

Doing Business in Kazakhstan

2008



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1. Introduction

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in over 70 countries throughout the world. Business partners work together through the network to conduct trans-national operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Kazakhstan has been provided by the office of UHY representatives:

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Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at December 2008.

We look forward to helping you do business in Kazakhstan.

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2. Business environment

Geography

General overview

Kazakhstan (also Kazakstan), officially the Republic of Kazakhstan, is a country in Central Asia and Eastern Europe. Ranked as the ninth largest country in the world as well as the world's largest landlocked country, it has a territory of 2,727,300 km² (greater than Western Europe). It is bordered by Russia, Kyrgyzstan, Turkmenistan, Uzbekistan and China. The country also borders on a significant part of the Caspian Sea.

Kazakhstan declared itself an independent country on December 16, 1991, the last Soviet republic to do so. Its communist-era leader, Nursultan Nazarbayev, became the country's new president. Since independence, Kazakhstan has pursued a balanced foreign policy and worked to develop its economy, especially its hydrocarbon industry. While the country's economic outlook is improving, President Nazarbayev maintains strict control over the country's politics. Nevertheless, Kazakhstan's international prestige is building. It is now considered to be the dominant state in Central Asia. The country belongs to many international organizations, including the United Nations, NATO's Partnership for Peace, the Commonwealth of Independent States, and the Shanghai Cooperation Organization. In 2010, Kazakhstan will chair the Organization for Security and Cooperation in Europe. In 2011, it will form a customs union with Russia and Belarus.

Kazakhstan is ethnically and culturally diverse, in part due to mass deportations of many ethnic groups to the country during Stalin's rule. Kazakhs are the largest group, followed by Russians. Kazakhstan allows freedom of religion, and many different beliefs are represented in the country. Islam is the primary religion, followed by Orthodox Christianity. The official language is Kazakh, though Russian is still commonly used for everyday communication.

Kazakhstan is a presidential republic, with the president at the head of state. The president also is the commander in chief of the armed forces and may veto legislation that has been passed by the Parliament. The prime minister chairs the Cabinet of Ministers and serves as Kazakhstan's head of government. There are three deputy prime ministers and 16 ministers in the Cabinet. Karim Masimov has served as the Prime Minister since January 10, 2007.

Kazakhstan has a bicameral Parliament, made up of the lower house (the Majilis) and upper house (the Senate). Single mandate districts popularly elect 67 seats in the Majilis; there also are ten members elected by party-list vote rather than by single mandate districts. The Senate has 39 members. Two senators are selected by each of the elected assemblies (Maslikhats) of Kazakhstan's 16 principal administrative divisions (14 provinces, plus the cities of Astana and Almaty). The president appoints the remaining seven senators. Majilis deputies and the government both have the right of legislative initiative, though the government proposes most legislation considered by the Parliament.

Kazakhstan is divided into 14 provinces (облыстар). The provinces are subdivided into districts (аудандар).

Labour market

According to an expert estimation, the number of unemployed in February 2008 was 603,100 and the rate of unemployment was 7.2 % of the economically active population, including number of the persons registered with employment authorities as unemployed.

Population incomes

According to estimation, nominal monetary incomes per head of the population were 229,400 dollars in January 2008 and they have increased by 21.9 % in comparison with January 2007, real monetary incomes of the population have increased by 2.7%.

The monthly average nominal wages added to workers was 452.5 dollars in January 2008 and it has increased by 19.1% in comparison with January 2007. The real wages have increased by 0.4%.

Real sector of economy

Industrial output in January-February 2008 has made 12,453 million US dollars, which is an increase of 3.4% compared to January-February 2007. Manufacture volume in the mining industry has increased by 5.4 % in comparison with the similar period 2007, volume of manufacture and distribution of the electric power, gas and water has increased by 12.9 %, and the processing industry volume has decreased by 1.8 %.

Volume of gross output of agriculture in January-February 2008 has made 571.7 million US dollars, an increase by 3.6% since January-February 2007.

Total amount of a cargo transportation (taking into account an estimation of volume of transportations of cargoes not transport organizations and the businessmen who are engaged in commercial transportations) was

289.5 million tons in January-February 2008 and it has increased by 3.1 % in comparison with the corresponding period in 2007.

The volume of retail goods turnover (without a public catering turnover) was 2,723.9 million US dollars during the accounting period, an increase by 5.1 % in comparison with January-February 2007.

Volume of investments into a basic capital has made 3152.7 million US dollars in January-February 2008, that more by 15.3 % than in January-February 2007.

There are 271,387 legal entities registered as of March 1, 2008 in the Republic, including 256,335 entities having up to 50 staff. Number of operating legal entities is 182,699. Number of small enterprises is 168,677 including 122,261 subjects of a small-scale business from all operating legal entities.

