KAZAKHSTAN MINING REGULATION

Obtaining Subsoil Use Rights

All mineral resources in the subsoil of Kazakhstan belong to the State. Subsoil users have ownership rights to mineral resources, subject to relevant Kazakhstan legislation and/or the terms of the relevant subsoil use contract, and can dispose of and enter into transactions not prohibited by Kazakhstan law with respect to such mineral resources. Foreign investment in the mining industry is not restricted. Foreign companies (acting through branches in Kazakhstan) and individuals may enter into subsoil use contracts with the Competent Body and have the same set of rights and obligations as local subsoil users.

The first law to regulate subsoil users' activities was the RK Code "On Subsoil and Processing of Mineral Raw Materials" No. 1367a-XII dated 30 May 1992, followed by the 1996 Subsoil Law. It was significantly amended in late 1999 to change the regime for granting rights for the use of the subsoil. Following the 1999 amendments, the licensing regime was abolished. From 1999 until 12 March 2010, the Ministry for Energy and Mineral Resources was the Competent Body under the 1996 Subsoil Law and granted exploration and production rights by means of conclusion of subsoil use contracts for fixed periods of time. Since then, the 1996 Subsoil Law has been amended and updated numerous times, until 2010, when it was repealed and replaced by the new 2010 Subsoil Law effective 5 July 2010.

Under the provisions of the 2010 Subsoil Law, the Competent Body has the authority to enter into and register subsoil use contracts, supervise fulfilment of obligations by subsoil users, direct the suspension of subsoil use operations, terminate subsoil use contracts in the even of default by a subsoil user with respect to the compliance requirements laid down by the subsoil use contracts, consider applications for consent and the State's waiver in case of alienation of subsoil use rights or shares/participatory interest in a subsoil user, as well as other competences in the area of subsoil use in accordance with Kazakhstan subsoil use legislation.

According to the Kazakhstan President's Decree dated 12 March 2010, *Concerning Further Improvement of the State Management in the Republic of Kazakhstan*, the Government has been reorganised, and spheres of competence have been reallocated between various ministries. Competencies of MEMR in the area of subsoil use have been divided between two ministries—the Ministry of Oil and Gas and the Ministry of Industry and New Technologies. The Ministry of Oil and Gas is the Competent Body with respect to subsoil use contracts for exploration and production of hydrocarbons, while the Ministry of Industry and New Technologies is the Competent Body for subsoil use contracts in the area of mining (except for widespread minerals, which are within the competency of local executive bodies).

In general, the subsoil use contracts can be for:

(i) exploration;

(ii) production; or

(iii) combined exploration and production.

The contracts for combined exploration and production are granted only upon the decision of the Government with respect to the fields that are designated as being of strategic importance or have a complex geological structure.

The procedure for the granting of subsoil use rights in Kazakhstan is set out in Article 35 of the 2010 Subsoil Law and Resolution of the Kazakhstan Government No. 1456 dated 30 December 2010, approving *Regulations for Granting the Rights for Subsoil Use*. Subsurface use rights are granted by way of conclusion of contracts, with the exception of the cases stipulated in Paragraphs 3, 5, 6 and 9 of Clause 35 of the 2010 Subsoil Law. Pursuant to the 2010 Subsoil Law there are two ways in which subsoil use rights may be granted by the state:

(i) where a contract for exploration, production, combined exploration and production shall be concluded with the tender winner on the basis of tender results; or

(ii) without holding a tender on the basis of direct negotiations.

Grant of subsoil use rights through direct negotiations

The Competent Body acting on behalf of the State has a limited authority to grant subsoil use rights directly without the need to put the rights out for tender. Direct negotiations may be used for conclusion of the following contracts:

(i) for the performance of production operations, with a person having the exclusive right to be granted the subsoil use right for production in connection with a commercial discovery and on the basis of an exploration contract;

(ii) for the performance of operations on construction and/or operation of underground facilities not connected with exploration or production;

(iii) for the performance of operations involving the exploration and/or production of widespread minerals in the course of construction (reconstruction or repair) of railways and highways and bridges for general use;

(iv) for the performance of exploration and/or production operations with a State-owned company;

(v) for the performance of exploration and/or production operations repeated in the case established by the Clause 54.4 of 2010 Subsoil Law, which states: “In the event that a repeated tender is declared as not having been held because only one non-rejected tender proposal remained, the competent authority or local executive bodies of an oblast, a city of the Republic’s significance, the capital shall have the right to conclude a contract with the bidder that submitted such bid through direct negotiations on the terms not worse than those stated in the bid.”; or

(vi) for the performance of operations involving the daily production of more than two thousand cubic meters of ground water for drinking or domestic water supply of the population, with the owner or land user of the land plot beneath which the ground water is located, provided that he/she/it has the special water use right to this plot.

Grant of subsoil use rights pursuant to Paragraphs 3, 5, 6 and 9 of Clause 35 of the 2010 Subsoil Law

Subsoil use rights may also be granted pursuant to certain exceptions under the Clause 35 of the 2010 Subsoil Law:

(i) Paragraph 3. Subsurface use rights for the construction and/or operation of underground facilities which are unrelated to exploration or production in a contract area or beyond its boundaries and are intended for the burial of radioactive waste, harmful substances and effluent shall be granted on the basis of a written approval issued by the authorised body for the study and use of subsurface, upon agreement with the authorised body for environmental protection, in accordance with the procedure established by the Government.

(ii) Paragraph 5. Rights for the production of ground water for household-potable and industrial-technical purposes with the limits of extraction from fifty to two thousand cubic meters a day shall be granted on the basis of approval issued by the authorised body for the use and protection of the water stock, water supply and water removal, in accordance with the procedure established by the Government.

(iii) Paragraph 6. Granting a subsurface user of the right for exploration or production of industrial-technical ground water in the volumes of two thousand or more cubic meters a day for its injection in a reservoir in accordance with a technological scheme of production of minerals, or for production of ground water for purposes of water depression in the operation of mine workings shall be made by the issue of approval by the authorised body for the study and use of subsurface, in accordance with the procedure established by the Government of the Republic of Kazakhstan. (The provisions of Paragraph 6 do not apply to the production of ground water for dewatering purposes in the operation of mine workings which subsurface users carry out under concluded subsurface use contracts.)

(iv) Paragraph 9. Subsurface use rights for the production of commonly occurring minerals for own needs as well as ground water in production quantities not exceeding fifty cubic meters a day shall be granted simultaneously with granting into private ownership or land use of the land plot beneath which the commonly occurring minerals and ground water are located. If a land plot is granted for temporary land use, the terms of using commonly occurring minerals for own needs as well as ground water in production volumes not exceeding fifty cubic meters a day may be provided for in a temporary land use agreement.

