

PETROKAZAKHSTAN INC
Form 6-K
September 02, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 6-K
REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 UNDER
THE SECURITIES EXCHANGE ACT OF 1934

For the month of August 29, 2003

PetroKazakhstan Inc.

(Translation of registrant's name into English)

140-4th Avenue S.W. #1460, Calgary, Alberta, Canada T2P 3N3

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F Form 40-F

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant, has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 29, 2003
PetroKazakhstan Inc.

By:
/s/ Ihor Wasylikiw

Ihor P. Wasylikiw, P.Eng.,
Vice President Investor Relations

Q2

Quarter 2, 2003 Interim Report

Message to the shareholders

HIGHLIGHTS

PetroKazakhstan's Second Quarter 2003 highlights included the following:

- Second consecutive quarter of record earnings and cash flow
- KAM pipeline completed and operational
- Record crude oil export shipments
- Increasing quarterly production of 145,066 barrels of oil per day
- New reserves found in Ayskum and Maibulak fields
- Gas utilization project progressing and on schedule

FINANCIAL HIGHLIGHTS

(EXPRESSED IN MILLIONS OF US\$
EXCEPT PER SHARE AMOUNTS)

| | Six months ended June 30 | | Three months ended June 30 | |
|-------------------------------------|---------------------------------|------------|-----------------------------------|------------|
| | 2003 | 2002 | 2003 | 2002 |
| Gross Revenue | \$ 498.7 | \$ 320.7 | \$ 252.1 | \$ 177.4 |
| Net income | 136.4 | 56.9 | 68.2 | 33.8 |
| Per share (basic) | 1.74 | 0.70 | 0.87 | 0.42 |
| Per share (diluted) | 1.67 | 0.67 | 0.84 | 0.40 |
| Cash flow | 180.0 | 81.3 | 91.0 | 45.3 |
| Per share (basic) | 2.29 | 1.00 | 1.17 | 0.56 |
| Per share (diluted) | 2.20 | 0.96 | 1.12 | 0.53 |
| Weighted Average Shares Outstanding | | | | |
| Basic | 78,538,671 | 80,911,226 | 78,000,877 | 81,196,383 |
| Diluted | 81,676,831 | 84,405,177 | 81,173,957 | 84,690,334 |
| Shares Outstanding at End of Period | 77,653,139 | 81,371,497 | 77,653,139 | 81,371,497 |

PetroKazakhstan (or the Company) is pleased to announce its financial results for the second quarter of 2003 with \$68.2 million of net income, a 101.8% increase over the quarter ended June 30, 2002 and \$91.0 million of cash flow, a 100.8% increase over the quarter ended June 30, 2002. This represents basic net income per share of \$0.87 and basic cash flow per

Edgar Filing: PETROKAZAKHSTAN INC - Form 6-K

share of \$1.17 for the quarter. The comparable figures for the quarter ended June 30, 2002 were \$0.42 basic net income per share and \$0.56 basic cash flow per share.

For the six months ended June 30, 2003 net income was \$136.4 million, a 139.7% increase over the same period of 2002, and cash flow of \$179.9 million, a 121.3% increase over the same period of 2002. This represents basic net income per share of \$1.74 and basic cash flow per share of \$2.29. The comparable figures for the six months ended June 30, 2002, were net income per share of \$0.70 and basic cash flow per share of \$1.00.

PetroKazakhstan's second quarter 2003 average production was 145,066 barrels of oil per day (bopd). This represents a 23.1% increase as compared to 117,844 bopd in the second quarter of 2002.

The Company's share repurchase program, in effect since August 7, 2002 will terminate on August 6, 2003. The Company is in the process of renewing the repurchase program for a second year.

UPSTREAM OPERATIONS REVIEW

KAM PIPELINE

The 177 kilometre, 16-inch pipeline from Kumkol to Druzhalay via the KAM fields has been completed and now operational with the first railcars loaded on June 20th. The pipeline is capable of transporting and loading into rail cars 140,000 bopd and negates some 1,300 kilometres of pipeline and rail transportation currently in use. This material development has shown transportation cost savings in the region of \$2.40 to \$2.50 per barrel for the initial shipments. These cost savings may vary depending on the ultimate destination of future shipments. Full utilization of this facility is expected to be achieved in the third quarter of 2003 providing additional transportation and marketing capacity and flexibility in addition to the cost savings.

PRODUCTION

During the second quarter of 2003, PetroKazakhstan's production volumes totaled 13.20 million barrels or an average of 145,066 barrels of oil per day (bopd). This represents a 23.1% increase over the second quarter 2002 production of 117,844 bopd and a 3.1% increase over the first quarter of 2003 production rates of 140,765 bopd. Adverse transportation conditions restricted crude oil exports, necessitating production restrictions in the early part of the second quarter. In addition, a temporary production injunction from the authorities, which has since been lifted, reduced production from the Arys-kum field by some 9,000 bopd. Due to these deferrals in the first half of the year, the Company anticipates that the average production over the full year will now be in the region of 155,000 bopd representing a 14.1% increase over 2002 average production of 135,842. The revised production target for 2003 represent a 6.1% reduction from the original 2003 target of 165,000 bopd. For the week ending July 26, 2003, production had increased to approximately 162,000 bopd. PetroKazakhstan currently has 8 service rigs operating that are conducting repair and maintenance work on wells to optimize daily production.

KUMKOL FACILITIES AND FIELDS

Construction started on 2 new Free Water Knockout (FWKO) facilities. When commissioned later in the third quarter of 2003, these facilities will further enhance the fluid handling capabilities within the field as water production gradually increases.

Additional down hole pumps are due to be installed in Kumkol South and South Kumkol wells, which will result in production increases.

An additional high pressure pump has been installed in the Kumkol South Water Injection Facility and will result in an increased injection capacity of over 20,000 barrels per day. Final electrical and instrumentation connections are in progress and will be completed in July.

EXPLORATION

The exploration of the Company's 260 D1 license, in which we are targeting previously unexplored stratigraphic plays continued on the discovery field, North Nurali, with the acquisition and interpretation of 3D seismic. The existence of the North Nurali field confirms the Company's opinion that stratigraphic plays work in this region. Well locations have been selected and the first of three appraisal wells to delineate the field has reached total depth in July. The well has been logged confirming the extension of the reservoir and is being prepared for testing.

Four additional exploration wells, targeting stratigraphic plays in the basin, are planned for 2003; three in deep prospects and one shallow. All wells are expected to be completed by the first quarter of 2004.

GAS UTILIZATION

The 55 megawatt gas power plant at Kumkol is 96.0% complete and on schedule for commissioning during the third quarter of 2003. This project will enable PetroKazakhstan to utilize associated produced gas and to establish a more reliable source of electricity within its fields. Excess electricity will be provided for sale into the Kazakhstan domestic market. The gas utilization project is jointly owned, with PetroKazakhstan and Turgai Petroleum CJSC (Turgai), each having an equal share.

APPRAISAL AND DEVELOPMENTS

East Kumkol

Joint Venture agreements with Turgai for the development and operation of the East Kumkol field, which extends unto the Kumkol North license, continue to progress. Production is planned to resume in the fourth quarter of 2003.

KAM Fields

Six new wells were drilled in the KAM fields during the second quarter, three producers in Aryskum and three injectors in Maibulak. The Aryskum wells targeted possible category reserves along the oil rim and were each successful in proving additional reserves and tested at over 1,400 bopd. The three Maibulak well locations, selected for injectors based on 3D seismic and reservoir modeling, have each encountered new multiple productive sections and are being flow tested. The 6-inch pipeline connecting Kyzylkiya to Aryskum is complete and the upgrade of the processing facility to handle water production is on schedule for completion in the third quarter.

Construction of the Aryskum 8-inch pipeline to the main KAM pipeline is in progress as well as the Aryskum truck offloading facility and oil processing facility. Completion of the Aryskum construction is on schedule for the third quarter.

Equipment has been procured for the Maibulak water injection system; construction is expected to be completed by the end of the third quarter. Pumps have been installed on two producing wells and artificial lift will commence in July.

Kumkol North

A 27 well 2003 drilling program is progressing with 8 wells having been drilled to the end of June. Work has started on a new water injection plant due for commissioning in the third quarter and a new FWKO facility will be on line at the same time.

Kazgermunai

The program designed to increase field production by de-bottlenecking the system continued with the installation of larger export pumps. In addition, construction is underway for a water injection facility to be on-line in the fourth quarter. By the end of the year three production wells will be drilled, one in each of the Nurali, Aksai and Akshabulak East fields.

DOWNSTREAM MARKETING, TRADING AND REFINING

CRUDE OIL MARKETING AND TRANSPORTATION

The operational problems seen in the first quarter of 2003 and for the first month of the second quarter at various ports were vastly improved during the last two months of the second quarter. Shipments of crude increased to 7.04 million barrels or 77,317 bopd (908,352 tonnes) in the second quarter of 2003 compared to 5.25 million barrels or 58,354 bopd (677,983 tonnes) in the first quarter of 2003 and 6.71 million barrels or 73,778 bopd (866,708 tonnes) in the second quarter of 2002. That represents an increase of 34.0% versus the first quarter of 2003 and an increase of 4.8% versus the second quarter of 2002.

Shipments to China increased by approximately 6.0% versus the first quarter of 2003. The Company has also initiated, in late May, shipments to China from the terminal of Atasu, owned and operated by KazTransOil. The use of the Atasu terminal reduces rail distance to the Chinese border by about 435 kilometres, as compared to the southern route via the Company's terminal at Tekesu. Shipments to the Fergana refinery in Uzbekistan, a new outlet, grew in the second quarter of 2003.

Progress on the modifications at the unloading Ray Terminal, located near the Tehran refinery, continues for the Iranian swap. Exports of crude oil by this route are expected to commence in the fourth quarter of 2003. Kumkol crude will be transported by rail from Shymkent through Uzbekistan and Turkmenistan and on to the Tehran refinery via the Sarakhs border crossing station. The swap contract includes compensation to recognise the higher quality of Kumkol crude compared to Iranian Light. A minor amount of work is required at the Ray Terminal to receive Kumkol crude at the Tehran refinery. The work is being financed and carried out by the refining and distribution arm of National Iranian Oil Company (NIOC) and the national railway company.

Crude oil sales volumes recorded in the second quarter of 2003 increased by 17.9% or 1.1 million barrels (142,023 tonnes) as compared to the first quarter of 2003.

Although generally lower than the first quarter of 2003, Brent quotations in the second quarter remained buoyant throughout the quarter despite the cessation of hostilities in Iraq. US oil stocks remained low on the back of the Venezuelan strike and the civil disturbances in Nigeria. In addition the market did not expect a rapid return of Iraqi oil to the market place and this together with the US oil stocks issue kept world prices firm. The average Brent quotation for the second quarter was \$26.03 per barrel compared to \$31.51 during the first. The spread of the daily average quotations during the second quarter was a little over \$6.00 per barrel with a low of \$22.88 per barrel and a high of \$28.96 per barrel.

REFINING AND REFINED PRODUCT SALES

Refined product sales were up 6.7% in the second quarter of 2003 versus the first quarter of 2003. The opportunity was taken to optimize returns when domestic netbacks were better than export netbacks for short periods during the second quarter. As a result of this opportunity, the maintenance shutdown planned for June 2003 was postponed. The next maintenance shutdown is planned for the fourth quarter of 2003. The refinery processed 7.5 million barrels or 82,659 bopd of crude during the second quarter of 2003 compared to 8.3 million barrels or 91,746 bopd during the first quarter of 2003. No third party crude was processed in either the second quarter of 2003 or second quarter of 2002 while 0.23 million barrels were refined for third parties in the first quarter of 2003 and is included in this production. The reduction in volumes processed is due to higher processing rates during the first quarter required in part as a result of the export problems faced during the first quarter. Comparison to the second quarter of 2002 is not meaningful as the refinery maintenance shutdown took place during that period.

A number of the efficiency improvement programs initiated at the refinery continued to yield more benefits through improved energy usage and cost reductions. The project to revamp and bring on stream the Vacuum Distillation Unit continues to progress and is on track for completion later in 2003. The completion of this upgrade will allow the refinery to increase its production of higher valued distillates and reduce the overall production of lower value Mazut fuel oil.

Edgar Filing: PETROKAZAKHSTAN INC - Form 6-K

Product prices continued to improve in the second quarter versus the first. Weighted average prices were approximately \$1.20 per barrel (\$9.31 per tonne) better against the first quarter of 2003 and \$2.44 per barrel (\$18.90 per tonne) better than the same period last year.

Respectfully submitted on behalf of the board of Directors,

(signed)

Bernard F. Isautier
President and Chief Executive Officer July 29, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our Corporation, PetroKazakhstan Inc., was previously known as Hurricane Hydrocarbons Ltd. Our main operating subsidiaries Hurricane Kumkol Munai (HKM) and Hurricane Oil Products (HOP) were renamed PetroKazakhstan Kumkol Resources (PKKR) and PetroKazakhstan Oil Products (PKOP), respectively.

The following Management's Discussion and Analysis (MD&A) of the financial condition and results of our operations should be read in conjunction with the unaudited consolidated financial statements of the Corporation included in this report and our MD&A and audited consolidated financial statements for the year ended December 31, 2002. Our financial statements have been prepared in accordance with Canadian GAAP. This discussion and analysis contains forward-looking statements, which involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements.

In our Management's Discussion and Analysis we use certain terms, which are specific to the oil and gas industry, including netback and cash flow. These are non-GAAP terms and are defined within our document. Cash flow is defined as cash generated from operating activities before changes in non-cash working capital.

Except as otherwise required by the context, reference in this Management's Discussion and Analysis to our , we or us refer to the combined business of PetroKazakhstan Inc. and all of its subsidiaries and joint ventures.

All numbers are in U.S. Dollars unless otherwise indicated.

