ANNUAL REPORT 2014

KazTransOil

MUSIC OF KAZAKHSTAN OIL

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MESSAGE FROM CHAIRMAN OF THE BOARD OF DIRECTORS

Dear shareholders and employees of KazTransOil JSC!

Summarizing the activities of KazTransOil JSC, I would like to focus on some principal achievements and indicators.

Today KazTransOil JSC is the national operator of Kazakhstan on the main pipeline. Our Company provides transportation of about 53% of the total oil production volume in the country. More than 80 oil enterprises use the Company's services annually.

KazTransOil JSC continues to adhere to the multi-vector principle with the transportation of energy resources for export. The most important event of 2014 was the beginning of transit of the Russian oil to the People's Republic of China. The ground for this, as you remember, was the Agreement between the Government of the Republic of Kazakhstan and the Government of the Russian Federation on cooperation in the field of the Russian oil transportation through the territory of the Republic of Kazakhstan to the People's Republic of China concluded in December 2013.

The agreement stipulates the supply of 7-10 mln. tons of oil per year and was signed for five years with an option to extend it for the same period. In the medium term, the agreements will provide guaranteed volumes of oil transportation to China.

An important direction of work was the reconstruction of sections of Kalamkas – Karazhanbas – Aktau and Uzen – Zhetybai – Aktau main pipelines. This will allow increasing the capacity to transport Buzachi oil to Atyrau providing access to the export pipelines of Atyrau-Samara, CPC and in the future Kazakhstan-China.

In 2014, 40 km of the pipeline in the Kazakh section of Tuimazy – Omsk – Novosibirsk-2 were overhauled. As a result of the work performed, reliability of that section was improved and an opportunity for increase in the volume of oil transportation in the future was provided.

The Company annually demonstrates the stability of dividend payment to shareholders. In 2014, the dividend yield on the Company's share was 12% of the weighted average share price at the beginning of the year.

During 2014, shares of KazTransOil JSC remained the most liquid securities on KASE. In 2014, the weighted average price for the Company's shares was equal to 1,080 tenge. Decrease in the second half of 2014 of the Company's shares quotations and general decrease in KASE index were due to influence of external factors on the stock market of Kazakhstan.

The Company pays special attention to activities aimed to ensure sustainable development, where a set of actions to ensure safety of employees' lives and health, environmental protection, creation of favourable working conditions were performed.

KazTransOil JSC continues to prove its commitment to socially important matters. In 2014, the Company allocated 2 bln. tenge for sponsorship. Those means were used for construction of a secondary school in the city of Kulsary, the kindergartens in the city of Pavlodar and in the village of Sholakkorgan of Suzak region of South Kazakhstan oblast.

The Company does not stop there, and a lot to be done in the near future, according to the approved Development Strategy of KazTransOil JSC till 2022.

I would like to assure our shareholders that the Board of Directors will be fully committed to ensure further development and growth in the value of the Company taking into account the protection of rights and interests of all stakeholders.

I would like to express gratitude to the management and all employees of KazTransOil JSC for their professionalism, efforts and daily work aimed at our joint success.

Ardak Kassymbek
Chairman of the Board of Directors of KazTransOil JSC

MESSAGE FROM CHAIRMAN OF THE MANAGEMENT BOARD

Dear shareholders, partners and colleagues!

In 2014, KazTransOil JSC achieved positive results on operating and financial activities. By the end of the past year, the consolidated volume of oil transportation amounted to 64 mln. tons and exceeded the plan by 1%, consolidated oil freight turnover amounted to 44.2 bln. ton•km, or 1% higher than the planned indicator.

Compared to the previous year, there was slight decrease in the volumes of oil transportation, which was caused by re-orientation of oil deliveries from exports to the domestic market.

In 2014, the volume of delivery of the Volga River water through Astrakhan – Mangyshlak water main for 2014 amounted to 24.8 mln. cub. m – exceeded the planned figure by 1% and the same indicator of 2013 by 6%.

As at the end of 2014, the net profit of KazTransOil JSC amounted to 57.7 bln. tenge, which was by 1% higher than the planned indicator and by 11% higher than the same indicator of 2013. The growth of this indicator is mainly influenced by increase in tariffs for oil transportation.

The Company's consolidated profit amounted to 46.4 bln. tenge, which was by 17% higher than the planned figure. At the same time, there has been a decline in the Company's consolidated profit compared to the previous year. The main factor for that reduction was the foreign exchange loss on loans of the jointly controlled entity of the Company denominated in U.S. dollars, which resulted from the national currency devaluation.

Over the past years, we have been consistently implementing the cost management programme aimed at formation of an effective cost management system. At the end of 2014, the total economic effect of the programme amounted to 1 bln. 448 mln. tenge. Cost savings were achieved mainly by reducing nonmanufacturing costs, optimization of process conditions of oil transportation and adoption of energy saving technologies in production.

A significant work was performed as part of the investment project "The second stage of the second phase of Kazakhstan-China oil pipeline construction. Increase in productivity up to 20 mln. tons of oil per year":

– commissioning of large-scale facilities such as: the third line of Kumkol – Karakoin oil pipeline (HOPS named after B.Dzhumagaliyev) and the booster station at HOPS Atasu;

– approval of the Methodology for calculating the Uniform tariff for export oil transportation and distribution of tariff revenue among owners of Kazakhstan – China oil pipeline sections;

- following the results of negotiations with the Chinese party, the plan for implementing the project of expansion of Kazakhstan – China oil pipeline by way of establishment of an unincorporated consortium between KazTransOil JSC, Kazakhstan-China Pipeline LLP and NWPC MunaiTas JSC was elaborated.

I would emphasize that the construction of Kazakhstan-China oil pipeline system is being implemented in order to diversify the directions of oil transportation, ensure the delivery of the West Kazakhstan oil to the Pavlodar Petrochemical Plant and the refinery of PetroKazakhstan Oil Products LLP as well as to develop a transit potential of the Republic of Kazakhstan.

Thus, within the scope of the Agreement between the Government of the Republic of Kazakhstan and the Government of the Russian Federation for cooperation in the field of the Russian oil transportation to the People's Republic of China through the territory of the Republic of Kazakhstan, transit - transportation of the Russian oil to the People's Republic of China through our oil pipeline system was started on January 1, 2014.

The Company performed reconstruction of Uzen-Zhetybai – Aktau and Kalamkas – Karazhanbas – Aktau main oil pipelines. In 2014, the Company completed an overhaul of 40 km of the Kazakh section of Tuimazy – Omsk – Novosibirsk-2 oil pipeline.

The works performed are aimed at increasing the production and financial performance indicators and will have a positive impact on reliability and quality of our services.

It should be noted the Company's performance in the field of occupational safety and health as employees' lives and health are an overriding priority. We systematically carry out work to reduce occupational injuries. As a result of the works performed there were no industrial incidents registered in 2014.

The Company performs work on ongoing basis to improve the environmental management system, update the corporate regulations in the field of environmental safety and implement the Comprehensive Environmental Programme of the Company.

In 2014, our Company was audited by SAP AG Company as a result of which the first Customer Center of Expertise Primary Certificate was issued in the Republic of Kazakhstan that confirms the compliance with the requirements of the SAP AG Customer Center of Expertise.

The financial results of KazTransOil JSC for 2014 indicate the economic efficiency of the Company's operations that allows looking forward with confidence.

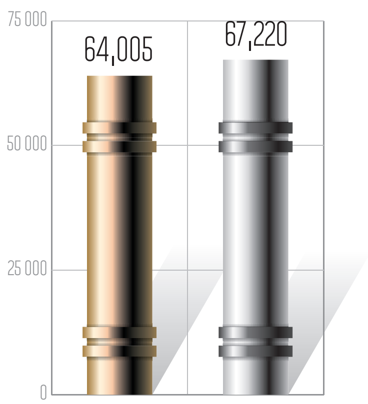
In conclusion, I would like to express gratitude to my colleagues for their successful work, everyone's contribution into the results of production and financial activities. New goals and objectives were set; we have a sufficient potential and all resources required for further development and increase in the profitability of the Company.

Yours respectfully,
Kairgeldy Kabyldin
General Director (Chairman of the Management Board)
of KazTransOil JSC

KEY FINANCIAL AND ECONOMIC PERFORMANCE INDICATORS

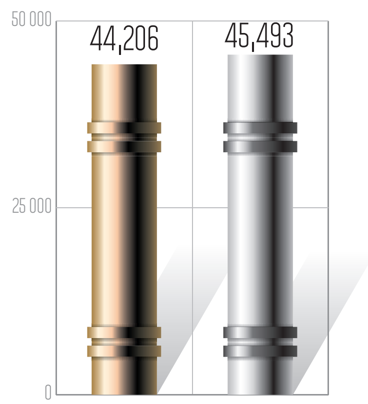
OIL TRANSPORTATION AND WATER SUPPLY
Consolidated Indicators

Transportation volume, thous. tons



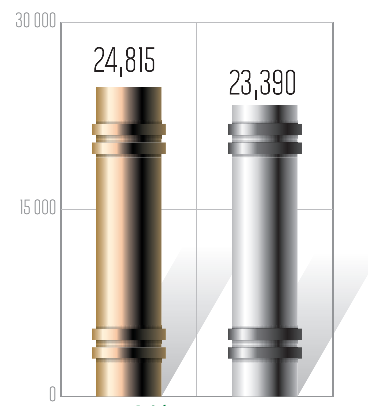
-5%

Oil freight turnover, mln. ton•km



-3%

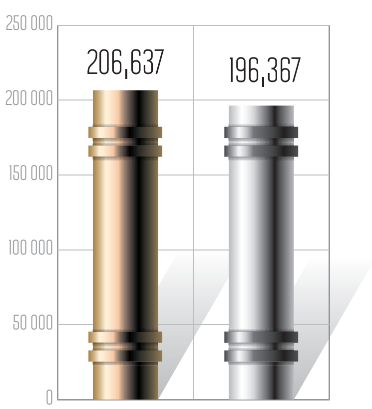
Water supply volume, thous. cub. m



+6%

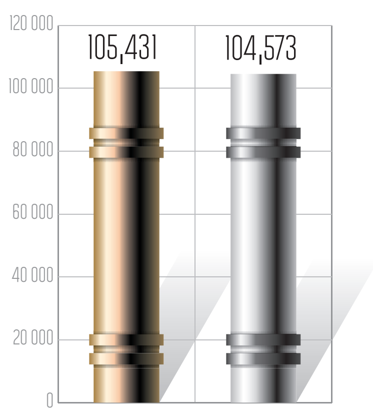
FINANCIAL INDICATORS
Consolidated Indicators

Revenue, mln. tenge



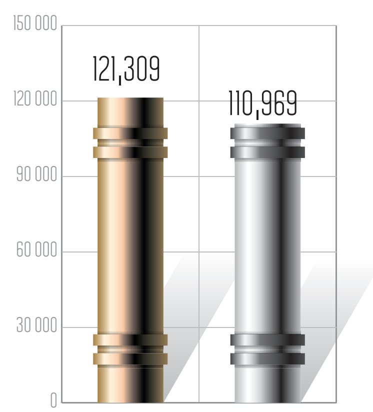
+5%

EBITDA*, mln. tenge



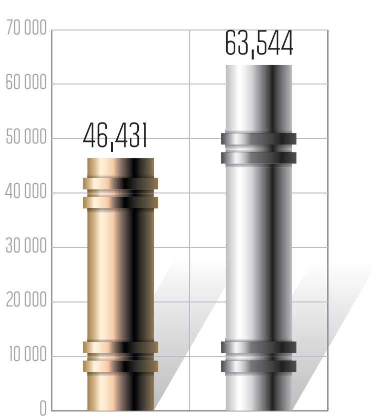
+1%

Cost of sales, mln. tenge



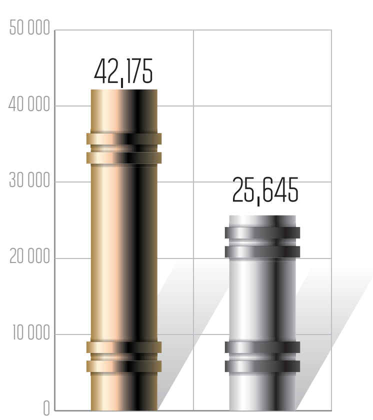
+9%

Profit for the reporting period, mln. tenge



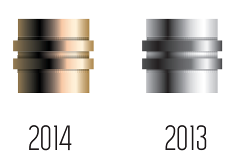
-27%

Cash and cash equivalents as of the end of the year, mln. tenge



+64%

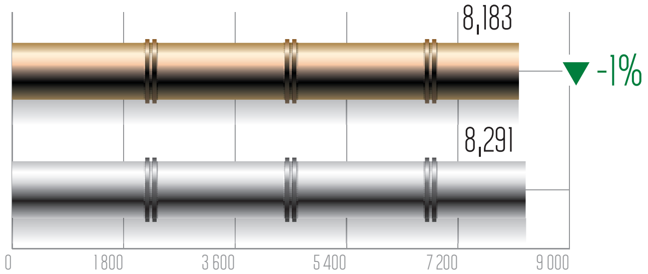
**- in accordance with the Rules for Development, Coordination, Approval, Adjustment, Execution and Monitoring of the Plans for Development of Subsidiaries of Samruk-Kazyna JSC.*



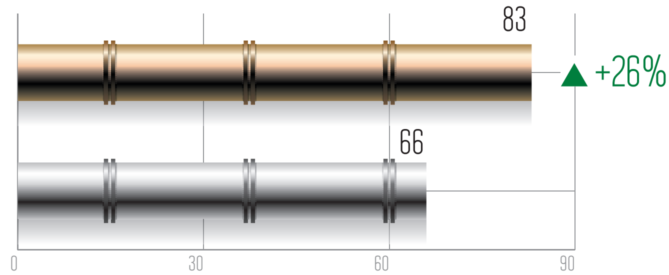
NON-FINANCIAL PERFORMANCE INDICATORS

Company's Indicators

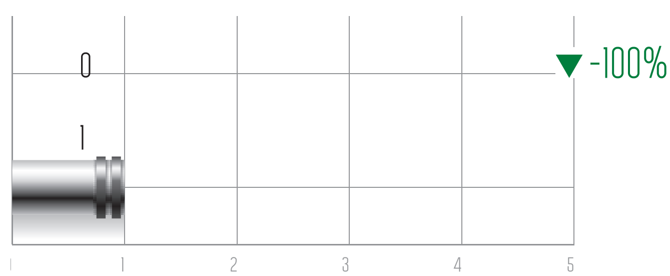
Headcount



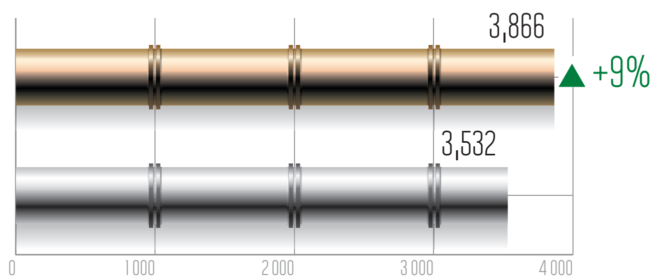
Employee engagement index, %



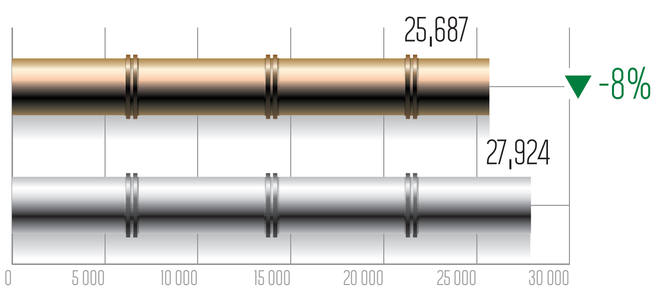
Occupational accident rate



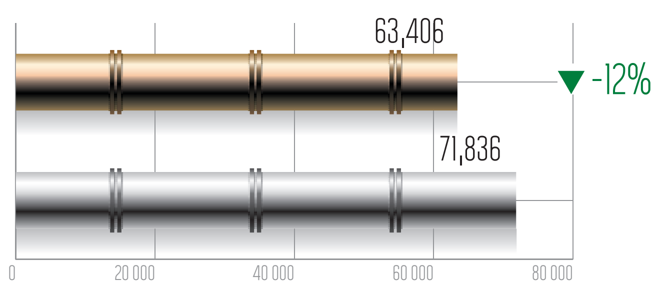
Social tax and social contributions, mln. tenge



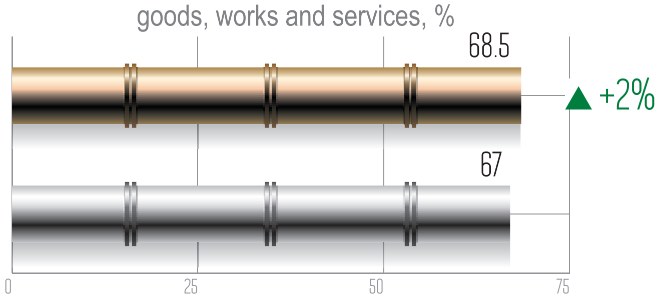
Emissions, tons

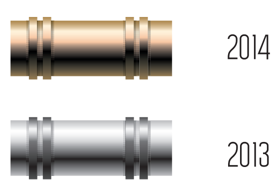


Environmental payments, thous. tenge



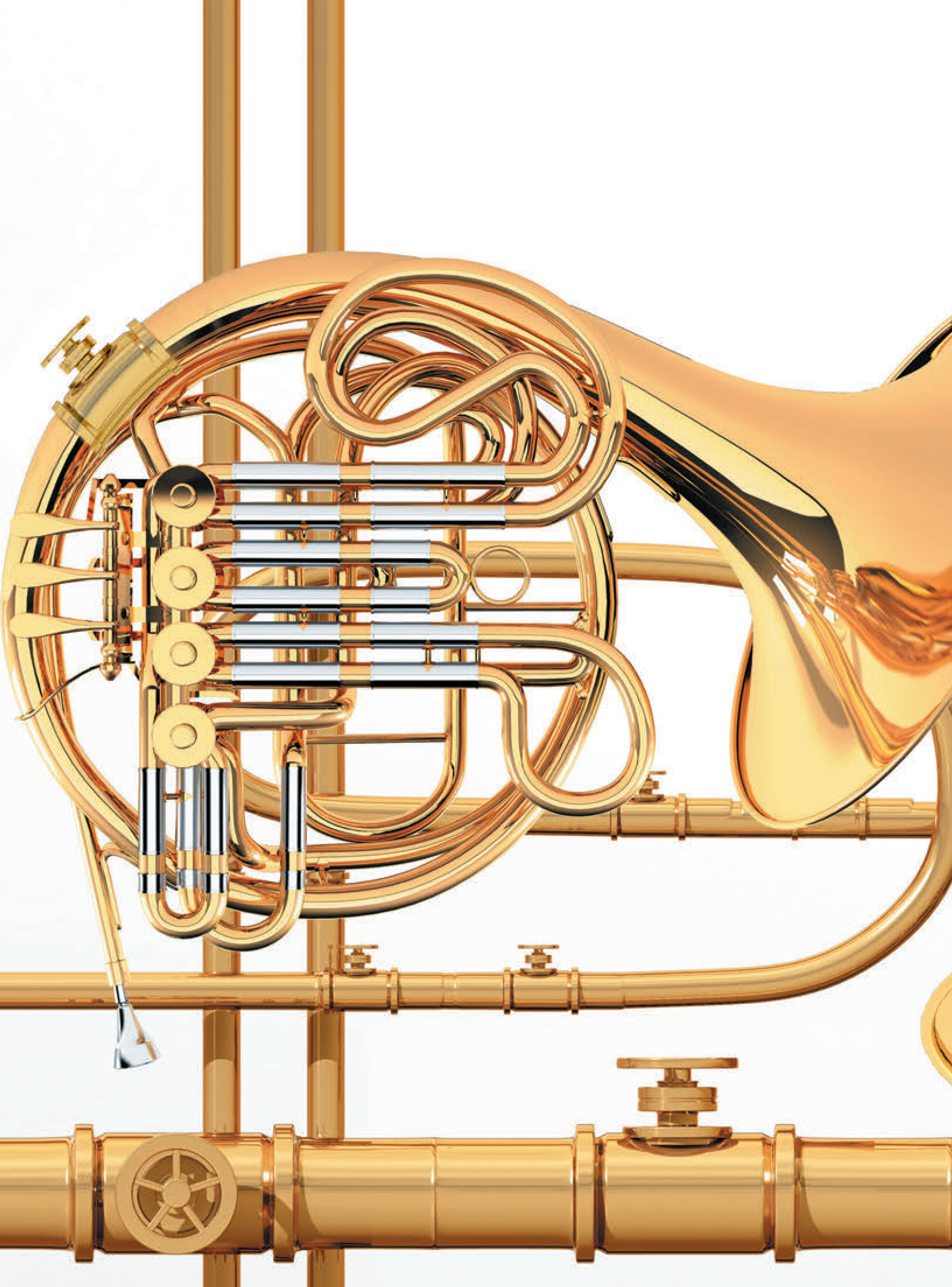
Share of local content in the total procurement of goods, works and services, %





SCHEME OF MAIN PIPELINES OF KAZTRANSOIL JSC


KazTransOil
OMSK
Peterfeld OPS
PETROPAVLOVSK
KOKSHETAU
PAVLODAR
Pavlodar HOPS
Ekibastuz OPS
Stepnoye OPS
ASTANA
UST-KAMENOGORSK
KARAGANDA
Atasu HOPS
OPS-8
OPS-9
OPS-10
OPS-11
Barsengir OPS
HOPS named after B.Dzhumagaliyev
Alashankou
CHINA
Zhuantobe OPS
Suzak OPS
TALDYKORGAN
Chulak Kurgan HOPS
ALMATY
TARAZ
Shymkent HOPS
PKOP ADP
SHYMKENT
KYRGYZSTAN
Shagyr OLR
LEGEND
Administrative centres
HOPS (Head oil pump station)
OPS (Oil pump station)
Oil loading racks
WPS (Water pump station)
WTP (water treatment plant)
HTP (Head treatment plants)
Other (OHS, ADP etc.)
MAIN PIPELINES
Acting main waterlines
Acting main oil pipelines
Acting main oil pipelines, consisting of two or more threads
Dormant main oil pipelines



ABOUT THE COMPANY

1.1. THE COMPANY'S HISTORY

For the purposes of enhanced securing the interests of the Republic of Kazakhstan in the field of oil transportation as well as export and import of oil and oil products, KazTransOil National Oil Transportation Company CJSC (KazTransOil NOTC CJSC) with the 100% state participation in its charter capital was established by the Resolution of the Government of the Republic of Kazakhstan No. 461 dated April 2,1997.

In 2001, the state-owned stake of KazTransOil NOTC CJSC (renamed as KazTransOil CJSC) was transferred to charter capital of closed joint stock company Oil and Gas Transport National Company established in accordance with the Resolution of the Government of the Republic of Kazakhstan No. 591, dated May 2, 2001.

Pursuant to the Decree of the President of the Republic of Kazakhstan No. 811 dated 20 February 2002, closed joint stock company National Company KazMunayGas was established on the basis of closed joint stock companies Kazakhoil National Oil and Gas Company and Oil and Gas Transport National Company reorganised by means of merger, and became the sole shareholder of KazTransOil CJSC.

On May 31, 2004, KazTransOil CJSC was renamed as KazTransOil JSC.

On December 25, 2012, Kazakhstan Stock Exchange started secondary trading of ordinary shares of KazTransOil JSC, which has become the first company in the Republic of Kazakhstan that placed its shares under the "People's IPO" Programme.

1.2. THE COMPANY TODAY

KazTransOil JSC (hereinafter - the Company) is the largest oil pipeline transportation company of the Republic of Kazakhstan that provides services for oil transportation to the domestic market and for export, as well as operating main pipelines owned by third parties. In addition, one of the important activities of the Company is the provision of water supply services through the main pipeline.

The Company is an owner of the longest and most extensive main pipeline system in the Republic of Kazakhstan providing transportation of about 53% of the total oil production volume in the country.

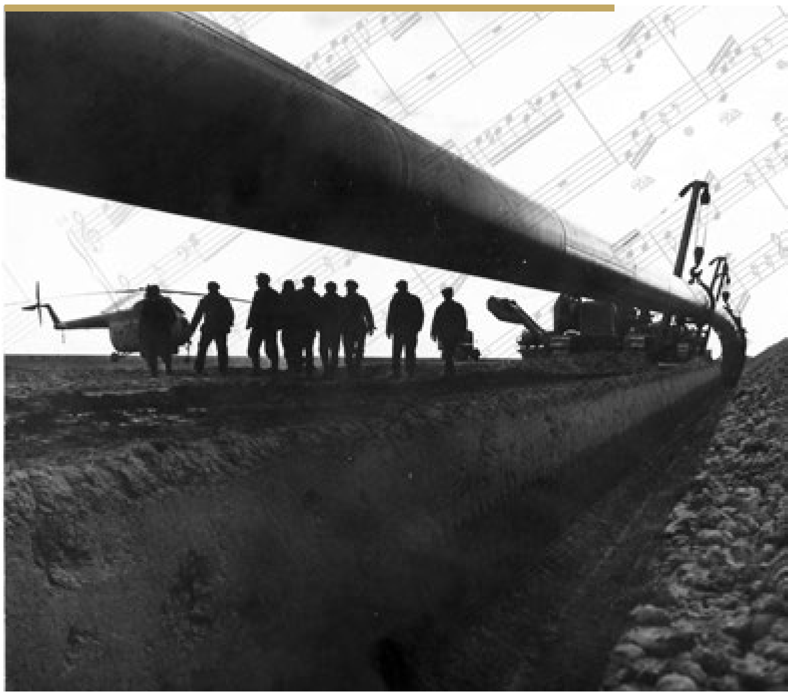
A total length of main oil pipelines equals to 5.7 thous. km, through which the Company provided transportation of 50 mln. tons of oil (a separate indicator for KazTransOil JSC) in 2014.

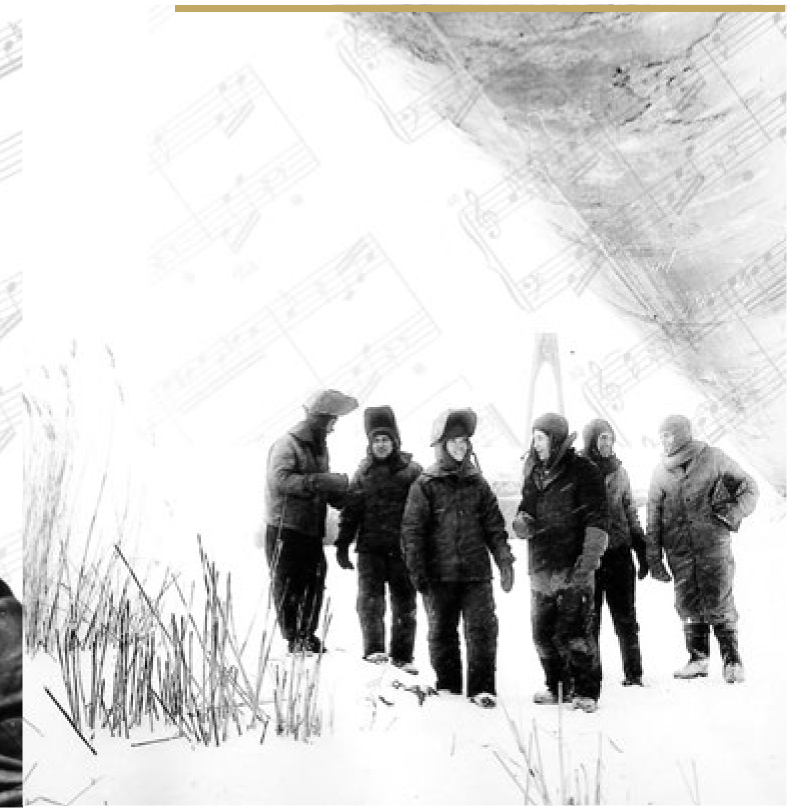
The Company renders water supply services through Astrakhan – Mangyshlak water main pipeline, which is the largest one in the territory of the Republic of Kazakhstan. A total length of water main pipeline owned by the Company is 1,975 kilometres. In 2014, the Company provided water supply in the volume of 24.8 mln. cub. m.

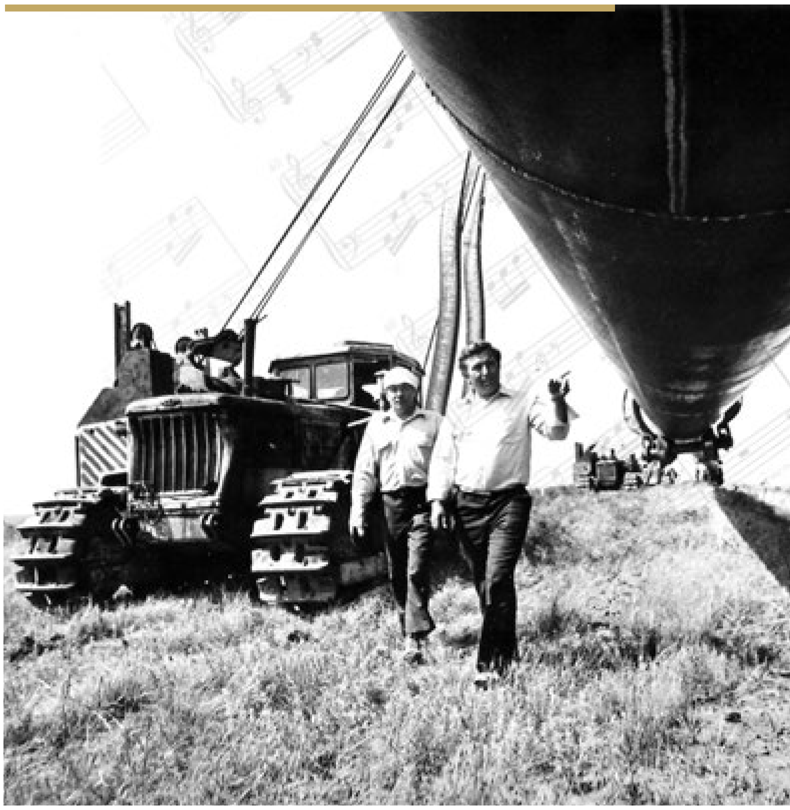
The Company's operating activities cover almost all regions of the Republic of Kazakhstan providing thereby employment to 8,183 people.

KazTransOil JSC plays an important role in the development of the oil industry of the Republic of Kazakhstan through the provision of transportation facilities required for oil supply to the domestic market and for export.

In October 2012, the Government of the Republic of Kazakhstan defined KazTransOil JSC as a national operator of the main oil pipeline.







1.3. KEY EVENTS IN 2014

January

KazTransOil JSC started transportation of the Russian oil to China through the territory of the Republic of Kazakhstan in the volume of 7 mln. tons per year.

From January 1, 2014, tariffs were enacted, which were approved by the Agency on Regulation of Natural Monopolies of the Republic of Kazakhstan (hereinafter – ARNM):

- for the regulated service for oil pumping to the domestic market through the main pipeline system of KazTransOil JSC at the rate of 2,931.8 tenge/1,000 ton•km, excluding VAT and for export at the rate of 4,850.6 tenge/1,000 ton•km, excluding VAT;
- for the regulated service for transit oil pumping through Priirtyshsk – Atasu – Alashankou pipeline section as an emergency regulatory action at the following rates: Priirtyshsk – Atasu – 117.31 tenge/ton, Atasu-Alashankou – 1,097.42 tenge/ton.

April

Tariffs for the regulated service on oil pumping through the main pipelines of KazTransOil JSC approved by the ARNM took effect from April 1, 2014 as an emergency regulatory action for the domestic market at the rate of 2,931.8 tenge/1,000 ton•km, excluding VAT and for export at the rate of 5,817.2 tenge/1,000 ton•km, excluding VAT. The main reason for the tariff increase was increase in Company's costs due to tenge devaluation.

KazTransOil JSC was the first in Kazakhstan that have been audited for compliance of the SAP User Support Department of KazTransOil JSC with the requirements of the Customer Center of Expertise, which was confirmed by the Primary Certificate of the Customer Center of Expertise. Audit was conducted by SAP AG.

May

The Annual General Meeting of KazTransOil JSC Shareholders was held, which determined a new three-year term of office and composition of the Company's Board of Directors to which six persons were elected as members of the Board of Directors including three Independent Directors.

NC KazMunayGas JSC and China National Petroleum Corporation approved the methodology for calculating the uniform tariff for export oil transportation and distribution of tariff revenue among owners of Kazakhstan – China oil pipeline sections.

August

Sale of 0.88037% shares in Accumulating Pension Fund of Halyk Bank of Kazakhstan JSC owned by KazTransOil JSC.

November

In accordance with the Agreement between the Government of the Republic of Kazakhstan and the Government of the Russian Federation on cooperation in the field of the Russian oil transportation to the People's Republic of China through the territory of the Republic of Kazakhstan dated December 24, 2013, Chairman of the Committee on Regulation of Natural Monopolies and Protection of Competition of the Ministry of National Economy of the Republic of Kazakhstan (hereinafter – CRNMPC) issued the order No. 45-ОД dated November 4, 2014 to approve the price of transportation of the Russian oil to the People's Republic of China through the territory of the Republic of Kazakhstan on the transportation route: the border of the Russian Federation – the border of the Republic of Kazakhstan (Priirtyshsk) – Atasu (Republic of Kazakhstan) – Alashankou (People's Republic of China) at the rate of USD 9.8 per 1 ton excluding VAT, effective as of January 1, 2014. This order also cancels the order of ARNM from December 24, 2013 №396-ОД according to which tariffs for transportation on the specified route were denominated in tenge.