Tender of subsoil use rights

In cases where a tender is required, interested parties are given the opportunity to submit their proposals for developing the relevant resources. These proposals should contain basic information about the prospective subsoil user, the proposed amount of the subscription bonus, documents confirming the bidder's ability to fulfil its obligations to pay the announced subscription bonus (own funds, bank guarantees, etc.), the proposed amount of investment for the social and economic development of the region and the development of the region's infrastructure, obligations on gradually increasing employment and training of Kazakhstan

personnel, using Kazakhstan goods, work and services, the proposed amount of expenses for research and development, obligations on accession to the Memorandum of Understanding in relation Extractive Industries Transparency Initiative (EITI) in the Republic of Kazakhstan and a copy of a document confirming payment for geological information. Following the submission of proposals, the winner of the tender is determined by a tender commission on the basis of a combination of factors, including the amount of the subscription bonus and the amount of proposed investment for the social and economic development of the region and the development of its infrastructure.

Project documents, subsoil use contracts and work programmes relating to subsoil use contracts

Prior to the execution and registration of a subsoil use contract, the winner of a tender or a person obtaining the subsoil use right through direct negotiations is expected to produce a plan of works (i.e. plan of exploration works, plan of evaluation works or plan of production works). The plan-of-works project documents must describe the methods to be used by a subsoil user for subsoil use operations, the volume of works to be conducted and the financial obligations broken down by years for the entire period of the contract. The 2010 Subsoil Law also establishes certain procedures for the preparation of the project-related documents, as well as a timeframe for the approval of the documents by various state authorities.

The subsoil use contract is accompanied by a work programme, a document which is prepared on the basis of the project documents, reflects the subsoil user's plans and indicates the volume of works and the financing of subsoil use operations in terms of a yearly breakdown. In the event that the indicators contained in the project documents or work programme change, such project documents or work programme documents must be amended accordingly. The 2010 Subsoil Law sets out the procedure for amending project documents and the work programme related to a subsoil use contract. Since the work programme is an attachment to a subsoil use contract, any amendments to the work programme need to be reflected as amendments to the relevant subsoil use contract and be duly registered with the Competent Body (in the same manner as the amendments to a subsoil use contract that are subject to registration requirements with the Competent Body).

The draft subsoil use contract is subject to mandatory expertise requirements (legal, environmental and economic) as well as approval by the relevant state authority in the area of protection of subsoil.

Subsoil use rights are deemed to be granted and acquired only from the time when a contract is executed and registered with the State. In general, the period for conclusion of an exploration contract shall not exceed eighteen months from the date of the decision of the competent authority on the conclusion of the contract and signing of the protocol of direct negotiations for a person with whom the contract is entered into on the basis of direct negotiations, or from the date of the announcement of the tender results—for a person recognised as the tender winner.

The period for conclusion of a production contract shall not exceed twenty four months from the date of the decision of the competent authority on the conclusion of the contract and signing of the protocol of direct negotiations for a person with whom the contract is entered

into on the basis of direct negotiations, or from the date of the announcement of the tender results—for a person recognised as the tender winner.

The period for conclusion of a contract may be extended by the competent authority if the tender winner or the person with whom the contract is executed on the basis of direct negotiations files an application to the competent authority for extension of the period for conclusion of a contract with substantiation of the reasons for such extension.

If the contract is not concluded within the established period of time through the fault of the person purporting to enter into the contract, such person forfeits the right to enter into the contract and no costs incurred by such person in acquiring the geological information, drafting and approving project documents, work programmes and the draft contract shall be reimbursed. The competent authority shall be entitled to put the relevant subsurface area for tender in the procedure established by the 2010 Subsoil Law.

Term of subsoil use contracts

An exploration contract shall be concluded for a term of up to six years.

The term of an exploration contract for offshore petroleum operations may be extended by the competent authority for a period of up to two years, if six months prior to the expiration of the contract term, the subsurface user files an application to the competent authority for extension of the contract term with substantiation of the reasons for such extension.

In the event of discovery of a deposit, the subsurface user shall be entitled to extend the exploration contract for a period which is required for its appraisal.

An application for extension of the contract for the appraisal of a commercial discovery shall be considered within one month after its receipt by the competent authority or the local executive body of an oblast, a city of the Republic's significance, the capital.

A production contract shall be concluded for a term established by the project for production operations.

The project documents shall be worked out for a period up to complete depletion of mineral reserves in the deposit, which period must not exceed twenty five years, and for deposits with major and unique mineral reserves—forty five years. The term of project documents for carrying out production work may be extended by the authorised body for the study and use of subsurface upon agreement with the Central Commission depending on the volume of approved mineral reserves.

The competent authority or the local executive body of an oblast, a city of the Republic's significance, the capital may extend the term of a production contract, provided that the subsurface user is not in breach of its contractual obligations and applied for such extension of the contract to the competent authority or the local executive body of an oblast, a city of the Republic's significance, the capital within six months before the termination of the operations, providing grounds for such extension. An application seeking extension of a contract shall be considered within two months after the date of its receipt by the competent authority.

If the term of a contract is changed, the contract shall be subject to relevant amendment.

Assignment, transfer and pledge of subsoil use rights

The 2010 Subsoil Law envisages certain restrictions with respect to the assignment, transfer and pledge of subsoil use rights and objects connected with such subsoil use rights. These restrictions include the Government's priority right to acquire subsoil use rights and the requirement to obtain consent from the relevant Competent Body for the transfer of any subsoil use rights.

State Priority Right

Similar to the 1996 Subsoil Law, Article 12 of the 2010 Subsoil Law envisages the priority right of the State to purchase subsoil use rights (or part thereof) or objects connected with such subsoil use rights. The objects connected with subsoil use rights include the participating interests (e.g. shares) in a legal entity holding subsoil use rights or in a legal entity, which may, directly or indirectly, determine and/or influence decisions made by a subsoil user, provided that the main activity of such subsoil user is connected with subsoil use in Kazakhstan.

Generally, Article 12 of the 2010 Subsoil Law currently captures: (a) the sale of a direct interest in a subsoil use contract and (b) the direct or indirect sale of shares in a company that holds a subsoil use contract (where the indirect sale is effected through a company a majority of whose assets are in Kazakhstan). In either case, the Government will have a right to make the purchase ahead of the intended buyer.

The waiver of the priority right must be obtained prior to the completion of the relevant transaction. Failure to obtain a waiver would constitute breach of obligations under the subsoil use contract, which in turn is grounds for unilateral termination of the subsoil use contract by the relevant Competent Body.