RESULTS OF OPERATIONS

For the quarter ended June 30, 2003 we generated \$68.2 million of net income, a 101.8% increase over the quarter ended June 30, 2002 and \$91.0 million of cash flow, a 100.8% increase over the quarter ended June 30, 2002. This represents basic net income per share of \$0.87 and basic cash flow per share of \$1.17 for the quarter. The comparable figures for the quarter ended June 30, 2002 were \$0.42 basic net income per share and \$0.56 basic cash flow per share.

For the six months ended June 30, 2003 our net income was \$136.4 million, a 139.7% increase over the same period of 2002, and our cash flow was \$179.9 million, a 121.3% increase over the same period of 2002. This represents basic net income per share of \$1.74 and basic cash flow per share of \$2.29. The comparable figures for the six months ended June 30, 2002, were net income per share of \$0.70 and basic cash flow per share of \$1.00.

We had average production of 145,066 barrels of oil per day (bopd) in the quarter, which represents a 23.1% increase as compared to 117,844 bopd for the same period last year.

Edgar Filing: PETROKAZAKHSTAN INC - Form 6-K

The KAM pipeline was operational late in the second quarter with the first railcars loaded on June 20 with cost savings of \$2.40 to \$2.50 per barrel (/bbl) depending upon the destination. Our gas utilization project is on schedule for commissioning during the third quarter and our vacuum distillation unit is on schedule for commissioning in the fourth quarter.

The second quarter of 2003 also saw a significant increase in non-Free Carrier (non-FCA) sales as compared to the same period in 2002. As at June 30, 2003, approximately 1.3 million barrels of non-FCA sales were incomplete and hence, included in inventory. The effect of this was to cause an estimated \$11.0 million of net income to be deferred into the third quarter of 2003. As at March 31, 2003 approximately 1.3 million barrels of non-FCA sales were incomplete and included in inventory. The net income realized in the second quarter from these sales was \$8.6 million, as opposed to the \$12.8 million, which was the reported expectation in the first quarter of 2003. This difference arose because of a difference between the expected price of \$28.08/bbl and the realized price of \$23.53/bbl. Market prices recovered at the end of the second quarter to \$28.33/bbl.

REVENUE, PRODUCTION AND SALES

Total revenue was \$252.1 million for the three months ended June 30, 2003, which represented an increase of \$74.7 million over total revenue of \$177.4 million for the three months ended June 30, 2002. Our increase in total revenue is due to a \$21.0 million increase in crude oil revenue and a \$54.9 million increase in refined products sales, which were offset by a \$1.2 million net decrease in processing fees and interest and other income.

Total revenue was \$498.7 million for the six months ended June 30, 2003, which represented an increase of \$178.0 million over total revenue of \$320.7 million for the six months ended June 30, 2002. The increase in total revenue is due to a \$100.6 million increase in crude oil revenue and a \$78.2 million increase in refined products sales, which was offset by a \$0.8 million net decrease in processing fees and interest and other income.

Our crude oil revenue increased because of our increased production, higher crude oil export prices and our increasing use of non-FCA sales.

Our refined product revenue increased because of increased volumes and higher prices.

UPSTREAM

Upstream production averaged 145,066 bopd or 13.2 million barrels for the three months ended June 30, 2003, a 23.1% increase over the production volumes of 117,844 bopd or 10.7 million barrels for the three months ended June 30, 2002.

Significant export restrictions contributed to lower than expected production rates from our operated fields during the second quarter of 2002. We were able to rebound from these restrictions during the second half of 2002, with the installation of additional artificial lift, and a successful drilling campaign in South Kumkol. Second quarter production levels in 2003 reflect a more stable export environment and continued optimization of existing and newly competed wells. The maintenance shutdown of the refinery in the second quarter of 2002 also had a negative impact on 2002 production levels, while for the current year the refinery shutdown is scheduled for the fourth quarter of 2003.

The following table sets out total production figures from Upstream operations.

PRODUCTION

| | Three months ended June 30 | |
|--------------------------------|----------------------------|----------|
| | 2003 | 2002 |
| | (MMbbls) | (MMbbls) |
| Opening inventory of crude oil | 2.54 | 1.55 |
| Production | 13.20 | 10.73 |

Edgar Filing: PETROKAZAKHSTAN INC - Form 6-K

| | | |
|-----------------------------------------------|---------|---------|
| Crude oil purchased from third parties | | 0.29 |
| Crude oil purchased from joint ventures (50%) | (0.21) | 0.55 |
| Sales or transfers | (13.33) | (11.51) |
| Pipeline losses | (0.08) | (0.02) |
| Return of borrowed crude | | |
| Closing inventory of crude oil | 2.12 | 1.59 |

For operational reasons, we purchase crude oil from one of our joint ventures and export the crude oil. Crude oil purchased from this joint venture is eliminated against crude oil revenue, as this more accurately portrays our business.

We do not eliminate crude oil purchased from our joint venture that remains in inventory at each balance sheet date to ensure that we properly reflect the liability to our joint venture. In periods, when our sales of crude oil purchased from our joint venture are in excess of actual crude oil purchased from our joint venture, we show a negative amount in our volume reconciliation table because part of the amount sold originated from opening inventory.

| | 2003 | Six months ended June 30 |
|-----------------------------------------------|-----------------|-------------------------------------|
| | (MMbbls) | 2002 |
| | | (MMbbls) |
| Opening inventory of crude oil | 2.72 | 0.70 |
| Production | 25.87 | 21.83 |
| Crude oil purchased from third parties | | 0.94 |
| Crude oil purchased from joint ventures (50%) | 0.41 | 0.55 |
| Sales or transfers | (26.14) | (22.40) |
| Pipeline losses | (0.09) | (0.03) |
| Return of borrowed crude | (0.65) | |
| Closing inventory of crude oil | 2.12 | 1.59 |

Under the terms of an agreement with the company assigned by the government to market royalty in kind volumes for 2002 we purchased 0.65 mmbbls of crude oil, which was in our inventory at year-end. This oil was returned in the first quarter of 2003.

The following table sets out total crude oil sales volumes from Upstream operations for the three months ended June 30.

SALES OF CRUDE OIL

| | 2003 | Three months ended June 30 | | |
|-------------------------------------------------------------|-----------------|-----------------------------------|-----------------|------------|
| | (MMbbls) | 2003 | 2002 | 2002 |
| | | (%) | (MMbbls) | (%) |
| Crude oil exports | 7.23 | 54.2% | 6.69 | 58.1% |
| Crude oil transferred to Downstream | 4.53 | 34.0% | 2.84 | 24.7% |
| Crude oil transferred to Downstream by joint ventures (50%) | 1.57 | 11.8% | 1.23 | 10.7% |
| Royalty payments | | | 0.42 | 3.7% |
| Crude oil domestic sales | | | 0.33 | 2.8% |
| Total crude oil sales or transfers | 13.33 | 100% | 11.51 | 100% |

| | 2003 | Six months ended June 30 | | |
|-------------------------------------------------------------|-----------------|---------------------------------|-----------------|------------|
| | (MMbbls) | 2003 | 2002 | 2002 |
| | | (%) | (MMbbls) | (%) |
| Crude oil exports | 13.36 | 51.1% | 11.22 | 50.1% |
| Crude oil transferred to Downstream | 9.93 | 38.0% | 5.82 | 26.0% |
| Crude oil transferred to Downstream by joint ventures (50%) | 2.85 | 10.9% | 3.06 | 13.7% |
| Royalty payments | | | 1.40 | 6.3% |

Edgar Filing: PETROKAZAKHSTAN INC - Form 6-K

| | | | | |
|------------------------------------|--------------|-------------|-------|------|
| Crude oil domestic sales | | | 0.90 | 3.9% |
| Total crude oil sales or transfers | 26.14 | 100% | 22.40 | 100% |

During the first two quarters of 2003, we did not pay royalty in kind and we had no domestic sales of crude oil.

Total consolidated revenue from crude oil sales amounted to \$134.2 million during the second quarter of 2003 and \$113.2 million during the second quarter of 2002 (\$276.4 million during the six months ended June 30, 2003 compared to \$175.8 million during the same period of 2002).

The increase in the second quarter of 2003 resulted from an increase in the average price received (\$18.56/bbl in the second quarter of 2003 compared to \$15.22/bbl in the second quarter of 2002), offset in part by a slight decrease in sales volumes (7.23 mmbbls in the second quarter of 2003 compared to 7.44 mmbbls in the second quarter of 2002). Crude oil sales volumes were slightly less because of restrictions on export quotas and rail car availability. These difficulties have been addressed and in May-June of 2003 we achieved record levels of shipments, including deliveries from the Dzhusaly and Atasu terminals, which are new routes, with the majority of these sales to be realized in the third quarter of 2003. The major reasons for the increase in revenue are the increase in sales volumes by our Kazgermunai joint venture and the shift to non-FCA sales (4.35 million barrels sold in the second quarter 2003 at an average price of \$21.58/bbl compared to 2.16 million barrels sold in the first quarter 2002 at an average price of \$22.07/bbl).

The increase of \$100.6 million during the six months ended June 30, 2003 compared to the same period of 2002 resulted from an increase in the average price received (\$20.69/bbl in 2003 compared to \$13.00/bbl in 2002), which was due to the shift to non-FCA sales (8.24 mmbbls sold during the six months ended June 30, 2003 versus 2.28 mmbbls in the same period of 2002).

Total crude oil revenue can be analysed as follows:

THREE MONTHS ENDED JUNE 30, 2003

| | Quantity sold in (MMbbls) | Net Realized Price (\$ per bbl) | Revenue (\$000 s) |
|--------------------------|--------------------------------------|--------------------------------------------|------------------------------|
| Crude sales sold FCA | 1.43 | 13.77 | 19,689 |
| Crude sales sold non-FCA | 4.35 | 21.58 | 93,879 |
| Kazgermunai export sales | 1.45 | 14.21 | 20,607 |
| Royalty payments | | | |
| Crude oil domestic sales | | | |
| Total | 7.23 | 18.56 | 134,175 |

THREE MONTHS ENDED JUNE 30, 2002

| | Quantity sold in (MMbbls) | Net Realized Price (\$ per bbl) | Revenue (\$000 s) |
|--------------------------|--------------------------------------|--------------------------------------------|------------------------------|
| Crude sales sold FCA | 3.88 | 13.36 | 51,818 |
| Crude sales sold non-FCA | 2.16 | 22.07 | 47,664 |
| Kazgermunai export sales | 0.65 | 12.67 | 8,238 |
| Royalty payments | 0.42 | 7.12 | 2,990 |
| Crude oil domestic sales | 0.33 | 7.62 | 2,513 |
| Total | 7.44 | 15.22 | 113,223 |

SIX MONTHS ENDED JUNE 30, 2003

| | Quantity sold in (MMbbls) | Net Realized Price (\$ per bbl) | Revenue (\$000 s) |
|--------------------------|--------------------------------------|--------------------------------------------|------------------------------|
| Crude sales sold FCA | 2.51 | 15.65 | 39,292 |
| Crude sales sold non-FCA | 8.24 | 23.69 | 195,170 |
| Kazgermunai export sales | 2.61 | 16.07 | 41,955 |

Edgar Filing: PETROKAZAKHSTAN INC - Form 6-K

| | | | |
|--------------------------|--------------|--------------|----------------|
| Royalty payments | | | |
| Crude oil domestic sales | | | |
| Total | 13.36 | 20.69 | 276,417 |

SIX MONTHS ENDED JUNE 30, 2002

| | Quantity sold in (MMbbls) | Net Realized Price (\$ per bbl) | Revenue (\$000 s) |
|--------------------------|--------------------------------------|--------------------------------------------|------------------------------|
| Crude sales sold FCA | 8.19 | 12.40 | 101,587 |
| Crude sales sold non-FCA | 2.28 | 21.81 | 49,727 |
| Kazgermunai export sales | 0.75 | 12.42 | 9,315 |
| Royalty payments | 1.40 | 6.51 | 9,107 |
| Crude oil domestic sales | 0.90 | 6.72 | 6,050 |
| Total | 13.52 | 13.00 | 175,786 |

DOWNSTREAM

The crude oil feedstock for the refinery is primarily acquired from Upstream operations but purchases may be made from third parties.

The following table sets out the source of feedstock supplies for our refinery:

PURCHASE AND ACQUISITION OF FEEDSTOCK

| | Three months ended June 30 | |
|--------------------------------------|-----------------------------------|--------------------------|
| | 2003 (MMbbls) | 2002 (MMbbls) |
| Acquired from PKKR | 4.53 | 2.05 |
| Purchased from joint ventures (100%) | 3.14 | 2.46 |
| Purchased from third parties | | |
| Total feedstock acquired | 7.67 | 4.51 |

| | Six months ended June 30 | |
|--------------------------------------|---------------------------------|--------------------------|
| | 2003 (MMbbls) | 2002 (MMbbls) |
| Acquired from PKKR | 9.93 | 5.03 |
| Purchased from joint ventures (100%) | 5.70 | 6.12 |
| Purchased from third parties | | |
| Total feedstock acquired | 15.63 | 11.15 |

The following table sets out the source of inventory levels of feedstock:

INVENTORY LEVELS OF FEEDSTOCK

| | Three months ended June 30 | |
|------------------------------------------|-----------------------------------|--------------------------|
| | 2003 (MMbbls) | 2002 (MMbbls) |
| Opening inventory of crude oil feedstock | 0.08 | 0.09 |
| Purchase and acquisition of feedstock | 7.67 | 4.51 |
| Recoverable feedstock from traps | | 0.01 |
| Feedstock refined into product | (7.52) | (4.53) |
| Closing inventory of feedstock | 0.23 | 0.08 |

The following table sets out the movement in inventory of refined product:

INVENTORY MOVEMENT OF REFINED PRODUCT

| | Three months ended June 30 | |
|---------------------------------------------|-----------------------------------|---------------------|
| | 2003 | 2002 |
| | (MM tonnes*) | (MM tonnes*) |
| Opening inventory of refined product | 0.24 | 0.17 |
| Refined product from feedstock | 0.91 | 0.65 |
| Refined product acquired | 0.01 | 0.01 |
| Refined product sold | (1.04) | (0.66) |
| Refined product internal use & yield losses | | (0.01) |
| Closing inventory of refined product | 0.12 | 0.16 |

* The inventory of products represents a mix of products for which no unique conversion from barrels to tonnes exists. The standard conversion used for crude oil by us is 7.746 barrels to the tonne.