December

Completion of construction and reconstruction of major production facilities of KazTransOil JSC: construction of the third line of Kumkol - Karakoin oil pipeline (HOPS named after B. Dzhumagaliyev), booster pipeline pump station at the HOPS named after B. Dzhumagaliyev and Atasu HOPS, as well as reconstruction of the power supply system at Barsengir OPS and Chulak Kurgan HOPS.

Completion of reconstruction of Uzen – Zhetybai – Aktau main oil pipeline and the second stage of Kalamkas – Karazhanbas – Aktau main oil pipeline (Karazhanbas – Aktau section).

Overhaul accomplishment at the Kazakh section of Tuimazy – Omsk – Novosibirsk-2 (TON-2) oil pipeline, where a linear part of the pipeline with a total length of 40 km was selectively replaced.

Introduction of power-factor correction units at Beineu OPS, Karaton OPS and Prorva OPS that will enhance the energy efficiency of production facilities owned by KazTransOil JSC.

1.4. BUSINESS MODEL

MAIN PARTNERS	● Kazakhstan and foreign partners ● Suppliers of materials and required services (electricity, fuel, diagnostic work, air surveillance, commissioning, repair and commissioning, security, communications, maintenance) ● Labour market
MAIN RESOURCES	● Production capacity of the Company ● More than 8000 employees ● Raw materials
MAIN PROCESSES	● Providing services for the transportation of oil through main pipelines in the Republic of Kazakhstan ● Organisation of transportation of oil of shippers through pipeline systems of other countries ● Operation and maintenance of main pipelines owned by third parties ● The water supply by main water pipeline ● Water supply through distribution networks and sewage systems, and production, transmission and distribution of heating energy, transmission and distribution of electricity services ● Transshipment and storage of hydrocarbons through Batumi Oil Terminal and dry cargo transshipment services through Batumi sea port
PRODUCT POSITIONING	● Providing quality, timely, efficient and competitive services on oil transportation through the main pipeline system to ensure equal access conditions of consumers to services
CONSUMERS	● Shippers (production companies) ● Third parties, owners of main oil pipelines ● Consumers of water, heating energy, electricity (oil and gas producing companies, industrial enterprises, agricultural producers, public utility companies, households and public organisations)

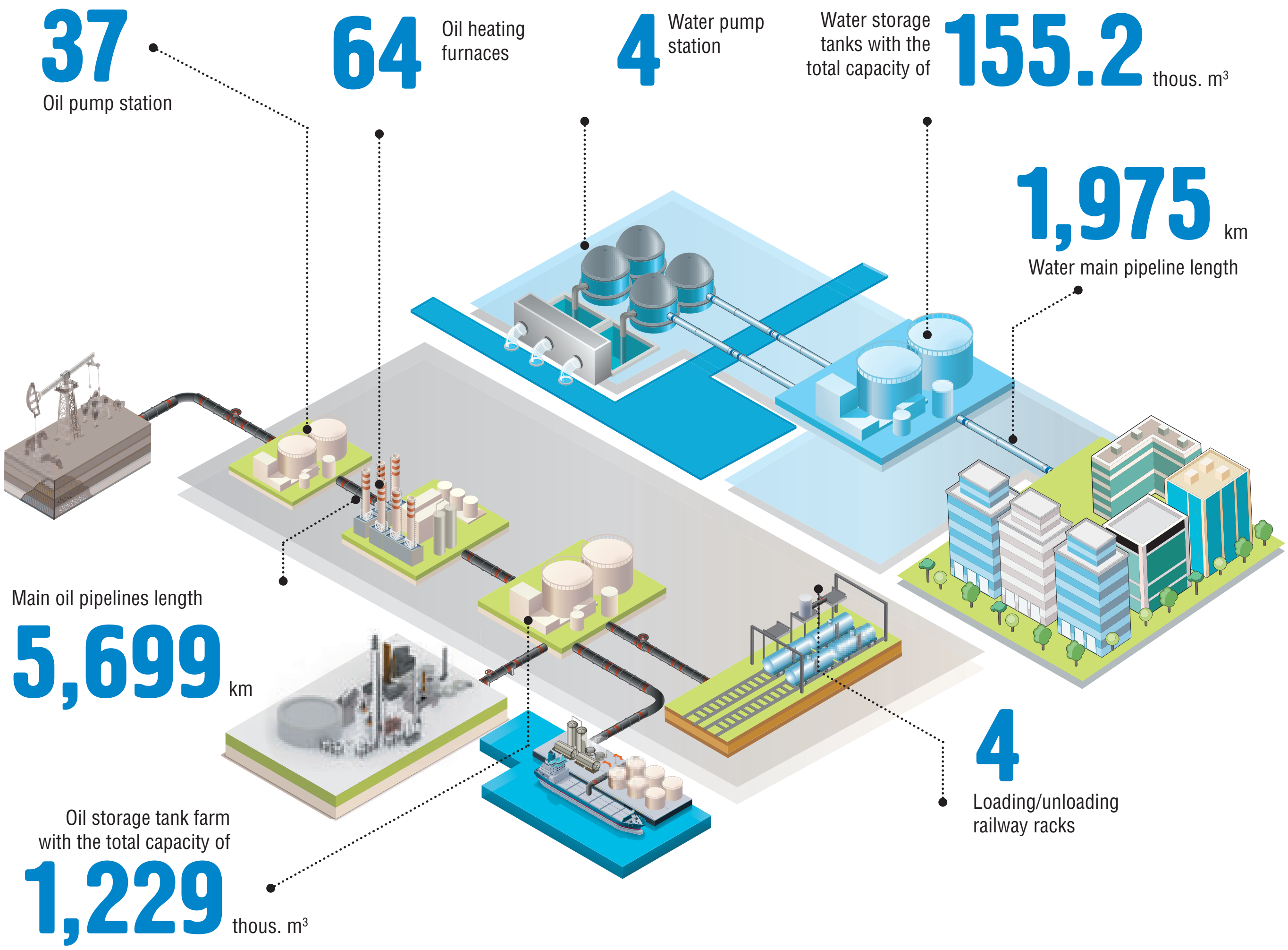
In 2014, the Company concluded 84 contracts for provision of services on crude oil transportation and 157 contracts for water supply services.

The largest consumers of oil transportation services provided by the Company are oil companies of the Republic of Kazakhstan and the Russian Federation: Mangistaumunaigaz JSC, Ozenmunaigas JSC, CNPC-Aktobemunaigas JSC, Embamunaigas JSC, PetroKazakhstan Kumkol Resources JSC, Karazhanbasmunai JSC, Kazgermunai JV LLP, Karachaganak Petroleum Operating B.V., Tengizshevroil LLP, Rosneft OC OJSC, AK Transneft OJSC and others.

The Company provides water supply to oil and gas companies, industrial and public utility organisations, as well as agricultural producers of Atyrau and Mangistau oblasts. The main consumers of the Volga water are such enterprises as Tengizchevroil JSC, Mangistaumunaigaz JSC, Karazhanbasmunai JSC.

In addition, the Company provides services for operation and maintenance of oil pipelines owned by other legal entities: Kazakhstan-China Pipeline LLP, NWPC MunaiTas JSC, Karachaganak Petroleum Operating B.V. and Turgai Petroleum JSC.

Scheme of the main production processes



Oil transportation and transshipment through main pipelines are provided by 37 oil pumping stations, 64 oil heating furnaces and the oil storage tank farm with the total capacity of 1,229 thous. cub. m. Oil transshipment to other types of transportation means is provided by 4 loading/unloading railway racks, appropriate oil loading equipment installed on berths of the onshore oil loading terminal at Aktau Sea Port.

Water supply is provided by the 1st and 2nd water lift pumping stations at Kigach operating-dispatching station, water pumping stations WPS-8 (Kulsary), WPS Karazhanbas and water treatment plant WTP Kulsary, as well as water storage tanks with the total capacity of 155.2 thous. cub. m.

1.5. ORGANISATIONAL STRUCTURE

The Company includes four branches: the Western Branch, the Eastern Branch, the Main Information and Computing Centre (formely Computing Centre for Collective Use) and the Scientific-Technical Centre. The Company has three representative offices in the Russian Federation in the cities of Moscow, Samara and Omsk.

The Western Branch is a structural division of the Company established in 1997 on the basis of Yuzhnefteprovod production association. The management apparatus of the Western Branch is located in Atyrau.

At the present time the Western Branch includes:

- 4,930 employees;
- Main oil pipeline system with a length of 2,669 km;
- Water pipeline system with a length of 1,975 km;
- Oil pipeline departments in Mangistau, Atyrau, Kulsary, Uralsk and Aktobe and 4 linear operating-dispatching stations (Kigach LODS, KPO LODS, Munaitas LODS and Aralsk LODS);
- Base for production and technical support and equipment services (hereinafter - BPTSES).

The main types of activities of the Western Branch are as follows:

- Oil transportation from oilfields of Western Kazakhstan to Atyrau refinery and for export through Kalamkas – Karazhanbas – Aktau and Uzen – Atyrau – Samara main oil pipelines;
- Oil supply through the loading/unloading railway rack at Atyrau OPS, oil-unloading rack at Aktau OPS, oil transshipment to Kenkiyak – Atyrau and Kenkiyak – Kumkol oil pipelines and pipeline of CPC-K JSC;
- Oil tanker loading at Aktau Sea Port;
- Technical and drinking water treatment and supply from Kigach tributary of the Volga river to oil and industrial enterprises and households as well as public organisations in Atyrau and Mangistau oblasts including the cities of Kulsary and Zhanaozen;
- Operation and maintenance of main oil pipelines owned by third parties.

The Eastern Branch is a structural division of the Company established in 1997 on the basis of the Main Pipelines of Kazakhstan and Central Asia production association. The management apparatus of the Eastern Branch is located in Pavlodar.

At the present time the Eastern Branch includes:

- 2,801 employees;
- Main oil pipeline system with a length of 2,959 km;
- Pavlodar, Karaganda, Zhezkazgan, Shymkent and Usharal oil pipeline departments, Peterfeld linear operating-dispatching station;
- Base for engineering and equipment support services.

The main types of activities of the Eastern Branch are as follows:

- Provision of transportation of the Russian crude oil through the TON-2 oil pipeline from the Russian Federation and Republic of Kazakhstan border to Atasu HOPS.
- Transportation of crude oil to Pavlodar Petrochemical Plant and Shymkent Refinery;
- Transshipment of the Russian and Kazakhstan crude oil at Atasu HOPS to Atasu – Alashankou oil export pipeline (Kazakhstan-China Pipeline LLP);
- Oil transshipment through Shagyr oil-loading station and Atasu loading/unloading railway rack for railroad transportation to CIS and non-CIS countries;
- Water supply through distribution networks and disposal of waste water to Priirtyshsk OPS;
- Operation and maintenance of main oil pipelines owned by third parties.

The Main Information and Computing Centre (hereinafter - MICC) is a structural division of the Company, with its main objective to ensure reliable and efficient operation of information systems (hereinafter – IS), automated process control systems (APCS) and production and technological communication (hereinafter – PTC) associated with oil transportation through the Company's main pipelines. MICC is located in Astana.

Currently, the Main Information and Computing Centre includes:

- 86 employees;
- User (including SAP user) support divisions, technological system support, production and technological communication support, automated control system support, information system development, and information system analysis.

The main activities of the MICC include:

- Technical support, participation in modernization and development of IS, APCS and PTC of the Company;
- Technical support of the local area network;
- System administration and programming;
- Ensuring of information security of IS, APCS and PTC operated by the MICC.

The Scientific technical centre (hereinafter – STC) is a structural division of the Company whose main objective is the formation of a scientifically-based policy and enhancement of effectiveness of the Company's activities through introducing modern techniques and technologies, implementing projects in a cost effective and reliable manner, establishment and use of in-house scientific base to conduct research, scientific and research and development works, automation of technological processes, modernization and development of the Company's facilities. The STC is located in Almaty.

Currently, the Scientific Technical Centre includes:

- 87 employees;
- Central laboratory consisting of three laboratory groups dealing with: pipeline transportation problems, physical-chemical analysis and ecology, and corrosion protection;
- Design and Estimate Department consisting of 10 groups;
- Innovation and Environmental Safety Departments;
- Metrology Service.

The main types of activities of the STC:

- Research of rheological characteristics of Kazakhstan oil with the aim to optimize its transportation mode;
- Introduction of new import-substituting depressants and corrosion inhibitors developed on the basis of domestic raw material resources;
- Development of design and estimate documents and technical standards in the field of main pipeline transportation;
- Improvement of oil transportation processes by means of introduction of innovation techniques.

1.6. SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

North-West Pipeline Company MunaiTas JSC is an owner of Kenkiyak–Atyrau main oil pipeline with a length of 448.85 km, 610 mm in diameter.

MunaiTas is a legal entity with foreign participation, whose shareholders are KazTransOil JSC (51% of shares) and CNPC Exploration and Development Company Ltd. (49% of shares).

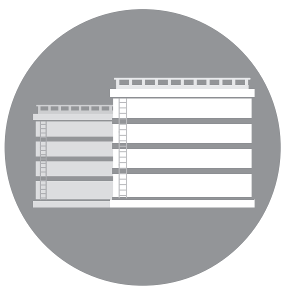
As of December 31, 2014, property of MunaiTas included the following assets:

Kazakhstan-China Pipeline LLP is an owner of Atasu – Alashankou main oil pipeline with a length of 965.1 km., 813 mm in diameter, and Kenkiyak – Kumkol main oil pipeline with a length of 794.1 km, 813 mm in diameter. Both main oil pipelines are the sections of Kazakhstan – China oil pipeline.

KCP is a legal entity with foreign participation, which shareholders are KazTransOil JSC (50% of shares) and China National Oil and Gas Exploration and Development Corporation (CNODC) (50% of shares).

As of December 31, 2014, property of Kazakhstan-China Pipeline LLP included the following assets:

448.85
km
length of main pipelines



40
thous. cub. m
tank farms

1,759.2
km
length of main pipelines

4
units
oil pumping stations

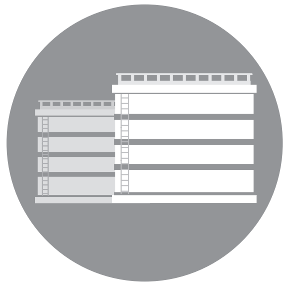
Batumi Terminals Limited provides services for transshipment and storage of crude oil, oil products and liquefied petroleum gas, as well as services for dry cargo transshipment through Batumi oil terminal and Batumi Sea Port in Georgia.

Batumi Terminals Limited (100% ownership) owns and operates Batumi Oil Terminal LLC and Petrotrans Limited Company. Batumi Oil Terminal LLC has the exclusive right to operate 100% of the shares of Batumi Sea Port LLC.

As of December 31, 2014, property of Batumi oil terminal included in the Batumi Terminals Limited (hereinafter – BTL) group of companies was composed of the following tank capacities (including trap tanks):

Terminal tank capacity:	612.9 thous. cub. m
including:	
light oil products	139.4 thous. cub. m
dark oil products	154.0 thous. cub. m
petroleum	314.5 thous. cub. m
liquefied gas	5 thous. cub. m

Unloading of oil tank cars is carried out on five railway racks equipped with bottom drain devices for unloading of oil, light and dark oil products, as well as on one railway track designed for to drain liquefied gas. A simultaneous drain system is composed of 194 tanks for gas, oil and oil products.



612.9
thous. cub. m
terminal tank capacity

In addition, a loading/unloading rack for 10 oil tank cars is available for oil loading into tank cars.

Batumi Sea Port specializes in transshipment of a wide range of cargo. Transit of oil and dry cargo prevails in the cargo turnover structure.

As of December 31, 2014, property of Batumi Sea Port included in the BTL group of companies was composed of the following production facilities: an oil terminal (berths No. 1, 2, 3 and single-point mooring), a multi-purpose container terminal (berths No.4 and No.5) with a capacity of 100 thous. TEU per year, the berth for railway sea ferry, a cargo terminal (berths No.6, 7, 8 and 9) and a passenger terminal (berths No.10 and 11). The maximum capacity of the cargo terminal is 2.3 mln. tons, the ferry – 700 thous. tons.

1.7. STATE REGULATION OF THE INDUSTRY AND TARIFFS

In accordance with the legislation of the Republic of Kazakhstan in the field of natural monopolies and regulated markets, the Company is included in the Republican Section of the State Register of Natural Monopoly Entities with the following services in the areas of natural monopolies:

- Oil and/or oil products transportation through main pipelines;
- Transfer and/or distribution of electricity;
- Production, transfer and distribution and/or supply of heating energy;
- Water supply and/or sewerage system.

In accordance with the Law of the Republic of Kazakhstan "On Natural Monopolies and Regulated Markets", tariffs for regulated services of a natural monopoly entity shall not be less than the costs associated with the provision of such services and takes into account the possibility of profit generation, ensuring the effective functioning of the entity. The tariffs for regulated services are approved by the competent authority CRNMPC (formely ARNM).

In 2014, the tariffs for the oil pumping service allowed efficient functioning and generating profit. A table below provides tariffs used by the Company in the course of its commercial activity in 2014.

Duration	Tariff for 1 ton per 1,000 km excluding VAT, tenge	
	export	domestic market
From January 1, 2014	4,850.6	2,931.8
From April 1, 2014	5,817.2	2,931.8
From July 1, 2014	5,774.3	2,910.2
From July 30, 2014	5,817.2	2,931.8

The Law of the Republic of Kazakhstan dated July 2, 2014 ratified the Agreement between the Government of the Republic of Kazakhstan and the Government of the Russian Federation on cooperation in the field of the Russian oil transportation to the People's Republic of China through the territory of the Republic of Kazakhstan dated December 24, 2013 (hereinafter – the Agreement).

Pursuant to the Agreement, the price of transportation of the Russian oil to the People's Republic of China through the territory of the Republic of Kazakhstan on the transportation route: the border of the Russian Federation – the border of the Republic of Kazakhstan (Priirtyshsk) – Atasu (Republic of Kazakhstan) – Alashankou (People's Republic of China) at the rate of USD 9.8 per 1 ton excluding VAT was approved by order of Chairman of CRNMPC No. 45-ОД dated November 4, 2014. This order cancels the order of ARNM No. 396-ОД dated December 24, 2013 according to which tariffs for transportation on the specified route were established in tenge.

Previously, in accordance with the agreement the tariffs were established in tenge: tariff for oil pumping through main pipelines of KazTransOil JSC for transporting by the route Russian border – the border of the Republic of Kazakhstan (Priirtyshsk) – Atasu (Kazakhstan) was – 117.31 tenge per 1 ton excluding VAT; and tariff for oil transshipment – 284.41 tenge per 1 ton excluding VAT.

1.8. MARKET REVIEW

The Caspian region holds substantial hydrocarbon resources and is strengthening its positions as a stable supplier in the global energy market.

The Republic of Kazakhstan ranked second among the CIS countries and seventeenth in the world in terms of crude oil production as well as the twelfth in the world in terms of proven oil reserves (three oilfields – Kashagan, Tengiz and Karachaganak are among the largest oilfields in the world) and is the largest oil producer and exporter in the Caspian region. The main Kazakhstan oil export directions are the European and Chinese markets.

Besides the Company, oil transportation services in the Republic of Kazakhstan are rendered by the following entities:

Caspian Pipeline Consortium (hereinafter - CPC) is the international oil transportation project with participation of the Government of the Russian Federation represented by Transneft OJSC, the Government of the Republic of Kazakhstan represented by NC KazMunayGas JSC, CPC-Company and the following producing companies: Chevron Caspian Pipeline Consortium Company, LUKARCO B.V., Mobil Caspian Pipeline Company, Rosneft-Shell Caspian Ventures Limited, Eni International N.A. N.V., BG Overseas Holding Limited, Kazakhstan Pipeline Ventures LLC and Oryx Caspian Pipeline LLC. The CPC oil pipeline is used mainly for oil transportation from Tengiz and Karachaganak oil fields to the marine terminal near the port of Novorossiysk.

NWPC MunaiTas JSC is a legal entity with foreign participation, the shareholders of which are represented by KazTransOil JSC (51% of shares) and CNPC Exploration and Development Company Ltd. (49% of shares). MunaiTas owns the Kenkiyak – Atyrau main oil pipeline.

Kazakhstan-China Pipeline LLP is a legal entity with foreign participation, the participants of which are represented by KazTransOil JSC (participation share – 50%) and China National Oil and Gas Exploration and Development Corporation (CNODC) (participation share – 50%). KCP owns two main oil pipelines: Atasu – Alashankou and Kenkiyak – Kumkol.

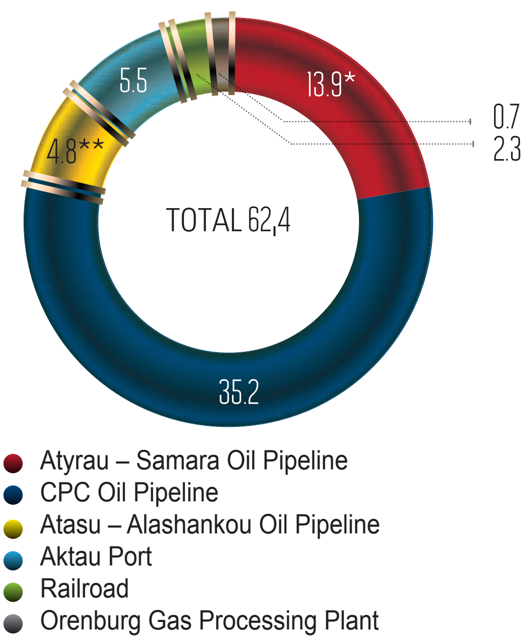
In general, following the results of 2013, Kazakhstan produced 80.8 mln. tons of oil and gas condensate, about 62.4 mln. tons of which were exported.

The main export routes of oil transportation from Kazakhstan are CPC, Atyrau – Samara and Atasu – Alashankou oil pipelines as well as transportation with the oil tankers through the port of Aktau and railroad transport as well.

Traditional markets for Kazakhstan oil shippers are European markets as they are attractive areas for Kazakhstan oil export due to a stable level of consumption.

One of the key target markets for supply of Kazakhstan energy resources is a relatively new and prospective Chinese market.

Volumes of Kazakhstan oil and gas condensate export in 2014, (in mln. tons)



**- transportation volume amounted to 14,6 mln. tons, including counter deliveries to the Russian Federation in the volume of 0.75 mln. tons;*

***- transportation volume amounted to 11.8 mln. tons, including transit deliveries to the People's Republic of China in the volume of 7 mln. tons.*

***Source:** Information and Analytical Oil and Gas Centre JSC*

At the present time, the total export oil transportation capacities in the Republic of Kazakhstan, except for railroad transport, amount to approximately 84 mln. tons per year. Thus, the current need for export oil transportation capacities is satisfied in full.

In the short term the growth in oil production is expected mainly due to the planned start of oil production on Kashagan oilfield and increase in oil production on Tengiz field.

According to the forecast of the Ministry of Energy of the Republic of Kazakhstan, by the year of 2020 the oil production level in Kazakhstan will exceed 100 mln. tons per year.

In this regard, in order to meet the needs for creation of additional export capacities and provision of load of refineries in the Republic of Kazakhstan, two major projects are currently being implemented in the oil transportation industry:

- increasing the capacity of CPC oil pipeline up to 67 mln. tons per year, including the capacity of Kazakhstan section up to 52.5 mln. tons per year;
- increasing the capacity of Kazakhstan-China oil pipeline system (Atyrau-Kenkiyak-Kumkol-Atasu-Alashankou) up to 20 mln. tons per year based on the growing resource base and internal market demands.

Alongside with the development of export and transit potentials, the most important objective in ensuring the domestic market with petroleum products is to develop the internal oil pipeline network. In this regard, expansion of all sections of Kazakhstan-China oil pipeline system will be implemented with due account for the load of domestic refineries.

Successful implementation of these projects will ensure reliable, stable and economically efficient export of Kazakhstan oil and will allow developing the export and transit potential of Kazakhstan and ensure energy security of the country.

At the same time, taking into account increase in the capacity of CPC oil pipeline, it is expected that the Company's share in Kazakhstan oil transportation will be reduced to about 50%. Alongside with that, no significant changes in the volumes of oil transportation of the Company are expected due to the fact that traditional oil shippers will continue oil transportation through the facilities owned by the Company and its subsidiaries and jointly controlled entities (hereinafter – SJCE), while CPC shippers will be represented by oil producing companies from Tengiz, Karachaganak and Kashagan oilfields.

In addition, the Company is expected to increase the oil freight turnover in the long term as a result of oil supply to Kazakhstan refineries (Pavlodar Petrochemical Plant LLP, PetroKazakhstan Oil Products LLP) and in direction of the People's Republic of China.

1.9. DEVELOPMENT STRATEGY

The Company's mission is to provide maximum benefits to the Republic of Kazakhstan by rendering quality, timely, effective and competitive services associated with oil transportation through main oil pipelines with provision consumers with equal access conditions to regulated services.

The strategic goal of the Company is increase of the Company's market value (capitalization) and serving strategic interests of the government in the field of oil transportation through the main oil pipeline.

The Company implements the following strategic development directions:

1. oil transportation;
2. water supply;
3. enhancement of efficiency of the management system.

With the aim to achieve the strategic goal the Company makes efforts to perform the following objectives:

1. increase in volumes of oil transportation and oil freight turnover by rendering competitive, reliable and safe services;
2. steady rise in efficiency of operations and cost optimization of KazTransOil JSC and its SJCE;
3. effective investment policy and participation in major transportation projects;
4. robust financial strategy aimed at maintenance of stable cash flows;
5. formation of an effective and transparent asset structure;
6. innovation and technology development;
7. adherence to high standards in the field of corporate governance, risk and human resources management, health and safety, industrial and fire safety and environmental protection.

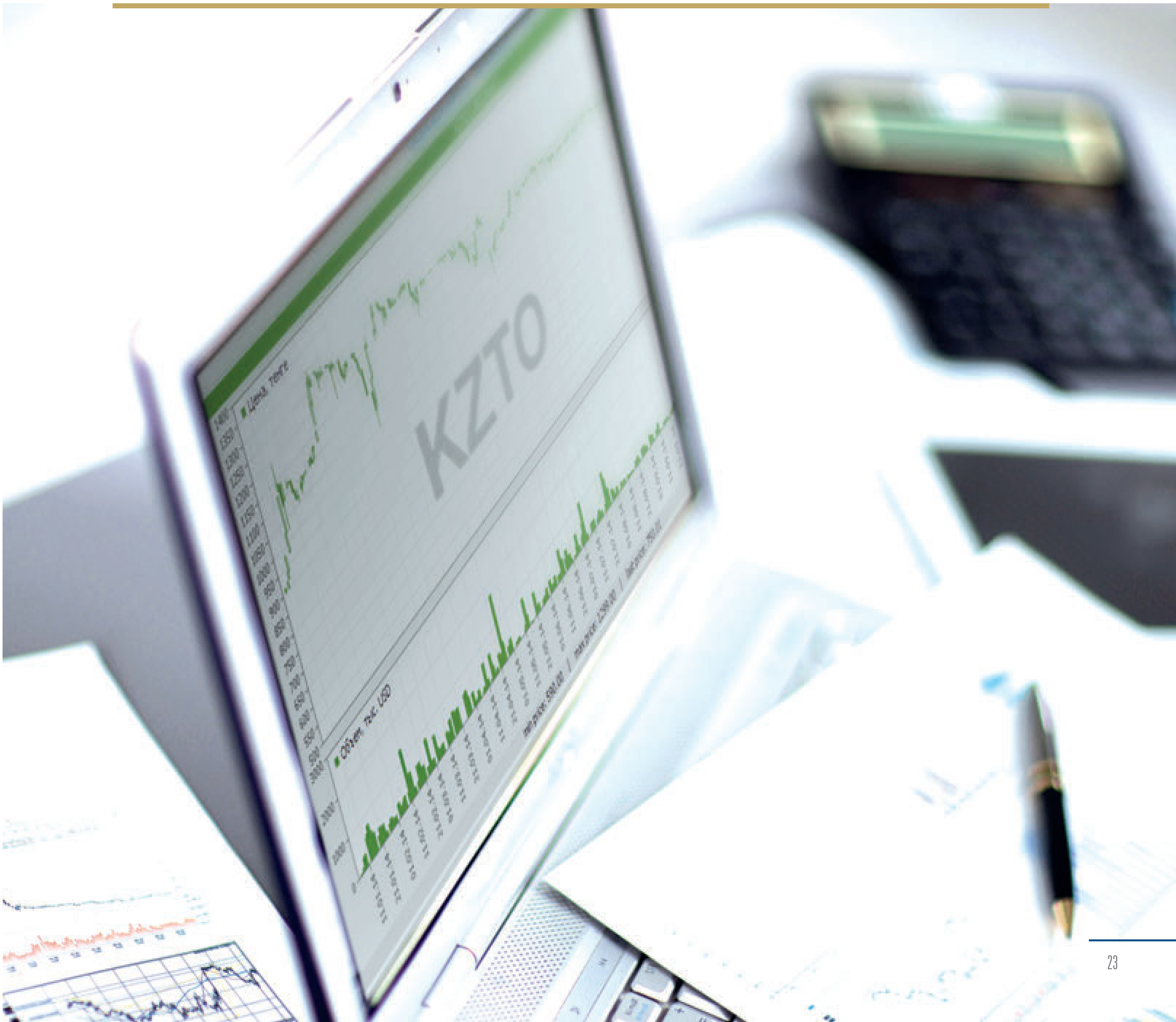
1.10. INFORMATION ON SECURITIES

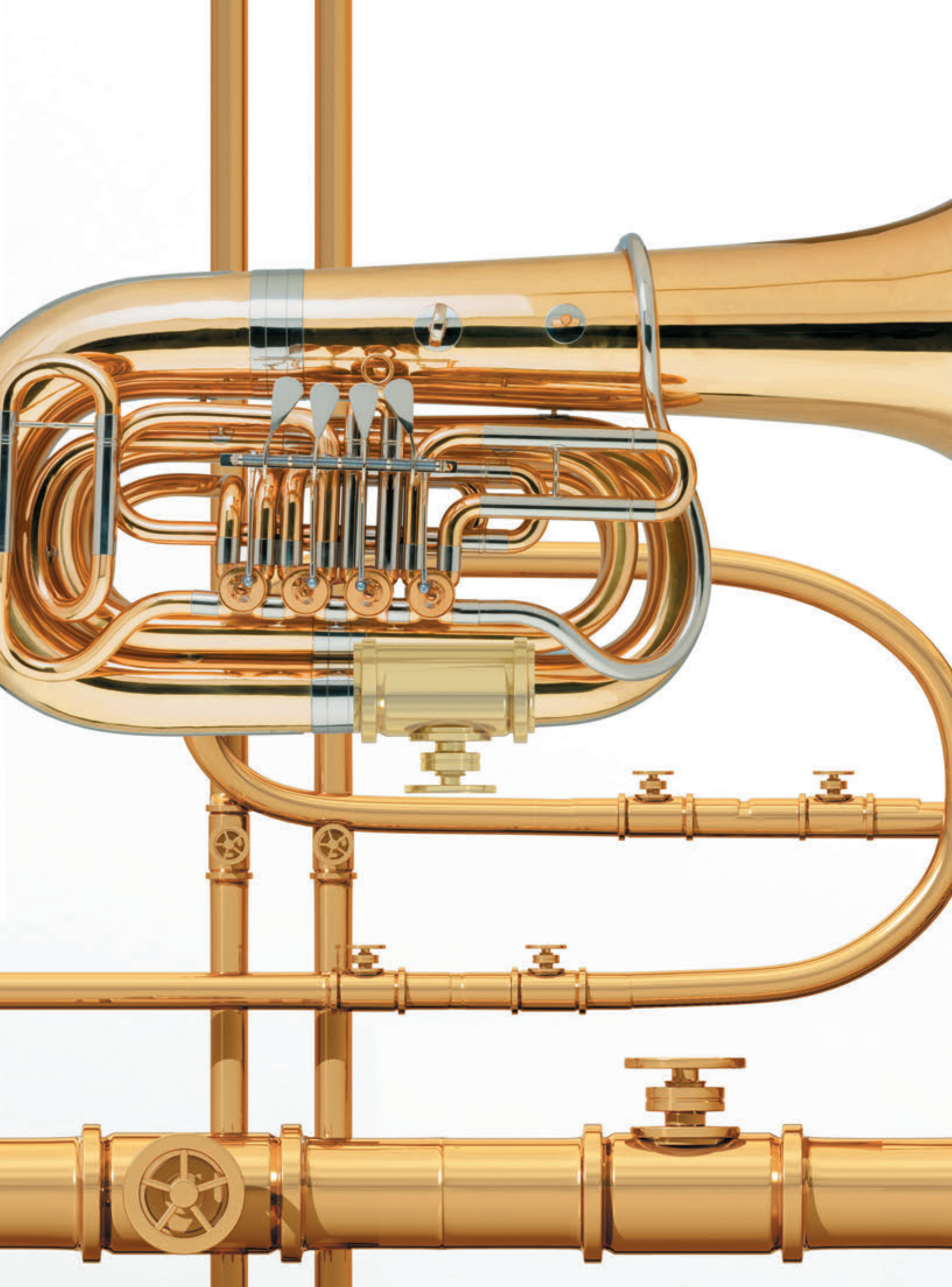
As of December 31, 2014, the Company placed and paid 384,635,599 (three hundred eighty-four million six hundred thirty-five thousand five hundred and ninety-nine) ordinary shares, of which:

- 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 were owned by NC KazMunayGas 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 placed by subscription on Kazakhstan Stock Exchange.