The 2010 Subsoil Law provides that in certain cases the State shall not enjoy the priority right. These exceptions include:

(1) transactions relating to contracts on underground water and widespread minerals;

(2) transactions relating to transfer of shares and other securities that confirm title to the shares or transactions with regard to transfer of securities convertible into shares of a legal entity holding the subsoil use rights or a legal entity that has the possibility to determine and (or) influence decisions made by the subsoil user if the main activity of such legal entity is connected with subsoil use in Kazakhstan, if such shares, securities or convertible securities are traded on an organised stock exchange market;

(3) transfer of all or part of the subsoil use rights or objects related to the subsoil use rights:

(a) to a subsidiary in which at least 99 per cent. of participating interest belongs directly or indirectly to the subsoil user provided that such subsidiary is not incorporated in a jurisdiction with a favourable tax treatment regime; or

(b) between legal entities in which at least 99 per cent. of participating interest belongs, directly or indirectly to the same person provided that a purchaser of all or part of the subsoil use rights or objects related to the subsoil use rights is not incorporated in a jurisdiction with a favourable tax treatment regime; and

(4) transfer of shares (or participatory interests) in a legal entity that holds the subsoil use rights, if as a result of such transfer a person will acquire a right to dispose of, directly or indirectly (e.g. through third parties) less than 0.1 per cent. of participating interest in the charter capital of the subsoil user and (or) in the charter capital of a legal entity that has the possibility to determine or influence, directly or indirectly, the decisions made by such subsoil user if the main activity of such legal entity is connected with the subsoil use in Kazakhstan.

Consent requirement

Article 36 of the 2010 Subsoil Law requires obtaining the consent of the Competent Body for certain transfers, including the transfer of a subsoil use right (or a part thereof), transfer of objects connected with a subsoil use right, transfer of a subsoil use right or objects connected with a subsoil use right into the charter capital of a legal entity, pledge of a subsoil use right. In addition, the consent of the Competent Body is required for the initial issuance and placement of shares of the Company.

Certain transactions are not subject to the consent requirement (please see exceptions listed in (2) to (4) in "—State Priority Right" above).

Unlike the 1996 Subsoil Law, the 2010 Subsoil Law sets out a clear procedure for the filing and review of the waiver and consent application as well as the timeframe for such review and a list of documents to be submitted for such review by the Competent Body. In particular, per the provisions of the 2010 Subsoil Law, obtaining a waiver can take up to 50 working days and an additional 20 working days are required for the Expert Commission to make a decision on granting consent. Thus, in total the review period may take up to 70 working days. However, the 2010 Subsoil Law also allows the Competent Body to request additional documents, which may prolong the review process.

The application and all accompanying documents must be submitted in both Russian and Kazakh languages. Documents in a foreign language must be accompanied by a notarised translation into Russian and Kazakh languages.

The consent issued by the Competent Body remains valid for a period of six months from the date of its issue. If the parties fail to close the transaction within the six-month period, an applicant must apply for an extension of the validity of the consent. The 2010 Subsoil Law does not specify any validity term for the waiver. However, certain provisions of the law may

be interpreted as envisaging a validity period for the waiver similar to the validity period for the consent. Some provisions of the law suggest that the consent is the ultimate approval (i.e. the consent is issued on the basis of the waiver and if the waiver is not provided, then the consent would also not be granted). It is possible that in case of a re-submission of the application for the consent, the State may express interest in acquiring the asset (regardless of the previously issued waiver for the transaction). In this case, as the consent is viewed as the ultimate approval, the issuance of which depends on the issuance of the waiver, it is possible that the Competent Body may insist on re-obtaining the waiver (notwithstanding the fact that the validity period for the waiver is not set out in the 2010 Subsoil Law).

The Company designs and carries out its operations in a manner compliant in all material respects with regulatory requirements. The Company has obtained the material permits and licences necessary for its operations and actively cooperates with the relevant state authorities of Kazakhstan on matters related to the continuing validity and effect of such permits and licenses.

Kazakhstan Content Requirements

Since December 2009, the subsoil legislation has imposed certain Kazakhstan content requirements related to personnel, goods, work and services.

Under the 2010 Subsoil Law, a subsoil user and its subcontractors must acquire goods, work and services from Kazakhstan producers to the extent that they comply with the requirements stipulated in the project documents and by Kazakhstan law on technical regulation and with the standards, price and quality characteristics of similar work and services provided by non-residents.

Kazakhstan content "in personnel" means the number of Kazakhstan personnel expressed as a percentage share of the total number of personnel engaged in the performance of the subsoil use contract (with a breakdown with respect to each category of industrial and office workers). Kazakhstan content "in goods" means the percentage content of local goods used and expenses of a manufacturer with respect to processing of goods in Kazakhstan, out of the total value of such goods. Kazakhstan content "in work" (i.e. services) means an aggregate total share of Kazakhstan content in goods used during the performance of the work out of (i) contract value and/or payments made to workers who are Kazakhstan citizens, or (ii) salary fund of a provider of work or services under a contract for performance of work or provision of services, less the cost of goods used during performance of the work, and payments to subcontractors.

According to the 2010 Subsoil Law, a Kazakhstan "producer" means an individual or a legal entity of Kazakhstan who produces goods or performs work and services of Kazakhstan origin. Kazakhstan origin (in relation to goods, work or services, as the case may be) means direct production of goods or the performance) of work and services within the territory of Kazakhstan.

The 2010 Subsoil Law requires subsoil users to give preference to Kazakhstan personnel during the performance of subsoil use operations. In addition, subsoil users must finance training and retraining of Kazakhstan citizens who are engaged in operations under a

subsoil use contract. Also, a subsoil user is required to notionally reduce the price offered by a Kazakhstan producer by 20 per cent., provided that its goods, work, and services meet the tender requirements and Kazakhstan technical regulations.

The 2010 Subsoil Law imposes certain filing and reporting obligations on subsoil users with respect to compliance with the Kazakhstan content requirements. Subsoil users must file annual programmes for acquisition of goods, work and services for the forthcoming year, report on purchased goods, work, and services on a quarterly basis, and report on performance of obligations related to Kazakhstan content in personnel.

The 2010 Subsoil Law requires subsoil users to procure goods, work and services for subsoil use operations in accordance with a procurement procedure established by the Government. Unlike the 1996 Subsoil Law, repealed with effect from 5 July 2010, the 2010 Subsoil Law envisages strict liability for any failure to comply with procurement requirements. Expenditures made by a subsoil user that fail to comply with the procurement requirements will not be considered as expenditures made in fulfilment of the subsoil user's contractual obligations under the relevant subsoil use contract. As a result, a subsoil user whose purchases are made contrary to the procurement requirements may be viewed as being in breach of its contractual obligations, which may lead to a unilateral termination of the subsoil use contract pursuant to the procedures set out in Kazakhstan legislation.