Foreign trade

The foreign trade turnover of Kazakhstan (data of Committee of the customs control of the Ministry of Finance of Republic Kazakhstan, without unorganized trade) was 7,482.9 million US dollars in January 2008 CIIA and it has increased by 29.3 %, including export – 5,180.1 million US dollars (increased by 41.9 %), import 2302.8 million US dollars (increased by 7.6 %) in comparison with January 2007.

The prices

A consumer price index in February 2008 was 101.9 % in comparison with December 2007. The prices for food articles have increased by 2.8 %, non-food articles - by 1.2 %, paid services - on 1.3 %. The manufacturing enterprises prices of industrial production have increased in February 2008 in comparison with December 2007 by 0.8 %.

Finance

According to operative data of Ministry of Finance RK, incomes to the State budget of Republic Kazakhstan were 1,796.8 billion US dollars as of February, 1st 2008; expenses were 978 billion US dollars. Incomes have increased by 33.7 %; expenses have decreased by 7 % in comparison with the corresponding period of 2007.

3. Foreign investment

Kazakhstan is on the first place by volume of direct foreign investments per capita among the CIS countries during last years. Volume of receipts to Kazakhstan direct foreign investments has made about 97 billion US dollars since 1993 to 2007 inclusive. Thus, it was annually involved in a national economy of 4-4.5 billion US dollars of direct foreign investments in 2001-2003 as compared with 2007 – 17.5 billion US dollars.

The resulting indicators allow the characterisation of Kazakhstan's investment mode as liberal, providing access to foreign investors almost in all sectors of economy.

The accepted legislation acts and organizational procedures promoted strengthening of investment attraction of the country and, accordingly, promoted inflow of foreign investments to the Kazakhstan economy. As the result, Kazakhstan is the leader among the CIS countries by volume of involved direct foreign investments per capita already throughout several years, and also has received the international rating of an investment class first among the CIS countries.

Foreign Direct Investments Legislation

Procedure of attraction and protection foreign capital is regulated now by more than 20 legislative and standard legal acts. According to them foreign investments in Kazakhstan can be put into any objects and activity kinds in all resolved organizational-legal forms, including by the method of creation foreign companies, that are completely belonged to foreign investors, their branches and representations, or joint ventures in which they have a property part. It is guaranteed to foreign investors to use at own discretion incomes received from their activity, for reinvestments in republic, for acquisition of the goods and for other purposes.

The Law of Republic Kazakhstan about investments on the basis of two previous laws was adopted on January, 8th, 2003. First of all, this law had been regulated 'equality of stimulation measures of investments', both for foreign, and for domestic investors, guarantees of protection investor rights, and order of the resolution disputes with participation of investors.

The government has approved a new list of priority investments and kinds of activity in September, 2005. Today there are 237 items of agriculture, light, chemical and an iron and steel industry, production of cars and equipment, electric power industry, transport activity, production of building materials and others. Necessity of revision of the mentioned list effective since 2003 is caused first of all by creation clusters in several

perspective sectors. For example, proceeding from the formation plan of transport-logistical services cluster, the list is added by such kinds of activity, such as operation of transport terminals (ports, stations, stations, landing stages and moorings), and also such kinds as warehousing and an overload of cargoes (the logistical centres and warehouses). More hotels are necessary for development tourist cluster so activity of hotels is included in the list.

International advisers recognized conformity of the Kazakhstan investment legislation to norms TRIMs (Agreement on the investment arrangements connected with trade) of WTO in 2005. In addition, guarantees of investments are regulated by intergovernmental agreements on encouragement and protection of investments. Kazakhstan has signed these agreements with 42 countries of the world.

Some kinds of investment preferences are given to foreign investors on same level as to local investors, including corporate income tax (CIN or to the profit tax) within 10 years (for again created enterprises – exception from tax, for the operating enterprises - the right of reference to cost deductions of the fixed assets got within realization of the investment project); property tax ground tax - within five years. The foreign companies are accepted from customs duties of the imported equipment (intended for realization of the investment project) and also its accessories.

The companies with the foreign authorized capital can apply for the state natural grants: the ground areas, buildings and constructions, cars and the equipment, vehicles and so forth

All listed privileges are given under a condition if the investor fulfils following requirements:

- Puts means into priority sector of economy of Kazakhstan
- Puts means into the fixed actives of the enterprises which are legal entities under the legislation of Kazakhstan, for creation new, expansion and updating of operating manufacture with application of modern technologies
- Gives to corresponding state authorities the documents confirming presence of financial, technical and organizational resources necessary for realization of the declared investment project.

Investment privileges are given by Committee on investments of the Ministry of the industry and trade of Kazakhstan (the authorized state body) on the basis of the investment agreement.

It is necessary to notice, that absolutely other tax mode is provided for investors in the oil and gas sector, it submits to laws about subsoil and subsoil using, and also to the agreement on production division (APD).