1 (one) ordinary share remained unplaced.

On May 28, 2014, KazTransOil JSC held the Annual General Meeting of Shareholders, which approved the order of distribution of the Company's net profit for 2013 and made a decision on payment of dividends on ordinary shares. The dividend amount for 2013 per one ordinary share of KazTransOil JSC was 109 tenge, equal to 15% of the offer price of shares. Dividends were paid in the amount of 41,925,280,291 tenge (forty one billion nine hundred twenty five million two hundred eighty thousand two hundred ninety one) or 66% of the consolidated net profit of the Company for 2013. Dividends were paid on July 3, 2014.





OPERATING ACTIVITIES

2

2.1. OIL TRANSPORTATION AND WATER SUPPLY

In 2014, the consolidated volume of oil transportation amounted to 64,005 thous. tons. The volume of transportation reduced by 5% as compared to the similar indicator of the previous year – 67,220 thous. tons.

In 2014, the consolidated oil freight turnover was equal to 44,206 mln. ton•km. The oil freight turnover declined by 3% as compared to the previous year indicator – 45,493 mln. ton•km.

Reduction in volumes of oil transportation and oil freight turnover as compared to indicators of 2013 was caused by decrease in oil delivery into the oil pipeline system from oil producing companies as well as by oil delivery from Kazakhstan oil producing companies to Pavlodar Petrochemical Plant LLP according to the scheme of substitution with the Russian oil at Atasu – PPP section and termination of delivery of the Russian oil to PetroKazakhstan Oil Products LLP and Pavlodar Petrochemical Plant LLP. In addition, the decline in oil transportation was impacted by decline in volume of oil transshipment by BTL.

Oil transportation volumes by direction and consumers (in thous. tons)

Direction	2014	2013	Change, %
Atyrau Oil Refinery LLP	4,789	4,333	+11
PetroKazakhstan Oil Products LLP	4,790	4,711	+2
Pavlodar Petrochemical Plant LLP	4,861	5,047	-4
Atyrau-Samara oil pipeline	14,641	15,376	-5
Loading into tankers at Aktau HOPS	5,195	5,995	-13
Transshipment into Atasu – Alashankou oil pipeline	11,824	11,828	0

In 2014, the water supply volume was equal to 24.8 mln. cub. m and increased by 6% as compared to the indicator of the previous year – 23.4 mln. cub. m.

The main reason for the increase in the water supply volumes as compared to the level of 2013 is increase in water withdrawal by oil and gas producing companies.

2.2. OPERATION OF MAIN OIL PIPELINES OWNED BY THIRD PARTIES

Within the scope of operation of main pipelines, KazTransOil JSC provides services for operation of main oil pipelines owned by third parties with a total length of 2,857.6 km. In 2014, these services were provided to the following companies: Kazakhstan-China Pipeline LLP, NWPC MunaiTas JSC, Karachaganak Petroleum Operating B.V. and Turgai-Petroleum JSC.

In 2014, the Company involved 927 employees for the purpose of operation of main oil pipelines owned by third parties.

2.3. INVESTMENT ACTIVITY

The Company performs extensive work on implementing prospective investment projects to create a multivector, flexible and reliable pipeline system. The implementation of these projects will allow enhancing energy security of the Republic of Kazakhstan and satisfying the needs of oil producing and oil refining industries for oil transportation capacities. Moreover, implementation of investment projects will ensure the enhancement of reliability and safety of oil transportation facilities as well as diversification of export directions and creation of economically attractive routes for shippers.

All investment projects of the Company are prepared in compliance with the corporate procedures and undergo expert review set by the applicable legislation, including those with regard to compliance with the environmental and industrial safety requirements and the cost of construction. Investment projects of the Company are financed by the Company's own funds without the use of budget (state) funds.

Capital Investment Programme

The capital investment programme of the Company for 2014 was aimed at maintenance of reliability and safety as well as modernization and development of main oil pipeline system.

In 2014, consolidated volume of capital investments amounted to 75.6 bln. tenge, including 74 bln. tenge separately for the Company and 1.6 bln. tenge for BTL (Reference: The development of capital investments of KCP and MunaiTas in 2014 was 2.7 bln. tenge and 5 mln. tenge, which are not included in the consolidated indicator).

The second stage of the second phase of construction of Kazakhstan – China oil pipeline

One of the important strategic investment projects of the Company is the project "Second stage of the second phase of construction of Kazakhstan – China oil pipeline. Increase in capacity up to 20 mln. tons per year". The project is implemented with the aim to diversify the oil export directions and to provide refineries of the Republic of Kazakhstan with domestic crude oil as a part of ensuring the energy security of the state.

Participants of the project are the Company as well as Kazakhstan-China Pipeline LLP, and NWPC Munaitas JSC, each of which is the owner of the corresponding section of Kazakhstan – China pipeline.

In 2014, during the implementation of this project, the Company carried out extensive work on preparation of agreements on cooperation of project participants, on planning of transportation volumes and negotiation of the estimated cost with due account for devaluation, as well as obtained approvals from regulatory authorities.

Within the scope of the project, in 2014 the Company completed the construction of the third line of Kumkol-Karakoin oil pipeline (HOPS named after Dzhumagaliyev) with a total length of 198.9 km. and the booster pipeline pump station at HOPS Atasu, and reconstruction of the linear part of Pavlodar – Shymkent oil pipeline at the section "HOPS named after Dzhumagaliyev – Barsengir OPS" (replacement of 18 km oil pipeline).

In 2014, the total amount disbursed under this project was equal to 26,119.6 mln. tenge, of which KazTransOil JSC disbursed 25,927.9 mln. tenge and Kazakhstan-China Pipeline LLP – the amount of 191.7 mln. tenge. In addition, in 2014, within the scope of that project, the construction of infrastructure facilities of the project "Construction of OPS No. 8 and OPS No. 10 of Atasu-Alashankou Oil Pipeline" in the amount of 729,3 mln. tenge was completed.

Reconstruction of Kalamkas – Karazhanbas – Aktau (Karazhanbas – Aktau section) and Uzen – Zhetybai – Aktau main pipelines

In order to maintain the production facilities in a reliable condition, in 2014 the Company performed measures to implement the first phase of the project "Reconstruction of Kalamkas – Karazhanbas – Aktau (Karazhanbas – Aktau section) and Uzen – Zhetybai – Aktau Main Oil Pipelines", wherein replaced 72.9 km of the linear part of Karazhanbas – Aktau section, 139 km of the linear part of Uzen – Zhetybai – Aktau section (the first line of the pipeline), and 25 km of the linear part of Uzen – Zhetybai section (second line of the pipeline). Implementation of this project will increase the throughput capacity for transportation of Buzachi oil to Atyrau HOPS providing access to export capacities of Atyrau – Samara, CPC and, in future, Kazakhstan – China oil pipelines.

Foreign Assets Development

In 2014, the Company conducted works under the project "Expansion of throughput capacity of Batumi Sea Port LLC for general cargo transshipment up to 2.5 mln. tons per year", for which the amount of about 80 mln. tenge was disbursed. The project is implemented at the expense of group of BTL companies and is currently at the completion stage.

2.4. INNOVATION ACTIVITY

The Company considers innovation activity and improvement of the production process as one of the priorities of its own development.

The Company is working on the development of the Innovation and Technological Development Programme with the aim to ensure sustainable development of the Company in the long term.

The Programme is aimed at significant improvement of main performance indicators of the production process, including energy saving during the operation of main pipelines, enhancement of energy efficiency, reduction of operating costs, increase in reliability and durability of the main equipment, and increase in labour productivity.

The innovation projects of the Company will be financed by the Innovation Activity Fund of the Company.

In 2014, 12 research and technological development works and 5 works on introduction of the advanced energy-saving technology for oil flow heating, perimeter security alarm system and CCTV system at oil pumping stations and oil treatment systems, and teleautomation systems for main pipeline electrochemical protection were performed.

In the reporting year, the Company implemented key performance indicators aimed to enhance the efficiency of innovation activities.

In 2014, the Technical board of the Company acknowledged the following four projects as innovations:

- Lifetime extension of Astrakhan-Mangyshlak water main pipeline by way of injection of corrosion inhibitor at water pumping station WPS-8;
- Installation of energy-saving equipment in the laboratory and administrative building of the Scientific and Technical Centre;
- Introduction of a mobile pipeline system (flexible pipes);
- Introduction of pig with a varying diameter.

Rationalization activity is one of the most essential elements of innovation and technological development of the Company. The Company supports the involvement of employees in development of new ideas and technical solutions within the Company.

All rationalization proposals are submitted to the Technical board of the Company, where the proposals are considered in terms of their applicability.

In 2014, the Company approved a rationalization proposal for "Remote Actuation of Heating of Impulse Pressure Tapping Lines in Instrumentation Wells at Linear Sections of Pavlodar – Shymkent Main Oil Pipeline From the Operator's (Dispatcher's) Workstation".

2.5. ASSETS SECURITY

In 2014, Company continued work on prevention of oil stealing from main pipelines.

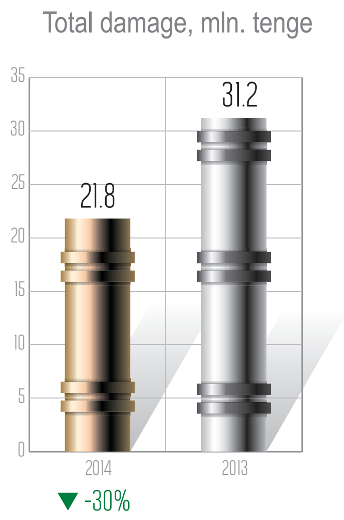
In 2014, there were 12 illegal taps into the Company's main oil pipelines, as a result of which total damage exceeded 21.78 mln. tenge. As a comparison, in 2013 the Company reported on 17 illegal taps into its main oil pipelines and the total damage was equal to 31.19 mln. tenge.

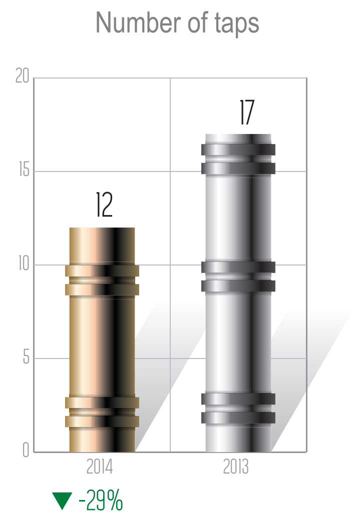
In this regard, in order to ensure safety of the main oil pipelines the Company introduced advanced technical systems for prevention and detection of illegal oil pipeline tapping. Currently, the aforementioned oil pipeline protection systems cover more than 50% of all oil pipelines of the Company.

In addition, the currently working scheme of interaction has been elaborated at all levels including an engineer of the pipeline monitoring service, dispatchers of central control units and a duty operator of KMG-Security LLP company. On site, the scheme applies to local law enforcement and security agencies, mobile guard teams and emergency services of the Company.

The Company acknowledges that implementation of oil pipeline protection measures not only helps reduce damage from oil losses and the cost of emergency recovery operations but provides also a possibility to reduce significantly the likelihood of environmental contamination.

The Company is aimed at further enhancement of oil pipeline protection.





2.6. INFORMATION SECURITY

In order to mitigate information security risks associated with the human factor and provide an adequate level of personnel competence and awareness in the field of information security the Company takes steps to protect confidential information in accordance with the legislation of the Republic of Kazakhstan and internal documents of the Company.

In June 2014, the Company was audited and recertified successfully by the international certification body of the British Standards Institution (BSI Management Systems) for compliance with the requirements of ISO/IEC 27001:2005, FI module (finance) of SAP ERP system.

It should be noted that the level of protection of the Company's information resources was determined as "High" based on the results of testing carried out by Ernst&Young in 2014. The following was noted: presence of developed and implemented rules for information security management; efficiency of the process of identifying and responding to emerging information security incidents and a high level of awareness among employees of KazTransOil JSC in the field of information security.

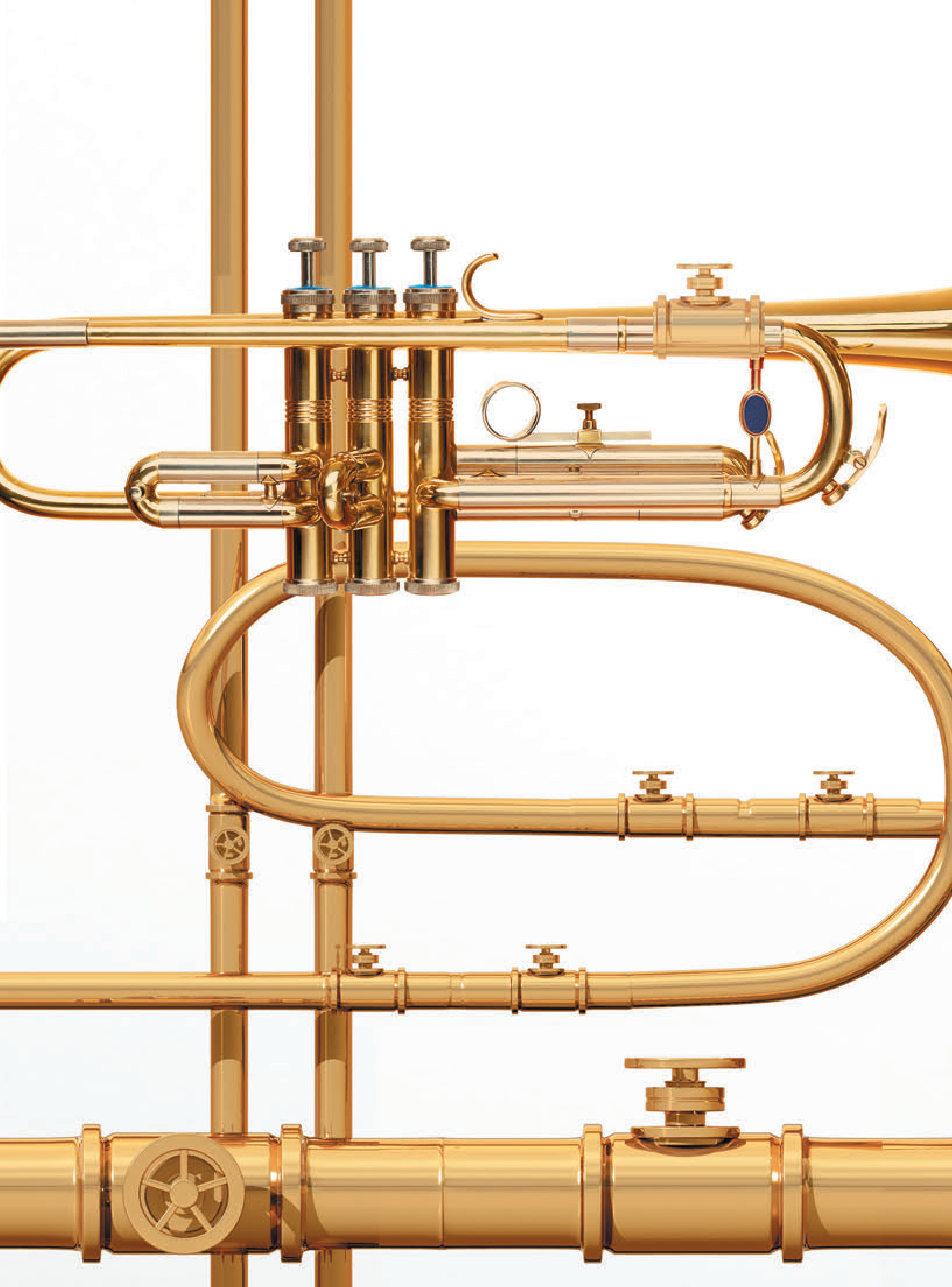
Development of provision of the Company with information technology and enhancement of information protection ensures stable operating activities, therefore the Company plans to continue maintaining the necessary level of protection of its information resources.

2.7. INFORMATION ON LOCAL CONTENT IN PROCUREMENT OF GOODS, WORKS AND SERVICES

Given the importance of enhancement and development of the local content for the integrated development of the country, KazTransOil JSC assigns an important role to cooperation with Kazakhstan commodity producers in its procurement campaign.

Thus, following the results of 2014, the Company signed contracts with Kazakhstan commodity producers in the amount of 2.4 bln. tenge. The actual share of local content under procurement contracts in 2014 amounted to 68.5% (including 50% of goods and 75% of works and services) and increased as compared to the previous year indicator – 67%. It should be noted that long-term contracts concluded in accordance with the Long-Term Procurement Plan of products, goods and services for 2012-2014 were carried out at the level of 100%.

In December 2014, the Company approved the Long-Term Procurement Plan for 2015-2019 providing for procurements from domestic commodity producers in the amount of 3,1 bln. tenge, excluding VAT.



SUSTAINABLE DEVELOPMENT

3.1. Stakeholder engagement

3.2. Environmental protection

3.3. Ambient air pollution

3.4. Water resources

3.5. Land resources and biodiversity

3.6. Energy consumption

3.7. Energy saving

3.8. Occupational safety and health

3.9. Fire safety

3.10. Industrial safety

3.11. Personnel

3.12. Social policy

Sustainable development is a priority of KazTransOil JSC. The Company's activities in this area are carried out in a systematic manner and include the creation of favourable working conditions, ensuring of workplace safety, environmental protection and provision of support for socio-economic development of local communities. An essential condition for sustainable development of the Company is effective cooperation with stakeholders. The Company pays particular attention to the interests and rights of stakeholders and strives to fully take into account their views and expectations on a systematic basis.

In carrying out activities in the field of sustainable development and stakeholder engagement, the Company is guided by the principles stated in the United Nations Global Compact and a number of internal documents that are publicly available on the Company's corporate web-site.

The main activities of the Company in the area of sustainable development are as follows:

- Unconditional compliance with legislation;
- Participation in state social programmes;
- Consideration of stakeholders' expectations and views, systematic approach to creation of good and mutually beneficial relations with them;
- Rendering of sponsorship (charity) assistance;
- Promotion of occupational safety and health, environmental protection;
- Creation of conditions to meet the personnel needs;
- Creation of conditions to preserve and improve personnel health;
- Development of human resources;
- Effective investment in production development with the aim to improve competitiveness of the Company in its interests and public interests.

The Company observes the principles of sustainable development and implements the following activities in order to:

- Reduce negative consequences of business activities 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 activities of the Company in the following four directions of sustainable development: economy, ecology, social policy and business ethics;
- Raise stakeholders' awareness of all aspects of the Company's activities and ensure the accuracy, content and timeliness of information provided to stakeholders;
- Prepare non-financial reporting and subsequent publication of information on the Company's corporate web-site;
- Respond to evaluation, critical comments and expectations of all interested parties (stakeholders) in all areas of its social responsibility including those indicated in non-financial reporting of the Company.

3.1. STAKEHOLDER ENGAGEMENT

KazTransOil JSC considers the interested parties (stakeholders) engagement as the most important condition for sustainable development and a key factor for formation of the corporate social responsibility system.

The Company acknowledges of the level of impact of its activities on stakeholders and its responsibility towards them, and is striving for a constructive dialogue, cooperation and creation of mutually beneficial relations with all stakeholders.

The Company builds relations with all its stakeholders in accordance with the legislation of the Republic of Kazakhstan, the Charter and internal documents of the Company.

The main principles and priorities of stakeholder engagement are stated in the Company's corporate documents such as the Development Strategy, the Corporate Governance and the Code of Corporate Ethics.

The main stakeholders of the Company are as follows:

- Shareholders and influencing companies;
- Governmental authorities;
- Personnel (management, employees and trade unions);
- Service consumers, partners, SJCE;
- Public and mass media (local population, public organisations and media);
- Financial institutions;
- Competitors;
- Suppliers.

The basic forms of stakeholder engagement include:

- Disclosure of information on the Company's activities with the use of the corporate web-site the Company's, web-site of Kazakhstan Stock Exchange, distribution of press releases, holding of press conferences, briefings and meetings with public representatives and publication of materials in mass media;
- Submission of reports and information to governmental authorities and legal entities, influencing the activity of KazTransOil JSC;
- Participation in industry commissions and public associations;
- Holding of meetings, discussions and negotiations with stakeholders;
- Provision of feedback channels for employees of the Company ("hotline"), shareholders and investors (feedback via the corporate web-site);
- Arrangement of public events of various types and participation therein.

The aforementioned forms of stakeholder engagement provide feedback and timely identification of potential risks, threats and new opportunities to improve the efficiency of the Company's activity.

3.2. ENVIRONMENTAL PROTECTION

The Company considers environmental protection activities as one of the overriding priorities and fully acknowledges the need for maintaining the ecological balance and ensuring sustainable social and economic development of society.

Preservation of natural resources of our country is the most important goal of the Policy of KazTransOil JSC in the area of safety and labour protection, environmental protection with the aim to minimize a negative impact of its operations on the environment and to implement the principles of energy conservation and rational use of natural resources.

In 2014, the Company invested more than 900 mln. tenge in the environmental protection and made environmental payments to the budget in the amount of about 60 mln. tenge.

(in thous. tenge)

Indicator	2014	2013	2012
Environmental payments	63,406	71,836	57,786

3.3. AMBIENT AIR POLLUTION

The main sources of ambient air pollution are: oil heating furnaces, boiler plants and oil storage tanks. In order to reduce a negative impact on the environment, the Company implements the following measures:

- Modernization of gas equalising systems in tank farms;
- Installation of tank pontoons;
- Optimization of the burning process in oil heating furnaces and water-heating boilers based on the results of performance adjustment works.

Table below provides data on the total volume of emissions in conditional units for the last 3 years.

(in tons)

Indicator	2014	2013	2012
Volume of emissions	25,687	27,924	27,227

In 2014, the Company reduced gross emissions into the atmosphere by 8% as compared to the previous period, which was associated with decrease in the volume of oil transportation.

The Company complies with regulations on greenhouse gas emissions adopted in the Republic of Kazakhstan. Thus, in 2014 the Company developed documents to obtain greenhouse gas quotas and received relevant certificates for 5 facilities of the Company included in the National Plan of the Republic of Kazakhstan for allocation of greenhouse gas quotas.

3.4. WATER RESOURCES

The Company pays special attention to preservation and rational use of water resources as water transportation is part of its operating activities. Water intake is carried out by the Company mainly from the Kigach River located in the delta of the Volga River for further supply through Astrakhan – Mangyshlak water main pipeline.

In 2014, waste water volumes did not exceed the established Company's limits.

(in thous. cub. m)

Indicator	2014	2013	2012
Volumes of waste water discharge	944	999	966

The reduction in waste water discharge in 2014 was associated with the performance of works related to cleaning of accumulation tanks at Kigach linear operating-dispatching station.

In 2014 the content of pollutants in waste water reduced by 25%, also due to works on improvement of efficiency of wastewater treatment plants performed during the previous period.

The Company carries out monitoring of ground, surface and waste water, performs laboratory studies of water, and monitoring of the level of waste water treatment on a constant basis.

In the long term, water transportation may become more significant part of our business due to the lack of clean potable water in remote regions of the Republic of Kazakhstan and in connection with the general trend of rise in the cost of water.

3.5. LAND RESOURCES AND BIODIVERSITY

The Company fully acknowledges its responsibility for preservation of land resources in the original form and performs works related to cleaning the contaminated land and soil monitoring with engagement of third party independent accredited organisations. The Company uses land resources in strict compliance with the legislation of the Republic of Kazakhstan.

In 2014, the Company carried out technical remediation of contaminated land on the area of 13 hectares and biological remediation of contaminated land on the area 3.9 hectares.

With the aim to regulate the quality of the environment and establish the permissible exposure that will ensure environmental safety and preservation of ecological systems and biodiversity of fauna in the affected areas, the Company establishes limits of maximum permissible emissions and discharge of pollutants and disposal of industrial and consumption waste.

(in thous. tons)

Indicator	2014	2013	2012
Waste generation for the reporting period	10,422	6,114	67,121

Increase in the waste indicator is associated with the actual oil sludge generation as a result of receipt of pigs and cleaning-out of sediments in the Company's tanks.

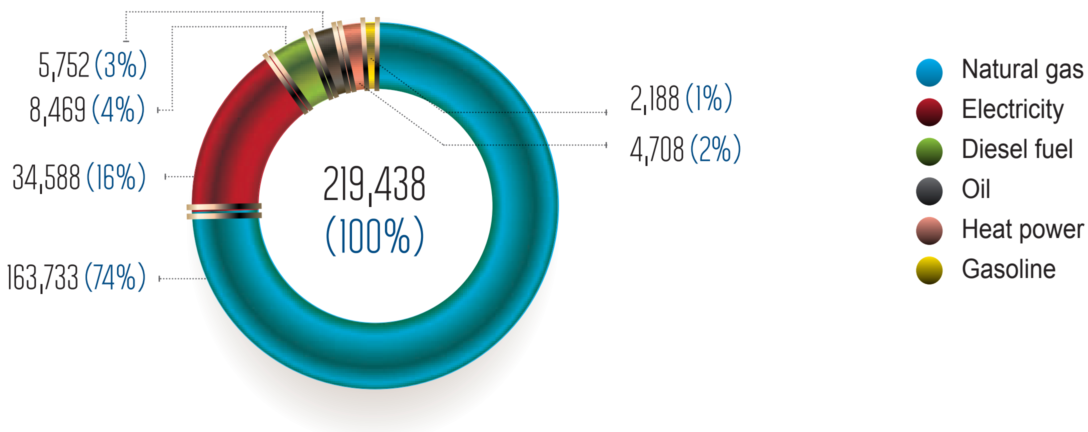
3.6. ENERGY CONSUMPTION

When carrying out production operations the Company uses various types of energy resources including natural gas and electricity.

In 2014, a share of natural gas consumption by the Company was equal to 74% of the total volume of energy resources consumed, and a share of electricity consumption amounted to 16% of the total energy resources consumption.

A high share of gas and electricity consumption is associated with the Company's goal to use the most ecologically friendly types of energy resources.

Share of use of primary energy sources by the Company in 2014 (in tons of fuel equivalent and in percentage)



3.7. ENERGY SAVING

In accordance with the legislation of the Republic of Kazakhstan the Company is working on the implementation of the energy management system that meets the requirements of the international standard ISO 50001 energy management.

In 2014, energy audit was conducted on the Company's facilities. The results of the energy audit, including recommendations on energy saving measures, will form the basis for the formation of the Action Plan on energy conservation and increase in efficiency of KazTransOil JSC for 2015–2019 years.

In addition, in 2014 the Company approved the Energy Policy of KazTransOil JSC and started development of internal documents of the integrated management system (hereinafter – ISM) on energy management systems methodology, including:

1. Method for determining the base and target levels of energy consumption in KazTransOil JSC;
2. Method for identifying areas of significant energy consumption in KazTransOil JSC;
3. Method for calculating energy efficiency indicators in KazTransOil JSC;
4. The rules of the energy analysis in KazTransOil JSC;
5. The rules of energy planning and energy efficiency indicators in KazTransOil JSC.

3.8. OCCUPATIONAL SAFETY AND HEALTH

The overriding priorities of the Company are the occupational safety and health of its employees. In this regard, the Company makes efforts to ensure safe working conditions for its employees at production facilities. For this purpose, the Company implements a number of measures to ensure the occupational safety and health in strict compliance with the legislation of the Republic of Kazakhstan, international and national standards and internal documents of the Company.

In 2014, the Company developed and approved the Rules for risk management in the field of occupational safety and health taking into account the international practices in the field of risk assessment and the requirements of the legislation of the Republic of Kazakhstan.

The Company constantly holds telephone conferences with regard to occupational safety and health and environmental protection under the chairmanship of General Director (Chairman of the Board) or First Deputy General Director.

During 2014, the Company's standing committee in charge of occupational safety and health conducted 12 inspections of production facilities in branches and facilities of Kazakhstan-China Pipeline LLP for compliance with the legislation of the Republic of Kazakhstan, standards, rules and regulations in the field of occupational safety and health, as well as for compliance with the internal documents of the Company.

The result of the work performed is stable dynamics of reducing the number of accidents in the Company.

During 2014, there were no reported industrial accidents involving the Company's employees. The Company continues its work with the aim to prevent industrial accidents.

Dynamics of indicators of the labour protection system

Indicators	2014	2013	2012
Total number of industrial accidents	0	1	3
Lost time accident frequency rate per 1,000 persons	0	0.13	0.38

The Company is striving to improve the system for accounting of all injuries, including cases of rendering medical and first aid that are not included in official statistics of lost time accidents, in order to identify risks and take proactive mitigation measures in the best way.

3.9. FIRE SAFETY

The Company implemented measures in the field of fire protection of objects in accordance with the legislation of the Republic of Kazakhstan, standards and internal action plans.

During the reporting period, in order to ensure fire safety, prevent fire and maintain the fire-prevention mode at the Company's facilities, the Company conducted training in the basics of fire safety for 6,234 people, held 6,859 briefings on fire safety measures, trained 1,159 members of voluntary fire-fighting units, and revised 71 fire safety instructions. The Company inspects on a regular basis the operation of stationary foam fire-extinguishing units and technical condition of fire alarm systems, as well as checks the external fire-fighting water supply, serviceability of internal fire hydrants, state of fire shields, fire equipment, fire and technical equipment available at facilities.

For the provision of practical and theoretical skills of action in case of possible fires the Company held 27 fire drills and 1,045 fire-tactical exercises.

3.10. INDUSTRIAL SAFETY

Alongside with fire safety, the Company pays special attention to industrial safety at hazardous production facilities and monitors the compliance with industrial safety requirements in production units on an ongoing basis.

The work of KazTransOil JSC in the field of industrial safety is performed in accordance with the legislation of the Republic of Kazakhstan and normative-technical documents that regulate the requirements for provision of industrial safety at hazardous production facilities.

In 2014, Company's standing commission on occupational safety and health carried out the in-process monitoring of Kulsary, Uralsk, Atyrau, Shymkent, Pavlodar, Karaganda and Zhezkazgan pipeline departments and Kigach LODS and BPTSES of the Western and Eastern Branches.

3.11. PERSONNEL

The Company acknowledges that the human capital is a basis for long-term development and improvement of competitiveness, and is striving for the growth of social responsibility aimed at enhancement of performance efficiency and creation of conditions of social protection of employees and stability in the collective.

The Company considers the human resource management as one of the most important factors for increasing the competitiveness and sustainable development of the Company in the future. In this regard, investments in personnel development are contributions to the future of the Company.

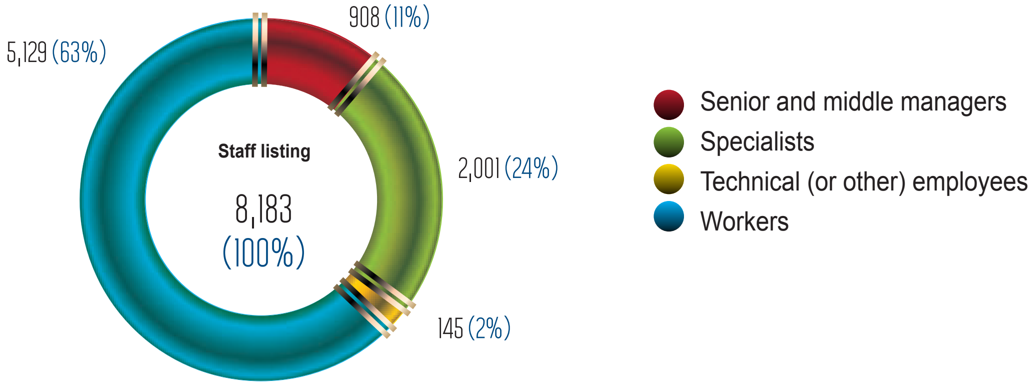
The Company's Personnel Policy defines a set of principles, key areas and levels of personnel management. The key priorities of the Personnel Policy are as follows:

- Attraction, development and retention of highly-qualified employees;
- Introduction of advanced methods for personnel management in the Company;
- Development of the personnel reserve from among the Company's employees;
- Support of innovations and reforms in the Company;
- Creation and elaboration of common values, social norms and provisions that regulate the conduct of the Company's employees.

The Company works in the following areas of human resource management as improvement of the organisational structure, promotion of the personnel quality, performance management, development and implementation of the youth policy, formation and development of the corporate culture.

3.11.1. Headcount and personnel composition

The Company is among the largest employers the Republic of Kazakhstan. As of December 31, 2014, the Company's headcount was equal to 8,183 people.



A share of the Company's employees entered into a labour agreement is 100%.

Gender-based personnel structure as of December 31, 2014

Division	Total, persons	of which			
		men		women	
		persons	%	persons	%
Headquarter	237	117	49.4	120	50.6
Western Branch	4,930	3,687	74.8	1,243	25.2
Eastern Branch	2,801	2,236	79.8	565	20.2
Main Information and Computing Centre	86	52	60.5	34	39.5
Scientific and Technical Centre	87	39	44.8	48	55.2
Representative Office in Moscow	8	5	62.5	3	37.5
Representative Office in Samara	18	8	44.4	10	55.6
Representative Office in Omsk	16	2	12.5	14	87.5
Total:	**8,183**	**6,146**	**75.1**	**2,037**	**24.9**

Due to the specific character of production operations, the Company's personnel are composed mainly of men – 75%.