Regulation of Strategic Deposits

The Government is authorised to define the list of deposits of strategic significance pursuant to Article 16.7 of the 2010 Subsoil Law. Subject to a relatively strict test of the actions of the subsoil user having caused significant change to the economic interests of Kazakhstan threatening national security, subsoil use contracts relating to such strategic deposits can be unilaterally terminated by the Competent Body if (i) within two months after a notification by the Competent Body to amend the contract the subsoil user does not agree to negotiate the amendments; (ii) within four months after a subsoil user agreed to conduct negotiations to amend the contract the parties have not reached an agreement on the amendments; or (iii) within six months after an agreement on restoration of economic interests of the Kazakhstan is reached, the parties have not executed the amendments to the contract. Furthermore, upon the initiative of the Government, the Competent Body has the right to repudiate a subsoil use contract unilaterally with two months' notice, but only if the actions of the subsoil user have caused significant change to the economic interests of Kazakhstan threatening national security.

Two deposits operated by the Group (Aktogay and Aidarly) are included in the list of deposits of strategic significance.

Contract Stability

The 2010 Subsoil Law substantially changes the provision concerning stability of subsoil use contracts. The 1996 Subsoil Law had granted stability against any changes of legislation except for changes concerning national security, health, defence and ecological security. The current wording of the stability provision of the 2010 Subsoil Law has narrowed the area of application of the stability provision to only cases where the results of commercial

activity of the subsoil user are impaired. Furthermore, the 2010 Subsoil Law added new areas to the list of exceptions from the stability regime, specifically, taxation and customs regulation.

ANTIMONOPOLY CONSENTS

The Kazakhstan Law *On Competition* dated 25 December 2008 (the "Antimonopoly Law") establishes the requirement to obtain the prior approval of the Kazakhstan antimonopoly authority, the Agency for Protection of Competition ("Antimonopoly Agency"), in case of, inter alia: the acquisition by a market entity (group of persons of more than 25 per cent. of voting shares (participatory interest) in the charter capital of the market entity if prior to such acquisition this entity (group of persons)) did not own shares of the market entity or owned 25 per cent. or less voting shares (participatory interest) in the charter capital of the market entity, shares in which are being acquired, or acquisition by a market entity of the rights (including based on a trust management agreement, joint venture agreement, suretyship agreement) which would allow the market entity to provide mandatory instructions to another market entity while the latter is conducting its entrepreneurial activity or to carry out functions of the executive body of the same market entity.

Obtaining such antimonopoly approval is required only if:

(a) the combined book value of the assets or the combined volume of sale of goods and services of the purchaser (its group) and the market entity whose shares are being acquired exceeds 2,000,000 times a monthly calculated index for the last financial year (currently approximately US$20,757,825, where the monthly calculated index (i.e. an index used by the Government authorities for calculating various monetary obligations and setting legal thresholds) is set by the Government annually; or

(b) one of the parties to the transaction is a person with a dominant or monopolistic position in the relevant market segment.

Thus, if any of the above thresholds are met, the transaction will require preliminary antimonopoly approval. An application for the antimonopoly approval is submitted by the acquirer.

In practice, the Antimonopoly Agency does not interpret the Antimonopoly Law in a consistent manner, and even an acquisition of a minor stake in the Company may be considered an "economic concentration" if the Antimonopoly Agency believes the acquirer obtains rights which would allow the acquirer to control the Company and its subsidiaries in Kazakhstan.

LAND IN KAZAKHSTAN

Land in Kazakhstan can be under State or private ownership subject to the terms, provisions and restrictions set out by the Land Code. In particular, non-governmental legal entities can have private ownership rights to land granted for construction or having buildings, structures or facilities thereon, both industrial and non-industrial (including residential buildings), and complexes comprising such buildings, structures or facilities, including land

designated for servicing the buildings, structures or facilities in accordance with their designation.

The owners of a land plot exercise their right of ownership, use and disposal of the land plot at their own discretion without any permits or consents of the state authorities, unless specifically provided under the Land Code. The owners are entitled to enter into any transactions not prohibited by the Land Code or other relevant Kazakhstan legislation with respect to their land plots, provided that the designated use of the land plot is not changed as a result of such transactions.

Under the Kazakhstan Constitution, the subsurface and all minerals contained therein are owned by the State. The State is expected to provide access to the subsurface on the grounds, terms and within the limits provided for by the 2010 Subsoil Law.

The Land Code and the 2010 Subsoil Law provide that when a person is granted a subsoil use contract, it entitles such person to an immediate granting of rights to the relevant land plots by the local executive bodies. Such land plots will generally be granted for the term of the subsoil use contract and within the borders set forth in the contract. The State, however, may sequester a land plot from its current owners or land users in compliance with the procedure set out by the Land Code. Termination of the subsoil use rights constitutes grounds for termination of the rights to the relevant land plot.

When the relevant authority for land relations (a department at a local executive body) grants the right of temporary use of a land plot to a subsoil user, it concludes with the subsoil user a land lease agreement or a temporary land use agreement for free-of-charge use on the basis of the relevant ruling of the Government or of a local executive body relating to the grant of the right of temporary use of the land.

Under the Kazakhstan Law *On State Registration of Rights to Immovable Property and Transactions Involving Immovable Property* dated 26 July 2007, state registration of the owner's title and rights of temporary use of a land plot for a term equal to or exceeding one year is mandatory. These rights are considered valid and in effect from the date of their state registration.

POWER INDUSTRY REGULATION

The power industry in Kazakhstan is primarily regulated by the Power Industry Law. Certain activities in the power industry, such as production, transfer and distribution of power, operation of power stations and power networks, production and maintenance of power equipment, purchasing electric energy for resale purposes, require a license.

The competent government authority regulating the power industry is the Ministry of Industry and New Technologies.

Transfer of Power Industry Facilities

Under Article 22 of the Power Industry Law, sale or purchase, transfer into lease or into trust management of power industry facilities and/or their separate parts must be

implemented only upon prior notification, and receipt of the approval, of the competent body (which is currently the MINT) and the Natural Monopolies Agency.