Requirements at *the conclusion of contracts concerned to granting investment preferences are following: investment offers should correspond to the list of prior kinds of activity; means are put only to the fixed assets, not to working capital. It is necessary to specify in the application to Committee on investments enterprise description, sum of the authorized capital, the short description of the project. In addition, it is necessary to put the business plan and to confirm presence of necessary financial resources. When the businessman plans to realize the project at the expense of own means he should present accounting balance of the enterprise. In the case of financing project by borrowing costs, its initiator gives a copy of the credit contract together with application. It is necessary to give a copy of an estimate if the project provides construction and installation works. Tax codes provide certain tax privileges for the enterprises which are carrying out activity in territory of special economic zones since January, 1st, 2004. Now there are three special economic zones: Astana - a new city, Park of information technologies and Seaport Aktay in Kazakhstan. Privileges include reduction of corporate income tax, paid in the budget by 50 or 100 %, depending on a special economic zone, and also exception from the ground tax and the property tax.*

4. Setting up a Business

Private business in the Republic of Kazakhstan is carried out through various kinds of the commercial organizations. However, all of them should be registered in territorial authorities of the Ministry of Justice and receive corresponding certificates on the state registration.

Registration

1. The legal entity is subject to the state registration in justice authorities, except for the cases provided by acts of Republic Kazakhstan. The order of the state registration is defined by the legislation.
2. Data of the state registration, including for the commercial organizations the company name, join into the uniform state register of legal entities.
3. The legal entity is considered created from the moment of its state registration.
4. Branches and representations are registered in the order established by acts. Branches and representations are subject to a re-registration in case of name change.
5. Infringement of the order of formation of the legal entity established by the law or discrepancy of its constituent documents to the law attract refusal in the state registration of the legal entity. Refusal in registration on motives of inexpediency of formation of the legal entity is not supposed. Refusal in the state registration, and also evasion from such registration can be appealed against in court.
6. The legal entity is subject to a re-registration in cases:
 - a. reduction of the authorized capital size;
 - b. name change;
 - c. changing of structure of participants in economic associations (except for economic associations in which conducting the register of participants of economic association is carried out by the professional participant of a securities market having the license for realization activity on conducting of system of registers of holders of securities).

The changes brought in constituent documents on the specified bases without a re-registration of the legal person, are void.

In case of entering of other changes and additions into constituent documents the legal entity informs on it registering authority in a monthly period.

The most popular organizational-legal form of the enterprise in Kazakhstan for attraction of foreign investments is the limited liability company (LLC). The minimum size of the authorized capital of the limited liability company is equal 100 MRP (approximately \$800). The contribution to the authorized capital of LLC can be brought as in monetary, and the natural form. In case if cost of contributions in the natural form exceeds 20 000 MRP (approximately \$160 000), estimation of cost should be confirmed by the independent expert.

The foreign company, who does not wish to form the legal entity in Kazakhstan, can open representation or branch in republic territory. Representations are not independent legal entities; they can be created for gathering of the information, an establishment of business contacts and should not be engaged in any enterprise activity. Therefore "commercial" representations are needed to be re-registered in branches which also are structural divisions of foreign legal entities and can carry out enterprise activity under the Kazakh laws.

Following documents are submitted to justice authority for registration legal entity (the full list is not limited by the listed documents):

- the statement for the state registration;
- the charter of the legal entity;
- the document confirming decision on formation of the legal entity by founders (for example, protocol of founders session);
- an extract from the trading register, confirming a legal status of the foreign investor (for example the certificate on establishment);
- the letter or the reference on absence of debts of founders before the state budget, given out by tax authorities of Kazakhstan;
- a copy of the passport of the director of the created legal entity;
- the certificate of registration of the tax bearer, given out to the director of the created legal entity;
- a copy of the contract of rent or other document confirming presence at the company of premise for realization of declared activity;
- the power of attorney which has been given out by the company-founder to the person, authorized to register the legal entity on behalf of its name;
- the receipt on payment of gathering for the state registration.

The procedure for registration of representations or branches of foreign legal entities is similar to registration of the Kazakhstan legal entities. The basic difference is the list of the documents submitted to justice authority. They include the statement for the state registration of representation (branch); provisions about the representation (branch), confirmed by the

foreign legal entity; the session protocol (the decision of founders) on formation of representation (branch) in Kazakhstan; a copy of the charter or constituent documents of the foreign legal entity registering representation (branch); an extract from the trading register, confirming a legal status of the foreign investor (for example the certificate on establishment); the power of attorney which has been given out to the head of representation (branch); a copy of the passport of the head of representation (branch); the certificate of registration of the tax bearer, given out to the head of representation (branch); The power of attorney which has been given out to the person, authorized to register representation (branch) on behalf of the foreign legal entity; a copy of the contract of rent or other document confirming the legal address of representation (branch); the receipt on payment of gathering for the state registration.

In both cases the documents submitted to justice authorities, should be legalized/apostilled, translated on the Kazakh and Russian languages and are assured in notary public office.