Total number of employees	Total number of supernumerary employees by gender		Total number of staff employees by employment pattern and gender			
			Men		Women	
	Men	Women	Full employment	Part-time employment	Full employment	Part-time employment
8,183	92	39	6,146	0	2,037	0
8,183	92	39	6,146	0	2,037	0

The recruitment procedure in the Company complies with the Rules of competitive selection for vacant positions of the Company. In order to ensure transparency of procedures, the Company searches for and selects qualified specialists, maintains a candidate database, introduce transparent competition procedures for recruitment for vacant positions, including the use of test elements to assess the level of knowledge of candidates.

The Company does not admit discrimination in hiring, payment of remuneration, promotion and access to training on grounds of race, national origin, age, gender, social status, citizenship, religion and public associations attitudes or any other circumstances unrelated to professional qualities of employees and their performance results. The Company does not use child labour in its activities. Increase in the basic salary rate for all categories of the Company's employees remains stable as compared to the previous reporting period.

Ratio of basic salaries of men/women by personnel categories (in thous. tenge)

Personnel category	Basic salary men/women 2014	Basic salary men/women 2013	Ratio, %
Senior management (Board of Directors, Management Committee or a similar body)	850.0	850.0	100.0
Middle management	606.4	515.4	117.7
Specialists	211.9	180.1	117.7
Production personnel	145.9	124.3	117.7
Administrative personnel	96.3	81.8	117.7
Technical personnel	77.6	65.9	117.7
Service personnel	47.7	37.0	128.9

Ratio of a low-level employee's salary and the established minimum salary in the regions of the Company's activity

Indicator	2014	2013
Minimum salary, thous. tenge	39.5	33.6
Low-level employee's salary, thous. tenge	43.1	36.6
Ratio, %	109	109

Employees age structure in KazTransOil JSC as of December 31, 2014

Division	Employees structure by age, %		
	Up to 31 y.o.	31-50 y.o.	Over 51 y.o.
Headquarter	15	70	15
Western Branch	16	56	28
Eastern Branch	19	53	28
Main Information and Computing Centre	35	53	12
Scientific and Technical Centre	25	41	34
Representative Office in Moscow	28	43	29
Representative Office in Samara	11	56	33
Representative Office in Omsk	6	50	44
Total:	**18**	**55**	**27**

More than half (55%) of the Company's personnel are composed of employees at the age of 31 – 45 years old.

Personnel turnover in 2014 (in %)

Indicator	2014	2013	Change, %
Total personnel turnover ratio in the Company	1.76	2.09	-16
Total management personnel turnover ratio	3	3	0

KazTransOil JSC is a stable company with a balanced personnel structure. In 2014, the personnel turnover ratio was equal to 1.76% in the Company as a whole and 3% - among the Company's management personnel.

Employees engagement index (in %)

Indicator	2014	2013	Change, %
Employees engagement index	83	66	26

Each year the Company performs work to study the extent of employees engagement in order to determine the staff loyalty towards the Company, employees' awareness and understanding of the Company's corporate goals and objectives, personnel's confidence in the management, and to identify the material and psychological incentives that have the greatest impact on employees' satisfaction. In 2014, the employees engagement index was equal to 83%, which was 26% higher as compared to the previous year.

3.11.2. Education and training

The Company acknowledges the need to maintain and update the system of long-term manpower planning and implements personnel training and development programmes on an ongoing basis for the purpose of forming and maintaining the required level of personnel qualification taking into account the requirements and prospects of the Company's strategic development.

The Company supports its employees and provides them equal opportunities in professional development by providing their attendance at refresher courses on general and professional disciplines, as well as master's programmes.

In 2014 the Company held 410 events under the programmes on personnel training/development with the participation of 8,708 employees of the Company, of which: 8,011 production staff members, including 4,539 workers. 2,947 employees (including 1,919 workers) from among the production staff completed re-training directly at the premises of the Training Centre of the Western Branch of the Company.

The Company provides its employees with manifold possibilities to fulfil their potential and develop career.

In 2014, the Company continued implementing the "Personnel Reserve" programme with the aim to build up the internal human resources and to train its own highly qualified management staff capable of ensuring consistency and high efficiency in achieving strategic goals of the Company. As of December 31, 2014, the Company's personnel reserve consisted of 74 career reservists. In order to form the personnel reserve in 2015, in the reporting year the Company performed work with the purpose to identify and confirm the need for managerial positions.

Conceiving that professionalism begins with quality education, the Company has been implementing the "Young Specialist" programme for more than ten years, participants of which are students from specialized higher education institutions selected on the basis of a comprehensive analysis of academic progress, personal and professional qualities of candidates. The selection is performed among 3rd-year and older students. The young specialist training programme provides for the completion of job training at the production facilities in the Company's divisions. During job training a student is provided with a job in the selected area of activity and a place in a hostel, the Company pays per diem allowance, travel from the place of residence to the place of job training and back, and salary at the rate of a second-category worker. Each student is assigned a supervisor from among the experienced employees of the Company.

Within the scope of this programme the Company cooperates with leading domestic universities (Kazakh-British Technical University, Kazakh National Technical University named after K.Satpayev and other higher education institutions, mainly of technical orientation) as well as foreign universities and invite annually 3rd-year and older students for curricular practical training. During the reporting period, 312 students completed curricular practical training in divisions of the Company.

As an effective method for identifying and promoting the best specialists and organising the exchange of experience between the Company's divisions, the Company holds an annual contest "The Best in Profession", which allows highly qualified specialists of the Company's production branches to demonstrate their professional skills.

3.12. SOCIAL POLICY

The Company is actively involved in the life of society and carries out charity work. The priority areas of the Company's charity work are: support and development of the cultural sector of society, rendering assistance to victims of natural disasters, fight against poverty, protection of maternity and childhood, education, health protection, physical culture and sports, as well as performance of socially significant activities with the aim to implement the state programmes.

Within the scope of the Code of Social Responsibility the Company provides maximum benefits to the people of the Republic of Kazakhstan from its activities by assuming voluntary social obligations for participation in the life of its employees, the population in the areas of its operations and society as a whole.

3.12.1. Investments in personnel

The Company invests in social programmes for its employees and creates conditions to defend its employees' interests through participation in trade unions. The Company concludes collective agreements between the Company, as the employer, and groups of workers, according to which package provides social services including medical insurance, financial aid and other benefits.

Medical insurance provided by the Company allows its employees and its family members to receive necessary treatment in leading medical institutions of Kazakhstan. Also as part of the Collective agreement, workers are provided social leave, including leave without pay, educational leave, leave related to the birth of the child (children), adoption of a new-born child (children), as well as short-term paid leave including the accession worker in marriage, the birth of a child by the employee (father), in connection with the death of a close relative of the employee (parents, husband / wife, children, brothers and sisters of worker and parent of employee's spouse). The Company provides monthly payments of benefits to female employees, who are on leave to attend to a child up to the age of three years. In addition, the Company pays for pre-school education of its employees' children by way of full or partial payment of kindergarten expenses.

Besides, the Company reimburses the cost of worker's children rest in summer health camps. In 2014, the Company organised the rest for 1,636 children of its employees in children's holiday camps of Almaty oblast and paid all expenses for the acquisition of vouchers and transportation of children to/from the resting place.

KazTransOil JSC cares about the workers, who contributed a lot of efforts and knowledge to the development and success of the Company, and today are retired. Pursuant to the Rules for rendering of social support to non-working pensioners and disabled persons, the Company, in addition to providing compulsory financial assistance upon retirement, supports also its former employees and provides them one-time cash payments or gifts for all state, national and professional holidays.

In order to solve a housing problem existing among the Company's employees, in February 2014, the Company approved the Rules for arrangement of financing of acquisition or construction of housing for employees of KazTransOil JSC. The mentioned Rules allow the Company's employees, who have no their own housing and who want to build or improve housing conditions, to receive preferential housing loans by entry into a contract with a bank, which allocates funds on the basis of the Cooperation Agreement signed by the bank and KazTransOil JSC.

Company has established long ago and actively supports the programme for the development of a healthy lifestyle. Every year the Company conducts competitions on the following sports: indoor football, volleyball, table tennis, swimming, track-and-field athletics, kettlebell lifting and tug of war.

The football team of the Company participates regularly in competitions with teams of other companies of NC KazMunayGas JSC and governmental institutions and is a favourite team of KazTransOil JSC.

3.12.2. Charity

In 2014, the Company allocated the amount of 2 bln. tenge for sponsorship (charity), which was utilized to finance the construction of social facilities in the regions of the Company's operations. The Company financed the construction of a secondary school for 300 seats in Kulsary in the amount of 930 mln. tenge, as well as the construction of a kindergarten for 320 seats in Pavlodar in the amount of 600.7 mln. tenge and a kindergarten for 280 seats in Sholakkorgan village of Suzak region of South-Kazakhstan oblast in the amount of 380.2 mln. tenge.

In 2014, in order to promote a healthy lifestyle, KazTransOil JSC being a socially-oriented company decided to allocate funds to finance the construction of three universal sports grounds in Beineu region of Mangistau oblast, Akzhaiyk region of West-Kazakhstan oblast and Kurmangazy region of Atyrau oblast in the total amount of 66,1 mln. tenge, the completion of sport ground is planned for 2015.

In addition, the Company renders regularly sponsor support to different social funds and associations of veterans, disabled persons and orphan homes.

4 CORPORATE GOVERNANCE

The fundamental corporate governance principles of KazTransOil JSC are as follows:

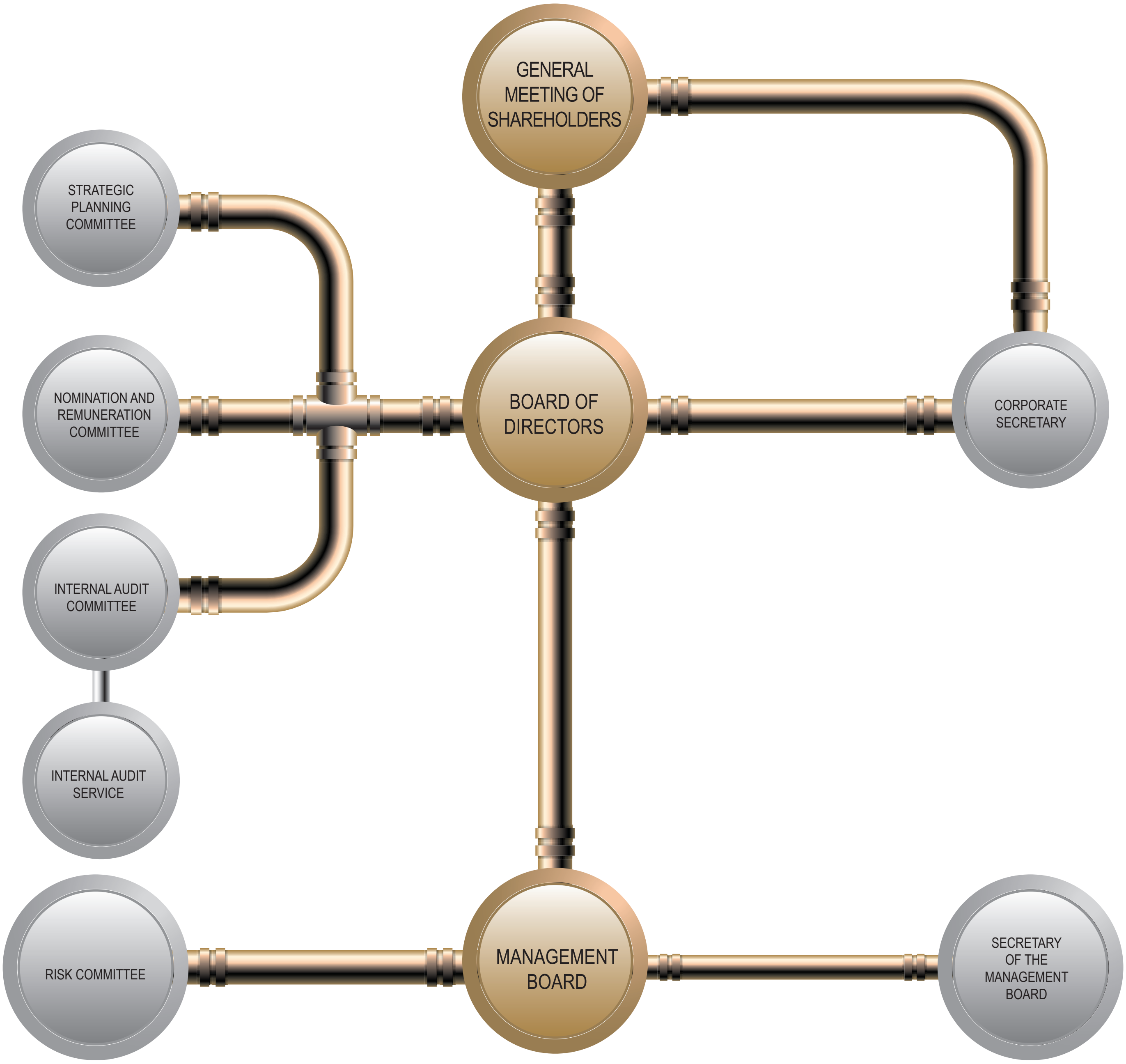
- Principle of protection of the shareholders' rights and interests;
- Principle of effective management of the Company by the Board of Directors and the Management Board;
- Principle of the Company's independent activities;
- Principle of transparent and objective disclosure of information on the Company's activities;
- Principle of legality and ethics;
- Principle of effective dividend policy;
- Principle of effective personnel and social policy;
- Principle of environmental protection;
- Policy of settlement of corporate conflicts and conflicts of interests;
- Principle of responsibility.

The corporate governance system of KazTransOil JSC includes:

- A superior body – the General Meeting of Shareholders;
- A management body – the Board of Directors;
- An executive body – the Management Board;
- A body in charge of supervising the financial and economic activities of the Company, evaluation of internal control, risk management, execution of documents in the field of corporate governance and consulting with the aim to improve the Company's performance – the Internal Audit Service.

Documents that delimit the competence of the bodies are available on the Company's corporate web-site in the "Corporate Governance" section.

Corporate governance structure



4.1. GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is a superior body of the Company.

The General Meeting of Shareholders is operating in accordance with the Law of the Republic of Kazakhstan "On Joint Stock Companies" and the Company's Charter and Regulations of the General Shareholders Meeting.

The 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 resolution of other bodies of the Company relating to the Company's internal activities.

General Meetings of Shareholders are divided into annual and extraordinary.

Every year the Company shall 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 upon completion of the financial year.

On May 28, 2014, the Company held the Annual General Meeting of Shareholders, at which the following issues were resolved:

- Approval of the annual financial statements and consolidated annual financial statements for 2013;
- Approval of the order of allocation of net profit for 2013, making a decision on payment of dividends on ordinary shares and approval of a dividend amount per one ordinary share of the Company;
- Approval of the Company's Annual Report for 2013;
- Approval of the Annual Report on the performance of the Company's Board of Directors for 2013;
- Consideration of shareholders' applications regarding actions of the Company and its executive officers for 2013 and the results of consideration;
- Early termination of office of members of the Company's Board of Directors;
- Determination of the quantitative composition, term of office of the Board of Directors, election of its members, including Chairman of the Board of Directors;
- Determination of the amount and conditions of remuneration and compensation for expenses payable to independent directors of the Company for their performance;
- Introduction of amendments and supplements in the Company's Charter;
- Approval of the Regulation on the General Meeting of Company's Shareholders;
- Approval of the revised Regulation on the Company's Board of Directors.

Extraordinary General Meetings of Shareholders of the Company in 2014 were not held.

4.2. BOARD OF DIRECTORS REPORT FOR 2014

The Board of Directors is a management body of the Company and exercises its functions in accordance with the Law of the Republic of Kazakhstan "On Joint Stock Companies", the Charter, the Corporate Governance Code, the 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 Board of Directors shall be composed of at least three members. Not less than thirty percent of the composition of the Board of Directors shall be represented by independent directors.

At the same time, the status of a listed company requires the Company to meet the international standards of corporate governance. Certainly, the requirements of the standards are imposed also upon the composition and structure of the Board of Directors.

Therefore, and also taking into account, that the term of office of the current members of the Board of Directors of the Company expired in 2014, the Annual General Meeting of Shareholders held on May 28, 2014 determined a three-year term of office of the Company's Board of Directors and elected six persons as members of the Board of Directors, including three Independent Directors - Daniel Mihalik, Serik Primbetov and Moustafa Habib.

Increase in the share of independent directors up to 50% has balanced the composition of the Board of Directors with the aim to ensure the interests of different groups of shareholders, and provided the possibility to bring the composition of committees of Board of Directors in compliance with the requirements of the best international practice in the field of corporate governance.

In accordance with the resolution of the Annual General Shareholders Meeting, Ardak Kassymbek being a representative of the NC KazMunayGas JSC was elected as Chairman of the Board of Directors.

Ardak Mukushov, a member of the Board of Directors, is also a representative of a major shareholder NC KazMunayGas JSC.

General Director Kairgeldy Kabyldin, who holds a position of Chairman of the Management Board, is also a member of the Board of Directors and the only representative of the Company's executive body in the Board of Directors.

Thus the following persons were elected to the Board of Directors:

Name	Position
Ardak Kassymbek	Chairman of the Board of Directors
Daniel Mihalik	Independent Director
Ardak Mukushov	Member of the Board of Directors
Serik Primbetov	Independent Director
Moustafa Habib	Independent Director
Kairgeldy Kabyldin	Member of the Board of Directors

The Company is striving for the best balance of experience, skills and qualifications of members of the Board of Directors. The presence of different views when discussing issues allows the Board of Directors to perform their functions in the most effective manner and to represent the interests of all shareholders.

4.2.1. Selection criteria of members of the Board of Directors

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

In accordance with the Corporate Governance Code, the Board of Directors has established the independence of directors and believes that Daniel Mihalik, Serik Primbetov and Moustafa Habib are independent in making decisions. The Board of Directors has established that there are no relations or circumstances, which have or may have a significant influence on making independent decisions by the above mentioned directors.

Independent directors bring their experience in the field of international management, strategic vision, and knowledge of the specific industry in which the Company performs corporate governance and risk management operations.

At the same time, all directors have knowledge in the field of financial reporting and audit, business planning and project management.

4.2.2. Composition of the Board of Directors

ARDAK KASSYMBEK

Chairman of the Board of Directors of KazTransOil JSC
Representative of NC KazMunayGas JSC

Date of birth: September 29, 1977. In 1998 Ardak Kassymbek graduated from Al-Farabi Kazakh State National University (Bachelor and Master Degrees) with "International Economic Relations" specialisation, admitted qualification – Economist. In 2001 he graduated from the Business School of City University of London (London, United Kingdom) with "Banking and International Finance" specialisation, admitted qualification – Finance.

EMPLOYMENT HISTORY:

1998 – 2000
Ardak Kassymbek started his career as a leading banker of the Structured Financing Department of Halyk Bank of Kazakhstan OJSC.
2001 – 2002
Manager of the Investments Management Department of NOGC Kazakhoil CJSC.
2002 – 2004
Manager, chief manager of Corporate Finance Department of NC KazMunayGas JSC.
2004 – 2005
Financial Director of the Direction of under construction enterprises of Atyrau Refinery.
2005 – 2006
Deputy Director of the Corporate Finance Department of NC KazMunayGas JSC.
2006 – 2007
Deputy Director General for Economy and Finance of Offshore Oil Company KazMunayTeniz JSC.
2007 – 2008
Executive Director of NC KazMunayGas JSC.
2008 – 2009
Managing Director of NC KazMunayGas JSC.
2009 – 2010
General Manager for Corporate Development and Assets Management in NC KazMunayGas JSC.
2010 – 2012
General Manager for Corporate Finance and Assets Management in NC KazMunayGas JSC.
2012 – 2013
Director for Corporate Finance and Assets Management in NC KazMunayGas JSC.
From November 2013 Managing Director for Economy and Finance of NC KazMunayGas JSC.
From October 19, 2012 – member of the Board of Directors of KazTransOil JSC, representative of NC KazMunayGas JSC.
From May 28, 2014 – Chairman of the Board of Directors of KazTransOil JSC.
Member of the Board of Directors of KazTransGas JSC, member of the Supervisory Board of KazRosGas LLP, member of the Board of Managing Directors Cooperative KazMunayGas U.A., Mangistau Investment B.V., member of the Managing Committee of Kazakhstan Pipeline Ventures LLC, member of the Supervisory Board of the Scientific Research Institute for Production and Drilling Technology of KMG LLP.
Citizen of the Republic of Kazakhstan.
No shares of the Company or its SJCE.
No shares of the Company's suppliers and competitors.

DANIEL MIHALIK

Independent Director of KazTransOil JSC

Date of birth: July 30, 1953. In 1976 Daniel Mihalik 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 – Ph.D. in Legal Science.

EMPLOYMENT HISTORY:

1976 – 1997
Daniel Mihalik started his career as a design engineer in biochemical industry, served as a design engineer in FLUOR Company (Houston, USA), senior research engineer in Getty and Texaco Research and Engineering companies (Houston, USA), manager in Gaviota Terminal Co. (Santa-Barbara, USA).
1982 – 2001
Regional Vice-President of Texaco Pipeline International (London, UK).
2001 – 2006
Advisor in Kazakhstan North Caspian Partners (London, UK).
2006 – 2008
General Advisor in the Oil Pipeline Association (Washington, USA).
From 2008 Independent consultant in the oil and gas sector.
From August 19, 2008 – Independent Director of KazTransOil JSC.
Date of current election: **May 28, 2014.**
Citizen of the USA.
No membership in management bodies of other organisations.
No shares of the Company or its SJCE.
No shares of the Company's suppliers and competitors.

ARDAK MUKUSHOV

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

Date of birth: March 4, 1978. In 1998 Ardak Mukushov graduated from Eurasian University named after L.N. Gumilyov with "Law and Law Education Methods" specialisation, admitted qualification: Lawyer.
In 2007 graduated from Kazakh Economic University named after T. Ryskulov with "Economics" specialisation, admitted qualification – Economist

EMPLOYMENT HISTORY:

2000 – 2003
He began his career in Astana Main Internal Affairs Department of the Ministry of Internal Affairs.
2003 – 2010
Served as chief specialist, head of section, head of department, deputy director of the Legal Service of the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan.
2010 – 2013
Director of the Law Department of the Ministry of Oil and Gas of the Republic of Kazakhstan.
2013 – 2014
Advisor of Chairman of the Management Board of NC KazMunayGas JSC.
From August 12, 2014 Director of the International Contracts Department of NC KazMunayGas JSC.
From May 28, 2014 member of the Board of Directors of KazTransOil JSC, representative of NC KazMunayGas JSC.
Citizen of the Republic of Kazakhstan.
No membership in management bodies of other organisations.
No shares of the Company or its SJCE.
No shares of the Company's suppliers and competitors.

SERIK PRIMBETOV

Independent Director of KazTransOil JSC

Date of birth: September 17, 1948. In 1971 Serik Primbetov graduated from Alma-Ata Institute of National Economy with "Economics" specialisation. In 1975 he graduated from the post-graduate studies of Moscow State University named after M.V. Lomonosov, Ph.D. in Economics.

Academic degree and rank: Doctor of Economic Sciences, Professor, Academician of "Eurasia" International Economic Academy, Honourable Member of the International Academy for Leadership in Business and Administration (USA).

EMPLOYMENT HISTORY:

1992 – 1994
Deputy Head of the CIS Affairs Department of the Presidential Administration and the Cabinet of Ministers of the Republic of Kazakhstan.
1994 – 1997
Chairman (in the rank of Minister) of the Executive Committee of the Interstate Council of Kazakhstan, Kyrgyzstan and Uzbekistan.
1997 – 2002
Deputy Chairman (in the rank of First Vice-Minister) of the Executive Committee of the Interstate Council of the Central Asian Economic Community.
February - September 2002
Advisor of the President of the Republic of Kazakhstan, National Coordinator of the Central Asian Cooperation Organisation.
2002 –2008
Deputy General Secretary of EEC.
2008 – 2013
Extraordinary and Plenipotentiary Ambassador of the Republic of Kazakhstan in the Republic of Azerbaijan.
From April 2013
Advisor of Chairman of the Management Board of the Eurasian Development Bank.
From May 28, 2014 – Independent Director of KazTransOil.
Citizen of the Republic of Kazakhstan.
No membership in management bodies of other organisations.
No shares of the Company or its SJCE.
No shares of the Company's suppliers and competitors.

MOUSTAFA HABIB

Independent Director of KazTransOil JSC

Date of birth: December 10, 1944. In 1966 Moustafa Habib graduated from the University of Caen (France) with "Electrical Engineer and Petrochemist" specialisation; he also has a degree of Master of Physics.

EMPLOYMENT HISTORY:

1970 – 1983
Moustafa Habib started his career in Shell Manufacturing. He held various positions in departments for development and research, procurement and acquisition of new oil fields
1983 – 2002
He worked for Chevron and held various positions in subdivisions located in Africa, Europe, USA and Kazakhstan, where he participated in design and construction of the demercaptanisation plant on Tengiz field, marketing and development of alternative oil transportation route by railroad. He served as General Manager of the Eurasian Division in London and was responsible for oil transportation.
2002 – 2005
Advisor in Nelson Resources (Kazakhstan)
2005 – 2007
Advisor in Nobel Oil Azerbaijan
2007 – 2008
Advisor of Kashagan Project in AGIP KCO
From November 24, 2008 – Independent Director of KazTransOil JSC.
Date of current election: **May 28, 2014.**
Citizen of France.
No membership in management bodies of other organisations.
No shares of the Company or its SJCE.
No shares of the Company's suppliers and competitors.

KAIRGELDY KABYLDIN

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

Date of birth: January 1, 1953. In 1975 Kairgeldy Kabyldin graduated from Kazakh Polytechnic Institute named after V.I. Lenin with "Electronic Computing Machines" specialisation, admitted qualification – Electrical Engineer.

EMPLOYMENT HISTORY:

1977 – 2002
Kairgeldy Kabyldin 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, the Ministry of Oil and Gas Industry of the Republic of Kazakhstan, PA Main Pipelines of Kazakhstan and Central Asia, NOTC KazTransOil CJSC, NC Oil and Gas Transportation CJSC.
2002 – 2007
Managing Director of Transport Infrastructure and Service Projects, then Vice-President of NC KazMunayGas JSC.
2007 – 2008
Deputy Chairman of Samruk Kazakhstan Holding for State Assets Management JSC.
2008 – 2011
Chairman of the Management Board of NC KazMunayGas JSC.
From October 2011
General Director (Chairman of the Management Board) of KazTransOil JSC.
From October 12, 2011 – member of the Board of Directors of KazTransOil JSC.
Deputy Chairman of the Management Board of NC KazMunayGas JSC for Oil Transportation.
No membership in management bodies of other organisation.
Citizen of the Republic of Kazakhstan.
Shares of the Company in the amount of 15,865 shares or 0.00412% of the total outstanding shares.
No shares of the Company's suppliers and competitors.

4.2.3. Competence of the Board of Directors

The Board of Directors determines the strategic goals, priority areas of development and establishes the basic long-term objectives of the Company's activity, ensures the availability of necessary financial and human resources to implement the specified goals and considers other essential issues.

The issues attributed to the exclusive competence of the Board of Directors may not be resolved by the Management Board of the Company.

The Board of Directors may not make decisions on the issues attributed to the competence of the Management Board of the Company in accordance with the Company's Charter, or decisions contradicting to the resolutions of the General Meeting of Shareholders.

4.2.4. Responsibility of the Board of Directors

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

The Board of Directors is responsible to the General Meeting of Shareholders for effective management and proper supervision of the Company's activities in accordance with the adopted decision-making system.

The Board of Directors supervises the activities of the Management Board within its competence.

4.2.5. Information on meetings of the Board of Directors

In 2014, the Board of Directors held 14 meetings, including 2 meetings in absentia, at which resolutions were made in the following key areas:

Strategic development:

- Consideration of the Report for 2013 on implementing the Development Strategy for 2012–2022;

- Consideration of the Report on implementing the Business Plan for 2013;
- Approval of adjusted Business Plans for 2014–2018 taking into account the revaluated and historical costs of fixed assets;
- Approval of the updated Development Strategy for 2012–2022;
- Approval of Business Plans for 2015–2019 taking into account the revaluated and historical costs of fixed assets.

Financial and economic activities:
- Convocation of the General Meeting of Shareholders;
- Preliminary approval of the annual financial statements and consolidated annual financial statements of the Company for 2013;
- Proposals submitted by the Board of Directors to the General Meeting of Shareholders for the procedure of distribution of the Company's net profit for 2013 and a dividend amount for 2013 per one ordinary share of the Company;
- Conclusion of related-party transactions by the Company;
- Approval of interim (semi-annual) separate and consolidated financial statements for the first six months of 2014.

In 2014, the Board of Directors approved the following documents:
- Tax Accounting Policy;
- Redrafted Regulations on the Company's Representative Offices in Moscow, Samara and Omsk;
- Amendments and supplements to the Regulations on separate branches of the Company;
- Rules for arrangement of financing for housing purchase or construction by the Company's employees.

The Board of Directors considered and recommended the General Meeting of Shareholders to introduce amendments and supplements in the Company's Charter.

Besides, the Board of Directors considered a number of issues attributed to the competence of general meetings of participants/shareholders of the Company's subsidiaries and jointly controlled entities:
- Conclusion of the Audit Commission on audit of financial and economic activities of Kazakhstan-China Pipeline LLP for 2013;
- Annual financial statements and distribution of net profit of Kazakhstan-China Pipeline LLP for 2013;
- Budget of Kazakhstan-China Pipeline LLP for 2014;
- Budget of Kazakhstan-China Pipeline LLP for 2015;
- Redrafted Charter of Batumi Terminals Limited;
- Quantitative composition and term of office of the Board of Directors of NWPC MunaiTas JSC and election of its members;
- Order of distribution of net profit of NWPC MunaiTas JSC for 2013, making a decision on payment of dividends on ordinary shares and approval of a dividend amount per one ordinary share of NWPC MunaiTas JSC;
- Identification of an audit organisation to carry out audit of NWPC MunaiTas JSC for 2014, determination of the amount of payment for its financial audit services and procurement of its services through a single source;
- Annual financial statements and consolidated annual financial statements of Batumi Terminals Limited for 2013;
- Announcement of dividend payment by Batumi Terminals Limited for 2013;
- Re-election and appointment of directors of Batumi Terminals Limited.

In the reporting period, the Board of Directors discussed issues of Batumi Terminals Limited company activity, expansion of Kazakhstan – China oil pipeline and results of negotiations with CNPC relating to oil supplies to Alashankou.

The Board of Directors analysed the key changes in the Company's performance and managerial reporting on a monthly basis.

Additional information on resolutions made by the Board of Directors in 2014 is available on the Company's web-site: www.kaztransoil.kz

Corporate Governance

The Board of Directors plays an important role in determining the main directions of improvement of corporate governance of the Company.

At meetings of the Board of Directors, the issues related to the Company's corporate governance, including those relating to reports on the activities carried out in this area and plans for the future are regularly discussed.

In the reporting period, the Board of Directors continued its work in this area and considered the following issues:
- Report on the Company's adherence to the principles set forth in the Corporate Governance Code;
- Report on the Company's transparency and effectiveness of information disclosure processes;
- Introduction of amendments to the Action Plan for improvement of the corporate governance system;
- Election of members of the committees of the Board of Directors;
- Determination of the quantitative composition of the Management Board and election of a member of the Management Board;
- Approval motivational key performance indicators of the Company's executive officers and their values for 2014;
- Assessment of activities of the Board of Directors for 2013;
- Action plan for improvement of performance of the Board of Directors;
- Recommendations of the Nomination and Remuneration Committee to the Board of Directors.

Internal audit

The following issues of internal audit were resolved:
- Determination of the quantitative composition of the Internal Audit Service;
- Imposition of duties upon Head of the Internal Audit Service;
- Appointment of a lead auditor of the Internal Audit Service and determination of the amount and conditions of remuneration and bonus payment;
- Report of the Company's Internal Audit Service on the performance results for 2013;
- Audit report on the results of the audit of the Company's production, operating and financial processes and the Action Plan for correction of revealed discrepancies;

- Audit report on the results of the audit of procurement of goods, works and services in the Company and the Action Plan for correction of revealed discrepancies;
- Audit report on the results of the audit of production, operating and financial processes of Batumi Oil Terminal LLC and Batumi Sea Port LLC carried out by the Internal Audit Service of NC KazMunayGas JSC and the Action Plan for correction of revealed discrepancies;
- Access of the Internal Audit Service of NC KazMunayGas JSC to information, materials and facilities of Batumi Terminals Limited;
- Audit report on the results of the audit of the Company's oil recording process carried out by the Internal Audit Service of NC KazMunayGas JSC and the Action Plan for correction of revealed discrepancies;
- Audit report of the Internal Audit Service of the Company on the audited process of implementation of the Investment Programme and the Action Plan for correction of revealed discrepancies;
- Audit report of the Internal Audit Service of the Company on the audited HR management process and the Action Plan for correction of revealed discrepancies;
- Audit report of the Internal Audit Service of the Company on the audited operator activities and the Action Plan for correction of revealed discrepancies;
- Report of the Internal Audit Service of the Company on the results of effectiveness of the Company's internal control system and the Plan for its improvement;
- Report of the Internal Audit Service of the Company on the results of effectiveness of the corporate risk management system and the Plan for its improvement.