Tariff Regulation

The Government sets out the procedure for calculating tariffs and approves tariffs ceilings for certain groups of power producing companies. MINT categorises the power-producing entities into 13 groups based on installed capacity, fuel type, distance to fuel sources and the capital investments required for upgrading. Each of the groups is assigned a certain maximum tariff for the power produced. Price ceilings are established for each group for each year for a period of seven years. The latest tariff structure has been implemented in Kazakhstan by the RK Government Ruling dated 25 March 2009 No. 392 "On Approval of Maximum Tariffs" effective from 4 April 2009. The price ceilings are monitored and reviewed annually based on the data on the actual costs incurred, which are included in the quarterly reports prepared by the power companies that are submitted to the Ministry of Energy and Mineral Resources. If a power producing company is unable to fulfil its investment obligations under the current tariff ceiling, such company may apply an individual tariff that is subject to approval by MINT. Such individual tariffs are set at a level with the intention that the required capital investment is recovered within eight to twelve years.

Pursuant to the Decree of the RK Minister of Energy and Mineral Resources (which preceded MINT in the area of regulation of the power sector) dated 10 March 2009 No. 61 "On the Approval of Groups of Power Producing Entities", Ekibastuz GRES-1 is included in the first group of power producing entities with the following tariffs set for each year from 2009 to 2015:

	Maximum Tariffs, KZT per kWt/hr						
	2009	2010	2011	2012	2013	2014	2015
Group 1	3.6	4.68	5.6	6.5	7.3	8.0	8.8

ENVIRONMENTAL REGULATION IN KAZAKHSTAN

Permits for emissions

The Group is subject to laws, regulations and other requirements relating to the protection of the environment in Kazakhstan, including the discharge of substances into the air and water, the management of disposal of waste and the clean-up of mine sites. Issues of environmental protection in Kazakhstan are regulated primarily by the Environmental Code.

Depending on the nature of the industrial activity of a particular user, the Ministry of Environmental Protection issues permits for environmental emissions or integral environmental permits to certify the entity's right to make environmental emissions, as well as provides for approval of various activities, including construction and operation of industrial facilities and waste disposal facilities.

Under Kazakhstan law, the Group may also be required to obtain a number of other certificates, permits and licenses from various Kazakhstan government ministries, departments and agencies in relation to the use of potentially toxic chemicals, transportation of hazardous materials, import of sodium, cyanide and explosive materials for blasting, as well as water usage.

The Environmental Code establishes a "pay to pollute" regime administered by national and local authorities. The Ministry of Environmental Protection has established standards relating to the permissible impact on the environment and, in particular, emissions and disposals of substances, waste disposal and resource extraction. A company may obtain approval for exceeding these statutory limits from environmental authorities depending on the type and scale of the environmental impact. As a condition of such approval, a plan for the reduction of the emissions or disposals must be developed by the company and cleared with the appropriate governmental authority. The rates of fees for emissions are set out in the Tax Code. The local representative bodies (Maslikhats) are entitled to increase the rates set out in the Tax Code by two times and the rates for gas flaring can be increased by 20 times. Fees for pollution within the limits established for a particular source of pollution are paid at the rates established by the local representative bodies. Payments for pollution in excess of the established limits are multiplied by ten. Payment of such fees does not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities, as well as to pay fines in accordance with the administrative proceedings and compensate damage to the environment if such damage was incurred as a result of pollution.

Water use permits

The Water Code is designed to implement a governmental policy with respect to the utilisation and protection of water resources. The Water Code sets out obligations for the use of water and discharge of certain materials into water, on the basis of Water Use Permits.

The Group's WUPs could be withdrawn if the terms of special water use specified in the relevant WUP are breached. Such terms include, but are not limited to, compliance with the established limits of water use and disposal, monitoring of the quality of underground water, submission of statistical reports and monitoring reports, compliance with requirements relating to water protection during mining operations and the regular checking of equipment.

Enforcement

Article 116 of the Kazakhstan Environmental Code specifies which state officials are responsible for monitoring environmental compliance and initiating proceedings in cases of breach of environmental requirements.

Such officials include:

(i) the chief state environmental inspector, the deputy state environmental inspector, senior state environmental inspectors, and state environmental inspectors representing the heads, deputy heads and principal officers of departments and divisions of the Ministry of Environmental Protection at the national level;

(ii) the chief, senior and regular state environmental inspectors representing the heads, deputy heads and principal officers of respective territorial departments and divisions of the Ministry of Environmental Protection in the relevant region (Oblast), capital (Astana) or city of national significance (Almaty); and

(iii) the state environmental inspectors at the city of regional (Oblast) significance and district levels. In addition, regional prosecutors have the authority to supervise environmental compliance and initiate judicial proceedings.

Article 117 of the Kazakhstan Environmental Code authorises the relevant state officials, in their enforcement of environmental protection measures, to:

- cooperate with users of natural resources, individuals and public associations;
- freely visit objects subject to inspection, including military and defence complexes as set by Kazakhstan legislation;
- enter into the territory of individuals and legal entities with measurement instruments and equipment for collection of samples and as necessary, with other specialists and public representatives, to make necessary measurements, take samples (including samples of goods and materials) and analyse them;
- request and obtain documents, results of analyses and other materials as may be necessary for carrying out state ecological controls;
- introduce proposals regarding suspension or revocation of licences and/or termination of an agreement (contract) for the use of natural resources and/or suspension or annulment of other nature use permits in case of violations of ecological rules and requirements by the nature user which entailed significant damage of the environment and/or the health of the population;
- issue to individuals and legal entities instructions for the elimination of violations of environmental legislation;
- file claims with courts with regard to restriction and suspension of economic and other operations carried out in violation of Kazakhstan law;
- consider cases of administrative offenses related to environmental protection and submit materials to the relevant agencies subjecting the person in default to administrative or criminal liability;
- participate in the assessment of the extent of damages caused as a result of a violation of environmental law, issue rulings with regard to damages and file claims with the court;
- refer cases to a public prosecutor and law enforcement bodies for assistance in preventing and restraining the actions of violators of environmental law; and
- submit proposals to an authorised body with regard to the termination of the subsoil use contract's validity where a contractor has refused to eliminate the causes for a decision to suspend certain exploration or extraction activities or construction or operation of underground facilities or has not eliminated such causes within a timeframe sufficient for their elimination, where the subsoil user has not taken measures required under environmental law; where it is impossible

to eliminate the causes of suspension of subsoil use operations; or where there has been a material violation of contract or work progress obligations by a contractor (set by the contract or work programme) within its capacity.

The directives issued by the relevant environmental protection officers are mandatory but may be challenged in courts.

