Pre-confirmed by
the Board of Directors of
"KazTransOil" JSC
April 17, 2014 (Minutes No. 4/2014)

Annual Report of "KazTransOil" JSC for 2013

Astana, 2014

Content

MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear shareholders and employees of KazTransOil JSC!

I am pleased to welcome you on the pages of the integrated annual report of KazTransOil JSC for 2013, for the first time prepared in accordance with the recommendations of the International Integrated Reporting Standard and the requirements of the Sustainability Reporting Guidelines of GRI.

Today KazTransOil JSC is the national operator of Kazakhstan on the main oil pipeline and the largest oil pipeline company of the Republic of Kazakhstan providing services on transportation of oil for around 80 oil-producing companies of Kazakhstan.

The Company owns the extensive network of the main oil pipelines providing transportation for about 57% of total amount of oil production volume in the Republic of Kazakhstan.

Shares of the Company confirm their reputation of reliable and perspective instrument of deposits saving and increasing for our country citizens. Earnings per share for the reporting period made KZT 165 that more than for 70% exceeds a similar indicator of 2012. As of December 31, 2013 the price of one ordinary share of KazTransOil JSC increased by 20% in comparison with the placement price, and for 9.7% in comparison with the price at the beginning of the year. Dividend profitability made 9% of the share price at the beginning of the year. As a result total shares profitability in 2013 made 18.7%.

Thus, achievement of the strategic goal is ensured by the increase of capitalization (market value) of the Company.

Key objectives of the Company are the increase in volumes of oil transportation and water supply, performance efficiency increase and cost optimization, investment efficiency increase, maintenance of the high standards of corporate governance and sustainability principles.

Based on the above key objectives the Company performed considerable work on their realization in 2013.

- **Increase in volumes of oil transportation and water supply.** In 2013 the contract between KazTransOil JSC and Rosneft JSC was signed for the services on the Russian oil transportation to PRC according to which the Russian side plans to transport annually 7 million tons of oil to PRC from 2014 to 2018.

  For ensuring stable supply of the Kazakhstani oil to PRC the Agreement on the basic principles of cooperation on Kazakhstan-China oil pipeline expansion and operation between the Chinese National Oil and Gas Corporation and NC KazMunaiGas JSC was signed.

  For the reporting period the Company carried out continuous supply of 23,390 thousand cbm of water via Astrakhan-Mangyshlak pipeline that provides economic and domestic needs of consumers of the western region of Kazakhstan.

- **Performance efficiency increase and cost optimization.** In order to increase performance efficiency of KazTransOil JSC the Company's Board of Directors made a decision on BIHL group restructuring by initiation of elimination of 4 out of 8 companies comprising its structure. As a result of this reorganization KazTransOil JSC became the 100% owner of the Batumi Terminals Limited through which direct ownership and control of Petrotrans Limited, Batumi Oil Terminal and Batumi Sea Port is carried out.

  Following the results of 2013 the Company reached growth in total profit by 90% and increase of labor productivity rate by 35% compared with the results of 2012, which were achieved through the increase in volumes of oil transportation, freight turnover and increase of oil transportation tariffs.

- **Investment efficiency increase.** In 2013 investment amount of KazTransOil JSC in modernization of capacities and expansion of the existing made KZT 34.2 billion, including the project on Kazakhstan-China pipeline system throughput capacity expansion in which KZT 4.8 billion was invested and the project on throughput capacity increase of Kalamkas-Karazhanbas-Aktau and Uzen-Zhetybay-Aktau oil pipelines in which KZT 10.3 billion was invested. Successful implementation of the above projects will cause the Company's operational and financial performance increase and will allow ensuring energy safety of the country within the oil supply to domestic market.
- **Maintenance of the high standards of corporate governance and sustainability principles.** By the results of diagnostics conducted, the corporate governance rating of the Company in 2013 made 63.7%. The Company continues its work on corporate governance system improvement in order to achieve compliance with the standards and best practice of corporate governance, taking into account recommendations of independent consultants.

  The key events confirming commitment of the Company to the sustainability principles received confirmation on compliance of the Company's activities to the requirements of the International standard of ISO 14001 series –Ecological Management System, and decrease in wastage volume for the reporting period for more than 91% in comparison with the previous reporting period.

I am proud of the Company's achievements in 2013, as well as for all years from the moment of KazTransOil JSC foundation. It is also necessary to mention that the Company doesn't stop on achieved results and continues its sustainable development, overcoming strategic challenges. Following the chosen strategy and reaching set objectives, we with confidence look forward into the future and the new goals set for us.

Our shareholders can be sure that the Board of Directors will be guided by the approved Dividend Policy, assist in further development and growth in value of the Company, providing protection of the rights and interests of all shareholders.

On behalf of the Board of Directors I would like to express gratitude to the employees of KazTransOil JSC for their contribution in goals achievement in 2013.

Kind regards,

Nurtas Shmanov

The Chairman of the KazTransOil JSC Board of Directors

MESSAGE FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear shareholders, partners and colleagues!

2013 became for us a year of achievement of considerable results. Consolidated income from primary activities of the Company made KZT 190 billion that is 33% higher than the indicator of 2012. Consolidated net income of KazTransOil JSC made KZT 63 billion that is 90% higher than the result for the last reporting period.

Strong financial results of the Company's past year activities are ensured, first of all, with growth of the following factors:

- Increase of consolidated volume of oil transportation for 2% compared to the previous period and made 67,220 thousand tons.
- Increase of consolidated oil freight turnover for 8% compared to the previous period and made 45,493 million ton-kilometers.
- Increase of tariff on oil transportation for export and to domestic market for 42% and 50% respectively and made KZT 4,732.6 and KZT 1,954.5/1,000 km tons respectively.

Stability and dynamics of the Company's development are confirmed by the international rating agencies, such as Fitch and Moody's. In 2013 Fitch raised the Company's rating from the "BBB-" level to "BBB" ("Stable"), and Moody's confirmed the Company's rating at the "Baa3" level and raised the forecast on a rating from "Stable" to "Positive".

Improvement of ratings is caused by high rates of operating activities and creditworthiness of the Company, and also the strategic importance of KazTransOil JSC for the Republic of Kazakhstan economy.

Last year the Company's shareholders following the results of 2012 received dividends of KZT 75 per one share, thus following the results of 2012 the profit made KZT 87 per share. Following the results of 2013 the profit received was computed as KZT 165 per share. Such dynamics in profit growth is the solid argument confirming reputation of the Company's shares as reliable tool of savings and enhancement of our country population investments.

Also, 2013 was marked by achievements regarding expansion of oil transport system of KazTransOil JSC Group. PS-8 and PS-10 of the Atasu — Alashankou oil pipeline were put into operation which allowed reaching oil pipeline throughput capacity of up to 20 million tons per year. Reconstruction of T. Kasymov oil pumping station was finished which aim is to ensure technical capability of light oil transportation in Atyrau — Kenkiyak direction with volume of up to 4 million tons per year. Works on the project of Kalamkas-Karazhanbas-Aktau and Uzen-Zhetybay-Aktau oil pipelines throughput capacity expansion has begun.

Along with financial achievements and high rates of production efficiency, we as a socially responsible Company, pay special attention to the sustainability principles.

Compliance with the ecological legislation and safety and labor protection requirements, the employees' health preservation and promotion, the Company's labor capacity development stays as our unconditional priorities. We can safely declare our considerable achievements in these areas.

The Company on a constant basis carries out an assessment of impact on environment and ecological audit. In 2013 the Company adopted to the new standard of JSC ST "Integrated system of safety and labor protection management in KazTransOil JSC" developed in accordance with the requirements of the Republic of Kazakhstan legislation.

Within the realization of the state policy on local content development, the Company carries out support of domestic producers, having concluded in 2013 short-term contracts for the amount of KZT 2 billion and long-term contracts for total amount over KZT 4 billion with local producers.

Achievement of the aforementioned results in KazTransOil JSC shareholders interests became possible thanks to the organized team work of our employees, each one of them brought a contribution to the common goal by means of persistent work and aiming at result.

Next year the new objectives and tasks are set for the Company. We possess sufficient potential and all necessary resources for further growth of a share value, increase in profitability and retaining of leading positions in the Republic of Kazakhstan.

Kind regards,

Kairgeldy Kabyldin

The General Director (The Chairman of the Management Board) of KazTransOil JSC

Key performance indicators

Oil transportation and water supply	**2013**	**2012**	**Change, %**
Oil transportation volume, thous. tons	67,220	65,795	2%
Oil freight turnover, million tons km	45,493	42,163	8%
Water supply, thous. cbm.	23,390	22,799	3%
Financial indicators	**2013**	**2012**	**Change, %**
Revenue, million KZT	190,022	143,061	33%
EBITDA, million KZT	98,453	60,276	63%
Cost of sales, million KZT	110,969	99,604	11%
Income for the reporting period, million KZT	63,544	33,501	90%
Cash and cash equivalents as of the end, million KZT	25,645	18,954	35%
Non-financial performance indicators	**2013**	**2012**	**Change, %**
Personnel			
Number of personnel	9,140	9,264	(1%)
Index of personnel involvement, %	66	65	2%
Labor protection and industrial safety			
Accidents' frequency Ratio	0.13	0.38	(66%)
Environmental protection			
Emissions, thous. tons	27,924	27,227	3%
Waste formation, thous. tons	6,114	67,121	(91%)
Expenses on environmental measures, million KZT	536,129	755,674	(29%)
Environmental payments, million KZT	71,836	57,786	24%
Social sphere			
Social tax and social contribution, million KZT	3,532	2,826	25%

Key events of 2013

APRIL

- An agreement on the basic principles of cooperation in the expansion and operation of Kazakhstan - China pipeline was signed between China National Petroleum Corporation and National Company KazMunaiGas JSC.

MAY

- The Annual General Meeting of Shareholders of KazTransOil JSC was held on the issues of approval of the Company's consolidated annual financial statements for 2012, distribution of the Company's net income and approval of size of dividends on ordinary shares of KazTransOil JSC in 2012.

JULY

- Dividends were paid on ordinary shares of KazTransOil JSC for 2012 at the rate of KZT 75 per ordinary share. Sum payment amounted to KZT 28.8 billion.
- International rating agency Standard & Poor's (hereinafter "S&P") confirmed the credit rating of KazTransOil JSC at "BBB-", outlook - "Stable".

AUGUST

- International rating agency Fitch upgraded rating of KazTransOil JSC from "BBB-" to "BBB", outlook – "Stable". International rating agency Moody's affirmed rating of KazTransOil JSC at "Baa3", outlook – "Positive".

NOVEMBER

- The agreement between the Government of the Republic of Kazakhstan and the Government of the People's Republic of China on some issues of cooperation in the development and operation of Kazakhstan –China pipeline, signed on December 8, 2012 entered into force.

DECEMBER

- The Government of the Republic of Kazakhstan and the Government of Russian Federation signed an agreement on cooperation in transportation of Russian oil through the territory of the Republic of Kazakhstan to the People's Republic of China (hereinafter "PRC"), according to which Parties set up provision for long-term transportation of Russian oil in the amount of 7 million tons per year with an opportunity to increase up to 10 million tons per year in the direction of PRC.
- Reconstruction of Taras Kasymov pumping station was completed for the purpose to provide technical capability for oil transportation in the direction of Atyrau – Kenkiyak of up to 4 million tons per year.
- Reorganization of Batumi Industrial Holdings Limited, Batumi Capital Partners Limited and Batumi Services Limited was completed by their joining to Batumi Terminals Limited (hereinafter "BTL"). Also the joining process of Batumi Oil Depot LLC to Batumi Oil Terminal LLC was completed. KazTransOil JSC as a result of the reorganization became the owner of 100% shares of Batumi Terminals Limited, through which the direct ownership and management of Petrotrans Limited, Batumi Oil Terminal and Batumi Sea Port are carried out.
- As part of the investment project on the extension of Kazakhstan-China PS-8 and PS-10 pipelines were put into operation, thus allowing to increase the capacity of the main pipeline Atasu – Alashankou up to 20 mln. tons per year.
- New tariffs were approved for the Company's following regulated services :

- tariffs for oil pumping through the pipelines system of KazTransOil JSC effective from January 1, 2014: export – KZT 4,850.6 per 1 ton per 1,000 km, excluding VAT; for the domestic market – KZT 2,931.8 per 1 ton per 1,000 km, excluding VAT;
- tariff for transit oil pumping through Priirtyshsk–Atasu pipeline system in the amount of KZT 117.31 per 1 ton, putting into effect from January 1, 2014;

➢ KazTransOil JSC agreed the activities on oil recovery with the Republic of Kazakhstan's Agency on Regulation of Natural Monopolies (hereinafter "ARNM").

1 About the Company

1.1 History of KazTransOil JSC foundation

For the purposes of securing interests of the Republic of Kazakhstan in the field of oil transportation, export and import of oil and oil-products, by the resolution of the Government of the Republic of Kazakhstan No.461 dated 2 April 1997, closed joint-stock company National Oil Transportation Company KazTransOil (NOTC KazTransOil CJSC) was created with 100 % state participation in its charter capital.

In 2001, the state bloc of shares of NOTC KazTransOil CJSC (renamed to KazTransOil CJSC) was transferred to charter capital of closed joint-stock company National Company Oil and Gas Transportation, which was created in accordance with resolution of the Government of the Republic of Kazakhstan No.591, dated 2 May 2001.

By the decree of the President of the Republic of Kazakhstan No.811, dated 20 February 2002 on the basis of reorganized by means of merge of closed joint stock companies National Oil and Gas Company Kazakhoil and National Company Oil and Gas Transportation, the Closed Joint-Stock Company National Company KazMunaiGas was created and became the Sole Shareholder of KazTransOil CJSC.

On 31 May 2004 KazTransOil CSJC was renamed to KazTransOil JSC (hereafter, “KazTransOil JSC” or the “Company”).

On December 21, 2012 based on the results of placement of shares of KazTransOil JSC within “People’s IPO” program, National Company KazMunaiGas JSC became a major shareholder, which owns 90 percent of of the Company’s shares.

1.2 Key Development Stages

During the period since establishment, the Company's main priorities were aimed at development and integration of Kazakhstan pipelines network, increase reliability of existing and construction of new facilities for oil transportation and transfer, increase competitiveness of services and creation of the necessary contractual base to ensure oil transportation across transit states territories.

During the period of development of KazTransOil JSC more than 1,000 km of main pipelines of KazTransOil JSC were replaced; tank farm was upgraded for 60%; 4 railway piers for oil discharge/filling in were constructed/reconstructed and the capacities of Aktau port oil terminals were increased; Alibekmola - Kenkiyak and North Buzachi - Karazhanbas pipelines were put into operation; throughput capacity of the Atyrau-Samara section of Uzen - Atyrau - Samara oil pipeline was increased; operating and new pumping stations were reconstructed and built; ownership title for the Kazakh section of Tuimazy-Omsk-Novosibirsk-2 main oil pipeline was registered. SCADA system of automated control was introduced on the KazTransOil JSC sites.

In 2003 as a part of Kazakhstan – China export network Kenkiyak – Atyrau oil pipeline (NWPC MunaiTas JSC), in 2006 – Atasu-Alashankou (Kazakhstan-China Pipeline LLP), in 2009 – Kenkiyak-Kuimkol oil pipeline (Kazakhstan-China Pipeline LLP) were launched.

In 2008, the Company completed the acquisition of 100% shares in Batumi Industrial Holdings Limited becoming 100% owner of Batumi Oil Terminal and Batumi Sea Port.

In 2011, a pipeline to bitumen plant based on Aktau Plastics Plant with expansion of 11.3 km and a diameter of 720 mm was put into operation.

In October 2012 the Government of the Republic of Kazakhstan adopted a resolution by which KazTransOil JSC has been defined as a national operator of the main oil pipeline.

On 25 December 2012 secondary trading of KazTransOil JSC shares, placed within the “People’s IPO” program, were commenced on Kazakhstan Stock Exchange.

During the Company’s activities strong partnership relations with oil transport companies of Russia, Ukraine, Belarus and Azerbaijan performing transit of Kazakhtani oil were established; a stable client base and reliable contractual relations with oil companies (shippers) was established; the legal framework and state regulation of oil transportation has been developing and improving.

Company was assigned with a credit rating of major international rating agencies: Fitch “BBB-“(“Stable”), Moody's “Baa3” (“Positive”), Standard & Poor's “BBB –” (“Stable”).

INFORMATION ABOUT SECURITIES

As of 31 December 2013 384,635,599 (three hundred eighty-four million six hundred thirty-five thousand five hundred and ninety-nine) ordinary shares have been placed and paid, of which:

- 346,172,040 (three hundred forty-six million one hundred seventy-two thousand and forty) ordinary shares, or 90% of the total issued and outstanding shares are owned by NC KazMunaiGas JSC;
- 38,463,559 (thirty-eight million four hundred sixty-three thousand five hundred and fifty-nine) ordinary shares, or 10% minus one share were offered by subscription on the Kazakhstan Stock Exchange;

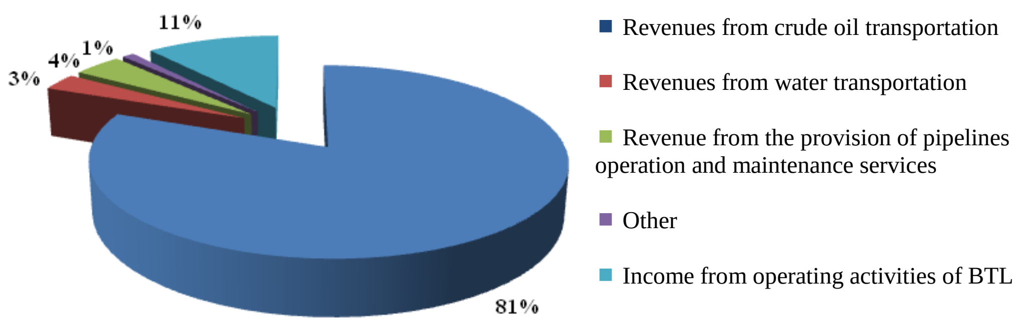
1 (one) ordinary share was not placed for offering.

On May 28, 2013 the first post-IPO Annual General Meeting of Shareholders of KazTransOil JSC was held, on which the decision on dividends payment of KZT 75 per ordinary share of KazTransOil JSC was adopted. Dividends in the amount of KZT 28.8 billion have been paid on July 4, 2013.

1.3 Business model of KazTransOil JSC

KEY PARTNERS	KEY PROCESSES	PRODUCT POSITIONING	CUSTOMERS
▪ Kazakhstani and foreign partners ▪ Suppliers of materials and services needed (electricity, fuel, diagnostic work, air patrols, commissioning, operation, repair and adjustment work, security, communications, maintenance) ▪ Labor Market	▪ Provision of oil transportation services through the Republic of Kazakhstan pipelines ▪ Organization of transportation of oil from shippers through the pipeline systems of other states ▪ Operation and maintenance of pipelines owned by third parties ▪ Water supply through the main water pipeline ▪ Water supply through the distribution networks and sewage systems, and provision of services for the production, transmission and distribution of heating energy, transmission and distribution of electric energy ▪ Transfer and storage of hydrocarbons through the Batumi Oil Terminal and dry freight transferring services in Batumi Sea Port	▪ Provision of high quality, timely, efficient and competitive services of oil transportation through pipeline systems to ensure equal access conditions for consumers to services	▪ Shippers (mining companies) ▪ Third parties-owners of main oil pipelines ▪ Consumers of water, heating energy, electric energy (oil and gas exploration companies, industrial enterprises, agricultural goods producers, public utility companies, public and public sector organisations)
	PRINCIPAL RESOURCES		
	▪ Production capacities of the Company ▪ More than 8,000 employees ▪ Raw materials and other materials		

Consolidated revenues of KazTransOil JSC from operating activities in 2013, %



THE COMPANY TARIFF POLICY

In accordance with the Law of the Republic of Kazakhstan "On Natural Monopolies and Regulated Markets", the Company is included into the Republican Section of State Register of subjects of natural monopolies, confirmed by the order No.16-OD of the ARNM dated 24 January 2005, and provides following services:

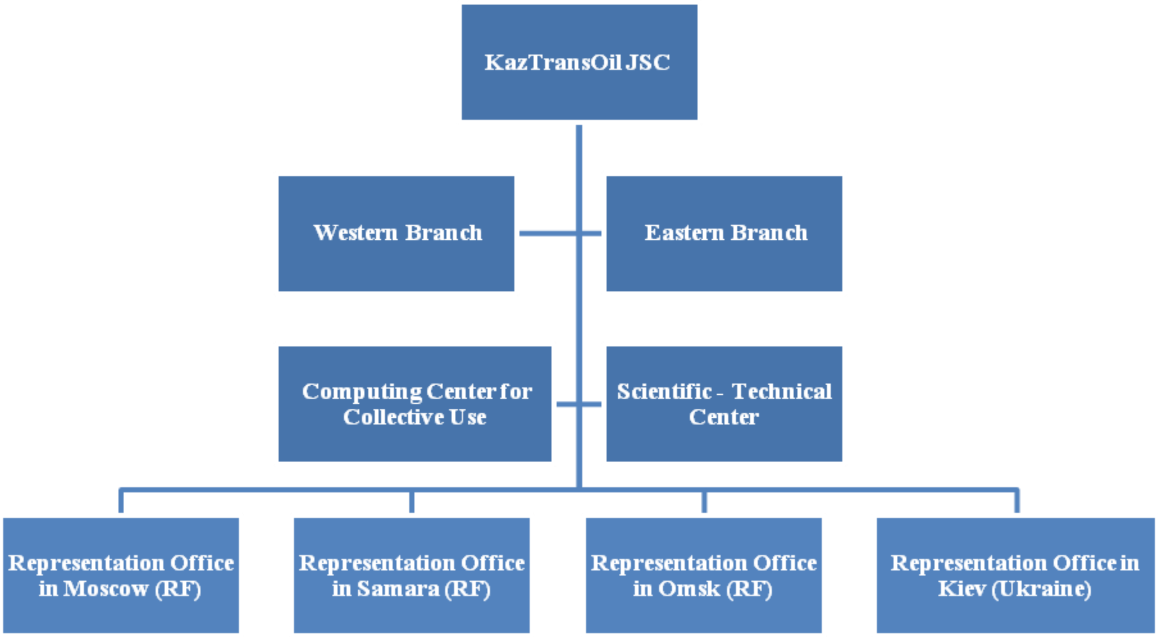
- on transportation of oil through main pipelines;
- on transfer and distribution of electricity;
- on production, transmission and distribution of heating energy;
- on water supply through main pipeline.

In accordance with the Law of the Republic of Kazakhstan "On Natural Monopolies and Regulated Markets" the tariffs on regulated services of the subject of natural monopoly shall be not lower than the cost of expenditures, necessary for provision of the regulated services and take into consideration the possibility of receiving revenue, which would ensure efficient functioning of the subject. The tariffs on the regulated services are confirmed by the authorized body – ARNM.

The Methodology of calculation of tariffs on the services of oil transportation through main pipelines is confirmed by the order No.202-OD of the ARNM dated 27 July 2007. In accordance with the given Methodology, the tariffs on pumping of oil through sections are calculated on the basis of tariff per unit, i.e. tariff on pumping of 1 ton of oil per 1,000 km. Apart from that by the order No.304-OD of the ARNM dated 5 July 2004 the Instruction on calculation of the rate of income on employed assets regulated base of natural monopolies subjects, providing services on transportation of oil through main pipelines was confirmed.

1.4 Organizational Structure of KazTransOil JSC, Subsidiary, Jointly Controlled and Other Organizations

The Company has four branches: the Western branch (Atyrau); the Eastern branch (Pavlodar); Computing Center for Collective Use (Astana); Scientific-Technical Center (Almaty). The Company has three representation offices in the Russian Federation (hereinafter "RF") in the cities of Moscow, Samara, Omsk and one representation office in Ukraine in the city of Kiev.



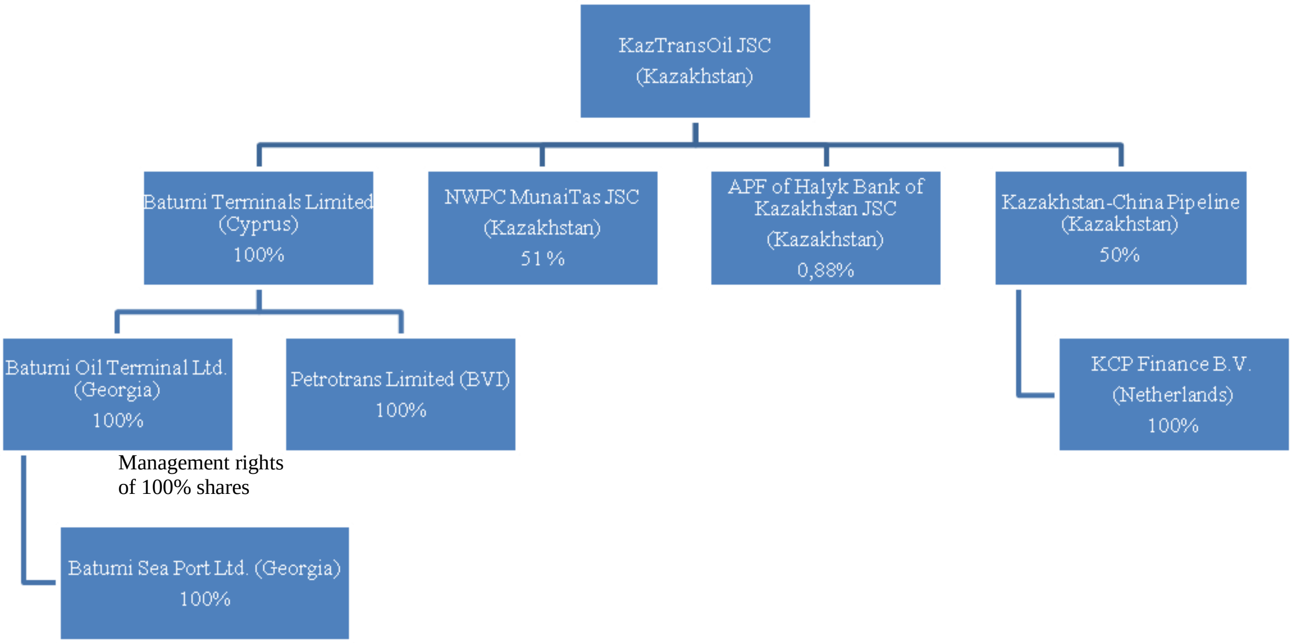
SUBSIDIARY, JOINTLY CONTROLLED AND OTHER ORGANIZATIONS OF KAZTRANSOIL JSC AS OF 31 DECEMBER 2013

KazTransOil JSC is aimed at the balanced development of the subsidiaries and jointly controlled entities (hereinafter "SJCE," hereinafter referred to as the "Group") in the main business of KazTransOil JSC based on effective corporate governance mechanisms.

KazTransOil JSC is a member and shareholder of the following entities:

- **Kazakhstan-China Pipeline LLP (hereinafter "KCP")** was established for the design, construction and operation of the pipeline Atasu-Alashankou. KCP is a legal entity with foreign participation, which participants are KazTransOil JSC (50% of shares) and China National Oil and Gas Exploration and Development Corporation (CNODC) (50% of shares).
- **North-Western Pipeline Company MunaiTas JSC (hereinafter "MunaiTas")** is a joint venture which was established to implement the project for the design, financing, construction and operation of the Kenkiyak – Atyrau pipeline. MunaiTas is a legal entity with foreign participation, which shareholders are KazTransOil JSC (51%) and CNPC Exploration and Development Company Ltd. (49%).
- **Batumi Terminals Limited (100% of shares)** owns and manages Batumi Oil Terminal LLC and Petrotrans Limited. Batumi Oil Terminal LLC has the exclusive rights to control 100% of shares of Batumi Sea Port LLC.
- **Accumulating Pension Fund of Halyk Bank of Kazakhstan JSC (0.88% of shares)** carries out activities on attraction of pension contributions, pension payments and investments in the securities

market. The Company plans to alienate its share package in APF of Halyk Bank of Kazakhstan JSC.



1.5 Operating Assets Structure of KazTransOil JSC

The operating assets of the Company as of 31 December 2013 consisted of:

Main pipelines:	**7,651.097 km**
including:	
oil pipelines:	5,502.997 km
water pipelines	2,148.1 km
Tank Farms:	**1,414.2 thous.cbm**
including:	
for oil	1 259 thous.cbm
for water	155,2 thous.cbm
Oil pumping stations	**37 units**
Oil heating stations/points	**7 units**
Preheaters	**64 units**
Loading/unloading racks	**4 units**
Main disposal facilities	**1 unit**
Water pump stations	**4 units**
Water treatment installations	**1 unit**

As of 31 December 2013 the following operating assets were on the balance sheet of KCP:

Main pipelines:	
Extension of main oil pipelines	1,759.25 km
Oil pumping stations	4 units

As of 31 December 2013 the following operating assets were on the balance sheet of MunaiTas:

Main pipelines:	
Length of main oil pipelines	448.85 km
Tank farms	40 thous. cbm
Tank (T. Kasymov PS) *	1 thous. cbm

***** *designed for oil pumping in case of emergency*

As of 31 December 2013 the following storage tank capacities were on the balance sheet of Batumi Oil Terminal, included in BTL (including drip tank capacities):

Storage tank capacity:	**612.9 thous.cbm.**
including:	
Light oil products	**139.4 thous.cbm.**
Heavy oil products	**104.0 thous.cbm.**
Crude oil	**364.5 thous.cbm.**
Liquefed gas	**5 thous.cbm.**

1.6 Market Analysis and Trends

The Caspian region is rich in hydrocarbon resources and steadily strengthens the supplier's positions on the global energy market.

Currently, the Republic of Kazakhstan is the largest producer and exporter of oil in the Caspian region, taking strategically advantageous location for the transportation of oil to Europe and China and holds:

- the second place among the CIS countries and the eighteenth place in the world in terms of crude oil production;
- the twelfth place in the world in terms of proven oil reserves (three fields in Kazakhstan (Kashagan, Tengiz and Karachaganak) are among the largest in the world).

Source: BP Statistical Review of World Energy June 2013
http://www.bp.com/statisticalreview

KEY MARKET PLAYERS

Services for transportation of crude oil in the Republic of Kazakhstan as a whole are represented by next players:

KazTransOil JSC – the national operator of Kazakhstan on the main pipeline and the largest oil pipeline company of the Republic of Kazakhstan, which provides services on oil transportation for 80 oil producing companies in Kazakhstan.

The Company has an extensive network of main pipelines, providing about 57% of the total oil production volume transportation in the Republic of Kazakhstan

The Company provides transportation services of Kazakhstan oil to oil refining plants of Kazakhstan and for export in the following directions:

- through Atyrau – Samara oil pipeline further to the system of AK Transneft JSC in the direction of the Black Sea and Baltic Sea ports;
- transfer to Atasu-Alashankou oil pipeline for further export to PRC;
- transfer of oil in the Aktau Sea Port;
- transfer in the system of the Caspian Pipeline Consortium (hereinafter “CPC”);
- filling railroad tanks for further export via railroad transport.

CPC is the international oil transportation project involving Russia and Kazakhstan, as well as the world’s leading mining companies, including Chevron, Shell, ExxonMobil, ENI, British Gas, Rosneft and Lukoil. The CPC pipeline transports crude oil mainly from the Tengiz and Karachaganak fields to a marine terminal near Novorossiysk.

MunaiTas is the owner of Kenkiyak-Atyrau main oil pipeline.

KCP is the owner of two main oil pipelines – Atasu-Alashankou and Kenkiyak-Kumkol.

Transportation of oil for export is also carried by tankers through the Aktau port and railroad transport.

DIRECTIONS OF TRANSPORTATION

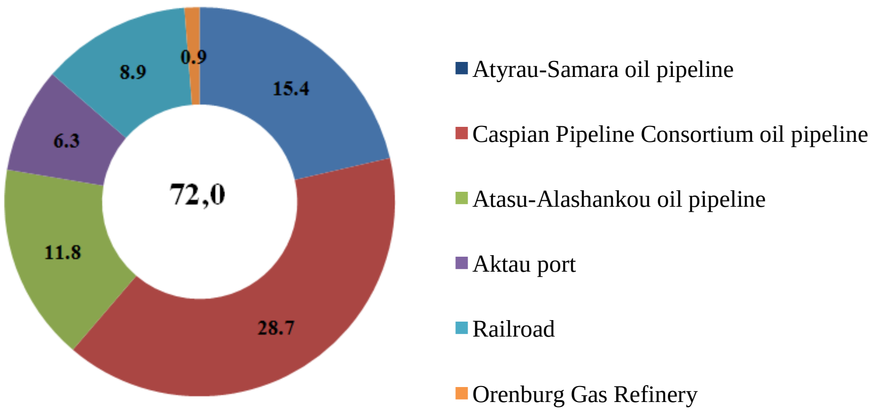
In general, upon the results of 2013, Kazakhstan produced 81.8 million tons of oil and gas condensate, of which about 72 million tons were exported.

Traditional markets for Kazakhstan shippers are European markets that are attractive areas for Kazakhstan oil export due to the stable level of consumption in the medium term.

Relatively new and perspective market of PRC is one of the key target markets for Kazakhstan energy supplies.

Currently, the total export oil transportation capacity, except for railroad transport is about 77 million tons per year. Thus, today the need for export oil transportation capacity is fully satisfied.

Export routes of Kazakhstan oil and gas condensate transportation in 2013, million tons



Source: Oil and Gas Information-Analytical Center JSC

MARKET PERSPECTIVES

In the short term the growth in oil production is expected which is related mainly to the planned start of production at the Kashagan field and increase of production at the Tengiz field.

In this regard, in order to meet the need to create an additional export capacity and provide load of refineries of the Republic of Kazakhstan, currently two major projects are being implemented in the oil transportation industry:

- increasing the capacity of the CPC pipeline up to 67 millions tons per year, including throughput capacity of Kazakhstan sector up to 52.5 million tons per year in 2015;
- increasing the capacity of the Kazakhstan-China pipeline system (Atyrau-Kenkiyak-Kumkol-Atasu-Alashankou) up to 20 million tons per year towards 2017-2019 in the presence of resource base.

Along with the development of export potential, the most important task in ensuring of the republic’s internal market with petroleum products is to develop a network of internal pipelines. In this regard, the extension of all sections of the pipeline Kazakhstan-China system will be implemented in line with the load of domestic refineries.

Successful implementation of these projects will provide reliable, stable and economically viable export of Kazakhstani oil and will help develop export and transit potential of Kazakhstan and ensure energy security of the country.

At that, taking into account the increase in the capacity of the CPC pipeline is expected to reduce the Group’s share in exports of Kazakhstan oil to about 50%. However, significant changes in the level of export volumes of the Group are not expected due to the fact that traditional shippers will continue to export oil through the Company and its SJCE and shippers through the CPC pipeline will be the oil producing companies from the fields of Tengiz, Karachaganak and Kashagan.

In addition, the Group is expected to increase turnover associated with the supply of oil to PRC from Western Kazakhstan.

KazTransOil JSC also provides transportation of crude oil to domestic refineries.

2 Development Strategy

2.1 Mission, Vision and Strategic Goal of KazTransOil JSC

MISSION:

Provision of maximum benefits to Republic of Kazakhstan through performance of qualitative, timely, effective, and competitive services on oil transportation via network of main oil pipelines with provision of equal conditions of consumers' access to regulated services of KazTransOil JSC.

VISION:

KazTransOil JSC – competitive and dynamic developing company, providing a wide range of services on oil transportation via modern, diversified pipeline network, which complies with the best practice in the field of safe operating activity and environment protection.

KazTransOil JSC, being a national operator of main oil pipeline, will tend to retain leading positions in the industry through participation in the largest oil transporting projects of the Republic of Kazakhstan and outsideits borders.

Absolute priorities of the Company are: safety and health of the Company's employees and environmental protection.

STRATEGIC GOAL:

Strategic goal – an increase of market value (capitalization) of KazTransOil JSC and observance of strategic interests of the government in oil transportation via main oil pipeline through implementation of the following objectives:

- increase of oil transportation and freight turnover, water supply and provision of competitive, reliable and safe services;
- stable performance growth and cost optimization of the Group;
- effective investment policy and participation in large transportation projects;
- mature financial strategy aimed at maintenance of stable cash flows;
- maintenance of high standards of corporate governance, risk management, human resources, health and safety, industrial and fire safety and environmental protection.

2.2 Main Directions for the Development

Based on the Mission, Vision and Strategic Goal of the Company the following strategic areas of development are identified:

in "Oil Transportation" sector:

- attraction of new shippers to its services in order to increase the volume of oil transportation and freight turnover;
- carrying out of works on the development and modernization of oil transportation system based on the analysis of long-term forecasts of production volumes;
- participation in the major international oil transport projects;
- conducting of steady work to improve the competitiveness of services provided under the operation of main oil pipelines;
- ensuring access to all export directions, taking into account the existing integrated system of main oil pipelines;

in "Water supply" sector:

- assistance to the government in providing drinking and industrial water to consumers in the regions where the Company operates;
- participation in cost-effective projects for modernization and development of systems for water supply;

in the management efficiency improvement:

- creation of an effective and transparent asset structure, capable of enhancing the cost-effectiveness of the Company;
- improvement of corporate governance system in line with the best international practice of corporate management;
- improvement of load and profitability of foreign assets and their development in the presence of economic feasibility;
- monitoring and optimization of costs, increasing of labor productivity and reliability and safety of production processes;
- implementation/realization of innovation and technology program, including the acquisition of modern technologies and equipment, creation of technical base and strengthening of human resources/labor potential;
- improving of the internal control system and corporate risk management system, including increased risk culture and the internal control of the Company, developing and improving of the methodological framework for risk management and internal control;
- ensuring of functioning and increasing effectiveness of the environmental, health and safety management system based on international standards;
- implementation of modern technologies to improve the automation level of production and management processes that require high qualification of personnel, as well as improved payment and motivation system.

3 Results of Operating Activities

3.1 Oil Transportation and Water Supply

Oil transportation and water supply via main pipelines are key directions of activity of KazTransOil JSC.

In 2013, the consolidated volume of oil transportation amounted to 67,220 thous. tons. Transportation volume increased by 2% compared to the last year's indicators – 65,795 thous. tons.

Consolidated oil freight turnover in 2013 amounted to 45,493 million tons km. The freight turnover increased by 8% compared to the previous year's indicator – 42,163 million tons km.