Crude oil feedstock is refined into a number of products, which are sold as refined products.

Refined product sales revenue for the three months ended June 30, 2003 was \$117.0 million (three months ended June 30, 2002 was \$62.1 million). Sales of refined products in the second quarter 2003 increased by \$54.9 million as compared to the second quarter 2002, as a result of price increases and increased volumes. Average realised prices rose for all refined products during the three months ended June 30, 2003 as compared to 2002. They were \$113.53/tonne and \$94.62/tonne, respectively. We were able to achieve overall product price increases due to the optimisation of the domestic marketing business unit, whereby more of the product margin related to the end user is now captured.

Refined product sales revenue for the six months ended June 30, 2003 was \$217.6 million, which increased by \$78.2 million from \$139.4 million in the same period of 2002. The increase resulted from the higher average realized price of \$109.02/tonne (compared to \$89.21/tonne in 2002) and higher sales volumes of 2.0 mm tonnes (compared to 1.6 mm tonnes in 2002). We were able to obtain higher prices and volumes for the six months ended June 30, 2003 as compared to 2002 as refined product imports from Russia declined. As well, demand continues to increase as a result of high GDP growth and vehicle ownership in Kazakhstan. We were also able to increase our refined product export volume as compared to the same period in 2002.

The table below sets out the products sold, the volumes sold, the average price achieved and the revenue for each product.

REFINED PRODUCT REVENUE

| Product Produced | Tonnes Sold | Three months ended June 30, 2003 | |
|--------------------------------------|--------------------|-----------------------------------------|--------------------------|
| | | Average Price (\$/tonne) | Revenue (\$000 s) |
| Gasoline | 260,309 | 162.86 | 42,396 |
| Diesel | 370,555 | 128.37 | 47,568 |
| Mazut | 306,975 | 39.98 | 12,274 |
| LPG | 44,248 | 96.19 | 4,256 |
| Jet Fuel | 48,119 | 217.48 | 10,465 |
| Total self refined | 1,030,206 | 113.53 | 116,959 |
| Resale of purchased refined products | | | |
| Total refined product sales | 1,030,206 | 113.53 | 116,959 |

| Product Produced | Tonnes Sold | Three months ended June 30, 2002 | |
|-------------------------|--------------------|-----------------------------------------|--------------------------|
| | | Average Price (\$/tonne) | Revenue (\$000 s) |
| Gasoline | 187,760 | 110.18 | 20,688 |
| Diesel | 185,554 | 116.20 | 21,561 |
| Mazut | 205,518 | 41.80 | 8,591 |

Edgar Filing: PETROKAZAKHSTAN INC - Form 6-K

| | | | |
|--------------------------------------|---------|--------|--------|
| LPG | 27,101 | 70.77 | 1,918 |
| Jet Fuel | 37,319 | 212.47 | 7,929 |
| Total self refined | 643,252 | 94.34 | 60,687 |
| Resale of purchased refined products | 12,647 | 108.64 | 1,374 |
| Total refined product sales | 655,899 | 94.62 | 62,061 |

| Product Produced | Tonnes Sold | Six months ended June 30, 2003 | |
|--------------------------------------|-------------|--------------------------------|-------------------|
| | | Average Price (\$/tonne) | Revenue (\$000 s) |
| Gasoline | 447,747 | 168.00 | 75,220 |
| Diesel | 685,700 | 127.16 | 87,195 |
| Mazut | 689,957 | 39.24 | 27,076 |
| LPG | 77,873 | 100.47 | 7,824 |
| Jet Fuel | 94,844 | 214.14 | 20,310 |
| Total self refined | 1,996,121 | 109.02 | 217,625 |
| Resale of purchased refined products | | | |
| Total refined product sales | 1,996,121 | 109.02 | 217,625 |

| Product Produced | Tonnes Sold | Six months ended June 30, 2002 | |
|--------------------------------------|-------------|--------------------------------|-------------------|
| | | Average Price (\$/tonne) | Revenue (\$000 s) |
| Gasoline | 387,482 | 112.15 | 43,457 |
| Diesel | 444,819 | 114.50 | 50,934 |
| Mazut | 538,401 | 35.51 | 19,120 |
| LPG | 56,371 | 73.26 | 4,130 |
| Jet Fuel | 83,149 | 216.89 | 18,034 |
| Total self refined | 1,510,222 | 89.84 | 135,675 |
| Resale of purchased refined products | 52,822 | 71.37 | 3,770 |
| Total refined product sales | 1,563,044 | 89.21 | 139,445 |

PROCESSING FEES

In addition to revenue generated from the refining and sale of product derived from acquired feed stock, the refinery also refined crude on behalf of third parties (Tolling) for which it receives a fee. The refinery did not toll any volumes for third parties during the quarters ended June 30, 2003 and 2002. During these periods crude producers elected to export their volumes due to the expectation that crude market prices would remain high. The refinery tolled 0.2 million barrels of crude oil for the six months ended June 30, 2003 compared to 0.7 million barrels during the same period of 2002.

The table below sets out the total quantity of oil processed for third parties into refined products, the average fee charged and revenue earned.

| 2003 | Volumes Processed (tonnes) | Fee (\$/tonne) | Processing Revenue (\$000 s) |
|---------------------|----------------------------|----------------|------------------------------|
| First Quarter 2003 | 29,361 | 15.29 | 449 |
| Second Quarter 2003 | | | |
| 2002 | Volumes Processed (tonnes) | Fee (\$/tonne) | Processing Revenue (\$000 s) |
| First Quarter 2002 | 91,521 | 15.64 | 1,431 |
| Second Quarter 2002 | | | 3 |

Edgar Filing: PETROKAZAKHSTAN INC - Form 6-K

The decrease in the processing fee is attributable to the Tenge to US dollar exchange rate.

INTEREST AND OTHER INCOME

Revenue from interest and other income decreased by \$1.1 million to \$1.0 million for the three months ended June 30, 2003, as an adjustment was made to correct accrued interest income generated from cash deposits during the first quarter of 2003.

Revenue from interest and other income increased slightly by \$0.1 million to \$4.2 million for the six months ended June 30, 2003.

PRODUCTION EXPENSES

Production expenses relate to the cost of producing crude oil in the Upstream operations and they were \$16.9 million during the three months ended June 30, 2003 and \$12.2 million for the same period of 2002. Based on the number of barrels of oil produced, these costs are \$1.28/bbl for the second quarter of 2003 and \$1.14/bbl for the second quarter of 2002.

Approximately \$2.5 million of the \$4.7 million increase in the second quarter of 2003 is the direct result of increased production volumes of 2.5 mmbbls over the same quarter of the previous year. The remaining \$2.2 million of the increase and the per barrel increase of \$0.14 is the combined effect of a number of items, including the increased number of wells with pumps compared to free flowing wells, resulting in a higher frequency of workover activity, increased volumes of produced formation water and increased utility charges due to the commissioning of new facilities.

Production expenses were \$34.1 million during the six months ended June 30, 2003 (\$1.32/bbl of oil produced) compared to \$26.4 million for the same period of 2002 (\$1.21/bbl of oil produced).

Approximately \$4.0 million of the \$7.7 million increase during the six months of 2003, as compared to 2002, is due to the increase in production volumes of 4.0 mmbbls. The remaining \$3.7 million increase and the per barrel increase of \$0.11 is the result of increased production of formation water and the inclusion of \$1.2 million of 2002 costs due to a late audit adjustment from Turgai.

ROYALTIES AND TAXES

Royalties and taxes were \$15.1 million during the three months ended June 30, 2003 as compared to \$9.8 million for the second quarter 2002.

| | Three months ended June 30 | |
|--------------------------------|-----------------------------------|------------------|
| | 2003 | 2002 |
| | (\$000 s) | (\$000 s) |
| Royalties and production bonus | 11,525 | 8,751 |
| Tax assessments | 492 | (305) |
| Other taxes | 3,100 | 1,349 |
| Royalties and taxes | 15,117 | 9,795 |

| | Six months ended June 30 | |
|--------------------------------|---------------------------------|------------------|
| | 2003 | 2002 |
| | (\$000 s) | (\$000 s) |
| Royalties and production bonus | 17,743 | 15,461 |
| Tax assessments | 492 | 5,122 |

Edgar Filing: PETROKAZAKHSTAN INC - Form 6-K

| | | |
|---------------------|---------------|--------|
| Other taxes | 6,396 | 1,588 |
| Royalties and taxes | 24,631 | 22,171 |

Royalties and production bonus for the three months ended June 30, 2003 were \$11.5 million, which represented an effective overall royalty rate of 7.8% excluding production bonus. Royalties and production bonus for the three months ended June 30, 2002 were \$8.8 million, an overall royalty rate of 8.2% after excluding the production bonus. The decrease in the overall royalty rate is due to the higher production from fields with lower royalty rates.

Royalties and production bonus for the six months ended June 30, 2003 were \$17.7 million, which represented an effective overall royalty rate of 6.8% excluding production bonus. Royalties and production bonus for the three months ended June 30, 2002 were \$15.5 million, an overall royalty rate of 6.8% after excluding the production bonus.

Royalties are levied at different rates for each of our oil fields. The table below sets out the parameters for each field.

ROYALTIES

| Field | Range | Annual production at which max. royalty rate is charged | Three months | Six months | Three months | Six months |
|--------------------|-------------|------------------------------------------------------------------|------------------------|------------------------|------------------------|------------------------|
| | | | ended June 30, 2003 | ended June 30, 2003 | ended June 30, 2002 | ended June 30, 2002 |
| Kumkol South | 3.0 - 15.0% | 11.6 mmbbbls | 8.1% | 6.1% | 9.2% | 6.8% |
| Kumkol North | 9.0% | Flat | 9.0% | 9.0% | 9.0% | 9.0% |
| South Kumkol | 10.0% | Flat | 10.0% | 10.0% | 10.0% | 10.0% |
| Kyzylkiya | 1.5 - 2.5% | 24.8 mmbbbls* | 1.5% | 1.5% | 1.5% | 1.5% |
| Aryskum | 1.5 - 2.5% | 52.7 mmbbbls* | 1.5% | 1.5% | 1.5% | 1.5% |
| Maibulak | 3.0 - 6.0% | 3.9 mmbbbls | 3.0% | 3.0% | 3.0% | 3.0% |
| Kazgermunai Fields | 3.0 - 15.0% | 11.6 mmbbbls | 4.3% | 3.7% | 3.0% | 3.0% |

* Royalty rate is based upon cumulative life of field production.

The increase in other taxes in the second quarter of 2003 compared to 2002 of \$1.8 million includes \$1.4 million, pertaining to unrecoverable VAT due to revisions to tax legislation (\$2.8 million for the six months of 2003). In addition, during the six months

ended June 30, 2003 Upstream incurred \$1.0 million of excise taxes incurred in the first quarter of 2003 on the sale of crude oil from our South Kumkol field. We did not incur additional excise taxes for crude oil sales from our South Kumkol field during the second quarter of 2003. The remaining increase is due to increased property taxes and road fund taxes.

The tax assessments of \$0.5 million during the three and six months ended June 30, 2003 represents assessments on excise and other taxes for 2000 and 2001. The tax assessment of \$5.1 million during the six months ended June 30, 2002 included assessments for road tax, excise and other taxes for 1998 and 1999. The negative \$0.3 million of tax assessments in the second quarter of 2002 is the reversal of overestimated amounts during the first quarter of 2002.

The table below indicates the royalty and production bonus paid in kind and in cash for the first quarter 2003 and 2002.

| (\$000 s) | 2003 | 2003 | 2003 | 2002 | 2002 | 2002 |
|-----------|--------------------|-----------------|------------------|--------------------|-----------------|------------------|
| | Royalty in Kind | Cash Royalty | Total Royalty | Royalty in Kind | Cash Royalty | Total Royalty |
| March 31 | | 6,218 | 6,218 | 2,972 | 3,738 | 6,710 |
| June 30 | 6,703 | 4,822 | 11,525 | 7,456 | 1,295 | 8,751 |
| Total | 6,703 | 11,040 | 17,743 | 10,428 | 5,033 | 15,461 |

TRANSPORTATION

Transportation costs are the costs of shipping crude oil from our central processing facility located at South Kumkol (CPF) to the Shymkent refinery, the costs of trucking crude oil from the KAM Fields to the CPF and railway transportation and pipeline cost under non-FCA sales contracts. Transportation costs also include transportation of crude produced by our Kazgermunai joint venture to its export customers.

The pipeline tariff from the CPF to Shymkent depends on the ultimate destination of the crude oil. Effective January 1, 2003, pipeline tariffs charged for the Kumkol-Shymkent pipeline were increased by the Anti-Monopoly Agency for crude oil destined for export. The official 2003 forecasted Tenge to US dollar exchange rate is now being used to determine the tariff, as opposed to the previous practice of using actual exchange rates. In the second quarter of 2003, the tariff was \$1.51/bbl (second quarter 2002 \$1.41/bbl), whereas the tariff for crude oil processed at the Refinery is \$0.82/bbl (2002 \$0.81/bbl). The table below sets out the constituent components of transportation costs.

| | Three months ended June 30 | |
|----------------------------|-----------------------------------|-----------|
| | 2003 | 2002 |
| | (\$000 s) | (\$000 s) |
| Pipeline | 15,505 | 12,254 |
| Kazgermunai transportation | 4,760 | 1,910 |
| Railway | 38,863 | 21,033 |
| Other | 1,141 | 1,150 |
| Total | 60,269 | 36,347 |
| | Six months ended June 30 | |
| | 2003 | 2002 |
| | (\$000 s) | (\$000 s) |
| Pipeline | 37,377 | 23,904 |
| Kazgermunai transportation | 6,110 | 2,722 |
| Railway | 68,783 | 21,315 |
| Other | 3,002 | 1,997 |
| Total | 115,272 | 49,938 |

Pipeline costs increased by \$3.3 million in the second quarter of 2003 compared to the same quarter of 2002. The decrease in volumes sold through the Kumkol-Shymkent pipeline was offset by the increase in the transportation rate of \$0.10/bbl (\$1.51/bbl in 2003 versus \$1.41/bbl in 2002). The combination of these two factors accounted for approximately \$0.2 million of the increase in pipeline costs for Kumkol-Shymkent transportation costs between the second quarters of 2003 and 2002. Additional volumes transferred to Downstream due to our payment of royalties in cash had an impact of \$1.7 million (6.1 million barrels transported in the second quarter of 2003 at \$0.82/bbl compared to 4.1 million barrels transported in the same period of 2002 at \$0.81/bbl). The remaining \$1.4 million is due to pipeline costs associated with non-FCA sales for various export routes.