The limited liability company

1. Association founded by one or several persons, which capital is divided into shares of the sizes defined by constituent documents is appreciated as limited liability company; participants of the limited liability company are not responsible under its obligations and bear risk of the losses related with company activity, within cost of the contributions brought by them. Exceptions of this rule can be provided legislative acts.
2. The participants of the limited liability company, who has brought contributions not completely, bear a joint liability under its obligations within cost of not brought part of the contribution of each of participants.
3. The number of participants of the limited liability company is not limited. The limited liability company cannot have other economic association consisting of one person as the unique participant. Auditor check of the limited liability company activity should be spent on request of any of its participants. The public reporting of the limited liability company is not required, except for the cases provided by the legislation or constituent documents.
4. The limited liability company can be voluntary reorganized or liquidated under the decision of its participants. Other bases of reorganization and limited liability company liquidation are defined by legislative acts. The limited liability company has the right to be transformed to other economic association, joint-stock company or to production co-operative.

5. The legal status of the limited liability company, the right and a duty of its participants are defined by legislative acts.

Association with additional responsibility

1. Association is appreciated as an association with additional responsibility if its participants are responsible under its obligations with the contributions to the authorized capital, and in the case of insufficiency of these sums they are responsible by property belonging to them in size, multiple to the contributions brought by them.
2. The limiting size of responsibility of participants is provided in the charter. In the case of bankruptcy of one of participants his responsibility under association obligations is distributed between other participants to proportionally their contributions if other order of responsibility distribution is not provided by constituent documents.
3. Rules about the limited liability company are applied to association with additional responsibility.

Joint-stock company

The authorized capital of a Joint-stock company at the moment of registration should be not less than 500 MRP or not less than 584.000 tenge in 2008.

1. Legal entity issuing shares for the purpose of means attraction for realization its activity is appreciated as joint-stock company. Shareholders of joint-stock company are not reliable under its obligations and bear risk of the losses related to company activity within cost of belonging to them shares, except for the cases provided by legislative acts.
2. The joint-stock company possesses property isolated from property of the participants, bears responsibility under the obligations within the property and are not reliable for obligations of its participants. Shareholders of corporate saving pension funds bear a joint liability under obligations of the named funds as it should be and on the conditions established by the legislation about pension supply.
3. The joint-stock company can be created by one person or consisted by one person in case of acquisition all company shares by one shareholder if other is not provided by legislative acts.
4. The legal status of joint-stock company, the right and a duty of shareholders are defined according to acts. Features of a legal status of the joint-stock companies created by privatization of the

- state enterprises or which controlling interest belongs to the state, are defined by Republic Kazakhstan legislative acts.
5. Non-commercial organizations can be created in the organizational-legal form of joint-stock company in the cases provided by the legislation.

Production co-operative

The minimum size of the production co-operative authorized capital is not established by the legislation and consists of property payments of members of the co-operative which size is defined by members.

1. Voluntary association of citizens on the basis of membership for the joint enterprise activity based on their personal labour participation and association by its members of property payments is appreciated as production co-operative.
2. Members of co-operative should be not less than two.
3. Members of production co-operative bear under co-operative obligations additional (subsidiary) responsibility in sizes and an order, provided by the Law on production co-operative.
4. The legal status of production co-operative and its members is defined according to legislative acts.

The affiliated organization

1. The affiliated organization is the legal entity, which prevailing part of authorized capital was generated by other legal entity (further - the basic organization), or if according to the prisoner between them the contract (or otherwise) the basic organization has possibility to define the decisions accepted by the given organization.
2. The affiliated organization is not reliable on debts of the basic organization. The basic organization, which under the contract with the affiliated organization (or otherwise) has the right to give to last obligatory instructions for it, is reliable subsidiary the affiliated organization under the transactions concluded last to execute such instructions. In case of bankruptcy of the affiliated organization because of the basic organization it bears subsidiary responsibility on its debts.
3. Participants of the affiliated organization have the right to demand compensation by the basic organization of the losses caused on its fault of the affiliated organization if other is not established by legislative acts.
4. Features of the affiliated organization provisions, not provided by the present article, are defined by legislative acts.

Branches and representations

1. A branch is the isolated division of the legal entity which is located out of a place of its finding and carrying out all or a part of its functions, including representation functions.
2. Representation is the isolated division of the legal entity which is located out of a place of its finding both carrying out protection and representation of interests of the legal entity, making from his name of the transaction and other legal actions, except for the cases provided by acts of Republic Kazakhstan.
3. Branches and representations are not legal entities. They are allocated with property the legal entity which has created them and operate on the basis of the positions confirmed by it.
4. Heads of structural divisions (branches and representations) public associations are selected in an order provided by the charter of public association and position about its branch or representation.
5. Heads of structural divisions (branches and representations) religious associations are selected or appointed in an order provided by the charter of religious association and position about its branch or representation.
6. Heads of branches and representations of other forms of legal entities are appointed the authorized body of the legal entity and operate on the basis of its power of attorney.

Economic Association

The authorized capital of any economic association should be not less than 100 MRP (a monthly settlement indicator which is 1168 tenge in 2008) at the moment of registration or not less than 116,800 tenges.