Indicators	2013	2012	Change, %
Transportation volume, thous.tons.	67,220	65,795	2%
Freight turnover, mln.tons km.	45,493	42,163	8%
Water supply volume, thous. cbm.	23,390	22,799	3%

Oil transportation volumes by directions, thous.tons

Direction	2013	2012
Atyrau Oil Refinery LLP	4,333	4,318
PetroKazkahstan Oil Products LLP	4,711	4,560
Pavlodar OCR LLP	5,047	5,102
Atyrau-Samara pipeline section	15,376	15,433
Loading in tankers through HOPS Aktau	5,995	6,525
Loading in railroad cisterns on oil loading racks	3,276	3,651
Transfer to Atasu-Alashankou oil pipeline	11,828	10,401

Water supply volume via waterline (thous.cbm)

	2013	2012
Astrakhan-Mangyshlak water pipeline	23,390	22,799

In 2013 the Company signed 80 contracts for provision of services for oil transportation and 143 contracts for provision of water supply via the main pipeline.

Contracts for provision of services for oil transportation and for provision of water supply through the main pipeline are concluded by KazTransOil JSC with customers in line with a standard forms, approved by the Government of Kazakhstan on November 28, 2003 No. 1194, by agreement of the parties, both on an annual terms, and in the long term.

3.2 Operation and Maintenance of Pipeline Network Owned by Third Parties

The Company as part of the operation and maintenance of the main pipeline network owned by third parties serves two pipelines with a total length of 2,857.9 km.

In 2013, in the framework of this activity the services in the amount of KZT 6,876,406 thousands excluding VAT, were provided to the following organizations:

- MunaiTas: length of main pipeline Kenkiyak – Atyrau - 448.9 km;
- KCP: the length of the main pipeline Atasu-Alashankou - 965.1 km, the length of the main pipeline Kenkiyak – Kumkol - 794.1 km;
- Turgai – Petroleum JSC: length of the pipeline - 14.5 km;
- Karachaganak Petroleum Operating BV: the length of the main oil pipeline Aksay - Bolshoy Chagan – Atyrau 635.3 km.

For operation and maintenance of the pipeline network owned by third parties, in 2013, the Company involved 925 people.

In 2013, PS-8 and PS-10 of Atasu-Alashankou main pipeline were commissioned with the introduction of additional regular staffing levels in the amount of 124 people.

3.3 Investment Projects

KazTransOil JSC conducts extensive work on modernization of current main pipelines system and diversification of oil shipping directions. Implementation of the Company's investment projects is directed towards the creation of flexible and reliable pipeline system with the following aims:

- ensuring the energy security in the Republic of Kazakhstan;
- improvement of reliability and safety of oil transportation sites;
- satisfaction of oil and petrochemical industries needs in oil transportation capacity:
- diversification of export directions;
- creation of economically attractive routs for shippers.

Development of water pipeline system is aimed at meeting the increasing needs of the population, industry and agriculture of the Atyrau and Mangistau regions for fresh water.

Financing of investment projects of KazTransOil JSC is implemented at the expense of equity and debt financing without the use of budget (state) funds.

All projects of the Company are prepared in line with the corporate procedures and pass the expertise stipulated by the legislation on environmental security, technical solutions and the cost of works.

CAPITAL INVESTMENT PROGRAM OF THE COMPANY FOR 2013

Capital investment program of the Company for 2013 was aimed at modernisation, maintenance of it in a safe condition and development of own system of main pipelines in accordance with the needs of shippers. Capital investments development for the Group amounted to KZT 34.2 billion, including KZT 28.9 billion separately on the Company.

The second phase of construction of Kazakhstan-China pipeline

KazTransOil JSC provides further development of the Kazakhstan-China project. The project involves the phased expansion of the throughput capacity of the Kazakhstan-China pipeline system up to 20 million tons per year with an appropriate guaranteed resource base presence. Within the implementation of the Agreement provisions between the Government of the Republic of Kazakhstan and the Government of the People's Republic of China on certain issues of cooperation in the development and operation of the Kazakhstan-China pipeline on December 8, 2012, entered into force on 19 November 2013, NC KazMunaiGas JSC and China National Petroleum Corporation signed an agreement on the basic principles of cooperation in the expansion and operation of Kazakhstan-China pipeline dated 6 April 2013. Timeline for implementation of this project:

- for the facilities of the first stage – 2013-2015;
- for the facilities of the second stage – 2015-2018.

As part of the expansion of Kazakhstan-China pipeline in December 2013, KCP completed the construction of PS - 8 and PS - 10 of Atasu-Alashankou pipeline. Based on the Act of State Acceptance Commission, the technological stations PS - 8 and PS - 10 were put into operation on 12 and 13 December 2013 respectively.

Foreign assets development

As part of development of foreign assets of the Company in 2012, Batumi Industrial Holdings Limited group of companies launched a project to increase the throughput capacity of the Batumi Sea Port for transfer of general freight up to 2.5 million tons/year. Approved amount of capital investments in the project amounts to KZT 2,654 million, excluding VAT. The project is financed by own funds of BTL. As of 31 December 2013 on this project about KZT 2,099 million were spent.

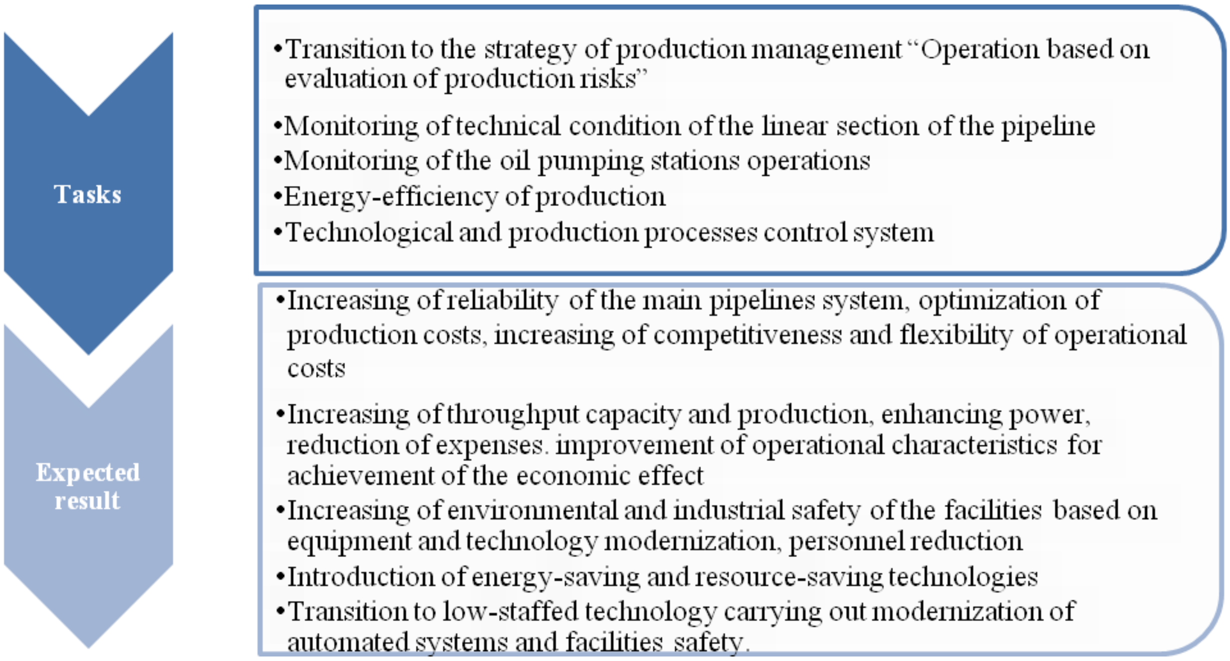
Reconstruction of Kalamkas-Karazhanbas-Aktau (Karazhanbas-Aktau section) and Uzen-Zhetybay-Aktau main pipelines

In connection with expected oil exploration increase in Buzachi fields and planned redirection of Buzachi oil transportation from Aktau port to POPS Uzen, there is a need of the pipeline throughput capacity increase in the PS Kalamkas- PS Zhetybai - PS Zhetybai - PS Uzen sections. In the first stage of implementation of the project in the period from 2013 to 2014 with a view to increase a reliability and safety of existing pipelines based on the results of internal diagnostics it is planned to replace pipes in separate sections. The amount of investments in the first stage is KZT 14.4 billion, excluding VAT.

3.4 Innovation and Technological Development

In order to achieve the level of technological development of leading oil transportation companies, KazTransOil JSC has developed and approved the Innovation and Technological Development Program of KazTransOil JSC for 2012-2020. The main objective of this Program is the use of modern energy saving leading industrial technologies, ensuring a high level of reliability, industrial and environmental safety, reduced energy and resource costs.

The Program identifies a number of priority areas of the Company's activity for solving the set tasks:



Currently, phased realisation of this Program is implemented, which provides for such elements as information and analytical works, scientific-research and experiment-development activities, as well as pilot-scale industrial tests.

3.5 Information on Local Content in Procurement of Goods, Works and Services

In order to implement the state policy on the development of local content KazTransOil JSC has been annually increasing the number of open tenders conducted directly among domestic producers, thereby increasing the volume of purchases from Kazakhstan producers.

According to the results of tenders long-term contracts for 2012-2014 were concluded with Kazakhstan producers totaling over KZT 4 billion. Additionally, in 2013 contracts for a period of 1 year were signed with domestic producers for KZT 2 billion. All signed contracts with local producers, including long-term ones in the performance part in 2013, were 100% implemented.

The share of local content in the procurement of KazTransOil JSC for 2013 made 60% (including goods - 22%, works and services - 72%) and increased compared to the 2012 indicator - 58%.

4 Management systems

4.1 Corporate Governance System

The fundamental principles of the KazTransOil JSC corporate governance are:

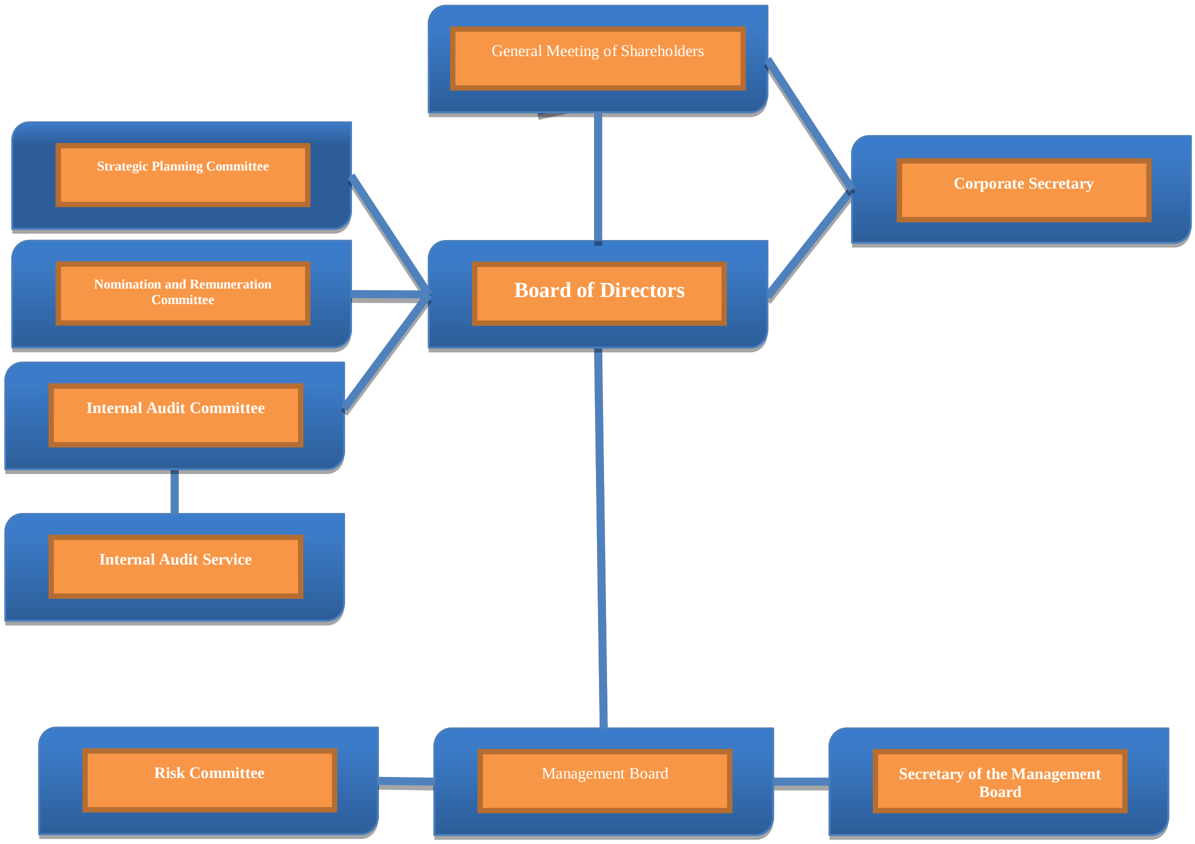
- *the principles of protecting the rights and interests of shareholders;*
- *the principles of efective management of the Company by the Board of Directors and the Management Board;*
- *the principles of independent activities of the Company;*
- *the principles of transparent and objective disclosure of information about the activities of the Company;*
- *the principles of law and ethics;*
- *the principles of efective dividend policy;*
- *the principles of efective human resources and social policies;*
- *the principles of environmental protection;*
- *the policy of regulating corporate conficts and conficts of interest;*
- *the principles of responsibility.*

Corporate governance system of KazTransOil JSC includes:

- *Superior body – the General Meeting of Shareholders;*
- *Management body – the Board of Directors;*
- *Executive body – the Management Board;*
- *Body responsible for supervising of financial and economic activities of the Company, evaluation of internal control, risk management, execution of documents in the field of corporate governance and counsulting in order to improve the performance of the Company – Internal Audit Service.*

<u>*Documents delimiting the competence of bodies are posted on the Company's website in the "Corporate Governance" section*</u>

CORPORATE GOVERNANCE STRUCTURE



4.1.1 The General Meeting of Shareholders

The General Meeting of Shareholders is the supreme body of the Company.

The General Meeting of Shareholders is operating in line with the Law of the Republic of Kazakhstan “On Joint Stock Companies” and the Company’s Charter.

Exclusive competence of the General Meeting of Shareholders is defined by paragraph 1 of Article 10 of the Company’s Charter.

The General Meeting of Shareholders shall be entitled to cancel any decision of other bodies of the Company on the issues relating to the internal activities of the Company.

The General Meetings of Shareholders are divided into annual and extraordinary.

The Company is obliged to hold the annual General Meeting of Shareholders. Other General Meetings of Shareholders are extraordinary.

The Annual General Meeting of Shareholders shall be held within five months prior to the end of the financial year.

During the reporting period the Company held Extraordinary and Annual General Meetings of Shareholders.

Extraordinary General Meeting of Shareholders was held on March 13, 2013, which addressed the following issues:

- on determination of an audit organization performing audits of KazTransOil JSC for 2013 – 2015, the amount of fee for the audit organization services for the audited financial statements and procurement of its services from one source;
- on consideration of the Rules of payment of variable component to the management staff salary of KazTransOil JSC void by the results of the year;
- on determination of the number, term of office of the counting commission, election of its members.

On 28 May 2013 the Board of Directors of the Company convened the annual General Meeting of Shareholders. At this General Meeting of Shareholders' decisions on the following issues were taken:

- on approval of the annual financial statements and consolidated annual financial statements for 2012;
- on approval of the order of allocation of net income for 2012, decision making on payment of dividends on ordinary shares and approval of the amount of dividend for 2012 per one ordinary share of KazTransOil JSC ;
- on approval of the Annual Report for 2012;
- on approval of the Annual Report of the Board of Directors on its work in 2012;
- on consideration of shareholders' applications on the actions of KazTransOil JSC and its executives for 2012 and the results of their review;
- on early termination of office of the Board of Directors' member;
- on the election of the Board of Directors' member.

4.1.2 Report of the KazTransOil JSC Board of Directors on Work Accomplished in 2013

4.1.2.1 The Board of Directors

The Board of Directors is a managerial body of the Company and operates in accordance with the Law of the Republic of Kazakhstan "On Joint Stock Companies", Charter, Code of Corporate Governance, Regulation on the Board of Directors and other internal documents of the Company.

In accordance with the Law of the Republic of Kazakhstan "On Joint Stock Companies" the number of members of the Board of Directors shall comprise at least three persons. Not less than thirty percent of composition of the Company's Board of Directors shall be represented by the Independent Directors.

Two Independent Directors – Daniel Mihalik and Moustafa Habib – were elected into the Board of Directors of the Company.

The General Director, Kairgeldy Kabyldin, heading the Management Board, is also the member of the Company's Board of Directors and is the sole representative of executive body of the Company in the Board of Directors.

Three other members of the Board of Directors, including the Chairman Nurtas Shmanov, are the representatives of Major Shareholder.

4.1.2.2 Composition of the Board of Directors

In 2013, the Board of Directors at various times included six directors, including two independent directors

Name, Surname	Position
Nurtas Shmanov	Chairman of the Board of Directors
Ardak Kasymbek	Member of the Board of Directors
Arman Darbayev	Member of the Board of Directors *(till 20.03.13)*
Kuanysh Zhylkyshiyev	Member of the Board of Directors *(till 24.12.13)*
Daniel Mihalik	Independent Director
Moustafa Habib	Independent Director
Kairgeldy Kabyldin	Member of the Board of Directors

Change in the structure of the Board of Directors

- by the decision of the Sole Shareholder of the Company as of 8 September 2011 (a three-year term of office of the Board of Directors of the Company was determined and five people were elected to its members;
- by the decision of the Board of Directors of NC KazMunaiGas JSC dated 19 October 2012 the Board of Directors' structure was determined in the amount of 6 people. By the same decision, Ardak Kasymbek was elected to the Board of Directors as a representative of NC KazMunaiGas JSC for a term determined in general for the Board of Directors.
- on 20 March 2013 the powers of member of the Board of Directors, Arman Darbayev, on his own initiative by a written notice to the Board of Directors were prematurely terminated;

- on 28 May 2013 at the annual General Meeting of Shareholders Kuanysh Zhylkyshiyev was elected as a member of the Board of Directors, representative of NC KazMunaiGas JSC for a term determined for the Company's Board of Directors;
- on 24 December 2013 Kuanysh Zhylkyshiyev prematurely terminated his powers as a member of the Board of Directors of the Company on its own initiative;
- in 2013, the Board of Directors at various times consisted of six directors, including two independent directors.

Nurtas Shmanov

Chairman of the KazTransOil JSC Board of Directors,

Representative of NC KazMunaiGas JSC

Nurtas Shmanov was born on December 24, 1956. In 1979 he graduated from the Ufa Oil Institute, with specialization in Designing and Exploitation of Oil and Gas Pipelines, Gas Storages and Petroleum Installations. In 1998 he graduated from the Institute of Market of Kazakh State Academy with "Finance and Credit" specialization. In 1994 he graduated from the University of Massachusetts (Boston, USA).

EMPLOYMENT HISTORY:

1979 – 1994	Worked as a mechanic, manager and chief engineer at Aktobe ROD and Balykshinskiy ROD, Head of the construction site Tengiz-Guriev-Grozny pipeline.
1994-2006	Held senior positions at Caspian Pipeline Consortium – Russia, Chevron Oil & Gas, Chevron MunaiGas, Chevron Overseas Petroleum Inc.
2006 – 2007	Served as the Deputy General Director for General Affairs in Caspian Pipeline Consortium – R.
2007 – 2008	General Director (Chairman of the Management Board) of KazTransOil JSC.
2009 – 2012	Served as Managing Director for Oil Transportation at NC KazMunaiGas JSC.
2012 – 2013	Served as Deputy Chairman of the Board on transport infrastructure at NC KazMunaiGas JSC.
From November 2013	Deputy Chairman of the Management Board of NC KazMunaiGas JSC for Service Projects.

From September 16, 2009 – The Chairman of the KazTransOil JSC Board of Directors.

Date of the current election: September 8, 2011.

The Chairman of the Board of Directors of KazTransGas JSC and member of the Board of Directors of Caspian Pipeline Consortium-R JSC.

Citizen of the Republic of Kazakhstan.

Owns shares of the Company in the amount of 9,655 shares or 0.0025% of total outstanding shares.

Does not own shares of the Company's SJCE.

Ardak Kasymbek

Member of the KazTransOil JSC Board of Directors ,
Representative of NC KazMunaiGas JSC

Ardak Kasymbek was born on September 29, 1977. In 1998 he graduated from Al-Farabi Kazakh State National University (Bachelor and Master Degrees) with "International Economic Relations" specialization, qualification – Economist. In 2001 he graduated from the Business School of City University of London (London, UK) with "Banking Management and International Finances" specialization, qualification – Financier.

EMPLOYMENT HISTORY:

1998 – 2000	He started his career as the leading banker of the Structured Financing Department of Halyk Bank of Kazakhstan OJSC.
2001- 2002	Served as a manager of the Investments Management Department of NOGC Kazakhoil CJSC.
2002 – 2004	Served as a manager, chief manager of Corporate Finance Department of NC KazMunaiGas JSC.
2004 – 2005	Finance Director of the Directorate of AOPP LLP under construction.
2005 – 2006	Deputy Director of Corporate Finance Department of NC KazMunaiGas JSC.
2006 -2007	Deputy Director General for Economy and Finances of MNC KazMunaiTeniz JSC.
2007 – 2008	Executive Director of NC KazMunaiGas JSC.
2008 – 2009	Managing Director of NC KazMunaiGas JSC.
2009 – 2010	General Manager for Corporate Development and Assets Management in NC KazMunaiGas JSC.
2010- 2012	General Manager of Corporate Finance and Assets Management in NC KazMunaiGas JSC.
2012 – 2013	Director of Corporate Finance and Assets Management in NC KazMunaiGas JSC.
From November 2013	Managing Director for Economy and Finances of NC KazMunaiGas JSC.

From October 19, 2012 – member of the Board of Director of KazTransOil JSC.

Member of the Board of Directors of NMSC KazMorTransFlot JSC, CPC-K JSC and CPC-R CJSC.

Citizen of the Republic of Kazakhstan.

Does not own shares of the Company or its SJCE.

Kuanysh Zhylkyshiyev

Member of the KazTransOil JSC Board of Directors,
Representative of NC KazMunaiGas JSC

Kuanysh Zhylkyshiyev was born on November 21, 1980. In 2001 he graduated from the South Kazakhstan Technical University with "International Economic Relations" specialization. In 2005 he graduated from M.Auezov South Kazakhstan State University with the "Designing, Construction and Operation of Oil and Gas Pipelines and Oil and Gas Storages" specialization.

EMPLOYMENT HISTORY:

1998 – 2003	He started his career as general manager in UTR TV-channel LLC, held various positions in Petrokazakhstan Oil Production OJSC.
2003 -2011	Deputy Director, the Director of Transportation and Sale of Gas for Domestic and External Market Department of KazTransGas JSC.
2011 -- 2012	General Manager of Gas Marketing of NC KazMunaiGas JSC.
2012 - 2013	Director of Oil and Gas Transportation Department of NC KazMunaiGas JSC.
From 13 December 2013	Director of Gas Transportation and Marketing Directorate of NC KazMunaiGas JSC.

From 28 May to 24 December 2013 he was a member of the KazTransOil JSC Board of Directors, representative of NC KazMunaiGas JSC.

Citizen of the Republic of Kazakhstan.

Does not own shares of the Company or its SJCE.

Daniel Mihalik

Independent Director of KazTransOil JSC

Daniel Mihalik was born on July 30, 1953. In 1976 he graduated from the University of Michigan – Master of Science of Petrochemical Technology. In 1982 he graduated from the University of Houston – Master Degree in Business Administration. In 1991 he graduated from the South Texas College of Law – PhD in Legal Science.

EMPLOYMENT HISTORY:

1976 – 1997	He started his career as design engineer in biochemical industry, served as design engineer in FLUOR company (Houston, USA), was a senior research engineer in Getty and Texaco Research and Engineering companies (Houston, USA), manager in The Gaviota Terminal Co. Company (Santa-Barbara, USA).
1982 – 2001	The Regional Vice-President at Texaco Pipeline International (London, UK).
2001- 2006	Adviser to Kazakhstan North Caspian Partners Company (London, UK).
2006 – 2008	The General Advisor of the Association of Oil Pipelines (Washington, USA).
From 2008	Independent consultant in oil and gas sector.

From August 19, 2008 – independent director of KazTransOil JSC.
Date of current election: September 8, 2011.

Does not participate in any regulatory bodies of other organizations.

Citizen of the United States of America.

Does not own shares of the Company or its SJCE.

Moustafa Habib

Independent director of KazTransOil JSC

Moustafa Habib was born on December 10, 1944. In 1966 he graduated from the University in Caen (France) with “Electrical Engineer and Petrochemist» specialization, has Master of Physics Degree.

EMPLOYMENT HISTORY:

1970 -1983	He started his career in Shell Manufacturing, he held various positions in departments responsible for the development and research, procurement and acquisition of new oil fields.
1983 – 2002	Worked for Chevron and held various positions in divisions located in Africa, Europe, USA and Kazakhstan, where he participated in the design and construction of a demercaptanization plant on Tengiz, marketing and development of alternative routs for oil by railroad. Worked as a General Manager for Eurasian division in London for oil transportation.
2002 – 2005	Adviser in Nelson Resources company, Kazakhstan.
2005 – 2007	Adviser in Nobel Oil Azerbaijan company.
2007 – 2008	Adviser of the Kashagan project at AGIP KCO.

From November 24, 2008 –independent director of KazTransOil JSC.
Date of current election: September 8, 2011.

Does not participate in any regulatory bodies of other organizations.

Citizen of France.

Does not own shares of the Company or its SJCE.

Kairgeldi Kabyldin

Member of the KazTransOil JSC Board of Directors,
General Director (Chairman of the Management Board) of KazTransOil JSC

Kairgeldy Kabyldin was born on January 1, 1953. In 1975 he graduated from V.I. Lenin Kazakh Polytechnic Institute with "Electronic Computing Machines" specialization, qualification – Electrical Engineer.

EMPLOYMENT HISTORY:

1977 – 2002	He started his career as a service engineer in the Ministry of Oil Industry of the USSR. He held senior positions in the Ministry of Energy and Fuel Resources, Ministry of Oil and Gas Industry of the Republic of Kazakhstan, PA Trunk Pipelines of Kazakhstan and Central Asia, NOTC KazTransOil JSC, NC Oil and Gas Transportation CJSC.
2002 –2007	The Managing Director of Transport Infrastructure and Service Projects, then Vice-President of NC KazMunaiGas JSC
2007–2008	The Deputy Chairman of Kazakhstan Holding for Management of State Assets Samruk JSC
2008 –2011	The Chairman of the Board of NC KazMunaiGas JSC
From October 2011	The General Director (the Chairman of the Management Board) of KazTransOil JSC

From October 10, 2011 – member of the Board of Directors of KazTransOil JSC.

The Deputy Chairman of the Management Board of NC KazMunaiGas JSC for Oil Transportation.

Citizen of the Republic of Kazakhstan.

Owns shares of the Company in the amount of 14,496 shares or 0.00377% of total outstanding shares.

Does not own shares of the Company's SJCE.

4.1.2.3 Criteria for Selection of the Board of Directors' Members

Criteria for selection of the Board of Directors' members, including the independent directors, are determined by the Law of the Republic of Kazakhstan "On Joint Stock Companies," the Charter and the Code of Corporate Governance of the Company.

In accordance with the Code of Corporate Governance, the Board of Directors established the independence of directors and believes that Moustafa Habib and Daniel Mihalik are independent in decision-making. The Board of Directors established that there are no relationships or circumstances which have or can have significant influence on decision-making of these independent directors.

4.1.2.4 Competence of the Board of Directors

The Board of Directors determines the strategic objectives, development priorities and establishes the basic guidelines of the Company in the long term, ensures the availability of the necessary financial and human resources to implement the goals and consider other essential issues.

The issues attributed to exceptional competence of the Board of Directors can not be transferred for resolving to the Company's Management Board.

The Board of Directors is not entitled to take decisions on the issues attributed to the competence of the Management Board of the Company in accordance with Company's Charter, as well as take decisions, contradicting to the decisions of the General Meeting of Shareholders.

4.1.2.5 Liability of the Board of Directors

Distribution of powers between the Board of Directors, the Management Board and the General Director (the Chairman of the Management Board) is stipulated in articles 11 and 12 of the Company's Charter.

The Board of Directors is liable to the General Meeting of Shareholders for effective administration and proper control over operation of the Company in accordance with confirmed system of taking decisions.

The Board of Directors oversees activity of the Management Board in its competence framework.

4.1.2.6 Information About the Meetings of the Board of Directors

During 2013, the Board of Directors held 16 meetings, including 15 meetings in intramural and 1 meeting – extramural, having considered about 125 issues.

Attendance of the Board of Directors's meetings in 2013

Member of the Board of Directors	Attendance of the meetings	%	Period in the structure of the Board of Directors in the reporting period
Shmanov Nurtas	16 из 16	100%	*01.01.2013-31.12.2013*
Ardak Kasymbek	13 из 16	81%	*01.01.2013-31.12.2013*
Arman Darbayev	1 из 3	33%	*01.01.2013-20.03.2013*
Kuanysh Zhylkyshiyev	8 из 8	100%	*28.05.2013-24.12.2013*
Daniel Mihalik	16 из 16	100%	*01.01.2013-31.12.2013*
Moustafa Habib	16 из 16	100%	*01.01.2013-31.12.2013*
Kairgeldy Kabyldin	15 из 16	94%	*01.01.2013-31.12.2013*

4.1.2.7 The most Important Issues of 2013 Considered by the Board of Directors

During the year, the Board of Directors considered, among others, the following issues:

- on convocation of the Annual General Meeting of Shareholders;
- prior approval of the annual financial statements and consolidated annual financial statements of KazTransOil JSC for 2012;
- proposals to the General Meeting of Shareholders on the distribution of net income of the Company for 2012 and the amount of dividend for 2012 per one ordinary share of the Company;
- approval of Business Plans for 2014 – 2018 on revalued and historical costs of fixed assets;
- election of the members of the Board of Directors Committees;
- approval of the motivational key performance indicators of the Company executives in 2013 and their target values;
- conclusion of about 33 interested-party deals by the Company;
- issues related to the competence of the general meetings of members/shareholders of subsidiaries and jointly controlled entities of the Company;
- the report of the Board of Directors and the Management Board on the work done in 2012;
- Annual Report of the Company for 2012;
- approval of the interim (semiannual) separate and consolidated financial statements for the first half of 2013;
- consent to the General Director (the Chairman of the Management Board) of the Company for the position of the Deputy Chairman of the Board of NC KazMunaiGas JSC for oil transportation.

The Board of Directors in 2013 approved the following documents:

- Regulations on the Management Board of the Company;
- Internal control rules for the order and use of insider information;
- The list of positions, appointment to which is subject to approval of the Board of Directors;
- Regulations on the individual branches of the Company in new editions;
- Regulations of the Representative offices in Moscow, Samara, Omsk and Kiev in new editions;

- Policy of procurement of audit firms services;
- List of documents governing the internal activities of the Company approved by the Board of Directors;
- Accounting Policy of the group of companies.

In the reporting period, important decisions were taken to further improvement of corporate governance system.

The Board of Directors considered the Report on compliance of corporate governance level with the best international practice on the results of diagnostics of corporate governance system of the Company held by an independent consultant KPMG Tax and Advisory LLC.

Following consideration of recommendations to address identified gaps and further improve the corporate governance system of the Company, the Board of Directors approved the Action Plan to on improvement of corporate governance system.

On internal control and audit, decisions were taken on the following issues:

- on determination of the term of office of the Internal Audit Service, appointment of its director and other employees, determining the amount and terms of remuneration and bonuses of employees of the Internal Audit Service;
- on approval of the annual audit plans of the Internal Audit Service for 2013-2014;
- on approval of the Strategic Plan of the Internal Audit Service of KazTransOil JSC for 2014-2016;
- on approval of the Guidelines on the organization of internal audit;
- on approval of the Methodology on internal control effectiveness assessment.

As part of ongoing work on risk management the following documents were approved:

- Methodology on the corporate risk management system effectiveness assessement;
- Methodology on the internal control system effectiveness assessment;
- Risk Management Program for 2013-2015;
- The Methodology on the key risk indicators development.

On a quarterly basis the Board of Directors analyzes the dynamics of risks and performance of the Action Plan of the Company's risk management.

The Board of Directors considered on a monthly basis the key monthly changes in the Company's activities and management reporting.

Additional information about the decisions of the Board of Directors in 2013 is available on the Company's website

4.1.2.8 Report of the Committees of the Board of Directors

STRATEGIC PLANNING COMMITTEE

The Committee consists of members of the Board of Directors with the necessary professional expertise to serve in the Committee. The Chairman of the Committee should be an independent director.

The composition of the Committee in 2013 included Moustafa Habib (Chairman of the Committee), Daniel Mihalik, Arman Darbayev (until March 20, 2013), Kuanysh Zhylkyshiyev (since 8 August 2013) and Kairgeldy Kabyldin.

The term of office of members of the Strategic Planning Committee coincides with the term of their powers as members of the Company's Board of Directors, however it may be reviewed annually by the Company's Board of Directors.

The Committee was established in order to improve the efficiency and quality of work of the Company's Board of Directors through the preliminary review and preparation of recommendations to the Company's Board of Directors' on strategy development issues, including the determination of the priority directions.

Taking into account that in 2013 the above issues were addressed directly by the Board of Directors, during the reporting period the Committee did not hold any meetings.

INTERNAL AUDIT COMMITTEE

Activities of the Internal Audit Committee aims to assist the Company's Board of Directors on the issues related to external and internal audit, financial reporting, internal control and risk management, compliance with legislation of the Republic of Kazakhstan, as well as other issues on behalf of the Company's Board of Directors.

Majority of the members of the Board of Directors, which were part of the Committee, including the Chairman of the Committee are independent directors.

The composition of the Committee in 2013 included Daniel Mihalik (Chairman of the Committee), Moustafa Habib and Ardak Kasymbek.

The term of office of members of the Internal Audit Committee coincides with the term of their powers as members of the Company's Board of Directors, however it may be reviewed by the Company's Board of Directors annually.

In the reporting period, the Internal Audit Committee conducted 8 intramural meetings. The Chairman of the Committee makes decisions on the frequency and terms of meetings of the Committee. Number of meetings is determined in accordance with the requirements on the Committee responsibilities fullfilment, but not less than once per quarter.

Attendance of the Internal Audit Committee meetings in 2013

Member of the Committee	Attendance of the meetings	%
Daniel Mihalik	8 of 8	100%
Moustafa Habib	8 of 8	100%
Ardak Kasymbek	8 of 8	100%

In the reporting period the Committee considered the following issues:

- on determination of the external auditing firm and the amount of remuneration for audit services for 2013-2015;
- on preliminary approval of the annual financial statements and annual consolidated financial statements of the Company for 2012;
- preliminary approval of the interim short separate and consolidated financial statements of the Company for the first half of the year 2013;
- review of the term of office of the Internal Audit Service, appointment of its director and other employees, determining the amount and terms of remuneration and bonuses to employees of the Internal Audit Service;

- on preliminary approval of annual audit plans of Internal Audit Service for 2013 and 2014 years;
- on preliminary approval of Guidelines on the Internal Audit Service of the Company;
- on preliminary approval of the Methodology for the corporate risk management system effectiveness assessment;
- on preliminary approval of the Report on the dynamics of the key risks and the execution of the action plan on key risk management issues of the Company for the 9 months of 2013.

NOMINATION AND REMUNERATION COMMITTEE

The main purpose of the Committee is to assist the Board of Directors in the implementation of its powers relating to the selection, appointment (election), evaluation and remuneration of the Board of Directors, the General Director (the Chairman of the Management Board), members of the Board and Corporate Secretary.

Majority of the members of the Committee, including the Chairman of the Committee are independent directors. The Chairman of the Board of Directors and the General Director (the Chairman of the Management Board) of the Company shall not be members of the Committee.

In 2013, the Committee was composed of Daniel Mihalik (the Chairman of the Committee), Moustafa Habib and Ardak Kasymbek.

Term of office of the Committee members coincides with the term of their powers as members of the Board of Directors of the Company, but may be reviewed annually by the Company's Board of Directors.

The Committee shall meet as necessary, but not less than twice a year.

In 2013, the Nomination and Remuneration Committee held 6 meetings.

Attendance of the meetings of the Nomination and Remuneration Committee in 2013

Member of the Committee	Attendance of the meetings	%
Daniel Mihalik	6 of 6	100%
Moustafa Habib	6 of 6	100%
Ardak Kasymbek	6 of 6	100%

In the reporting period the Committee considered such issues as:

- assessment of the activities of the Company's Board of Directors for 2012;
- recommendations for the candidate to the Company's Board of Directors;
- consideration of motivational key performance indicators for the Company's Board of Directors members and their targets;
- approval of the adjusted motivational key performance indicators of the Company executives in 2013 and their target values.
- the Company's executives compensation for their performance in 2012;
- recommendations on early termination of office of the member of the Management Board Aziz Ileuov and the election of the Management Board member Assem Nussupova;
- reviewing the Rules of the Company's employees remuneration on the results of the year;
- effectiveness of the remuneration policy of the Company's Board of Directors.

4.1.2.9 Evaluation of the Company's Position and Development Perspectives

The Company is a national operator of main oil pipeline and the largest oil pipeline organisation of the Republic of Kazakhstan.

Currently, the Company owns main oil pipeline network that ensures transportation of 57% of raw oil produced in the Republic of Kazakhstan. Consolidated oil transportation volume amounted to 67,220 thousand tons, freight turnover – 45,493 million tons km in 2013.

In accordance with approved Strategy of Development for 2012-2022, and taking into consideration the fact that the Company ensures safe and reliable transportation of maximum volume of oil produced in the country as to external and internal markets, strategic goal of the Company is to increase market value (capitalisation), with observance of strategic interests of the government in oil transportation area by means of implementation of the following objectives:

- increase of oil transportation and freight turnover, water supply and provision of competitive, reliable and safe services;
- stable performance growth and cost optimization of the Company and its SJCE;
- effective investment policy and planning, and participation in large transportation projects, aimed at meeting of the country demand for oil transportations;
- mature financial strategy aimed at maintenance of stable cash flows;
- maintenance of high standards of corporate governance, risk management, human resources, health and safety, industrial and fire safety and environmental protection.

Key performance indicators of the Company's are net income increase, shareholders value maximisation and providing of reliable, high-quality and competitive services on oil transportation.