The increase in pipeline costs of \$13.5 million during the six months of 2003 compared to the same period of 2002 is due to \$4.9 million from increased volumes transported through the Kumkol-Shymkent pipeline (10.75 million barrels exported in 2003 versus 10.47 million barrels in 2002 and 12.78 million barrels transferred to downstream for further processing in 2003 versus 8.88 million barrels in 2002). There was an additional \$8.5 million of pipeline costs for export routes related to non-FCA sales.

Railway transportation increased as compared to 2002 due to the shift to non-FCA sales and an increase in rail tariffs approved by the Anti-Monopoly Agency for all export routes by approximately 6% effective January 1, 2003. We are in the process of appealing the railway and pipeline tariff increases.

Edgar Filing: PETROKAZAKHSTAN INC - Form 6-K

Other transportation costs are mainly trucking costs incurred to transport crude oil from the KAM fields to the central processing facility located at Kumkol. For the second quarter of 2003 these costs are \$1.1 million, consistent with \$1.2 million in the second quarter of 2002 due to the same production level from the KAM fields. Trucking costs have increased in the six months ended June 30, 2003 to \$3.0 million from \$2.0 million in the same period of 2002 due to the increase in production from the KAM fields (2.3 mmbbls in 2003 compared to 1.6 mmbbls in 2002).

REFINING

Refining costs represent the direct costs related to processing all crude oil including tollers volumes at the refinery. Total refining costs in the second quarter of 2003 were \$4.4 million or \$0.58/bbl of crude oil processed compared to \$5.8 million or \$1.09/bbl in the second quarter of 2002.

A reduction in purchased steam, process improvements and equipment upgrades to reduce actual steam consumption combined with a lower per unit purchase cost accounted for a \$1.6 million decrease in refining costs, quarter over quarter. Staff reductions realized during the third quarter of 2002 as a result of the divestiture of several workshops resulted in salary cost savings this year. However, salary cost savings realized during the second quarter of 2003 (\$0.3 million) were offset by increased third party costs (\$0.3 million) for repairs and maintenance. The release of \$0.2 million of inventory costs during the second quarter of 2003 increased total refining cost for the period.

Refining costs for the six months ended June 30, 2003 were \$7.4 million (\$0.47/bbl) and \$12.3 million (\$0.95/bbl). Purchased steam costs were \$3.6 million less than the prior year period. The same process improvements and equipment upgrades combined with a lower per unit purchase cost, continued to favourably impact refining costs. Similarly, staff reductions realized during the third quarter of 2002 as a result of divestiture of several workshops resulted in salary cost savings of \$0.4 million through the first half of 2003. Additives injected in late 2002 have not required supplementing in 2003, saving \$0.4 million. The remaining decrease is attributable to a one time repair during the first six months of 2002.

CRUDE OIL AND REFINED PRODUCT PURCHASES

Crude oil and refined product purchases represent the cost of purchasing crude oil for the refinery from third parties, as well as refined product for resale. Purchases and sales between our Upstream and Downstream business units are eliminated on consolidation.

| | Three months ended June 30 | |
|------------------|-----------------------------------|------------------|
| | 2003 | 2002 |
| | (\$000 s) | (\$000 s) |
| Crude oil | 16,046 | 19,156 |
| Refined products | | 1,393 |
| Total | 16,046 | 20,549 |
| | Six months ended June 30 | |
| | 2003 | 2002 |
| | (\$000 s) | (\$000 s) |
| Crude oil | 25,416 | 35,826 |
| Refined products | | 2,823 |
| Total | 25,416 | 38,649 |

During the second quarter of 2003, 1.7 million barrels of crude oil were purchased at an average price of \$9.26/bbl, as compared to 2.2 million barrels of crude purchased at an average price of \$8.80/bbl in the second quarter of 2002. The purchases of crude oil in the second quarter of 2003 were made from our Turgai joint venture.

Edgar Filing: PETROKAZAKHSTAN INC - Form 6-K

During the six months ended June 30, 2003, 3.25 million barrels of crude oil were purchased at an average price of \$7.81/bbl, as compared to 5.2 million barrels of crude purchased on the domestic market at an average price of \$7.49/bbl in the same period of 2002. The purchases of crude oil were made from our Turgai joint venture.

SELLING

Selling expenses for crude oil are comprised of customs, quality inspection and costs related to the export crude oil.

Selling expenses for refined products are comprised of the costs of operating the seven distribution centres of our Downstream operations. Selling expenses in the second quarter of 2003 were \$6.7 million compared to \$4.9 million in the second quarter 2002, and \$12.2 million in six months 2003 compared to \$10.6 million in six months 2002.

| | Three months ended June 30 | |
|------------------|-----------------------------------|-----------|
| | 2003 | 2002 |
| | (\$000 s) | (\$000 s) |
| Crude oil | 2,659 | 1,004 |
| Refined products | 4,060 | 3,888 |
| Total | 6,719 | 4,892 |
| | Six months ended June 30 | |
| | 2003 | 2002 |
| | (\$000 s) | (\$000 s) |
| Crude oil | 4,507 | 1,136 |
| Refined products | 7,683 | 9,485 |
| Total | 12,190 | 10,621 |

The increase in crude oil selling expenses during the second quarter of 2003 compared to the second quarter of 2002 is the direct result of increased export sales volumes related to non-FCA routes, for which all selling costs are borne by us, as well as the increase in Kazgermunai sales. Our non-FCA sales were 4.4 million barrels of crude oil during the second quarter of 2003 (second quarter of 2002 2.2 million barrels). Non-FCA sales for the six months of 2003 were 8.24 million barrels of crude oil compared to 2.3 million barrels in the same period of 2002. In addition, for the six months ended June 30, 2003 Upstream includes \$0.9 million of allocated expenses from marketing and trading, previously allocated to general and administrative costs (\$0.5 million of which relates to the second quarter of 2003).

During the six months ended June 30, 2002, Downstream refunded \$1.1 million of transportation discounts it had received, as it had not met the throughput obligations under a transportation contract. This contract is no longer in effect. The remaining \$0.7 million decrease for the six months of 2002 was due to one time charges in 2002, including a \$0.6 settlement payment and \$0.1 million in storage charges.

GENERAL AND ADMINISTRATIVE

The table below analyses total general and administrative costs between Upstream, Downstream and Corporate. In the case of Upstream and Downstream the general and administrative costs are also reflected on a per barrel basis.

THREE MONTHS ENDED JUNE 30, 2003

| | General and Administrative (\$000 s) | Per barrel of oil produced or processed* (\$/bbl) |
|------------|-----------------------------------------------------|------------------------------------------------------------------|
| Upstream | 7,333 | 0.56 |
| Downstream | 4,421 | 0.59 |
| Corporate | 500 | |
| Total | 12,254 | |

THREE MONTHS ENDED JUNE 30, 2002

| | General and Administrative (\$000 s) | Per barrel of oil produced or processed* (\$/bbl) |
|------------|--------------------------------------------|---------------------------------------------------------|
| Upstream | 9,028 | 0.84 |
| Downstream | 4,086 | 0.76 |
| Corporate | 2,216 | |
| Total | 15,330 | |

SIX MONTHS ENDED JUNE 30, 2003

| | General and Administrative (\$000 s) | Per barrel of oil produced or processed* (\$/bbl) |
|------------|--------------------------------------------|---------------------------------------------------------|
| Upstream | 15,121 | 0.58 |
| Downstream | 8,930 | 0.57 |
| Corporate | 1,523 | |
| Total | 25,574 | |

SIX MONTHS ENDED JUNE 30, 2002

| | General and Administrative (\$000 s) | Per barrel of oil produced or processed* (\$/bbl) |
|------------|--------------------------------------------|---------------------------------------------------------|
| Upstream | 16,165 | 0.74 |
| Downstream | 7,424 | 0.57 |
| Corporate | 4,242 | |
| Total | 27,831 | |

* Including tollers volumes

The decrease in Upstream and Corporate general and administrative expenses in the three and six months ended June 30, 2003 is due to a reduction in office and staff costs and bad debt expenses, as well as an allocation of \$0.5 million in the second quarter and \$0.9 million in the first six months of 2003 to selling expenses, which represent marketing and trading expenses previously recorded as general and administrative expenses.

The increase in the downstream expenses during the six months ended June 30, 2003 of \$1.5 million is due to an increase in allocated Corporate charges.

INTEREST AND FINANCING

The following table sets out the interest expense, and the amortization of debt issue costs or discounts.

| | Three months ended June 30 2003 (\$000 s) | 2002 (\$000 s) |
|------------------|-------------------------------------------------|-------------------|
| Short-term debt | 173 | 145 |
| Term facility | 3,176 | 1,226 |
| Kazgermunai debt | (327) | 799 |
| 12% Notes* | | 6,319 |
| HOP bonds | 695 | 336 |
| 9.625% Notes | 3,150 | |
| Total | 6,867 | 8,825 |

| | Six months ended June 30 | |
|------------------|---------------------------------|-----------|
| | 2003 | 2002 |
| | (\$000 s) | (\$000 s) |
| Short-term debt | 366 | 639 |
| Term facility | 5,361 | 1,944 |
| Kazgermunai debt | 647 | 1,688 |
| 12% Notes* | 8,718 | 12,303 |
| HOP bonds | 1,182 | 676 |
| 9.625% Notes | 4,852 | |
| Total | 21,126 | 17,250 |

* Please refer to Note 7 of the Interim Consolidated Financial Statements.

The negative interest expense for Kazgermunai in the three months ended June 30, 2003 is attributable to a \$0.6 million correction of interest expense made for the previous quarter.

DEPRECIATION AND DEPLETION

Upstream depreciation and depletion has increased by \$10.9 million during the three months ended June 30, 2003. This increase is due to changes in reserve estimates pertaining to proved producing reserves as of January 1, 2003 and an increase in production as compared to the second quarter of 2002. Additionally, the amount subject to depletion or depreciation has increased by \$176 million since June 30, 2002 as a result of capital expenditures. During the three months ended June 30, 2003 Downstream depreciation increased mainly due to \$1.5 million of depreciation on assets, which were under construction in 2002.

Upstream depreciation and depletion has increased by \$17.3 million during the six months ended June 30, 2003 compared to the same period of 2002. This increase is also due to changes in reserve estimates pertaining to proved producing reserves as of January 1, 2003 and the increase in the amount subject to depletion or depreciation as a result of capital expenditures. Downstream depreciation also increased during the six months of 2003 compared to 2002 mainly due to \$3.0 million of depreciation on assets, which were under construction in 2002.

THREE MONTHS ENDED JUNE 30, 2003

| | Depreciation and Depletion (\$000 s) | Depreciation and Depletion (\$/bbl*) |
|------------|-------------------------------------------------|-------------------------------------------------|
| Upstream | 15,104 | 1.14 |
| Downstream | 4,651 | 0.62 |
| Corporate | 32 | |
| Total | 19,787 | |

THREE MONTHS ENDED JUNE 30, 2002

| | Depreciation and Depletion (\$000 s) | Depreciation and Depletion (\$/bbl*) |
|------------|-------------------------------------------------|-------------------------------------------------|
| Upstream | 6,044 | 0.56 |
| Downstream | 2,784 | 0.52 |
| Corporate | 24 | |
| Total | 8,852 | |

SIX MONTHS ENDED JUNE 30, 2003

| | Depreciation and Depletion (\$000 s) | Depreciation and Depletion (\$/bbl*) |
|------------|-------------------------------------------------|-------------------------------------------------|
| Upstream | 29,122 | 1.12 |
| Downstream | 9,321 | 0.59 |
| Corporate | 58 | |
| Total | 38,501 | |

SIX MONTHS ENDED JUNE 30, 2002

| | Depreciation and Depletion (\$000 s) | Depreciation and Depletion (\$/bbl*) |
|------------|-----------------------------------------|-----------------------------------------|
| Upstream | 11,812 | 0.54 |
| Downstream | 5,520 | 0.43 |
| Corporate | 46 | |
| Total | 17,378 | |

* Downstream includes tollers volumes.

In accordance with Canadian and United States accounting standards, and to provide comfort that anticipated future revenues are sufficient to cover the capitalised costs of properties, we perform a quarterly ceiling test. The ceiling test as at June 30, 2003 demonstrated that future net revenues exceed the carrying value of the Upstream properties under the full cost method of accounting.

INCOME BEFORE INCOME TAXES

As a result of the foregoing factors, we had income before income taxes of \$97.2 million for the three months ended June 30, 2003, as compared to \$53.8 million for the second quarter of 2002 (or \$200.0 million for the six months ended June 30, 2003 as compared to \$90.7 million for the six months ended June 30, 2002).

UNUSUAL ITEMS

We were named as defendants in a claim filed by a company alleging it was retained under a consulting contract, as disclosed in Note 22 to the Consolidated Financial Statements for the year ended December 31, 2002. The arbitration decision was received in 2002 and we accrued and paid \$7.1 million during the six months ended June 30, 2002. No unusual items were incurred in the second quarter of 2003.