1. Economic association the commercial organization with divided into shares (contributions) of founders (participants) the authorized capital admits. The property created at the expense of contributions of founders (participants), and also made and got by economic association in the course of its activity, belongs to association on the property right.
2. Economic associations can be created in the form of full association, special associations, the limited liability companies, associations with additional responsibility.
3. The economic association, except full and special associations, can be created by one person who becomes its unique participant. Only citizens can be participants of full association and full companions in special association.
4. Constituent documents of economic association are the constituent contract and the charter. The constituent document of economic association founded by one person (one participant), is the charter.
5. Constituent documents of economic association (the charter and the constituent contract) are subject to the notary assurance.

6. Constituent documents of economic association should contain except specified in points 4 and 5, articles 41 of the present Civil Code, a condition on the size of shares of each of participants; about the size, structure, terms and an order of entering by them of contributions to authorized capital; about responsibility of participants for infringement of duties of contributions to authorized capital, and also other data provided by acts.
7. The economic association can be the founder of other economic associations except for the cases foreseen by legislative acts.
8. The economic association has the right to conclude with the professional participant of a securities market having the license for realization of activity on conducting of registers system of securities holders, the contract on conducting the register of economic association participants.

The effect of the constituent contract stops from the date of the formation register of thee participants of the economic association. The document confirming the right to a share in the authorized capital of economic association, conducting which register of participants is carried out by the professional participant of a securities market having the license for realization of activity on conducting of registers system of securities holders, is the extract from the participants' register of economic association.

In case of transformation of joint-stock company to economic association, conducting which register of participants it will be carried out by the professional participant of a securities market having the license for realization of activity on conducting of system of registers of holders of securities, the constituent contract does not consist.

The rights to shares of participation in the authorized capital of economic association, conducting which register of participants is carried out by the professional participant of a securities market having the license for realization of activity on conducting of registers system of securities system, arise from the moment of registration of these rights in the participants register of economic association.

The order of formation, conducting and storage of the participants register of economic association is established by the Republic Kazakhstan legislation.

Money, securities, things, property rights, including the rights to results of intellectual activity, and other property (except for the special financial companies created according to the Republic Kazakhstan legislation about

securitization, which authorized capital is formed exclusively by money) can be the contribution in the authorized capital of economic association.

Contributions of founders (participants) to the authorized capital in the natural form or in the form of property rights are estimated in the monetary form under the agreement of all founders or under the decision of general meeting of all participants of association. If cost of such contribution exceeds the sum equivalent to twenty thousand of the sizes of monthly settlement indicators, its estimation should be confirmed by the independent expert.

Monetary estimation of participant contribution of an economic association can prove to be true accounting documents of association or the auditor report in the case of its re-registration.

Founders (participants) of association within five years from the moment of such estimation bear a joint liability before creditors of association within the sum on which the contribution estimation is overestimated.

In cases when the right of property use is transferred to association as the contribution, size of this contribution is defined by a payment for using such property, estimated for all term specified in constituent documents.

Entering of contributions in the form of the personal non-property rights and other non-material blessings, and also by offset of requirements of participants to association is not supposed.

Shares of all participants in the authorized capital and their share in cost of property of economic association (a share in property) are proportional to their contributions to authorized capital if other is not provided by constituent documents.

The participant of economic association has the right to pawn and sell the share in association property if other is not provided by acts or constituent documents.

The order and terms of entering of contributions to authorized capital, and also responsibility for default of obligations on formation of the authorized capital are established by acts and (or) constituent documents. Reduction of the authorized capital of economic association is supposed after notice of all its creditors. Its creditors have the right to demand in this case the preterm termination of association or execution of corresponding obligations and compensation of concerned losses.

Reduction of the authorized capital in infringement of the order established by the present point is the basis for association liquidation under the court decision under the statement of interested persons.

1. The supreme body of economic association is general meeting of its participants. Powers of general meeting belong to its unique participant in economic associations founded by one person, except full and special associations.
2. Executive office (joint and (or) individual) is created in economic association, carrying out a current management of its activity and being accountable to general meeting of its participants. The individual control body can be selected not from among its participants.

Followings can be created as joint bodies of association:

- a. board (management);
 - b. the supervisory board;
 - c. other bodies in the cases provided by acts or the decision of general meeting participants of economic association.
3. The competence of economic association bodies, an order of their election (appointment), and also an order of acceptance of decisions are defined by them according to the present Code, acts and constituent documents.
 4. The economic association can involve the auditor organization not connected by property interests with association or its participants (external audit) for check and acknowledgement of correctness of the financial reporting.

An auditor check of an economic association should be spent at any time on request of one or several participants of association at the expense of its (their) means.

The order of auditor check carrying out of economic association activity is defined by the legislation and constituent documents of association.

1. Association is appreciated as full if its participants bear a joint liability under its obligations by all property belonging to them in the case of insufficiency of property of full association.
2. The citizen can be the participant only one full association.