The statute of limitations for the commencement of proceedings

The period of limitation for bringing a claim to impose material liability (i.e. damages for breach of environmental protection requirements) is established under the general statute of limitations of the Kazakhstan law set out in Article 178 of Kazakhstan Civil Code dated 27 December 1994. This Article provides for a three year limitation period from the moment when an aggrieved party (i.e. the State) became aware of or should have become aware of the violation. Since it is necessary to prove the time when the State became aware of or should have become aware of the violation to apply the limitation period, and given that a claim can be filed by a prosecutor who may have become aware of the violation immediately before filing the claim, it may be problematic to convince a court in Kazakhstan that the State has exceeded the limitation period. The limitation provision described above, however, does not apply to administrative and criminal charges for potential breach of environmental requirements.

Article 69 of the Kazakhstan Code On Administrative Offences dated 30 January 2001 establishes a six-month general limitation period to subject an entity to administrative liability for breach of environmental regulations, unless special provisions establish otherwise.

The limitation period for criminal actions is 2, 5, 15 or 20 years—depending on the gravity of the crime—from the time of the crime's commission.

Environmental liability

Under Kazakhstan law, if the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, the Ministry for Environmental Protection and its regional departments may suspend such operations or a court action may be brought to restrict or ban such operations and require a person at fault to remedy the effects of the violation. Any company or employees who fail to comply with environmental regulations may be subject to administrative and/or civil liability, and individuals may be held criminally liable. The courts may also impose clean-up obligations on violators in lieu of, or in addition to, imposing fines.

Subsoil licenses and contracts granted or entered into by the Government also typically impose environmental obligations. The penalties for failing to comply with these obligations can be substantial, including termination of the relevant subsoil use contract.

Health and Safety

Due to the nature of the Group's business, much of its activity is conducted at its mining facilities by large numbers of workers, and workplace safety issues are of significant importance to the operation of these facilities. Health and safety practices in Kazakhstan are

regulated by the Labour Code, by Kazakhstan Law On Industrial Safety at Hazardous Industrial Facilities dated 3 April 2002, and by Kazakhstan Code On Health of Population and Healthcare System dated 18 September 2009.

Various government bodies have authority in the field of health and safety matters. These governmental bodies include the Ministry of Labour and Social Protection of the Population, the Ministry of Emergency Situations and the Sanitation and Epidemiological Service Committee of the Ministry of Health Protection.

The Group is subject to mandatory declaration of its hazardous objects, adherence to industrial safety guidelines applicable to the Company (within the terms set by industrial safety regulations for specific hazardous objects and as prescribed by the relevant state authority), arranging the training of its personnel on industrial safety, and insuring for third-party liability in connection with its hazardous objects.

Employment and Labour Regulation

Relations between employees and employers pursuant to an employment contract in Kazakhstan are primarily governed by the Labour Code.

Employment contracts

Under Kazakhstan law, an employment contract may be for:

(i) an indefinite term;

(ii) a fixed term of not less than a calendar year;

(iii) the period of performance of specific work;

(iv) the period of replacement of a temporarily absent employee; or

(v) the period of performance of season work.

If the employment relationship continues following the expiration of a fixed contract term, the employment relationship is deemed to be for an indefinite term.

Under Kazakhstan law, an employee may terminate his employment contract by giving one month's notice to the employer. However, the employer may only terminate an employment contract on the basis of specific grounds set out in the Labour Code. Where an employer terminates an employment contract pursuant to liquidation of the enterprise or redundancy, it is required to notify the employee at least one month in advance.

An employee who is dismissed due to the liquidation of the enterprise or redundancy is entitled to receive compensation equal to the employee's average salary for one month. Pursuant to Kazakhstan Law On Employment of the Population dated 23 January 2001, an employer who intends to dismiss any of its employees by reason of its liquidation or on the grounds of redundancy is required to submit a notice of forthcoming dismissal to the relevant district employment department not later than two months prior to the date of the dismissal.

Work time

The Labour Code establishes the normal duration of the working week at 40 hours, with overtime not exceeding 12 hours per month and 120 hours per year. In the case of employees engaged in heavy physical work or work under harmful or dangerous conditions, the working week is reduced to a maximum of 36 hours, with overtime not exceeding one hour per day, 12 hours per month and 120 hours per year. Under Kazakhstan law, employees are generally entitled to 24 calendar days of annual paid leave.

Salary

The current minimum wage in Kazakhstan, as established by Kazakhstan Law On Republican Budget for 2011-2013 dated 29 November 2010, is KZT 15.999 (approximately US$106) per month. Overtime work or work during night shifts is required to be paid at the rate of at least 150 per cent. of the respective employee's salary. Work on holidays or at weekends is required to be paid at least 200 per cent. of the respective employee's salary. Employers are required to pay employees at least 50 per cent. of their average monthly salary for any downtime not caused by the employee's fault.

Trade Unions

The regulations relating to trade unions are set out under the Kazakhstan Law *On Trade Unions* dated 9 April 1993. In general terms, trade unions in Kazakhstan are still underdeveloped and exercise limited influence over the corporate decision-making process.

Under Kazakhstan law, trade unions are entitled to represent their members in dealings with employers, their associations, government bodies, the prosecutors' offices and in the courts. As part of their activities, trade unions may monitor the compliance of employers with their statutory obligations towards their workers and have unrestricted access to the work places of their members and to relevant information that is in the employers' possession. In the event of a breach of statutory obligations by an employer, a trade union may bring a claim against the employer in the courts or appeal to the prosecutor's office. Trade unions are entitled under Kazakhstan law to participate in gatherings, meetings, strikes and other actions designed to improve working conditions and increase salaries or for other lawful reasons. Trade unions act through a committee of representatives elected by their members.

Enterprises operating in Kazakhstan may self-liquidate or liquidate structural subdivisions or suspend production fully or in part if it leads to redundancies or worsening of labour conditions only after giving two-months' prior notice to the relevant trade unions and after holding follow-up negotiations to protect the rights and interests of employees.

The Labour Code allows an employer to rescind an employment contract with a trade union member "subject to the opinion" of such trade union. Whilst the interpretation of these words is not clear, it may mean that the employer needs only to consider the trade union's opinion before making a decision.

Expatriate Employees: Work Permits

Pursuant to the Work Permit Rules, all entities hiring foreign personnel must obtain work permits for such employees, with the exception of, among others, (i) heads of branches

or representative offices of foreign legal entities; (ii) foreign citizens on business trips for less than 60 calendar days (in the aggregate) during one calendar year; and (iii) foreigners seconded to a Kazakhstan legal entity, or branches or representative offices of foreign legal entities, for more than 60 calendar days, in accordance with a contract.