INCOME TAXES

| | Three months ended June 30 | |
|------------|-----------------------------------|------------------|
| | 2003 | 2002 |
| | (\$000 s) | (\$000 s) |
| Upstream | 11,371 | 16,307 |
| Downstream | 17,085 | 3,189 |
| Corporate | (104) | 117 |
| Total | 28,352 | 19,613 |
| | Six months ended June 30 | |
| | 2003 | 2002 |
| | (\$000 s) | (\$000 s) |
| Upstream | 33,326 | 23,257 |
| Downstream | 28,840 | 8,831 |
| Corporate | 128 | 365 |
| Total | 62,294 | 32,453 |

The increase in income taxes is due to the increase in operations and income before income taxes in 2003. The effective tax rates were 29.2% for the second quarter of 2003 and 36.4% for the second quarter of 2002 (31.1% for the six months of 2003 compared to 35.8% for the six months of 2002). Please refer to Note 9 of the Interim Consolidated Financial Statements.

NET RETURN PER BARREL

Set out below are the details of the average net return achieved for export sales, including both FCA and non-FCA, and sales derived from the refining of our own crude.

| | Three months ended June 30, 2003 | |
|----------------------------------|-----------------------------------------|----------------------------------------------------|
| | Crude Oil Exports (\$/bbl) | Own Crude Oil Refined and Sold (\$/bbl) |
| Net sales price achieved | 18.56 | 14.65 |
| Transportation costs | (7.89) | (0.96) |
| Net back at Kumkol | 10.67 | 13.69 |
| Production and refining costs | (1.28) | (1.86) |
| Royalties and taxes | (1.13) | (1.15) |
| Selling costs | (0.19) | (0.75) |
| General and administrative costs | (0.56) | (1.14) |
| Net return per barrel | 7.51 | 8.79 |

| | Three months ended June 30, 2002 | |
|----------------------------------|-----------------------------------------|----------------------------------------------------|
| | Crude Oil Exports (\$/bbl) | Own Crude Oil Refined and Sold (\$/bbl) |
| Net sales price achieved | 16.11 | 12.18 |
| Transportation costs | (4.72) | (1.03) |
| Net back at Kumkol | 11.39 | 11.15 |
| Production and refining costs | (1.14) | (2.23) |
| Royalties and taxes | (0.85) | (0.87) |
| Selling costs | (0.09) | (0.83) |
| General and administrative costs | (0.84) | (1.61) |
| Net return per barrel | 8.47 | 5.61 |

During the second quarter of 2003 the net sales price achieved for crude oil exports less transportation costs decreased by \$0.72/bbl compared to the same quarter of 2002 due to the increase in pipeline and railway costs during the second quarter of 2003, partially offset by a slight increase in market prices (average Platts Brent was \$26.03/bbl compared to \$25.03/bbl in the second quarter of 2002).

| | Six months ended June 30, 2003 | |
|----------------------------------|---------------------------------------|----------------------------------------------------|
| | Crude Oil Exports (\$/bbl) | Own Crude Oil Refined and Sold (\$/bbl) |
| Net sales price achieved | 20.70 | 14.07 |
| Transportation costs | (7.98) | (0.93) |
| Net back at Kumkol | 12.72 | 13.14 |
| Production and refining costs | (1.32) | (1.79) |
| Royalties and taxes | (0.94) | (0.96) |
| Selling costs | (0.17) | (0.66) |
| General and administrative costs | (0.58) | (1.15) |
| Net return per barrel | 9.71 | 8.58 |

| | Six months ended June 30, 2002 | |
|-------------------------------|---------------------------------------|----------------------------------------------------|
| | Crude Oil Exports (\$/bbl) | Own Crude Oil Refined and Sold (\$/bbl) |
| Net sales price achieved | 14.33 | 11.60 |
| Transportation costs | (3.55) | (1.06) |
| Net back at Kumkol | 10.78 | 10.54 |
| Production and refining costs | (1.21) | (2.16) |
| Royalties and taxes | (0.98) | (0.96) |

Edgar Filing: PETROKAZAKHSTAN INC - Form 6-K

| | | |
|----------------------------------|--------|--------|
| Selling costs | (0.05) | (0.78) |
| General and administrative costs | (0.74) | (1.31) |
| Net return per barrel | 7.80 | 5.33 |

During the six months ended June 30, 2003 the net sales price achieved for crude oil exports less transportation costs increased by \$1.94/bbl compared to the same period of 2002 due to an increase in market prices (average Platts Brent was \$28.77/bbl compared to \$23.09/bbl in 2002), partially offset by an increase in pipeline and railway tariffs.

COMPARISON OF COMPLETED FCA AND NON-FCA SALES

| | Three months ended June 30 | |
|-------------------|-----------------------------------|-------------|
| | 2003 | 2002 |
| | (\$/bbl) | (\$/bbl) |
| FCA | | |
| Average Brent | 26.73 | 24.96 |
| Differential | 13.79 | 13.50 |
| Netback at Kumkol | 12.94 | 11.46 |
| Non-FCA | | |
| Average Brent | 26.34 | 24.74 |
| Differential | 14.57 | 14.48 |
| Netback at Kumkol | 11.77 | 10.26 |
| | | |
| | Six months ended June 30 | |
| | 2003 | 2002 |
| | (\$/bbl) | (\$/bbl) |
| FCA | | |
| Average Brent | 29.67 | 23.96 |
| Differential | 13.67 | 13.42 |
| Netback at Kumkol | 16.00 | 10.54 |
| Non-FCA | | |
| Average Brent | 29.08 | 24.45 |
| Differential | 14.89 | 13.81 |
| Netback at Kumkol | 14.19 | 10.64 |

The table above sets out our two types of sales transactions on a completed sale basis and is mainly a comparison of the Aktau route (FCA) with all of our other routes (non-FCA). The Aktau route is supported by the government and consequently, it receives preferential rail tariffs. It compares transactions that were completed in the quarter as opposed to shipments made in the quarter. The average Brent is the average Brent price we received for all sale transactions for the quarter. Pricing is specific to the bill of lading date and the differential represents all costs to move our crude oil from Kumkol to various final destinations.

The increase in our differential for non-FCA sales of \$0.09/bbl for the second quarter of 2003 compared to 2002 (\$1.09/bbl for the six months ended June 2003 compared to same period of 2002) and for our FCA sales for the same periods is attributable to the increase in rail tariffs and pipeline tariffs, as previously discussed and for non-FCA sales we are utilizing new routes that on, at least an initial basis, have higher costs. The combination of FCA and non-FCA sales leads to competition and, on an overall basis a lower differential.

CAPITAL EXPENDITURES

The table below provides a breakdown of capital expenditures.

Edgar Filing: PETROKAZAKHSTAN INC - Form 6-K

| | Three months ended June 30 | |
|---------------------------|-----------------------------------|-----------|
| | 2003 | 2002 |
| | (\$000 s) | (\$000 s) |
| Upstream | | |
| Development wells | 9,497 | 4,350 |
| Facilities and equipment | 18,811 | 20,362 |
| Exploration | 4,545 | 6,604 |
| Downstream | | |
| Refinery HS&E | 113 | 316 |
| Refinery sustaining | 961 | 123 |
| Refinery return projects | 2,579 | 895 |
| Marketing & other | 5 | 1,238 |
| Corporate | 183 | 107 |
| Total Capital Expenditure | 36,694 | 33,995 |

| | Six months ended June 30 | |
|---------------------------|---------------------------------|-----------|
| | 2003 | 2002 |
| | (\$000 s) | (\$000 s) |
| Upstream | | |
| Development wells | 13,418 | 7,224 |
| Facilities and equipment | 55,546 | 33,813 |
| Exploration | 8,461 | 8,418 |
| Downstream | | |
| Refinery HS&E | 340 | 472 |
| Refinery sustaining | 1,755 | 225 |
| Refinery return projects | 7,138 | 1,269 |
| Marketing & other | 16 | 1,928 |
| Corporate | 341 | 155 |
| Total Capital Expenditure | 87,015 | 53,504 |

LIQUIDITY

The levels of cash, current assets and current liabilities as at June 30, 2003 and December 31, 2002 are set out below.

| | As at | As at |
|----------------------------------------|----------------------|-------------------|
| | June 30, 2003 | December 31, 2002 |
| | (\$000 s) | (\$000 s) |
| Cash and cash equivalents | 224,342 | 74,796 |
| Cash flow | 179,893 | 216,794 |
| Working capital* | 133,176 | 86,987 |
| Net debt | 192,007 | 217,754 |
| Ratio of cash flow to net debt** | 1.9 | 1.0 |
| Ratio of cash flow to fixed charges*** | 8.5 | 6.1 |
| Ratio of earnings to fixed charges**** | 7.5 | 8.5 |

* Working capital is net of cash and short-term debt

** Quarterly cash flow is annualized

*** Fixed charges includes interest expense and preferred dividends before tax

**** Earnings is net income plus fixed charges

Edgar Filing: PETROKAZAKHSTAN INC - Form 6-K

Working capital excluding cash and short-term debt as at June 30, 2003 was \$133.2 million (\$87.0 million as at December 31, 2002). The increase is primarily due to an increase in accounts receivable.

Cash flow from our operations, together with proceeds of our new financings, provides us with sufficient means to implement our plans for 2003. Our new financings improve the structure of our balance sheet with a term of four years for our term facility with repayments of equal monthly amounts of principal commencing July 2003 and with a seven-year term on our new issue of \$125.0 million principal amount 9.625% Notes (the 9.625% Notes) due in 2010.

As at June 30, 2003 cash and cash equivalents included \$15.6 million of cash dedicated to a debt service reserve account for our Term Facility (nil as at December 31, 2002). This cash is unavailable for general corporate purposes.

INTERIM CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT) (EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS, EXCEPT PER SHARE AMOUNTS)

Unaudited

| | Three months ended June 30 | | Six months ended June 30 | |
|-------------------------------------------------------|----------------------------|-----------------|--------------------------|-----------------|
| | 2003 | 2002 | 2003 | 2002 |
| REVENUE | | | | |
| Crude oil | 134,175 | 113,223 | 276,417 | 175,786 |
| Refined products | 116,959 | 62,061 | 217,625 | 139,445 |
| Processing fees | | 3 | 449 | 1,434 |
| Interest and other income | 967 | 2,111 | 4,244 | 4,064 |
| | 252,101 | 177,398 | 498,735 | 320,729 |
| EXPENSES | | | | |
| Production | 16,893 | 12,225 | 34,149 | 26,413 |
| Royalties and taxes | 15,117 | 9,795 | 24,631 | 22,171 |
| Transportation | 60,269 | 36,347 | 115,272 | 49,938 |
| Refining | 4,393 | 5,798 | 7,402 | 12,327 |
| Crude oil and refined product purchases | 16,046 | 20,549 | 25,416 | 38,649 |
| Selling | 6,719 | 4,892 | 12,190 | 10,621 |
| General and administrative | 12,254 | 15,330 | 25,574 | 27,831 |
| Interest and financing costs | 6,867 | 8,825 | 21,126 | 17,250 |
| Depletion and depreciation | 19,787 | 8,852 | 38,501 | 17,378 |
| Foreign exchange (gain) loss | (3,428) | (65) | (5,526) | 409 |
| | 154,917 | 122,548 | 298,735 | 222,987 |
| INCOME BEFORE UNUSUAL ITEMS | 97,184 | 54,850 | 200,000 | 97,742 |
| UNUSUAL ITEM | | | | |
| Arbitration settlement | | 1,001 | | 7,091 |
| INCOME BEFORE INCOME TAXES | 97,184 | 53,849 | 200,000 | 9061 |
| INCOME TAXES (Note 9) | | | | |
| Current provision | 27,080 | 18,360 | 63,252 | 28,348 |
| Future income tax | 1,272 | 1,253 | (958) | 4,105 |
| | 28,352 | 19,613 | 62,294 | 32,453 |
| NET INCOME BEFORE MINORITY INTEREST | 68,832 | 34,236 | 137,706 | 58,198 |
| MINORITY INTEREST | 621 | 428 | 1,271 | 1,281 |
| NET INCOME | 68,211 | 33,808 | 136,435 | 56,917 |
| RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR | 146,245 | (43,265) | 78,821 | (66,366) |
| Normal Course Issuer Bid (Note 8) | (10,440) | | (11,232) | |
| Preferred share dividends | (8) | (8) | (16) | (16) |
| RETAINED EARNINGS (DEFICIT), END OF PERIOD | 204,008 | (9,465) | 204,008 | (9,465) |
| BASIC NET INCOME PER SHARE (Note 10) | 0.87 | 0.42 | 1.74 | 0.70 |
| DILUTED NET INCOME PER SHARE (Note 10) | 0.84 | 0.40 | 1.67 | 0.67 |

See accompanying notes to the interim consolidated financial statements.

INTERIM CONSOLIDATED BALANCE SHEETS

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

Unaudited

| | June 30 2003 | December 31 2002 |
|--------------------------------------------------|-------------------------|-----------------------------|
| ASSETS | | |
| CURRENT | | |
| Cash and cash equivalents (Note 4) | 224,342 | 74,796 |
| Accounts receivable (Note 5) | 127,192 | 92,431 |
| Inventory | 30,805 | 40,529 |
| Prepaid expenses | 41,121 | 44,594 |
| Current portion of future income tax asset | 9,181 | 9,049 |
| | 432,641 | 261,399 |
| Deferred charges | 7,836 | 5,321 |
| Future income tax asset | 23,135 | 24,529 |
| Property, plant and equipment | 455,888 | 405,479 |
| TOTAL ASSETS | 919,500 | 696,728 |
| LIABILITIES | | |
| CURRENT | | |
| Accounts payable and accrued liabilities | 66,879 | 96,076 |
| Short-term debt (Note 6) | 101,583 | 25,947 |
| Prepayments for crude oil and refined products | 8,244 | 3,540 |
| | 176,706 | 125,563 |
| Long-term debt (Note 7) | 314,766 | 266,603 |
| Provision for future site restoration costs | 6,545 | 4,167 |
| Future income tax liability | 14,794 | 17,015 |
| | 512,811 | 413,348 |
| Minority interest | 12,024 | 10,753 |
| Preferred shares of subsidiary | 80 | 83 |
| COMMITMENTS AND CONTINGENCIES (Note 13) | | |
| SHAREHOLDERS EQUITY | | |
| Share capital (Note 8) | 190,577 | 193,723 |
| Retained earnings | 204,008 | 78,821 |
| | 394,585 | 272,544 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | 919,500 | 696,728 |

See accompanying notes to the interim consolidated financial statements.