The Board of Directors heard reports of the Internal Audit Service on a quarterly basis and approved the following documents:

- Methodology of Development of the Strategic Plan of the Internal Audit Service;
- Annual Audit Plan of the Internal Audit Service for 2015;
- Strategic Plan of the Internal Audit Service for 2015–2017.

4.2.6. Risk management and internal control

The Company has a system of internal control and risk management. The system is designed to identify, evaluate and manage significant risks associated with the achievement by the Company of its business objectives, taking into account the preservation and increase of shareholders' investments to the Company.

The Board of Directors analysed quarterly the dynamics of risks and implementation of the Company's risk management action plan and approved the following documents:

- Policy of the Internal Control System;
- Regulations on the Internal Control System;
- Risk Management Programme for 2014 – 2016;
- Risk Classifier of the Company and its subsidiaries and jointly controlled entities.

In addition, the Board of Directors considered the Plan for improvement of the Company's internal control system for 2014 and the Report on effectiveness assessment of the Company's internal control system.

4.2.7. Attendance at meetings of the Board of Directors

Director	Attendance at meetings	%	Period of membership in the Board of Directors in the reporting period
Ardak Kassymbek	14 out of 14	100	01.01.2014 – 31.12.2014
Daniel Mihalik	14 out of 14	100	01.01.2014 – 31.12.2014
Ardak Mukushov	8 out of 9	89	28.05.2014 – 31.12.2014
Serik Primbetov	9 out of 9	100	28.05.2014 – 31.12.2014
Moustafa Habib	14 out of 14	100	01.01.2014 – 31.12.2014
Kairgeldy Kabyldin	14 out of 14	100	01.01.2014 – 31.12.2014

4.3. INFORMATION ON ACTIVITIES OF COMMITTEES OF THE BOARD OF DIRECTORS

The Committees being advisory and consultative bodies of the Company's Board of Directors are established for rendering assistance in effective performance of functions of the Board of Directors, considering the most important issues and providing recommendations to the Board of Directors within their competence.

The following three committees are functioning under the Board of Directors:

- Strategic Planning Committee;
- Internal Audit Committee;
- Nomination and Remuneration Committee;

New compositions of the Committees of the Board of Directors were formed based on the resolution of the Board of Directors dated July 31, 2014.

4.3.1. Strategic Planning Committee

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 Board of Directors regarding the development strategy, including determination of the priority directions of activities.

The Committee consists of members of the Board of Directors and experts having necessary professional expertise to serve in the Committee. The quantitative composition of the Committee shall be determined by the Company's Board of Directors. Chairman of the Committee shall be an independent director.

Meetings of the Committee are held as and when necessary but no less than once every six months.

In 2014, the Committee was composed of: Moustafa Habib (Chairman), Kairgeldy Kabyldin, Daniel Mihalik and Serik Primbetov.

In the reporting period the Committee provided recommendations to the Board of Directors regarding approval of the revised Development Strategy of the Company for 2012–2020 and the Company's Business Plan for 2015–2019.

4.3.2. Nomination and Remuneration Committee

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

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

In 2014, the Committee was composed on independent directors only, namely: Daniel Mihalik (Chairman), Serik Primbetov and Moustafa Habib.

Meetings of the Committee are held as and when necessary, but no less than twice a year.

In 2014, the Committee held 7 meetings in presentia and elaborated recommendations for the following issues:

- Assessment of activities of the Company's Board of Directors for 2013;
- Composition of the Board of Directors and formation of the list of candidates to the Board of Directors;
- Determination of the amount and conditions of remuneration and compensation for expenses payable to independent directors of the Company for their performance;
- Remuneration payable to Corporate Secretary and employees of the Internal Audit Service of the Company based on their performance results for 2013;
- Approval of motivational key performance indicators of the Company's executive officers and their targets for 2014;
- Approval of motivational key performance indicators of Head of the Internal Audit Service and Corporate Secretary of the Company and their targets for 2014;
- Determination of quantitative composition of the Management Board of the Company and election of the Management Board member;
- Appointment of the Company's Corporate Secretary, determination of its wage and remuneration conditions.

4.3.3. Internal Audit Committee

The aim of activities of the Internal Audit Committee is to assist the Company's Board of Directors in making decisions on issues related to external and internal audit, financial reporting, internal control and risk management, evaluation of assets, observance of the laws of the Republic of Kazakhstan as well as other issues under the instruction of the Company's Board of Directors.

The majority of members of the Board of Directors included in the composition of the Committee, including Chairman of the Committee, shall be independent directors.

In 2014, Internal Audit Committee was composed of the following members: Serik Primbetov (chairman), Ardak Kassymbek, Daniel Mihalik and Moustafa Habib.

Meetings of the Internal Audit Committee are held as and when necessary but no less than once a quarter.

In the reporting period the Internal Audit Committee conducted 10 meetings in presentia and 1 meeting by virtue of absentee voting.

Meetings of the Committee are held subject to compulsory invitation of an Auditor from Ernst & Young Company for the purpose of joint consideration of audit results. In the reporting period the Committee considered a confidential Auditor's Report presented to the Company management. Besides, the Committee reviewed and approved preliminarily the following issues:

Financial reporting:

- Separate and consolidated financial statements of the Company as of December 31, 2013;
- Interim consolidated financial statements of the Company as of March 31, 2014 and for three months ended on that date;
- Interim separate and consolidated financial statements of the Company as of June 30, 2014 and for six months ended on that date;

- Interim condensed consolidated financial statements of the Company as of September 30, 2014 and for nine months ended on that date.

Internal audit:

- Report on activities of the Internal Audit Service of the Company for 2013;
- Quarterly reports on the performance of the Internal Audit Service of the Company in 2014;
- Appointment of employees of the Internal Audit Service of the Company and determination of the amount and conditions of remuneration and bonus payment;
- Report on the results of the audit of the Company's production, operating and financial processes carried out by the Internal Audit Service of NC KazMunayGas JSC from May 29 till June 21, 2013;
- Audit Report of the Company's Internal Audit Service on the results of the audit of production, operating and financial processes of Batumi Oil Terminal LLC and Batumi Sea Port LLC carried out by the Internal Audit Service of NC KazMunayGas JSC from July 29 till August 30, 2013;
- Audit Report of the Company's Internal Audit Service on the results of the audit of procurement of goods, works and services in the Company and the Action Plan for correction of revealed discrepancies;
- Audit Report on the results of the audit of the Company's oil accounting process carried out by the Internal Audit Service of NC KazMunayGas JSC from October 14 till December 13, 2013 and the Action Plan for correction of revealed discrepancies;
- Audit Report of the Company's Internal Audit Service on the audit of the progress of the Investment Programme in the Company and the Action Plan for correction of revealed discrepancies;
- Audit Report of the Company's Internal Audit Service on the audit of the HR management process in the Company and the Action Plan for correction of revealed discrepancies;
- Audit Report of the Company's Internal Audit Service on the audit of the Company's operating activities and the Action Plan for correction of revealed discrepancies;
- Audit Report of the Company's Internal Audit Service on the audit of the Company's document management process and the Action Plan for correction of revealed discrepancies;
- Methods for development of the Strategic Plan of the Company's Internal Audit Service;
- Annual Audit Plan of the Company's Internal Audit Service for 2015;
- Strategic Plan of the Company's Internal Audit Service for 2015–2017.

Internal control and risk management:

- Policy on the Internal Control System and the Regulations on the Internal Control System;
- Report of the Company's Internal Audit Service on the results of assessment of effectiveness of the internal control system in the Company and the Plan for its improvement;
- Report of the Company's Internal Audit Service on the results of assessment of effectiveness of the corporate risk management system in the Company and the Plan for its improvement.

Evaluation of assets:

- results of evaluation of the Company's fixed assets at fair value held with the aim to prepare separate and consolidated financial statements in accordance with IFRS and the Accounting Policy of the group of companies KazTransOil JSC.

Other issues:

Programme for development of the accounting staff of the Company and its subsidiaries and jointly controlled entities for 2014–2020.

4.4. RELATIONSHIPS WITH SHAREHOLDERS

Improvement of quality of corporate governance and transparency of activity is an essential condition for the growth of investment attractiveness of the Company and guarantees for consideration of minority shareholders' interests.

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

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

The Company implements regularly 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 has increased significantly. In accordance with the listing requirements and the rules for disclosure of information of KazTransOil JSC, the Company provides on timely and regular basis essential information about the Company's activities that affect interests of its shareholders and investors.

4.4.1. Relationships with major shareholder

In October 2012, in connection with the listing on Kazakhstan Stock Exchange, the Company and its major shareholder – the National Company KazMunayGas JSC entered into the Agreement of Relationships.

The Agreement defines the principles of interaction between the Company and its major shareholder and is aimed at provision of independent activity of the Company on arm's length terms to the best interests of all shareholders.

A full version of the Agreement is published on the Company's web-site www.kaztransoil.kz in the "To Shareholders and Investors" section.

4.5. REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS

The procedure for payment of remuneration and reimbursement of expenses of independent directors is established by the Rules for Remuneration and Reimbursement of Expenses of Independent Directors of joint stock companies of NC KazMunayGas JSC.

Independent directors receive the following types of remuneration:
- Fixed remuneration;
- Additional remuneration for participation in meetings in presentia of the Board of Directors.

The Company compensates for expenses incurred by independent directors (travel, accommodation, per diem expenses) in connection with trips to meetings of the Board of Directors and its committees conducted outside the place of residence of independent directors.

Payment of remuneration is made if the following conditions are met:
- Conscientious exercise of duties of a member of the Board of Directors, using methods that ensure the best interests of the Company;
- Adherence to the laws of the Republic of Kazakhstan and the Charter of the Company when making decisions;
- Participation in meetings in presentia, except for illness, vacation, business trips and participation in all meetings in absentia of the Board of Directors of the Company.

The total amount of accrued remuneration of Independent Directors of the Company based on the results of their performance in 2014 was equal to 48,450 thous. tenge including taxes.

Other members of the Board of Directors do not receive any remuneration as members of the Board of Directors for their service in this body.

4.6. INTERNAL AUDIT SERVICE

The Company's Internal Audit Service was established on August 8, 2013 by the resolution of the Company's Board of Directors.

The Internal Audit Service is a body of the Company, directly subordinate and accountable to the Board of Directors of the Company.

Supervision of the Service activities is carried out by the Internal Audit Committee of the Board of Directors of the Company.

The main objective of the Internal Audit Service's activities is to provide independent and objective information to the Board of Directors of the Company with the aim to ensure effective management of the Company through implementing a systematic approach in improving the risk management, internal control and corporate governance processes.

Determination of the quantitative composition, terms of office of the Service, appointment of its director and other employees of the Service are carried out by the Board of Directors of the Company. In 2014, the number of members of the Service was increased by 2 units and amounted to 5 units.

The Service operates in accordance with the Annual Audit Plan approved by the Company's Board of Directors. In the reporting period, in accordance with the Annual Audit Plan for 2014 the Service carried out 5 basic audits of manufacturing, operational and financial processes of the Company and 2 audit engagements for assessment of the internal control system and the corporate risk management system of the Company.

In order to eliminate detected discrepancies audit objects are developing Plans of corrective actions on the revealed discrepancies. The Service on an ongoing basis makes an analysis and monitoring of the execution by the Company of its own recommendations, as well as the recommendations of the external auditor and the Internal Audit Service of NC KazMunayGas JSC.

Following the results of monitoring, as of December 31, 2014, the level of implementation of recommendations provided by the Internal Audit Service in 2014 was more than 80%.

4.7. MANAGEMENT BOARD REPORT FOR 2014

The Company's current activities are managed by a collegial executive body represented by the Management Board.

The main principles of the Management Board's activities are: honesty, fairness, rationality, diligence, regularity as well as maximum observance of the rights and interests of the Company's shareholders and accountability to decisions of the General Meeting of Shareholders and the Board of Directors.

The Management Board fulfils its functions in accordance with the Charter of the Company, the Regulations on the Management Board and other internal documents of the Company.

The Management Board is authorized to make decisions on any issues related to the Company's activities, which are not attributed by the laws of the Republic of Kazakhstan and the Charter to the exclusive competence of other bodies and executive officers of the Company.

4.7.1. Appointment of Chairman and members of the Management Board

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

4.7.2. Competence of the Management Board and General Director (Chairman of the Management Board)

The Management Board of the Company is headed by General Director (Chairman of the Management Board). Powers are distributed between the Management Board and General Director (Chairman of the Management Board) of the Company in accordance with Article12 of the Charter and Chapter 4 of the Regulations on the Management Board.

The key issues attributed to the competence of the Management Board, inter alia, include:

- Approval of the staff schedule of the headquarter and the structure of the Company subject to the regular number of employees and the structure of the headquarter of the Company and regular number of the Corporate Secretary service approved by the Board of Directors, as well as approval of the regular number of employees, staff schedule and structure of branches and representative offices of the Company;
- Coordination and supervision of work of branches, representative offices, of the Company and subsidiaries and jointly controlled entities;
- Making decisions on provision of sponsor (charity) support;
- Implementation of the Strategy and Business Plan of the Company and submission of the annual report on implementing the Company's Development Strategy and Business Plan to the Board of Directors.

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

- Heads the Management Board;
- Convenes meetings of the Management Board and ensures the provision of members of the Management Board with necessary materials relating to the agenda;
- Organises implementation of decisions of the General Meeting of Shareholders, the Board of Directors and the Management Board;
- Consummates non-property transactions and transactions through which the Company acquires or disposes of property, the value of which is less than two percent of the total value of assets;
- Makes a decision to increase the Company's obligations to the amount of up to five percent of the size of its equity capital;
- Makes decisions on issues relating to the Company's current operations, necessary to implement the Company's objectives and not attributed to the exclusive competence of the General Meeting of Shareholders and the Board of Directors, and the competence of the Management Board.

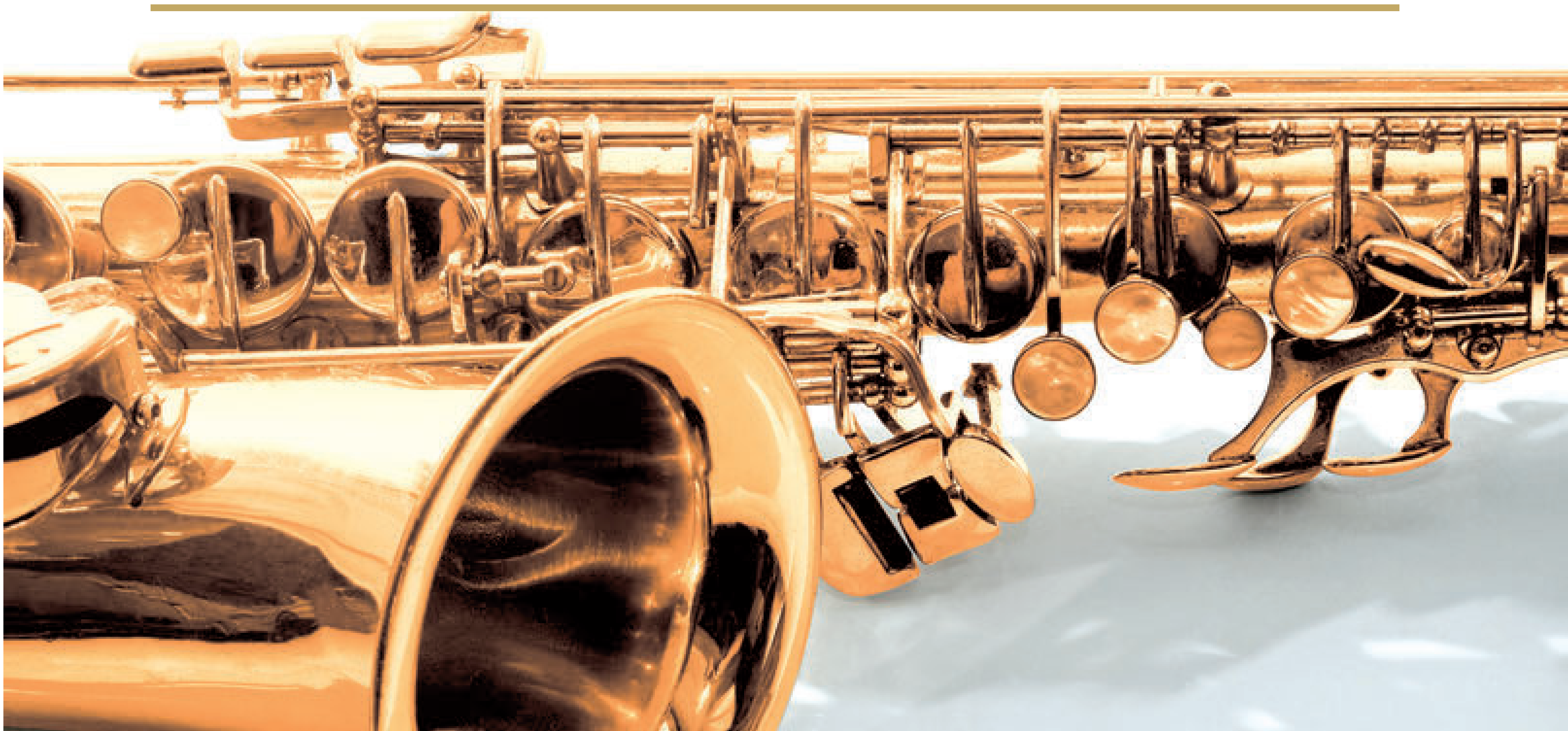
4.7.3. Responsibility of the Management Board

The Management Board is responsible for allocation of financial and human resources required for implementing the goals set by the General Meeting of Shareholders and the Board of Directors. The Management Board reports to the Board of Directors on the progress in attaining the goals of the Company.

4.7.4. Composition of the Management Board

In 2014, the Management Board consisted of eight members in different time periods.

Name	Position
Kairgeldy Kabyldin	General Director (Chairman of the Management Board)
Sissengali Utegaliyev	First Deputy General Director for Production
Assem Nussupova	Deputy General Director for Economy and Finance
Ruslan Mestoyev	Deputy General Director for Business Support
Bolat Otarov	Deputy General Director for Transportation
Bulat Zakirov	Deputy General Director for Development
Almas Ungarsynov	Chief of Staff (since 27.05.2014)
Zhaidarman Issakov	Managing Director for Legal Support



SISSENGALI UTEGALIYEV

First Deputy General Director of KazTransOil JSC for Production

Date of birth: June 9, 1950. In 1972 Sissengaly Utegaliyev graduated from the Exploration Faculty of Tyumen Industrial Institute with "Geology and Exploration of Oil and Gas Deposits" specialisation, admitted 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 Department of Mangyshlakneft PA.
1984 – 1995
Head of the oil field, Chief Engineer – First Deputy of Zhetybaineft OGPO, Mangyshlakneft PA.
1995 – 1997
Head of the Main Department for Production Development in the Ministry of Oil and Gas Industry of the Republic of Kazakhstan.
1997 – 2002
Held various positions: from Chief Specialist of the Technical Policy Department to Director of the Project Management Department of NOGC Kazakhoil CJSC.
2002 – 2004
Director of the Development and Production Department, Director of the Oil and Gas Production Department of NC KazMunayGas JSC.
2004 – 2007
Deputy General Director for Production of Exploration Production KazMunaiGas JSC.
2007 – 2009
Managing Director of NC KazMunayGas JSC.
2009 – 2012
General Manager of Production Projects of NC KazMunayGas 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: **May 23, 2012.**
Citizen of the Republic of Kazakhstan.
Holding of the Company's shares: 4,650 shares or 0.0012% of the total number of outstanding shares.
No shares of the Company's SJCE.
No shares of the Company's suppliers and competitors.

ASSEM NUSSUPOVA

Deputy General Director of KazTransOil JSC for Economy and Finance

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

EMPLOYMENT HISTORY:

1998 – 2008
Served as a teacher of the Management Department at Kazakh State National University named after Al Farabi, an expert analyst in the NPV consulting firm, Chief Expert in the Security Council of the Republic of Kazakhstan, 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, Head of the Consolidated Analytical Department of the Prime Minister's Office of the Republic of Kazakhstan, Vice-Minister of Health of the Republic of Kazakhstan.
From December 2008
Deputy General Director of KazTransOil JSC for Economy and Finance.
From December 12, 2009 - member of the Management Board of KazTransOil JSC.
Date of current election: **September 20, 2013.**
Citizen of the Republic of Kazakhstan.
No membership in management bodies of other organisation.
No shares of the Company or its SJCE.
No shares of the Company's suppliers and competitors.

RUSLAN MESTOYEV

Deputy General Director of KazTransOil JSC for Business Support

Date of birth: August 21, 1973. In 2002 R. Mestoyev graduated from Almaty State University named after Abay with "Information Technology and Manager on Computer Application" specialisation.

EMPLOYMENT HISTORY:

1990 – 2011

R. Mestoyev started his career as a computer operator in Kazakhintorg State Foreign Trade Company under the Ministry of Foreign Economic Relations of the Republic of Kazakhstan.

He held senior positions in Glencore International AG, Vneshinvest corporation, Ular Public Pension Fund CJSC, served as an adviser to the Akim of Atyrau oblast, headed the Atyrau regional branch of Halyk Bank OJSC, headed the division of the transport service market and development of auto and electric transport of the Ministry of Transport and Communications of the Republic of Kazakhstan.

He served also as an adviser to General Director in Oil and Gas Transport JSC, Director of the Contracts Department, headed the Moscow representative office of KazTransOil JSC, Managing Director of Public Procurement in NC Kazakhstan Temir Zholy JSC.

He worked also in the North Caspian Operating Company and Shell Development Kashagan (the Netherlands).

2011 – 2012

Managing Director of KazTransOil JSC for Business Support, Chief of Staff of KazTransOil JSC, Deputy General Director of KazTransOil JSC for Transportation.

From September 20, 2012

Deputy General Director of KazTransOil JSC for Business Support

From December 9, 2011 - member of the Management Board of KazTransOil JSC.

Date of current election: **May 23, 2012.**

Citizen of the Republic of Kazakhstan.

No membership in management bodies of other organisation.

No shares of the Company or its subsidiaries and jointly controlled entities.

No shares of the Company's suppliers and competitors.

BOLAT OTAROV

Deputy General Director of KazTransOil JSC for Transportation

Date of birth: February 23, 1966. In 1988 he graduated from Kazakh Polytechnic Institute named after V.I. Lenin with "Technology of Machine-Building, Metal-Cutting Machines and Tools" specialisation; admitted qualification – Mechanic Engineer

EMPLOYMENT HISTORY:

1988 – 1998

Worked in the experimental oil-and-gas production department of Karazhanbastermneft, Komsomolskneft oil-and-gas production department, KalamkasMunaiGas oil-and-gas production department and Yuzhnefteprovod PA.

1998 – 1999

Deputy Director for Transportation, Head of the Commodity-Transportation Department of the Western Branch of KazTransOil JSC.

1999 – 2003

Director of the Transportation Department of KazTransOil JSC.

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 February 20, 2008 - member of the Management Board of KazTransOil JSC.

Date of current election: **May 23, 2012.**

Citizen of the Republic of Kazakhstan.

Former member of the Board of Directors of Batumi Terminals Limited

Holding of the Company's shares: 135 shares or 0.000035% of the total number of outstanding shares.

No shares of the Company's subsidiaries and jointly controlled entities.

No shares of the Company's suppliers and competitors.

BULAT ZAKIROV

Deputy General Director of KazTransOil JSC for Development

Date of birth: July 16, 1976. In 1997 he graduated from the Kazakh State Academy of Management with "International Economic Relations" specialisation, admitted qualification – International Economist. He 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" specialisation.

EMPLOYMENT HISTORY:

1999 – 2001
Specialist of the Strategic Planning Department in KazTransOil JSC, chief specialist, project coordinator, manager of the Project Management Department of KazTransOil JSC.

2001 – 2006
Chief Manager, Deputy Director, Director of the Transport Logistics Department of KazTransOil JSC.
Director of the Perspective Development Department of KazTransOil JSC.

2006 – 2009
Deputy General Director of KazTransOil JSC for Development.

2009 – 2010
Deputy General Director of KMG-Transcaspian LLP.

2010 – 2011
General Director of KMG-Transcaspian LLP.

January – April 2012
Adviser to General Director of KazTransOil JSC, then Managing Director of KazTransOil JSC.

From May 2012
Deputy General Director of KazTransOil JSC for Development.

From March 16, 2012 - member of the Management Board of KazTransOil JSC.

Date of current election: **May 23, 2012.**

Member of the Board of Directors of CPC-R CJSC and Batumi Terminals Limited.

Citizen of the Republic of Kazakhstan.

Holding of the Company's shares: 1,520 shares or 0.0004% of the total number of outstanding shares.

No shares of the Company's SJCE.

No shares of the Company's suppliers and competitors.

ALMAS UNGARSYNOV

Chief of Staff of KazTransOil JSC

Date of birth: October 10, 1976. In 1998 he graduated from the Kazakh State Academy of Management with "Finance and Credit" specialisation, admitted qualification - "Economist". In 2005 he graduated from Aktau State University named after Sh. Yessenov with "Oil and Gas Field Development" specialisation, admitted qualification - "Mining Engineer"

EMPLOYMENT HISTORY:

1998 – 1999
Worked in the Tax Committee of Auezov district of Almaty, Almaty Head Office of the Tax Police Committee.
Positions held: tax inspector, Tax Police lieutenant.

2000 – 2002
Held the following positions in the NOGC Kazakhoil JSC: Chief Analyst of the Tengiz Project Department, Head of sector of the Service Project Department, Manager of the Service Project Department.

2002 Vice-President of UzenMunayGas OJSC.

2002 – 2004
Worked in the Agency on Regulation of Natural Monopolies and Protection of Competition of the Republic of Kazakhstan in the position of Director of the Department of Regulation of Natural Monopolies and Protection of Competition of Mangistau oblast.

2004
Chief of Staff, Advisor to General Director of Exploration Production KazMunaiGas JSC.

2009 – 2011
Advisor to General Director, Commercial Director, Deputy General Director of GosNPCZem Republican State Enterprise.

From July 9, 2012 Chief of Staff of KazTransOil JSC.

From May 27, 2014 - member of the Management Board of KazTransOil JSC.

Citizen of the Republic of Kazakhstan.

No membership in management bodies of other organisation.

No shares of the Company or its SJCE.

No shares of the Company's suppliers and competitors.

ZHAIDARMAN ISSAKOV

Managing Director for Legal Support of KazTransOil JSC

Date of birth: October 29, 1965. In 1989 he graduated from Kazakh State University named after S.M. Kirov with "Law" specialisation, admitted qualification – Lawyer. In 2003 he completed training in the Academy of National Economy under the Government of the Russian Federation, specialisation - "Lawyer in Oil and Gas Sector".

EMPLOYMENT HISTORY:

1989 – 2000
Zhaidarman Issakov started his career as a legal adviser at the trade and procurement base No. 456 of the Department of Commerce of the Ministry of Defence of USSR, and then worked in law firms, Bogas Corporation – Head of the Law Department; Moscow Branch of the Kazakh joint-stock bank Turanbank – leading adviser, chief specialist - legal adviser; he held various positions from chief specialist to Deputy Director of the Law Department in the Ministry of Finance of the Republic of Kazakhstan

2000 – 2001
Deputy Director of the Law Department of KazTransGas CJSC.

2001 – 2002
Chief legal adviser of the Legal Department in NC Oil and Gas Transport JSC.

2002
Chief lawyer of the Legal Support Department of NC KazMunayGas JSC.

2002 – 2014
Director of the Law Department of KazTransOil JSC.

From May 4, 2014
Managing Director for Legal Support of KazTransOil JSC.

From May 12, 2003 - member of the Management Board of KazTransOil JSC.

Date of current election: **May 23, 2012.**
Citizen of the Republic of Kazakhstan.
No membership in management bodies of other organisation.
No shares of the Company or its SJCE.
No shares of the Company's suppliers and competitors.

4.7.5. Information on meetings of the Management Board in 2014

During 2014 the Management Board held 33 meetings in presentia, at which resolution were made on 202 issues.

Attendance at meetings of the Management Board in 2014

Member of the Management Board	Attendance at meetings	%	Period of membership in the Management Board in the reporting period
Kairgeldy Kabyldin	32 out of 33	97	01.01.2014 – 31.12.2014
Sissengali Utegaliyev	22 out of 33	67	01.01.2014 – 31.12.2014
Assem Nussupova	29 out of 33	88	01.01.2014 – 31.12.2014
Ruslan Mestoyev	25 out of 33	76	01.01.2014 – 31.12.2014
Bolat Otarov	21 out of 33	64	01.01.2014 – 31.12.2014
Bulat Zakirov	27 out of 33	82	01.01.2014 – 31.12.2014
Almas Ungarsynov	16 out of 21	76	27.05.2014 – 31.12.2014
Zhaidarman Issakov	29 out of 33	88	01.01.2014 – 31.12.2014

During the year the Management Board adopted, among other things, the following decisions:

- Conclusion of contracts as a result of which the Company alienated and/or purchased property with the cost of more than 2% but less than 25% of the total value of the Company's assets;
- Conclusion of contracts, in which the Company has an interest with organisations included in the group of Samruk-Kazyna JSC;
- The provision of the Company sponsorship;
- On the issues related to the activities of subsidiaries and jointly controlled entities.

In 2014, the Management Board approved the following internal documents of the Company:

- Rules for rendering of social support to unemployed pensioners and disabled persons in KazTransOil JSC;
- Rules for crisis communications management in KazTransOil JSC;
- Rules for information security risk management in KazTransOil JSC;
- Guidelines for application of the accounting policy of the group of companies of KazTransOil JSC;
- Rules for holding of "Zhasa, Kazak Tili" competition in KazTransOil JSC;

- Rules for arrangement and making of payments in KazTransOil JSC;
- Rules for risk management in the field of occupational safety and health in KazTransOil JSC;
- Rules for acceptance and registration of incoming goods in KazTransOil JSC;
- Rules for arrangement of operating control over oil transportation and water supply processes (dispatching control) in KazTransOil JSC;
- Rules for work with reports on asset evaluation and asset impairment test in KazTransOil JSC;
- Rules for modification of information processing systems, industrial-engineering communication systems, set of hardware/ software means of the automated process control system and industrial systems of KazTransOil JSC;
- Regulations on the Information Security Management System of KazTransOil JSC;
- Regulations on interaction between the structural divisions and the Corporate Secretary of KazTransOil JSC during the preparation of financial statements and external auditing of financial statements;
- Rules for preparation of the consolidated financial statements of KazTransOil JSC;
- Methods for determination of the level of satisfaction of the headquarter personnel of KazTransOil JSC with respect to administrative and maintenance issues;
- Business Process Classifier of KazTransOil JSC and Matrix of Risks and Controls of KazTransOil JSC for certain business processes.

4.7.6. Risk Management Committee Report

The Management Board has established the Risk Committee for the purpose of preliminary consideration of risk management issues and preparation of relevant recommendations for the Management Board of KazTransOil JSC. The Risk Committee is an advisory and consultative body, which carries out its activities in accordance with the Regulations on the Risk Committee of KazTransOil JSC and other internal documents of the Company related to risk management and internal control.

During 2014 the Risk Committee held 6 meetings, including 4 meetings in presentia and 2 meetings in absentia, meetings were dedicated to consideration of issues aimed at further implementation and improvement of the corporate risk management system (hereinafter – "CRMS") and the internal control system (hereinafter – "ICS") of the Company within the scope of the following components:

- Improvement of methodological procedures;
- Risk management and internal control;
- Monitoring.

Within the component "Improvement of methodological procedures" the Risk Committee considered:

- The report on improvement of the internal control system;
- Risk matrix and controls of the internal control system.

Within the component "Risk management and internal control" the Risk Committee considered:

- The risk register and risk map of KazTransOil JSC;
- the key risk tolerance level;
- Key risk indicators;
- The Company's risk impact assessment scale (financial and non-financial indicators and risk impact indicators);
- Risk Classifier of the Company.

Within the component "Monitoring" the Risk Committee considered:

- The report on dynamics of the Company's risks;
- The report on implementing the Action Plan for the Company's key risk management;
- The Company's risk map;
- The report on the current state of key risk indicators;
- The report on observance of the key risk tolerance levels.

4.8. CORPORATE ETHICS

The fundamental corporate values, which are a basis of the Company's activities, include: honesty, 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 when exercising its activity:

- Complies with the provisions of the laws of the Republic of Kazakhstan, regulations of state bodies and decisions of General Meeting of Shareholders, and other documents relating to the Company's activities;
- Ensures the observance of and respect for human rights;
- Acts fairly and in good faith, does not admit bribes and similar wrong business practices as well as the practice of giving and receiving gifts, except for those permitted by business practice;
- Treats executive officers and employees fairly, respectfully and in line with ethical norms;
- Shrives for ensuring mutually beneficial relations with stakeholders;
- Shows respect and takes good care of the environment.

The Company takes all possible measures to prevent and suppress violations. All the activities taken by the Company in this area are regulated by a number of documents, the main of which is the Risk Management Policy on occurrence of violations in KazTransOil JSC.

The aforementioned Policy defines a concept and types of violations regulated by the Policy, establishes the powers and responsibilities of participants of the risk management process in emergence of violations in order to ensure appropriate procedures for prevention, identification and investigation of violations of KazTransOil JSC, including anti-corruption procedures. When carrying out their activities, employees of KazTransOil JSC adhere to principles and procedures established by the Policy.