Work permits are issued in accordance with quotas, which the Government establishes annually and distributes among the regions and the cities of Almaty and Astana based on its assessment of the local employment markets and the availability of qualified Kazakhstan personnel to fill the various positions. For the year 2010, the number of work permits that can be issued has been limited to 0.75 per cent. of the working population of Kazakhstan pursuant to the Ruling of the Government *On Establishment of Quota for Attraction of Foreign Labour Force for Conducting of Labour Activity on the Territory of the Republic of Kazakhstan for 2010 and Introduction of Amendments into the Ruling of the Kazakhstan Government dated 29 August 2007 No. 753* dated 30 December 2009, No. 2274.

A company applying for work permits on behalf of its foreign employees is required to pay a "guarantee and warranty deposit" in respect of such foreign employees to ensure that the foreign employees leave Kazakhstan following the expiration of their work permits. Any such deposits are returned to the company upon the relevant employee's departure.

In order to protect the local labour market, employers are required to search, in a prescribed manner, for local employees to fill vacancies before submitting an application for a work permit.

The Work Permit Rules provide for special conditions that must be fulfilled by an employer in the event of the issue of a work permit (such as professional training or professional retraining of Kazakhstan citizens under the categories or skills in relation to which a foreign employee is being hired with the subsequent replacement of the foreign employee with an employee who is a Kazakhstan citizen; creation of additional work places for Kazakhstan citizens, etc.). If an employer fails to fulfil the above-mentioned special conditions, the local department of labour may refuse to extend the work permit, should the employer apply for such an extension, or revoke the existing work permit for a foreign employee.

Amendments have been introduced to the Work Permit Rules, effective starting from 1 July 2011, that provide for a mandatory ratio for Kazakhstan and foreign employees of a company: 70 per cent. (of Kazakhstan nationals) to 30 per cent. (of expatriate employees) for management level employees and 90 per cent. (of Kazakhstan nationals) to 10 per cent. (of expatriate employees) for qualified mid-level specialists and other qualified workers.

EXPORT OF MINERALS FROM KAZAKHSTAN

The export of minerals is allowed in Kazakhstan. The procedure for minerals export, including the issue of export-related customs duties, is regulated by the relevant laws and regulations of Kazakhstan legislation as well as international treaties that Kazakhstan has ratified.

Kazakhstan is a party to the Customs Union. As part of the Customs Union, Kazakhstan individuals and legal entities must comply with the Customs Code of the Customs

Union as well as with the Kazakhstan Code *On Customs in the Republic of Kazakhstan* dated 30 June 2010. Currently, Kazakhstan, Russia and Belarus are working actively on the harmonisation of their customs laws and regulations. Since a new customs system of the Customs Union is currently being created, there is a range of risks related to uncertainty and ambiguity of the customs legislation that could impact the activities of the Company.

In Kazakhstan, the import and export of certain goods requires a license. Such licensing requirements for exports of certain goods are introduced or cancelled by the Government in order to protect domestic markets and/or consumers' interests. The list of such goods is also approved by the Government. To the extent that the Company exports goods included in this list, it is obliged to secure the relevant licenses from the competent body.

Certain products in Kazakhstan are subject to export control and the list of such products is also approved by the Government. Kazakhstan may participate in international export control sanctions against one state or a group of states and apply such sanctions in accordance with Kazakhstan law, on the basis of resolutions of the UN and other international organisations. In certain cases, Kazakhstan may apply such sanctions unilaterally.

Kazakhstan may apply restrictions to export, import, transit and processing of products outside Kazakhstan, including embargoes against a foreign country if such foreign country is in breach of its obligations towards Kazakhstan, as well as pursuant to a resolution of international organisations of which Kazakhstan is a member. The Government approves the list of countries against which the above restrictions on export, import, transit, and processing of products outside Kazakhstan are applied and publishes such information annually.

TAXATION REGULATION IN KAZAKHSTAN

Overview

The principal taxes in Kazakhstan are corporate income tax (at a rate of 20 per cent. and 15 per cent. for certain types of income subject to withholding corporate income tax), social tax paid at a flat rate of 11 per cent.), social insurance contributions (at a rate of 5 per cent.), personal income tax (at a rate of 5 per cent. for dividends and 10 per cent. for other types of income), value added tax on goods and services (VAT) (at a rate of 12 per cent.), property tax on legal entities (at a rate of 1.5 per cent. of the annual average residual book value of taxable items) and property tax on individuals (at rates varying from 0.05 per cent. to 1 per cent. of the value of the property), and land tax (at varying rates depending on the quality of the land plot).

Income from Kazakh sources is subject to withholding tax at a rate of 5 to 20 per cent., depending on the type of income. The rate of withholding tax may be reduced under an applicable double taxation treaty. Branch profits tax is payable by a permanent establishment of a foreign legal entity at the rate of 15 per cent. (subject to a reduction under an applicable double taxation treaty) of net income after corporate income tax. According to the tax legislation, state authorities can control prices applied in transactions falling under the scope of the transfer pricing legislation. Where these prices deviate from market prices, the tax authorities have the right to re-assess the associated tax liabilities and apply administrative penalties and interest. The Tax Code regulates tax matters in Kazakhstan. Any amendments to the Tax Code during a given year may result in the introduction of new taxes, changes in

tax rates or changes to the tax base, but these changes normally can only come into effect from 1 January of the following year.

Value Added Tax (VAT)

VAT is imposed on the supply of goods or services if the place of supply is considered to be Kazakhstan, on the import of goods and services for use or consumption in Kazakhstan, and on the export of goods or services for use or consumption outside Kazakhstan.

VAT is payable at 12 per cent. of the taxable amount for domestic and import transactions. Exports are eligible for a zero-rate VAT. To qualify for the zero rate, taxpayers must provide documentary confirmation of export, including a customs declaration. Some types of turnover are exempt from VAT, which include certain specific categories of turnover from sales turnover (including services provided in connection with activities of attorneys and notaries); turnover connected with land and housing; financial activities; and the interest element of finance lease payments. Certain VAT payers (e.g. exporters) may claim a refund on the excess of input VAT over output VAT provided qualifying criteria requirements are met.

When non-residents provide services to resident legal entities that are considered taxpayers in Kazakhstan, the services may be deemed to be provided in Kazakhstan under the place-of-supply rules (e.g. the place of supply of consulting, audit, legal and advocate, accounting or engineering services, as well as information processing services, is considered to be the place of activity of the purchaser.) In this situation, VAT is levied according to the reverse charge mechanism. The purchaser must self-charge the amount of VAT due. This self-charged VAT becomes creditable input VAT for the purchaser only after payment to the budget.

