is a local refinery owned by the state through National Company KazMunayGas • According to management, historically the domestic sales of KPM were not significant (approximately 1% of annual sales) and amounted to 51 Mboe or about 7,000 tonnes of oil (USD1.6 million) in 2007. During H1 2008 there was no delivery of oil to the domestic market • Export sales of crude oil are made at a higher price than domestic sales, e.g. in 2007 the average realised price for domestic sales was USD30.7 per barrel of oil and the average realised price for export sales was USD63 per barrel of oil • TNG plans to complete exploration work on the new Tabyl block by the end of 2008 and, if successful, to sign a production contract with the state. The majority of contracts signed under current legislation require an obligation to deliver up to 20% of produced hydrocarbons to the domestic market at a price, that may be lower than the world market price. The new Tabyl production contract may be subject to this requirement, though we understand that the sellers intend to exclude this block from the proposed transaction	p.
Gas profitability	• In the past the Group was not able to obtain permission from the state to export gas and had to sell its gas on the local market at a price of USD40-50 [handwritten: 53] per Mcm (H1 2008), lower than the world market price (approximately USD276 per Mcm in August 2008). Due to only being able to supply to domestic market the Group had no bargaining power in relation to increasing the price of gas sold to domestic customers • In 2008 the Group signed a memorandum of understanding with the state that may lead to the Group starting export gas in 2009. Management intends to either export its gas to the international market or, as a result of having a high level of bargaining power, increase the price of gas sold to domestic customers. In both cases the Group would be able to increase the profit margin on gas sales	p.

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Key considerations (6/8)

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Key issue/ consideration	Key observation	Page reference
Exports and pipeline availability	• The majority of the Group's oil is exported via a pipeline network owned by KTO. In order to be able to export oil the Group applies to the state for an export permit for a planned volume of crude. KTO only allows the Group to transport the volume of oil permitted for export via its pipeline • According to management, historically the Group has not experienced any export permit constraints. Management estimates that KTO has sufficient capacity to accommodate the current and planned export volume of the Group, however certain political and transport risks may remain	p.
LPG plant	• TNG is currently building a new LPG processing facility (the LPG plant) for liquid petroleum gas. As at 28 August 2008 the total cost of LPG plant construction is estimated as USD246.4 million, of which USD193.5 million had already been invested as at 30 June 2008. Management expects to complete construction in ~~April 2009~~ Q2 2009 • The LPG plant's capacity is ~~7.135~~ Mcm (41.9 Mboed) of gas per day with a potential to increase by 30% (9.276 Mcm or 54.5 Mboed of gas per day). The plant will produce C3 (propane), C4 (butane), C5 and fractions which can be exported by railway • The pricing for the products would be linked to market prices less transportation expenses and Vitoil's marketing fee, the exact formula is subject to further discussion • According to management, other local producers of gas are currently negotiating with TNG to process their gas at the LPG plant, though no binding agreements have been signed yet. According to management, additional gas supplied by third parties can keep plant adequately utilized in the future • According to management TNG, its affiliates and Vitol have entered into an agreement pursuant to which the parties will jointly operate the LPG plant. We understand that this agreement exists in writing but with another related party outside the Group. In addition, another verbal agreement with a related party outside the Group exists, that obliges the Group to sell all its exports of LPG through Vitol. We were informed by management that it expects three way discussions to be necessary between Vitol, the Group and a potential buyer at a later stage	p.
Financial reporting and control	• Financials reporting and control functions within the Group are limited to statutory accounts and the first stage of transformation to IFRS. Otherwise, standalone and combined IFRS financial statements are prepared by an employee of Ascom. The Group does not have a treasury function or f/x capabilities • Integrated business plans and projections including income statements, balance sheets and cash flows do not exist. The Group companies KPM and TNG prepare annual business plans and a variation analysis and on a monthly basis. For the first time, KPM and TNG are updating their business plan at half year to provide a forecast for the remaining six months • As part and/or in connection with annual minimum work programmes annual cash flow forecasts are prepared and updated on a monthly basis. In addition daily cash flow projections are prepared and together these form the main controlling instrument for on-going operations • The aforementioned financial reporting and control instruments including the use of the 1C accounting system appear in line with our experience of similar businesses in Kazakhstan. However, a potential buyer may have different requirements	p.