The success of the long-term plan realisation will in major extent depend on efficiency of corporate governance and aim to complete tasks which the Company has set.

4.1.2.10 Relations with Shareholders

Improving the quality of corporate governance and transparency is a prerequisite for the growth of investment attractiveness of the Company and guarantee for minority shareholders interests consideration.

One of the key principles of the Company is the most transparent and effective interaction with shareholders.

The Board of Directors ensures equal treatment of all shareholders and gives them opportunity to participate in the management of the Company through the General Meeting of Shareholders and to exercise their right to receive dividends and information about the Company.

The Company regularly carries out a set of measures for building long-term and effective relationships with the investment community.

Recently, the level of disclosure of information to shareholders and investors significantly increased. In accordance with the listing requirements and Rules on information disclosure, the Company timely and regularly provides essential information about the Company, affecting the interests of its shareholders and investors.

RELATIONS WITH NC KAZMUNAIGAS JSC

In October 2012, in connection with the listing on the Kazakhstan Stock Exchange, the Company and its major shareholder – the NC KazMunaiGas JSC concluded an agreement on the relationships.

The agreement defines the principles of interaction between the Company and its major shareholder and is aimed at providing independent activity of the Company on market conditions in of all shareholders interests.

Full version of the Agreement is published on the Company's website in "To Shareholders and Investors" section

4.1.2.11 Remuneration of the Board of Directors

Procedure for payment of remuneration and reimbursement of expenses of independent directors is established by the Rules of remuneration and reimbursement of expenses of independent directors of the joint companies of NC KazMunaiGas JSC.

Independent directors receive the following remuneration:

- fixed remuneration;
- additional remuneration for participating in intramural meetings of the Board of Directors' committees.

The Company compensates expenses to the independent directors (travel, accommodation, per diems) associated with the trip on the Board of Directors' and its committees' meetings, conducted outside the place of residence of independent directors.

Presumptive remuneration of independent directors is USD 80,000 (eighty thousand) per year, the amount of additional remuneration is USD 1,000 (one thousand) for each intramural participation in the meeting of the Board of Directors committees.

The payment is provided when the following conditions are met:

- conscientious performance of a member of the Board of Directors, using methods that best reflect the Company's interests;
- following legislation of the Republic of Kazakhstan and the Company's Charter in decision-making;
- participation in intramural meetings, except for illness, vacation, business trips and participation in all extra-mural meetings of the Board of Directors of the Company.

The fees charged to the independent directors for the year ended on December 31, 2013, KZT

Independent director	Annual remuneration	For participation in intramural meetings of the committees	Total, excluding taxes	Total, including taxes
Daniel Mihalik	12,151,600	1,986,480	14,138,080	15,708,978
Moustafa Habib	12,151,600	1,986,480	14,138,080	15,708,978
TOTAL	**24,303,200**	**3,972,960**	**28,276,160**	**31,417,956**

The remaining members of the Board of Directors do not receive remuneration as members of the Board of Directors for their work in this body.

4.1.2.12 Evaluation of the Board of Directors Activity

In accordance with the best international practice the Board of Directors annually conducts formal and comprehensive evaluation of its activities, activities of its committees and each individual director.

This year evaluation of the Board of Directors activity was conducted by attracting an external consultant, which has significant experience in the field of boards of directors activities evaluation in international public companies.

In accordance with currently effective Methodology, evaluation included analysis of internal documents and minutes of the Board of Directors' meetings and its committees, enquiery of directos, interview of directors by independent consultant on such issues as composition and structure of the Board of Directors and its committees, procedures, role and objectives of the Board of Directors, decision making process, communication with management and shareholders of hthe Company.

Upon the results, the evaluation highlighted active work of the Board of Directors in improvement of corporate governance practice of the Company, discussion of prioritised development directions, committees activities efficiency improvement, positively evalued the work of the Corporate Secretary. The evalution showed that the most of the Board of Directors activities aspects are in compliance with recommendations of the best practice of corporate governance.

Futhermore, as a result of discussion of the evaluation, the Board of Directors determined prioritised directions for development and improvement of its activities, including further improvement of corporate governance practice, work on the Strategy and long-term development, monitoring of implementation of key tasks, improvement of committees work, development of constructive relations and effective communication with shareholders of the Company.

4.1.3 Report on the Activities of the Management Board for 2013

4.1.3.1 The Management Board

Management of the Company's activity is implemented by the collegial executive body represented by the Management Board.

The main principles of the Management Board are honesty, integrity, intelligence, diligence, regularity, as well as maximum observance of the rights and interests of shareholders of the Company and accountability to the decisions of the General Meeting of Shareholders and the Board of Directors.

The Management Board carries out its functions under the Company's Charter, the Regulations on the Management Board and other internal documents of the Company.

The Management Board shall have the right to decide on any matters of the Company, not referred by the legislation of the Republic of Kazakhstan and the Charter to the exclusive competence of other bodies and executives of the Company.

4.1.32 Appointment of the Chairman and Members of the Management Board

The determination of the quantitative composition and term of office of the Company's Management Board, election of the General Director (the Chairman of the Management Board) and the Management Board members, as well as early termination of their offices are under the exclusive competence of the Board of Directors.

4.1.3.3 Competence of the Management Board and the General Director (the Chairman of the Management Board)

The Management Board of the Company is headed by the General Director (the Chairman of the Management Board).

Distribution of powers between the Management Board and the General Director (the Chairman of the Management Board) of the Company is defined by Article 12 of the Charter and Chapter 4 of the Regulations on the Management Board.

Among the key issues related to the competence of the Management Board, the following should be highlighted:

- approval of the staff schedule of the central office and structure of the Company, subject to the approval by the Board of Directors regular number of employees and the structure of the central office of the Company, regular number of employees of the Corporate Secretary Service, as well as approval of regular number of employees, the staff schedule and structure of the branches and representative offices of the Company;
- coordination and direction of work of the branches and representative offices of the Company;
- decision-making on sponsorship (charity) assistance;
- implementation of the strategy and business plan of the Company and provision of the Board of Directors with an annual report on implementation of the development strategy and business plan of the Company.

The General Director (the Chairman of the Management Board) of KazTransOil JSC:

- heads the Management Board;
- convenes meetings of the Management Board and organizes provision of the Management Board members with the necessary materials on the agenda;
- organizes implementation of the decisions of the General Meeting of Shareholders and the Board of Directors;
- enters into transactions of non-material nature and the transactions which result in the Company’s acquiring or disposal of property the value of which is less than two percent of the total value of assets;
- decides to increase the Company’s obligations to the amount of five percent of the size of its equity capital;
- takes decisions on the issues relating to the Company’s current operations, necessary to perform the tasks of the Company and not relating to the exclusive competence of the General Meeting of Shareholders and the Board of Directors, as well as the Management Board.

4.1.3.4 Responsibility of the Management Board

The Management Board is responsible for the allocation of financial and human resources to implement the goals set by the General Meeting of Shareholders and the Board of Directors.

The Management Board reports to the Board of Directors for the state of progress towards the objectives of the Company.

4.1.3.5 Composition of the Management Board

In 2013, the Management Board at different times consisted of seven members

Name, Surname	Position
Kairgeldy Kabyldin	General Director (the Chairman of the Management Board)
Sisengali Utegaliyev	First Deputy General Director for Production
Ruslan Mestoyev	Deputy General Director for Business Support
Bolat Otarov	Deputy General Director for Transportation
Bulat Zakirov	Deputy General Director for Development
Assem Nussupova	Deputy General Director for Economy and Finances *(from 20.09.2013)*
Aziz Ileuov	Deputy General Director for Economy and Finances *(till 20.09.2013)*
Zhaidarman Isakov	Director of the Legal Department

Changes in the composition of the Management Board

By decision of the Company's Board of Directors dated 20 September 2013 (minutes of meeting No. 12/2013) the powers of the Management Board member Aziz Ileuov were prematurely terminated and Assem Nussupova was elected as a member of the Management Board for a term that is defined for the Management Board of the Company.

Sisengali Utegaliyev

First Deputy General Director of KazTransOil JSC for Production

Sisengali Utegaliyev was born on June 9, 1950. In 1972 he graduated from the Exploration Faculty of Tumen Industrial Institute with "Geology and Exploration of Oil and Gas Deposits" specialization, qualification – Mining Engineer-Geologist.

EMPLOYMENT HISTORY:

1972 – 1984	Served as an operator on oil and gas production, held various senior engineering technical positions of Mangyshlak gas production office of Mangyshlakneft PA.
1984 – 1995	Head of the oil field, the Chief Engineer – the First Deputy of Zhetybayneft OGPO, Mangyshlakneft PA.
1995 – 1997	Chief of the main office of production development in the Ministry of Oil and Gas Industry of the Republic of Kazakhstan.
1997 – 2002	Held positions from the chief specialist of the Technical Policy Department to the Director of the Department of Production Management of the NOC KazakhOil Projects.
2002 – 2004	Director of the Department of Development and Production, Director of the Department of Oil and Gas Production of NC KazMunaiGas JSC.
2004 – 2007	Deputy General Director of Exploration Production KazMunaiGas JSC for Production.
2007 – 2009	Managing Director of NC KazMunaiGas JSC.
2009 – 2012	General Manager for Mining Projects of NC KazMunaiGas JSC.
From March 2012	First Deputy General Director of KazTransOil JSC for Production.

From March 16, 2012 – member of the Management Board of KazTransOil JSC.
Date of current election: 23 May 2012.

Does not participate in any regulatory bodies of other organizations.

Citizen of the Republic of Kazakhstan.

Owns shares of the Company in the amount of 4,650 shares or 0.0012% of total amount of outstanding shares.

Does not own shares of the Company's SJCE.

Ruslan Mestoyev

Deputy General Director of KazTransOil JSC for Business Support

Ruslan Mestoyev was born on August 21, 1973. In 2002 he graduated from Abay Almaty State University with "Information Technology and Manager on Computer Application" specialization.

EMPLOYMENT HISTORY:

1990 – 2011	He started his career as a computer operator of state foreign trade company Kazakhintorg at the Ministry of Foreign Economic Relations of the Republic of Kazakhstan. Held senior positions in GlencoreInternational AG, in Vneshinvest corporation, Public Pension Fund Ular JSC, adviser to the Akim of Atyrau region, headed the Atyrau regional branch of Halyk Bank JSC, headed the division of transport service market and development of auto and electric transport of the Ministry of Transport and Communications of the Republic of Kazakhstan. Adviser to the General Director in Oil and Gas Transportation JSC, the Director of the Department of Contracts, headed KazTransOil JSC representative office in Moscow, the Managing Director of Public Procurement in NC Kazakhstan Temir Joly JSC. Worked in the North Caspian Operating Company and Shell Development Kashagan (Netherlands).
2011 – 2012	Managing Director of KazTransOil JSC for Business Support, the chief of staff of KazTransOil JSC, the Deputy General Director of KazTransOil JSC for Transportation.
From 20 September 2012	Deputy General Director of KazTransOil JSC for Business Support

From 9 December 2011 – member of the Management Board of KazTransOil JSC.
Date of current election: 23 May 2012.

Does not participate in any regulatory bodies of other organizations.

Citizen of the Republic of Kazakhstan.

Does not own shares of the Company or its SJCE.

Bolat Otarov

Deputy General Director of KazTranOil JSC for Transportation

Bolat Otarov was born on February 23, 1966. In 1988 he graduated from V.I. Lenin Kazakh Polytechnic Institute with "Technology of Machine-Building, Metal-Cutting Machines and Tools" specialization and received qualification - Mechanic Engineer.

EMPLOYMENT HISTORY:

1988 – 1998	Worked in experimental Karazhanbastermneft OGPD, Komsomolskneft OGPD, KalamkasMunaiGas OGPD, Yuzhnefteprovod PA.
1998 – 1999	Deputy Director for Transportation, the Head of Commodity-Transportation Section of the Western branch of KazTransOil JSC.
1999 – 2003	Director of KazTranOil JSC Department of Transportation.
2003 – 2006	Executive Director for Commodity-Transport Operations of KazTransOil JSC.
2006 – 2007	Executive Director for Transportation of KazTransOil JSC.
From May 2007	Deputy General Director of KazTransOil JSC for Transportation.

From 20 February 2008 – member of the Management Board of KazTransOil JSC.
Date of current election: 23 May 2012.

Member of the Board of Directors of Batumi Industrial Holdings Limited.

Citizen of the Republic of Kazakhstan.

Owns shares of the Company in the amount of 135 shares or 0.000035% of total outstanding shares.

Does not own shares of the Company's SJCE.

Bulat Zakirov

Deputy General Director of KazTransOil JSC for Development

Bulat Zakirov was born on July 16, 1976. In 1997 he graduated from the Kazakh State Administration Academy with "International Economic Relations" specialization, qualification – International Economist. Received the Master of Science Degree in the field of energy sector (MSc in Energy Studies) in University of Dundee (UK) with "Economy of oil and gas" specialization.

EMPLOYMENT HISTORY:

1999 – 2001	Specialist of the Department of Strategic Planning in KazTransOil JSC , chief specialist, project coordinator, manager of the Department of Project Management of KazTransOil JSC.
2001 – 2006	Chief manager, deputy director, director of the department of transport logistics of KazTransOil JSC. The Director of the Department of Perspective Development of KazTransOil JSC.
2006 – 2009	Deputy General Director of KazTransOil JSC for Development.
2009 –2010	Deputy General Director of KMG –Transcaspy LLP.
2010 – 2011	General Director of KMG –Transcaspy LLP.
From January to April 2012	Adviser to the General Director of KazTransOil JSC, then the Managing Director of KazTransOil JSC.
From May 2012	Deputy General Director of KazTransOil JSC for Development.

From 16 March 2012 – member of the Management Board of KazTransOil JSC.
Date of current election: 23 May 2012.

Member of the Board of Directors of NWPC MunaiTas JSC and Batumi Terminals Limited, member of the Board of Directors in Batumi Industrial Holdings Limited.

Citizen of the Republic of Kazakhstan.

Owns shares of the Company in the amount of 1,520 shares or 0.0004% of total outstanding shares.

Does not own shares of the Company's SJCE.

Assem Nussupova

Deputy General Director of KazTransOil JSC for Economy and Finances

Assem Nussupova was born on May 1, 1975. In 1996 she graduated from Al-Farabi Kazakh State National University with "Economics and Management" specialization qualification – Economist, specialist in the field of Management. In 1998, she completed the Master's program at the same university in Economics with "Economics and Management" specialization and was awarded the Degree of Master of Economics.

EMPLOYMENT HISTORY:

1998 – 2008	Worked as a teacher of Management Department at Al-Farabi Kazakh National University, an expert analyst at consulting firm NPV, the chief expert in the Security Council of the Republic of Kazakhstan, the Head of sector of the Presidential Administration of the Republic of Kazakhstan, Advisor to the Minister of Finance of the Republic of Kazakhstan, Advisor to the Prime Minister, the Head of the Consolidated Analytical Department of the Prime Minister's Office of the Republic of Kazakhstan, the Vice-Minister of Health of the Republic of Kazakhstan.
From December 2008	Deputy General Director of KazTransOil JSC for Economy and Finances.

From February 12, 2009 – member of the Management Board of KazTransOil JSC.
Date of current election: 20 September 2013.

Does not participate in any regulatory bodies of other organizations.

Citizen of the Republic of Kazakhstan.

Does not own shares of the Company or its SJCE.

Zhaidarman Isakov

Director of the Legal Department of KazTransOil JSC

Zhaidarman Isakov was born on October 29, 1965. In 1989 he graduated from S.M. Kirov Kazakh State University with "Jurisprudence" specialization, qualification – Lawyer. In 2003 he passed training in the Academy of National Economy under the Government of the Russian Federation, specialization "Lawyer in Oil and Gas."

EMPLOYMENT HISTORY:

1989 – 2000	He started his career as legal adviser in trade and procurement base No. 456 of the Department of Commerce, Ministry of Defence of USSR, and then worked in law firms, in Bogas Corporation – Head of the Legal Department, in the Moscow office of the Kazakh joint-stock bank Turanbank– leading adviser, the chief specialist - legal adviser, in the Ministry of Finance of the Republic of Kazakhstan he held positions from the chief specialist to the deputy director of the Department of Legal Service.
2000 – 2001	The Deputy Director of the Legal Department of KazTransGas JSC.
2001 – 2002	The Chief legal adviser of the Legal Department in NC Oil and Gas Transportation JSC.
2002	The Chief lawyer of the Legal Support Department of NC KazMunaiGas JSC.
From 1 October 2002	The Director of the Legal Department of KazTransOil JSC.

From May 12, 2003 – member of the Management Board of KazTransOil JSC.
Date of current election: 23 May 2012.

Does not participate in any regulatory bodies of other organizations.

Citizen of the Republic of Kazakhstan.

Does not own shares of the Company or its SJCE.

4.1.3.6 Information About the Management Board Meetings in 2013

During 2013, the Management Board held 32 intramural meetings, where decisions were made on 220 issues considered.

Attendance of the Management Board meetings in 2013

The Management Board member	Attendance of the meetings	%	Period in the Management Board in the reporting period
Kairgeldy Kabyldin	32 of 32	100%	01.01.2013 - 31.12.2013
Sisengali Utegaliyev	22 of 32	69%	01.01.2013 - 31.12.2013
Ruslan Mestoyev	30 of 32	94%	01.01.2013 - 31.12.2013
Bolat Otarov	29 of 32	91%	01.01.2013 - 31.12.2013
Bulat Zakirov	27 of 32	84%	01.01.2013 - 31.12.2013
Assem Nussupova	7 of 7	100%	20.09.2013 - 31.12.2013
Aziz Ileuov	18 of 25	72%	01.01.2013 - 20.09.2013
Zhaidarman Isakov	29 of 32	91%	01.01.2013 - 31.12.2013

During the year, the Management Board besides others adopted the following:

- Decision on entrance in transaction, as a result of which the Company alienated from and/or purchased property with the cost more than 2% but less than 25% of the total value of assets of the Company;
- more than 20 decisions on SJCE's activities;
- more than 9 decisions to provide sponsorship and/or charitable aid.

In 2013, the Board approved the following internal documents of the Company:

- Strategy for information technologies development of KazTransOil JSC program and the development of information technologies of KazTransOil JSC for 2013 - 2017;
- The Rules of investment planning and monitoring of investment projects of KazTransOil JSC and its subsidiaries and jointly-controlled entities;
- The Regulations on the Investment Committee of KazTransOil JSC;
- The Rules of the production program formation of KazTransOil JSC;
- The Rules of planning and organization of capital construction, technical re-equipment and reconstruction of KazTransOil JSC facilities;
- The Rules of planning and organization of the main oil and water pipelines overhaul of KazTransOil JSC;
- The Rules on the organization of design and exploration works in KazTransOil JSC;
- The Procedures of acquisition of shares in the authorized capitals (share packages) of existing legal entities, creation of new legal entities by KazTransOil JSC and/or its SJCE;
- The Rules of training and development of employees of KazTransOil JSC;
- The Costs management program of KazTransOil JCS for 2013-2016;
- The internal control rules on transfer pricing in KazTransOil JSC;

- The Procedures of documentation and document management in KazTransOil JSC;
- The Procedures of procurement of goods, works and services required for the implementation of the design, reconstruction, construction of facilities provided as part of the project on increasing throughput capacity of Kazakhstan – China pipeline;
- The Procedures of the financial period closure and preparation of separate financial statements of KazTransOil JSC;
- documents in the field of the Information Security Management System of KazTransOil JSC.

4.1.3.7 Report of the Committees' Activities Under the Management Board

THE RISK COMMITTEE

For the preliminary consideration of issues of risk management and preparation of recommendations on them to the Management Board of KazTransOil JSC, the Risk Committee functions under the Management Board. The Committee is an advisory body, which carries out its activities in accordance with the Regulations of the Risks Committee of KazTransOil JSC and other internal documents of the Company on risk management and internal control.

The Risk Committee was formed in 2009.

The Risk Committee makes recommendations to the Management Board on:

- risk management;
- organization and maintenance of the Company's effective corporate risk management system;
- development of processes designed to identify, measure, monitor and control the risks of the Company;
- control over the coordination of the Company's risk management.

During 2013 the Risk Committee held 7 meetings, 6 in intramural and 1 extra-mural meeting, on the issues aimed at further implementation and improvement of corporate risk management system (CRMS) and Internal Control System (ICS) of the Company within the following components:

- improvement of the methodological framework;
- preparation of the internal environment;
- risk management and internal control;
- monitoring.

Within the component "Improvement of methodological framework" *the Risk Committee discussed and agreed the following internal documents regulating the ICS:*

- draft ICS policy of KazTransOil JSC;
- draft ICS Regulation of KazTransOil JSC.

Within the component "Preparation of the internal environment" the Risk Committee reviewed a presentation on increase of the Company's employees principles and approaches in the field of risk management and improvement of risk culture of KazTransOil JSC, prepared by the departments of risk management, energy management and IMS together with external consultants of KPMG Tax and Advisory LLC, on basis of which the training was conducted for the staff of the Central Office of the Company in order to transfer the experience on improvement of ICS and CRMS.

Within the component "Risk management and internal control" the Risk Committee reviewed and agreed a draft Risk Management Program of KazTransOil JSC for 2013-2015, comprising:

- own retention capacity in 2013 and risk tolerance;

- risk register and risk map of KazTransOil JSC;
- tolerance level for key risks;
- key risk indicators;
- action plan on key risk management of KazTransOil JSC.

Within the component "Monitoring" the Risk Committee considered:

- report on the dynamics of the Company's risks;
- report on the implementation of the Action Plan for the management of the Company's key risks;
- the Company's risk map;
- report on the current status of key risk indicators;
- report of the independent impact assessment of ICS and plan on ICS improvement.

4.1.4 Corporate Ethics

Fundamental corporate values, which form the activities of KazTransOil JSC are decency, reliability and professionalism of its employees, effectiveness of their work, mutual assistance, respect for each other, stakeholders and society as a whole.

The Company is committed to high standards of corporate ethics and in conduct of activities:

- adheres to the provisions of the legislation of the Republic of Kazakhstan, acts of state bodies and the General Meeting of Shareholders, other documents relating to the Company's activities;
- ensures compliance with and respect for human rights;
- acts fairly and in good faith, does not accept bribes and similar wrong business practices, as well as the practice of giving and receiving gifts, except for those adopted in business practice;
- treats executives and employees fairly, with respect and adherence to ethical norms;
- is aimed at ensuring that relations with all stakeholders are mutually beneficial;
- shows respect and is friendly to the environment.

The Company takes all possible measures to prevent and suppress violations. All the Company's activities in this direction are regulated by a number of documents, the main of which is the Risk Management Policy on emergence of violations in KazTransOil JSC, adopted in 2012.

This policy discloses the concept and types of violations governed by the Policy, defines the powers and responsibilities of the risk management process participants in emergence of violations in order to ensure appropriate procedures for preventing, detecting and investigating violations of KazTransOil JSC including procedures aimed at countering corruption. In 2013, employees of KazTransOil JSC were introduced to this policy and adhere to the principles of its activities and procedures established therein.

4.1.5 Settlement of Corporate Conflicts and Conflicts of Interests

Members of the Board of Directors and the Management Board, as well as the Company's employees perform their professional duties conscientiously and reasonably with due care and diligence in the interests of the Company and shareholders, avoiding corporate conflicts and conflicts of interests.

In case of existence or occurrence of corporate conflicts, executives of the Company timely inform the Corporate Secretary on the availability and appearance of such conflicts.

Procedures to prevent conflicts of interests, as well as the activities of the Company as part of the settlement of the conflicts of interests are regulated by the Code of Corporate Governance and the Code of Conduct of KazTransOil JSC.

The Company executives in order to deter and prevent corporate conflicts and conflicts of interests:

- respect the rights of shareholders in accordance with the legislation of the Republic of Kazakhstan, the Charter, the Code of Corporate Governance and other internal documents of the Company;
- do not disclose nor use for personal interests or interests of third parties confidential information about the Company;
- regularly and timely inform the Company about its affiliates and changes of the grounds of their affiliation;
- refrain from any actions and try to avoid situations that may lead to corporate conflicts and conflicts of interests between shareholders and the Company.

To ensure objectivity in assessing the level of corporate conflict and create the conditions for its effective settlement, persons whose interests are affected or may be affected by the conflict, do not participate in its resolution.

The Chairman of the Management Board on behalf of the Company shall settle corporate conflicts on all issues, on which decision-making is not referred to the Board of Directors competence, and also independently determines the way of settlement of corporate conflicts.

The Board of Directors shall settle corporate conflicts on all matters within its competence. The Corporate Secretary shall ensure the highest possible level of awareness of the Board of Directors about the nature of the corporate conflict.

4.1.6 List of Transactions, where KazTransOil JSC has an Interest, Entered in Contract by KazTransOil JSC in 2013

No.	Name of transaction	Decision of KazTransOil JSC body
Kazakhoil-Akobe LLP		
1.	- contract for the provision of water supply services to Alibekmola POPS of KazTransOil JSC Western branch Aktobe Oil Pipeline Department through the water pipeline Kumzhargan – Munaishy shift camp	decision of the Board of Directors of KazTransOil JSC dated 12 March 2013 (minutes No. 3/2013)
2.	- contract for oil supply to the boilers of KazTransOil JSC Western branch Aktobe oil Pipeline Department	decision of the Board of Directors of KazTransOil JSC dated 12 March 2013 (minutes No. 3/2013)
3.	- additional contract No. 1 to the contract of the freight forwarding dated 24 December 2012 No.EX 01/2013//18CSL1Yk12	decision of the Board of Directors of KazTransOil JSC dated 13 December 2013 (minutes No. 15/2013)
Mangistaumunaigas JSC		
4.	- contract for water supply for the needs of Kalamkas POPS and Karazhanbas OPS of KazTransOil JSC Western branch Mangistau Oil Pipeline Department	decision of the Board of Directors of KazTransOil JSC dated 12 March 2013 (minutes No. 3/2013)
5.	– contract for water supply for the needs of “Kalamkas” POPS and “Karazhanbas” OPS of KazTransOil JSC Western branch Mangistau Oil Pipeline Department	decision of the Board of Directors of KazTransOil JSC dated 12 March 2013 (minutes No. 3/2013)
6.	– contract for supply (consumption) of heat energy in hot water for Kalamkas POPS of KazTransOil JSC Western branch Mangistau Oil Pipeline Department	decision of the Board of Directors of KazTransOil JSC dated 28 March 2013 (minutes No. 4/2013)
7.	- contract for supply and receiving of natural gas for the needs of Karajanbas OPS of KazTransOil JSC Western branch Mangistau Oil Pipeline Department	decision of the Board of Directors of KazTransOil JSC dated 28 March 2013 (minutes No. 4/2013)
8	- contract of freight forwarding	decision of the Board of Directors of KazTransOil JSC dated 13 December 2013 (minutes No. 15/2013)
Tengizshevroil LLP		
9.	- contract for purchase and sale of products (dry gas by pipeline on the conditions of “Franco – Carrier”)	decision of the Board of Directors of KazTransOil JSC dated 12 March 2013 (minutes No. 3/2013)
10.	- amendment ,No. 2 to the contract of freight forwarding dated 9 September 2012 No.EX 06/2012	decision of the Board of Directors of KazTransOil JSC dated 13 December 2013 (minutes No. 15/2013)
PetroKazakhstan Oil Products LLP		
11.	- contract for provision of water supply (supply) and removal (reception) of runoffs to the Shymkent FRS of KazTransOil JSC Eastern branch Shymkent Oil	decision of the Board of Directors of KazTransOil JSC dated 12 March 2013

	Pipeline Department	(minutes No. 3/2013)
CNPC-Aktobemunaigas JSC		
12.	- contract for freight forwarding	decision of the Board of Directors of KazTransOil JSC dated 13 December 2013 (minutes No. 15/2013)
Bioengineering LLP		
13.	- agreement for termination of contract dated 14 December 2012 No. US 524/2012	decision of the Board of Directors of KazTransOil JSC dated 28 October 2013 (minutes No. 13/2013)
14.	- contract for services on elimination of circumstances of emergency environmental pollution caused by unauthorized tie-in at 1319.15 km of the Pavlodar – Shymkent main pipeline	decision of the Board of Directors of KazTransOil JSC dated 28 October 2013 (minutes No. 13/2013)
Kazakhstan-China Pipeline LLP		
15	- contract for operation and maintenance of the Atasu-Alashankou pipeline	decision of the Board of Directors of KazTransOil JSC dated 17 May 2013 (minutes No. 6/2013)
16.	- contract for operation and maintenance of the Keniyak-Kumkol pipeline	decision of the Board of Directors of KazTransOil JSC dated 17 May 2013 (minutes No. 6/2013)
17.	contract for operation of PS-8 and PS-10 main pipeline of Atasu-Alashankou	decision of the Board of Directors of KazTransOil JSC dated 27 December 2013 (minutes No. 16/2013)
18.	contract on the operator of the main pipeline Atasu-Alashankou (trust agreement)	decision of the Board of Directors of KazTransOil JSC dated 27 December 2013 (minutes No. 16/2013)
INPEX NORTH CASPIAN SEA, LTD		
19.	- additional agreement No.2 to the contract for freight forwarding dated 10 August 2012 No. EX 38/2012	decision of the Board of Directors of KazTransOil JSC dated 13 December 2013 (minutes No. 15/2013)
ExxonMobil Kazakhstan Inc.		
20.	– additional agreement No.2 to the contract for freight forwarding dated 7 August 2012 No. EX 40/2012	decision of the Board of Directors of KazTransOil JSC dated 13 December 2013 (minutes No. 15/2013)
Total E & P Kazakhstan Company		
21.	– additional agreement No.2 to the contract for	decision of the Board of

	freight forwarding dated 11 June 2012 No. EX 37/2012	Directors of KazTransOil JSC dated 13 December 2013 (minutes No. 15/2013)
Shell Kazakhstan Development BV		
22.	- additional agreement No.1 to the contract for freight forwarding dated 10 December 2012 No. EX 09/2013	decision of the Board of Directors of KazTransOil JSC dated 13 December 2013 (minutes No. 15/2013)
Agip Caspian Sea B.V LLC		
23.	- additional agreement No.2 to the contract for freight forwarding dated 24 January 2012 No. EX 32/2012	decision of the Board of Directors of KazTransOil JSC dated 13 December 2013 (minutes No. 15/2013)
Karachaganak Petroleum Operating B.V. CJSC		
24.	- additional agreement No.2 to the contract for freight forwarding dated 24 December 2011 No. EX 30/2012	decision of the Board of Directors of KazTransOil JSC dated 18 June 2013 (minutes No. 9/2013)
25.	- additional agreement No.3 to the contract for freight forwarding dated 24 December 2011 No. EX 30/2012	decision of the Board of Directors of KazTransOil JSC dated 13 December 2013 (minutes No. 15/2013)
Karazhanbasmunai JSC		
26.	- contract for freight forwarding	decision of the Board of Directors of KazTransOil JSC dated 13 December 2013 (minutes No. 15/2013)
Kazkommerts Securities JSC (Kazkommertsbank JSC subsidiary)		
27.	– contract for rendering services of market-maker for securities of KazTransOil JSC	decision of the Board of Directors of KazTransOil JSC dated 13 December 2013 (minutes No. 15/2013)
Corporate University Samruk-Kazyna Private Enterprise		
28.	- contracts for procurement of services for organization and holding of training programs	decision of the Board of Directors of KazTransOil JSC dated 12 March 2013 (minutes No. 3/2013)
29.	- contracts for rendering services on HR–consulting of KazTransOilJSC	decision of the Board of Directors of KazTransOil JSC dated 13 December 2013 (minutes No. 15/2013)
Kabyldin Kurban Maksutovich		
30.	- contract for housing purchase	decision of the Board of Directors of KazTransOil JSC dated 8 August 2013 (minutes No. 11/2013)
Shanova Nurbike Nuribekovna		
31.	- contract for housing gratuitous transfer	decision of the Board of Directors of KazTransOil JSC dated 8 August 2013 (minutes No. 11/2013)

KazMunaiGas – Sefvice LLP		
32	- contract for rendering of representative services for the needs of the KazTransOil JSC central office of	decision of the Board of Directors of KazTransOil JSC dated 29 January 2013 (minutes No. 3)
KMG Kashagan B.V. Limited Liability Private Company		
33	- contract for freight forwarding	decision of the Board of Directors of KazTransOil JSC dated 25 April 2013 (minutes No. 12)
34	additional agreement No.1 to the contract for freight forwarding dated 9 July 2013 No. EX 10/2013	decision of the Board of Directors of KazTransOil JSC dated 19 November 2013 (minutes No. 28)
NC KazMunaiGas JSC		
35	- agreement on dissolution of contract of the property trust management dated 20 December 2002 No. PA 613/02//178	decision of the Board of Directors of KazTransOil JSC dated 2 July 2013 (minutes No. 20)
36	- Agreement concluded between NC Rosneft JSC ", NC KazMunaiGas JSC and KazTransOil "transaction in which KazTransOil JSC is related party by the preliminary contract of oil transportation through the territory of the Republic of Kazakhstan and guarantees	decision of the Board of Directors of KazTransOil JSC dated 19 November 2014 (minutes No.28)
Ozenmunaigas JSC		
37	- contract for freight forwarding	decision of the Board of Directors of KazTransOil JSC dated 19 November 2013 (minutes No. 28)
Embamunaigas JSC		
38	- contract for freight forwarding	decision of the Board of Directors of KazTransOil JSC dated 19 November 2013 (minutes No. 28)
Maritime Oil Company KazMunaiTeniz JSC		
39	- contract for freight forwarding	decision of the Board of Directors of KazTransOil JSC dated 19 November 2013 (minutes No. 28)
KAZAKHTURKMUNAI LLP		
40	additional agreement No.2 to the contract for freight forwarding dated 12 December 2011 No. EX 03/2012	decision of the Board of Directors of KazTransOil JSC dated 19 November 2013 (minutes No. 28)

4.2 Risk Management

4.2.1 Corporate Risk Management System and Internal Control System

One of the strategic directions in the field of management efficiency improvement provided by the Development Strategy of KazTransOil JSC for 2012-2022, is the development of CRMS and ICS.

Risk management within the CRMS is defined as a continuous cyclical process of adoption and implementation of management decisions, consisting of identification, assessment, risk response, control, and efficiency and planning of activity in management and monitoring of risks embedded in the overall process of the Company's management.

KazTransOil JSC in connection with the placement of its shares on the Kazakhstan Stock Exchange, has implemented a project for CRMS and ICS improvement. In the course of this project the following set of measures were carried out:

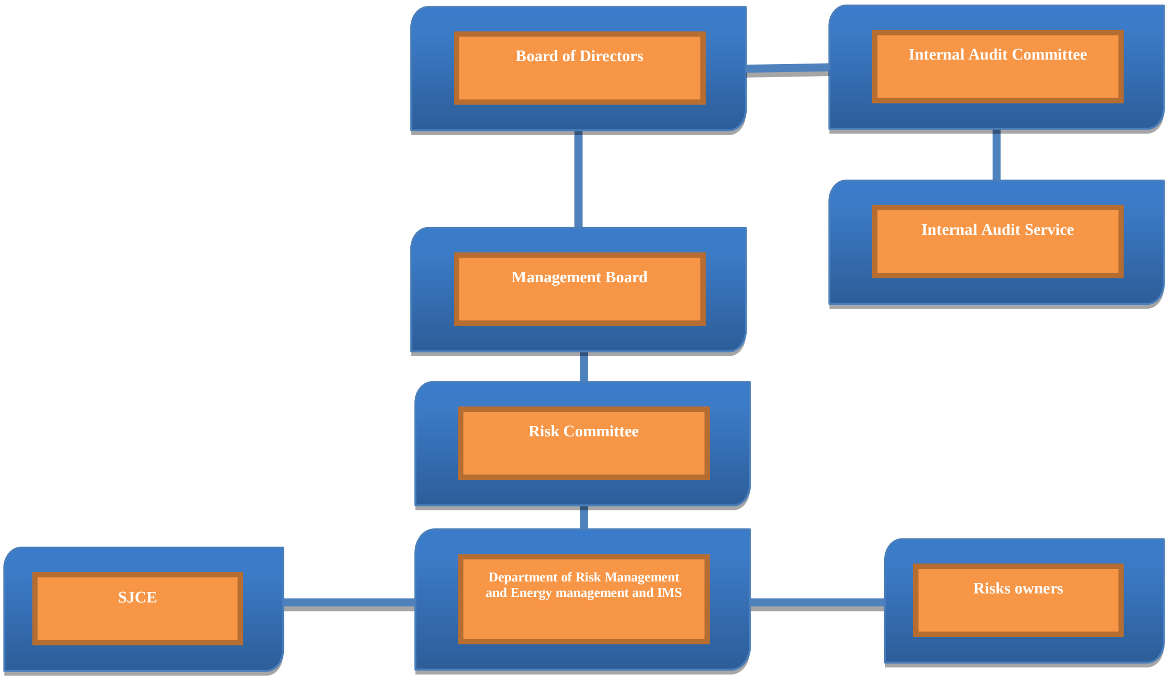
- corporate trainings for the staff of the Company and its SJCE to improve risk culture of KazTransOil JSC were conducted;
- existing risk register, risk map of the Company were actualized, risk management measures developed;
- operating model for risk management to automatically structure the risks map was developed;
- methodology for developing key risk indicators and key risk indicators to principal risks of the Company were prepared;
- an independent evaluation of CRMS and ICS effectiveness of the Company was held, on which results the plans to further improve the CRMS and ICS were elaborated;
- matrices of risks and controls and flowcharts for business processes of the operating activity, financial reporting, compliance with legal and regulatory requirements, as well as corporate level processes were developed.

Thus, given that the CRMS and ICS are key components of the corporate governance system and an important aspect of effective activity of KazTransOil JSC, these measures allow:

- identify, assess risks and take appropriate measures to address the risks;
- minimize or prevent possible financial losses;
- have an adequate assurance that all internal policies and procedures, as well as legislative acts and requirements are met in the prescribed manner;
- raise the level of KazTransOil JSC corporate governance;
- increase credibility with shareholders, stock exchanges and potential investors.

4.2.2 Structure of the Corporate Risk Management System

STRUCTURE OF THE CORPORATE RISK MANAGEMENT SYSTEM OF INTERNAL CONTROL



4.2.3 Principal Risks and Measures to Minimize Them

Activity of KazTransOil JSC is subject to influence of different range of risks.

In accordance with the methodology in the field of risk management of KazTransOil JSC all identified risks of the Company are divided into four main categories: strategic, financial, operational and legal.