Special association

1. Association is appreciated as special if it includes except one or more participants bearing additional responsibility under obligations of association by all property (full companions), also one or more participants which responsibility is limited to the sum of the contribution brought by them of property of

association (investors) and which do not accept participation in realization commercial activity by association.

2. The legal status of the full companions participating in special association, and their responsibility under association obligations are defined by rules about participants of full association.
3. The citizen can be a full companion only in one special association. Full companion in special association cannot be the participant of full association.
4. Rules about full association are applied for special to association as it does not contradict provisions of the present Code about special associations.

5. Labour

Labour relations, and also other relations directly connected with labour, are regulated by the labour contract, the certificate of the employer, the agreement and the collective agreement.

Provisions of parties' agreements of the social partnership, collective, labour contracts, certificates of the employers, worsening position of workers in comparison with the labour legislation of Republic Kazakhstan, admit void. Conditions of agreements, collective, labour contracts cannot be changed unilaterally.

Under the labour contract the worker performs work (labour function) on corresponding qualification for compensation and observes the labour schedule, and the employer provides working conditions, in due time and in full pays to the worker wages and carries out other payments provided by the labour legislation of Republic Kazakhstan, labour, collective contracts, the agreement of the parties.

Infringement of equality of rights and possibilities is forbidden at a conclusion of employment agreement. The following: pregnancy, presence of children, old age and physical inability, cannot limit the right of a conclusion of employment agreement, except for the cases provided by the present legislation.

At an establishment, the infringement of a person's equality of rights, the employer bears the responsibility established by laws of Republic Kazakhstan.

6. Taxation

The Taxation Legislation of the Republic of Kazakhstan consists of the Tax Code on taxes and other obligatory payments to the budget and the statutory legal acts adoption of which provided by the present Code. The Tax Code regulates an order of calculation and payment of taxes and other obligatory payments to the budget and also regulates relations between the state and a tax payer, connected with discharge of tax obligations. Taxes and other obligatory payments to the budget are established, introduced, amended or cancelled in the order and on the terms of the Tax Code.

Following taxes and other obligatory payments to the budget are effective in the Republic of Kazakhstan:

- Corporate income tax
- Individual income tax
- The value-added tax
- Excises
- Taxes and special payments of subsurface resources' users
- Social tax
- Land tax
- Tax to vehicles
- Assessed tax (tax to property)
- Tax to gambling industry.

Corporate income tax

Payers of corporate income tax are legal persons, residents of the Republic of Kazakhstan and also non-resident legal persons, carrying out their activity in the Republic of Kazakhstan through constant establishment or receiving incomes from sources in the Republic of Kazakhstan.

Objects of taxation by corporate income tax are:

- Taxable income
- Income assessed at a source of payment
- Net profit of non-resident legal person carrying out its activity in the Republic of Kazakhstan through constant establishment.

Taxable income of a tax-payer is liable to tax under the rate of 30 percent. An income taxable at a source of payment and exception of incomes of non-residents from sources in the Republic of Kazakhstan are taxable at a payment source under the rate of 15 percent. The net profit of a non-resident legal person, who is carrying out its activity in the Republic of

Kazakhstan through constant establishment, is liable to tax under the rate of 15 percent.

The tax period for corporate income tax is a calendar year. Payers present declarations to the tax official bodies not later than March, 31st of the year following the accounting period.

Individual income tax

Payers of individual income tax are the physical persons having objects of the taxation.

Objects of taxation by individual income tax are:

- Incomes taxable at a source of payment
- Incomes which are not taxable at a source of payment.

Incomes of a tax-payer taxable at a source of payment are:

- Salaries
- Income from one-off payment
- Pension payments from accumulative pension funds
- Income in the form of dividends, compensations of winnings
- Grants (scholarships)
- Income under contracts of accumulative insurance.

Incomes of a tax-payer which are not taxable at a source of payment are:

- Property income
- Income of an individual entrepreneur
- Income of lawyers and private notaries
- Other incomes.

Incomes of a tax-payer are taxable under the rate of 10 percent. Incomes in the form of compensations and winnings are taxable under the rate of 10 percent. Incomes in the form of dividends are taxable under the rate of 5 percent.

Value-added tax

The value-added tax represents assessments to budget of a part of cost of taxable turnover on sale, added in the course of manufacture and the circulation of the goods (works and services), and also deductions at import of the goods on territory of the Republic of Kazakhstan.

The value-added tax, payable to the budget on taxable turnover, is defined as a difference between the sums of the VAT charged (accrued) for sold goods (works, services), and the sums of the VAT which payable for the received goods (works, services).

Payers of the VAT are:

1. Following persons who were registered under the VAT in the Republic of Kazakhstan:
 - Individual entrepreneurs
 - Legal persons, except for official bodies
 - The non-residents who are carrying out their activity in the Republic of Kazakhstan through constant establishment.
2. Organizational subdivisions of the legal person recognized as independent VAT payers.

Payers of the VAT at import of the goods are the persons importing these goods on territory the Republic of Kazakhstan.

Objects of taxation on the added value are:

- Taxable turnover;
- Taxable import.