APPROVED BY THE BOARD OF DIRECTORS.

(signed)

(signed)

BERNARD ISAUTIER
DirectorROBERT KAPLAN
Director**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW**

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

Unaudited

Edgar Filing: PETROKAZAKHSTAN INC - Form 6-K

| | Three months ended June 30 | | Six months ended June 30 | |
|-------------------------------------------------------------------------------|----------------------------|----------------|--------------------------|----------------|
| | 2003 | 2002 | 2003 | 2002 |
| OPERATING ACTIVITIES | | | | |
| Net income | 68,211 | 33,808 | 136,435 | 56,917 |
| Items not affecting cash: | | | | |
| Depletion and depreciation | 19,787 | 8,852 | 38,501 | 17,378 |
| Amortization of deferred charges | 359 | 466 | 3,052 | 625 |
| Minority interest | 621 | 428 | 1,271 | 1,281 |
| Other non-cash charges | 770 | 468 | 1,593 | 1,007 |
| Future income tax | 1,272 | 1,253 | (958) | 4,105 |
| Cash flow | 91,020 | 45,275 | 179,894 | 81,313 |
| Changes in non-cash operating working capital items | (61,493) | (10,668) | (42,368) | (25,148) |
| Cash flow from operating activities | 29,527 | 34,607 | 137,526 | 56,165 |
| FINANCING ACTIVITIES | | | | |
| Short-term debt | (33,827) | (482) | 16,675 | (1,938) |
| Purchase of common shares (Note 8) | (13,816) | | (14,848) | |
| Long-term debt | 34,698 | (8,760) | 98,808 | 25,195 |
| Deferred charges paid | (1,150) | | (3,601) | |
| Proceeds from issue of share capital, net of share issuance costs | 20 | 24 | 470 | 613 |
| Preferred share dividends | (8) | (8) | (16) | (16) |
| Cash flow (used in) from investing activities | (14,083) | (9,226) | 97,488 | 23,854 |
| INVESTING ACTIVITIES | | | | |
| Long-term investment | | 40,000 | | 40,000 |
| Capital expenditures | (35,143) | (33,995) | (85,464) | (53,504) |
| Purchase of preferred shares of subsidiary | (2) | (5) | (4) | (5) |
| Cash flow (used in) from investing activities | (35,145) | 6,000 | (85,468) | (13,509) |
| (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS (BEGINNING OF PERIOD) | (19,701) | 31,381 | 149,546 | 66,510 |
| CASH AND CASH EQUIVALENTS (END OF PERIOD) | 244,043 | 99,941 | 74,796 | 64,812 |
| CASH AND CASH EQUIVALENTS (END OF PERIOD) | 224,342 | 131,322 | 224,342 | 131,322 |

There were no cash equivalents as at June 30, 2003 and December 31, 2002.
See accompanying notes to the interim consolidated financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN UNITED STATES DOLLARS TABULAR AMOUNTS IN THOUSANDS OF DOLLARS, UNLESS OTHERWISE INDICATED) UNAUDITED

1 SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements of PetroKazakhstan Inc. (PetroKazakhstan or the Corporation) have been prepared by management, in accordance with generally accepted accounting principles in Canada. PetroKazakhstan Inc. was formerly known as Hurricane Hydrocarbons Ltd. Its main operating subsidiaries Hurricane Kumkol Munai (HKM) and Hurricane Oil Products (HOP) were renamed PetroKazakhstan Kumkol Resources (PKKR) and PetroKazakhstan Oil Products (PKOP), respectively. Certain information and disclosures normally required to be included in the notes to the annual financial statements has been omitted or condensed. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in PetroKazakhstan's Annual Report for the year ended December 31, 2002. The accounting principles applied are consistent with those as set out in the Corporation's annual financial statements

Edgar Filing: PETROKAZAKHSTAN INC - Form 6-K

for the year ended December 31, 2002.

The presentation of certain amounts for previous periods has been changed to conform with the presentation adopted for the current period.

2 SEGMENTED INFORMATION

On a primary basis the business segments are:

Upstream comprising the exploration, development and production of crude oil and natural gas.

Downstream comprising refining and the marketing of refined products and the management of the marketing of crude oil.

Upstream results include revenue from crude oil sales to Downstream, reflected as crude oil purchases in Downstream, as this presentation properly reflects segment results. This revenue is eliminated on consolidation.

| | Three months ended June 30, 2003 | | | | Consolidated |
|------------------------------------------|----------------------------------|---------------|--------------|--------------|---------------|
| | Upstream | Downstream | Corporate | Eliminations | |
| REVENUE | | | | | |
| Crude oil | 162,240 | | | (28,065) | 134,175 |
| Refined products | 13,866 | 110,955 | | (7,862) | 116,959 |
| Processing fees | | | | | |
| Interest and other income | 197 | 357 | 413 | | 967 |
| | 176,303 | 111,312 | 413 | (35,927) | 252,101 |
| EXPENSES | | | | | |
| Production | 16,893 | | | | 16,893 |
| Royalties and taxes | 14,911 | 206 | | | 15,117 |
| Transportation | 60,244 | 25 | | | 60,269 |
| Refining | | 4,393 | | | 4,393 |
| Crude oil and refined product purchases | 14,816 | 37,157 | | (35,927) | 16,046 |
| Selling | 2,490 | 4,229 | | | 6,719 |
| General and administrative | 7,333 | 4,421 | 500 | | 12,254 |
| Interest and financing costs | 6,127 | 695 | 45 | | 6,867 |
| Depletion and depreciation | 15,104 | 4,651 | 32 | | 19,787 |
| Foreign exchange (gain) loss | (2,294) | (1,484) | 350 | | (3,428) |
| | 135,624 | 54,293 | 927 | (35,927) | 154,917 |
| INCOME (LOSS) BEFORE INCOME TAXES | 40,679 | 57,019 | (514) | | 97,184 |
| INCOME TAXES | | | | | |
| Current Provision | 14,879 | 12,305 | (104) | | 27,080 |
| Future income tax | (3,508) | 4,780 | | | 1,272 |
| | 11,371 | 17,085 | (104) | | 28,352 |
| MINORITY INTEREST | | 621 | | | 621 |
| NET INCOME (LOSS) | 29,308 | 39,313 | (410) | | 68,211 |
| INTERSEGMENT REVENUE | 19,564 | 5,920 | | | |

| | As at June 30, 2003 | | | Consolidated |
|--------------|---------------------|------------|-----------|--------------|
| | Upstream | Downstream | Corporate | |
| Total assets | 588,855 | 179,373 | 151,272 | 919,500 |

Edgar Filing: PETROKAZAKHSTAN INC - Form 6-K

| | | | | |
|-------------------------------------|----------------|---------------|--------------|----------------|
| Total liabilities | 450,800 | 55,018 | 6,993 | 512,811 |
| Capital expenditures in the quarter | 32,853 | 3,658 | 183 | 36,694 |

| | Three months ended June 30, 2002 | | | | Consolidated |
|-------------------------------------------|----------------------------------|---------------|----------------|--------------|---------------|
| | Upstream | Downstream | Corporate | Eliminations | |
| REVENUE | | | | | |
| Crude oil | 135,783 | | | (22,560) | 113,223 |
| Refined products | 17,812 | 57,659 | | (13,410) | 62,061 |
| Processing fees | | 3 | | | 3 |
| Interest and other income | 1,475 | 617 | 19 | | 2,111 |
| | 155,070 | 58,279 | 19 | (35,970) | 177,398 |
| EXPENSES | | | | | |
| Production | 12,225 | | | | 12,225 |
| Royalties and taxes | 9,276 | 519 | | | 9,795 |
| Transportation | 36,347 | | | | 36,347 |
| Refining | | 5,798 | | | 5,798 |
| Crude oil and refined product purchases | 21,354 | 35,165 | | (35,970) | 20,549 |
| Selling | 1,004 | 3,888 | | | 4,892 |
| General and administrative | 9,027 | 4,086 | 2,217 | | 15,330 |
| Interest and financing costs | 2,170 | 336 | 6,319 | | 8,825 |
| Depletion and depreciation | 6,044 | 2,784 | 24 | | 8,852 |
| Foreign exchange (gain) loss | (317) | 86 | 166 | | (65) |
| | 97,130 | 52,662 | 8,726 | (35,970) | 122,548 |
| INCOME (LOSS) BEFORE UNUSUAL ITEMS | 57,940 | 5,617 | (8,707) | | 54,850 |
| UNUSUAL ITEM | | | | | |
| Arbitration settlement | 1,001 | | | | 1,001 |
| INCOME (LOSS) BEFORE INCOME TAXES | 56,939 | 5,617 | (8,707) | | 53,849 |
| INCOME TAXES | | | | | |
| Current Provision | 13,757 | 4,486 | 117 | | 18,360 |
| Future income tax | 2,550 | (1,297) | | | 1,253 |
| | 16,307 | 3,189 | 117 | | 19,613 |
| MINORITY INTEREST | | 428 | | | 428 |
| NET INCOME (LOSS) | 40,632 | 2,000 | (8,824) | | 33,808 |
| INTERSEGMENT REVENUE | 22,560 | 13,410 | | | |

Included in Upstream crude oil revenue are sales to one customer in the amount of \$30.4 million.

| | As at June 30, 2002 | | | Consolidated |
|-------------------------------------|---------------------|------------|-----------|--------------|
| | Upstream | Downstream | Corporate | |
| Total assets | 366,167 | 161,319 | 130,493 | 657,979 |
| Total liabilities | 173,870 | 48,942 | 218,545 | 441,357 |
| Capital expenditures in the quarter | 31,319 | 2,573 | 103 | 33,995 |

| | Six months ended June 30, 2003 | | | | Consolidated |
|-----------------------------------------|--------------------------------|----------------|--------------|--------------|----------------|
| | Upstream | Downstream | Corporate | Eliminations | |
| REVENUE | | | | | |
| Crude oil | 338,699 | | | (62,282) | 276,417 |
| Refined products | 14,536 | 212,355 | | (9,266) | 217,625 |
| Processing fees | | 449 | | | 449 |
| Interest and other income | 2,719 | 796 | 729 | | 4,244 |
| | 355,954 | 213,600 | 729 | (71,548) | 498,735 |
| EXPENSES | | | | | |
| Production | 34,149 | | | | 34,149 |
| Royalties and taxes | 24,326 | 305 | | | 24,631 |
| Transportation | 115,272 | | | | 115,272 |
| Refining | | 7,402 | | | 7,402 |
| Crude oil and refined product purchases | 16,920 | 80,044 | | (71,548) | 25,416 |
| Selling | 4,507 | 7,683 | | | 12,190 |
| General and administrative | 15,121 | 8,930 | 1,523 | | 25,574 |
| Interest and financing costs | 11,181 | 1,182 | 8,763 | | 21,126 |

Edgar Filing: PETROKAZAKHSTAN INC - Form 6-K

| | | | | | |
|------------------------------------------|----------------|----------------|-----------------|----------|----------------|
| Depletion and depreciation | 29,122 | 9,321 | 58 | | 38,501 |
| Foreign exchange (gain) loss | (3,668) | (2,450) | 592 | | (5,526) |
| | 246,930 | 112,417 | 10,936 | (71,548) | 298,735 |
| INCOME (LOSS) BEFORE INCOME TAXES | 109,024 | 101,183 | (10,207) | | 200,000 |
| INCOME TAXES | | | | | |
| Current Provision | 39,048 | 24,076 | 128 | | 63,252 |
| Future income tax | (5,722) | 4,764 | | | (958) |
| | 33,326 | 28,840 | 128 | | 62,294 |
| MINORITY INTEREST | | 1,271 | | | 1,271 |
| NET INCOME (LOSS) | 75,698 | 71,072 | (10,335) | | 136,435 |
| INTERSEGMENT REVENUE | 62,282 | 9,266 | | | |

As at June 30, 2003

| | | | | | |
|---------------------------------------|-----------------|-------------------|------------------|--|---------------------|
| | Upstream | Downstream | Corporate | | Consolidated |
| Total assets | 588,855 | 179,373 | 151,272 | | 919,500 |
| Total liabilities | 450,800 | 55,018 | 6,993 | | 512,811 |
| Capital expenditures in the half year | 77,426 | 9,248 | 341 | | 87,015 |

| | Six months ended June 30, 2002 | | | | |
|------------------------------------------|--------------------------------|---------------|-----------------|--------------|---------------|
| | Upstream | Downstream | Corporate | Eliminations | Consolidated |
| REVENUE | | | | | |
| Crude oil | 223,669 | | | (47,883) | 175,786 |
| Refined products | 28,799 | 136,195 | | (25,549) | 139,445 |
| Processing fees | | 1,434 | | | 1,434 |
| Interest and other income | 2,737 | 330 | 997 | | 4,064 |
| | 255,205 | 137,959 | 997 | (73,432) | 320,729 |
| EXPENSES | | | | | |
| Production | 26,413 | | | | 26,413 |
| Royalties and taxes | 21,444 | 727 | | | 22,171 |
| Transportation | 49,938 | | | | 49,938 |
| Refining | | 12,327 | | | 12,327 |
| Crude oil and refined product purchases | 37,202 | 74,879 | | (73,432) | 38,649 |
| Selling | 1,136 | 9,485 | | | 10,621 |
| General and administrative | 16,165 | 7,424 | 4,242 | | 27,831 |
| Interest and financing costs | 4,271 | 676 | 12,303 | | 17,250 |
| Depletion and depreciation | 11,812 | 5,520 | 46 | | 17,378 |
| Foreign exchange (gain) loss | 590 | (244) | 63 | | 409 |
| | 168,971 | 110,794 | 16,654 | (73,432) | 222,987 |
| INCOME (LOSS) BEFORE UNUSUAL ITEM | 86,234 | 27,165 | (15,657) | | 97,742 |
| UNUSUAL ITEM | | | | | |
| Arbitration Settlement | 7,091 | | | | 7,091 |
| INCOME (LOSS) BEFORE INCOME TAXES | 79,143 | 27,165 | (15,657) | | 90,651 |
| INCOME TAXES | | | | | |
| Current Provision | 19,041 | 8,942 | 365 | | 28,348 |
| Future income tax | 4,216 | (111) | | | 4,105 |
| | 23,257 | 8,831 | 365 | | 32,453 |
| MINORITY INTEREST | | 1,281 | | | 1,281 |
| NET INCOME (LOSS) | 55,886 | 17,053 | (16,022) | | 56,917 |
| INTERSEGMENT REVENUE | 47,883 | 25,549 | | | |