The Company annually approves the risk register and risk map, which identify risks related to the Company's activity. For each of the key risks the risk owners are identified, and a plan of action is approved, which is aimed at both addressing the causes as risks implementation and minimizing the consequences in case of implementation of risk developments.

For each of the measures aimed at risk management, responsible for their implementation are identified. Constant control and monitoring of the implementation of risk management measures is held by sending quarterly risk reports to the Board of Directors of KazTransOil JSC.

Risk Register, including information on risk assessment and ongoing activities of their management, periodically passes obligatory procedure for reviewing and updating.

Today, KazTransOil JSC effectively manages risks to achieve the set strategic and operational objectives.

STRATEGIC RISKS

The key strategic risk for the Company is the risk of reducing the volume of oil transportation and freight turnover. The main causes or risk factors that have an impact on the decline in oil transportation and freight volumes are:

- deterioration in the competitive positions associated with the emergence of competitors, declining market share due to implementation of the project for expansion of system of the CPC;
- reduction or elimination of Russian oil supplies to refineries in the Republic of Kazakhstan;
- decline of forecasted crude oil production in the Republic of Kazakhstan.

In order to minimize the risk of decline in oil transportation and freight, the Company carries out activities on the conclusion of long-term contracts with shippers, as well as the work on attracting volumes of oil from Tengiz, Karachaganak, Kashagan and other offshore fields in the Caspian region.

FINANCIAL RISKS

The major financial risks, to which the Company may be subject, are related to cash and cash equivalents, deposits. However, the risks associated with cash, cash equivalents and deposits are manageable due to the fact that counterparties are presented to the banks with high credit ratings assigned by international rating agencies. Besides, the Company complies with the following internal documents of Samruk-Kazyna JSC:

- the Rules of setting limits on balance sheet and off-balance sheet liabilities by counterparty banks;
- the Rules of setting country limits;
- Corporate Standard of treasury operations.

OPERATIONAL RISKS

The key risks related to operating activities of KazTransOil JSC include:

- the risk of tie-in and unauthorized offtake of oil;
- technological risks, such as the main production equipment failures due to external developments, including natural and technological risks;
- environmental risks, such as the risk of damage to the environment as a result of accidents.

The Company’s activity of rendering of oil transportation services is potentially dangerous.

In order to manage and minimize the negative impact of these risks, the Company carries out the following activities:

- annually in accordance with the laws of the Republic of Kazakhstan concludes contracts of compulsory insurance of civil liability of owners of the facilities, which activity is associated with risk of harm to third parties, contracts of obligatory environmental, as well as contracts of compulsory insurance of employees against accidents while performing their job;
- concludes contracts of voluntary property insurance against damage in accordance with the Policy on insurance in Samruk-Kazyna JSC and national development institutions, national companies and other legal entities, more than fifty percent of the voting shares (participation) which directly or indirectly belong to Samruk –Kazyna JSC;
- on a constant basis holds diagnostic works of the basic equipment, using the most advanced technologies, planned preventive maintenance of all production equipment;
- forms emergency stocks of repair materials and special emergency equipment is contained in the permanent technical availability in accordance with the requirements of technical standards;

- on a permanent basis holds certification of the working and technical personnel, training of technicians is held within their advanced training program;
- develops activities in the field of industrial safety, plans to eliminate potential accidents at each major equipment and facilities of the pipeline system;
- uses and maintains fire-fighting equipment set in a constant technical readiness.

LEGAL RISKS

The main legal risk of the Company is the risk of losses due to non-compliance with the legislation of the Republic of Kazakhstan.

For legal risk management KazTransOil JSC performs activities aimed at:

- timely resolution of situations that could potentially lead to the court requirements entailing negative consequences for the Company;
- timely review of claimed pre-action requirements;
- proper fulfillment of its contractual obligations by the Company;
- training seminars in the field of legislation of the Republic of Kazakhstan with the aim of legal awareness of the Company’s employees.

4.3 Quality Management

4.3.1 Integrated Management System

In order to maintain and improve the integrated management quality system of quality, environment, health and safety KazTransOil JSC in accordance with international standards ISO 9001, ISO 14001 and OHSAS 18001 (hereinafter referred to as IMS) in the reporting period has conducted the following activities:

- in the structural divisions of the Company periodic supervisory audit was held for compliance of the IMS to the international standards’ requirements ISO 9001, ISO 14001, OHSAS 18001. International certification body Det Norske Veritas (DNV) on the results of this audit confirmed the action of international certificates for compliance of IMS to the requirements of ISO 9001, ISO 14001, OHSAS 18001;
- in the structural divisions of the Company internal audits were conducted for compliance with the international standards ISO 9001, ISO 14001, OHSAS 18001, which resulted in a plan of corrective and preventive actions;
- a regular survey of consumers of the Company (for oil transportation, water supply and operator services) was held. According to the analysis (on the newly developed technique to determine the degree of satisfaction) it was determined that approximately 100% of consumers surveyed are satisfied with the quality of services rendered;
- training on international standards ISO 9001, ISO 14001, OHSAS 18001 was organized and held for employees of 180 companies, 97 of which were employees of industrial branches;
- expertise of the 25 projects of KazTransOil JSC internal documents developed by the structural divisions of the Company – owners of the business processes was held to ensure compliance with the IMS;
- the project to optimize 10-business processes of KazTransOil JSC was implemented for their further automation. This project is aimed at implementing KazTransOil JSC information technology strategy for 2013-2017, and for improving effectiveness and transparency of optimized business processes.

4.3.2 Information Security Management System

With the development and growth of the complexity of information systems KazTransOil JSC increases the need for continuous and systematic development and improvement of the Information Security Management System.

In 2013 KazTransOil JSC, during the annual inspection audit successfully confirmed the efficiency and effectiveness of information security management system and also its compliance with international standard ISO/IEC 27001:2005.

During the reporting period KazTransOil JSC has provided practical assistance to such companies as NC KazMunaiTeniz JSC and KazTransGas JSC in terms of best practices for the implementation of the international standard ISO/IEC 27001:2005.

As part of a phased development plan for information security management system in KazTransOil JSC for 2012-2013, work on the survey, detection and analysis of the current state of existing information systems, tools and methods of information security requirements of international standard ISO/IEC 27001:2005 were conducted.

In order to reduce information security risks associated with the human factor, as well as providing an adequate level of competence and knowledge of the Company’s personnel in the field of information security a series of new rules, procedures and instructions were developed and approved.

Also, given that KazTransOil JSC became the first company to take part in a large-scale government project “the People’s IPO”, control over the integrity, authenticity, and at the same time the availability of information was strengthened, as the unauthorized use, theft, and destruction of information can have a negative impact on reputation, trust of shareholders and financial stability of KazTransOil JSC.

5. Sustainability

Sustainability is a priority of KazTransOil JSC. The Company's activities in this area are systemic in nature and include the creation of favorable conditions of work, safety in the workplace, environmental protection, and support for socio-economic development of local communities. An important condition for sustainability of the Company is effective interaction with stakeholders. The Company pays particular attention to the rights and interests of the stakeholders and strives to fully take into account the views and expectations of stakeholders on a systematic basis.

In carrying out activities in the field of sustainability and interaction with stakeholders the Company is guided by the following principles enshrined in the Global Compact of the United Nations:

In interaction with society:

- formation of the strategy given the interests of society as a whole;
- facilitating the creation of new jobs in the regions of presence;
- assistance in strengthening of long-term economic stability and competitiveness of the economy of the Republic of Kazakhstan;
- adherence to the principles of fair competition, generally accepted moral and ethical standards.

In adherence to human rights:

- providing support and respect for human rights enshrined by the international community;
- ensuring of non-involvement in human rights violations.

In social support and charity:

- organization of a variety of activities aimed at supporting vulnerable social groups;
- provision in the prescribed manner of sponsorship (charity) aid;
- provision of social support to former employees of the Company, who retired from the Company, and employees who recieved a disability while working at the Company and left their employment;
- provision of compensation and benefits as part of collective agreements between an employee and the Company as the employer.

In responsibility to the state:

- compliance with the legislation of the Republic of Kazakhstan;
- reflecting the position of the public interest in the current plans and strategic development for realization of the objectives of social and economic policy, supporting the initiative in the field of economic, social and cultural development;
- preventing corruption actions of the management and employees of the Company and implementation of anti-corruption measures in accordance with the legislation of the Republic of Kazakhstan and the internal regulations of the Company;
- timely fulfillment of obligations to pay taxes and other payments of the Company in the state budget, counteracting legalization of illicit income.

In transparency, interaction with stakeholders:

- compliance with all the terms of the agreements concluded with the stakeholders;
- objective and qualitative disclosure about the performance and development plans of the Company;

- timely disclosure of information about the material events that may influence the decisions of stakeholders of the Company;
- building trust relations with stakeholders, implying greater transparency and openness;
- observance of the ban on the use of insider information.

In labor relations:

- advocating for the elimination of all forms of forced labor, child labor and discrimination in employment and occupation;
- safety conditions of staff, conducting health programs and social support of personnel;
- providing incentives, advanced training of personnel;
- ensuring the availability of reserve personnel, career development plans;
- development of corporate culture.

In environmental protection:

- promote the prevention of negative impacts on the environment;
- commitment to follow the principle of maximum careful and rational approach to the environment and maintaining all possible initiatives to protect the environment.

The Company's activities in the field of sustainability are regulated by the Code of Corporate Governance, as well as a number of internal documents, including: the Code of Social Responsibility, the Labour Policy, the Policy on Industrial Safety, Occupational Health and Environmental Protection, the Rules for Sponsorship (Charity) Aid.

The aforementioned documents are available for the public access on the Company's corporate website.

The main activities in sustainability are:

- unconditional compliance with legal requirements;
- participation in state social programs;
- consideration of the expectations and opinions of stakeholders, systematic approach to building trustworthy and mutually beneficial relationship with them;
- sponsorship (charity) assistance;
- ensuring occupational health and safety and environmental protection;
- creation of conditions to meet the needs of personnel;
- creation of conditions for the preservation and improvement of personnel health;
- development of human resources;
- efficient investment in production development, aimed at improving the competitiveness of the Company in its interests and the interests of the society.

The Company in compliance with the principles of sustainability implements the following activities to:

- reduce the negative consequences of doing business for interested parties (stakeholders), including the Company's employees, customers, partners, suppliers and contractors, local communities and other stakeholders;
- establish an effective integrated management system based on international standards;

- coordinate simultaneous activity of the Company for the four dimensions of sustainability: economy, ecology, social policy and ethical business;
- raise awareness of stakeholders on all aspects of the Company and ensure the accuracy, consistency and timeliness of information provided to them;
- prepare non-financial reporting, followed by the publication of information on the corporate website of the Company;
- response to evaluation, criticisms and expectations of all interested parties (stakeholders) in all areas of its social responsibility, which are recognized, including in non-financial reporting of the Company.

The key principles of the Code of Social Responsibility of KazTransOil JSC are transparency, proactiveness and cost-effectiveness of the Company.

Code of Social Responsibility of KazTransOil JSC

5.1 Sustainability Management in the Field of Occupational Health, Safety and Environmental Protection

Sustainability's main priority is the management of activities in the field of security and occupational safety, industrial safety and environmental protection, which are carried out by the General Director (the Chairman of the Management Board) of the Company through the Department of labor and production control. This department conducts methodological support, supervision and overall coordination of security and safety, industrial and fire safety and environmental protection, operating in all business units with the regular conduct of comprehensive and targeted inspections.

In 2012, a policy of KazTransOil JSC in the field of industrial safety, occupational health and the environment was approved, which is mandatory for observation by all structural units. At the SJCE level similar policies were adopted, consistent with the policies adopted at the Company's level.

In accordance with the Development Strategy the absolute priorities for KazTransOil JSC are safety of life and health of its employees and the environmental protection. The policy in the field of industrial safety, occupational health and the environment are consistent with other policies of the Company and an integral part of its management system. The Company's management assumes the responsibility for reviewing and providing the necessary resources and conditions for control systems of industrial health, occupational safety and the environment.

Policy of KazTransOil JSC in the field of industrial safety, occupational health and environmental protection

5.2 Stakeholder Engagement

APPROACH OF KAZTRANSOIL JSC TO STAKEHOLDER ENGAGEMENT

KazTransOil JSC considers interaction with the interested parties (stakeholders) as an essential condition for sustainability and a key factor in the formation of corporate social responsibility. The Company is aware of the impact that its activity has on a wide range of stakeholders and its responsibilities towards them. Stakeholder participation in the activities of the Company and the determination of its long-term priorities, as well as accounting of the interests of all stakeholders is a prerequisite for sustainability and implementation of the Company's strategic objectives. Focusing on the best international practices, KazTransOil JSC is committed to constructive dialogue, cooperation and building mutually beneficial relationships with all stakeholders.

Relationships with all stakeholders of the Company are being built in accordance with the legislation of the Republic of Kazakhstan, the Charter and internal documents of the Company.

The main principles and priorities of interaction with stakeholders are reflected in the Company's corporate documents, such as the Development Strategy, the Code of Corporate Code and the Code of Corpotrate Ethics. Given the high requirements of the stakeholders of the Company, KazTransOil JSC seeks to protect the rights and interests of shareholders, as well as take into account the interests of all stakeholders, creating and continuously improving the mechanisms and procedures of corporate governance.

BASIC FORMS OF STAKEHOLDER ENGAGEMENT

- disclosure of the information about the Company's activities using: corporate website of the Company, the Kazakhstan Stock Exchange website, distribution of press releases, press conferences and briefings, meetings with representatives of the public, media presentations;
- providing reports and information to state bodies;
- participation in industry committees and associations;
- holding of meetings, discussions, negotiations with stakeholders;
- feedback channels to employees of the Company ("hotline"), shareholders and investors (feedback through corporate website);
- organization and participation in various kinds of public events.

Existing forms of interaction with stakeholders provide feedback, allow to timely identify potential risks and threats, as well as new opportunities to improve the efficiency of operations.

Publication of non-financial reports, organization of conferences, round tables, presentations and other events are the basic tools to inform stakeholders about the Company's contribution to sustainability. The Company is also actively cooperating with the media and supports the work of the corporate website.

Due to the high level of transparency, disclosure of information and interest of the media to the Company, stakeholders receive timely opportunity to learn about the results of the important events and changes in the plans of the Company and other matters of concern.

5.3 Environmental Protection

Company's environmental activity is carried out in accordance with the approved plans and actions agreed with the authorities in the field of environmental protection, as well as in accordance with the requirements of the Environmental Code of the Republic of Kazakhstan and the applicable regulatory documents of the Republic of Kazakhstan and the Company.

KazTransOil JSC provides a set of measures for monitoring resource consumption for the Company's activities, assessing the impact on the environment, environmental audit, regulation of emissions. Monitoring and evaluation are carried out both by the Company and independent specialized organizations in accordance with the signed agreements.

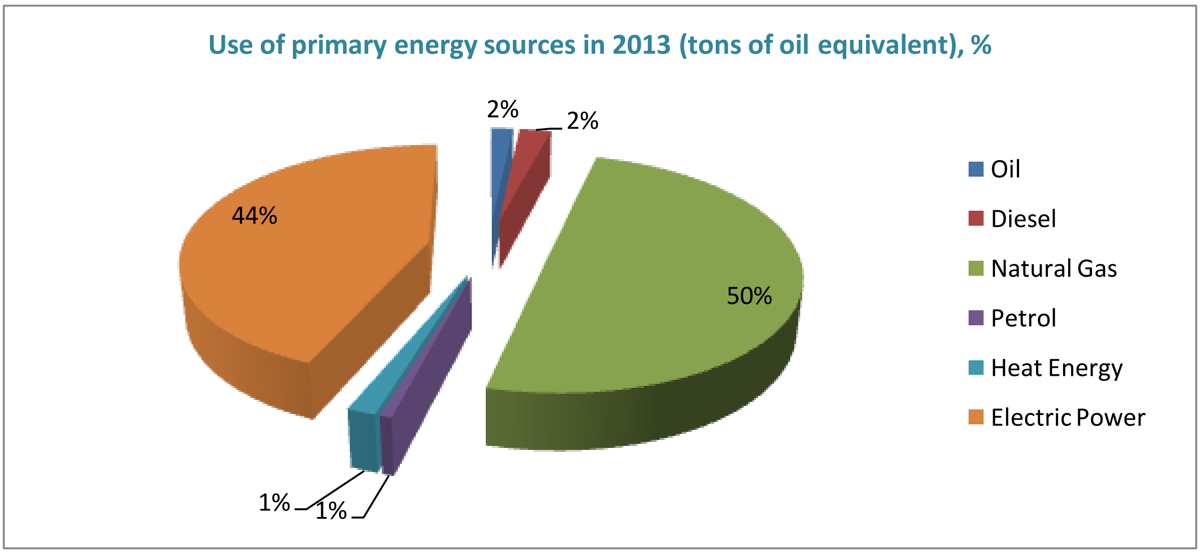
These measures allow to estimate the impact of activity of the Company's production facilities on the environment, thus reducing the negative impact on the environment and the livelihood of people living in close proximity to these facilities.

The Company carries out environmental activity in accordance with the requirements of the International Standard ISO 14001, in which the Company has been certified since 2004. In 2013, the compliance of the Company's activity with the certificate was confirmed. On an annual basis the Company's Registry of Significant Environmental Aspects is processed and re-conformed.

RESOURCE CONSUMPTION

To carry out the production activity, the Company uses several types of fuel and energy resources, including natural gas, which is cost-effective and environmentally safer. In 2013, the share of natural gas consumption by the Company amounted to 50% of total energy consumption in physical units.

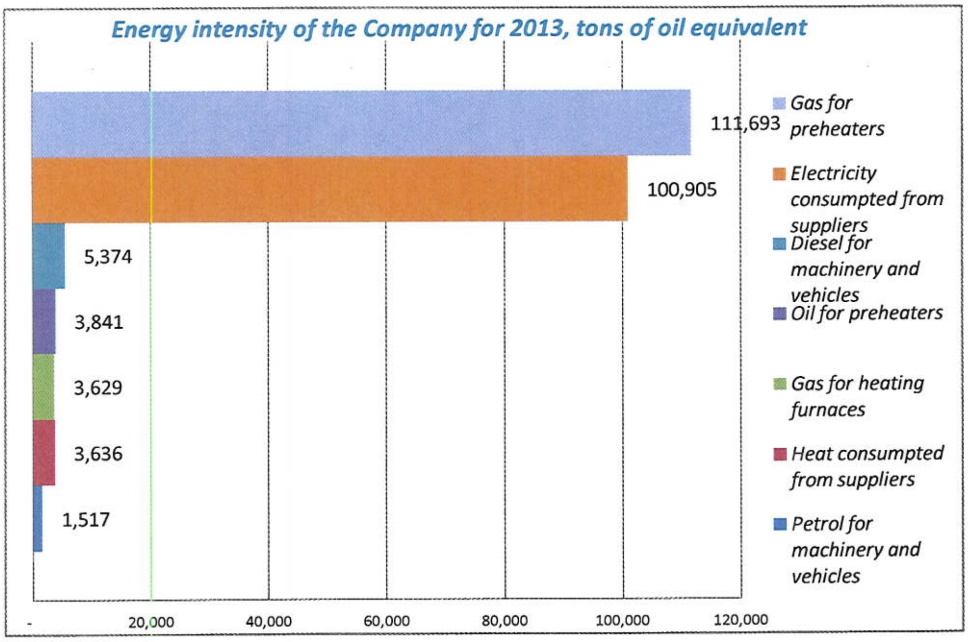
In addition to the natural gas, the Company also consumes significant amounts of electricity generated by power lines of electricity supplying companies. In 2013, the share of electricity consumption accounted for 44% of total energy consumption.



In order to implement its activities the Company operates:

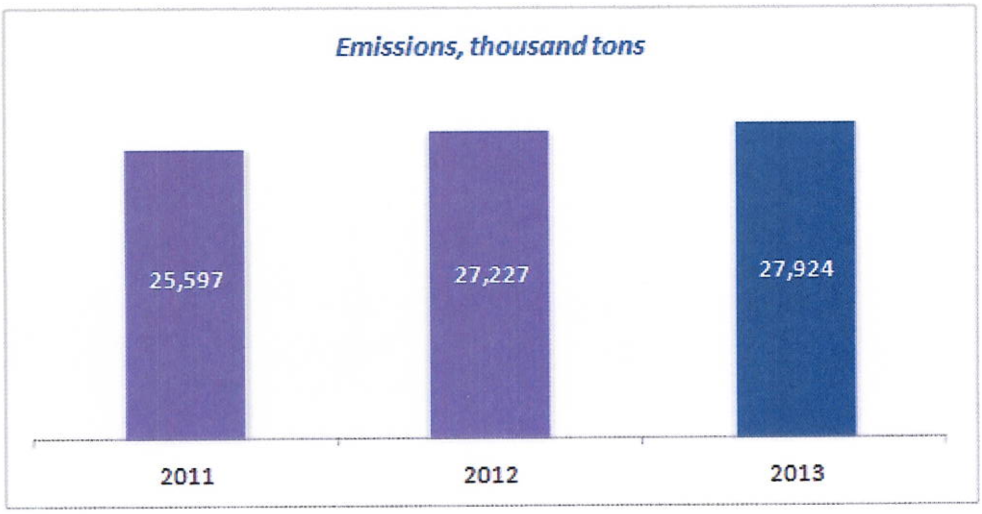
- *37 oil pumping stations;*
- *7 stations of oil heating;*
- *64 preheaters;*
- *4 oil freight piers;*
- *1 head treatment plant;*
- *4 pumping stations, and*
- *1 water treatment plant.*

The length of main pipelines is 7,651.097 km, the total volume of the tank farm for oil and water is 1,414.2 thous. cbm.



EMISSIONS

With growing volumes of oil transportation via main pipelines the Company is working to stabilize and improve environmental quality. Slight increase in emissions of pollutants compared to 2012 is due to the increased volume of oil and water transportation.



The Company develops environmental documentation on a permanent basis in order to obtain permits for volumes of emissions, discharges and waste disposal, based on which the Company receives the requested limits in full. Due to the amendments of the legislation regulating the turnover of greenhouse gases, in 2013 the Government of the Republic of Kazakhstan approved the National Allocation Plan for greenhouse gas emissions. In this period, defined by the Government, the Company obtained the relevant certificates to the facilities included in the National Plan.

In order to reduce the volume of negative impact on the environment, the Company improves technologies and conducts the following activities:

- modernization of gas equalizing systems in tank farms;

- introduction of pontoons on oil storage tanks;
- adjustment with regime-commissioning works of oil heating furnaces operation, steam boilers;
- and other technological improvements.

LAND RESOURCES AND BIODIVERSITY

Use of land for KazTransOil JSC activities is carried out in strict accordance with the legislation of the Republic of Kazakhstan.

The total area of land owned, leased and managed by the Company as a whole is 71,055.712 ha.

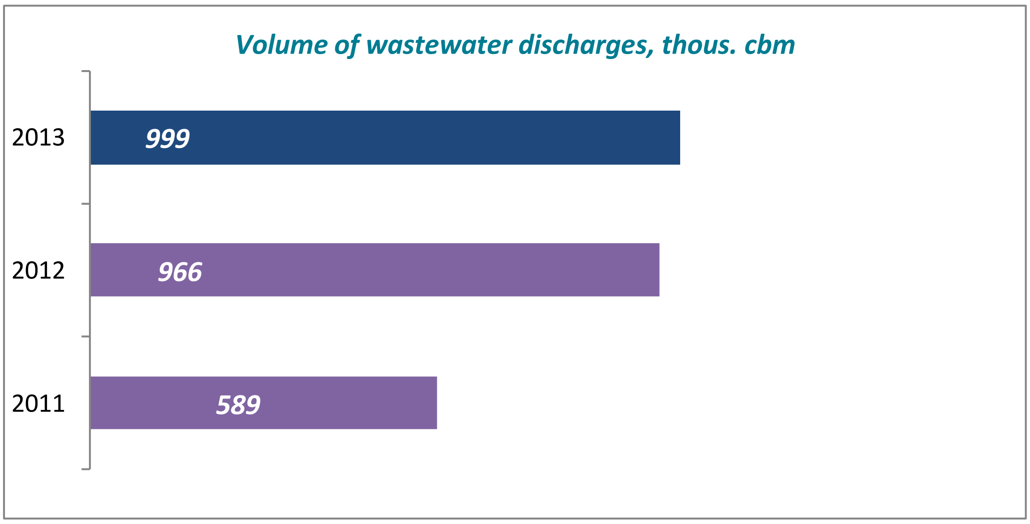
In order to regulate the quality of the environment and establish permissible impact ensuring environmental safety, conservation of ecological systems and biodiversity of areas involved, the Company develops standards for maximum permissible emissions and discharges of pollutants, disposal of production and consumption. Besides, constant monitoring of soil involving outsourced independent accredited organizations is held.

WATER RESOURCES

In accordance with the legislation, the Company monitors the groundwater, surface water and wastewater, with laboratory studies of water, as well as monitoring of cleaning discharges.

To provide consumers with services for water supply through the Astrakhan – Mangyshlak water pipeline, the Company withdraws water from the river Kigach located in the delta of the Volga River. Total water withdrawal of the surface water and wells in 2013 by the Company was 27,084,226 cbm, including– 26,844,950 cbm from the river Kigach.

The increase of wastewater discharges in the past few years was due to the increasing number of washes of hydro-pump-removal systems of LPDS Kigach and with the increase in water consumption and wastewater on the Atyrau and Karaganda oil pipeline management of the Company. The total number of discharges remained within the permitted limit.

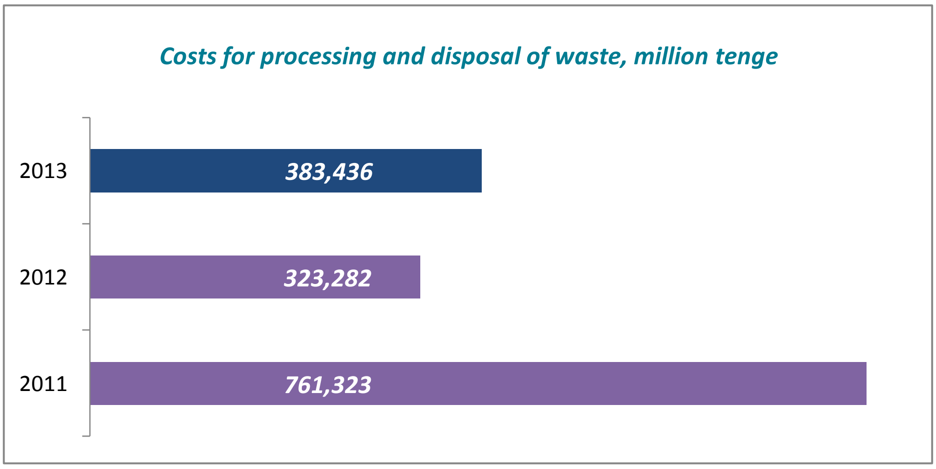


CONTROL AND WASTE RECYCLING

The Company complies with environmental and sanitary-epidemiological requirements, performs the full range of activities required for recycling and safe waste disposal. KazTransOil JSC annually concludes contracts for removal and disposal of industrial and consumer waste, drainage and wastewater treatment.

Domestic and industrial wastes are stored on the Company's territory for minimum time and transported by contractors for recycling while formation.

The volume of waste formation for the reporting period decreased by more than 91% compared with the previous reporting period associated with reduced emergency oil losses as a result of reducing the number of unauthorized penetrations into the pipeline from illegal actions of third parties.

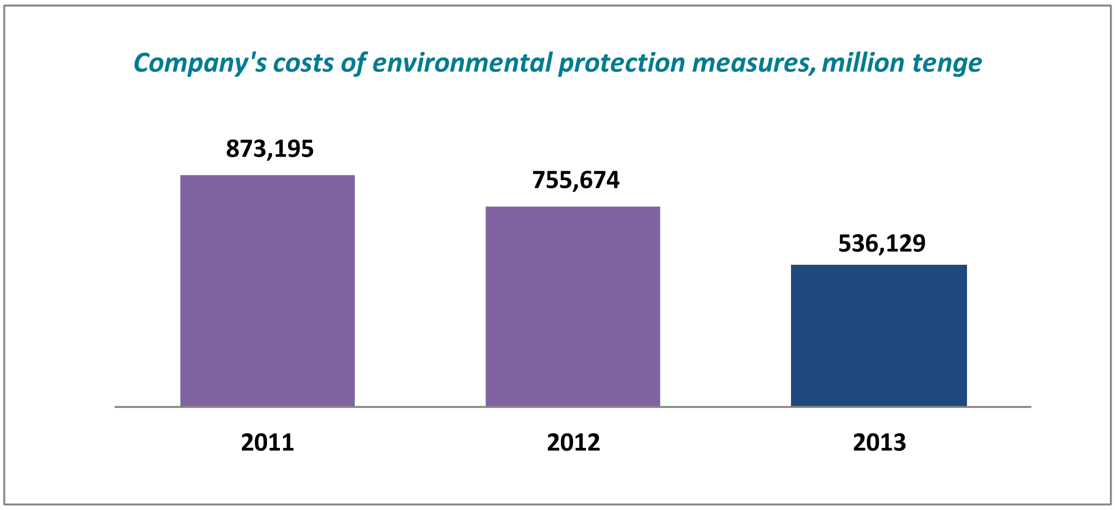


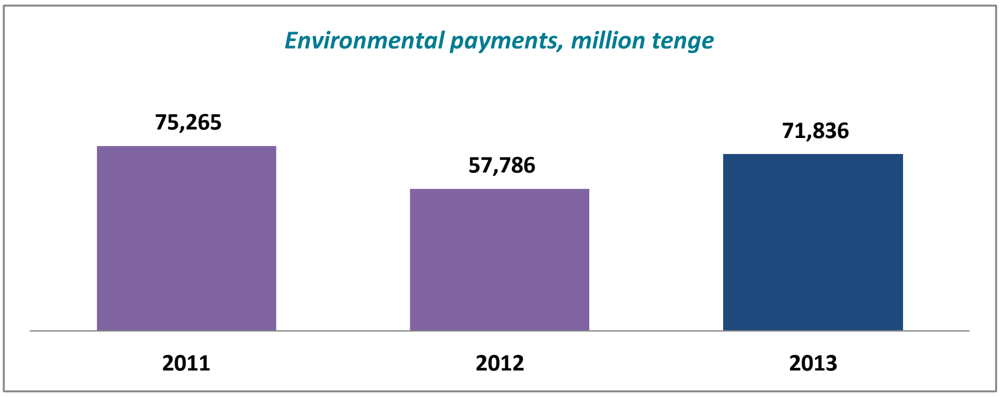
COSTS OF ENVIRONMENTAL PROTECTION MEASURES

KazTransOil JSC annually allocates funds for complex environmental activities, including conduct of industrial environmental monitoring, monitoring of air and soil, groundwater, surface water and wastewater action on waste management.

The Company allocates funds to redevelop "historical pollutions" of land by oil formed in the 60-80s of the 20th century.

During the reporting year, for the elimination of historical contamination the Company spent 290 million tenge. From 2010 to 2013, contaminated lands with a total area of 4.8 ha in Western Kazakhstan and Mangistau regions were recultured.





ENERGY MANAGEMENT

In accordance with the legislation of the Republic of Kazakhstan the Company as energy-intensive industry began implementing an energy management system that meets the requirements of the international standard ISO 50001 in energy management (hereinafter referred to as SenM).

In accordance with the SenM concept, the Company is involved in the energy conservation and efficiency, which includes:

- minimizing losses and improving energy efficiency by optimizing the pumping modes;
- introduction of new energy-saving technologies;
- replacement of old equipment with new and more environmentally friendly;
- thermal control over facilities during the heating season;
- introduction of automatic control of heating, control the on and off the heating, lighting, air-conditioning;
- repair and insulation of existing production and domestic buildings, insulated heating system, wells, valves;
- reduced costs of diesel fuel and gasoline in connection with the use of a monitoring system for motor vehicles;
- assessment of the effectiveness of energy saving on the facilities of energy audits;
- modernization of lighting systems with energy-efficient light bulbs.

5.4 Occupational and Health Safety

The activity of KazTransOil JSC in the field of occupational and health safety is carried out in strict accordance with the requirements of the Labor Code of the Republic of Kazakhstan, as well as other regulatory and technical documents in this area.

Since 2013 the Company has been working on the new standard JSC ST “Uniform system of health and safety management in KazTransOil JSC” , developed in accordance with the current legislation of the Republic of Kazakhstan in the field of occupational and health safety, international standards and the Unified management system of labor protection of NC KazMunaiGas JSC, approved by decision of the Board of NC KazMunaiGas JSC dated October 18, 2012.

Within the implementation of the Comprehensive Program on security and labor safety of NC KazMunaiGas JSC for 2012-2016, the Comprehensive Program in occupational health and safety, fire safety, environmental protection and industrial safety for 2013-2016 years was developed and approved by the Company in the prescribed manner.

According to the Comprehensive Program of the Company, the following activities under the occupational health and safety area were implemented:

- draft standard of the organization “Requirements for special clothing and personal protective means for employees of KazTransOil JSC” was developed;
- the Company’s standing committee on health and safety members have been re-elected;
- periodical certification of production facilities in terms of labor conditions on Karaganda oil pipeline and LDPS Peterfeld of the Eastern Branch was held;
- conference calls on health and safety, environment involving the General Director, the Deputy General Director for Production, managers and specialists of the branches of KazTransOil JSC and SJCE were permanently held;
- mandatory pre-shift (pre-trip) medical examinations of employees engaged in work related to the increased risk, including facilities located away from the populated areas and working in shifts are held.

The Company conducts all types of safety instructions, and departments are provided with occupational safety rooms. In accordance with the regulations all sites have sanitary facilities (rooms for meals, showers, changing rooms, sanitary rooms). The Company’s employees are provided with the necessary specialized clothing and footwear and other personal protective means, as well as milk.

As part of the internal control system in KazTransOil JSC records of all accidents involving the production are kept, accidents of personal injury are investigated, as well as measures are taken to reduce the factors giving rise to such cases. **During 2013, one accident associated with production took place in the Company. The Company aims to achieve zero injuries**.

LABOUR PROTECTION SYSTEM DYNAMICS OF INDICATORS			
Indicators	**2013**	**2012**	**2011**
Total number of accidents (related to production)	1	3	0
Frequency of accidents ratio	0,13	0,38	0

FIRE SAFETY

During 2013 fires have not been reported at the Company’s facilities. Activities in the field of fire protection were carried out in accordance with Kazakhstan legislation, standards and work plans of the Company.

In order to train workers at the Company's production facilities with fire safety measures mentoring programs were developed and approved, on which 35,779 sessions were held, 8,966 employees were trained to fire-technical minimum of operating staff, 1,136 members of volunteer fire fighting units were trained.

In accordance with the regulations of the Ministry of Emergency Situations of the Republic of Kazakhstan for acquisition of practical and theoretical skills of action in the event of possible fires: 27 fire and tactical exercises, 939 fire tactical training, 152 checking of stationary equipment with foam extinguishing with foam supply and cooling start of irrigation water in the ring, 972 inspections of technical condition of fire alarms, 1,401 inspections of outdoor fire water, 960 verifications of workability of internal fire hydrants with the launch of water were conducted.

19 instructions on fire safety were developed and reconsidered.

INDUSTRIAL SAFETY

According to the Law of the Republic of Kazakhstan “On industrial safety on hazardous production facilities” and guidelines for the organization and implementation of industrial control over observance of industrial safety at hazardous production facility, agreed by the Committee for State Control of Emergencies and Industrial Safety of the Ministry of Emergency Situations of the Republic of Kazakhstan (order dated April 12, 2010 No. 12), in 2012 the central office and administrative staff of the Western and Eastern branches of the Company, the oil pipeline management of the branches established units implementing industrial control in the field of industrial safety.

In accordance with the Regulations on the Control over observance of industrial safety at hazardous production facilities of KazTransOil JSC in 2013, the works on organization and implementation of the fifth level of production control of industrial safety at hazardous production facilities and production units of the branches and SJCE of the Company were carried out.

5.5 Personnel

THE COMPANY'S HUMAN RESOURCES DEVELOPMENT STRATEGY

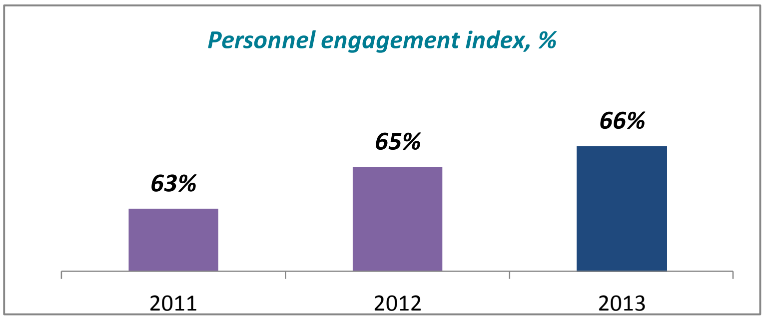
The Company realizes that human capital is the foundation for long-term growth and competitiveness enhancement, and is committed to develop social responsibility aimed at increasing efficiency, enabling the social protection of employees, the stability in the team.

KazTransOil JSC considers the personnel of the Company as the human resource able to provide the competitive advantages and leadership positions in its appropriate planning, optimum user and quality development. In this regard the expenses for human resources development are long-term investments to the Company's growth.

Labour Policy of KazTransOil JSC for 2010-2014, confirmed by resolution of the Board of Directors on 10 March 2010 sets the following key priorities:

- attraction, development, and retention of highly qualified employees;
- implementation of advanced methods of staff management;
- development of the pull of high potential employees of the Company;
- support of innovation and changes in the Company;
- creation and development of joint values, social norms, settings, regulating behavior of the Company employees.