The turnover on sale of the goods for export is taxable under the zero rates. Export of goods is export from customs territory of the Republic of Kazakhstan.

The rate of the tax to the added value is 13 percent and applied to the size of taxable turnover.

The tax period under the VAT is calendar month or quarter.

Excises

Payers of excises are physical and legal persons, and non-residents legal persons and their structural subdivisions, which:

- Manufacture excisable goods in the territory of the Republic of Kazakhstan
- Import excisable goods on customs territory of the Republic of Kazakhstan
- Carry out wholesale, retail sale of gasoline and diesel fuel in territory of the Republic of Kazakhstan
- Carry out sale of bankruptcy assets of confiscated, ownerless excisable goods
- Carry out excisable activity kind in the territory of the Republic of Kazakhstan.

Excisable goods are:

- All kinds of spirit
- Alcoholic production
- Tobacco products
- Gasoline, diesel fuel
- Cars
- Crude oil, gas condensate.

Excisable kind of activity is the organization and carrying out of lotteries. Rates of excises are approved by the Government of the Republic of Kazakhstan and are established in percentage to cost of the goods and (or) in the absolute sum on a unit of measure (firm) in natural expression.

With regard to the excise the tax period is the calendar month.

Social tax

Payers of the social tax are:

- Individual entrepreneurs
- Private notaries, lawyers
- Legal persons-residents of the Republic of Kazakhstan
- Non-residents who are carrying out their activity in the Republic of Kazakhstan.

The objects of the taxation are the expenses of an employer paid to resident workers in a type of income, to workers-non-residents in form of income, and also incomes of foreign personnel.

Social tax is paid under rates established by article 317 of the Tax Code.

Land tax

Payers of the land tax are physical and the legal persons having objects of taxation:

- On the right of ownership
- On the right of constant land tenure
- On the right of primary gratuitous time land tenure.

The Object of taxation is the ground area.

Base rates of the land tax on agricultural purpose land are established counting on 1 hectare and are differentiated on quality of soil. Base tax rates on land of settlements are established counting on one square meter of the area. Base rates on the industry purposes land are established counting on one hectare in sizes proportional to a point of yield (growth) class.

Vehicle Tax

Payers of the tax to vehicles are physical persons and legal persons, their structural subdivisions having objects of taxation on the property right. The object of the taxation is vehicles.

Tax calculation is made under rates in monthly settlement indicators.

Property Tax

Payers of the tax to property are:

- A legal person having objects of taxation on the property right, on economic conducting or to an operational administration in territory of the Republic of Kazakhstan
- An individual entrepreneur having object of taxation on the property right on territory of the Republic of Kazakhstan.

The object of taxation for legal persons and individual entrepreneurs are fixed assets and intangible assets.

Tax base on objects of taxation is an average annual book cost of taxable objects, defined according to book keeping data.

Legal persons calculate tax to property under the rate of 1 percent to average annual cost of taxable objects. Individual entrepreneurs calculate tax to property under the rate of 0.5 percent to average annual cost of taxable objects.

Gambling business Tax

Payers of tax from gambling business are individual entrepreneurs and the legal persons who are carrying out their activity on rendering of services of:

- Casinos
- Raffle
- Gambling machines
- Bookmaker offices.

Object of taxation by the tax to gambling business in caring out of activity in sphere of gambling business, are:

- A game table
- A game-playing machine
- Cash desk of raffle
- Cash desk of bookmaker office.

Levies

- Levies for state registration of legal persons and registration of branches and representations
- Levies for state registration of individual entrepreneurs
- Levies for state registration of the rights on real estate and transactions with it
- Levies for the state registration of radio-electronic means and high-frequency devices
- Levies for the state registration of vehicles
- Levies for the state registration of medical products
- Levies for transit of vehicles in territory of the Republic of Kazakhstan
- Levies from auctions
- License tax for the right to perform certain kinds of activity
- Levy for issue of permission to use a radio-frequency spectrum to the television and broadcasting organizations.

Payments

- Payment for using ground areas
- Payment for using water resources of superficial sources
- Payment for emissions to environment
- Payment for using fauna
- Payment for forest using
- Payment for use of especially protected natural territories
- Payment for use of radio-frequency sector
- Payment for granting long-distance and (or) international telecommunication;
- Payment for using navigable waterways
- Payment for placement of outdoor advertisement.

Customs payments

- Customs duties
- Customs fees
- Payment for the preliminary decision
- Tallage.

According to the Tax Code, tax-payers define objects for taxation and objects connected with taxation, on accrual concept.

Operations in a foreign currency for tax purposes are recalculated in national currency of the Republic of Kazakhstan - in tenge with application of market rate of the currency exchange at the day of operation execution (payment).

Tax-payers who are carrying out kinds of activity, for whom the Tax Code provides various conditions of taxation, are obliged to lead separate account of taxation objects and objects connected with the taxation.