Taxation of Subsoil Users

Taxation of Subsoil Use Operations

In addition to the regular taxes and payments that apply to all legal entities, subsoil users are subject to additional special taxes and payments that apply to their contractual activities.

Stability of tax regime

Prior to 2009, many subsoil use contracts contained provisions relating to the stability of the tax regime, which usually meant that the taxes and payments due would be calculated and paid according to the tax legislation in effect as of the date of the subsoil use contract. However, these provisions have been eliminated under the new Tax Code, which became effective as of 1 January 2009.

According to the Tax Code, tax regime stability clauses in previously signed subsoil use contracts remain effective only for: (1) production sharing agreements that were concluded between the Government or a competent authority and subsoil user before 1 January 2009 and that have undergone a compulsory evaluation by the tax authorities; and (2) subsoil use agreements approved by the President of Kazakhstan. As a result, operations under subsoil use contracts signed before 2009 that are not covered by the above exceptions

and any new subsoil use contracts will be subject to taxation in accordance with the tax legislation in effect at the time the respective tax obligations arise.

Rent tax on exports

All legal entities and individuals exporting crude oil, gas condensate and coal (not exclusively subsoil users) are subject to rent tax on the export of such commodities. Entities operating under subsoil use contracts that are still subject to tax stability clauses, as discussed above, do not pay rent tax.

The rent tax base for crude oil and gas condensate is the value of the exported commodities, which is determined by multiplying the exported volume by world prices calculated in accordance with a formula stipulated by the Tax Code. Tax rates are based on a progressive scale and vary depending on the world price of oil and gas condensate from 0 per cent. (world price of US$40 per barrel or less) to 32 per cent. (US$190 per barrel and more).

The rent tax base for coal is the value of exported coal, which is calculated based on the actual export sale price of coal. The rent tax rate applicable to coal exports is fixed at 2.1 per cent.

Minerals Extraction Tax ("MET")

MET is a tax that effectively replaces the royalties stipulated by tax legislation prior to 2009. It is not necessary for production to be sold for MET liability to arise. MET is generally levied against the value of extracted mineral resources. The tax base calculation procedures and tax rates differ for the following groups of mineral resources; (i) crude oil, gas condensate and natural gas; (ii) "mineral stock" (e.g. metals); and (iii) commonly occurring mineral resources (e.g. sand, clay), groundwater and therapeutic mud.

Generally, the MET base for extracted crude oil, gas condensate and natural gas is determined as the product of (i) the actual extraction volume and (ii) world prices (with certain exceptions, such as value of crude oil sold to domestic refineries). The stipulated formula is used for calculation of world prices. MET rates on crude oil and gas condensate depend on the volume of annual production and range from 5 per cent. to 18 per cent. The rates will be reduced by 50 per cent. with respect to extracted crude oil and gas condensate (i) sold or transferred on the domestic market; or (ii) used for the subsoil user's own production needs. The MET rate for natural gas is 10 per cent., although natural gas sold on the domestic market is subject to rates ranging from 0.5 per cent. to 1.5 per cent.

The MET tax base for mineral stock is the value of a taxable volume of depleted mineral resource reserves contained in mineral stock for the tax period. The procedure for calculating MET (in particular, the value of depleted mineral resource reserves) depends on the type of minerals and the purposes for which the minerals are used. The Tax Code provides for a special formula that uses London Metal Exchange quotations to determine the value of mineral resource reserves (with certain exceptions for minerals not traded on the exchange). MET rates on mineral stock currently range from 0 per cent. to 22 per cent. depending on the type of mineral.

The MET relating to the extraction of commonly occurring minerals is also charged on the value of the extracted commodities and is normally calculated by using the average selling prices. The MET rates for these mineral resources range from 2.5 per cent. to 10.6 per cent., depending on the type of mineral.

Excess Profits Tax ("EPT")

EPT is payable by subsoil users with a few exceptions (essentially limited to subsoil users operating under production sharing agreements). EPT is calculated based on income and expenses generated from operations under a specific subsoil use contract. EPT liability arises when the ratio of net annual income calculated for EPT purposes to allowable EPT deductions is more than 25 per cent. for the reporting tax period (i.e. the calendar year). The Tax Code provides for an incremental sliding scale of EPT rates ranging from 10 per cent. to 60 per cent. The Company has paid EPT historically; however, it does not anticipate paying EPT in the future.

Bonuses

Two types of bonus payments by subsoil users are provided for under the Tax Code:

- Signature bonus: A one-time bonus paid when a contract is signed. A special formula is used to calculate signature bonuses payable by a company depending on the contract type and categories of minerals reserves.

- Commercial discovery bonus: If a commercial discovery is made within the area covered by the contract, a commercial discovery bonus is to be paid by a subsoil user. This bonus amounts to 0.1 per cent. of the value of approved recoverable reserves generally determined based on world prices.

Reimbursement of Historical Costs

The Tax Code provides for payment and reporting procedures for the reimbursement by subsoil users of costs incurred by the state for geological study/field development before a subsoil use contract is signed.

CURRENCY AND FOREIGN EXCHANGE REGULATIONS

Currency regulation in Kazakhstan is governed primarily by the Kazakhstan Law *On Currency Regulation and Currency Control* dated 13 June 2005 and various regulations enacted by the National Bank of Kazakhstan. Notwithstanding the devaluation in February 2009, the national currency, the Tenge, is considered a relatively stable currency. It is fully convertible for current account transactions, and, since 1999, it has floated freely. Sustained foreign-currency inflows (due primarily to increased oil revenues) and the general weakening of the U.S. dollar have caused modest appreciations in the Tenge on world markets in recent years.

Kazakhstan has accepted the conditions of paragraphs 2, 3 and 4 of Article VIII of the International Monetary Fund Charter and, as a result, has agreed not to introduce or increase any exchange rate restrictions, introduce or modify any practice of multiple exchange rates,

enter into any bilateral agreements violating Article VIII or impose any import restrictions. In accordance with Article VIII, the 1996 law on currency regulation, and then a new law on the same in 2005 (above), were adopted. According to the current law, all current account operations, including transfers of dividends, interest and other investment income, may be made without restriction. Only certain capital account operations between residents and non-residents need to be notified to or registered with the NBK. Capital outflows and inflows are registered and monitored for statistical purposes only, but are not restricted, subject to the above-mentioned registration with or the submission of a notification to the NBK.

Registration with the NBK should be conducted after the execution of the relevant transaction but before the parties commence discharging their obligations thereunder (i.e. before the first payment). Notification to the NBK should be made no later than seven days from the first payment made under the applicable transaction.