4.9. SETTLEMENT OF CORPORATE CONFLICTS AND CONFLICTS OF INTERESTS

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

In case of existence or occurrence of corporate conflicts, executive officers of the Company shall inform timely the Corporate Secretary thereof.

The procedures for prevention of conflicts of interests as well as the activities of the Company's bodies as part of the settlement of conflicts of interests are governed by the Corporate Governance Code and the Code of Conduct of KazTransOil JSC.

In order to avoid and prevent corporate conflicts and conflicts of interests, executive officers of the Company shall:

- Respect the rights of shareholders in accordance with the legislation of the Republic of Kazakhstan, the Charter, the Corporate Governance Code and other internal documents of the Company;
- Neither disclose nor use for personal interests or interests of third parties any confidential information of the Company;
- Regularly and timely inform the Company about its affiliates and changes in the grounds of affiliation thereof;
- Refrain from any actions and try to avoid situations that may lead to corporate conflicts and conflicts of interests between shareholders and the Company.

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

General Director (Chairman of the Management Board) acting on behalf of the Company shall settle corporate conflicts on all issues, resolution of which is not attributed to the competence of the Board of Directors, and determine independently the procedure for settlement of corporate conflicts.

The Board of Directors is in charge of settlement of corporate conflicts relating to all issues within its competence. The Corporate Secretary shall ensure the highest possible level of awareness of the Board of Directors with regard to the nature of a corporate conflict.

4.10. LIST OF INTERESTED–PARTY TRANSACTIONS CONCLUDED BY KAZTRANSOIL JSC IN 2014

No.	Transaction	Decision of KazTransOil JSC body
KAZAKHOIL-AKTOBE LLP		
1.	– contract for the provision of water supply services to Alibekmola HOPS of Aktobe Oil Pipeline Department of the Western branch of KazTransOil JSC through the water pipeline “Kumzhargan – Munaishy shift camp”	decision of the Board of Directors of KazTransOil JSC dated February 25, 2014 (Minutes No. 2/2014)
2.	– contract for oil supply for the boiler house of Aktobe Oil Pipeline Department of the Western branch of KazTransOil JSC	decision of the Board of Directors of KazTransOil JSC dated April 8, 2014 (Minutes No. 3/2014)
3.	– freight forwarding contract	decision of the Board of Directors of KazTransOil JSC dated December 15, 2014 (Minutes No. 13/2014)
TENGIZCHEVROIL LLP		
4.	– contract for purchase and sale of products (natural gas)	decision of the Board of Directors of KazTransOil JSC dated February 25, 2014 (Minutes No. 2/2014)
5.	– contract for purchase and sale of products (flammable natural gas) at OPS 663 km, T. Kassymov OPS, Inder OPS, Kigach linear operating-dispatching stations of the Western Branch of KazTransOil JSC	decision of the Board of Directors of KazTransOil JSC dated December 15, 2014 (Minutes No. 13/2014)
MANGISTAUMUNAIGAZ JSC		
6.	– contract for natural gas supply and acceptance for the needs of Karazhanbas OPS of Mangistau Pipeline Department of the Western Branch of KazTransOil JSC	decision of the Board of Directors of KazTransOil JSC dated February 25, 2014 (Minutes No. 2/2014)
7.	– contract for water supply for the needs of Kalamkas HOPS and Karazhanbas OPS of Mangistau Pipeline Department of the Western Branch of KazTransOil JSC	decision of the Board of Directors of KazTransOil JSC dated April 8, 2014 (Minutes No. 3/2014)
8.	– contract for supply (consumption) of heat energy in the form of hot water for Kalamkas HOPS of Mangistau Pipeline Department of the Western Branch of KazTransOil JSC	decision of the Board of Directors of KazTransOil JSC dated September 5, 2014 (Minutes No. 9/2014)
9.	– freight forwarding contract	decision of the Board of Directors of KazTransOil JSC dated December 15, 2014 (Minutes No. 13/2014)
10.	– contract for natural gas supply and acceptance for the needs of Karazhanbas OPS of Mangistau Pipeline Department of the Western Branch of KazTransOil JSC	decision of the Board of Directors of KazTransOil JSC dated December 30, 2014 (Minutes No. 14/2014)
11.	– contract for supply (consumption) of heat energy in hot water for Kalamkas HOPS of Mangistau Pipeline Department of the Western Branch of KazTransOil JSC	decision of the Board of Directors of KazTransOil JSC dated December 30, 2014 (Minutes No. 14/2014)
12.	– contract for water supply for the needs of Kalamkas HOPS and Karazhanbas OPS of Mangistau Pipeline Department of the Western Branch of KazTransOil JSC	decision of the Board of Directors of KazTransOil JSC dated December 30, 2014 (Minutes No. 14/2014)
CNPC-AKTOBEMUNAIGAS JSC		
13.	– contract for natural gas supply for the needs of Zhanazhol hostel of Aktobe Pipeline Department of the Western Branch of KazTransOil JSC	decision of the Board of Directors of KazTransOil JSC dated February 25, 2014 (Minutes No. 2/2014)
14.	– freight forwarding contract	decision of the Board of Directors of KazTransOil JSC dated December 15, 2014 (Minutes No. 13/2014)
PETROKAZAKHSTAN OIL PRODUCTS LLP		
15.	– contract for provision of services for water supply and discharge of waste water (acceptance of waste water) at Shymkent transfer and acceptance point of Shymkent Pipeline Department of the Eastern Branch of KazTransOil JSC	decision of the Board of Directors of KazTransOil JSC dated February 25, 2014 (Minutes No. 2/2014)
16.	– contract for provision of services for water supply and discharge of waste water (acceptance of waste water) at Shymkent transfer and acceptance point of Shymkent Pipeline Department of the Eastern Branch of KazTransOil JSC	decision of the Board of Directors of KazTransOil JSC dated December 30, 2014 (Minutes No. 14/2014)

No.	Transaction	Decision of KazTransOil JSC body
KI DISTRIBUTION LLP		
17.	– supply contract	decision of the Board of Directors of KazTransOil JSC dated February 25, 2014 (Minutes No. 2/2014)
18.	– supply contract	decision of the Board of Directors of KazTransOil JSC dated November 7, 2014 (Minutes No. 11/2014)
19.	– supply contract	decision of the Board of Directors of KazTransOil JSC dated December 30, 2014 (Minutes No. 14/2014)
SAMRUK-KAZYNA CORPORATE UNIVERSITY PRIVATE ENTERPRISE		
20.	– contract for procurement of services for organisation and conduct of training programmes	decision of the Board of Directors of KazTransOil JSC dated April 17, 2014 (Minutes No. 4/2014)
21.	– contract for procurement of services for provision of personnel	decision of the Board of Directors of KazTransOil JSC dated June 27, 2014 (Minutes No. 6/2014)
22.	– contract for procurement of additional services for organisation and conduct of training programmes	decision of the Board of Directors of KazTransOil JSC dated November 21, 2014 (Minutes No. 12/2014)
BIOENGINEERING LLP		
23.	– contract for provision of services for elimination of historical contamination (removal of disturbed soil), removal of oil-contaminated soil to the designated site (specially equipped sites) of Bioengineering Limited Liability Partnership for processing and further reclamation of disturbed soil	decision of the Board of Directors of KazTransOil JSC dated May 27, 2014 (Minutes No. 5/2014)
KAZTURBOREMONT SERVICE CENTER LLP		
24.	– contract for installation of strainers and safety valves on the process pipeline of Koschagyl OPS of Kulsary Pipeline Department of the Western Branch of KazTransOil JSC	decision of the Board of Directors of KazTransOil JSC dated May 27, 2014 (Minutes No. 5/2014)
25.	– contract for reconstruction of general-purpose pipelines at Kigach linear operating-dispatching stations of the Western Branch of KazTransOil JSC	decision of the Board of Directors of KazTransOil JSC dated May 27, 2014 (Minutes No. 5/2014)
26.	– contract for reconstruction of the industrial and domestic sewage facilities at Kigach linear operating-dispatching stations of the Western Branch of KazTransOil JSC	decision of the Board of Directors of KazTransOil JSC dated May 27, 2014 (Minutes No. 5/2014)
KAZAKHSTAN-CHINA PIPELINE LLP		
27.	– contract for operation of Atasu – Alashankou main oil pipeline	decision of the Board of Directors of KazTransOil JSC dated July 31, 2014 (Minutes No. 8/2014)
28.	– contract for operation of Kenkiyak – Kumkol main oil pipeline	decision of the Board of Directors of KazTransOil JSC dated July 31, 2014 (Minutes No. 8/2014)
KAZKOMMERTS SECURITIES JSC (SUBSIDIARY OF KAZKOMMERTSBANK JSC)		
29.	– supplementary agreement No. 1 to the contract for provision of market-maker services for securities of KazTransOil JSC No US35/2014 dated January 6, 2014	decision of the Board of Directors of KazTransOil JSC dated September 5, 2014 (Minutes No. 9/2014)
BTA INSURANCE, SUBSIDIARY OF BTA BANK JSC		
30.	– contract for compulsory environmental insurance	decision of the Board of Directors of KazTransOil JSC dated June 27, 2014 (Minutes No. 7/2014)
NWPC MUNAITAS JSC		
31.	– contract for purchase of services for main oil pipeline operation (operation of objects and facilities of Kenkiyak-Atyrau main oil pipeline)	decision of the Management Board of KazTransOil JSC dated February 5, 2014 (Minutes No. 2)
32.	– agreement for termination of the contract for purchase of services for main oil pipeline operation (operation of objects and facilities of Kenkiyak-Atyrau main oil pipeline) No. 44-2014//OS2/2014 dated February 14, 2014	decision of the Management Board of KazTransOil JSC dated August 6, 2014 Minutes No. 17)
33.	– contract for purchase of services for main oil pipeline operation (operation of objects and facilities of Kenkiyak – Atyrau main oil pipeline)	decision of the Management Board of KazTransOil JSC dated August 26, 2014 (Minutes No. 19)
34.	– contract for purchase of services for main oil pipeline operation (operation of objects and facilities of Kenkiyak – Atyrau main oil pipeline)	decision of the Management Board of KazTransOil JSC dated December 30, 2014 (Minutes No. 33)

No.	Transaction	Decision of KazTransOil JSC body
NC KAZMUNAYGAS JSC		
35.	– property trust management contract	decision of the Management Board of KazTransOil JSC dated April 1, 2014 (Minutes No. 7)
OZENMUNAIGAS JSC, EMBAMUNAIGAS JSC, MARITIME OIL COMPANY KAZMUNAYTENIZ JSC, KAZAKHTURKMUNAI LLP AND KMG KASHAGAN B.V. LIMITED LIABILITY PRIVATE COMPANY		
36.	– freight forwarding contracts	decision of the Management Board of KazTransOil JSC dated December 11, 2014 (Minutes No. 31)

4.11. CORPORATE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Company understands the importance of development of the CRMS and ICS as a key element of the corporate governance system aimed at timely identification, assessment, monitoring and reduction of potential risk events that may affect negatively the achievement of strategic and operational goals.

The Company is developing and improving the corporate risk management and internal control systems by applying a set of organisational measures, methods, procedures, corporate culture standards and actions to achieve an optimal balance between the growth of the Company's value, its profitability and risks.

The Company has formed a unified methodological framework for risk management, approved the Company's Risk Classifier and implemented the risk limitation practice, namely: identification of risk limits in the financial and non-financial indicators and key risk tolerance levels, establishment of limits for counterparty banks as well as development of key risk indicators.

For the purpose of further implementation and improvement of the internal control system the Company has developed and approved the following internal documents regulating the internal control system:

- The Policy of the Company's internal control system, which contains a statement of development areas and intentions and the internal control principles, and represents a common vision of the management with regard to the improvement and development of the internal control system.
- The Regulations on the Company's internal control system, which determine the interaction of the ICS entities and allocation of responsibilities for the organisation, functioning and effectiveness of the internal control system.

Besides, in order to build an effective internal control system aimed at early identification and analysis of process risks as well as identification and analysis of the control procedures for management of such risks, the Company has developed and approved the matrices of risks and controls as well as block diagrams for certain business processes, and approved the Company's Business Process Classifier.

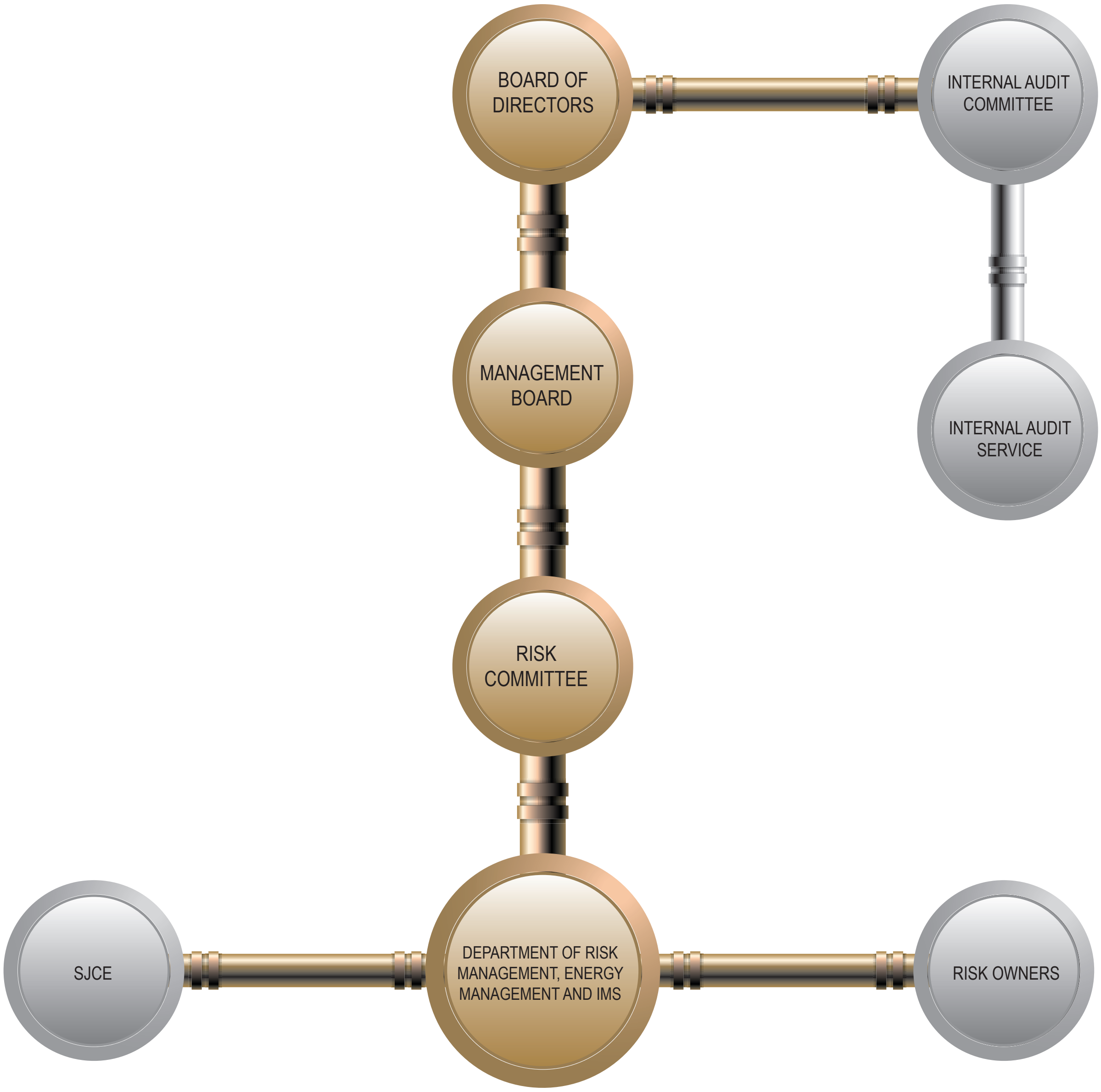
In 2014, the Internal Audit Service of the Company carried out an independent assessment of efficiency of the corporate risk management and internal control systems in the Company. The aggregate estimate of the CRMS efficiency was equal to 75% (high indicator), and the ICS efficiency - 80% (high indicator). The plans for further improvement of the corporate risk management and the internal control systems were elaborated based on the results of the assessment.

The risk culture in the Company is growing due to involvement of all business units of the Company and its subsidiaries and jointly controlled entities in the risk management process as well as by means of regular exchange of information between the Board of Directors, the Management Board and employees of the Company.

With the aim to enhance the risk culture the following measures were taken in 2014:

- A seminar called "Application of risk management techniques in the current management activities for making risk-based decisions and optimization of control procedures" was held in the form of a risk-session for members of the Board of Directors and the Management Board;
- Corporate seminars in the field of risk management were held for employees of the Company and its subsidiaries and jointly controlled entities with the participation of external experts and risk managers of the Company.

Structure of the Corporate Risk Management System



4.11.1. Key risks of the Company and measures of their minimization

Activities of KazTransOil JSC are exposed to various types of risks. The Company's risk classifier provides for the risks in the following areas:

- Operational risks related to the production process (technological process risks, risks related to planning and approval of the Production Programme);
- Non-operational risks associated with non-production business processes (strategic and mid-term planning risks, financial stability risks, personnel-related risks, IT risks, etc.);
- Environmental risks, low-controlled or uncontrolled risks (counterparty risks, market risks, etc.);
- Investment project risks.

Every year the Company updates the Risk Management Programme, which includes a risk register and a risk map, key risk indicators, key risk tolerance levels and the action plan for risk management.

According to the Company's risk register and the risk map for 2014, 67 risks were identified and assessed.

The most relevant risks of the Company are as follows:

Risk description	Risk management measures
Loss or breakdown of equipment	Maintenance and repair; Equipment reconstruction and modernization; Optimization of technological modes of operation of equipment; Timely equipment troubleshooting; Conduct of advanced training for employees.
Man-made accidents	Conduct of fire drills and tactical exercises; Conduct of trainings in fire safety measures; Procurement of services for provision of fire security of production facilities ; Enhancement of knowledge among the operating personnel; Voluntary property damage insurance
Occupational accidents resulted in disability or death	Organisational and technical measures for provision of safe work practices; Internal control in the field of occupational safety and health; Implementation of the plan for organisational-technical, sanitary-hygienic and health promoting measures to improve the working conditions and prevent workplace injuries and occupational diseases; Conduct of training and knowledge assessment in the field of occupational safety and health.
Environmental risks (claims and administrative penalties)	Procurement of permits for emissions in the full requested volume; Observance of environmental emission limits; Observance of the rules for equipment operation; Elaboration of process conditions for operation of equipment and facilities; Environmental insurance.
Decline or termination of oil deliveries	Entry into long-term contracts with oil freight shippers; Attraction of new oil freight shippers.
Reduction in oil transportation tariffs	Correction of cost items of the tariff estimate and the investment programme within the terms prescribed by the laws.

For each risk the Company has elaborated the current preventive activities in order to reduce the risk probability, and the current corrective actions with the aim to mitigate the risk consequences, and has defined time limits and officers responsible for their implementation. In addition, the Company monitors regularly the implementation of risk management measures and submits reports to the Management Board and the Board of Directors of the Company on a quarterly basis.

Due to the effective CRMS and CRS as well as timely risk identification, assessment and control, the Company continues successfully its operations and retains its position as a leading provider of oil transportation services in Kazakhstan.

4.12. INTEGRATED MANAGEMENT SYSTEM

The IMS of the Company is part of the Company's management system and meets the following international standards: ISO 9001, ISO 14001, ISO 50001 and OHSAS 18001.

The main objective of the Company's IMS is maintaining and continuous improvement of the management system aimed at enhancement of service quality, creation of safe working conditions and reduction of injury rates, prevention of occupational diseases, reduction of a negative environment impact, decrease in energy consumption and enhancement of energy efficiency.

With the aim to maintain and improve the Integrated Management System, in the reporting period the Company implemented the following measures:

- Conduct of training for the Company's employees in the field of international standards ISO 9001, ISO 14001, OHSAS 18001 and ISO 50001, as well as training and on-the-job training of internal auditors of the Company;
- Updating of the Quality Policy and HSE Policy;
- Approval of the Company's Energy Policy;
- Performance of the energy audit;
- Performance of internal audits in the Company's divisions in compliance with the international standards ISO 9001, ISO 14001, OHSAS 18001, ISO 50001, the results of which formed a basis for elaboration of corrective and preventive action plans as well as measures to improve the Integrated Management System;
- Conduct of a scheduled questioning among consumers of the Company's services (oil transportation and arrangement of transportation and transit of the Kazakhstan oil through the pipeline systems owned by other states). According to the results of the questioning analysis, 100% of respondents were satisfied with the quality of services provided;
- Implementation of the project for improvement of feedback between the Company and oil transportation service consumers through the developed "Tasymaldau" web-site;

- Integration of SAP HR with the electronic document management system and improvement of the reporting system for control letters/ orders within the scope of improvement of the “Document Control” business process.

5

MANAGEMENT REPORT ON FINANCIAL AND ECONOMIC PERFORMANCE RESULTS

This section contains discussions and analysis that help identify and assess the main trends and significant changes in the performance results 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 the related 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.

Key consolidated financial performance results of KazTransOil JSC for 2014 and 2013 (in mln. tenge)

Indicators	2014 fact	2014 plan	2013 fact	Implementation of the plan in 2014, %	Change in 2014 as compared to 2013, %
Revenue	206,637	199,389	196,367	104	105
Cost of sales	-121,309	-122,775	-110,969	99	109
Gross profit	85,328	76,615	85,398	111	100
General and administrative expenses	-13,593	-13,869	-11,028	98	123
Impairment of property, plant and equipment	-8,119	-5,081	-12,663	160	64
Operating profit	64,427	64,195	62,617	100	103
Share in income of jointly controlled entities	-6,255	-12,526	11,847	50	-53
Income tax expenses	-15,699	-14,418	-13,847	109	113
Net profit for the reporting period	46,431	39,622	63,544	117	73

In 2014, the performance results of KazTransOil JSC were affected both by internal and external factors, which the Company's and its subsidiaries' activities are exposed to (hereinafter together with the Company referred to as the "Group"):

- increase in the oil transportation tariff;

Period of validity	Tariff, in tenge for 1 ton per 1,000 km excluding VAT	
	for export	for domestic market
From January 1,2014	4,850.6	2,931.8
From April 1, 2014	5,817.2	2,931.8

- re-orientation of oil deliveries from export to the domestic market of the Republic of Kazakhstan. From January 1, 2014, the deliveries of the Russian oil to refineries of the Republic of Kazakhstan have been terminated, and the Pavlodar Petrochemical Plant LLP is currently loaded from the resources of domestic producers (oil fields of Aktobe and Kumkol regions) in volumes stipulated by oil transportation plans approved by the Ministry of Energy of the Republic of Kazakhstan.

Pursuant of the Agreement between the Government of the Republic of Kazakhstan and the Government of the Russian Federation for cooperation in the field of the Russian oil transportation to the People's Republic of China through the territory of the Republic of Kazakhstan entered into on December 24, 2013 in Moscow, from January 1, 2014, oil of Rosneft OC OJSC is transported for export to the People's Republic of China in the volume of 7 mln. tons per year by the following route: Priirtyshsk (Republic of Kazakhstan) – Atasu (Republic of Kazakhstan) – Alashankou (People's Republic of China).

During transportation of the Russian oil to the People's Republic of China and the Kazakhstan oil to the Pavlodar Petrochemical Plant LLP, oil is substituted with the Russian oil at the Atasu-Pavlodar Petrochemical Plant section of the main oil pipeline (delivery to the Pavlodar Petrochemical Plant LLP), and with the Kazakhstan oil at the Pavlodar Petrochemical Plant – Atasu section of the main oil pipeline (delivery to the People's Republic of China) according to the oil transportation plans approved by the Ministry of Energy of the Republic of Kazakhstan:

- impairment of BTL assets. The Group recognised impairment of assets of BTL Group as a result of a decline in the planned volumes of oil and oil products transshipment;
- Tenge devaluation. At the beginning of February 2014, the National Bank of Republic of Kazakhstan devaluated Tenge, which affected the financial result of KCP and, as a consequence, the total financial result of the Group.

Total revenue of the Group for the reporting period amounted to 213,672 mln. tenge, which is by 6% higher as compared to total revenue for 2013 (202,260 mln. tenge).

In 2014, a share of revenue from main activities in the total revenue of the Group was equal to 96.7%, or 206,637 mln. tenge.

Revenue structure (in %)

	2014	2013
Revenue	96.7	97.1
Finance income	2.1	2.1
Other operating income	1.2	0.8

Revenue structure (in mln. tenge)

	2014	2013
Revenue	206,637	196,367
Crude oil transportation	164,394	153,861
Oil and oil products transshipment and transportation by railroad	15,516	17,810
Pipeline operation and maintenance services	8,231	6,817
Fees for short-delivered oil volumes	6,715	6,345
Water transportation	6,860	6,573
Oil freight forwarding and sea port services	3,788	3,995
Other	1,133	965

Revenue of the Group for 2014 exceeded the same indicator of 2013 by 5%.

This growth dynamics was caused by increase in revenue from oil transportation (2014: 164,394 mln. tenge, 2013: 153,861 mln. tenge), which, mainly, was caused by the increased tariff for oil transportation as well as by revenue from oil transit and substitution.

Increase was influenced also by increase in revenue from the following activities:

- Increase in water supply volume to oil and gas companies due to its consumption growth for the production needs as well as increase in water intake by utility enterprises (2014: 24,815 thous. cub. m, 2013: 23,390 thous. cub. m);
- Inclusion of revenue from penalties for understated and/or short-delivered mandatory minimum volumes of oil (2014: 6,715 mln. tenge, 2013: 6,345 mln. tenge), which were received by the Group in accordance with the contract for oil transportation services subject to provision of annual mandatory minimum volumes;
- Increase in revenue from services for operation of main oil pipelines owned by third parties, which was caused mainly by the increased cost of services rendered by the Group, due to salary indexation by the inflation factor as well as increase in personnel following the commissioning of OPS 8 and OPS 10. Besides, additional indexation of production personnel's salary by 10% was carried out pursuant to the Decree of the President of the Republic of Kazakhstan.

In 2014, alongside with increase, there was decrease in revenue from oil and oil products transshipment at BTL by 13% or 2,294 mln. tenge as compared to 2013, which, in turn, was influenced by a decline in volumes of oil transshipment (2014: 1,674 thous. tons, 2013: 3,374 thous. tons).

Finance income for 2014 amounted to 4,517 mln. tenge, which is higher by 8% as compared to the 2013. The growth was caused by increase in interest income on bank deposits by 11% as compared to the indicator of 2013.

In addition, during a period of ownership of equity shares in the Accumulating Pension Fund of Halyk Bank of Kazakhstan JSC, in 2014 the dividend income amounted to 80 mln. tenge (2013: 194 mln. tenge).

In accordance with the Action Plan for restructuring the non-core assets and facilities of the group of companies of NC KazMunayGas JSC, on August 20, 2014, the Company completed a transaction in a prescribed manner for disposal of 0.88037% of ordinary stock in the Accumulating Pension Fund of Halyk Bank of Kazakhstan JSC, as a result of which the Company withdrew from shareholders of the Accumulating Pension Fund of Halyk Bank of Kazakhstan JSC.

Total expenses of the Group for 2014 amounted to 145,287 mln. tenge and increased by 6% as compared to the same indicator of 2013 (136,716 mln. tenge).

Expenses (in mln. tenge)

	2014	2013
Expenses, total	**145,287**	**136,716**
Cost of sales	121,309	110,969
General and administrative expenses	13,593	11,028
Impairment of property, plant and equipment	8,119	12,663
Finance costs	1,616	1,374
Other Expenses	650	682

Cost structure (in %)

	2014	2013
Cost of sales	83.5	81.2
General and administrative expenses	9.4	8.1
Impairment of property, plant and equipment	5.6	9.3
Finance costs	1.1	1.0
Other Expenses	0.4	0.5

The main share of the Group's total expenses is attributed to the cost of sales. In 2014, a share of the cost of sales was equal to 83,5%, while in 2013 it was equal to 81,2%). Thus, the cost of sales in 2014 amounted to 121,309 mln. tenge or 9% higher than the indicator of 2013 (110,969 mln. tenge).

Cost of sales structure (in %)

	2014	2013
Personnel costs	33.1	32.4
Depreciation and amortization	27.1	26.5
Railway services	7.8	9.3
Fuel and materials	5.6	5.5
Electricity	5.2	5.5
Repair and maintenance costs of fixed assets	4.5	4.2
Taxes other than corporate income tax	4.1	4.4
Gas expense	2.0	2.0
Security services	3.7	3.1
Aerial surveillance services	1.2	1.2
Other	5.7	5.9

The growth of the cost of sales in 2014 as compared to 2013 was influenced mainly by the following factors:

- Increase in depreciation and amortization expenses and property tax expenses as a result of increase in the book value of fixed assets due to revaluation held in the second half of 2013;
- Increase in production labour expenses as a result of salary indexation by the inflation factor, as well as due to additional production personnel's salary indexation by 10% performed pursuant to the Decree of the President of the Republic of Kazakhstan with the aim to reduce the effect of tenge devaluation;
- Increase in electricity expenses due to the increased tariff for electricity in a number of regions;
- Expenses for security of production facilities due to the service cost indexation performed with the aim to reduce the effect of Tenge devaluation, as well as in connection with conclusion of accident rescue services contract.

Expenses for railway services in Georgia reduced by 9% as a result of decline in oil transshipment volumes (2014: 1,674 thous. tons, 2013: 3,374 thous. tons).

General and administrative expenses of the Group in 2014 amounted to 13,593 mln. tenge, which was 23% higher as compared to 2013.

A share of general and administrative expenses in total expenses for 2014 was equal to 9%.

Structure of general and administrative expenses (in %)

	2014	2013
Personnel costs	50.6	59.2
Charity expenses	14.9	1.5
Depreciation and amortization	6.0	6.9
Consulting services	4.5	3.7
Repair and technical maintenance	1.1	2.0
VAT recoverable write-off expenses	2.5	1.8
Office maintenance	2.9	3.2
Taxes other than corporate income tax and VAT	1.8	2.1
Business trip expenses	2.1	2.1
Training	1.0	1.0
Other	12.7	16.4

Increase in general and administrative expenses in 2014 as compared to the same indicator of 2013 was affected by a considerable increase in charity expenses (in 2014: 2,021 mln. tenge; in 2013 - 166 mln. tenge). In 2014, the Group allocated funds for the construction of a secondary school for 300 pupils in Atyrau oblast, a kindergarten for 280 children in South-Kazakhstan oblast and a kindergarten for 320 children in Pavlodar oblast.

Finance costs of the Group amounted to 1,616 mln. tenge, and increased by 18% or 241 mln. tenge as compared to the same indicator of 2013 (1,374 mln. tenge). The growth was caused by increase in the following types of expenses:

- unwinding of discount on asset retirement and land recultivation obligation, which was influenced mainly by changes in evaluation of the cost of pipeline dismantling per 1 km (2014: 3,581 thous. tenge, 2013: 2,891 thous. tenge).
- long-term pension allowance payable to employees upon completion of labour activity, which was caused by indexation of long-term liabilities by the inflation factor.

In 2014, the Group's *operating profit* was equal to 64,427 mln. tenge, which is higher by 3% as compared to 2013.

Impairment of BTL assets

Based on the analysis, the Group identified indicators of impairment of BTL assets caused by a decline in the planned volumes of oil and oil products transshipment. As of December 31, 2014, the Group recognised impairment of assets in the amount of 12,934 mln. tenge, including: 8,087 mln. tenge recognised in profit and loss (including 302 mln. tenge recognised in general administrative expenses), and 4,847 mln. tenge recognised in other comprehensive income.

Impairment of assets of the Company

The Group evaluated the cost of oil and recognised the loss from process oil devaluation in the amount of 19,737 mln. tenge (including 151.4 mln. tenge recognised in profit and loss; the remaining portion – recognised in other comprehensive income).

Share in income from jointly controlled entities

In 2014, the Group's share in loss from jointly controlled entities amounted to 6,255 mln. tenge, while in 2013 the Group's income from equity participation in jointly controlled entities was equal to 11,847 mln. tenge. The reduction in the indicator was affected mainly by the KCP indicators, the total financial result of which was represented in the form of loss and the Group's share in the losses of KCP amounted to 6,991 mln. tenge. The reasons for the loss are as follows:

- Decrease in revenue of KCP, which, in turn, is associated with the decline in volumes of oil transportation by Kazakhstan producers;
- Effect of Tenge devaluation (in February 2014), which impacted financial liabilities of KCP denominated in foreign currency.

(in mln. tenge)

	For the years ended as of December 31	
	2014	**2013**
KCP	-6,991	10,649
MunaiTas	736	1,198
Share of the Group from equity participation in jointly controlled entities	-6,255	11,847

Corporate income tax expenses of the Group

	For the years ended as of December 31	
	2014	**2013**
Current income tax expenses, mln. tenge	13,410	18,870
Expenses/(Saving) on deferred income tax, mln. tenge	2,289	- 5,023
Income tax, mln. tenge	15,699	13,847

In 2014, the corporate income tax expenses amounted to 15,699 mln. tenge and increased by 13% as compared to 2013, which can be explained by a considerable amount of fixed assets put into operation in 2014, which affected increase in temporary differences between the accounting and taxable bases of fixed assets due to different methods of applying the rates of depreciation and tax preferences.