Special payments of users of subsurface resources

Excess profit tax

The payers are users of subsurface resources, except for those carrying out activity under contracts on production division, on mining of widespread minerals and underground water, and building and operation of the underground constructions not connected with exploration and mining, provided that the given contracts do not provide mining of other kinds of minerals.

Object of taxation on excess profit is part of the net profit of a user of subsurface resources under each separate contract for the tax period, in which the relation of accumulated expense is above 1.2.

Tax base is part of the net profit of a user of subsurface resources under each separate contract for the tax period, exceeding 20 percent from the sum of deductions.

The tax rate is established in the sizes provided in the article 308 of the Tax Code.

Bonuses

Bonuses are the fixed payments of a user of subsurface resources. A user of subsurface resources, on the basis of individual conditions of mining (using of subsurface resources), pays following kinds of bonuses:

- Subscription
- Commercial detection.

Royalty

The royalty is paid by a user of subsurface resources separately on each kind of minerals mined in territory of the Republic of Kazakhstan irrespective of, whether they have been sold (shipped) to buyers or used for own needs.

Payers of royalty are users of subsurface resources, carrying out mining operations, including extraction of minerals from technogenic mineral formations.

Object of taxation is the volume of the extracted minerals or volume of the first commodity product received from actually extracted minerals.

Share of the Republic of Kazakhstan on production division

Payers are users of subsurface resources, who concluded contracts on production division, if other is not provided by the contract on production division.

Share of the Republic of Kazakhstan on production division is defined as total cost of the profitable production which is subject to division between the Republic of Kazakhstan and a user of subsurface resources, after deduction of share of a user of subsurface resources in profit.

7. Accounting & reporting

Accounting

Rules of accounting in the Republic of Kazakhstan are developed in accordance with the Law № 234-111 of the Republic of Kazakhstan from 28.02.2007. On accounting and financial reporting, the international and national standards of financial reporting establish an order of accounting by individual entrepreneurs and organizations on territory of the Republic of Kazakhstan.

A legal person for conducting book keeping, being governed by the Law of the Republic of Kazakhstan on book keeping and financial reporting by international and national standards of financial reporting, and by other standard legal acts in book keeping and financial reporting sphere, independently creates its registration policy, on the basis of its structure, its belonging to certain sector and other features of activity and develop an order of control over operations and events, making other decisions necessary for organization of book keeping.

Depending on volume of registration work head of the organization has a right to:

- establish an accounting service as a structural subdivision headed by a chief accountant
- introduce into staff a position of a chief accountant
- transfer on a contractual basis book keeping and financial reporting of the accounting or auditor organization or to a professional bookkeeper
- lead book-keeping personally.

The head of accounting service (hereinafter referred to as a chief accountant) is a chief accountant or other official providing book keeping, creating and presenting financial reports, forming registration policy.

Functional duties of a chief accountant are defined in accordance with the provision about it, approved by an individual entrepreneur or by a head of an organization.

Conducting accountancy a chief accountant provides:

- Constancy of accepted registration policy of reflexion of operations and events and valuation of assets and obligations during an accounting period;

- Completeness of reflexion in registration for an accounting period of all operations and events which have been carried out in this period, and results of inventory of assets and obligations;
- Correctness of charging of incomes and expenses to accounting periods;
- Identity of analytical account data to turnovers and to the rests under accounts of the synthetic registration on the beginning of each month.

A legal person leads book keeping of the operations and events connected with presence and movement of assets, obligations, capital, incomes and expenses in accordance with working plan of accounts of bookkeeping, accepted by an individual entrepreneur or by an organization.

Reporting

Today Kazakhstan's economy is rapidly developing, as more and more international and local companies are thinking of expanding their operations in our country. Many companies are considering raising additional capital, including by means of initial public offerings on foreign financial markets. One of the requirements for being able to publicly place shares is to compile financial statements in accordance with international financial reporting standards (IFRS). Moreover, beginning from 2005, Kazakh companies that have been locally registered as joint stock companies should be compiling their financial statements in accordance with IFRS. We believe that this tendency will develop further and that, in the near future, all Kazakh companies will be preparing their financial statements according to IFRS. However, many companies in Kazakhstan today are only beginning on their way to IFRS and are concerned about the problems they will face when transitioning from Kazakh Accounting Standards (KAS) to IFRS.

8. UHY firms in Kazakhstan

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UHY SAPA-CONSULTING was established in 2000 and specializes in oil and gas, construction, industrial and financial sectors. We co-operate with more than 100 clients, inter alia:

Oil and gas industry:

- National company "KazMunaiGaz"
- KIOS (Italy)
- Joint venture "Aksai" (Estonia)
- Open Joint-Stock Company "Gazpromgeophysics" (Russia).

Construction industry:

- Sembol Insaat (Turkey)
- CCC (Lebanon)
- Idil-Aksu (Turkey)
- Yapi Uluslarasi (Turkey).

9. UHY offices worldwide

For contact details of UHY offices worldwide, or for details on how to contact the UHY executive office, please visit www.uhy.com