Handwritten annotations: "approx. 7.0 Mcm"; "233 mil"; "check again"; "They do exist at Tristan level"

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Key considerations (7/8)

This high level summary should be read in conjunction the other sections of this report

Key issue/ consideration	Key observation	Page reference
Internal control	• The Companies' tax returns and reports are not subject to approval and review prior to their submission to the tax authorities • We believe that the Companies need to improve their systems of internal controls over tax calculations and reporting to reduce the risk of incorrect calculations of taxes and technical errors in tax reports	p. p.
Tax audit	• In 2005 the tax authorities audited KPM with respect to its tax liabilities for the period from January 2003 through December 2004. As a result of the tax audit, the tax authorities assessed additional VAT, royalty and rental tax on exported crude oil and a corresponding interest penalty of approximately USD127,000 in total • Additional taxes, fines and interest penalties of KPM could be assessed as a result of future tax audits for the period from January 2005 through 2008 • In 2007 the tax authorities audited TNG with respect to its tax liabilities for 2002 • Additional taxes, fines and interest penalties of TNG could be assessed as a result of future tax audits for the period from January 2003 through 2008	p. p.
Corporate Income Tax	• Since 2005, KPM has been purchasing various services from Ascom JSC, a nonresident. We have reviewed the reports that Ascom provided to KPM. We believe there is a risk that the tax authorities might argue that Ascom's services do not relate to KPM's subsoil use operations under Contract 305 • The tax authorities might disallow a tax deduction for the service fees that KPM paid to Ascom. The potential tax liability, including fines and penalties, could be approximately USD900,000 • Since 2005, TNG has been purchasing various services from Ascom JSC, a nonresident. We have reviewed the reports that Ascom provided to TNG. We believe there is a risk that the tax authorities might argue that Ascom's services do not relate to TNG's subsoil use operations under the Contracts • The tax authorities might disallow a tax deduction for the service fees that TNG paid to Ascom. The potential tax liability, including fines and penalties, could be approximately USD823,000	p. p.
Value Added Tax	• In connection with KPM's claim of a VAT refund in the amount of USD 6,643,240 the tax authorities audited KPM's VAT liabilities with respect to its export sales subject to zero percent VAT for the period from January 2002 through October 2006 • No refund was granted with respect to VAT of USD 600,000 due to KPM's failure to submit an application for the refund within a 12-month period after the tax period to which the refundable VAT relates. The remaining VAT was refunded • KPM should be able to carry this VAT forward and apply it against its output VAT on future sales	p.

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Key considerations (8/8)

This high level summary should be read in conjunction the other sections of this report

Key issue/ consideration	Key observation	Page reference
Royalty	• A definition of transportation costs for royalty calculation purposes in Contract 305 of KPM is open to different interpretations • Because the tax authorities' interpretation of the definition of transportation costs ("other payments for transportation") in Contract 305 might differ from KPM's interpretation, there is a risk that the tax authorities would attempt to adjust KPM's transportation costs for the royalty calculation purposes and asses additional royalty, penalties and fines in future tax audits	p.
Transfer Pricing	• Periods from 2004 to 2008 are open for tax audits of KPM with respect to transfer pricing • The tax authorities can audit KPM for these periods and adjust KPM's prices in its sales transactions. As a result, they might assess additional CIT, penalties and fines • Periods from 2003 to 2008 are open for tax audits of TNG with respect to transfer pricing • The tax authorities can audit TNG for these periods and adjust TNG's prices in its sales transactions. As a result, they might assess additional CIT, penalties and fines	p. p.
Customs duties	• The customs authorities assessed taxes and interest penalty on goods that were previously imported for contractual operations of KPM and which were sold to third parties for the period from August 2003 through December 2007 • In case of a sale of goods to third parties by KPM which were previously imported for contractual operations, KPM will be liable to pay import VAT and import duties on the goods and interest penalties	p.

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