Performance indicators

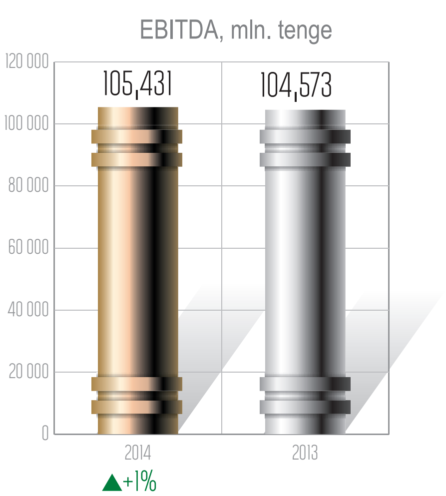
Indicators not provided for by IFRS	For the years ended as of December 31	
	2014	**2013**
EBITDA, mln. tenge	105,431	104,573
EBITDA margin, %	51.0	53.3
Gross profit margin, %	41.3	43.5
Net profit margin, %	22.5	32.4
Cash and cash equivalents, mln. tenge	42,175	25,645

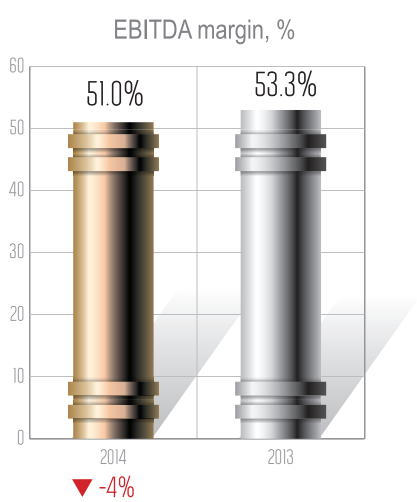
(1) EBITDA means Gross profit minus general administrative expenses plus Depreciation and Amortization.

(2) EBITDA margin means EBITDA divided by revenue.

(3) Gross profit margin means gross profit divided by revenue.

(4) Net profit margin means profit for the reporting period divided by revenue.





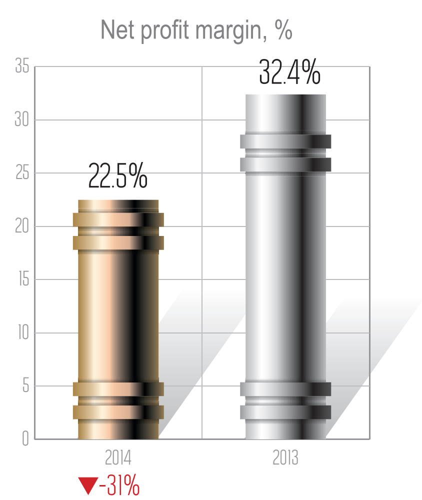


Table below provides the data on EBITDA* components based on the data on profit for the reporting period:

(in mln. tenge)

	For the years ended as of December 31	
	2014	**2013**
Profit for the reporting year	**46,431**	**63,544**
plus income tax expenses	15,699	13,847
Profit before tax	**62,130**	**77,391**
plus foreign exchange loss	-1,056	-104
plus finance costs	1,616	1,374
less finance income	-4,517	-4,197
less share of income / (loss) of jointly controlled entities	6,255	-11,847
Operating profit	**64,427**	**62,617**
plus depreciation and amortization	33,696	30,203
plus other operating expenses	650	682
less other operating income	-1,461	-1,592
plus Impairment of property, plant and equipment and intangible assets	8,119	12,663
*EBITDA**	**105,431**	**104,573**

**- in accordance with the Rules for Development, Coordination, Approval, Adjustment, Execution and Monitoring of the Plans for Development of Subsidiaries of Samruk-Kazyna JSC.*

Liquidity and financial stability indicators

The main source of the Group's liquidity and financial stability is cash received from main operating activities.

Key liquidity indicators

A liquidity indicator characterizes the Group's ability to fulfil its short-term liabilities based on its current assets. The total (current) liquidity ratio characterizes how the current liabilities of the Group are covered by its current activities.

According to Table below, on an average, 1 tenge of current liabilities is covered by 1.98 tenge of current assets.

		Standard criteria	2014	2013
Current liquidity ratio	Current assets / Current liabilities	1.5 – 2.5	1.98	2.49
Quick (acid-test) ratio	(Current assets - Inventory) / Current liabilities	1.5 – 2.5	1.92	2.44

Quick (acid-test) ratio means part of current liabilities, which can be repaid not only by the available cash assets of the Group, but also by cash inflows from the rendered services (cash and cash equivalents and short-term receivables). Thus, the quick (acid-test) ratio for the reporting period shows that 1 tenge of current liabilities is covered by 1.92 tenge of easily marketable assets.

The reduction in the liquidity indicator in 2014 as compared to the indicator of 2013 is mainly caused by the implementation of the capital investment plan for reconstruction, modernization and partial replacement of pipeline assets, and construction works.

Cash and cash equivalents

As of December 31, 2014, cash and cash equivalents of the Group amounted to 42,175 mln. tenge. Interest at the rate of 0.3% - 17% per annum was accrued on the most current accounts and term deposits with a maturity period of up to 3 months placed with Kazakhstan banks (as of December 31, 2013: the interest rate was equal to 1.7% - 10.25% per annum).

Cash turnover

(in mln. tenge)

	For the year ended on December 31		Change, %
	2014	2013	
Net cash flow from operating activities	93,908	95,902	-2.1
Net cash flow used in investing activities	-35,343	-60,320	-41.4
Net cash flow used in financing activities	-41,925	-28,848	45.3
The effects of changes in exchange rates	-111	-42	164.3
Net change in cash and cash equivalents	16,529	6,691	147.0
Cash and cash equivalents at the beginning of the year	25,645	18,954	35.3
Cash and cash equivalents at the end of the year	42,175	25,645	64.5

Net cash flows from operating activities of the Group in 2014 amounted to 93,908 mln. tenge, and decreased by 2% as compared to the similar indicator of 2013, which was equal to 95,901 mln. tenge.

Net cash flow used in investing activities of the Group in 2014 amounted to 35,343 mln. tenge and reduced by 41.1% as compared to the indicator of 2013, which was equal to 60,320 mln. tenge. The reason for such reduction is that in 2014 bank deposits were withdrawn (2014: 128,562 mln. tenge, 2013: 56,048 mln. tenge), which mainly were used for acquisition of fixed assets (2014: 82,725 mln. tenge, 2013: 32,802 mln. tenge). The mentioned amount was utilized for the implementation of the capital investment plan.

Net cash flow used in financing activities of the Group in 2014 amounted to 41,925 mln. tenge, which was 45.3% higher than the indicator of 2013, which was equal to 28,848 mln. tenge. Such changes are associated with payment of dividends for 2013 in 2014 (by the resolution of the General Meeting of Shareholders of the Group (dated May 28, 2014) dividends were paid to shareholders in the amount of 41,925 mln. tenge at the rate of 109 tenge per 1 share (2013: 28,848 mln. tenge at the rate of 75 tenge per 1 share), including NC KazMunayGas JSC –37,733 mln. tenge (2013: 25,963 mln. tenge), minority shareholders –4,192 mln. tenge (2013: 2,885 mln. tenge)).

ANNEXES

6

6.1. ABOUT THE REPORT

KazTransOil JSC discloses the results of its activity in key areas of its strategic development, as well as holder of natural monopoly.

The report reflects the performance indicators of KazTransOil JSC as well as its subsidiaries, jointly controlled entities and other organisations for the period from January 1 to December 31, 2014. In addition, this report reflects important aspects of the Company's corporate governance and risk management, quality management systems and sustainable development.

Since 2007, the Company has been publishing annual reports, which are publicly available on the Company's web-site.

The annual report for 2014 will also be available on the corporate web-site in the "Information Disclosure - Annual Reports" section: http://kaztransoil.kz/en/to_shareholders_and_investors/information_disclosure/

The annual report was prepared in compliance with the International Integrated Reporting Standards and the Sustainable Development Reporting Guidance of the Global Reporting Initiative GRI G3.1 (hereinafter - GRI) for "C" Level.

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

A list of performance indicators and a degree of their disclosure are presented in Table of standard GRI elements included in the Report.

The "Management Report on Financial and Economic Performance Results" Section was prepared in accordance with the recommendations of the IFRS Practice Statement "Management Commentary".

Indicators of the financial statements are denominated in tenge in accordance with the audited consolidated annual financial statements of KazTransOil JSC in compliance with IFRS.

6.2. CONTACT INFORMATION

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INDEPENDENT AUDITOR'S REPORT

For management and stakeholders of "KazTransOil" JSC

We were engaged by "KazTransOil" JSC (the 'Company') to conduct a review.

The subject of our engagement was qualitative and quantitative information included in the "Annual Report of "KazTransOil" JSC for the year of 2014" (hereinafter - the 'Report'). The objective of our engagement was to obtain limited assurance of that:

- The summary performance results and the sustainable development data included in the Report in all material respects fairly and sufficiently reflect the sustainability policy, events and performance results of the Company for the year of 2014;
- The reporting processes related to collection of the information and data on key indicators in the field of economic, environmental, labour and industry performance are in place and in line with applicable principles of the Global Reporting Initiative (hereinafter – "GRI system"), including Guidelines 3.1 for reporting on sustainable development (hereinafter – "G 3.1 Guidelines");
- The Report complies with the Application Level C + and G 3.1 Guidelines principles. As defined in the "International Framework for Assurance Engagements" issued by the International Federation of Accountants (hereinafter – "IFAC"), the scope of procedures to obtain limited assurance is substantially less than for reasonable assurance engagements, which does not allow us to obtain the proper degree of confidence in that we are aware of all material facts that might have been identified otherwise during the reasonable assurance engagement.

Management's Responsibility

The Company's management is responsible for establishing sustainability policies and procedures, and for preparation of the Report and the information contained therein. This responsibility includes designing, implementing and maintaining a system of internal controls sufficient for preparation of a sustainability report without material misstatements due to fraud or error. The management is also responsible for selecting and applying appropriate reporting principles and use of appropriate methods for measurement and evaluation.

Our responsibility

Our responsibility is to make a conclusion with regard to the subject of our review.

We performed our review in accordance with "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" standard (hereinafter – "ISAE3000") issued by the IFAC. We believe that we have performed the procedures that are sufficient to justify our conclusions. The main procedures were:

- Analysis of the Company's sustainability policies and procedures described in the Report;
- Interviews with managers and key personnel of the Company responsible for preparation of sustainability information, implementation of the Company's sustainability policies and procedures, and for the related activities and results;
- Identification of the material issues on the basis of the procedures described above, and analysis of reflection of the material issues in the Report;
- Analysis of sample data based on key economic, environmental, labour and industry performance indicators, and of the reporting processes in order to receive evidence of that the data are properly collected, prepared, collated and included in the Report;
- Collection of sample evidence data to confirm the summary sustainability performance information and data included in the Report, as well as sustainability policies and procedures consistent with the sustainability areas outlined in the Report;

INDEPENDENT AUDITOR'S REPORT (continued)

- Assessment of conformity of the Report and its underlying reporting processes to the applicable sustainability reporting principles of Sustainability Reporting Guidelines GRI G3.1 used by the Company;
- Assessment of conformity of data and information disclosure in the Report to Application Level C+ GRI G3.1.

Opinion

According to the results of the performed procedures, we found no evidence that would make us believe that:

- The summary performance results and sustainable development data included in the Report do not fairly and sufficiently reflect in all material respects the sustainability policy, events and performance results of the Company for the year of 2014 in accordance with the requirements of GRI system;
- The reporting processes related to collection of information and data on key economic, environmental, labour and industry performance indicators are missing or do not conform to the applicable principles of Guidelines GRI G3.1;
- The Report does not comply with the Application Level C + and principles of GRI G3.1.

Almaty, Kazakhstan,
09 April 2015

Timur Bildebayev
CEO of "NURTEAM AUDIT" LLP

«NURTEAM AUDIT»

6.4. TABLE OF GRI STANDARD ELEMENTS

Indicator	Indicator description	Section and page in the Report
STRATEGY AND ANALYSIS		
1.1	Statement of the most senior decision-maker in the organisation	Section: Message from Chairman of the Board of Directors, pp. 2–3 Section Message from Chairman of the Management Board, pp.4–5
ORGANISATIONAL PROFILE		
2.1	Name of the organisation	Section: The Company's history, p. 12
2.2	Primary brands, types of products and/or services	Section Business model, p. 16–17
2.3	Operational structure of the organisation including main divisions, operating companies, subsidiaries and joint ventures	Section Organisational Structure, pp. 18–19
2.4	Location of the organisation's headquarters	Section Contact information, p. 80
2.5	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	Section Organisational Structure, pp. 18–19
2.6	Nature of ownership and legal form	Section The Company's history, p. 12
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	Section Market review, pp. 21–22
2.8	Scale of the reporting organisation	Section Key Financial and Economic Performance Indicators, pp. 6–7
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	Section Key Financial and Economic Performance Indicators, pp. 6–7 Section Key events in 2014, pp. 14–15
2.10	Awards received during the reporting period.	Section Key events in 2014, pp. 14–15
REPORT PARAMETERS		
3.1	Reporting period (e.g., fiscal/calendar year) for information provided	Section About the report, p. 80
3.2	Date of most recent previous report (if any)	Section About the report, p. 80
3.3	Reporting cycle (annual, biennial, etc.)	Section About the report, p. 80
3.4	Contact point for questions regarding the report or its contents.	Section Contact information, p. 80
3.5	Process for defining report content.	Section About the report, p. 80
3.6	Boundary of the report.	Section About the report, p. 80
3.7	State any specific limitations on the scope or boundary of the report	Section About the report, p. 80
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations.	Information was not included in the report
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.	Section About the report, p. 80
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and reasons for such re-statements (e.g., mergers/takeovers, change of base years/periods, nature of business, measurement methods)	Re-statements have not been made
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the report.	Section About the report, p. 80
3.12	Table identifying the location of the Standard Disclosures in the report.	Section Table of standard GRI elements, pp. 84–87
3.13	Policy and current practice with regard to seeking external assurance for the report	Section About the report, p. 80

Indicator	Indicator description	Section and page in the Report
GOVERNANCE, COMMITMENTS, AND ENGAGEMENT		
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	Section Corporate Governance, p. 43
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	Section Board of Directors Report for 2014, p. 45 Section Management Board Report for 2014, p. 56
4.3	For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.	Section Composition of the Board of Directors, p. 47
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	Section General Meeting of Shareholders, p. 45
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organisation's performance (including social and environmental performance).	Section Remuneration of members of the Board of Directors, p. 55
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	Section Settlement of corporate conflicts and conflicts of interest, p. 63
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental, and social topics.	Section Composition of the Board of Directors, p. 47 Section Responsibility of the Board of Directors, p. 50 Section Competence of the Board of Directors, p. 50 Section Responsibility of the Board of Directors, p. 50
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 Development strategy, p. 22
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation.	Section Corporate risk management and internal control systems, pp. 66–67
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses.	Section Sustainable Development, p. 31
4.14	List of stakeholder groups engaged by the organisation.	Section Stakeholder engagement, p. 32
4.15	15 Basis for identification and selection of stakeholders with whom to engage.	Section Stakeholder engagement, p. 32
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder groups.	Section Stakeholder engagement, p. 32

Indicator	Indicator criterion	Indicator description	Section and page in the Report
ECONOMIC PERFORMANCE INDICATORS			
EC1	Main	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	Section Management Report on Financial and Economic Performance Results, p. 71
EC3	Main	Coverage of the organisation's defined benefit plan obligations.	Section Social policy, p. 40
EC5	Additional	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.	Section Personnel, p. 36
EC6	Main	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	Section Information on local content in procurement of goods, works and services, p. 29
EC8	Main	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	Section Charity, p. 41
ENVIRONMENTAL PERFORMANCE INDICATORS			
Materials			
EN1	Main	Materials used by weight or volume.	Section Energy consumption, pp. 34–35
Energy			
EN3	Main	Direct energy consumption by primary energy source.	Section Energy consumption, pp. 34–35
EN7	Additional	Initiatives to reduce indirect energy consumption and reductions achieved.	Section Energy consumption, pp. 34–35
Water			
EN9	Additional	Water sources significantly affected by withdrawal of water.	Section Water resources, p. 34
Biodiversity			
EN13	Additional	Habitats protected or restored.	Section Land resources and biodiversity, p. 34
EN14	Additional	Strategies, current actions, and future plans for managing impacts on biodiversity.	Section Land resources and biodiversity, p. 34
Emissions, effluents and waste			
EN16	Main	Total direct and indirect greenhouse gas emissions by weight.	Section Ambient air pollution, p. 33
EN18	Additional	Initiatives to reduce greenhouse gas emissions and reductions achieved.	Section Ambient air pollution, p. 33
EN21	Main	Total water discharge by quality and destination.	Section Water resources, p. 34

Indicator	Indicator criterion	Indicator description	Section and page in the Report
EN22	Main	Total weight of waste by type and disposal method.	Section Land resources and biodiversity, p. 34
EN28	Main	Monetary value of significant fines and the total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Section Environmental protection, p. 33
EN30	Additional	Total environmental protection expenditures and investments by type.	Section Environmental protection, p. 33
SOCIAL INDICATORS			
Employment			
LA1	Main	Total workforce by employment type, employment contract, and region.	Section Headcount and personnel composition, pp. 37–39
LA2	Main	Total number and rate of employee turnover by age group, gender, and region.	Section Headcount and personnel composition, pp. 37–39
Labour /management relations			
LA4	Main	Percentage of employees covered by collective bargaining agreements.	Section Headcount and personnel composition, pp. 37–39
Occupational Health and Safety			
LA7	Main	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by region.	Section Occupational safety and health, p. 35
LA8	Main	Education, training, counselling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases.	Section Occupational safety and health, p. 35
Training and education			
LA11	Additional	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Section Education and training, pp. 39
Diversity and equal opportunity			
LA14	Main	Ratio of basic salary of men to women by employee category.	Section Headcount and personnel composition, pp. 37–39

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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 2014, 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the 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 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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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KazTransOil JSC as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Alexander Nazarkulov
Auditor

Auditor Qualification Certificate
No. 0000059 dated 6 January 2012

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

24 February 2015

6.5. CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of Tenge	**Note.**	**31 December 2014**	31 December 2013
Assets			
Non-current assets			
Property, plant and equipment	6	**415,390,661**	401,108,901
Intangible assets	7	**5,479,443**	5,701,002
Investments in joint ventures	8	**49,843,334**	53,554,027
Advances to suppliers for property, plant and equipment	9	**11,307,451**	5,835,651
Bank deposits	15	**3,729,880**	576,541
Other non-current assets		**16,723**	123,904
		485,767,492	466,900,026
Current assets			
Inventories	10	**3,044,558**	2,346,043
Trade and other accounts receivable	11	**5,803,874**	4,548,932
Advances to suppliers	12	**1,111,935**	842,702
Prepayment for corporate income tax		**5,814,807**	3,994
VAT recoverable and other prepaid taxes	13	**6,196,069**	3,144,714
Other current assets	14	**3,380,259**	3,946,793
Bank deposits	15	**32,112,242**	83,116,538
Cash and cash equivalents	16	**42,174,720**	25,645,348
		99,638,464	123,595,064
Assets classified as held for sale		**1,261**	32,138
		99,639,725	123,627,202
TOTAL ASSETS		**585,407,217**	590,527,228

The accounting policy and explanatory notes on pages 97 through 148 form an integral part of these consolidated financial statement.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of Tenge	Note.	31 December 2014	31 December 2013
Equity and liabilities			
Equity			
Share capital	17	**61,937,567**	61,937,567
Asset revaluation reserve	17	**138,237,679**	171,902,104
Other capital reserves	17	**(1,810,575)**	(1,016,496)
Foreign currency translation reserve		**14,860,910**	10,069,002
Retained earnings		**244,418,740**	224,377,740
Total equity		**457,644,321**	467,269,917
Non-current liabilities			
Employee benefits liability	18	**11,204,603**	9,333,180
Deferred tax liabilities	32	**41,167,915**	43,537,849
Provision on asset retirement obligation and land recultivation obligation	23	**20,631,009**	16,677,538
Deferred income	19	**4,423,082**	4,079,971
		77,426,609	73,628,538
Current liabilities			
Employee benefits liability	18	**408,757**	322,000
Income tax payable		**910,109**	1,467,675
Trade and other accounts payable	20	**15,773,741**	11,096,007
Advances received	21	**16,746,436**	17,181,723
Other taxes payable	22	**3,226,928**	2,587,351
Provisions	23	**316,065**	228,125
Other current liabilities	24	**12,954,251**	16,745,892
		50,336,287	49,628,773
Total liabilities		**127,762,896**	123,257,311
TOTAL EQUITY AND LIABILITIES		**585,407,217**	590,527,228
Book value of ordinary shares (in Tenge)	*17*	**1,176**	1,200

Signed and approved for issue on 24 February 2015.

General Director

Kabyldin K.M.

Chief Accountant

Sarmagambetova M.K.

The accounting policy and explanatory notes on pages 97 through 148 form an integral part of these consolidated financial statement.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the years ended 31 December	
In thousands of Tenge	**Note**	**2014**	2013
Revenue	25	**206,637,113**	196,366,805
Cost of sales	26	**(121,309,073)**	(110,968,699)
Gross profit		**85,328,040**	85,398,106
General and administrative expenses	27	**(13,592,935)**	(11,027,504)
Other operating income	28	**1,461,472**	1,591,990
Other operating expenses	29	**(650,029)**	(681,742)
Impairment of property, plant and equipment and intangible assets	6	**(8,119,432)**	(12,663,453)
Operating profit		**64,427,116**	62,617,397
Net foreign exchange gain		**1,055,964**	103,799
Finance income	30	**4,517,047**	4,197,234
Finance costs	31	**(1,615,566)**	(1,374,236)
Share in income of joint ventures	8	**(6,255,050)**	11,846,567
Profit before tax		**62,129,511**	77,390,761
Income tax expense	32	**(15,698,946)**	(13,847,161)
Profit for the year		**46,430,565**	63,543,600
Earnings per share *(in Tenge)*	17	**121**	165
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Exchange difference from translation of foreign operations of the Group		**4,742,851**	188,238
Exchange difference from translation of foreign operations of the joint ventures		**49,057**	4,888
Total other comprehensive income to be reclassified to profit or loss in subsequent periods, net		**4,791,908**	193,126

The accounting policy and explanatory notes on pages 97 through 148 form an integral part of these consolidated financial statement.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

		For the years ended 31 December	
In thousands of Tenge	**Note**	**2014**	2013
Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods			
Revaluation and impairment			
of property, plant and equipment of the Group	6	**(24,595,646)**	49,256,090
Income tax effect	32	**4,676,756**	(9,496,299)
		(19.918.890)	39.759.791
Revaluation and impairment of property, plant and equipment of joint ventures		**3.576.974**	1.627.422
Income tax effect		**(715,395)**	(325,483)
		2,861,579	1,301,939
Provision on asset retirement obligation and land recultivation			–
of the Group	23	**(1,678,425)**	–
Income tax effect	32	**335,685**	–
		(1,342,740)	–
Provision on asset retirement obligation and land recultivation of joint ventures		**334,774**	126,425
Income tax effect		**(63,433)**	(87,757)
		271,341	38,668
Actuarial losses from employee benefit liabilities of the Group	18	**(992,599)**	(1,292,000)
Income tax effect	32	**198,520**	258,400
		(794,079)	(1,033,600)
Total other comprehensive (loss)/income			
not to be reclassified to profit or loss in subsequent periods		**(18,922,789)**	40,066,798
Total other comprehensive (loss)/income for the year,			
net of tax		**(14,130,881)**	40,259,924
Total comprehensive income for the year, net of tax		**32,299,684**	103,803,524

Signed and approved for issue on 24 February 2015.

General Director

Kabyldin K.M.

Sarmagambetova M.K.

Chief Accountant

The accounting policy and explanatory notes on pages 97 through 148 form an integral part of these consolidated financial statement.

CONSOLIDATED STATEMENT OF CASH FLOWS

		For the years ended 31 December	
In thousands of Tenge	**Note**	**2014**	2013
Cash flows from operating activities:			
Profit before tax		**62,129,511**	77,390,761
Non-cash adjustment to reconcile profit before tax to net cash flows:			
Depreciation and amortization	26,27	**33,696,049**	30,202,852
Net charge of allowance for doubtful debts	27	**18,661**	56,405
Share in loss/(income) of joint ventures	8	**6,255,050**	(11,846,567)
Finance costs	31	**1,615,566**	1,374,236
Finance income	30	**(4,517,047)**	(4,197,234)
Employee benefits for past service cost	18	**–**	1,008,000
Employee benefits for current service cost	18	**802,461**	495,000
Net charge of provisions	23	**53,560**	9,188
Loss on disposal of property, plant and equipment and intangible assets	29	**208,654**	461,068
Net gain on disposal of inventory	28,29	**(248,512)**	(311,726)
Net gain from disposal of assets	28	**(61,090)**	(257,696)
Impairment of intangible assets	7	**302,114**	165,670
Impairment of property plant and equipment	6	**8,119,432**	12,663,453
Income from write-off of accounts payable	28	**(75,689)**	(23,853)
Amortization of deferred income		**(428,123)**	(410,642)
Amortization of financial guarantee issued on behalf of joint venture	28	**–**	(26,463)
Derecognition of financial guarantee issued on behalf of joint venture	28	**–**	(177,743)
Expenses from revision of eatimates for provision on asset retirement obligation and land recultivation	29	**275,965**	-
Write off of idle oil pimping stations	29	**89,126**	21,212
Net (reversal)/charge of provision for obsolete and slow-moving inventory	27	**(5.342)**	2.524
Operating cash flows before working capital changes:		**108,230,346**	106,598,445
(Increase)/decrease in operating assets			
Inventories		**3,537,525**	690,918
Trade and other accounts receivable		**(1,274,316)**	(2,076,956)
Advances to suppliers		**(268,324)**	(240,093)
VAT recoverable and other prepaid taxes		**(3,950,262)**	(1,422,150)
Other current assets		**603,319**	501,507
Increase/(decrease) in operating liabilities			
Trade and other accounts payable		**2,884,424**	(545,491)
Advances received		**(435,287)**	1,211,028
Other taxes payable		**639,577**	947,550
Other current and non-current liabilities and employee benefit liabilities		**(2,972,212)**	4,231,041

The accounting policy and explanatory notes on pages 97 through 148 form an integral part of these consolidated financial statement.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

		For the years ended 31 December	
In thousands of Tenge	**Note**	**2014**	2013
Cash generated from operations:		**106,994,790**	109,895,799
Income taxes paid		**(18,965,585)**	(16,350,776)
Interest received		**5,878,926**	2,356,479
Net cash flow from operating activities		**93.908.131**	95.901.502
Cash flows from investing activities:			
Withdrawal of bank deposits		**128,562,356**	56,047,879
Placement of bank deposits		**(81,978,050)**	(85,128,680)
Purchase of property, plant and equipment		**(82,725,157)**	(32,801,915)
Purchase of intangible assets		**(228,913)**	(203,738)
Proceeds from disposal of property, plant and equipment, intangible assets and assets held for sale		**309,264**	1,118,641
Dividends received		**717,898**	647,769
Net cash flow used in investing activities		**(35,342,602)**	(60,320,044)
Cash flows from financing activities:			
Dividends paid	17	**(41,925,280)**	(28,847,670)
Net cash flow used in financing activities		**(41,925,280)**	(28,847,670)
The effects of changes in exchange rates		**(110,877)**	(42,484)
Net change in cash and cash equivalents		**16,529,372**	6,691,304
Cash and cash equivalents at the beginning of the year		**25,645,348**	18,954,044
Cash and cash equivalents at the end of the year	16	**42,174,720**	25,645,348

Signed and approved for issue on 24 February 2015.

General Director

Kabyldin K.M.

Chief Accountant

Sarmagambetova M.K.

The accounting policy and explanatory notes on pages 97 through 148 form an integral part of these consolidated financial statement.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of Tenge	Share capital	Asset revaluation reserve	Foreign currency translation reserve	Other capital reserves	Retained earnings	Total
As at 31 December 2013	**61,937,567**	**171,902,104**	**10,069,002**	**(1,016,496)**	**224,377,740**	**467,269,917**
Profit for the year	–	–	–	–	46,430,565	**46,430,565**
Other comprehensive (loss)/income	–	(18,128,710)	4,791,908	(794,079)	–	**(14,130,881)**
Total comprehensive income for the year	**–**	**(18,128,710)**	**4,791,908**	**(794,079)**	**46,430,565**	**32,299,684**
Depreciation transfer of revalued property, plant and equipment	–	(15,535,715)	–	–	15,535,715	**–**
Dividends (Note 17)	–	–	–	–	(41,925,280)	**(41,925,280)**
As at 31 December 2014	**61.937.567**	**138,237,679**	**14,860,910**	**(1,810,575)**	**244,418,740**	**457,644,321**
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
Итого совокупный доход за год	–	41,100,398	193,126	(1,033,600)	63,543,600	103,803,524
Total comprehensive income for the year	–	(13,619,325)	–	–	13,619,325	
Depreciation transfer of revalued property, plant and equipment	–	–	–	–	(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

Signed and approved for issue on 24 February 2015.

General Director

Kabyldin K.M.

Chief Accountant

Sarmagambetova M.K.

The accounting policy and explanatory notes on pages 97 through 148 form an integral part of these consolidated financial statement.

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 (hereinafter "Company").

As at 31 December 2014 National Company "KazMunayGas" JSC (hereinafter "KMG" or "Parent Company") is a major shareholder of the Company, that owns the controlling interest of the Company (90%). KMG is owned by Sovereign Wealth Fund "Samruk-Kazyna" JSC (hereinafter "Samruk-Kazyna"), which is controlled by the Government of the Republic of Kazakhstan. The remaining 10% of shares owned by minority shareholders who acquired them within the "People's IPO".

As at 31 December 2014 and 2013 the Company had interest ownership in the following companies:

			Ownership	
	Place of incorporation	**Principal activities**	**31 December 2014**	31 December 2013
NWPC "MunaiTas" JSC (hereinafter "MunaiTas")	Kazakhstan	Oil transportation	**51%**	51%
"Kazakhstan-China Pipeline" LLP hereinafter ("KCP")	Kazakhstan	Oil transportation	**50%**	50%
Batumi Terminals Limited (hereinafter – BTL)	Cyprus	Forwarding, transshipment and storage of oil and oil products and operating of Batumi Sea Port and Oil Terminal	**100%**	100%

The Company and its subsidiary are hereinafter 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 (Main Information and Computing Center), and representative offices in the Russian Federation (Moscow, Omsk and Samara).

The Group operates network of main oil pipelines of 5,700 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.

The Company is a natural monopolist and, respectively, is subject to regulation of the Committee on Regulation of Natural Monopolies and Protection of Competition of the Ministry of National Economy of the Republic of Kazakhstan (hereinafter - "CRNMandPC"). CRNMandPC (before – "Agency of the Republic of Kazakhstan on Regulation of Natural Monopolies") is responsible for approving the methodology for calculating the tariff and tariff rates, which serves as a base for receiving major part of the Group's revenue in the Republic of Kazakhstan

In general, tariff rates are based on the cost of capital return on operating assets. In accordance with the legislation in the Republic of Kazakhstan on regulation of natural monopolies, tariff rates cannot be lower than the cost of the expenditure required to provide services, and consider the possibility of making a profit, providing the effective functioning of a natural monopoly.

Starting from 1 January 2014 Order of Agency of the Republic of Kazakhstan for Regulation of Natural Monopolies (hereinafter – "NMRA") dated as at 27 December 2013 increasing tariffs of the Company for oil transportation for domestic and export markets came into force. Accordingly, oil transportation tariff for domestic market of 1 ton per 1000 km increased from 1,954.5 Tenge to 2,931.8 Tenge (increase for 50%); oil transportation tariff for export market of 1 ton per 1000 km increased from 4,732.6 Tenge to 4,850.6 Tenge (increase for 2.5%).

1. GENERAL (continued)

The Order of the NMRA dated 20 March 2014 on increasing tariffs of the Company for oil transportation for export markets came into force on 1 April 2014. Accordingly, oil transportation tariff for export market of 1 ton per 1000 km of oil increased from 4,850.6 Tenge to 5,817.2 Tenge (increase by 19.9%).

The Order of the CRNMandPC dated 4 November 2014 on the setting of the tariffs on Russian oil transportation through the territory of the Republic of Kazakhstan to the People's Republic of China from the border of the Russian Federation till the boarder of the Republic of Kazakhstan (Priirtyshsk) – Atasu (Republic of Kazakhstan), including oil transshipment on Head oil pumping station (hereinafter – "HOPS") "Atasu" amounting 2.63 US dollar per 1 ton without VAT came into force starting from 1 January 2014 (for the Company). Earlier tariffs were set in Tenge, including tariff for oil transportation equal to 117.31 Tenge per 1 ton without VAT, tariff for oil transshipment at 284.41Tenge per 1 ton without VAT.

These consolidated financial statements were approved for issue by the General Director and the Chief Accountant of the Company on 24 February 2015.

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.

The consolidated financial statements provide comparative information in respect of the previous period.

3. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at 31 December 2014. 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.

3. BASIS OF CONSOLIDATION (continued)

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.

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 related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

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 aggregate of the Group's share of profit or loss of joint venture is shown on the face of the statement of comprehensive income outside operating profit and represents profit or loss after tax of the joint venture.

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 the profit or loss.

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).

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.

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.

Exchange rates
Weighted average currency exchange rates established by the Kazkhstan stock exchange (hereinafter – "KASE") are used as atficial currency exchange rates in the Republic of Kazakhstan.