Included in Upstream crude oil revenue are sales to one customer in the amount of \$62.7 million.

| | As at June 30, 2002 | | | |
|---------------------------------------|---------------------|------------|-----------|--------------|
| | Upstream | Downstream | Corporate | Consolidated |
| Total assets | 366,167 | 161,319 | 130,493 | 657,979 |
| Total liabilities | 173,870 | 48,942 | 218,545 | 441,357 |
| Capital expenditures in the half year | 49,458 | 3,895 | 151 | 53,504 |

3 JOINT VENTURES

The Corporation has the following interests in two joint ventures:

a) a 50% equity shareholding with equivalent voting power in Turgai Petroleum CJSC (Turgai), which operates the northern part of the Kumkol field in Kazakhstan.

b) a 50% equity shareholding with equivalent voting power in LLP Kazgermunai (Kazgermunai), which operates three oil fields in Kazakhstan: Akshabulak, Nurali and Aksai.

The following amounts are included in the Corporation's consolidated financial statements as a result of the proportionate consolidation of its joint ventures before consolidation eliminations:

| | Three months ended June 30, 2003 | | |
|----------------------------------------|-----------------------------------------|--------------------|--------------|
| | Turgai | Kazgermunai | Total |
| Cash | 13,206 | 14,123 | 27,329 |
| Current assets, excluding cash | 6,511 | 20,758 | 27,269 |
| Property, plant and equipment, net | 59,565 | 58,342 | 117,907 |
| Current liabilities | 26,643 | 6,467 | 33,110 |
| Long-term debt | | 46,035 | 46,035 |
| Revenue | 29,494 | 20,653 | 50,147 |
| Expenses | 16,360 | 15,968 | 32,328 |
| Net income | 13,134 | 4,685 | 17,819 |
| Cash flow from operating activities | 24,255 | 4,930 | 29,185 |
| Cash flow used in financing activities | | (6,016) | (6,016) |
| Cash flow used in investing activities | (11,200) | (2,342) | (13,542) |

Revenue for the three months ended June 30, 2003 includes \$10.6 million of crude oil sales made by Turgai to Downstream. This amount was eliminated on consolidation.

| | Three months ended June 30, 2002 | | |
|----------------------------------------|-----------------------------------------|--------------------|--------------|
| | Turgai | Kazgermunai | Total |
| Cash | 1,483 | 9,033 | 10,516 |
| Current assets, excluding cash | 5,593 | 15,603 | 21,196 |
| Property, plant and equipment, net | 22,359 | 54,812 | 77,171 |
| Current liabilities | 11,518 | 1,581 | 13,099 |
| Long-term debt | | 62,441 | 62,441 |
| Revenue | 18,634 | 10,017 | 28,651 |
| Expenses | 10,868 | 6,989 | 17,857 |
| Net income | 7,766 | 3,028 | 10,794 |
| Cash flow from operating activities | 1,786 | (1,306) | 480 |
| Cash flow used in financing activities | | 629 | 629 |
| Cash flow used in investing activities | (2,959) | (2,010) | (4,969) |

Edgar Filing: PETROKAZAKHSTAN INC - Form 6-K

Revenue for the three months ended June 30, 2002 includes \$7.0 million of crude oil sales made by Turgai and \$1.9 million of crude oil sales made by Kazgermunai to Downstream. These amounts were eliminated on consolidation.

| | Six months ended June 30, 2003 | | |
|----------------------------------------|---------------------------------------|--------------------|-----------------|
| | Turgai | Kazgermunai | Total |
| Cash | 13,206 | 14,123 | 27,329 |
| Current assets, excluding cash | 6,511 | 20,758 | 27,269 |
| Property, plant and equipment, net | 59,565 | 58,342 | 117,907 |
| Current liabilities | 26,643 | 6,467 | 33,110 |
| Long-term debt | | 46,035 | 46,035 |
| | | | |
| Revenue | 59,710 | 42,787 | 102,497 |
| Expenses | 38,810 | 28,573 | 67,383 |
| Net income | 20,900 | 14,214 | 35,114 |
| | | | |
| Cash flow from operating activities | 34,314 | 17,693 | 52,007 |
| Cash flow used in financing activities | | (6,016) | (6,016) |
| Cash flow used in investing activities | (21,416) | (6,251) | (27,667) |

Revenue for the six months ended June 30, 2003 includes \$18.7 million of crude oil sales made by Turgai to Downstream. This amount was eliminated on consolidation.

| | Six months ended June 30, 2002 | | |
|----------------------------------------|---------------------------------------|--------------------|--------------|
| | Turgai | Kazgermunai | Total |
| Cash | 1,483 | 9,033 | 10,516 |
| Current assets, excluding cash | 5,593 | 15,603 | 21,196 |
| Property, plant and equipment, net | 22,359 | 54,812 | 77,171 |
| Current liabilities | 11,518 | 1,581 | 13,099 |
| Long-term debt | | 62,441 | 62,441 |
| | | | |
| Revenue | 30,586 | 15,255 | 45,841 |
| Expenses | 18,142 | 13,786 | 31,928 |
| Net income | 12,444 | 1,469 | 13,913 |
| | | | |
| Cash flow from operating activities | 4,254 | (968) | 3,286 |
| Cash flow used in financing activities | | 1,373 | 1,373 |
| Cash flow used in investing activities | (4,270) | (2,888) | (7,158) |

Revenue for the six months ended June 30, 2002 includes \$15.5 million of crude oil sales made by Turgai and \$5.9 million of crude oil sales made by Kazgermunai to Downstream. These amounts were eliminated on consolidation.

4 CASH AND CASH EQUIVALENTS

As at June 30, 2003 cash and cash equivalents included \$15.6 million of cash dedicated to a debt service reserve account for the Corporation's Term Facility (nil as at December 31, 2002). This cash is unavailable for general corporate purposes.

As at June 30, 2003 cash and cash equivalents included \$3.1 million of cash dedicated to a margin account for the hedging program. As at December 31, 2002 the balance on this margin account was \$5.7 million, which was subsequently released.

5 ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

| | June 30, 2003 | December 31, 2002 |
|-----------------------------|----------------------|--------------------------|
| Trade | 75,096 | 61,085 |
| Value added tax recoverable | 9,708 | 1,718 |
| Due from Turgai | 25,196 | 17,357 |
| Other | 17,192 | 12,271 |
| | 127,192 | 92,431 |

6 SHORT-TERM DEBT

| | June 30, 2003 | December 31, 2002 |
|----------------------------------|----------------------|--------------------------|
| Working capital facilities | 9,765 | 14,947 |
| Current portion of term facility | 54,285 | |
| Current portion of term loans | 2,039 | |
| Joint venture loan payable | 11,000 | 11,000 |
| PKOP Bonds (Note 7) | 24,494 | |
| | 101,583 | 25,947 |

The working capital facilities are revolving, for terms of one to eight years, are secured and have interest rates ranging from Libor plus 3.5% per annum to 14% per annum.

7 LONG-TERM DEBT

Long-term debt is represented by:

| | June 30, 2003 | December 31, 2002 |
|------------------|----------------------|--------------------------|
| Term Facility | 135,715 | |
| 9.625% Notes | 125,000 | |
| Kazgermunai debt | 40,191 | 45,231 |
| Term loans | 13,860 | |
| 12% Notes | | 208,210 |
| PKOP Bonds | | 13,162 |
| | 314,766 | 266,603 |

Term Facility

On January 2, 2003, PetroKazakhstan Kumkol Resources (PKKR) entered into a secured \$225.0 million term facility secured by crude oil export contracts. This facility is repayable in 42 equal monthly installments commencing July 2003. The facility bears interest at a rate of LIBOR plus 3.25% per annum. PKKR has drawn \$190.0 million under this facility and has chosen not to utilize the remainder. PKKR has the right to repay the facility prior to its maturity, under certain terms and conditions.

As a guarantor of the facility, the Corporation must comply with certain covenants including a limitation as to total debt and certain other financial covenants. The Corporation must also maintain a minimum cash balance of \$40.0 million, of which an amount equal to 3 months principal and interest payments must be maintained in a security deposit account (see Note 4).

Edgar Filing: PETROKAZAKHSTAN INC - Form 6-K

PKKR is also required to hedge 450,000 barrels of crude oil production per month for 2004 with a minimum price of \$17.0 per bbl. As PPKR has not drawn the full amount of the facility, the hedged volumes have been reduced to 372,500 barrels of crude oil per month for 2004.

Included in deferred charges as at June 30, 2003 are \$3.1 million of issue costs related to the Term facility, which will be amortized over the term of the facility.

9.625% Notes

On February 12, 2003, PetroKazakhstan Finance B.V., a wholly owned subsidiary of PPKR issued U.S. \$125.0 million 9.625% Notes due February 12, 2010. The Notes are unsecured, unconditionally guaranteed by the Corporation, PPKR and PKOP, and were issued at a price of 98.389% of par value. Each of the guarantors has agreed to certain covenants, including limitations on indebtedness, restrictions on payments of dividends and on pledging of assets as security.

Issue costs of \$1.8 million and the discount on the sale of the Notes of \$2.0 million are recorded as deferred charges and will be amortized over the term of the Notes.

Kazgermunai Debt

The Kazgermunai debt is non-recourse to the Corporation. During the three months ended June 30, 2003, Kazgermunai repaid \$11.6 million (50% - \$5.8 million) of principal and interest.

Term Loans

PKKR has obtained loans guaranteed by Export Credit Agencies for certain equipment related to the Kyzylkiya, Aryskum and Maibulak (KAM) pipeline and the Gas Utilization Facility. The loans are secured by the equipment purchased, bear interest at LIBOR plus 4% per annum, are repayable in equal semiannual installments and have final maturity dates ranging from five to seven years.

12% Notes

On February 3, 2003 the Corporation redeemed all \$208.2 million of its outstanding 12% Notes due in 2006. The Notes were redeemed for an aggregate redemption price of \$212.4 million, representing 102% of the principal amount of the Notes, plus accrued and unpaid interest of \$12.5 million, for a total of \$224.9 million. Deferred charges of \$1.4 million recorded as at December 31, 2002 were expensed upon redemption.

PKOP Bonds

On March 20, 2001 PetroKazakhstan Oil Products (PKOP) registered 250,000 unsecured bonds (par value \$100) in the amount of \$25 million with the National Securities Commission of the Republic of Kazakhstan (the PKOP bonds). The PKOP bonds have a three-year maturity, are due on February 26, 2004 and bear a coupon rate of 10% per annum. The PKOP bonds are listed on the Kazakh Stock Exchange.

As at December 31, 2002 134,800 bonds had been issued for consideration of \$13.2 million. On February 13, 2003, PKOP issued the remaining 115,200 Bonds for consideration of \$11.4 million.

The PKOP bonds contain certain covenants including a limitation on indebtedness.

Repayment

Principal repayments due for each of the next five years and in total are as follows:

| | 2003 | 2004 | 2005 | 2006 | 2007 | Thereafter | Less amounts Included in Short-term Debt | Total long- term Debt |
|----------------------------|--------|--------|--------|--------|-------|------------|---------------------------------------------------|--------------------------------|
| Working Capital Facilities | 9,765 | | | | | | (9,765) | |
| Joint Venture Loan Payable | 11,000 | | | | | | (11,000) | |
| PKOP bonds | | 24,494 | | | | | (24,494) | |
| 9.625% Notes | | | | | | 125,000 | | 125,000 |
| Term Facility | 27,143 | 54,285 | 54,286 | 54,286 | | | (54,285) | 135,715 |
| Kazgermaunai | | | | | | 40,191 | | 40,191 |
| Term loans | 707 | 2,665 | 2,665 | 2,665 | 2,271 | 4,926 | (2,039) | 13,860 |
| | 48,615 | 81,444 | 56,951 | 56,951 | 2,271 | 170,117 | (101,583) | 314,766 |

The Kazgermunai debt does not have fixed repayment terms.

The fair value of long-term debt as at June 30, 2003 approximates its carrying value, as it bears interest at market rates.

8 SHARE CAPITAL

Authorized share capital consists of an unlimited number of Class A common shares, and an unlimited number of Class B redeemable preferred shares, issuable in series.