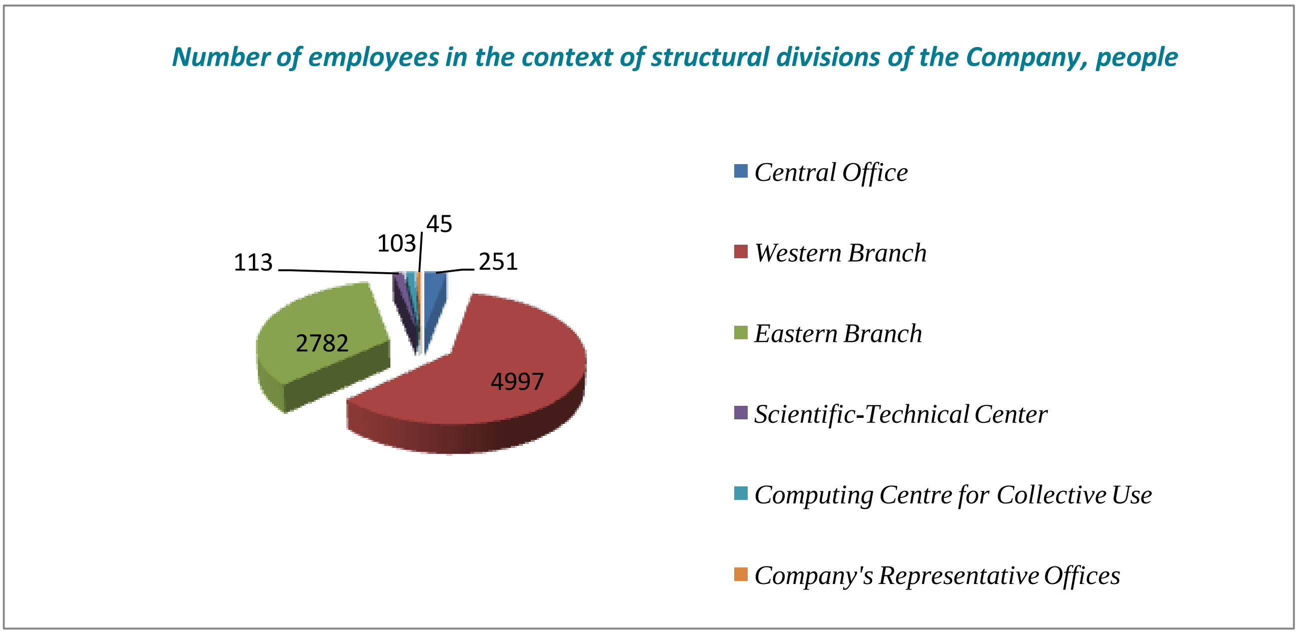
Each year the company studies the extent of involvement of staff in order to identify staff loyalty to the Company, awareness and the acceptance of corporate goals and objectives of the Company, trust of personnel to its management, identify the material and psychological incentives that have the greatest impact on employee satisfaction. Company personnel engagement index in 2013 was 66% (in 2012 - 65%, in 2011 - 63%).

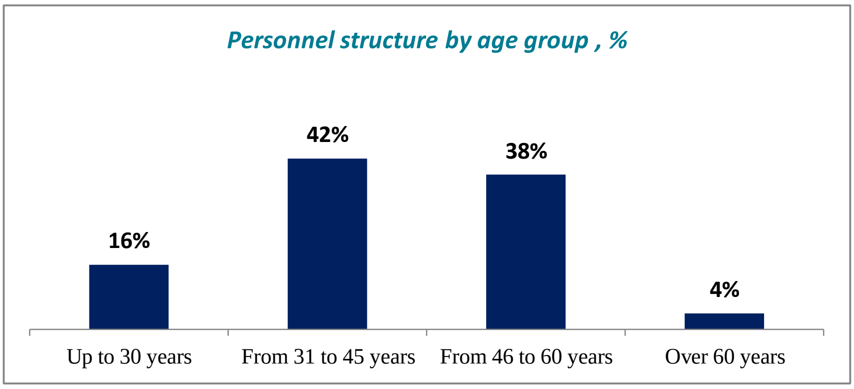


PERSONNEL STRUCTURE

Actual number of employees across all units of KazTransOilJSC at the end of 2013 amounted to 8,291 people. In total, the Company has 8,135 full-time and 156 free-lance employees. Indicator of staff turnover in 2013 amounted to 2.09%.

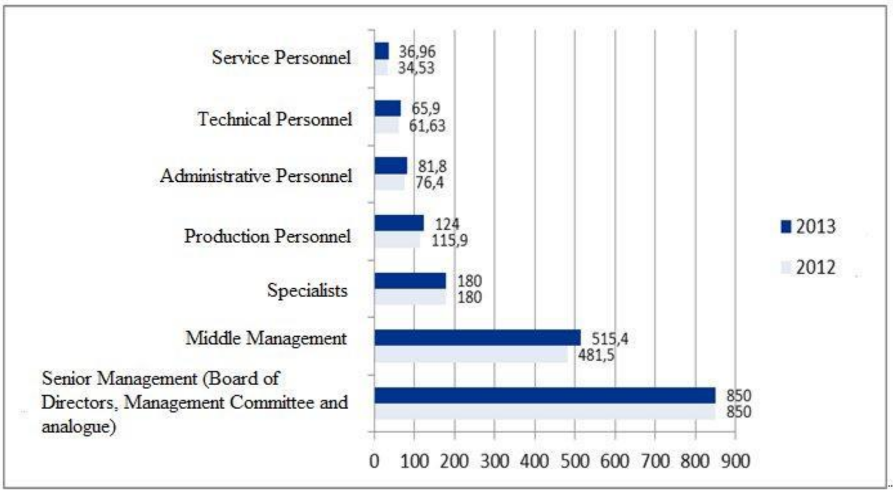
Due to the nature of the Company's activity, most production personnel are men – 75%. More than half (58%) of employees are under the age of 45 years old.





The Company does not discriminate employees by gender, whereby the ratio of basic salary of men and women is on the same level. Growth of base salary for all categories of employees of the Company remains stable compared to the previous reporting period.

Ratio of the basic salary by employees' category, thous. KZT



TRAINING AND ADVANCED TRAINING

System of training and staff development in KazTransOil JSC was founded for the purpose of forming and maintaining an appropriate level of qualifications of personnel to meet the requirements and prospects of the Company's strategic development. The structural divisions of the Company employ hundreds of highly qualified specialists who have passed specific training and re-training in higher educational institutions of the country and abroad, professional colleges and training center of KazTransOil JSC.

In 2013, 517 events were held on the training programs/staff development, attended by 6,567 employees of the Company, including 3,126 employees of production staff (workers) and 3,441 employees of administrative personnel and engineering employees of the Company. Including, directly based on TCC of the Western Branch of the Company 2,535 employee were retrained, of which 1,725 – working personnel. This institution is considered one of the best institutions on training and retraining of oil and gas sector specialists. Today the TCC material base allows to receive up to two and a half thousand specialists a year.

In 2013, the Company continued to implement the "Personnel Reserve" program aimed at identifying the best professionals who have the potential of personal development in the professional field as well as in the management abilities that need to be developed and used for the development of the Company. For participants in the program, individual career development plans for improving personal skills of reservists were developed.

In accordance with the applicable collective agreements concluded between KazTransOil JSC and groups of employees in the Company, once in three years the certification of personnel is held. Certification allows to set the quality, level of difficulty and the results of work of each employee.

In December 2013 all employees have been assessed.

5.6 Social Policy

Under the Code of Social Responsibility, KazTransOil JSC in order to ensure maximum benefits to the people of the Republic of Kazakhstan from its activities undertakes voluntary obligations on socially responsible participation in the life of the Company's employees, population in the region and society as a whole.

Social responsibility of the Company is reflected in holding of various social programs of internal and external orientation. The first group includes staff development, health protection and maintainenance of safe working conditions for employees, support for former employees of the Company, who retired from the Company, and employees who received a disability during the period of employment with the Company and have left employment, the second – charity.

The Company has entered into collective agreements between the Company, as the employer, and employees, according to which KazTransOil JSC offers its employees a comprehensive package of social services, including health insurance, financial assistance, including treatment and rehabilitation of employees during the leave, activities to support physical culture and healthy lifestyle, and others.

The Company provides financial assistance for former employees of the Company, who retired from the Company, and employees who acquire a disability during the period of employment with the Company and have left their employment within the funds provided for in the Business Plan of the Company.

5.7 Company Operations in Regions of Presence

The Company supports the socio-economic growth of the regions of presence and provides social assistance to various groups of population.

Over many years, the Company implements social projects in the Mangistau, Karaganda and Atyrau regions of Kazakhstan. All social projects are sponsored by the Company.

Supply of fresh water in arid areas is one of the key areas of social assistance from the Company. For the years of the Company's activity, Astrakhan – Mangyshlak water pipeline received over 400million cbm of water. Every day through the water pipeline about 50-60 thousand cbm of water is supplied to arid regions, which allows the Mangistau region farmers to grow melons and vegetable crops in the drylands of the area.

5.8 Charitable Activities

The Company takes an active part in social life and carries out charitable activities in accordance with the Rules of Rendering Sponsorship (charity) Aid of the Company.

The priority areas of charitable activity of the Company is the maintenance and development of the cultural spheres of society, assisting victims of natural disasters, poverty reduction, maternal and child health, education, public health, physical culture and sports, as well as holding socially significant events to implement state programs.

In 2013, the Company allocated KZT 126.5 million for sponsorship (charity) aid, which were sent to organizations in the following regions of presence of the Company:

Region	Organization
Akmola region	- Nurly Astana Corporate Foundation - Arka Public Foundation - Munaishy Public Foundation - Republican Diagnostic Center JSC
Pavlodar region	- Rehabilitation Center Samal Public Association of Disabled People
Mangistau region	- Public Enterprise Regional Orphan's Home of the Department of Education of the Mangistau Region - Mangistau Regional Association of Disabled People Public Association - Aktau Society of Deaf People Public Association
West Kazakhstan region	- State Enterprise Regional Special Boarding School Complex for hearing-impaired and speech disorder Children State Enterprise - Uralsk City Branch of the Republican Public Association Organization of Veterans
Aktyubinsk region	- Aktyubinsk Regional Public Charity Foundation Belaya Trost
Atyrau region	- Public Association Children's Order of Mercy of Handicapped Children - State Enterprise Atyrau Regional Boarding School for Mentally-Retarded Children - Ana Shuagy Public Association of Mothers Invalids - State Enterprise Center of Adptation of Minors of the Atyrau Region
South Kazakhstan region	- State Municipal Enterprise Regional Children's Hospital of the Department of Healthcare of the Akimat of the South Kazakhstan Region - Public Association South Kazakhstan Regional Society of Disabled People

In 2013 the Company donated the following facilities:

- kindergarten for 170 children to municipal property of Karaganda region;
- multipurpose sports site with land lot to municipal property of the Almaty region;
- unit of preventive examination with land lot to municipal property of the Atyrau region.

6 The Management Report on the Results of Financial and Economic Activities

This section contains discussion and analysis that help identify and assess the main trends and significant changes in the results of activity and financial position of KazTransOil JSC. This review is based on the consolidated annual financial statements of KazTransOil JSC and should be read together with the consolidated annual financial statements and with the cover notes, as well as together with other information provided in other sections of this document. All financial data and their discussions are based on the audited consolidated annual financial statements prepared in accordance with the International Financial Reporting Standards (hereinafter referred to as "IFRS") adopted by the International Accounting Standards Board. This report also includes data from the approved Business Plan of KazTransOil JSC for 2013-2017.

TARIFFS, KZT per 1 ton/1,000 km

Service	For the years ending as of 31 December	
	2013	2012
KazTransOil JSC		
Transportation for export	4,732.6**	3,331
Transportation to the domestic market	1, 954.5**	1,303
Kazakhstan-China Pipeline LLP		
Atasu-Alashankou Pipeline	4,444.56 *	3,818
Kenkiyak-Kumkol Pipeline		4,365.5
NWPC Tas JSC		
Kenkiyak-Atyrau Pipeline	5,912	5,912

** the tariff is introduced from April 2013 (order of ARNM dated 15 February 2012 No. 50-OD).*

*** the tariff is introduced from 1 December 2012 (order of ARNM dated 3 October 2012 No. 251-OD).*

GUARANTEES

In July 2004, the European Bank for Reconstruction and Development (hereinafter referred to as the "EBRD") opened a credit line for MunaiTas for ten years totaling USD 81.6 million with quarterly interest payments at a rate equal to the three-month rate of LIBOR (London Interbank Offered Rate) plus 2.25% additionally increased by 0.25% for each year after July 29, 2011. The Company acted as a guarantor to the EBRD in respect of MunaiTas obligations under the loan agreement with the EBRD. In March 2013 MunaiTas repaid all its obligations to the EBRD under the loan agreement and the Company's obligations under the Guarantee Agreement were terminated.

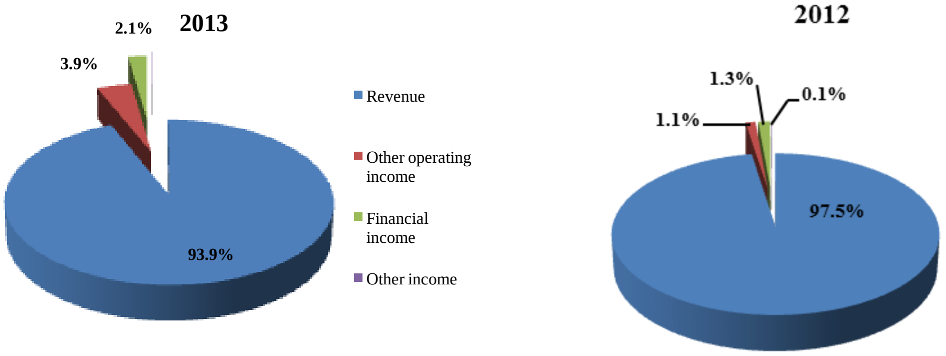
KEY CONSOLIDATED FINANCIAL RESULTS OF KAZTRANSOIL JSC FOR 2013 AND 2012, MILLION KZT

Indicators	2013	Plan 2013	2012	Implementation of the plan in 2013, %	Change in 2013 compared to 2012, %
Revenue	**190,022**	**175,939**	**143,061**	8%	33%
Cost of sales	**110,969**	**105,515**	**99,604**	5%	11%
General and administrative expenses	**11,028**	**11,038**	**10,978**	0%	0%
Operating profit	**62,617**	**70,248**	**33,061**	(11%)	89%
Share of income from jointly controlled enterprises	**11,847**	**7,923**	**8,108**	49%	46%
Corporate income tax	**13,847**	**16,112**	**8,550**	(14%)	62%
Income for the reporting period	**63,544**	**51,467**	**33,501**	23%	90%
EBITDA	**98,453**	**85,867**	**60,276**	15%	63%
Cash and cash equivalents for the year-end	**25,645**	**20,575**	**18,954**	25%	35%

Financial results achieved by KazTransOil JSC in 2013 are significantly higher than the results for 2012. This dynamics was influenced by both internal and external factors to which the Group is subjected:

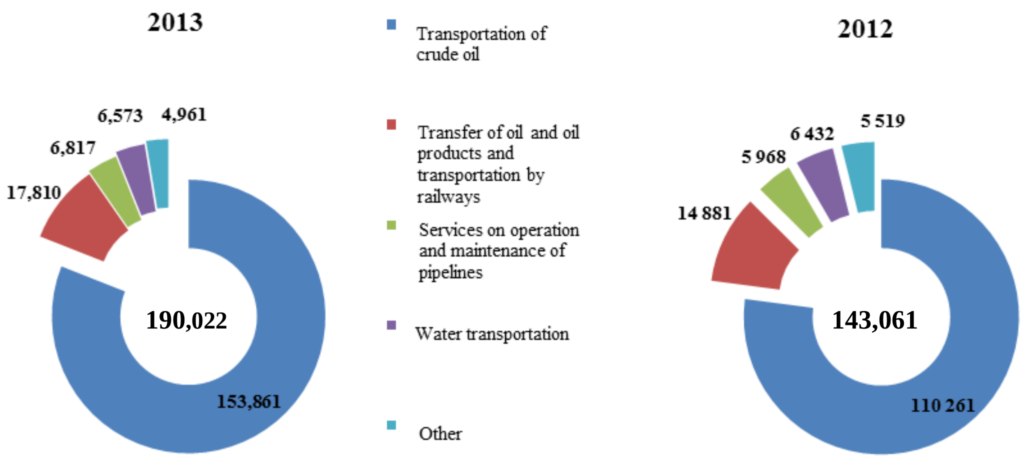
- increase in the volume of oil transportation and freight turnover;
- increase in the volume of water supply;
- increase in the tariff for oil transportation.

Income structure, %



Total income of the Group for 2013 made is KZT 202,260 million, which is 38% higher than the total income for 2012 – KZT 146,980 million.

Revenue structure, million KZT



In 2013, 93.9% of the total income of the Group was the revenue, which equals to KZT 190,022 million.

Revenue of KazTransOil JSC for 2013 exceeds the plan by 8% and the level of the same period in 2012 by 33%. The growth of this indicator was mainly influenced by:

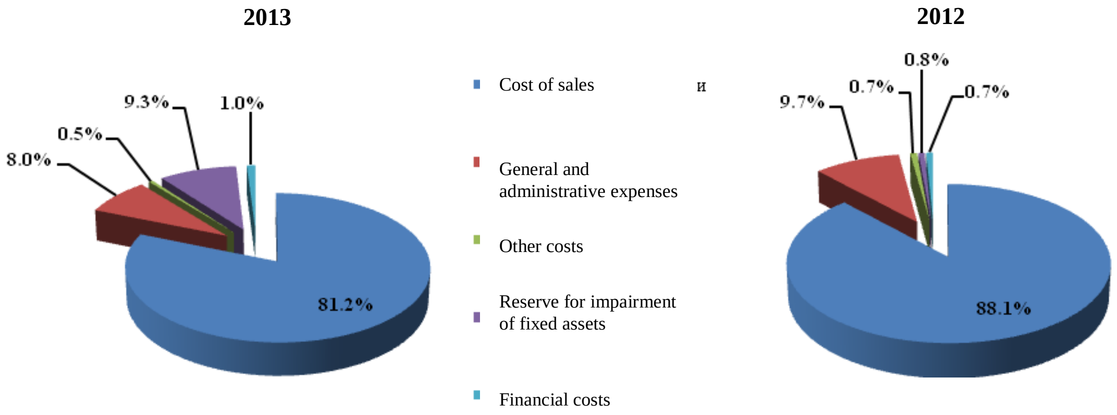
- increase in tariff for oil transportation: from December 1, 2012 the order of ARNM approved the tariff for oil transportation for export in the amount of KZT 4,732.6/1,000 tons km and for oil transportation to the domestic market in the amount of KZT 1,954.5/1,000 tons km (2012: the oil transportation tariff for export was KZT 3,331/1,000 tons km, and for oil transportation to the domestic market as KZT 1,303/1,000 tons km).
- increase in oil freight turnover by 7% from 34,530 million tons/km to 36,994 million tons/km;
- increase in oil products transfer volume by 66% from 1,360 tons in 2012 to 2,260 thous. tons in 2013;
- increase in water supply to oil and gas producing companies in connection with the growth of consumption for industrial needs, as well as an increase in water consumption by utility companies;
- increase in revenue from services on operation and maintenance of pipelines, which was mainly due to the rising cost of services of the Company for operation and maintenance of pipelines due to the increase in labor costs by the factor of inflation and interest payments on the year results. Moreover, increase in employee number related to the introduction into operation of PS-8 and PS-10 main pipeline Atasu-Alashankou in 2013.

During the reporting period it is observed a decrease in other income by 10% in comparison to 2012. Other income of the Group consists of the income from provision of freight forwarding services, services on oil storage, and other additional services provided by BTL and KazTransOil JSC. This decrease was due to the provision of services on storage of oil, as well as the decline in revenue from services provided by BTL as a result of return of empty tanks used by customers.

Other operating income of the Group in 2013 amounted to KZT 7,937 million and increased by more than four times compared to 2012. Growth of this indicator is mainly due to higher income from fines and penalties for KZT 5,766 million compared to the previous reporting period. Income from fines and penalties are provided by the amounts of fines for the claimed and short-delivered volume of oil to the customers under the agreements for provision of oil transportation on a “ship-or-pay” basis. Increase in income from fines in 2013 is related to the postponement of terms of commercial oil production at Kashagan field.

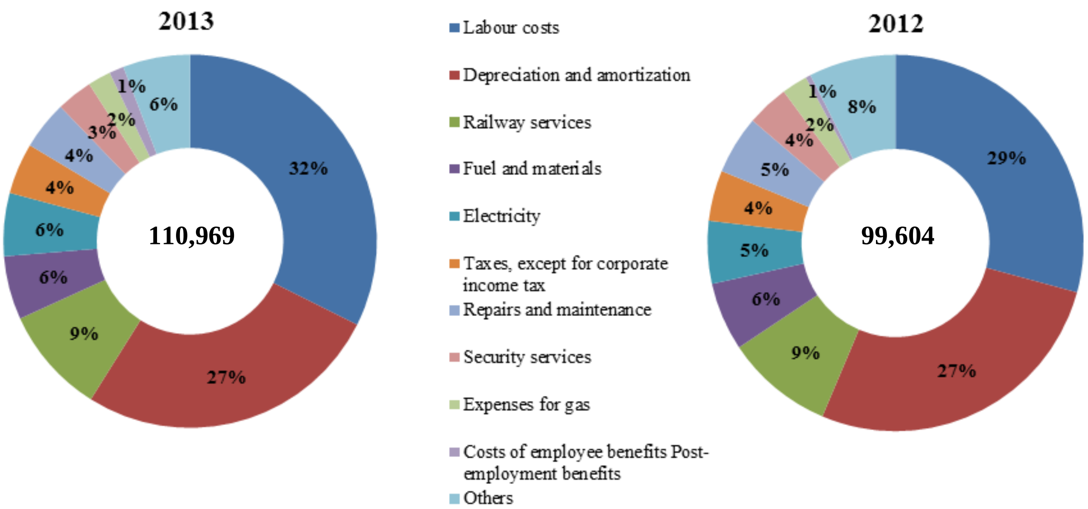
Financial income of KazTransOil JSC in 2013 amounted to KZT 4,197 million and increased by more than twice compared to 2012. Growth is due to the placement of free cash received from the Company’s operating activities on deposits and increase in the amount of interest accrued during 2013 for KZT 2,117 million. As of December 31, 2013 cash on deposits amounted to KZT 81,554 million, which is higher than as of December 31, 2012 by 54%.

Expenses structure, %



Total expenses of the Group for 2013 is equal to KZT 136,716 million, which is 21% higher than total expenses for 2012 – KZT 113,036 million.

Cost of sales structure, %



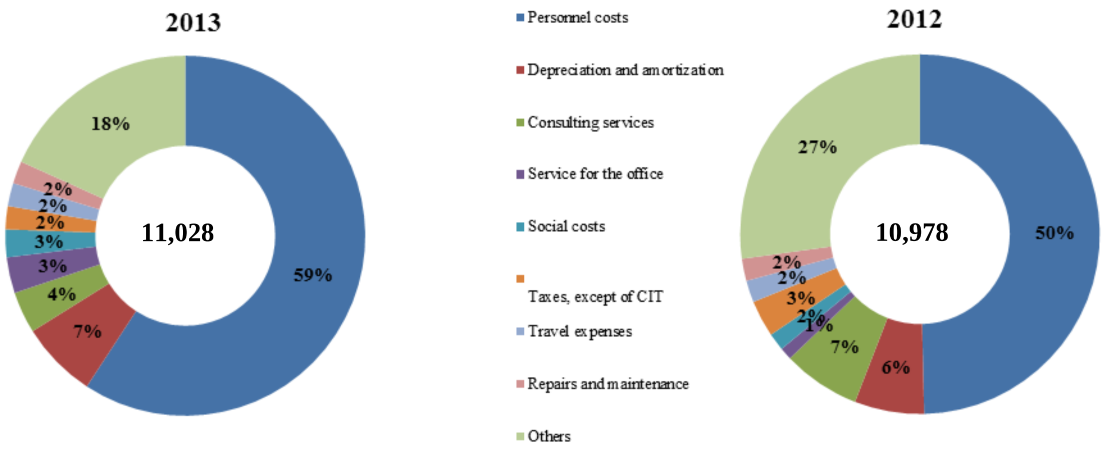
Cost of Sales of the Group for 2013 is equal to KZT 110,969 million, which exceeds the plan by 5% and the level of the same indicator for 2012 by 11%.

Wherein the cost of sales is equal to 58% of revenue for 2013, whereas in 2012 the same indicator was 70%.

The growth rate compared to 2012 was mainly influenced by:

- increase in depreciation expense and property tax, which is associated with an increase in the value of fixed assets as a result of revaluation held in 2013;
- increase in the expenses for electricity to KZT 710 million due to increased freight turnover, as well as increase of tariffs in a number of regions;
- increase in production labor expenses, which is mainly due to the accrual of compensation on the results of 2013, wage increase at the inflation rate, as well as increase in recoverable social payments and benefits to employees in connection with their binding to the monthly calculation index;
- increase in the expenses for railway services in Georgia due to the increase of tariff and growth of oil products transfer for KZT 1,344.

General and administrative expenses structure, %



General and administrative expenses of the Group in 2013 amounted to KZT 11,028 million, which corresponds to the plan and at the same level of 2012. At the same time, the 20% increase is observed in labor costs, which is primarily based on accrued compensation for the year end, and an increase in social payments to the employees of KazTransOil JSC.

Financial expenses amounted to KZT 1,374 million, which is 62% higher than for 2012. The growth of this indicator was influenced by increase in the amortization of obligations discount on disposal of assets and land reclamation.

Operating income of the Group is equal to KZT 62,617 million, which is 11% below the target level, and 89% higher than in 2012. Divergence of the indicator from the plan was due to increase by 50% of non-cash expenses share in the Company’s total expenses

As of July 31, 2013 fixed assets (except for technological oil that is revaluated annually as of September 30) was held in accordance with the Accounting policy of KazTransOil JSC group of companies. According to revaluation results impairment of fixed assets was accrued in the amount of KZT 12,663 million (2012: KZT 766 million).

Impairment was accrued in such groups of fixed assets as: pipelines, including some sections of oil pipelines due to the low level of load, buildings and constructions, as well as machinery and equipment.

Revaluation of fixed assets also influenced on the increase in accumulated depreciation and amortization by 9% in 2013 compared to 2012 (2013: KZT 30,203 million, 2012: KZT 27,663 million).

SHARE OF INCOME FROM JOINTLY CONTROLLED ENTITIES

The Group's share income of jointly controlled entities for 2013 increased by 46% compared to the 2012, and by 49% exceeding the plan. This growth was due to the recognition in 2013 of the share in KCP income in the amount of KZT 10,649 million, as well as recognition of share of income of MunaiTas in the amount of KZT 1,198 million.

Increasing the share of income of KCP was mainly due to an increase in the tariff for oil transportation and growth of oil freight turnover by 14% from 13,745 million tons km in 2012 to 15,655 million tons km in 2013.

In accordance with ARNM order No. 50-OD dated February 15, 2012, from April 2013 a single tariff was introduced for regulated services on oil pumping through the pipelines of the Company in the amount of KZT 4,444.56 per 1 ton per 1,000 km without VAT (from 2009 through Atasu-Alashankou the tariff was applied KZT 3,818 per 1 ton per 1,000 km without VAT, for Kenkiyak-Kumkol was applied – KZT 4,365.52 per ton per 1,000 km without VAT).

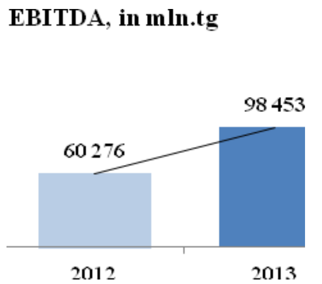
Corporate income tax expense of the Group amounted to KZT 13,847 million, which is 62% higher than in 2012. At the same time, the expenses on the current income tax amounted to KZT 18,870 million, that have been reduced by savings of deferred income tax for KZT 5,023 million, in connection with deferred taxes on the fixed assets. Growth of the current income tax in 2013 in comparison to 2012 was due to the increase in operating income, which resulted in an increase of taxable income.

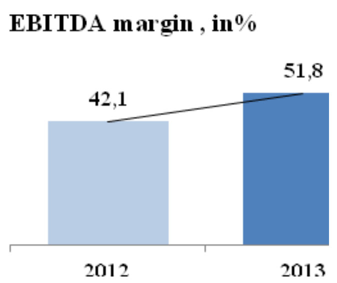
In million KZT	For the years ending as of 31 December	
	2013	2012
Expenses on the current income tax	18,870	8,172
(Savings) / expenses in the deferred income tax	(5,023)	378
Income tax	**13,847**	**8,550**

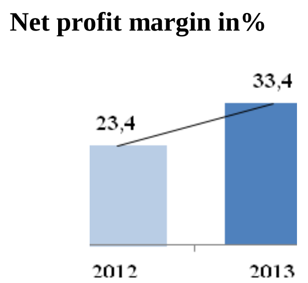
Income for the reporting period of the Group is equal to KZT 63,544 million, which is 23% higher than the plan and 90% higher than in 2012.

EFFICIENCY RATES

All main indicators of efficiency rates for 2013 are considerably higher compared to the indicators of the results in 2012. Such growth is primarily related to the increase in tariff for oil transportation and respectively the growth of revenue to 33%.







Indicators not provided by **IFRS**	For the years ending as of 31 December	
	2013	2012
EBITDA[(1)] (million KZT)	98,453	60,276
EBITDA[(2)] margin (%)	51.8	42.1
Gross-profit margin [(3)] (%)	41.6	30.4
Net profit margin[(4)] (%)	33.4	23.4
Net debt [(5)] (million KZT)	-25,645	-18,954

(1) EBITDA means gross profit minus general and administrative expenses, plus depreciation and amortization plus/(minus) charging/(reversing entry) reserves for doubtful debts, taxes and obsolete inventories.
(2) EBITDA margin means EBITDA divided by Revenue.

(3) Gross profit margin is Gross profit divided by Revenue.
(4) Net profit margin means Profit for the reporting year divided by Revenue.
(5) Net debt means long-term and short-term borrowings after deduction of Cash and cash equivalents.

The table below provides for the information about the components of the operating indicator of adjusted EBITDA based on data on the Income for the reporting period:

Calculation of EBITDA indicator, in million KZT	**For the years ending as of 31 December**	
	2013	**2012**
Income for the reporting year	**63,544**	**33,501**
plus expenses on the income tax	13,847	8,550
Income before tax	**77,391**	**42,051**
plus foreign currency loss	(104)	220
plus financial expenses	1,374	848
after deduction of the financial income	(4,197)	(1,950)
after deduction of share of income/ (loss) of jointly controlled entities	(11,847)	(8,108)
Operating income	**62,617**	**33,061**
plus depreciation and amortization	30,203	27,663
plus other operating expenses	682	621
income from sale of subsidiary	0	(310)
after deduction of other operating income	(7,937)	(1,658)
plus impairment of fixed assets and intangible assets	12,663	766
accrual/(reversing entry) provision for doubtful debts, taxes and obsolete inventories	225	133
EBITDA	**98,453**	**60,276**

LIQUIDITY AND FINANCIAL STABILITY INDICATORS

The main source of the Group liquidity and financial stability are the cash received from operating activities. The Group's liquidity is primarily used to finance the Group's operating activities and capital investments.

Key liquidity indicators

Liquidity indicator characterizes the Group's ability to fulfill its short-term liabilities based on their current assets.

Indicator	Standard criteria	2013	2012
Current ratio	**0.11**	2.49	2.26
Quick (acid-test) ratio	**0.11**	2.44	2.19

Liquidity (current) ratio characterizes how the Group's current liabilities are covered by current assets of the Group. As is seen from the table, on an average KZT 1 of current liabilities is covered by KZT 2.49 of current assets.

Quick (acid-test) ratio characterizes that part of current liabilities, which can be settled not only by the available cash of the Group, but also due to the expected inflows for the rendered services (cash and cash equivalents and short-term receivables). Thus, for the reporting period this quick ratio shows that KZT 1 of current liabilities is covered by KZT 2.44 of easily convertible assets.

Cash and cash equivalents

Cash and cash equivalents of the Group as of 31 December 2013 amounted to KZT 25,645 million, KZT 22,980 million of which were placed on short-term deposits for up to 3 months in the second-tier banks.

Retrospective of cash turnover of KazTransOil JSC, in million KZT

Indicator	For the years ending as of 31 December		Change %
	2013	2012	
Net cash flows obtained from operating activities	95,859	62,907	52%
Net cash flows used in investment activities	(60,320)	(33,096)	82%
Net cash flows used in financial activities	(28,848)	(32,710)	(12%)
Net change in cash and cash equivalents	6,691	(2,898)	(331%)
Cash and cash equivalents as of the beginning of the period	**18,954**	**21,852**	**(13%)**
Cash and cash equivalents as of the end of the period	**25,645**	**18,954**	**35%**

Net cash flows obtained from operating activities of the Group in 2013 amounted to KZT 95,859 million, which is 52% higher than in 2012, which was equal to KZT 62,907 million. The main factor contributing to the growth of this indicator is the increase of revenues from services, which in turn is associated with an increase in the tariff for oil transportation and increase of freight turnover and transfer of oil products described above.

Net cash flows obtained from investment activities of the Group in 2013 amounted to KZT 60,320 million, which is 82% higher than in 2012, which was equal to KZT 33,096 million. This increase was due to the placement of cash in bank accounts, direction of cash for financing of capital expenses and purchase of fixed assets.

Net cash flows used in financial activities of the Group in 2013 amounted to KZT 28,848 million, which is 12% lower than in 2012, which was equal to KZT 32,710 million. Significant changes are related to the dividend payment in 2013 in the amount of KZT 28,848 million (on the basis of KZT 75 per one ordinary share of KazTransOil JSC). In 2012 the proceeds from shares issuance were in the amount of KZT 27,886 million, which partially leveled the dividend payment in the amount of KZT 60,002 million (KZT 173.33 per one ordinary share of KazTransOil JSC) in 2011.

Loans of the Group were repaid in 2012 and as of 31 December 2013 the Group has no long-term and short-term loans.

7 Annexes

7.1 About report

KazTransOil JSC discloses the results of activities in key areas of its strategic development, as well as the monopolist on provision of oil transportation services. This report also shows other equally important aspects of the Company's corporate governance and risk management, quality management and sustainability.

Since 2007, the Company has been publishing annual reports, which are available for public access on the Company's website. The integrated annual report for 2013 (hereinafter referred to as the "Report") will also be available on the corporate website in section Information disclosure – Annual reports:

http://www.kaztransoil.kz/ru/akcioneram_i_investoram/raskritie_informacii/godovie_otcheti/

Paper copies of this Report may be provided to interested parties upon request.

The Report reflects the performance indicators of KazTransOil JSC, as well as subsidiaries, jointly controlled entities and other organizations for the period from 1 January to 31 December 2013.

Standards of report preparation

The Report was prepared in accordance with the recommendations of the International Integrated Reporting Standard (IIRS) of November 2012. The report emphasized the detailed description of the business model, the results of financial and non-financial activities, control systems, as well as strategic plans providing orientation for the future report.

The Report was prepared in accordance with the requirements of the Guide on reporting in the sphere of Sustainability Reporting Guidlines of the Global Reporting Initiative GRI G3.1 (hereinafter referred to as the "GRI Guide") and corresponds to the level of application C. Correspondence with GRI Guide provides comparability of the KazTransOil JSC Report with the reports of other international companies in oil and gas sector.

The list of performance indicators are presented in the table of standard elements of GRI, included in the Report.

Section "The Management Report on the results of financial and economic activities" was prepared in accordance with the recommendations of the Guide IFRS "Management Commentary" (IFRS Practice Statement "Management Commentary").

Boundaries of the report and the form of data provision

The financial statements indicators are presented in KZT in accordance with the audited annual consolidated financial statements of KazTransOil JSC on IFRS. Economic indicators and non-financial indicators of KazTransOil JSC include information on all SJCE.

Process for determining report content

In order to provide objective information to the related parties, the Company discloses information covering its primary and secondary activities.

Content of the report reflects the recommendations of the GRI Guide, including:

- identification of stakeholders of the Company and communication with them;
- determination of the substantive issues that are relevant in terms of impact on the Company's development strategy;
- determination of the impact of the Company's activities on the economy, society, environment and stakeholders;

- coverage of a significant number of issues related to the priority directions of the Company, including the Company's long-term economic growth, industrial safety, occupational health and environmental safety, human capital development and the development of the regions of presence.

Certification

KazTransOil JSC did not conduct an independent assurance of indicators in the field of Sustainability of this Report.

However, the Company is aware that assurance of these indicators will enhance the transparency and reliability of the data included in terms of stakeholders.

In the future, the Company plans to conduct an independent assurance of indicators for Sustainability.

7.2 Contact information

Address of the Company:

KazTransOil JSC
Kabanbay-batyr ave. 19, block B
Astana, 010000
Republic of Kazakhstan

Feedback from stakeholders regarding the completeness, objectivity and materiality of the information disclosure in reports in the field of Sustainability is an integral part of improving the processes of non-financial reporting.

Your questions, comments and suggestions on this report, as well as requests for obtaining of a paper copy of the Report can be sent to:

Name: Masalin Almaz Maratovich

Position: Head of Public Relations Service of KazTransOil JSC

Address: 010000, Republic of Kazakhstan, Kabanbay-batyr ave 19, block B

E-mail: masalin@kaztransoil.kz

Phone: +7-7172-55-50-49

7.3 Table of GRI standard elements

STRATEGY AND CHARACTERISTICS

INDICATOR	INDICATOR DESCRIPTION	SECTION AND PAGE IN THE REPORT
1.1	Application from the most senior decision-maker in the organization	Section "Application from the Chairman of the Board of Directors," page Section "Application of the General Director (the Chairman of the Board)," page.
1.2	Description of key impacts, risks and opportunities	Section "Application from the Chairman of the Board of Directors," page Section "Application of the General Director (the Chairman of the Board)," page Section 5 "Sustainability," page.

ORGANIZATION CHARACTERISTICS

2.1	Name of organization	Section 1.1 "History of establishment of KazTransOil JSC ," page.
2.2	Primary brands, types of products and/or services.	Section 1.3 "Business model of KazTransOil JSC," page.
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries and joint ventures.	Section 1.4 "Structure of KazTransOil JSC, subsidiaries, jointly controlled and other organizations", page.
2.4	Location of organization's headquarters.	Section 7.2 "Contact information", page.
2.5	Number of countries where the organization operates, and names of countries where major operations take place or that are specifically relevant with regards to Sustainability issues covered in the report.	Section 1.4 "Structure of KazTransOil JSC , subsidiaries, jointly controlled and other organizations", page.
2.6	Ownership and business legal structure.	Section 1.1 "History of establishment of KazTransOil JSC", page.
2.7	Markets where the organization operates (including geographic division, served sectors, and types of customers and beneficiaries).	Section 1.6 "Analysis and trends of the market", page.
2.8	Scale of the organization	Section "Key Performance Indicators", page.
2.9	Significant changes of scale, structure or ownership during the reporting period	Section "Key events of 2013", page.