Issued Class A common shares:

| | Three months ended June 30, 2003 | | Three months ended June 30, 2002 | |
|---------------------------------------------------------------------------|-------------------------------------|---------|-------------------------------------|---------|
| | Number | Amount | Number | Amount |
| Balance, beginning of year | 79,028,539 | 193,933 | 81,041,713 | 199,097 |
| Shares repurchased and cancelled pursuant to Normal Course Issuer Bid (a) | (1,379,300) | (3,376) | | |
| Stock options exercised for cash | 3,900 | 20 | 232,075 | (64) |
| Corresponding convertible securities, converted | | | 97,709 | 88 |
| Balance, end of period | 77,653,139 | 190,577 | 81,371,497 | 199,121 |

| | Six months ended June 30, 2003 | | Six months ended June 30, 2002 | |
|---------------------------------------------------------------------------|-----------------------------------|---------|-----------------------------------|---------|
| | Number | Amount | Number | Amount |
| Balance, beginning of year | 78,956,875 | 193,723 | 80,103,784 | 198,506 |
| Shares repurchased and cancelled pursuant to Normal Course Issuer Bid (a) | (1,477,400) | (3,616) | | |
| Stock options exercised for cash | 170,400 | 467 | 1,168,125 | 529 |
| Corresponding convertible securities, converted | 3,264 | 3 | 107,908 | 97 |
| Cancelled shares | | | (8,320) | (11) |
| Balance, end of period | 77,653,139 | 190,577 | 81,371,497 | 199,121 |

Edgar Filing: PETROKAZAKHSTAN INC - Form 6-K

(a) During the third quarter of 2002, the Corporation adopted a normal course issuer bid to repurchase, for cancellation, up to 5,253,238 common shares during the period from August 7, 2002 to August 6, 2003. As at December 31, 2002, the Corporation had purchased and cancelled 2,531,870 shares at an average price of C\$14.57 per share. The Corporation purchased and cancelled an additional 98,100 at an average price of C\$15.50 per share during the first 3 months of 2003. The excess of cost over the book value for the shares purchased was applied to retained earnings.

(b) The Corporation has elected to use the intrinsic value method of accounting for stock options and to disclose the pro forma results of using the fair value method.

The pro forma net income per share had we applied the fair-value based method of accounting for stock options follows:

| | Three months ended | | Six months ended | |
|------------------------------|---------------------------|-------------|-------------------------|-------------|
| | June 30 | | June 30 | |
| | 2003 | 2002 | 2003 | 2002 |
| Net income | | | | |
| As reported | 68,211 | 33,808 | 136,435 | 56,917 |
| Pro forma | 68,002 | 33,406 | 136,196 | 56,458 |
| Basic net income per share | | | | |
| As reported | 0.87 | 0.42 | 1.74 | 0.70 |
| Pro forma | 0.87 | 0.41 | 1.73 | 0.70 |
| Diluted net income per share | | | | |
| As reported | 0.84 | 0.40 | 1.67 | 0.67 |
| Pro forma | 0.84 | 0.40 | 1.67 | 0.67 |

A summary of the status of the Corporation's stock option plan as of June 30, 2003 and the changes during the six months ended June 30, 2003 and year ended December 31, 2002 is presented below (expressed in Canadian dollars):

| | Options | Weighted Average Exercise Price |
|----------------------------------|----------------|--------------------------------------------|
| Outstanding at December 31, 2001 | 5,736,880 | 3.07 |
| Granted | 605,000 | 14.65 |
| Exercised | (1,393,281) | 1.09 |
| Forfeited | (98,463) | 6.73 |
| Outstanding at December 31, 2002 | 4,850,136 | 5.01 |
| Granted | 17,000 | 16.20 |
| Exercised | (173,664) | 0.06 |
| Forfeited | (28,300) | 9.62 |
| Outstanding at June 30, 2003 | 4,665,172 | 5.06 |
| Options exercisable at: | | |
| December 31, 2002 (amended) | 1,908,798 | 3.87 |
| June 30, 2003 | 2,527,127 | 2.82 |

9 INCOME TAXES

The provision for income taxes differs from the results, which would have been obtained by applying the statutory tax rate of 30% to the Corporation's income before income taxes. This difference results from the following items:

| | Three months ended | | Six months ended | |
|--------------------------------------|---------------------------|-------------|-------------------------|-------------|
| | June 30 | | June 30 | |
| | 2003 | 2002 | 2003 | 2002 |
| Statutory Kazakhstan income tax rate | 30% | 30% | 30% | 30% |

Edgar Filing: PETROKAZAKHSTAN INC - Form 6-K

| | | | | |
|---------------------------------------|---------------|--------|---------------|---------|
| Expected tax expense | 29,155 | 16,155 | 60,000 | 27,196 |
| Non-deductible amounts, net | (803) | 4,390 | 2,294 | 3,500 |
| Lower tax rate for South Kumkol field | | (932) | | (1,096) |
| Future tax recognized | | | | 2,853 |
| Income tax expense | 28,352 | 19,613 | 62,294 | 32,453 |

10 NET INCOME PER SHARE

The net income per share calculations are based on the weighted average and diluted numbers of Class A common shares outstanding during the period as follows:

| | Three months ended | | Six months ended | |
|----------------------------------------------------------------------|---------------------------|-------------|-------------------------|-------------|
| | June 30 | | June 30 | |
| | 2003 | 2002 | 2003 | 2002 |
| Weighted average number of common shares outstanding | 78,000,877 | 81,196,383 | 78,538,671 | 80,911,226 |
| Dilution from exercisable options (including convertible securities) | 3,173,080 | 3,493,951 | 3,138,160 | 3,493,951 |
| Diluted number of shares outstanding | 81,173,957 | 84,690,334 | 81,676,831 | 84,405,177 |

No options were excluded from the calculation of diluted number of shares outstanding for the three months ended June 30, 2003 and 2002, as the market price was in excess of exercise price.

11 FINANCIAL INSTRUMENTS

The Corporation has entered into a commodity-hedging program where it is utilizing derivative instruments to manage the Corporation's exposure to fluctuations in the price of crude oil. The Corporation has entered into the following contracts with a major financial institution.

| Contract Amount (bbls per month) | Contract Period | Contract Type | Price Ceiling (\$/bbl) | Price Floor (\$/bbl) |
|-----------------------------------------|-------------------------------|----------------------|-------------------------------|-----------------------------|
| 187,500 | January 2003 to December 2003 | Zero cost collar | 29.00 | 17.00 |
| 75,000 | January 2003 to December 2003 | Zero cost collar | 30.00 | 17.00 |
| 112,500 | January 2003 to December 2003 | Zero cost collar | 29.00 | 18.00 |
| 75,000 | January 2003 to December 2003 | Zero cost collar | 29.50 | 19.00 |
| 450,000 | | | | |
| 75,000 | January 2004 to December 2004 | Zero cost collar | 28.00 | 17.00 |
| 75,000 | January 2004 to December 2004 | Zero cost collar | 29.00 | 17.00 |
| 75,000 | January 2004 to December 2004 | Zero cost collar | 29.25 | 17.00 |
| 37,500 | January 2004 to December 2004 | Zero cost collar | 29.60 | 17.00 |
| 75,000 | January 2004 to December 2004 | Zero cost collar | 30.20 | 18.00 |
| 35,000 | January 2004 to December 2004 | Zero cost collar | 30.20 | 18.00 |
| 372,500 | | | | |

During the three and six months ended June 30, 2003, the Corporation has foregone revenue of \$3.1 million through these contracts.

12 CASH FLOW INFORMATION

Edgar Filing: PETROKAZAKHSTAN INC - Form 6-K

Interest and income taxes paid:

| | Three months ended | | Six months ended | |
|-------------------|---------------------------|-------------|-------------------------|-------------|
| | June 30 | | June 30 | |
| | 2003 | 2002 | 2003 | 2002 |
| Interest paid | 7,363 | 3,202 | 16,832 | 22,505 |
| Income taxes paid | 36,050 | 17,246 | 26,292 | 61,468 |

13 COMMITMENTS AND CONTINGENCIES

Kazakhstani Environment

Kazakhstan, as an emerging market, has a business infrastructure that is not as advanced as those usually existing in more developed free market economies. As a result, operations carried out in Kazakhstan can involve risks that are not typically associated with those in developed markets.

The development of instability in the ongoing market transformation process could lead to changes in the fundamental business infrastructure in which the Corporation currently operates. Changes in the political, legal, tax or regulatory environment could adversely impact the Corporation's operations.

Government Taxes and Legislation

The local and national tax environment in the Republic of Kazakhstan is subject to change and inconsistent application, interpretation and enforcement. Non-compliance with Kazakhstan laws and regulations can lead to the imposition of penalties and interest.

The Corporation through its operating subsidiaries in Kazakhstan, has disputed tax assessments received for the years 1998 through 2001.

The Corporation has been engaged in two court cases in Kazakhstan pertaining to the disputed assessments for 1998 and 1999. The first involved PKOP and was for approximately \$8.8 million. PKOP has successfully argued its case at the first level of the court system in Kazakhstan and at the Supreme Court level. There is a possibility that the Ministry of State Revenue may appeal to the ultimate appellate level, the Supervisory Commission of the Supreme Court. No provision has been made in the consolidated financial statements for this assessment.

The second case involved PKKR and was for a total of approximately \$10.5 million including taxes, fines, interest and penalties. PKKR was successful at the first level of the court system and was unsuccessful on the majority of the issues at the Supreme Court level. PKKR was unsuccessful in obtaining the Supervisory Commission's agreement to hear its appeal on the assessed taxes. The Corporation provided for \$2.9 million of the \$10.5 million in the December 31, 2002 consolidated financial statements. PKKR is currently disputing the remaining \$7.6 million of the \$10.5 million, which relates to fines and penalties assessed, as PKKR believes there was an incorrect application of the provisions of the tax act. No provision has been made for the disputed penalties.

The Corporation, through its operating subsidiaries in Kazakhstan received tax assessments for 2000 and 2001 amounting to \$56.0 million, which were reduced through negotiations to \$45.0 million (including our 50% share of Turgai's assessments). The Corporation does not agree with these assessments and has filed court cases disputing these amounts, hence no provision was made in the consolidated financial statements. PKOP has been successful at the first level of the court system and at the Supreme Court with respect to the entire \$12.5 million of its assessment. This assessment was for withholding taxes on the acquisition of an interest in the Caspian Pipeline Consortium (CPC) and this transaction was not completed. Turgai has been successful at the first two levels of the court system on almost its entire assessment of \$12.0 million, of which \$6.0 million is our 50% share.

The PKKR court cases commenced in February of 2003. The disputed assessment was split into two cases. The first case was for amounts totaling approximately \$13.0 million and at the first level of the court system PKKR

Edgar Filing: PETROKAZAKHSTAN INC - Form 6-K

was successful on \$3.8 million of the \$13.0 million and lost on the remainder. The issues that PKKR lost were the assessment of royalties on flared associated gas (approximately \$7.2 million) and a claim for social taxes under tax stability provisions of PKKR's Hydrocarbons Contracts. This claim on social taxes was made in spite of an agreement revising this clause of the contract. There were a number of items amounting to \$3.8 million upon which PKKR was successful. The Corporation has appealed to the Supreme Court and the case will be heard in the third quarter of 2003. The second case was for \$13.5 million, with \$6.9 million related to transfer pricing sent back by the court for renegotiation. The amount has been reduced through re-negotiation by \$3.3 million to \$3.6 million. The other \$6.6 million is comprised of a number of items and the Corporation expects that the determination of this \$6.6 million and the remaining \$3.6 million related to the transfer pricing will be subject to further court proceedings.

Corporate information

DIRECTORS

Bernard F. Isautier

President and Chief Executive Officer Windsor, United Kingdom Askar Alshinbaev (1)(2)(3) Managing Director, OJSC Kazkommertsbank Almaty, Kazakhstan James B.C. Doak (1)(3) President and Managing Partner, Megantic Asset Management Inc. Toronto, Ontario Hon. Robert P. Kaplan (3) International Business Consultant Toronto, Ontario Jacques Lefevre (1)(2) Vice Chairman, Lafarge S.A.

Paris, France

Louis W. MacEachern (2)(3) President, Fortune Industries Ltd. Calgary, Alberta

(1) Audit Committee Member

(2) Compensation Committee Member

(3) Corporate Governance Committee Member

OFFICERS

Bernard F. Isautier

President and Chief Executive Officer Marlo C. Thomas Executive Vice President and Chief Operating Officer Mike Azancot Senior Vice President, Exploration Development Nicholas H. Gay Senior Vice President, Finance and Chief Financial Officer Anthony R. Peart Senior Vice President, General Counsel and Corporate Secretary Dermot Hassett Vice President, Marketing and Transportation Ihor P. Wasylkiw Vice President, Investor Relations

SHARE TRANSFER AGENT

Computershare Trust Company of Canada Calgary, Alberta Toronto, Ontario

AUDITORS

Deloitte & Touche Almaty, Kazakhstan

INDEPENDENT RESERVOIR CONSULTANTS

McDaniel & Associates Consultants Ltd. Calgary, Alberta

OFFICE ADDRESSES

Edgar Filing: PETROKAZAKHSTAN INC - Form 6-K

Registered Office

PetroKazakhstan Inc. Suite 1460 Sun Life Plaza,
North Tower, 140 4th Avenue S.W. Calgary, Alberta Canada T2P 3N3 Tel: (403) 221-8435 Fax: (403) 221-8425
Contact: Ihor P. Wasylikiw, Vice President Investor Relations

UK Representative Office

Ascot Petroleum Consulting Ltd. Hogarth House, 31 Sheet Street Windsor, Berkshire United Kingdom SL4 1BY Tel: 44 (1753) 410 020 Fax: 44 (1753) 410 030

Kazakhstan Offices

PetroKazakhstan Kumkol Resources PetroKazakhstan Oil Products 204 Karasai Batyr Street Almaty, Republic of Kazakhstan 480009 Tel: 7 (3272) 58-18-48 Fax: 7 (3272) 58-18-60 Contact: Marlo C. Thomas, President

SHARE LISTINGS

The Toronto Stock Exchange Trading Symbol PKN
S&P/TSX
100 Composite Index Energy Index Canadian Midcap Index

New York Stock Exchange Trading Symbol PKN

Germany

Frankfurt
Trading Symbol PKZ

Website: www.petrokazakhstan.com

Email: ir@petrokazakhstan.com