REPORT PARAMETERS

3.1	Reporting period (eg, fiscal/calendar year) to which the provided information relates.	Section 7.1 “About report”, page.
3.2	Date of publishing of most recent of the previous reports (if any).	Section 7.1 “About report”, page.
3.3	Reporting cycle (annual, biennial, etc.)	Section 7.1 “About report”, page.
3.4	Contact information for questions regarding the report or its content	Section 7.2 “Contact information”, page.
3.5	Process for defining of the report content	Section 7.1 “About report”, page.
3.6	Boundaries of the report	Section 7.1 “About report”, page.
3.9	Data and calculations measurement techniques, including assumptions and techniques used for the compilation of the Indicators and other information in the report	Section 7.1 “About report”, page.
3.11	Significant changes regarding previous reporting periods in the scope, boundaries, or measurement methods applied in the report.	Section 7.1 “About report”, page.
3.12	Table identifying the location of the Standard elements GRI in the report	Section 7.3 “Table of standard elements GRI”, page.
3.13	Policy and current practical approaches with regard to seeking external assurance for the report	Section 7.1 “About report”, page.

LIABILITY CONTROL AND STAKEHOLDER ENGAGEMENT

4.1	Structure of the organization management, including committees under the highest governance body responsible for specific tasks, such as elaboration of strategy or organizational oversight.	Section 4.1 “Corporate governance”, page.
4.2	Indicate whether the Chair of the highest governance body is also an executive officer of the Company.	Section 4.1.2 “Report on the activity of the Board of Directors for 2013”, page. Section 4.1.3 “Report on the activity of the Management Board for 2013”, page.
4.3	For organizations that have a unitary board of directors, indicate the number of independent members of the supreme governing body and/or members of non-executive members of the Company.	Section 4.1.2.1 “Board of directors”, page.

4.4	Mechanisms by which shareholders and employees of the organization can direct the activities of the supreme governing body or to provide recommendations.	Section 4.1.1 “General Meeting of Shareholders”, page.
4.5	Link between compensation for members of the highest governance body, representatives of senior executive management and senior executives (including departure arrangements) and the organization’s performance (including social and environmental performance).	Section 4.1.2.7 “Remuneration of members of the Board of Directors”, page.
4.6	Processes in the highest governance body in order to avoid conflicts of interest.	Section 4.1.5 “Settlement of corporate conflicts and conflicts of interest”, page
4.7	Processes for determining qualifications and expertise of the members of the highest governance body for determination of the organization’s strategy on economic, environmental and social issues [Sustainability].	Section 4.1.2.2 “Competence of the Board of Directors”, page. Section 4.1.2.3 “Responsibility of the Board of Directors”, page Section 4.1.3.3 “Competence of the Management Board and the General Director (the Chairman of the Management Board”, page Section 4.1.3.4 “Responsibility of the Management Board”, page.
4.8	Internally developed statements of mission or values, codes of conduct and principles relevant to economic, environmental and social performance and the status of their implementation.	Section 2.1 “Mission, vision and strategic goals of KazTransOil JSC ”, page Section 4.1 “Corporate governance”, page
4.10	Processes for assessment of own performance by the superior governance body, particularly with respect to economic, environmental and social performance of the organization.	Section 4.1.2.8 “Assessment of the activity of the board of directors”, page. Section 4.1.2.9 “Report on the activity of the committees of the Board of Directors”, page Section 4.1.3.7 “Report on the activity of the committees of the Management Board”, page.
4.11	Explanation of whether the organization applies the precautionary principle, and how	Section 4.2 “Risk management”, page.
4.12	Externally developed economic, environmental and social charters, principles, or other initiatives supported and joined by the organization.	Section 5 “Sustainability”, page.
4.14	List of stakeholders with which the organization communicated.	Section 5.2 “Communication with stakeholders”, page.
4.15	Basis for identification and selection of stakeholders for further interaction with them.	Section 5.2 “Communication with stakeholders”, page.
4.16	Approaches to interaction with stakeholders, including frequency of engagement by type and by stakeholder groups.	Section 5.2 “Communication with stakeholders”, page.

ECONOMIC EFFICIENCY

INDICATOR	INDICATOR CRITERION	INDICATOR DESCRIPTION	PAGE IN THE REPORT
EC1	Main	Created and distributed direct economic value, including revenues, operating costs, payment to the employees, donations and other community investments, retained earnings, and payments to capital providers and governments	Section “Key Performance Indicators”, page.
EC3	Main	Description of the Company plan on the set mandatory payments	Section 5.6 “Social policy”, page.
EC5	Additional	Range of ratios of standard entry wage level compared to the minimum wage at significant locations of operation of the organization	Section 5.5 “Personnel”, page.
EC6	Main	Policy, practical approaches to procurement from local suppliers and share of such procurements in significant locations of operation of the organization	Section 3.5 “Information on local content in procurement of goods, works and services”, page.
EC8	Main	Development and impact of investments in infrastructure and services provided primarily for public benefit through commercial, natural, or charitable engagement	Section 5.8. “Charity work”, page.

ENVIRONMENTAL EFFICIENCY

- **Materials**

EN1	Main	Used materials with specification of mass and volume	Section 5.3 “Environmental protection”, page

- **Energy**

EN3	Main	Direct energy use with specification of primary sources	Section 5.3 “Environmental protection”, page
EN7	Additional	Initiatives for reduction of indirect energy consumption and achieved reduction.	Section 5.3 “Environmental protection”, page

- **Water**

EN9	Additional	Water sources significantly influenced by organization’s diversion works	Section 5.3 “Environmental protection”, page

- **Biodiversity**

EN11	Main	Location and size of land owned, leased, managed by the organization and located in protected areas and areas with high biodiversity outside their borders, or adjacent to such areas.	Section 5.3 “Environmental protection”, page
EN13	Additional	Protected or restored localities	Section 5.3 “Environmental protection”, page
EN14	Additional	Strategies, current actions and future plans for managing impacts on biodiversity	Section 5.3 “Environmental protection”, page

- **Emissions, discharges and wastes**

EN16	Main	Total direct and indirect greenhouse gas emissions with specification of mass	Section 5.3 “Environmental protection”, page
EN18	Additional	Initiatives for reduction of greenhouse gas emissions and achieved reduction	Section 5.3 “Environmental protection”, page
EN21	Main	Total volume of discharge with specification of wastewater and the receiving facility.	Section 5.3 “Environmental protection”, page
EN22	Main	Total weight of waste by type and disposal method.	Section 5.3 “Environmental protection”, page

- **General**

EN28	Main	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental legislation and regulations.	Section 5.3 “Environmental protection”, page.
EN30	Additional	Total costs and investments for environmental protection by type	Section 5.3 “Environmental protection”, page.

SOCIAL INDICATORS

- **Employment**

LA1	Main	Total number of work force by employment type, employment contract, and region	Section 5.5 “Personnel”, page.
LA2	Main	Total number of employees and employee turnover by age group, gender and region	Section 5.5 “Personnel”, page

- **Interrelations of employees and management**

LA4	Main	Share of employees covered by collective agreements	Section 5.5 “Personnel”, page.

- **Health and safety at work**

LA7	Main	Rates of industrial injury, occupational diseases, lost days, and absentee ratio at the workplace, as well as the total number of deaths related to work, by region	Section 5.4 “Labor safety and protection”, page.
LA8	Main	Existing education programs, training, consultations, prevention and risk-control to assist employees, their families, and community members regarding serious diseases.	Section 5.4 “Labor safety and protection”, page.

- **Training and education**

LA10	Main	Average hours of training per employee per year, by categories of employees	Section 5.5 “Personnel”, page
LA11	Additional	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in career completion.	Section 5.5 “Personnel”, page
LA12	Additional	Share of employees for whom periodic assessments and career development are held	Section 5.5 “Personnel”, page

- **Diversity and equal opportunities**

LA14	Main	Ratio of basic contribution of men and women by categories of employees	Section 5.5 “Personnel”, page

- **Corruption (society)**

SO3	Main	Share of employees who passed trainings on anti-corruption policies and procedures of the organization	Section 4.1.4 “Corporate ethics”, page.

- **Marking of products and services (responsibility for products)**

PR3	Main	Types of information on the properties of the products and services required by the procedures, and share of significant products and services with regard to which such requirements to information are applied.	Section 1.3 “Business-model of KazTransOil JSC”, page.

7.4 Glossary

TERM	DEFINITION
AORP	Atyrau Oil Refinery Plant
APF	Accumulative Pension Fund
B.V./ BV	Besloten Vennootschap (Closed Joint-Stock Company)
bln.	Billion
cbm	Cubic meter
CIS	Commonwealth of Independent States
CJSC	Closed Joint-Stock Company
CNODC	China National Oil and Gas Exploration and Development Corporation
CNPC	China National Petroleum Corporation
ECM	Electronic computing machine
GRI	Global Reporting Initiative
ha	Hectare
HOPS	Head oil Pumping Station
HR	Human Resources
IEC	International Electrotechnical Commission
IIRS	International Integrated Reporting Standard
IMS	Integrated Management System
IPO	Initial public offering
ISO	International Organization for Standardization
JSC	Joint-Stock Company
Km	Kilometer
LLC	Limited Liability Company
LLP	Limited Liability Partnership
LPCS	Linear production-control station
Ltd	Limited
m	Meter
mln.	Million
mm.	Millimeter
MOC	Maritime Oil Company
MSc	Master of Science
NC	National Company
NMSC	National Maritime Shipping Company
NOGC	National Oil and Gas Company
NWPC	North-West Pipeline Company
OCP	Oil-Chemical Plant
OGPD	Oil-and-gas production department
OHS	Oil heating station
OHSAS	Occupational Health & Safety Advisory Services
OJSC	Open Joint-Stock Company
OPP	Oil-processing plant
OSDS	Oil receiving-delivery station

OTNC	Oil Transportation National Company
PA	Production Association
pc.	Piece
PPCP	Pavlodar Petro-Chemical Plant LLP
PS	Oil Pumping Station
r/w	Railway
SC	Stock Company
SCADA	Program package “Supervisory Control and Data Acquisition”
St, ST	Standard
TCC	Trainnig Center
thous.	Thousand
USA	United States of America
USSR	Union of Soviet Socialist Republics
VAT	Value-Added Tax

7.5 Consolidated financial statements

KazTransOil JSC

Consolidated financial statements

For the year ended 31 December 2013
with independent auditors' report

EY
Building a better working world

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Independent auditors' report

To the shareholders of KazTransOil JSC:

We have audited the accompanying consolidated financial statements of KazTransOil JSC and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Building a better working world

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KazTransOil JSC and its subsidiaries as at 31 December 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Aisulu Narbayeva
Auditor

Auditor Qualification Certificate
No. 0000137 dated 21 October 1994

Evgeny Zhemaletdinov
General Director
Ernst & Young LLP

State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

25 February 2014

CONTENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of Tenge	**Note**	**31 December 2013**	31 December 2012
Assets			
Non-current assets			
Property, plant and equipment	7	**401,108,901**	362,869,105
Intangible assets	8	**5,701,002**	6,233,226
Investments in joint ventures	10	**53,554,027**	40,815,549
Advances to suppliers for property, plant and equipment	11	**5,835,651**	524,274
Bank deposits	17	**576,541**	–
Other non-current assets		**123,904**	130,805
		466,900,026	410,572,959
Current assets			
Inventories	12	**2,346,043**	2,599,941
Trade and other accounts receivable	13	**4,548,932**	2,527,881
Advances to suppliers	14	**842,702**	603,109
Prepayment for corporate income tax		**3,994**	1,580,756
VAT recoverable and other prepaid taxes	15	**3,144,714**	2,092,013
Other current assets	16	**3,946,793**	4,405,862
Bank deposits	17	**83,116,538**	53,084,676
Cash and cash equivalents	18	**25,645,348**	18,954,044
		123,595,064	85,848,282
Assets classified as held for sale		**32,138**	29,299
		123,627,202	85,877,581
TOTAL ASSETS		**590,527,228**	496,450,540

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of Tenge	Note	31 December 2013	31 December 2012
Equity and liabilities			
Equity			
Share capital	19	**61,937,567**	61,937,567
Asset revaluation reserve	19	**171,902,104**	144,421,031
Other capital reserves		**(1,016,496)**	17,104
Foreign currency translation reserve		**10,069,002**	9,875,876
Retained earnings		**224,377,740**	176,062,485
Total equity		**467,269,917**	392,314,063
Non-current liabilities			
Financial guarantee issued on behalf of related party	36	**–**	199,654
Employee benefits liability	20	**9,333,180**	6,562,263
Deferred tax liabilities	34	**43,537,849**	39,406,770
Provision on asset retirement obligation and land recultivation obligation	25	**16,677,538**	15,531,037
Deferred income	21	**4,079,971**	4,412,922
		73,628,538	66,112,646
Current liabilities			
Employee benefits liability	20	**322,000**	238,000
Income tax payable		**1,467,675**	919,213
Trade and other accounts payable	22	**11,096,007**	6,771,926
Advances received	23	**17,181,723**	15,970,695
Other taxes payable	24	**2,587,351**	1,639,801
Provisions	25	**228,125**	353,697
Other current liabilities	26	**16,745,892**	12,130,499
		49,628,773	38,023,831
Total liabilities		**123,257,311**	104,136,477
TOTAL EQUITY AND LIABILITIES		**590,527,228**	496,450,540
Book value of ordinary shares *(in Tenge)*	6	**1,200**	1,004

General Director ______________ *Kabyldin K.M.*

Chief Accountant ______________ *Akhmedina A.S.*

he accounting policy and explanatory notes on pages 8 through 53 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of Tenge	Note	2013	2012
Revenue	27	**190,021,672**	143,061,325
Cost of sales	28	**(110,968,699)**	(99,603,631)
Gross profit		**79,052,973**	43,457,694
General and administrative expenses	29	**(11,027,504)**	(10,977,575)
Other operating income	30	**7,937,123**	1,658,170
Other operating expenses	31	**(681,742)**	(620,970)
Impairment of property, plant and equipment and intangible assets	7	**(12,663,453)**	(766,227)
Gain on disposal of subsidiary	9	**–**	309,675
Operating profit		**62,617,397**	33,060,767
Net foreign exchange gain/(loss)		**103,799**	(220,281)
Finance income	32	**4,197,234**	1,950,357
Finance costs	33	**(1,374,236)**	(847,531)
Share in income of joint ventures	10	**11,846,567**	8,107,979
Profit before tax		**77,390,761**	42,051,291
Income tax expense	34	**(13,847,161)**	(8,550,163)
Profit for the year		**63,543,600**	33,501,128
Earnings per share *(in Tenge)*	6	**165**	96

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

In thousands of Tenge	Note	2013	2012
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Foreign currency translation		**193,126**	541,747
Total other comprehensive income to be reclassified to profit or loss in subsequent periods		**193,126**	541,747
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation of property, plant and equipment	7	**71,093,853**	23,982,196
Income tax effect	34	**(13,801,721)**	(4,796,439)
		57,292,132	19,185,757
Impairment of property, plant and equipment	7	**(21,837,763)**	(19,713)
Income tax effect	34	**4,305,422**	3,943
		(17,532,341)	(15,770)
Actuarial re-measurement losses on defined benefit plans	20	**(1,292,000)**	–
Income tax effect		**258,400**	–
		(1,033,600)	–
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods		**38,919,317**	19,711,734
Other comprehensive income not to be reclassified to profit or loss in subsequent periods of joint ventures			
Revaluation of property, plant and equipment		**1,629,376**	–
Income taxe effect		**(325,874)**	–
		1,303,502	–
Provision on asset retirement obligation and land recultivation		**126,425**	312,361
Income tax effect		**(87,757)**	–
		38,668	312,361
Impairment of property, plant and equipment		**(1,954)**	(34,511)
Income tax effect		**391**	6,902
		(1,563)	(27,609)
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods of joint ventures	10	**1,340,607**	284,752
Total other comprehensive income for the year, net of tax		**40,259,924**	19,996,486
Total comprehensive income for the year, net of tax		**103,803,524**	53,497,614

General Director _Kabyldin K.M._

Chief Accountant _Akhmedina A.S._

The accounting policy and explanatory notes on pages 8 through 53 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

		For the years ended 31 December	
In thousands of Tenge	Note	2013	2012
Cash flows from operating activities:			
Profit before tax		**77,390,761**	42,051,291
Non-cash adjustment to reconcile profit before tax to net cash flows:			
Depreciation and amortization	28,29	**30,202,852**	27,663,345
Gain on disposal of subsidiary	9	**–**	(309,675)
Allowance on doubtful debts	29	**56,405**	119,756
Share in income of joint ventures	10	**(11,846,567)**	(8,107,979)
Finance costs	33	**1,374,236**	847,531
Finance income	32	**(4,197,234)**	(1,950,357)
Actuarial losses	31	**–**	153,000
Employee benefits for past service cost	20	**1,008,000**	–
Employee benefits for current service cost	20	**495,000**	460,000
Charge of provisions	25	**9,188**	305,542
Loss on disposal of property, plant and equipment and intangible assets	30,31	**203,372**	46,050
Loss on impairment of intangible assets	8	**165,670**	–
Impairment of property plant and equipment	7	**12,663,453**	766,227
Income from write-off of payables	30	**(23,853)**	(11,222)
Amortization of deferred income	30	**(312,366)**	(312,365)
Write-off of VAT recoverable	29	**194,727**	309,957
Amortization of financial guarantee issued on behalf of related party	30	**(26,463)**	(138,570)
Amortization of financial guarantee issued on behalf of related party		**(177,743)**	–
Unrealized foreign exchange gain		**(42,484)**	(94,322)
Provision for slow-moving and obsolete inventory	29	**2,520**	12,973
Operating cash flows before working capital changes:		**107,139,474**	61,811,182
Changes in inventories		**400,408**	191,142
Changes in trade and other accounts receivable		**(2,076,956)**	311,800
Changes in advances to suppliers		**(240,093)**	52,754
Changes in taxes recoverable		**(1,616,877)**	399,608
Changes in other current assets		**501,507**	518,138
Changes in trade and other accounts payable		**(545,491)**	(32,026)
Changes in advances received		**1,211,028**	4,765,455
Changes in taxes payable		**947,550**	381,972
Changes in other current and non-current liabilities and employee benefits liability		**4,132,765**	(714,433)
Cash generated from operations:		**109,853,315**	67,685,592
Income taxes paid		**(16,350,776)**	(7,488,276)
Interest received		**2,356,479**	2,738,100
Interest paid		**–**	(27,960)
Net cash flow from operating activities		**95,859,018**	62,907,456

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

		For the years ended 31 December	
In thousands of Tenge	Note	2013	2012
Cash flows from investing activities:			
Withdrawal of bank deposits		**56,047,879**	49,811,934
Placement of bank deposits		**(85,128,680)**	(62,600,000)
Purchase of property, plant and equipment		**(32,801,915)**	(26,010,001)
Purchase of intangible assets		**(203,738)**	(287,119)
Proceeds from disposal of property, plant and equipment and intangible assets		**1,118,641**	317,409
Net proceeds from sale of subsidiary	9	**–**	5,671,856
Dividends received		**647,769**	–
Net cash flow used in investing activities		**(60,320,044)**	(33,095,921)
Cash flows from financing activities:			
Proceeds from share issue	19	**–**	27,886,080
Payments for consulting serviced related to the issuance of shares	19	**–**	(289,774)
Proceeds from loans and borrowings		**–**	690,000
Repayment of loans and borrowings		**–**	(994,184)
Dividends paid	19	**(28,847,670)**	(60,002,000)
Net cash flow used in financing activities		**(28,847,670)**	(32,709,878)
Net change in cash and cash equivalents		**6,691,304**	(2,898,343)
Cash and cash equivalents at the beginning of the year		**18,954,044**	21,852,387
Cash and cash equivalents at the end of the year	18	**25,645,348**	18,954,044

General Director *Kabyldin K.M.*

Chief Accountant *Akhmedina A.S.*

The accounting policy and explanatory notes on pages 8 through 53 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of Tenge	Note	Share capital	Asset revaluation reserve	Foreign currency translation reserve	Other capital reserves	Retained earnings	Total
As at 1 January 2012		**34,617,204**	**138,056,828**	**9,334,129**	**17,104**	**189,472,821**	**371,498,086**
Profit for the year		–	–	–	–	33,501,128	**33,501,128**
Other comprehensive income		–	19,454,739	541,747	–	–	**19,996,486**
Total other comprehensive income for the year		**–**	**19,454,739**	**541,747**	**–**	**33,501,128**	**53,497,614**
Depreciation transfer of revalued property, plant and equipment		–	(13,090,536)	–	–	13,090,536	**–**
Shares issuance	19	27,886,080	–	–	–	–	**27,886,080**
Consulting services expense related to the issuance of shares	19	(565,717)	–	–	–	–	**(565,717)**
Dividends	19	–	–	–	–	(60,002,000)	**(60,002,000)**
As at 31 December 2012		**61,937,567**	**144,421,031**	**9,875,876**	**17,104**	**176,062,485**	**392,314,063**
Profit for the year		–	–	–	–	63,543,600	**63,543,600**
Other comprehensive income		–	41,100,398	193,126	(1,033,600)	–	**40,259,924**
Total other comprehensive income for the year		**–**	**41,100,398**	**193,126**	**(1,033,600)**	**63,543,600**	**103,803,524**
Depreciation transfer of revalued property, plant and equipment		–	(13,619,325)	–	–	13,619,325	**–**
Dividends	19	–	–	–	–	(28,847,670)	**(28,847,670)**
As at 31 December 2013		**61,937,567**	**171,902,104**	**10,069,002**	**(1,016,496)**	**224,377,740**	**467,269,917**

General Director

Kabyldin K.M.

Chief Accountant

Akhmedina A.S.

The accounting policy and explanatory notes on pages 8 through 53 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. GENERAL

On 2 May 2001, the Government of the Republic of Kazakhstan issued a resolution to create a new closed joint stock company National Company "Transportation of Oil and Gas" ("TNG") owned by the Government. Based on that resolution, the Committee for State Property and Privatization of the Ministry of Finance of the Republic of Kazakhstan transferred the "KazTransOil NOTC" CJSC shares to TNG, and, as a result, "KazTransOil NOTC" CJSC was re-registered and renamed "KazTransOil" Closed Joint Stock Company.

On 31 May 2004, in accordance with the requirements of Kazakhstani legislation, Closed Joint Stock Company "KazTransOil" was re-registered as "KazTransOil" Joint Stock Company (the "Company").

As at 31 December 2013 National Company KazMunayGas JSC ("KMG" or the "Parent Company") is a major shareholder of the Company (90 percent). KMG is owned by "Sovereign Wealth Fund Samruk-Kazyna" JSC ("Samruk-Kazyna"), which is controlled by the Government of the Republic of Kazakhstan.

In 2012 the Company performed a share split in proportion 1:10, as a result of which the number of authorized shares has increased from 34,617,204 to 346,172,040, however, share capital has not changed (34,617,204 thousand Tenge). Thereafter, the Company increased the number of authorized shares by 38,463,560 (10% of the total 384,635,600 shares), which were placed on the Kazakhstan Stock Exchange under the "People's IPO" program. Trades in the shares of JSC "KazTransOil" on the Kazakhstan Stock Exchange were opened on 25 December 2012. As a result, 38,463,559 common shares at 725 Tenge per share were sold for 27,886,080 thousand Tenge *(Note 19)*.

As at 31 December 2013 and 2012 the Company had interest ownership in the following companies:

	Place of incorporation	Principal activities	Ownership 31 December 2013	Ownership 31 December 2012
" SZTK MunaiTas" JSC ("MunaiTas")	Kazakhstan	Oil transportation	**51%**	51%
"Kazakhstan–China Pipeline" LLP ("KCP")	Kazakhstan	Oil transportation	**50%**	50%
"Batumi Terminals Limited" ("BTL")	Cyprus*	Forwarding, transshipment and storage of oil and oil products and operating of Batumi Sea Port and Oil Terminal	**100%***	–*
"Batumi Capital Partners Limited" ("BCPL")	Cyprus*	Forwarding, transshipment and storage of oil and oil products	**–***	50%*
"Batumi Industrial Holdings Limited" ("BIHL")	Cyprus*	Forwarding, transshipment and storage of oil and oil products and operating of Batumi Sea Port and Oil Terminal	**–***	100%*

* Prior to 11 December 2013 BIHL directly owned 50% of BCPL. Accordingly, the Company directly and indirectly through its subsidiary BIHL owned 100% of BCPL. On 11 December 2013 the reorganisation of group companies BCPL and BIHL was completed by merger into their own company BTL. The main activity of BTL is carried out by its subsidiaries located in Georgia.

The Company and its subsidiaries are hereafter referred to as the "Group".

The Company's head office is located in Astana, Kazakhstan, at 19 Kabanbay Batyr Avenue. The Company has 4 branches, which are located in Atyrau (Western branch), Pavlodar (Eastern branch), Almaty (Research and Development Centre), Astana (Computing Centre), and representative offices in the Russian Federation (Moscow, Omsk and Samara) and Ukraine (Kiev).

The Group operates network of main oil pipelines of 5,503 km and water pipelines of 2,148 km within the Republic of Kazakhstan. Also the Group is engaged in storage, loading, transshipment and transfer of crude oil to other related pipeline systems. Group's joint ventures MunaiTas and KCP own Kenkiyak-Atyrau, Kenkiyak-Kumkol, and Atasu-Alashankou pipelines used for transportation of Kazakhstani crude oil to China. Group's subsidiary BTL owns Batumi Oil Terminal and has controlling interest of Batumi Sea Port, main activity of which is storage and transshipment of oil and dry cargoes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. GENERAL (continued)

The company is a natural monopolist and, accordingly, is subject to regulation of the Agency of the Republic of Kazakhstan for Regulation of Natural Monopolies ("NMRA"). This agency is responsible for approving the methodology for calculating the tariff and tariff rates, which serves as a base for receiving major part of Group's revenue in the Republic of Kazakhstan. In general, rates are based on the cost of capital return on operating assets. In accordance with the legislation of the Republic of Kazakhstan on regulation of natural monopolies, rates cannot be lower than the cost of the expenditure required to provide services, and to consider the possibility of making a profit, providing the effective functioning of a natural monopoly.

On 1 December 2012 NMRA increased tariffs for oil transportation on domestic and export markets: the tariff for the domestic market for the transportation of one ton of oil per 1,000 km has been increased from 1,303 Tenge to 1,954.5 Tenge; tariff of oil transportation on export has been increased from 3,331 Tenge to 4,732.6 Tenge for 1 ton of oil per 1,000 km.

These consolidated financial statements were approved for issue by the General Director and the Chief Accountant of the Company on 25 February 2014.

2. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These consolidated financial statements have been prepared on a historical cost basis, except for property, plant and equipment which are stated at revalued amounts and financial assets that have been measured at fair value. The consolidated financial statements are presented in Tenge and all values are rounded to the nearest thousand, except when otherwise indicated.

3. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2013. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements;
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3. BASIS OF CONSOLIDATION (continued)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interest;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss;
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, in accordance with the requirement of IFRS, as if the Group had direct disposal of the related assets or liabilities.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1. Interest in a joint venture

The Group has interests in joint operations in the form of joint ventures.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Factors considered in determining joint control are similar to the factors considered in determining the existence of control of subsidiaries.

The Group's investment in its joint ventures is accounted for using the equity method. Under the equity method, the investments in joint ventures are carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the joint ventures, that arise after the acquision date. Goodwill relating to joint ventures is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the Group share of the results of operations of joint ventures. Where there has been a change recognised directly in the equity of the joint ventures, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and joint ventures are eliminated to the extent of the interest in the joint ventures.

The Group share of profit or loss of joint ventures is shown on the face of the statement of comprehensive income. This is the profit or loss after tax of joint ventures.

The financial statements of joint ventures are prepared for the same reporting period as for the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on own investments in its joint ventures. The Group determines at each reporting date whether there is any objective evidence that the investment in a joint venture is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount in statement of comprehensive income under "Share of profit or loss of joint ventures".

Upon loss of joint control over joint ventures and provided the former jointly controlled entity does not become a subsidiary or associate, the Group measures and recognises its remaining investment at its fair value. Any differences between the carrying amount of the former jointly controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in statement of comprehensive income.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2. Foreign currency translation

The Group's consolidated financial statements are presented in Tenge. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Functional currency of the Company and the joint ventures MunaiTas and KCP is Tenge. Functional currency of BTL is US Dollar.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates prevailing at the date of the transaction first qualified for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

Group companies

On consolidation the assets and liabilities of foreign operations are translated into Tenge at the rate of exchange prevailing at the reporting date and their income statements are translated at weigthed average currency exchange rates. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Exchange rates

Weighted average currency exchange rates established by the KASE are used as official currency exchange rates in the Republic of Kazakhstan.

As at 31 December, the currency exchange rates of the KASE were:

Tenge	**2013**	2012
US Dollar	**153.61**	150.74
Russian ruble	**4.69**	4.96
Euro	**211.17**	199.22
Georgian Lari	**88.47**	90.99

4.3. Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3. Current versus non-current classification (continued)

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

4.4. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as property items. Property, plant and equipment are revalued once in three years. Valuers are selected on a competitive basis. Selection criteria includes market knowledge, reputation, independence and whether professional standards are maintained.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Group and its external valuers also compare the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

On an interim basis, the Management of the Group and its external valuers present the valuation results to the audit committee and the Group's independent auditors. This includes a discussion of the major assumptions used in the valuations. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.5. Non-current assets held for sale or for distribution to equity holders of the parent and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale or for distribution to equity holders of the parent if their carrying amounts will be recovered principally through a sale or distribution rather than through continuing use. Such non-current assets and disposal groups classified as held for sale or as held for distribution are measured at the lower of their carrying amount and fair value less costs to sell or to distribute. Costs to distribute are the incremental costs directly attributable to the distribution, excluding the finance costs and income tax expense.

The criteria for held for distribution classification is regarded as met only when the distribution is highly probable and the asset or disposal group is available for immediate distribution in its present condition. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the distribution will be withdrawn. Management must be committed to the distribution expected within one year from the date of the classification. Similar considerations apply to assets or a disposal group held for sale. Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale or as held for distribution.

Assets and liabilities classified as held for sale or for distribution are presented separately as current items in the statement of financial position.

A disposal group qualifies as discontinued operation if it is:

- a component of the Group that is a cash-generating units (CGU) or a group of CGUs
- classified as held for sale or distribution or already disposed in such a way, or
- a major line of business or major geographical area.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of comprehensive income.

All the notes to the financial statements include amounts relating to continuing operations.

4.6. Property, plant and equipment

Property, plant and equipment are measured at fair value less accumulated depreciation (except for land, technological oil and construction in process) and impairment losses recognised after the date of the revaluation. The Group periodically engages independent appraisers to revalue property, plant and equipment to their depreciated replacement cost. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is recorded in other comprehensive income and, credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as expense in the statement of comprehensive income, in this case the increase is recognised through profit in the statement of comprehensive income. A revaluation deficit is recognised as expense in the statement of comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Additionally, accumulated depreciation, as at the revaluation date, is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

The cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to significant accounting judgments, estimates and assumptions and provisions for further information about the asset retirement and land recultivation obligation *Notes 5, 7 and 25*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6. Property, plant and equipment (continued)

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	Years
Buildings	5-50
Machinery and equipment	3-30
Pipelines and transportation assets	5-30
Other	2-10

According to the Group's accounting policy, technological oil, construction in progress and land are not subject to depreciation.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

4.7. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets except for goodwill are assessed as finite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization is provided on a straight-line basis over the estimated useful economic life of the assets. Intangible assets are generally amortized over five years. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

4.8. Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset.

Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8 Impairment of non-financial assets (continued)

Impairment losses of continuing operations, including impairment of inventories, are recognised in the statement of comprehensive income in expense categories consistent with the function of the impaired asset, except for a property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

At each reporting date the Group makes an assessment as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised through profit in the statement of comprehensive income, unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

4.9. Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term bank deposits, trade and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs for loans and in cost of sales or general and administrative expenses for accounts receivable.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the EIR, less impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs. The Group had deposits held to maturity during the years ended 31 December 2013 and 2012.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9. Financial assets (continued)

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized (or excluded from Group consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

4.10. Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement profit or loss. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs and general and administrative expenses in the statement of comprehensive income.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.11. Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings, financial guarantee contracts.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of profit or loss.

Financial guarantee contracts

Financial guarantee contracts are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss.

4.12. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

4.13. Inventories

Inventories are stated at the lower of cost and net realizable value on a first-in first-out ("FIFO") basis. Cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

4.14. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.15. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

The Group records a provision on asset retirement and land recultivation obligation. Asset retirement and land recultivation obligation costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the provisions for asset retirement and land recultivation obligation. The unwinding of the discount is expensed as incurred and recognised in the statement of comprehensive income as a finance cost. The estimated future costs of asset retirement and land recultivation are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset *(Note 5)*.

4.16. Employment benefits

The Company provides long-term employee benefits to employees before, on and after retirement, in accordance with the Collective agreement between the Company and its employees. The Collective agreement provides for one-off retirement payments, financial aid for employees' disability, anniversaries and funeral. The entitlement to benefits is usually conditional on the employee remaining in service up to retirement age.

The expected costs of the benefits associated with one-off retirement payments are accrued over the period of employment using the same accounting methodology as used for defined benefit post-employment plans with defined payments on the end of labor activity. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred. Other movements are recognised in the current period, including current service cost, any past service cost and the effect of any curtailments or settlements.

The most significant assumptions used in accounting for defined benefit obligations are discount rate and mortality rate. The discount rate is used to determine the net present value of future liabilities and each year the unwinding of the discount on those liabilities is charged to the consolidated statement of comprehensive income as interest cost. The mortality assumption is used to project the future stream of benefit payments, which is then discounted to arrive at a net present value of liabilities.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest (not applicable to the Group) and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'cost of sales', 'general and administrative expenses' and 'finance costs' in consolidated statement of profit or loss (by function):

- service costs comprising current service costs, past-service costs;
- net interest expense or income.

Employee benefits are considered as other long-term employee benefits. The expected cost of these benefits is accrued over the period of employment using the same accounting methodology as used for the defined benefit plan.

These obligations are valued by independent qualified actuaries on an annual basis.

In December 2013 Board of Directors decided to pay remuneration for the year ended. Payment of the remuneration is planned in the first quarter of 2014.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.17. Revenue and other income recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements, except for transportation expedition contract where the Group is acting as an agent. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of transportation services

Revenue from rendering of transportation and transshipment services is recognized on the basis of actual volumes of oil and water transported during the reporting period.

Rendering of other services

Revenue from rendering of other services is recognized as services are provided.

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of comprehensive income.

Dividends

Dividend income is recognised when the Group's right to receive the payment is established (on the date of dividends approval).

Property, plant and equipment received from customers

The Group assesses whether the transferred item meets the definition of an asset, and if so, recognises the transferred asset as property, plant and equipment. At initial recognition, its cost is measured at fair value, and a corresponding amount is recognised as deferred income as the Company has future performance obligations related to future periods or as a component of other income from operations when the Group has no such liabilities.

4.18. Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities.

The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised in other comprehensive income is recognised in equity and not in the statement of profit or loss. The Group Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.18. Taxes (continued)

Deferred tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction recognized in other comprehensive income or in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

Value Added Tax (VAT)

VAT related to sales is payable to the Kazakhstani budget when goods are shipped or services are rendered. Input VAT can be offset against output VAT upon the receipt of a tax invoice from a supplier.

Revenue, expenses and assets are recognized after deduction of value added tax, except for instances, where amount of value added tax is recognized as a part of costs for asset acquisitions or as a part of expenses.

Tax legislation allows the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases unsettled at the balance sheet date is stated in the statement of financial position on a net basis.

Due to specifics of tax legislation and the Group's operations a certain part of input VAT can be carried over into subsequent years. Such portion of VAT is classified as long-term asset and assessed for impairment and considered as a corporate asset allocated to existing CGU.

Receivables and payables are stated including VAT.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of VAT recoverable, Other taxes prepaid and Other taxes payable in the consolidated statement of financial position.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.19. Equity

Share capital

External costs directly attributable to the issue of new shares, excluding business combinations are shown as a deduction from the proceeds in equity.

Dividends

Dividends payable are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorized for issue.

4.20. Changes in Accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2013:

New and amended standards and interpretations applied by the Group for the first time

The Group applied, for the first time, certain standards and amendments:

- IAS 1 *Presentation of Items of Other Comprehensive Income* – Amendments to IAS 1;
- IAS 19 *Employee Benefits* (revised 2011) – Amendments to IAS 19;
- IFRS 7 *Financial Instruments: Disclosures Offsetting Financial Assets and Financial Liabilities* – Amendments to IFRS 7;
- IFRS 10 *Consolidated Financial Statements* and IAS 27 *Separate Financial Statements*;
- IFRS 11 *Joint Arrangements* and IAS 28 *Investment in Associates and Joint Ventures*;
- IFRS 12 *Disclosure of Interests in Other Entities*;
- IFRS 13 *Fair Value Measurement.*

The nature and the impact of each new standards and amendments is described below:

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., exchange differences on translation of financial statements of the foreign subsidiaries and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment had no impact on the Group's financial position or performance.

IAS 19 Employee Benefits (Revised 2011) (Amendment to IAS 19)

IAS 19 includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. Information on Employee benefits is disclosed in Note 19. Comparative information for 2012 in the statement of comprehensive income was not restated, as the actuarial losses for the year 2012 were not significant. The amendment did not affect significantly the consolidated financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 Changes in Accounting Policies and disclosures (continued)

New and amended standards and interpretations applied by the Group for the first time (continued)

IFRS 7 Financial Instruments: Disclosures Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including structured entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including:

(a) an investor has power over an investee;

(b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and

(c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

IFRS 10 and IAS 27 had no impact on the consolidated financial statements of the Group.

IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Ventures*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. IFRS 11 is effective for annual periods beginning on or after 1 January 2013. Application of this standard did not impact the financial position of the Group.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. Application of this standard did not impact the financial position of the Group.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. According to the instructions by IAS (IFRS) 13 Group re-examined its policy regarding fair value measurements. IAS (IFRS) 13 also requires additional disclosures.

The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group. In relation to the fair value measurement of property, plant and equipment more information is disclosed in Note 4.

In addition to the above-mentioned amendments and new standards, IFRS 1 *First-time Adoption of International Financial Reporting Standards* was amended with effect for reporting periods starting on or after 1 January 2013. The Group is not a first-time adopter of IFRS, therefore, this amendment is not relevant to the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 Changes in Accounting Policies and disclosures (continued)

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures* issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Group has not novated its derivatives during the current period. These amendments are not expected to impact the Group's financial position or performance.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 Impairment of Assets

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted. The Group will estimate the impact of these amendments after publications of the final edition of the Standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 Changes in Accounting Policies and disclosures (continued)

Improvement to IFRS 2009-2011

IFRS (IAS) 32 Tax Consequences of Payments to Holders of Equity Instruments (Amendment)

Amendment to IFRS (IAS) 32 *Financial Instruments: Presentation* excludes existing requirements for income tax of IFRS (IAS) 32 and requires entities to comply with the requirements of IFRS (IAS) 12 in respect of any income tax benefit associated with the shareholders. The amendment has no impact on the consolidated financial statements of the Group.

IFRS (IAS) 34 Interim Financial Reporting and Segment Information in Respect of the Total Assets and Liabilities (Amendment)

The amendment clarifies the requirements of IFRS (IAS) 34, relating to the segment information in respect of total assets and liabilities for each reportable segment to improve consistency with IFRS (IAS) 8 *Operating Segments.* Information about the total assets and liabilities by reportable segment should be disclosed only if the amounts are regularly provided to the chief operating decision maker, and the total amount disclosed in the last annual financial statements for the specified reportable segment has been significantly changed. The amendment has no impact on the annual consolidated financial statements of the Group.

5. SIGNIFICANT ACCOUNTINTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Revaluation of property, plant and equipment

The Group performed revaluation of property, plant and equipment as at 31 July 2013 (except for technological oil). The previous revaluation was performed as at 30 June 2010. Revaluation was performed by independent professional appraiser "PricewaterhouseCoopers Tax and Advisory" LLP.

Input data for determining the fair value of property, plant and equipment (except for technological oil) refer to Level 3 in the fair value hierarchy (unobservable inputs).

Valuation method was mainly based on the evaluation of the depreciable replacement cost ("cost method"). Cost method is basically used for evaluation of specific assets within the lack of active market.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SIGNIFICANT ACCOUNTINTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Revaluation of property, plant and equipment (continued)

Also test on assets return was performed as part of the revaluation. In addition assets return cost was calculated using assessment of the value in use. Following assumptions were used in calculation of the value in use:

	Cash generating unit		
	Oil transportation	Oil transshipment	Sea port
Discount rate	12.7%	14.7%	14.5%
Long-term growth rate	5.16%	2.2%	2.2%
Remaiming useful life of the primary asset	13.6 years	10 years	10 years

The assessment of value in use is sensitive to the planned volumes of services rendered, tariffs for the services rendered, the amount of capital repair and operating costs. As a result of test of return of Groups' property, plant and equipment, the value in use was determined as 414,201,492 thousand Tenge.

Impairment of the right for land use in amount of 165,670 thousand Tenge or 1,089 thousand US Dollars is the result of the test on the adequate profitability of the BTL assets in the frame of the revaluation of the property, plant and equipment implemented as of 31 July 2013.

The Company assesses at each reporting date whether the carrying amount of its property, plant and equipment does not differ materially from that, which would be determined using estimated fair value at the balance sheet date. On 31 December 2013 the management of the Company revised its assessments with respect to the fair value of its property, plant and equipment. As a result, management concluded that there were no significant changes in the fair value of the Company's property, plant and equipment as of 31 December 2013 from the date of last revaluation on 31 July 2013. As a result, the fair value of the Group's property, plant and equipment approximated their carrying amount.

Revaluation of technological oil

Technological oil is annually revalued as of 30 September, due to the fact that fluctuations are quite frequent and significant. Technological oil was revalued on 30 September 2013.

Input data for determining the fair value of technological oil refer to Level 2 in the fair value hierarchy (unobservable inputs).

The following judgments were taken into account by the Group's management when determining fair value of technological oil:

- technological oil is an integral part of the process of operating the pipeline without which the transportation is not possible;
- technological oil cannot be sold or otherwise disposed due to regulations imposed by NMRA;
- tariffs are being closely monitored by NMRA and Government to ensure they will not adversely affect general price index in the country, and thus may be set at the level which will not allow to recover cost of oil, if it was valued at international market price;
- the Group is affected by regulations set by KMG and, should there be a decision to sell some part of oil, subject for approval of NMRA, it would be sold only to the KMG-group's trading division at internal price;
- and should the Group need to buy additional oil to fill in new parts of pipeline, it would buy from the KMG-group entities at the same internal price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SIGNIFICANT ACCOUNTINTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Revaluation of technological oil (continued)

Taking into account all these factors, the management concluded that the most appropriate price to reflect fair value for the technological oil in pipeline that would be determined by informed market participant would be 264,7 US Dollars per tonne as of 30 September 2013 (40,663 Tenge) (30 September 2012: 252 US Dollars (38,000 Tenge) per tonne). As a result of test on adequate profitability in terms of revaluation of technological oil by using income approach no economical depreciation was revealed.

As of 30 September 2013, the amount of oil in the pipeline included as part of property, plant and equipment was 2,176,933 tonne (2012: 2,151,546 tonne). According to the results of inventory stock count held on 31 December 2013 the oil surplus in the amount of 24,434 tonne (2012: 29,951 tonne) was identified. The volume of oil in the pipeline as of 31 December 2013 amounted to 2,193,351 tonne (31 December 2012: 2,181,377 tonne). The Group recognizes the excess oil as an asset (property, plant and equipment) by changing a revaluation of assets in equity.

Impairment of property, plant and equipment

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Useful lives of items of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Asset retirement and land recultivation obligation

According to the Law of the Republic of Kazakhstan "About the main pipeline", which came into force on 4 July 2012, the Group has a legal obligation to decommission its oil pipelines at the end of their operating life and to restore the land to its original condition. This will happen when the crude oil reserves of the entities, using the pipeline, are fully depleted.

Asset retirement and land recultivation obligation is estimated based on the value of the work to decommission and rehabilitate calculated by the Group in accordance with the technical regulations of the Republic of Kazakhstan (pipeline decommission expense is equal to 2,891 thousand Tenge per km).

Reserve on liquidation of landfills and waste management is also reflected within the asset retirement and land recultivation obligation. The reserve was created in 2013 in accordance with the requirements of Environmental Code of Republic of Kazakhstan, which states that the owner of the landfills has to create a liquidation fund for recultivation of land and for monitoring of environmental impact right after the closure of the landfill.

The allowance was determined at the end of the reporting period using the projected inflation rate for the expected period of fulfillment of obligations (17 years), and the discount rate at the end of the reporting period which are presented below:

In percent	**2013**	2012
Discount rate as of 31 December	**6.0%**	6.0%
Inflation rate as of 31 December	**5.6%**	5.6%

The discount rate is based on the risk-free government bonds of the Republic of Kazakhstan.

As at 31 December 2013 the carrying amount of the asset retirement and land recultivation obligation was 16,677,538 thousand Tenge (31 December 2012: 15,531,037 Tenge) *(Note 25).*

5. SIGNIFICANT ACCOUNTINTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Asset retirement and land recultivation obligation (continued)

Assessing the cost of rehabilitation of the environment is subject to potential changes in environmental requirements and interpretations of the law. Furthermore uncertainties in the estimates of these costs include potential changes in regulatory requirements, alternative disposal and recovery of damaged land and levels of discount and inflation rates, and the time, when the such obligations will be due.

If the estimated discount rate before tax used in the calculation was 1% higher than management's estimates, the carrying amount of the provision would have been by 2,354,717 thousand Tenge less than recognized amount.

Allowances for doubdful debts

The Group accrues allowances for doubtful accounts receivable, advances to suppliers and other assets. In estimating doubtful accounts historical and anticipated customer performance are considered.

Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As at 31 December 2013 and 2012 allowances for doubtful accounts have been created for the amount of 737,000 thousand Tenge and 681,617 thousand Tenge, respectively (*Notes 11, 13, 14 and 16*).

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.The amount of recognized deferred tax assets as of 31 December 2013 was 6,935,332 thousand Tenge (2012: 5,021,726 thousand Tenge) (*Note 34*). As at 31 December 2013 and 2012 the Group did not have unrecognized deferred tax assets.

Employee benefits

The cost of defined long-term employee benefits to employees before, and after retirement and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases.

Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

As there is no active market for corporate securities in Kazakhstan, in determining the appropriate discount rate, management considers the interest rates of government securities (MEOKAM) with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying securities are further reviewed for quality on a timely basis.

The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates.

On 20 May 2011 the Company adopted the Collective agreement with the employees of the Company. During 2013 Agreement was amended, which caused increase in post-employment benefits, and set the amount of benefits after retirement based on monthly calculation index, established with legislation of the Republic of Kazakhstan. Accordingly, change in monthly calculation index will have an effect on the amount of benefits.

Change in benefits costs is also caused by change in number of the pensioners on the reporting date.

Further details about the assumptions used are given in *Note 20*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. EARNINGS PER SHARE AND BOOK VALUE PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. Increase in the number of share as a result of share split is applied retrospectively for previous periods.

As the parent Company of the Group does not issue convertible financial instruments, basic earnings per share of the Group is equal to diluted earnings per share.

The following reflects the income and share data used in the basic earnings per share computations:

In thousands of Tenge	**2013**	2012
Net profit attributable to ordinary equity holders of the parent for basic earnings	**63,543,600**	33,501,128
Weighted average number of ordinary shares for basic earnings per share	**384,635,599**	349,130,775
Basic earnings per share,in relation to profit for the year attributable to ordinary equity holders of the company, as a parent company of the Group *(in Tenge)*	**165**	96

Book value of the ordinary shares in accordance with requirements of KASE of the Parent company of the Group is as follows:

In thousands of Tenge	**31 December 2013**	31 December 2012
Total Assets	**590,527,228**	496,450,540
Less: Intangible assets	**(5,701,002)**	(6,233,226)
Less: Total Liabilities	**(123,257,311)**	(104,136,477)
Net assets for calculation of book value of ordinary shares	**461,568,915**	386,080,837
Number of ordinary shares	**384,635,599**	384,635,599
Book value per ordinary share *(in Tenge)*	**1,200**	1,004

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT

In thousands of Tenge	Land	Pipelines	Transportation assets	Buildings	Machinery and equipment	Technological oil	Other	Construction in progress	Total
At cost as at 1 January 2012	**16,249,861**	**100,068,206**	**8,277,842**	**87,533,300**	**81,176,560**	**59,184,177**	**12,331,948**	**21,914,221**	**386,736,115**
Foreign currency translation	198,072	–	43,564	269,276	124,099	–	38,375	50,645	**724,031**
Additions	36,444	1,339	426,863	184,318	1,547,242	2,622	774,205	23,332,528	**26,305,561**
Disposals	(51,492)	(26,078)	(7,321)	(231,653)	(117,953)	(89,182)	(195,720)	(128,190)	**(847,589)**
Disposal of a subsidiary *(Note 9)*	(423,021)	–	(15,099)	(3,813,876)	(773,623)	–	(246,353)	(325,360)	**(5,597,332)**
Provision on asset retirement and land recultivation obligation *(Note 25)*	–	15,084,384	–	–	–	–	–	–	**15,084,384**
Revaluation (revaluation reserve)	–	–	–	–	–	23,982,196	–	–	**23,982,196**
Revaluation (included in net profit)	–	–	–	–	–	142,717	–	–	**142,717**
Transfer from construction-in-progress	22,597	3,107,388	75,255	5,416,807	7,806,958	–	2,165,244	(18,594,249)	**–**
Transfer to Intangible assets *(Note 8)*	–	–	–	–	(46,079)	–	(18,360)	(212,467)	**(276,906)**
Transfers and reclassifications	(1,404)	387,411	(125,908)	(471,318)	132,307	–	59,458	9,200	**(10,254)**
At cost as at 31 December 2012	**16,031,057**	**118,622,650**	**8,675,196**	**88,886,854**	**89,849,511**	**83,222,530**	**14,908,797**	**26,046,328**	**446,242,923**
Depreciation and impairment as at 1 January 2012	**(5,523,893)**	**(15,145,640)**	**(1,875,142)**	**(15,958,849)**	**(14,621,228)**	**(330,205)**	**(2,691,454)**	**(75,226)**	**(56,221,637)**
Foreign currency translation	(70,397)	–	(4,851)	(89,923)	(51,309)	–	(13,447)	–	**(229,927)**
Depreciation charge	–	(9,254,120)	(1,020,554)	(5,972,179)	(8,617,312)	–	(2,262,125)	–	**(27,126,290)**
Disposals	25,050	9,729	5,134	167,919	80,614	–	181,315	–	**469,761**
Disposal of a subsidiary *(Note 9)*	–	–	2,468	383,117	200,676	–	58,714	–	**644,975**
Impairment (asset revaluation reserve)	–	(1,510)	(24)	(3,831)	(1,565)	–	(96)	(12,687)	**(19,713)**
Impairment (through profit and loss)	–	(244)	(1,388)	(683,880)	(88,757)	–	(36,387)	(98,288)	**(908,944)**
Transfer to Intangible assets *(Note 8)*	–	–	–	–	6,285	–	1,418	–	**7,703**
Transfers and reclassifications	–	(43,148)	4,893	37,203	(85,179)	–	96,485	–	**10,254**
Depreciation and impairment as at 31 December 2012	**(5,569,240)**	**(24,434,933)**	**(2,889,464)**	**(22,120,423)**	**(23,177,775)**	**(330,205)**	**(4,665,577)**	**(186,201)**	**(83,373,818)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

In thousands of Tenge	Land	Pipelines	Transportation assets	Buildings	Machinery and equipment	Technological oil	Other	Construction in progress	Total
At cost as at 1 January 2013	**16,031,057**	**118,622,650**	**8,675,196**	**88,886,854**	**89,849,511**	**83,222,530**	**14,908,797**	**26,046,328**	**446,242,923**
Foreign currency translation	181,390	–	(22,788)	70,193	65,634	–	2,655	3,789	**300,873**
Additions	76,084	2,904	145,778	452,532	1,500,542	2,348	796,058	29,743,876	**32,720,122**
Disposals	(88,275)	(176,228)	(113,259)	(1,177,346)	(537,836)	(444,756)	(247,646)	(199,971)	**(2,985,317)**
Revaluation (revaluation reserve)	525,965	9,292,586	1,634,581	8,122,706	19,261,449	6,738,331	2,573,664	1,651,182	**49,800,464**
Impairment (included in net profit)	(59,645)	(4,074,954)	(292,304)	(5,003,886)	(2,076,767)	–	(505,704)	–	**(12,013,260)**
Offsetting of accumulated depreciation and impairment with cost	(5,588,800)	(29,954,950)	(3,408,514)	(23,991,528)	(27,869,211)	–	(5,915,969)	–	**(96,728,972)**
Transfer to assets held for sale	(2,319)	–	–	(878,154)	(3,941)	–	–	–	**(884,414)**
Transfer from construction-in-progress	12,387	3,566,168	1,520,811	5,415,430	8,496,751	–	809,879	(19,821,426)	**–**
Transfer to Intangible assets *(Note 8)*	–	–	–	–	(477)	–	(224)	(131,136)	**(131,837)**
Transfers and reclassifications	–	55,890	(28,721)	9,917	(57,239)	–	55,970	(331,755)	**(295,938)**
At cost as at 31 December 2013	**11,087,844**	**97,334,066**	**8,110,780**	**71,906,718**	**88,628,416**	**89,518,453**	**12,477,480**	**36,960,887**	**416,024,644**
Depreciation and impairment as at 1 January 2013	**(5,569,240)**	**(24,434,933)**	**(2,889,464)**	**(22,120,423)**	**(23,177,775)**	**(330,205)**	**(4,665,577)**	**(186,201)**	**(83,373,818)**
Foreign currency translation	(51,507)	–	(3,731)	(63,903)	(43,646)	–	625	–	**(162,162)**
Depreciation charge	–	(9,856,859)	(1,209,427)	(5,992,207)	(9,796,510)	–	(2,809,254)	–	**(29,664,257)**
Disposals	31,947	136,193	100,345	955,285	440,982	306,798	233,415	172,084	**2,377,049**
Impairment (revaluation reserve)	–	(537)	(22,363)	(138,566)	(69,601)	(262,238)	(609)	(50,460)	**(544,374)**
Impairment (through profit and loss)	–	1,345	(22,667)	(25,159)	(14,189)	(44,560)	(2,226)	(542,737)	**(650,193)**
Offsetting of accumulated depreciation and impairment with cost	5,588,800	29,954,950	3,408,514	23,991,528	27,869,211	–	5,915,969	–	**96,728,972**
Transfer to assets held for sale	–	–	–	73,165	3,918	–	–	–	**77,083**
Transfer to Intangible assets *(Note 8)*	–	–	–	–	–	–	19	–	**19**
Transfers and reclassifications	–	(40,517)	(50)	(457)	(7,158)	–	6,076	338,044	**295,938**
Depreciation and impairment as at 31 December 2013	**–**	**(4,240,358)**	**(638,843)**	**(3,320,737)**	**(4,794,768)**	**(330,205)**	**(1,321,562)**	**(269,270)**	**(14,915,743)**
As at 31 December 2013									
At cost	11,087,844	97,334,066	8,110,780	71,906,718	88,628,416	89,518,453	12,477,480	36,960,887	**416,024,644**
Accumulated depreciation and impairment	–	(4,240,358)	(638,843)	(3,320,737)	(4,794,768)	(330,205)	(1,321,562)	(269,270)	**(14,915,743)**
Net book value	**11,087,844**	**93,093,708**	**7,471,937**	**68,585,981**	**83,833,648**	**89,188,248**	**11,155,918**	**36,691,617**	**401,108,901**
As at 31 December 2012									
At cost	16,031,057	118,622,650	8,675,196	88,886,854	89,849,511	83,222,530	14,908,797	26,046,328	446,242,923
Accumulated depreciation and impairment	(5,569,240)	(24,434,933)	(2,889,464)	(22,120,423)	(23,177,775)	(330,205)	(4,665,577)	(186,201)	(83,373,818)
Net book value	**10,461,817**	**94,187,717**	**5,785,732**	**66,766,431**	**66,671,736**	**82,892,325**	**10,243,220**	**25,860,127**	**362,869,105**

7. PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment have been revalued to fair value at 31 July 2013, except for technological oil. Previous revaluation was made at 30 June 2010. Technological oil is revalued each year at 30 September due to the fact that its fair value fluctuations are significant and frequent. As result of revaluation accumulated depreciation has been eliminated against carrying value of property, plant and equipment and net amount has been reflected to revalued value of property, plant and equipment.

As a result of the revaluation it was revealed that fair value of certain objects of property, plant and equipment is lower than their carrying value, as a result of no overhaul and modernization on these objects over the past several years. Respectively, excess of the carrying amount over the fair value was accounted as decrease in respective revaluation reserve to the extent that revaluation surplus was previously recognized on these assets, while the remaining amount was recognized in the income statement as an impairment of property, plant and equipment for the total amount of 12,663,453 thousand Tenge.

2012 increase in pipelines property, plant and equipment mainly includes provisions related to the asset retirement and land recultivation obligation in the amount of 15,084,384 thousand Tenge *(Notes 5, 25).*

As at 31 December 2013 and 2012, construction in progress mainly includes following production projects: main oil pipelines under construction (including: construction of main oil pipeline Kumkol-Karakoin, realized as a part of interstate Kazakhstan-China oil pipeline construction project); reconstruction of main oil pipelines Kalamkas-Karazhanbas-Aktau and Uzen-Zhetybai-Aktau; reconstruction of oil pumping station “Kenkiyak”; and reconstruction of firefighting system, electricity supply systems and others.

As at 31 December 2013 the initial cost and correspondingly accumulated depreciation of fully depreciated but still in use property, plant and equipment were 2,938,299 thousand Tenge (2012:5,743,628 thousand Tenge).

The amount of depreciation for 2013 included in the cost of construction in progress was 11,639 thousand Tenge (2012: 22,996 thousand Tenge).

As at 31 December 2013 the volume of oil inside pipelines, included in fixed assets amounted to 2,193 thousand tonnes (2012: 2,181 thousand tonnes).

As at 31 December 2013 construction in progress included materials and spare parts in the amount of 13,613,707 thousand Tenge (2012: 12,838,006 thousand Tenge), which were acquired for construction works.

As at 31 December 2012 there was created a provision for impairment of the complex of kindergartens in Atasu village of Karaganda region amounted to 768,463 thousand Tenge and playground in Usharal city of Almaty region amounted to 37,800 thousand Tenge. A provision was created due to the fact these objects are for the social purpose and they will not bring economic benefits in the future. Also, in year 2012, impairment of other assets including project and development works, in the amount of 160,361 thousand Tenge was recognized through profit or loss.

The carrying value of each revalued class of property, plant and equipment that would have been recognized in the consolidated financial statements had the assets been carried at cost less any accumulated depreciation and any accumulated impairment loss was as follows:

	Land	Pipelines	Transpor-tation assets	Buildings	Machi-nery and equip-ment	Techno-logical oil	Other	Construc-tion in progress	Total
At 31 December 2013	**12,558,408**	**53,347,278**	**5,705,043**	**37,959,883**	**57,913,313**	**1,171,808**	**7,712,998**	**35,138,347**	**211,507,078**
At 31 December 2012	12,301,711	55,640,022	4,968,375	35,448,469	55,695,049	1,171,845	8,557,559	25,541,269	199,324,299

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. INTANGIBLE ASSETS

In thousands of Tenge	Licenses	Software	Right for land use	Other	Total
Net book value at 1 January 2012	**252,473**	**936,374**	**4,674,400**	**365,790**	**6,229,037**
Additions	42,734	201,780	–	4,363	248,877
Disposals	(2)	(8,887)	–	(471)	(9,360)
Amortization charge	(68,266)	(324,687)	(107,807)	(59,291)	(560,051)
Accumulated amortization on disposals	2	8,887	–	441	9,330
Disposal of subsidiary *(Note 9)*	(181)	(5,363)	–	(48,221)	(53,765)
Accumulated depreciation related to the disposal of subsidiary*(Note 9)*	–	2,842	–	19,866	22,708
Transfers from property, plant and equipment	23,008	245,726	–	469	269,203
Foreign currency translation	679	(120)	72,570	4,118	77,247
Transfers and reclassifications	4,473	3,824	–	(8,297)	–
Net book value at 31 December 2012	**254,920**	**1,060,376**	**4,639,163**	**278,767**	**6,233,226**
Additions	5,478	140,701	39,858	–	186,037
Disposals	–	(102,971)	–	(633,926)	(736,897)
Amortization charge	(79,164)	(332,677)	(109,229)	(29,163)	(550,233)
Accumulated amortization on disposals	–	102,971	–	410,599	513,570
Impairment through profit or loss	–	–	(165,670)	–	(165,670)
Transfers from property, plant and equipment	905	130,913	–	–	131,818
Foreign currency translation	798	27	86,041	2,285	89,151
Transfers and reclassifications	1,820	(1,820)	–	–	–
Net book value at 31 December 2013	**184,757**	**997,520**	**4,490,163**	**28,562**	**5,701,002**
As at 31 December 2013					
At cost	455,682	4,163,442	6,106,597	76,219	10,801,940
Accumulated amortization and impairment	(270,925)	(3,165,922)	(1,616,434)	(47,657)	(5,100,938)
Net book value	**184,757**	**997,520**	**4,490,163**	**28,562**	**5,701,002**
As at 31 December 2012					
At cost	447,373	3,996,520	5,953,009	704,353	11,101,255
Accumulated amortization and impairment	(192,453)	(2,936,144)	(1,313,846)	(425,586)	(4,868,029)
Net book value	**254,920**	**1,060,376**	**4,639,163**	**278,767**	**6,233,226**

9. DISPOSAL OF A SUBSIDIARY

On 18 September 2012 the Group entered into an agreement to sell 100% of the common shares of "KazTransOil-Service" ("KTO-Service") to "KazMunaiGas-Service". The amount of contract was equal to 11,647,889 thousand Tenge and was paid on 20 September 2012. According to the contract terms, ownership rights were transferred to "KazMunaiGas-Service" JSC on 21 September 2012.

The carrying value of identifiable assets, liabilities and contingent liabilities of "KTO-Service" sold to "KazMunaiGas-Service" at the date of disposal were as follows:

In thousands of Tenge	Carrying value at disposal date
Property, plant and equipment	4,952,357
Intangible assets	31,057
Bank deposits	531
Inventory	195,678
Trade and other accounts receivables	100,249
Advances to suppliers	86,818
Prepayment for corporate income tax	516
VAT recoverable and other prepaid taxes	53,340
Other current assets	36,543
Cash and cash equivalents	5,976,033
Total assets	**11,433,122**
Trade and other accounts payable	6,392
Advances received	21,556
Other tax payables	11,488
Other current liabilities	55,472
Total liabilities	**94,908**
Total net assets disposed	**11,338,214**
Consideration received in cash	**11,647,889**
Gain on disposal of subsidiary	**309,675**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. DISPOSAL OF A SUBSIDIARY (continued)

The amount of consideration received in the consolidated statement of cash flows is shown net of cash and cash equivalents of "KTO Service" JSC at the date of disposal for the amount of 5,671,856 thousand Tenge.

10. INVESTMENTS IN JOINT VENTURES

In thousands of Tenge	**31 December 2013**	31 December 2012
KCP	**40,878,930**	30,188,246
MunaiTas	**12,675,097**	10,627,303
	53,554,027	40,815,549

During 2013, the Group has recognized its share in income of KCP in the amount of 10,648,691 thousand Tenge (2012: 7,019,889 thousand Tenge), and share in other comprehensive income 41,993 thousand Tenge (2012: 288,666 thousand Tenge).

During 2013, the Group has recognized its share in income of MunaiTas in the amount of 1,197,876 thousand Tenge (2012: 1,088,090 thousand Tenge), and share in other comprehensive income 1,303,502 thousand Tenge (2012: nil). During 2013 MunaiTas paid dividends for 2013 in the amount of 453,584 thousand Tenge (2012: nil).

The tables below present generalized financial information relating to joint ventures (the Group's proportional share):

	31 December 2013		31 December 2012	
In thousands of Tenge	**KCP**	**MunaiTas**	KCP	MunaiTas
Share in total assets and liabilities of joint ventures				
Current assets	**22,462,883**	**1,448,667**	22,990,588	927,921
including: cash and cash equivalents	**5,941,869**	**162,279**	8,485,914	786,993
Non-current assets	**128,663,581**	**14,835,854**	121,837,789	14,211,948
Current liabilities	**(19,868,226)**	**(296,701)**	(14,026,734)	(1,312,340)
including: short-term financial liabilities	**–**	**–**	–	844,636
Non-current liabilities	**(90,379,308)**	**(3,312,723)**	(100,613,397)	(3,200,226)
including: short-term financial liabilities	**77,829,046**	**–**	88,911,403	–
Share in net assets	**40,878,930**	**12,675,097**	30,188,246	10,627,303

	2013		2012	
In thousands of Tenge	**KCP**	**MunaiTas**	KCP	MunaiTas
Share in total revenue and net income of joint ventures for the year				
Revenue and other operating income	**33,848,334**	**3,975,326**	27,298,690	3,936,671
Depreciation and amortization	**6,602,428**	**1,010,762**	6,285,345	966,051
Interest income	**572,701**	**23,534**	263,598	7,761
Interest expense	**4,934,486**	**5,238**	5,636,631	53,362
Income tax	**3,879,123**	**302,729**	1,045,445	280,554
Net income	**10,648,691**	**1,197,876**	7,019,889	1,088,090
Other comprehensive income	**41,993**	**1,303,502**	288,666	–
Total comprehensive income	**10,690,684**	**2,501,378**	7,308,555	1,088,090

11. ADVANCES TO SUPPLIERS FOR PROPERTY, PLANT AND EQUIPMENT

In thousands of Tenge	**31 December 2013**	31 December 2012
Advances to third parties for property, plant and equipment	**5,934,981**	623,604
Less: allowance for doubtful debts	**(99,330)**	(99,330)
	5,835,651	524,274

Movement in allowance for doubtful debts related to the advances given to suppliers for property, plant and equipment was as follows:

In thousands of Tenge	**2013**	2012
As at 1 January	**99,330**	–
Reinstatement of advances with related provision	**–**	99,330
As at 31 December	**99,330**	99,330

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. INVENTORIES

In thousands of Tenge	**31 December 2013**	31 December 2012
Spare parts	**937,047**	962,951
Fuel	**698,546**	770,441
Construction materials	**138,466**	154,549
Goods	**76,520**	76,248
Chemical reagents	**33,496**	89,053
Other	**510,181**	612,112
Less: provision for slow-moving and obsolete inventory	**(48,213)**	(65,413)
	2,346,043	2,599,941

Movements in the provision for slow-moving and obsolete inventory were as follows:

In thousands of Tenge	**2013**	2012
As at 1 January	**65,413**	54,278
Charge for the year	**7,672**	17,148
Write-off of inventories	**(20,034)**	(106)
Disposal of subsidiary	**–**	(1,648)
Reversal of provision	**(5,148)**	(4,175)
Currency translation difference	**310**	(84)
As at 31 December	**48,213**	65,413

13. TRADE AND OTHER ACCOUNTS RECEIVABLE

In thousands of Tenge	**31 December 2013**	**31 December 2012**
Trade accounts receivable from related parties (*Note 36*)	**1,416,969**	**1,031,480**
Trade accounts receivable from third parties	**1,203,023**	**1,049,790**
Other accounts receivable from third parties	**2,526,184**	**825,882**
Other accounts receivable from related parties (*Note 36*)	**35,828**	**198,918**
Less: allowance for doubtful debts	**(633,072)**	**(578,189)**
	4,548,932	**2,527,881**

Other receivables mainly represent receivables from fines and penalties for nominated and non-delivered crude oil volumes under oil transportation contracts on "ship or pay" terms.

Movement in allowance for doubtful accounts related to trade and other receivables was as follows:

In thousands of Tenge	**2013**	2012
As at 1 January	**578,189**	109,688
Reinstatement of accounts receivable with related provision	**–**	409,688
Charge for the year	**89,895**	136,104
Write-off of receivable	**(1,071)**	(42,266)
Reversal of allowance	**(33,990)**	(23,112)
Disposal of subsidiary	**–**	(11,961)
Currency translation	**49**	48
As at 31 December	**633,072**	578,189

Trade and other accounts receivable are denominated as follows:

In thousands of Tenge	**31 December 2013**	31 December 2012
Tenge	**4,128,283**	2,052,571
US Dollars	**357,911**	429,910
Russian rubles	**1,756**	780
Other currency	**60,982**	44,620
	4,548,932	2,527,881

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. TRADE AND OTHER ACCOUNTS RECEIVABLE (continued)

As at 31 December the ageing analysis of trade and other receivables is as follows:

			Past due but not impaired				
In thousands of Tenge	Total	Neither past due nor impaired	<30 days	30-60 days	60-90 days	90-120 days	>120 days
2013	**4,548,932**	**3,956,772**	**396,736**	**107,489**	**32,584**	**18,673**	**36,678**
2012	2,527,881	1,984,584	405,000	53,068	1,725	32,516	50,988

14. ADVANCES TO SUPPLIERS

In thousands of Tenge	**31 December 2013**	31 December 2012
Advances to third parties	**587,519**	184,307
Advances to related parties (*Note 36*)	**257,165**	420,284
Less: allowance for doubtful debts	**(1,982)**	(1,482)
	842,702	603,109

Movement in allowance for doubtful debts related to advances given to suppliers was as follows:

In thousands of Tenge	**2013**	2012
As at 1 January	**1,482**	3,443
Charge for the year	**1,788**	11,249
Reinstatement of advances with related provision	**–**	847
Write-off of advances	**–**	(5,025)
Reversal of provision	**(1,288)**	(9,032)
As at 31 December	**1,982**	1,482

15. VAT RECOVERABLE AND OTHER PREPAID TAXES

In thousands of Tenge	**31 December 2013**	31 December 2012
VAT recoverable	**3,038,279**	1,974,968
Other taxes prepaid	**106,435**	117,045
	3,144,714	2,092,013

16. OTHER CURRENT ASSETS

In thousands of Tenge	**31 December 2013**	31 December 2012
Due for oil transportation coordination services	**3,770,279**	4,284,419
Due from employees	**93,731**	41,315
Prepaid insurance	**38,840**	34,635
Deferred expenses	**20,445**	7,409
Other	**26,114**	40,700
Less: allowance	**(2,616)**	(2,616)
	3,946,793	4,405,862

17. BANK DEPOSITS

In thousands of Tenge	**31 December 2013**	31 December 2012
Short-term bank deposits	**81,554,300**	53,000,000
Long-term bank deposits	**576,541**	–
Accrued interest on deposits	**1,562,238**	84,676
	83,693,079	53,084,676

17. BANK DEPOSITS (continued)

As at 31 December 2013 bank deposits comprised of the following:

- Tenge denominated bank deposits placed with Kazakhstani banks with maturity from 3 to 12 months, which interest from 3.7% to 7.2% per annum (2012: from 3.3% to 7.1% per annum), maturing in December 2014 (2012: December 2013);
- restricted long-term bank deposits with interest of 2% per annum maturing in the year 2028, which is the guarantee of real estate loan issued by Halyk Bank Kazakhstan JSC.

18. CASH AND CASH EQUIVALENTS

In thousands of Tenge	**31 December 2013**	31 December 2012
Time deposits with banks – Tenge	**22,980,000**	10,000,000
Current accounts with banks – Tenge	**1,374,515**	8,114,269
Current accounts with banks – US Dollars	**1,152,074**	332,576
Current accounts with banks – Lari	**67,742**	475,434
Current accounts with banks – Euro	**57,604**	11,908
Current accounts with banks – Russian Ruble	**5,194**	9,306
Current accounts with banks – Other currencies	**–**	152
Other current accounts with banks	**11,374**	12,365
Cash on hand	**1,547**	2,581
Less: allowance for impairment	**(4,702)**	(4,547)
	25,645,348	18,954,044

At 31 December 2013 most current accounts and time deposits placed with Kazakhstani banks carried interest ranging from 1.7% to 10.25% per annum (2012: from 1.65% to 4% per annum).

19. EQUITY

Share capital

On 26 June 2012 the Company increased the number of authorized shares (certificate of state registration of the securities, the issue number A2995 dated 26 May 2012), As a result of a share split at a ratio 1:10 shares, the number of authorized shares increased from 34,617,204 shares to 346,172,040 shares, with the share capital remaining unchanged (34,617,204 thousand Tenge), In addition the Company increased the number of authorized shares by 38,463,560 shares, dilution and increase of number of authorised shares is associated with the placement of the Company's shares at KASE within the People's IPO programme,

Trades in the shares of JSC “KazTransOil” on the Kazakhstan Stock Exchange were opened on 25 December 2012. As a result, 38,463,559 common shares at 725 Tenge per share were sold for 27,886,080 thousand Tenge. As at 31 December 2013 and 2012 the Company’s share capital was comprised of 384,635,600 common shares authorized, issued and fully paid in the amount of 62,503,284 thousand Tenge, except for 1 share which was authorized but not issued and not paid.

As of 31 December 2013 and 2012 the share capital amounting to 61,937,567 thousand Tenge is net of consulting costs related to the issuance of shares in the amount of 565,717 thousand Tenge (of which 289,774 thousand Tenge was paid as of 31 December 2012).

Distributions to the shareholder

Dividends

During 2013 the Group declared and paid dividends for 2012, totaling 28,847,670 thousand Tenge based on the results of the year 2012 (2012: 60,002,000 thousand Tenge based on the results of the year 2011). The dividend amounted to 75 Tenge per common share according to the total number of shares equaling to 384,635,599 (2012: 173.33 Tenge according to the total number of shares equaling to 346,172,040).

Asset revaluation reserve

Revaluation reserve was formed based on a revaluation of property, plant and equipment which is performed every 3 years in accordance with the accounting policy of the Group (except for technological oil, which is revalued annually as of 30 September).

As at 31 December 2013 the revaluation reserve increased by 27,481,073 thousand Tenge due to the revaluation of property, plant and equipment performed as of 31 July 2013 (previous revaluation was made on 30 June 2010) in the amount of 41,100,398 thousand Tenge and depreciation transfer of revalued property plant and equipment in the amount of 13,619,325 thousamd Tenge (2012: 13,090,536 thousand Tenge).

19. EQUITY (continued)

Other capital reserves

As at 31 December 2013 reserve amounted to 1,016,496 thousand Tenge (as at December 31 2012: 17,104 thousand Tenge). Increase in reserve is due to accrual of actuarial re-measurement losses on defined benefit plans in amount of 1,292,000 thousand Tenge, income tax effect of which amounted to 258,400 thousand Tenge.

Foreign currency translation reserve

As at 31 December 2013 foreign currency translation reserve was equal to 10,069,002 thousand Tenge (as at December 31 2012: 9,875.876 thousand Tenge) Change in foreign currency translation reserve is due to the translation of the operations of the foreign subsidiary.

20. EMPLOYEE BENEFIT LIABILITY

Employee benefits payments are considered as other long–term employee benefits. The entitlement to these benefits is usually conditional on the completion of a minimum service period. The expected cost of these benefits is accrued over the service period, using methodology similar to that used for the defined benefit plan. The Group did not create any funds to cover these future benefit payments.

In 2013 amendments were made to the Collective agreement which increased the amount of actuarial payments and confined the amount of actuarial payments to the monthly consumer index defined by the Kazakhstani legislature.

Changes in defined benefit obligations are as follows:

In thousands of Tenge	**31 December 2013**	31 December 2012
Present value of defined benefits obligation at the beginning of the year	**6,800,263**	6,135,892
Past services cost	**1,008,000**	–
Current services cost	**495,000**	460,000
Unwinding of discount (*Note 33*)	**417,000**	372,000
Actuarial losses**	**1,292,000**	153,000
Benefits paid	**(357,083)**	(320,629)
Present value of defined benefit obligation at the end of the year	**9,655,180**	6,800,263
Less: current portion of present value of defined benefit obligation	**(322,000)**	(238,000)
Non-current portion of present value of defined benefit obligation	**9,333,180**	6,562,263

** Due to changes in IAS 19 (applicable from 1 January 2013), actuarial losses are recognized as part of the other comprehensive income. The Group did not apply this requirement retrospectively, due to the fact that the change would not have made a significant impact on the financial statements of the Group.

Amounts recognized in the consolidated statement of financial position and consolidated statement of comprehensive income for the current year is as follows:

In thousands of Tenge	**31 December 2013**	31 December 2012
Present value of defined benefit obligation at end of the year	**9,655,180**	6,800,263
Net liability	**9,655,180**	6,800,263
Past service cost	**1,008,000**	–
Current service cost	**495,000**	460,000
Actuarial losses	**1,292,000**	153,000
Unwinding of discount (*Note 33*)	**417,000**	372,000
Expenses recognized in the current period	**3,212,000**	985,000

Current and past services costs and unwinding of discount are included in the statement of comprehensive income as part of cost of sales and general and administrative expenses and finance costs respectively *(Notes 28, 29, 33)*. Actuarial losses for 2013 were included in the other comprehensive income according to amendments IAS 19, effective from 1 January 2013 (actuarial losses for 2012 were recognized in profit and loss as part of other operating expenses *(Note 31)*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. EMPLOYEE BENEFIT LIABILITY (continued)

Increase in actuarial losses is due to the amendments made to Collective Agreement (described in *Note 5*), increase in number of pensioners and change in certain actuarial assumptions.

Principal actuarial assumptions used for valuation of employee benefit obligation at 31 December 2013 and 2012 were as follows:

	2013	2012
Discount rate	**6.0%**	6.0%
Rate of inflation	**5.6%**	4.0%
Future increase of non-current annual payment	**5.5%**	6.0%
Future salary increases	**6.0%**	6.0%
Mortality rate	**12.0%**	12.0%

As of 31 December 2013 the average duration of post-retirement benefit obligations was 16 years.

Sensitivity analysis for significant assumptions as of 31 December 2013 is as follows:

In thousands of Tenge	**Decrease**	**Increase**
Discount rate	**-0.5%**	**+0.5%**
	778,000	**(693,000)**
Inflation rate	**-0.5%**	**+0.5%**
	(720,000)	**803,000**
	-0.5%	**+0.5%**
Future salary increase	**(79,200)**	**88,330**
	-0.5%	**+0.5%**
Increase in long-term payments	**(640,800)**	**714,670**
Life duration	**-1 year**	**+1 year**
	(395,000)	**400,000**

21. DEFERRED INCOME

In thousands of Tenge	**31 December 2013**	31 December 2012
Deferred income from third parties	**3,819,666**	3,840,252
Deferred income from related parties (*Note 36*)	**260,305**	572,670
	4,079,971	4,412,922

22. TRADE AND OTHER ACCOUNTS PAYABLE

In thousands of Tenge	**31 December 2013**	31 December 2012
Accounts payable to third parties for goods and services	**10,194,390**	5,905,433
Accounts payable to related parties for goods and services (*Note 36*)	**650,602**	596,783
Other payables to third parties	**249,065**	269,141
Other payables to related parties (*Note 36*)	**1,950**	569
	11,096,007	6,771,926

Trade and other accounts payables included payables to related and third parties, related to the construction-in-progress in the amount of 7,711,017 thousand Tenge.

Trade and other accounts payables are denominated as follows:

In thousands of Tenge	**31 December 2013**	31 December 2012
Tenge	**10,550,602**	6,274,570
US Dollars	**351,156**	223,020
Russian roubles	**48,590**	58,192
Euro	**13,480**	12,289
Other currency	**132,179**	203,855
	11,096,007	6,771,926

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. ADVANCES RECEIVED

In thousands of Tenge	31 December 2013	31 December 2012
Advances received from related parties *(Note 36)*	**10,706,153**	10,426,287
Advances received from third parties	**6,475,570**	5,544,408
	17,181,723	15,970,695

24. OTHER TAXES PAYABLE

In thousands of Tenge	31 December 2013	31 December 2012
Personal income tax	**998,348**	432,489
Social tax	**550,961**	309,878
Property tax	**355,611**	79,651
VAT payable	**564**	297,528
Other taxes	**681,867**	520,255
	2,587,351	1,639,801

25. PROVISIONS

Short-term provisions

In thousands of Tenge	Tax provisions (BTL)	Environmental provisions (Company)	Others (Company)	Total
As at 1 January 2012	227,646	48,267	11,814	287,727
Charged for the year	–	306,318	–	306,318
Use of provision	(56,214)	(186,332)	–	(242,546)
Reversal of provision	–	(776)	–	(776)
Foreign currency translation	2,974	–	–	2,974
As at 31 December 2012	174,406	167,477	11,814	353,697
Charged for the year	**8,671**	**517**	**–**	**9,188**
Use of provision	**–**	**(126,352)**	**(11,814)**	**(138,166)**
Foreign currency translation	**3,406**	**–**	**–**	**3,406**
As at 31 December 2013	**186,483**	**41,642**	**–**	**228,125**

BTL Tax provisions

As of 31 December 2011, the Group was involved in tax disputes with Georgian Tax Authorities in respect of additional accruals of withholding tax of 1,534 thousand US Dollars (equivalent of 227,646 thousand Tenge), and in consolidated financial statement provision an appropriate amount was reflected. During 2012 the Group has used provision in the amount of 377 thousand US Dollars (equivalent of 56,214 thousand Tenge).

Environmental provisions

The Company accrued ecology provision due to the oil spill as a result of unauthorized penetration of pipeline.

Long-term provisions

In thousands of Tenge	31 December 2013	31 December 2012
As of 1 January	**15,531,037**	–
Provision for the year	**189,265**	15,084,384
Unwinding of discount on asset retirement and land recultivation obligation *(Note 33)*	**957,236**	446,653
As of 31 December	**16,677,538**	15,531,037

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. PROVISIONS (continued)

Long-term provisions (continued)

Asset retirement and land recultivation obligation

According to the Law of the Republic of Kazakhstan "About the main pipeline", which came into force on 4 July 2012 the Group has a legal obligation to decommission the main pipeline (oil pipeline) after the operation and subsequent activities to restore the environment, including land recultivation. During 2012 the Group's Management has created provision on asset retirement and land recultivation obligation in the amount of 15,084,384 thousand Tenge.

Additionally provision on liquidation of the waste landfills is reflected as part of the asset retirement and land recultivation obligation. Provision was created in 2013 based on the requirements of the Ecological Code of the Republic of Kazakhstan, according to which owner of the waste landfill must create liquidation fund for subsequent activities for land remediation and monitoring the impact on the environment after the landfill closure. Ecological Code of the Republic of Kazakhstan also prohibits usage of landfill without liquidation fund created. Landfill liquidation provision in the amount of 189,265 thousand Tenge is equal to the discounted amount of the future costs of liquidation, calculated based on remaining period before the date of liquidation. Discount rate applied represents risk-free rate of the government bonds of the Republic of Kazakhstan.

26. OTHER CURRENT LIABILITIES

In thousands of Tenge	**31 December 2013**	31 December 2012
Salaries and wages	**7,385,065**	2,941,700
Accounts payable for oil transportation coordination services for related parties (*Note 36*)	**4,153,476**	4,839,624
Accounts payable for oil transportation coordination services for third parties	**3,281,040**	3,190,974
Accounts payable under an agency agreement for the transportation of oil to related parties (*Note 36*)	**651,706**	–
Payable to pension fund	**593,575**	338,898
Current portion of deferred income from third parties	**324,578**	444,532
Current portion of deferred income from related parties (*Note 36*)	**312,366**	312,365
Other accruals	**44,086**	62,406
	16,745,892	12,130,499

In respect of short term employee remunerations the Board of Directors of the Company made a decision in December 2013 to pay the employees remunerations based on the year results in the amount of 4,424,784 thousand Tenge including social tax.

27. REVENUE

In thousands of Tenge	**2013**	2012
Crude oil transportation	**153,861,014**	110,260,550
Oil reloading and railway shipment	**17,810,315**	14,880,582
Pipeline operation services	**6,816,579**	5,968,264
Water transportation	**6,573,345**	6,431,874
Oil transportation coordination services and seaport	**3,995,350**	3,853,047
Oil storage services	**174,555**	235,996
Other	**790,514**	1,431,012
	190,021,672	143,061,325

Increase in revenues is due to the aforementioned increase in tariffs for oil transportation for domestic and export markets (*Note 1*). For the twelve months ended 31 December 2013 the revenue from the major customer amounted to 41,333,606 and 18,434,349 thousand Tenge respectively. For the twelve months ended 31 December 2012 revenue from two major customers: 36,137,646 thousand Tenge, 8,215,120 thousand Tenge respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. COST OF SALES

In thousands of Tenge	**2013**	2012
Personnel cost	**35,939,251**	29,063,058
Depreciation and amortization	**29,442,621**	26,976,466
Railway services	**10,298,681**	9,229,798
Materials and fuel	**6,112,086**	5,831,571
Electric energy	**6,065,868**	5,355,092
Taxes other than corporate income tax	**4,895,316**	4,324,473
Repair and maintenance costs	**4,670,474**	4,994,652
Security services	**3,466,756**	3,587,876
Gas expense	**2,211,319**	2,206,043
Post-employment benefits	**1,406,914**	431,867
Air services	**1,296,160**	1,931,505
Business trip expenses	**816,498**	706,013
Environmental protection	**612,422**	888,008
Insurance	**446,548**	476,373
Diagnostics of pipelines	**389,203**	194,260
Rent expenses	**295,453**	744,589
Communication services	**253,297**	214,538
Other	**2,349,832**	2,447,449
	110,968,699	99,603,631

Increase in production personnel costs is mainly due to the accrual of bonuses for the results of 2013.

29. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of Tenge	**2013**	2012
Personnel cost	**6,529,810**	5,447,561
Depreciation and amortization	**760,231**	686,879
Consulting	**413,088**	767,630
Office maintenance	**355,714**	121,661
Social sphere expenses	**274,705**	172,820
Taxes other than corporate income tax	**229,479**	361,723
Business trip expenses	**228,849**	215,928
Repair and technical maintenance	**223,186**	218,156
Insurance and security	**217,343**	232,607
Expenses on VAT	**194,727**	309,957
Materials and fuel	**182,300**	140,532
Charity expenses	**166,028**	1,079,886
Impairment of intangible assets	**165,670**	–
Operational lease expenses	**148,765**	149,098
Training	**112,962**	132,182
Communication services	**111,544**	124,219
Bank costs	**111,417**	102,622
Post-employment benefits	**96,086**	28,133
Information expenses	**71,653**	77,118
Provision for allowance for doubtful debts	**56,405**	119,756
Advertising expense	**41,972**	186,903
Transportation expenses	**12,018**	14,366
Allowance for obsolete and slow-moving inventories	**2,520**	12,973
Other	**321,032**	274,865
	11,027,504	10,977,575

Increase in administrative personnel costs in mainly due to the accrual of bonuses for the results of 2013.

In 2012 the Company has provided a financial aid in the amount of 1,000,000 thousand Tenge to the public association “Pavlodar-our common home” for the construction of multifunctional sport complex in Pavlodar city.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. OTHER OPERATING INCOME

In thousands of Tenge	2013	2012
Income from fines and penalties	**6,694,613**	928,945
Gain on disposal of inventory	**314,320**	–
Amortization of deferred income (Note 36)	**312,366**	312,365
Gain on disposal of property, plant and equipment and intangible assets	**257,696**	–
Derecognition of financial guarantee issued on behalf of related party *(Note 36)*	**177,743**	–
Amortization of financial guarantee issued on behalf of related party *(Note 36)*	**26,463**	138,570
Income from write-off of payables	**23,853**	11,222
Other income	**130,069**	267,068
	7,937,123	1,658,170

Income from fines and penalties are mainly presented by amounts for nominated and non-delivered crude oil volumes under oil transportation contracts on "ship or pay" terms. Increase in fines and penalties in 2013 is due to the postponement of the oil production in Kashagan oilfield.

31. OTHER OPERATING EXPENSES

In thousands of Tenge	2013	2012
Loss on disposal of property, plant and equipment and intangible assets	**461,068**	46,050
Loss on disposal of inventory	**2,594**	–
Actuarial losses *(Note 20)*	**–**	153,000
Other expenses	**218,080**	421,920
	681,742	620,970

32. FINANCE INCOME

In thousands of Tenge	2013	2012
Interest income on bank deposits	**3,967,511**	1,851,365
Dividends income	**194,185**	–
Employees and related party loans: unwinding of discount	**23,672**	84,827
Other finance income from third parties	**7,758**	5,666
Other finance income from related parties *(Note 36)*	**4,108**	8,499
	4,197,234	1,950,357

33. FINANCE COSTS

In thousands of Tenge	2013	2012
Unwinding of discount on asset retirement and land recultivation obligation *(Note 25)*	**957,236**	446,653
Employee benefits: unwinding of discount *(Note 20)*	**417,000**	372,000
Interest on loans and borrowings	**–**	27,436
Other	**–**	1,442
	1,374,236	847,531

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. INCOME TAX EXPENSE

Income tax expenses for the years ended 31 December comprise:

In thousands of Tenge	2013	2012
Current income tax expense	**18,870,045**	8,172,066
Deferred income tax (benefit)/expense	**(5,022,884)**	378,097
Income tax expense	**13,847,161**	8,550,163

A reconciliation of income tax expense on accounting profit,multiplied by income tax rate and current income tax expense for the years ended 31 December, is as follows:

In thousands of Tenge	2013	2012
Profit before income tax	**77,390,761**	42,051,291
Statutory rate	**20%**	20%
Income tax expense on accounting profit	**15,478,152**	8,410,258
Tax effect of permanent differences		
Other non deductible expenses	**805,563**	612,375
Tax effect of other adjustments		
Derecognition of deferred taxes on income of foreign subsidiaries	**–**	1,110,119
Income from joint ventures recognized according to equity method	**(2,369,313)**	(1,621,596)
Effect of difference in tax rates	**(67,241)**	39,007
Corporate income tax expense reported in the statement of comprehensive income	**13,847,161**	8,550,163

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. INCOME TAX EXPENSE (continued)

Deferred income tax balances, calculated by applying the statutory income tax rates in effect at the respective balance sheet dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the consolidated financial statements, are comprised of the following at 31 December:

In thousands of Tenge	31 December 2013	Charged to profit and loss	Foreign currency translation	Charged to other comprehensive income	31 December 2012	Charged to profit and loss	Foreign currency translation	Charged to other comprehensive income	1 January 2012
Deferred tax assets									
Employee benefits and other employee compensation and related costs	**3,023,646**	**1,199,277**	**–**	**258,400**	1,565,969	152,212	–	–	1,413,757
Financial guarantee issued on behalf of related party	**–**	**(39,931)**	**–**	**–**	39,931	(27,853)	–	–	67,784
Allowance for doubtful debts	**147,401**	**113,051**	**–**	**–**	34,350	18,506	–	–	15,844
Provision for slow-moving and obsolete inventory	**9,643**	**(3,440)**	**–**	**–**	13,083	2,943	–	–	10,140
Provision on environmental protection	**88,164**	**17,425**	**–**	**–**	70,739	70,739	–	–	–
Provision on asset retirement and land recultivation obligation	**3,292,968**	**186,761**	**–**	**–**	3,106,207	3,106,207	–	–	–
Taxes payable	**253,890**	**253,890**	**–**	**–**	–	(50,997)	–	–	50,997
Financial aid to related parties and loans to employees	**5,086**	**(9,354)**	**–**	**–**	14,440	8,787	–	–	5,653
Deferred Income from related party	**114,534**	**(62,473)**	**–**	**–**	177,007	(62,473)	–	–	239,480
Income of foreign subsidiaries	**–**	**–**	**–**	**–**	–	(1,110,118)	–	–	1,110,118
	6,935,332	**1,655,206**	**–**	**258,400**	5,021,726	2,107,953	–	–	2,913,773
Deferred tax liabilities									
Taxes payable	**–**	**33,759**	**–**	**–**	(33,759)	(33,759)	–	–	–
Property, plant and equipment	**(50,473,181)**	**3,333,919**	**83,936**	**(9,496,299)**	(44,394,737)	(2,452,291)	(34,466)	(4,792,496)	(37,115,484)
	(50,473,181)	**3,367,678**	**83,936**	**(9,496,299)**	(44,428,496)	(2,486,050)	(34,466)	(4,792,496)	(37,115,484)
Net deferred income tax liabilities	**(43,537,849)**	**5,022,884**	**83,936**	**(9,237,899)**	(39,406,770)	(378,097)	(34,466)	(4,792,496)	(34,201,711)

The deferred taxes on property, plant and equipment represent differences between tax and book base of property, plant and equipment due to different depreciation rates in tax and accounting books and impairment of property, plant and equipment.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

In 2012 the Group changed its assessment in regards to the recoverability of deferred tax asset on income from foreign subsidiaries, which were received in countries with preferential tax rules under the Tax code of the Republic of Kazakhstan. Accordingly, as of 31 December 2012 the Group has ceased the recognition of relevant deferred tax asset in the amount of 1,110,118 thousand Tenge.

35. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on its services and has three reportable segments, as follows:

- Oil transportation and related services;
- Oil transshipment;
- Other segments.

Segments that are identified, but do not separately exceed quantitative limits (amount of separate segment revenue composes less than 10% of combined revenue) are combined in "Other segments". Such services include services provided by subsidiary KTO-Service, and also transshipment of dry cargo (sugar-airbrick, ammonium nitrate, cement, grain, sunflower and oil cake) in Batumi sea port with operation of dry-cargo, ferry and container terminal, and also passenger terminal services.

Oil transportation and related services provided by the Company, which do not exceed quantitative limits and are intimately connected with the Group's main operating activities, or with main asset of the Group – pipelines, such as: water transportation, oil storage, expedition services, services on support and maintenance of pipelines, are included into service related to oil transportation. Separate management report is not provided to the Management of the Group on some types of these services and accordingly they cannot be identified as separate segments.

Services on transshipment of oil and oil-products through Batumi sea port with operation of Batumi oil terminal are included in "Oil transshipment" segment. Revenue from oil terminal is generated through storage, transshipment of oil and oil-products and expedition. Expedition services represent transshipment of oil and oil-products services through railway from Azerbaijanian-Georgian border to terminal in Batumi. This type of activity is directly related to oil transshipment, and therefore is not shown as a separate segment.Management analyses its operating segments by segment profit.

	For the year ended 31 December 2013						For the year ended 31 December 2012					
In thousands Tenge	**Oil transportation and related services (Kazakhstan)**	**Oil transship-ment (Georgia)**	**Other**	**Total segments**	**Adjustments and eliminations**	**Consolidated**	Oil transportation and related services (Kazakhstan)	Oil transshipment (Georgia)	Other	Total segments	Adjustments and eliminations	Consolidated
Revenue												
External customers	**168,214,901**	**17,810,315**	**3,996,456**	**190,021,672**	**–**	**190,021,672**	123,931,842	14,880,582	4,248,901	143,061,325	–	143,061,325
Inter-segment	**–**	**–**	**–**	**–**	**–**	**–**	–	–	394,544	394,544	(394,544)	–
Total revenue	**168,214,901**	**17,810,315**	**3,996,456**	**190,021,672**	**–**	**190,021,672**	123,931,842	14,880,582	4,643,445	143,455,869	(394,544)	143,061,325
Results												
Impairment of property, plant and equipment (included in net profit)	**(12,663,453)**	**–**	**–**	**(12,663,453)**	**–**	**(12,663,453)**	(766,227)	–	–	(766,227)	–	(766,227)
Impairment of Intangible assets	**–**	**–**	**(165,670)**	**(165,670)**	**–**	**(165,670)**	–	–	–	–	–	–
Depreciation and amortization	**(28,263,650)**	**(1,718,004)**	**(221,198)**	**(30,202,852)**	**–**	**(30,202,852)**	(26,184,824)	(1,021,851)	(456,670)	(27,663,345)	–	(27,663,345)
Interest income	**3,947,430**	**10,953**	**14,910**	**3,973,293**	**–**	**3,973,293**	1,783,562	21,770	60,198	1,865,530	–	1,865,530
Interest expenses	**–**	**–**	**–**	**–**	**–**	**–**	–	(27,436)	–	(27,436)	–	(27,436)
CIT expense	**(13,063,819)**	**(265,163)**	**65,264**	**(13,263,718)**	**(583,443)**	**(13,847,161)**	(8,432,962)	53,680	(170,880)	(8,550,162)	–	(8,550,162)
Segment profit	**52,016,546**	**748,936**	**229,716**	**52,995,198**	**10,548,402**	**63,543,600**	24,164,234	1,472,012	(262,312)	25,373,934	8,127,194	33,501,128
Total assets	**527,084,407**	**31,127,379**	**14,636,268**	**572,848,054**	**17,679,174**	**590,527,228**	454,957,600	25,527,517	15,747,004	496,232,121	218,419	496,450,540
Total liabilities	**111,328,479**	**5,905,229**	**4,706,610**	**121,940,318**	**1,316,993**	**123,257,311**	94,526,397	3794,427	4,820,967	103,141,791	994,686	104,136,477
Other disclosures												
Investments in joint venture (Note 10)	**53,554,027**	**–**	**–**	**–**	**–**	**53,554,027**	40,815,549	–	–	–	–	40,815,549
Capital expenditure	**24,900,504**	**3,066,226**	**2,268,820**	**30,235,550**	**–**	**30,235,550**	16,375,470	2,910,329	1,186,157	20,471,956	–	20,471,956

Inter-segment revenues are eliminated upon consolidation and reflected in the adjustments and eliminations'column. All other adjustments and eliminations are part of detailed reconciliations presented further below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. SEGMENT INFORMATION (continued)

In thousands of Tenge	31 December 2013	31 December 2012
Reconciliation of profit		
Segment profit	**52,995,198**	25,373,934
Adjustments and eliminations	**(1,298,165)**	19,215
Recognition of share in income of joint ventures	**11,846,567**	8,107,979
Group profit	**63,543,600**	33,501,128

In thousands of Tenge	31 December 2013	31 December 2012
Reconciliation of assets		
Segment operating assets	**572,848,054**	496,232,121
Adjustments and eliminations	**17,679,174**	218,419
Total assets	**590,527,228**	496,450,540

In thousands of Tenge	31 December 2013	31 December 2012
Reconciliation of liabilities		
Segment operating liabilities	**121,940,318**	103,141,791
Adjustments and eliminations	**1,316,993**	994,686
Total liabilities	**123,257,311**	104,136,477

36. RELATED PARTY TRANSACTIONS

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form,

Related party transactions were made on terms agreed to between the parties that may not necessarily be at market rates, except for certain regulated services, which are provided based on the tariffs available to related and third parties,

The following tables provides the total amount of transactions, which have been entered into with related parties during 2013 and 2012 and the related balances as at 31 December 2013 and 2012:

Trade and other accounts receivables from related parties are as follows:

In thousands of Tenge	31 December 2013	31 December 2012
Trade and other accounts receivable from related parties		
Trade accounts receivable from joint ventures	**806,094**	471,451
Trade accounts receivable from entities under common control of KMG	**609,882**	559,841
Trade accounts receivable from entities under common control of Samruk-Kazyna Group	**993**	188
	1,416,969	1,031,480
Other accounts receivables from entities under common control of KMG and Samruk-Kazyna Group	**35,828**	198,918
Total trade and other accounts receivable from related parties	**1,452,797**	1,230,398

Advances provided to related parties are as follows:

In thousands of Tenge	31 December 2013	31 December 2012
Advances given to related parties		
Advances given to entities under common control of KMG	**176,380**	219,298
Advances given to entities under common control of Samruk-Kazyna Group	**80,785**	2,612
Advances given to other related parties	**–**	198,374
Total advances paid to related parties	**257,165**	420,284

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. RELATED PARTY TRANSACTIONS (continued)

Financial guarantee issued on behalf of related parties:

In thousands of Tenge	31 December 2013	31 December 2012
Financial guarantee issued on behalf of related parties		
Financial guarantee issued on behalf of MunaiTas JSC	–	199,654
Total financial guarantee issued on behalf of related parties	**–**	199,654

Non-current deferred income to related parties are as follows:

In thousands of Tenge	31 December 2013	31 December 2012
Non-current deferred income from related parties		
Non-current deferred income from entities under common control of KMG	**260,305**	572,670
Total other non-current deffered income from related parties	**260,305**	572,670

Trade and other accounts payable to related parties are as follows:

In thousands of Tenge	31 December 2013	31 December 2012
Accounts payables to related parties for goods and services		
Accounts payables to entities under common control of KMG	**632,581**	567,859
Accounts payables to entities under common control of Samruk-Kazyna Group	**18,021**	28,924
	650,602	596,783
Other payables to related parties		
Other payables to entities under common control of Samruk-Kazyna Group	**1,950**	569
	1,950	569
Total trade and other accounts payable to related parties	**652,552**	597,352

Advances received from related parties are as follows:

In thousands of Tenge	31 December 2013	31 December 2012
Advances received from related parties		
Advances from entities under common control of KMG	**8,764,571**	9,143,441
Advances from entities under common control of Samruk-Kazyna Group	**1,941,567**	1,282,846
Advances received from joint ventures	**15**	
Total advances received from related parties	**10,706,153**	10,426,287

Other current liabilities to related parties are as follows:

In thousands of Tenge	31 December 2013	31 December 2012
Accounts payable for oil transportation expedition for related parties		
Accounts payable for oil transportation expedition for entities under common control of KMG	**4,153,476**	4,839,624
	4,153,476	4,839,624
Accounts payables under the agency agreement to the related parties		
Accounts payables under the agency agreement for the transportation of oil to the joint parties	**651,706**	–
	651,706	–
Employee benefits		
Employee benefits of key management personnel	**5,516**	17,577
	5,516	17,577
Current portion of deferred income from related parties		
Current portion of deferred income from entities under common control of KMG	**312,366**	312,365
	312,366	312,365
Total other current liabilities to related parties	**5,123,064**	5,169,566

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. RELATED PARTY TRANSACTIONS (continued)

During years ended 31 December the Group had the following transactions with the related parties:

In thousands of Tenge	2013	2012
Sales to related parties:		
Transportation services with entities under common control of KMG	**94,333,240**	68,484,274
Transportation services with entities under common control of Samruk-Kazyna Group	**10,878,953**	7,505,538
Transportation services with joint ventures	**5,742,000**	4,937,616
Income from other activities with entities under common control of KMG	**315,896**	209,442
Income from other activities with joint ventures	**–**	4,209
Income from other activities with entities under common control of Samruk-Kazyna Group	**103**	–
Income from sale of subsidiary	**–**	11,647,889
Income from services to other related parties	**4,108**	16,104
	111,274,300	92,805,072
Purchases from related parties:		
Purchases of services from entities under common control of KMG	**7,998,048**	7,222,887
Purchases of services from entities under common control of Samruk-Kazyna Group	**1,191,689**	932,503
Purchases of services from other related parties	**2,721,149**	9,015,787
Purchases of inventory from entities under common control of KMG	**1,997**	–
Purchases of inventory from entities under common control of Samruk-Kazyna Group	**9,226**	12,837
Purchases of property, plant and equipment from entities under common control of Samruk-Kazyna Group	**148,401**	–
	12,070,510	17,184,014
Other operating income from related parties		
Derecognition of financial guarantee issued on behalf of related party	**177,743**	–
Amortization of deferred income from related parties	**312,366**	312,365
Amortization of financial guarantee issued to related party	**26,463**	138,570
	516,572	450,935
Financial income from related parties		
Income on discounting of debts from related parties	**–**	65,199
Other financial income from related party	**4,108**	8,499
	4,108	73,698

The total remuneration of members of the key management personnel comprised:

In thousands of Tenge	31 December 2013	31 December 2012
Salary	**121,691**	137,033
Bonuses	**16,925**	24,113
Benefits based on the results of the year	**183,989**	82,175
Post-employment benefits	**1,301**	395
	323,906	243,716
Number of persons	**7**	7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. CONTINGENT LIABILITIES AND COMMITMENTS

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not usual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe.

Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued as at 31 December 2013.

As at 31 December 2013 Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Groups's tax positions will be sustained, except as provided for or otherwise disclosed in these consolidated financial statements.

Transfer pricing control

Transfer pricing control in Kazakhstan has a very wide scope and applies to many transactions that directly or indirectly relate to international business regardless of whether the transaction participants are related or not. The transfer pricing legislation requires that all taxes applicable to a transaction should be calculated based on market price determined in accordance with the arm's length principle.

The new law on transfer pricing came into effect in Kazakhstan from 1 January 2009. The new law is not explicit and there is little precedence with some of its provisions. Moreover, the law is not supported by detailed guidance, which is still under development. As a result, application of transfer pricing control to various types of transactions is not clearly regulated.

Because of the uncertainties associated with the Kazakhstan transfer pricing legislation, there is a risk that the tax authorities may take a position that differs from the Group's position, which could result in additional taxes, fines and interest as at 31 December 2013.

As at 31 December 2013 Management believes that its interpretation of the transfer pricing legislation is appropriate and that it is probable that the Group's positions with regard to transfer pricing will be sustained.

Tax commitments of Georgian entities

According to the Tax Code of Georgia ("TCG"), tax administration is authorized to make motivated written decision on use of market prices for taxation purposes if transaction takes place between related parties. Although TCG contains certain guidance on the determination of market prices of goods and services, the mechanism is not sophisticated and there is no separate transfer pricing legislation in Georgia. Existence of such ambiguity creates uncertainties as related to the position that tax authorities might take when considering taxation of transactions between related parties.

The Georgian subsidiaries of the Group have significant transactions with off-shore subsidiaries of the Group as well as amongst each other. These transactions fall within the definition of transactions between related parties and may be challenged by tax authorities of Georgia. Management believes that it has sufficient arguments to assert that pricing of transactions between entities of the Group is at arm's length, however due to absent legislative basis for determination of market prices tax authorities might take position different from that of the Group.

Environmental matters

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Potential liabilities which may arise as a result of changes in legislation cannot be reasonably estimated. Under existing legislation management believes that there are no probable or possible liabilities which could have a material adverse effect on the Group's financial position or results of operations.

Insurance matters

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available.

The Group has insurance coverage over property, third party liability in respect of property or environmental damage arising from accidents on Group's property or relating to Group's operations.

37. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Covenants

Guarantees

As at 31 December 2012, the Company has guaranteed to EBRD in respect of the obligations of MunaiTas under the loan agreement with EBRD. According to the Guarantee Agreement concluded between the Company and EBRD, the Company has to comply with the following covenants:

- Current ratio of not less than 1:1;
- Ratio of earnings before interest, income tax, depreciation and amortization to Interest of not less than 2:1; and
- Ratio of debt to equity of not more than 2:1.

The Guarantor shall not enter into any transactions that are not based on arm's-length arrangements unless transaction is approved by regulatory bodies. The Guarantor shall not sell, lease or dispose its assets in excess of 30% of total assets or undertake any merger or reorganization. As of 31 December 2012 the Company fully complied with covenants.

In March 2013 MunaiTas repaid all obligations to EBRD under the loan agreement and Company's obligations under the financial Guarantee Agreement were terminated.

Contractual commitments

As at 31 December 2013, the Group had contractual obligations to acquire property, plant and equipment, and construction services for the amount of 33,130,344 thousand Tenge (2012: 5,607,369 thousand Tenge). In addition, as at 31 December 2013, the Group has committed to purchase inventory (materials and spare parts) and services for the amount of 4,646,947 thousand Tenge (2012: 1,948,794 thousand Tenge).

Share of the Group as at 31 December 2013 in contractual obligations of joint ventures to acquire property, plant and equipment, and construction services for the amount of 1,248,036 thousand Tenge (2012: 11,623,922 thousand Tenge) and has commitments to purchase inventory (materials and spare parts) and services for the amount of 240,636 thousand Tenge (2012: 986,037 thousand Tenge).

Expropriation of the Batumi Sea Port (BSP) assets

In accordance with BSP Management Right agreement between BTL (former BIHL) and Georgia Government, Georgian Government has the right for expropriation of the BSP's assets, in case the BSP in the course of two years does not meet its obligations on minimum volume of transshipment, which is 4 mln tonne per year. As at 31 December 2013, BSP was not exposed to risk of asset expropriation from the Government of Georgia, as actual volumes of transshipment were 10,170 mln tonne.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise bank loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has trade receivables and cash and cash equivalents that arrive directly from its operations.

The Group is exposed to market risk that comprises: interest rate risk, credit risk, currency risk and liquidity risk.

The management of the Group reviews and agrees policies for managing each of these risks which are summarized below.

Interest rate risk

The Group is not exposed to risks associated with interest rates, because there are no loans with floating or fixed rate in the years 2013 and 2012.

Credit risk

The Group trades only with recognized, creditworthy parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. Maximum exposure is the carrying amount. There are no significant concentrations of credit risk within the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The Group places deposits with Kazakhstani banks *(Notes 17 and 18)*. The Group's management reviews credit ratings of these banks periodically to eliminate extraordinary credit risk exposure. The Group's management believes that recent international credit crisis and subsequent changes in credit rating of local banks does not justify extraordinary credit risk. Accordingly, no impairment provision against bank deposits is required.

The table below shows the balances of bank accounts and deposits at the balance sheet date using the "Moody's" "Fitch" and "Standard & Poors" credit ratings.

		Rating			
Bank	**Location**	**2013**	2012	**2013**	2012
KazKommertsBank JSC	Kazakhstan	Ba2/Stable	Ba2/Negative	**44,793,592**	28,543,632
Halyk Bank Kazakhstan JSC	Kazakhstan	Ba2/Stable	Ba2/Stable	**34,892,638**	34,783,201
SberBank of Russia JSC	Kazakhstan	Ba2/Stable	Ba2/Stable	**10,424,707**	4,690
JSC Cesna Bank	Kazakhstan	B/Positive	B/Stable	**10,040,000**	7,005,347
BankCentreCredit JSC	Kazakhstan	B2/Stable	–	**5,103,161**	–
KaspiBank	Kazakhstan	B1/Stable	–	**2,000,000**	–
JSC Bank Kassa Nova	Kazakhstan	B/Stable	B/Stable	**1,000,000**	1,000,542
Berenberg Bank	Cyprus	–	–	**701,690**	14,773
Hellenic Bank	Georgia	Caa3/Negative	–	**318,280**	–
TBC Bank	Georgia	B1/Stable	B1/Stable	**23,502**	258,519
Basis Bank	Georgia	B/Stable-	B-	**17,358**	55,171
Bank of Georgia	Georgia	B1/Stable	B1/Stable	**13,825**	106,573
Bank of Cyprus	Georgia	Ca/Negative	Caa2/Negative	**6,450**	74,164
BNP Paribas	Cyprus	A2/Stable	–	**922**	142,449
GazBank	Russia	–	–	**490**	–
Cartu Bank	Georgia	–	–	**154**	1,960
ATF Bank JSC	Kazakhstan	B-/Stable	B1/Stable	**62**	7
RBS Bank Kazakhstan JSC	Kazakhstan	A3/Negative	A3/Negative	**41**	350
CITI Bank Kazakhstan JSC	Kazakhstan	A2/Negative	A3/Negative	**5**	269
HSBC Bank Kazakhstan JSC	Kazakhstan	–	–	**3**	6
Republic Bank	Georgia	–	–	–	16,883
Other	Georgia	–	–	–	27,603
				109,336,880	72,036,139

Liquidity risks

The Group monitors its risk to a shortage of funds using a current liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from operations.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2013 and 2012 based on contractual undiscounted payments.

In thousands of Tenge	**On demand**	**<1 year**	**1 to 2 years**	**2 to 5 years**	**>5 years**	**Total**
As at 31 December 2013						
Trade and other payable	–	10,736,434	84,725	274,848	–	**11,096,007**
Other liabilities	–	7,385,065	–	–	–	**7,385,065**
	–	**18,121,499**	**84,725**	**274,848**	–	**18,481,072**
As at 31 December 2012						
Trade and other payable	–	6,500,714	92,453	178,759	–	**6,771,926**
Other liabilities	–	2,941,700	–	–	–	**2,941,700**
	–	**9,442,414**	**92,453**	**178,759**	–	**9,713,626**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Currency risk

The table below shows the total amount of foreign currency denominated assets and liabilities that give rise to foreign exchange exposure.

In thousands of Tenge	US Dollar	Russian Ruble	Euro	Other currencies	Total
At 31 December 2013					
Assets	**1,518,949**	**15,207**	**71,429**	**174,963**	**1,780,548**
Liabilities	**713,061**	**100,888**	**18,703**	**301,501**	**1,134,153**
At 31 December 2012					
Assets	762,486	10,086	11,908	520,206	1,304,686
Liabilities	948,682	77,546	30,076	227,458	1,283,762

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations. The Group also has transactional currency exposures. Such exposure arises from revenues in US Dollars.

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar and Russian ruble exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Group's equity.

In thousands of Tenge	Increase/decrease in US Dollar rate	Effect on profit before tax
2013	**+30.00%**	**241,766**
US Dollar	**+10.00%**	**80,589**
2013	**+20.00%**	**(17,136)**
Russian ruble	**-20.00%**	**17,136**
2012	+1.57%	(2,923)
US Dollar	-1.57%	2,923
2012	+10.74%	(7,245)
Russian ruble	-10.74%	7,245

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy equity ratios in order to support its business and maximize shareholder value.The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholder, return capital to shareholder or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2013 and 2012.

The Group monitors equity using a gearing ratio, which is net debt divided by total equity plus net debt. The Group's net debt includes interest bearing loans and borrowings and trade and other payables, less cash and cash equivalents.

As of 31 December 2013 and 2012 the Group does not have significant debts. The Group has sufficient cash, exceeding its debt as of the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value of financial instruments

The carrying amount of cash, bank deposits, trade and other accounts receivable, loans, trade and other accounts payable and other current liabilities approximates their fair value due to the short-term maturity of these financial instruments.

39. EVENTS AFTER THE REPORTING PERIOD

Starting from 1 January 2014 Order of NMRA dated as of 21 November 2013 increasing tariffs of the Company for oil pumping in domestic and export markets came into force. Accordingly, oil transportation tariff in domestic market for transportation of 1 ton oil increased from 1,945.5 Tenge till 2,931.8 Tenge (increase for 50%); oil transportation tariff in export market for transportation of 1 ton oil increased from 4,732.6 Tenge till 4,850.6 Tenge (increase for 2.5%).

National Bank of the Republic of Kazakhstan starting from 11 February 2014 made a decision to cease supporting exchange rate of Tenge against US Dollar and other major currencies on the same level, reduce volume of currency interventions and reduce interventions in process of exchange rate formation. Exchange rate before and after devaluation was 155.56 Tenge and 184.5 Tenge per 1 US Dollar respectively. As of 25 February 2014 exchange rate was equal to 184.51 Tenge per 1 US Dollar.