The 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 at 24 February 2015 exchange rate was 185.05 Tenge per 1 US dollar.

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

Tenge	**2014**	2013
US Dollar	**182,35**	153,61
Russian Ruble	**3,17**	4,69
Euro	**221,97**	211,17
Georgian Lari	**99,79**	88,47

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3. CURRENT VERSUS NON-CURRENT CLASSIFICATION

The Group presents assets and liabilities in the 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.

OA 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.

The Group classifies all other liabilities as non-current.
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;
- 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4. FAIR VALUE MEASUREMENT (continued)

Management of the Group presents the valuation results of its external valuers to the audit committee and the Group's independent auditors, which assume 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.

Analysis of the fair value of property, plant and equipment and additional information about the methods of its determination is disclosed in *Note 5*.

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 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 sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the sale will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

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 an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

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. According to Accounting Policy property, plant and equipment is revalued each 3 years (except for technological oil, which is revalued annually) in order to ensure that fair value of the revalued asset does not significantly differ from its book value.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6. PROPERTY, PLANT AND EQUIPMENT (continued)

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 and 23)*.

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. LEASES

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the statement of comprehensive income on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8. 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 seven-ten 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.

4.9. RESEARCH AND DEVELOPMENT COSTS

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- Its intention to complete and its ability and intention to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset;
- The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

4.10. 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 (hereinafter - "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 CGU 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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10. IMPAIRMENT OF NON-FINANCIAL ASSETS (continued)

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 CGU'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.

4.11. 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 (hereinafter - "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 2014 and 2013.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.11. FINANCIAL ASSETS (continued)

Derecognition (continued)

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.

4.12. IMPAIRMENT OF FINANCIAL ASSETS

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Disclosures for significant assumptions *(Note 5)*;
- Advances to suppliers for property, plant and equipment *(Note 9)*;
- Trade receivables *(Note 11)*;
- Advances to suppliers *(Note 12)*;
- Other current assets *(Note 14)*.

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 comprehensive income. 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 of comprehensive income. 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)

4.13. 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 may 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 comprehensive income when the liabilities are derecognised as well as through the effective interest rate method 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 comprehensive income.

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 comprehensive income.

4.14. 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.

4.15. INVENTORIES

Inventories are stated at the lower of cost and net realizable value on a first-in first-out (hereinafter - "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.

4.16. CASH AND 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.17. 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)*.

4.18. 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 other comprehensive income 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 comprehensive income (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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.19. 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).

Fees for undelivered oil volumes
Income from fees for undelivered oil volumes is recognized for nominated and non-delivered oil volumes under oil transportation contracts on "ship or pay" terms.

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.

4.20. TAXES

Corporate income tax
Current income tax assets and liabilities 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 comprehensive income. 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.

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;

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20. TAXES (continued)

Deferred tax (continued)

- 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 VAT, except for instances, where amount of VAT 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)

4.21. 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
The Company recognises a liability to make cash or non-cash distributions to shareholders, when the distribution is authorised and the distribution is no longer at the discretion of the Company. According to legislation of the Republic of Kazakhstan, distribution is authorised by the shareholders. A corresponding amount is recognised directly in equity. Liability in respect of the distribution of non-monetary assets measured at fair value of the assets to be distributed, and the revaluation of the fair value of these assets are recognized directly in equity.

At the moment of distribution of non-monetary assets the difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognized in statement of comprehensive income.

Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the special purpose consolidated financial statements are authorized for issue.

4.22. 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 at 1 January 2014:

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:
- "Investment Entities" - Amendments to IFRS 10, IFRS 12 and IAS 27;
- "Offsetting Financial Assets and Financial Liabilities" - Amendments to IAS 32;
- "Novation of Derivatives and Continuation of Hedge Accounting" – Amendments to IAS 39;
- IFRIC 21" Levies".

The nature and the impact of each new standard and amendment is described below:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

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' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

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 and retrospective application is required. These amendments have no impact on the Group as the Group had no derivatives during the current or prior periods.

IFRIC 21 Levies
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. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.22. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Interpretation to IFRIC 21 Levies

IFRIC 21 is effective for annual periods beginning on or after 1 January 2014 and is applied retrospectively. It is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 Income Taxes) and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognises a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognised before the specified minimum threshold is reached. IFRIC Interpretation 21 Levies requires the use of the same principles for interim financial statements. This amendment has no impact on the consolidated financial position and financial results of the Group.

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 consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 2 Share-based Payment (Amendment)

This amendment is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- Performance condition must contain a service condition;
- Performance target must be met while the counterparty is rendering service;
- Performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- Performance condition may be a market or non-market condition;
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.22. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Annual improvements 2010–2012 Cycle (continued)

IFRS 3 Business Combinations (Amendment)

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 Operating Segments (Amendment)

The amendment is applied retrospectively and clarifies that:

- an entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
- the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Amendment)

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures (Amendment)

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011–2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations (Amendment)

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

IFRS 13 Fair Value Measurement (Amendment)

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property (Amendment)

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.22. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Annual improvements 2011–2013 Cycle (continued)

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained.

In addition, scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted.

These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

5. SIGNIFICANT ACCOUNTING 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.

Other disclosures relating to the Group's exposure to risks and uncertainties includes:

- Financial risk management and policies *(Note 36);*
- Sensitivity analyses disclosures *(Note 18, 36).*

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.

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

Estimates and assumptions (continued)

Revaluation of property, plant and equipment
The Group performed revaluation of property, plant and equipment as at 31 July 2013 (except for technological oil). 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.

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%
Remaining 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.

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 2014 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 (except for technological oil) as at 31 December 2014 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. Information on change in fair value of property, plant and equipment of BTL, associated with the recoverable amount as at 31 December 2014 is presented in more detail in *Note 6*.

Revaluation of technological oil
Technological oil is annually revalued, due to the fact that fluctuations are quite frequent and significant. Technological oil was revalued on 31 December 2014.

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 CRNMandPC;
- Tariffs are being closely monitored by CRNMandPC and the 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 CRNMandPC, 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.

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 as at 31 December 2014 in the amount 164.52 US Dollars (30,000 Tenge) per tonne (30 September 2013: 264,7 US Dollars (40,663 Tenge) per tonne). The effect of the change in oil price is equal to 19,736,819 thousand tenge.

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

Estimates and assumptions (continued)

The volume of oil in the pipeline as at 31 December 2014 amounted 2,307,952 tonne (31 December 2013: 2,193,351 tonne). According to the results of inventory stock count held on 31 December 2014 the oil surplus in the amount of 119,041 tonne (as at 31 December 2013: 24,434 tonne) was identified, and disposal of oil during the period was 4,440 tonnes. The Group recognizes the excess oil as an asset (property, plant and equipment) by charging a revaluation of assets in equity.

Impairment of property, plant and equipment
Impairment exists when the carrying value of an asset or CGU 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.

Impairment of assets of the BTL Group
BTL Group includes following CGUs:
- Batumi Oil Terminal LLC (hereinafter "BOT");
- Batumi Sea Port LLC (hereinafter "BSP").

Total recoverable amount of the BTL Group has been determined based on the value in use calculation using cash flow forecast according to financial budget for 5-year period and planned volumes of transhipment till 2026 year. The projected period for CGUs was defined as following:
- BOT CGU – till 2026 year. Further assumption was made that after this p eriod exploitation of operating assets will continue and cash flows will be stable;
- BSP CGU – till 2055 year. An assumption was made that after this period operation of the port will be ceased due to the expiration of the lease term.

Key assumptions used for BOT CGU

In percentage	2014	2013
Discount rate as at 31 December	**13.78%**	14.7%
Long-term growth rate as at 31 December	**1.9%**	2.2%

Key assumptions used for BSP CGU

In percentage	2014	2013
Discount rate as at 31 December	**14.02%**	14.5%
Long-term growth rate as at 31 December	**2.6%**	2.2%

Key assumptions used in value-in-use calculations
The calculation of value-in-use for cash-generating unit is most sensitive to the following assumptions:
- Discount rates;
- Tariffs during the planned period; and
- Oil and cargo shipment volumes.

Discount rate. Discount rates reflect the current market assessment of the risks specific to each cash generating unit.

Tariffs during the budget period. BSP and BOT set tariffs for shipment of cargo and oil individually for each customer based on volumes of shipment, relationships history and market trends at the date of conclusion of shipment contract.

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

Estimates and assumptions (continued)

Oil and cargo shipment volumes. These assumptions are important because, as well as using industry data for growth rates management assesses how future changes of oil and cargo shipment volumes through Black Sea ports will affect BTL's operations.

Sensitivity of changes in assumptions
With regard to the assessment of value-in-use possible change in any of the above key assumptions would result in a further impairment loss. The implications of the key assumptions for the recoverable amount are stated below:

Discount rate. Management has considered the possibility of greater than determined weighted-average cost of capital. Any increase in discount rate would result in a further impairment.

Tariffs during the budget period. Increase of tariff projected by the management for the purposes of goodwill impairment testing are indexed to underlying costs. Should the Group be unable to keep tariffs at such a level that covers related costs, a further impairment may result.

Oil and cargo shipment volumes. Management takes into account the possibility that the actual volumes will be lower than planned. Any decrease in the volume of transshipment will lead to a further impairment.

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 3,581 thousand Tenge per km (as at 31 December 2013: 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 reserve 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 is presented below:

In percent	2014	2013
Discount rate as at 31 December	**6.2%**	6.0%
Inflation rate as at 31 December	**6.0%**	5.6%

The discount rate is based on the risk-free government bonds of the Republic of Kazakhstan.

As at 31 December 2014 the carrying amount of the asset retirement and land recultivation obligation was 20,631,009 thousand Tenge (as at 31 December 2013: 16,677,538 Tenge) *(Note 23)*.

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 such obligations will be due.

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

Estimates and assumptions (continued)

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 2,706,086 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 2014 and 2013 allowances for doubtful accounts have been created for the amount of 756,335 thousand Tenge and 737,000 thousand Tenge, respectively *(Notes 9, 11, 12 and 14)*.

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 at 31 December 2014 was 7,686,911 thousand Tenge (31 December 2013: 6,935,332 thousand Tenge) (Note 32). As at 31 December 2014 and 2013 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 (MEUKAM) 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 21 January 2014 the Company adopted the Collective agreement with the employees of the Company in new edition. Additionally, on 5 February 2014 the Company adopted The Rules on social support of not working pensioneers and disabled people of KazTransOil JSC. Document separately allocates provision of the material assistance to not working pensioneers and disabled people which are registered in the Company.

Further details about the assumptions used are given in *Note 18*.

6. PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment as at 31 December 2014 and 2013 were presented as follows:

In thousands of Tenge	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
At revalued amount 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
Foreign currency translation	1,345,656	–	465,090	2,497,950	1,685,013	–	88,936	173,796	6,256,441
Additions	926	962,826	1,678,498	10,586	1,090,951	–	709,409	70,632,440	75,085,636
Disposals	(8,993)	(158,670)	(80,129)	(319,319)	(273,547)	(212,857)	(234,975)	(38,024)	(1,326,514)
Impairment (asset revaluation reserve)	–	–	–	–	–	(19,585,387)	–	–	(19,585,387)
Impairment (through profit and loss)	–	–	–	–	–	(151,432)	–	–	(151,432)
Transfer to assets held as for sale	–	–	(2,270)	–	–	–	–	(834)	(3,104)
Transfer from construction-in-progress	58,462	49,332,447	187,871	4,362,712	22,800,396	–	1,730,371	(78,472,259)	–
Transfer to Intangible assets *(Note 7)*	–	–	–	–	(123)	–	–	(360,575)	(360,698)
Transfers and reclassifications	–	3,786	(379,914)	7,856	189,728	–	178,544	–	–
At revalued amount as at 31 December 2014	12,483,895	147,474,455	9,979,926	78,466,503	114,120,834	69,568,777	14,949,765	28,895,431	475,939,586
Accumulated 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)
Foreign currency translation	–	–	(38,825)	(240,396)	(182,465)	–	(22,228)	–	(483,914)
Depreciation charge	–	(10,084,580)	(1,430,022)	(6,521,652)	(11,779,338)	–	(3,358,531)	–	(33,174,123)
Disposals	–	107,510	71,461	222,954	229,322	146,540	221,834	2,484	1,002,105
Impairment (asset revaluation reserve)	–	(44,865)	(137,260)	(2,936,314)	(1,783,089)	(101,186)	(3,583)	(3,962)	(5,010,259)
Impairment (through profit and loss)	–	(64,898)	(936,626)	(3,770,058)	(2,918,653)	(45,354)	(173,635)	(58,776)	(7,968,000)
Transfer to assets held as for sale	–	–	1,009	–	–	–	–	–	1,009
Transfers and reclassifications	–	161	16,837	(38)	(15,918)	–	(1,042)	–	–
Accumulated depreciation and impairment as at 31 December 2014	–	(14,327,030)	(3,092,269)	(16,566,241)	(21,244,909)	(330,205)	(4,658,747)	(329,524)	(60,548,925)

6. PROPERTY, PLANT AND EQUIPMENT (continued)

In thousands of Tenge	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
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**
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 through 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 through profit and loss	(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 7)	–	–	–	–	(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 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)**
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 through 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 7)*	–	–	–	–	–	–	19	–	**19**
Transfers and reclassifications	–	(40,517)	(50)	(457)	(7,158)	–	6,076	338,044	**295,938**

6. PROPERTY, PLANT AND EQUIPMENT (continued)

In thousands of Tenge	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
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 2014									
At cost	12,483,895	147,474,455	9,979,926	78,466,503	114,120,834	69,568,777	14,949,765	28,895,431	**475,939,586**
Accumulated depreciation and impairment	–	(14,327,030)	(3,092,269)	(16,566,241)	(21,244,909)	(330,205)	(4,658,747)	(329,524)	**(60,548,925)**
Net book value	**12,483,895**	**133,147,425**	**6,887,657**	**61,900,262**	**92,875,925**	**69,238,572**	**10,291,018**	**28,565,907**	**415,390,661**
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 July 2013 the Group performed revaluation of property, plant and equipment (except for technological oil). 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 performed in 2013 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 statement of comprehensive income as an impairment of property, plant and equipment for the total amount of 12,663,453 thousand Tenge.

As at 31 December 2014 construction in progress mainly includes following production projects:

- construction and reconstruction within the framework of interstate oil pipeline construction project "Kazakhstan-China";
- reconstruction of firefighting system, electricity supply systems and others.

As at 31 December 2013 construction in progress mainly included 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" (Karazhanbas-Aktau field) and "Uzen-Zhetybai-Aktau";
- Reconstruction of HOPS "Kenkiyak";
- Reconstruction of firefighting system, electricity supply systems and others.

As at 31 December 2014 the initial cost and correspondingly accumulated depreciation of fully depreciated but still in use property, plant and equipment were 3,208,581 thousand Tenge (31 December 2013: 2,938,299 thousand Tenge).

The amount of depreciation for 2014 included in the cost of construction in progress was 13,675 thousand Tenge (31 December 2013: 11,639 thousand Tenge).

As at 31 December 2014 construction in progress included materials and spare parts in the amount of 2,957,610 thousand Tenge (31 December 2013: 13,613,707 thousand Tenge), which were acquired for construction works. This decrease between years is mainly due to usage of materials and spare parts in 2014 during construction of main oil pipeline Kumkol – Karakoin.

6. PROPERTY, PLANT AND EQUIPMENT (continued)

At 31 December 2014 certain items of property, plant and equipment of Batumi Oil Terminal with residual value of 50,000 thousand US Dollars (equivalent to 9,117,500 thousand Tenge) were pledged as guarantee in favor of TBC Bank, which acted as a guarantor to ensure obligations of Georgian Transit Ltd to Georgian railways according to transportation contracts. The maximum amount of the guarantee was equal to 500 thousand US Dollars (equivalent to 91,175 thousand Tenge).

Impairment of assets of the BTL Group

The Group reviews its CGUs for indicators of impairment on an annual basis and considers both internal and external sources of information for assessing if the CGUs are impaired. As a result of assessment made by independent appraiser as at 30 September 2014 Group identified indicators of impairment in CGU's of BTL Group, which was due to decrease in the planned volume of the transshipment of oil and oil products.

As at 31 December 2014 total recoverable amount of the BTL Group was equal to 31,914,291 thousand Tenge, including BSP CGU in the amount of 18,722,164 thousand Tenge and BOT CGU in the amount of 13,192,127 thousand Tenge.

As a result of the impairment test the management identified the total impairment loss as at 31 December 2014 amounting 12,934,472 thousand Tenge, including 8,087,024 thousand Tenge recognised in profit and loss and 4,847,448 thousand Tenge in other comprehensive income. Amount of impairment loss proportionally allocated to intangible assets (right for land use) was equal to 302,114 thousand Tenge (Note 7) and 12,632,358 thousand Tenge were allocated to property, plant and equipment.

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	Transportation assets	Buildings	Machinery and equipment	Technological oil	Other	Construction in progress	Total
At 31 December 2014	**9,328,530**	**97,829,484**	**7,155,556**	**37,154,711**	**72,623,710**	**1,168,388**	**7,462,862**	**27,019,861**	**259,743,102**
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

7. INTANGIBLE ASSETS

In thousands of Tenge	Licenses	Software	Right for land use	Other	Total
Net book value at 31 December 2013	184,757	997,520	4,490,163	28,562	**5,701,002**
Additions	**15,052**	**168,119**	**–**	**6,762**	**189,933**
Disposals	**(3,712)**	**(30,799)**	**–**	**(528)**	**(35,039)**
Amortization charge	**(79,417)**	**(326,044)**	**(125,433)**	**(4,708)**	**(535,602)**
Accumulated amortization on disposals	**3,712**	**30,799**	**–**	**528**	**35,039**
Impairment through profit or loss	**–**	**–**	**(302,114)**	**–**	**(302,114)**
Transfers from property, plant and equipment *(Note 6)*	**49,949**	**308,711**	**–**	**2,038**	**360,698**
Foreign currency translation	**7,187**	**221**	**58,118**	**–**	**65,526**
Transfers and reclassifications	**17,379**	**(17,379)**	**–**	**–**	**–**
Net book value at 31 December 2014	**194,907**	**1,131,148**	**4,120,734**	**32,654**	**5,479,443**
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 *(Note 6)*	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 2014					
At cost	548,139	3,979,087	6,174,903	84,492	**10,786,621**
Accumulated amortization and impairment	(353,232)	(2,847,939)	(2,054,169)	(51,838)	**(5,307,178)**
Net book value	**194,907**	**1,131,148**	**4,120,734**	**32,654**	**5,479,443**
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**

8. INVESTMENTS IN JOINT VENTURES

Investments in joint ventures as at 31 December 2014 and 2013 are preseneted as follows:

In thousands of Tenge	KCP	MunaiTas	Total
As at 31 December 2013	**40,878,930**	**12,675,097**	**53,554,027**
Share in profit /(loss) of joint venture	(6,990,738)	735,688	(6,255,050)
Share in other comprehensive income of joint venture	3,093,940	88,037	3,181,977
Dividends	–	(637,620)	(637,620)
As at 31 December 2014	**36,982,132**	**12,861,202**	**49,843,334**

	KCP			
	31 December 2014		31 December 2013	
In thousands of Tenge	**50%**	**100%**	50%	100%
Assets and liabilities of joint ventures				
Current assets	**10,238,917**	**20,477,834**	22,462,883	44,925,766
Non-current assets	**126,117,022**	**252,234,044**	128,663,581	257,327,162
Current liabilities	**(18,218,653)**	**(36,437,306)**	(19,868,226)	(39,736,452)
Non-current liabilities	**(81,155,154)**	**(162,310,308)**	(90,379,308)	(180,758,616)
Net assets	**36,982,132**	**73,964,264**	40,878,930	81,757,860
Additional information:				
cash and cash equivalents	**5,463,275**	**10,926,550**	5,941,869	11,883,738
short-term financial liabilities	**(14,414,211)**	**(28,828,421)**	(12,637,964)	(25,275,928)
long-term financial liabilities	**(69,906,297)**	**(139,812,594)**	(77,829,046)	(155,658,092)

	MunaiTas			
	31 December 2014		31 December 2013	
In thousands of Tenge	**51%**	**100%**	51%	100%
Assets and liabilities of joint ventures				
Current assets	**2,748,039**	**5,388,312**	1,448,667	2,840,524
Non-current assets	**13,841,592**	**27,140,376**	14,835,854	29,089,909
Current liabilities	**(675,831)**	**(1,325,158)**	(296,701)	(581,766)
Non-current liabilities	**(3,052,598)**	**(5,985,486)**	(3,312,723)	(6,495,535)
Net assets	**12,861,202**	**25,218,044**	12,675,097	24,853,132
Additional information:				
cash and cash equivalents	**1,742,127**	**3,415,936**	162,279	318,194
short-term financial liabilities	**–**	**–**	–	–
long-term financial liabilities	**–**	**–**	–	–

8. INVESTMENTS IN JOINT VENTURES (continued)

	KCP			
	For the year ended 31 December			
	2014		2013	
In thousands of Tenge	50%	100%	50%	100%
Information on profit or loss and other comprehensive income of joint ventures for the year				
Revenue	**24,084,242**	**48,168,484**	33,848,334	67,696,668
(Loss)/income from continuing operations for the year	**(6,990,738)**	**(13,981,476)**	10,648,691	21,297,382
Income/(loss) from discontinuing operations for the year	**–**	**–**	–	–
Other comprehensive income	**3,093,940**	**6,187,880**	41,993	83,986
Total comprehensive (loss)/income	**(3,896,798)**	**(7,793,596)**	10,690,684	21,381,368
Dividends	**–**	**–**	–	–
Additional information:				
Depreciation and amortization	**(7,231,507)**	**(14,463,014)**	(6,602,428)	(13,204,856)
Interest income	**149,964**	**299,928**	572,701	1,145,402
Interest expense	**(4,008,080)**	**(8,016,160)**	(4,916,832)	(9,833,664)
Income tax benefit/(expense)	**2,115,631**	**4,231,262**	(3,879,123)	(7,758,246)

Foreign exchange loss was recognized by KCP due to the translation of financial liabilities (loans) denominated in US dollars. Net loss of KCP from foreign currency translation related to loans for the year ended 31 December 2014 and 2013 was equal to 30,738,940 thousand Tenge and 3,130,316 thousand Tenge, respectively years.

	MunaiTas			
	For the year ended 31 December			
	2014		2013	
In thousands of Tenge	51%	100%	51%	100%
Information on profit or loss and other comprehensive income of joint ventures for the year				
Revenue	**3,499,277**	**6,861,645**	3,975,326	7,794,757
Income from continuing operations for the year	**735,688**	**1,442,525**	1,197,876	2,348,777
Income/(loss) from discontinuing operations for the year	**–**	**–**	–	–
Other comprehensive income	**88,037**	**172,621**	1,303,502	2,555,886
Total comprehensive income	**823,725**	**1,615,146**	2,501,378	4,904,663
Dividends	**(637,620)**	**(1,250,235)**	(453,584)	(889,380)
Additional information:				
Depreciation and amortization	**(1,069,661)**	**(2,097,375)**	(1,010,762)	(1,981,887)
Interest income	**13,164**	**25,812**	23,534	46,145
Interest expense	**(37,891)**	**(74,296)**	(47,804)	(93,733)
Income tax expense	**(186,415)**	**(365,520)**	(302,729)	(593,586)

9. ADVANCES TO SUPPLIERS FOR PROPERTY, PLANT AND EQUIPMENT

Advances to suppliers for property, plant and equipment as at 31 December 2014 and 2013 were presented as follows:

In thousands of Tenge	**31 December 2014**	31 December 2013
Advances to third parties for property, plant and equipment	**11,406,977**	5,934,981
Less: allowance for doubtful debts	**(99,526)**	(99,330)
Total	**11,307,451**	5,835,651

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	**2014**	**2013**
As at 1 January	**99,330**	99,330
Charge for the year	**196**	–
As at 31 December	**99,526**	**99,330**

10. INVENTORIES

Inventories as at 31 December 2014 and 2013 were presented as follows:

In thousands of Tenge	**31 December 2014**	31 December 2013
Spare parts	**1,461,052**	937,047
Fuel	**763,929**	698,546
Construction materials	**157,584**	138,466
Goods	**93,138**	76,520
Overalls	**78,892**	82,764
Chemical reagents	**35,575**	33,496
Other	**488,241**	427,417
	3,078,411	2,394,256
Less: provision for slow-moving and obsolete inventory	**(33,853)**	(48,213)
Total	**3,044,558**	2,346,043

Movements in the provision for slow-moving and obsolete inventory were as follows:

In thousands of Tenge	**2014**	2013
As at 1 January	**48,213**	65,413
(Reverse)/charge for the year *(Note 27)*	**(5,342)**	2,524
Write-off of inventories	**(11,554)**	(20,034)
Currency translation difference	**2,536**	310
As at 31 December	**33,853**	48,213

11. TRADE AND OTHER ACCOUNTS RECEIVABLE

In thousands of Tenge	**31 December 2014**	31 December 2013
Trade accounts receivable from third parties	**2,139,755**	1,203,023
Trade accounts receivable from related parties *(Note 34)*	**1,941,312**	1,416,969
Other accounts receivable from third parties	**2,273,771**	2,526,184
Other accounts receivable from related parties *(Note 34)*	**102,156**	35,828
	6,456,994	5,182,004
Less: allowance for doubtful debts	**(653,120)**	(633,072)
Total	**5,803,874**	4,548,932

Other receivables mainly represent issued fees for undelivered and unreported 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	**2014**	2013
As at 1 January	**633,072**	578,189
Charge for the year	**19,374**	55,905
Write-off of receivable	**–**	(1,071)
Currency translation	**674**	49
As at 31 December	**653,120**	633,072

Trade and other receivables of the Group as at 31 December 2014 and 2013 are denominated in the following currencies:

In thousands of Tenge	**31 December 2014**	31 December 2013
Tenge	**5,131,578**	4,128,283
US Dollars	**534,468**	357,911
Russian Ruble	**1,248**	1,756
Other currency	**136,580**	60,982
Total	**5,803,874**	4,548,932

As at 31 December the ageing analysis of trade and other receivables is as follows:

In thousands of Tenge	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-60 days	60-90 days	90-120 days	>120 days
2014	**5,803,874**	**5,094,199**	**528,360**	**74,369**	**50,919**	**36,698**	**19,329**
2013	4,548,932	3,956,772	396,736	107,489	32,584	18,673	36,678

12. ADVANCES TO SUPPLIERS

Advances to suppliers as at 31 December 2014 and 2013 were presented as follows:

In thousands of Tenge	**31 December 2014**	31 December 2013
Advances to third parties	**665,132**	587,519
Advances to related parties (Note 34)	**447,876**	257,165
	1,113,008	844,684
Less: allowance for doubtful debts	**(1,073)**	(1,982)
Total	**1,111,935**	842,702

Movement in allowance for doubtful debts related to advances given to suppliers was as follows:

In thousands of Tenge	**2014**	2013
As at 1 January	**1,982**	1,482
(Reverse)/charge of provision for the year	**(909)**	500
As at 31 December	**1,073**	1,982

13. VAT RECOVERABLE AND OTHER PREPAID TAXES

VAT recoverable and other prepaid taxes as at 31 December 2014 and 2013 were presented as follows:

In thousands of Tenge	**31 December 2014**	31 December 2013
VAT recoverable	**6,016,776**	3,038,279
Other taxes prepaid	**179,293**	106,435
Total	**6,196,069**	**3,144,714**

14. OTHER CURRENT ASSETS

Other current assets as at 31 December 2014 and 2013 were presented as follows:

In thousands of Tenge	**31 December 2014**	31 December 2013
Due for oil transportation coordination services	**3,245,840**	3,770,279
Due from employees	**43,707**	93,731
Prepaid insurance	**42,498**	38,840
Deferred expenses from third parties	**26,028**	20,445
Other	**24,802**	26,114
	3,382,875	3,949,409
Less: allowance for doubtful debts	**(2,616)**	(2,616)
Total	**3,380,259**	3,946,793

15. BANK DEPOSITS

Bank deposits as at 31 December 2014 and 2013 were presented as follows:

In thousands of Tenge	**31 December 2014**	31 December 2013
Short-term bank deposits	**31,984,737**	81,554,300
Long-term bank deposits	**3,729,880**	576,541
Accrued interest on deposits	**127,505**	1,562,238
Total	**35,842,122**	83,693,079

As at 31 December 2014 bank deposits comprised of the following:

- US Dollar denominated bank deposits placed with Kazakhstani banks with maturity from 3 to 12 months, with interest from 0.6% to 3.5% per annum (as at 31 December 2013: nil), maturing in December 2015;
- Restricted long-term bank deposits with interest from 2% to 3.5% per annum maturing in 2029 (as at 31 December 2013: 2% per annum maturing in 2028), which is the guarantee of mortgages issued by Halyk Bank Kazakhstan JSC to the employees of the Company;
- Short-term bank deposits placed with foreign banks with maturity from 3 to 12 months in the amount of 547 thousand Tenge (as at 31 December 2013: 4,300 thousand Tenge) and with the interest rate from 0.65% to 3.0% per annum (as at 31 December 2013: nil), maturing in January 2015.

16. CASH AND CASH EQUIVALENTS

Bank deposits as at 31 December 2014 and 2013 were presented as follows:

In thousands of Tenge	**31 December 2014**	31 December 2013
Time deposits with banks – US Dollars	**19,451,877**	–
Time deposits with banks – Tenge	**19,311,501**	22,980,000
Current accounts with banks – US Dollars	**2,421,688**	1,152,074
Current accounts with banks – Tenge	**471,928**	1,374,515
Current accounts with banks – Lari	**316,560**	67,742
Current accounts with banks – Euro	**187,273**	57,604
Current accounts with banks – Russian Ruble	**347**	492
Other current accounts with banks	**11,724**	11,374
Cash on hand	**1,822**	1,547
Total	**42,174,720**	25,645,348

At 31 December 2014 most current accounts and time deposits up to 3 months placed with Kazakhstani banks carried interest ranging from 0.3% to 17% per annum (as at 31 December 2013: from 1.7% to 10.25% per annum).

17. EQUITY

Share capital

As at 31 December 2014 and 2013 the Company's share capital was comprised of 384,635,600 ordinary 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 at 31 December 2014 and 2013 the share capital was equal to 61,937,567 thousand Tenge, net of consulting costs related to the issuance of shares in the amount of 565,717 thousand Tenge.

Distributions to the shareholder

Dividends

On 3 July 2014 the Company paid dividends to the shareholders based on the decision of the shareholders meeting on 28 May 2014 in the amount of 41,925,280 thousands Tenge based on 109 Tenge per 1 share (2013: 28,847,670 thousands Tenge based on 75 Tenge per 1 share), including 37,732,752 thousand Tenge related to KMG (2013: 25,962,903 thousand Tenge) and 4,192,528 thousand Tenge related to minority shareholders (2013: 2,884,767 thousand Tenge).

Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the period. As the Parent 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 net profit and share data used in the basic earnings per share computations:

In thousands Tenge	**2014**	*2013*
Net profit for the period attributable to ordinary equity holders of the Parent for basic earnings	**46,430,565**	63,543,600
Weighted average number of ordinary shares for the period for basic earnings per share	**384,635,599**	384,635,599
Basic earnings per share, in relation to profit for the period attributable to ordinary equity holders of the Company, as a Parent of the Group (in Tenge)	**121**	165

Book value per ordinary share

Book value of the ordinary shares in accordance with requirements of KASE of the Parent of the Group is as follows:

In thousands Tenge	**31 December 2014**	*31 December 2013*
Total assets	**585,407,217**	590,527,228
Less: intangible assets (*Note 7*)	**(5,479,443)**	(5,701,002)
Less: total liabilities	**(127,762,896)**	(123,257,311)
Net assets for calculation of book value per ordinary share	**452,164,878**	461,568,915
Number of ordinary shares	**384,635,599**	384,635,599
Book value per ordinary share (*in Tenge*)	**1,176**	1,200

Asset revaluation reserve

Revaluation reserve was formed based on a revaluation and impairment of property, plant and equipment of the Group and share in the asset revaluation reserve of the joint ventures.

In thousands Tenge	**31 December 2014**	*31 December 2013*
Asset revaluation reserve of the Group	**113,678,936**	148,766,734
Share in the asset revaluation reserve of the joint ventures	**24,558,743**	23,135,370
Total	**138,237,679**	171,902,104

17. EQUITY (continued)

Book value per ordinary share (continued)

Other capital reserves

As at 31 December 2014 other capital reserves amounted 1,810,575 thousand Tenge (as at 31 December 2013: 1,016,496 thousand Tenge). Increase in reserve is due to accrual of actuarial re-measurement of defined benefit plans in the amountof 992,599 thousand Tenge, income tax effect of which amounted 198,520 thousand Tenge.

Foreign currency translation reserve

As at 31 December 2014 foreign currency translation reserve was equal to 14,860,910 thousand Tenge (as at 31 December 2013: 10,069,002 thousand Tenge) Change in foreign currency translation reserve is due to the translation of the operations of the foreign subsidiary.

18. EMPLOYEE BENEFIT LIABILITY

The Company has employee benefit liabilities, mainly consisting of additional payments to pensions and jubilee payments, applicable to all employees. These payments are unsecured.

Employee benefit liabilities as at 31 December 2014 and 2013 were presented as follows:

In thousands Tenge	**31 December 2014**	31 December 2013
Current portion of employee benefit liabilities	**408,757**	322,000
Non-current portion of employee benefit liabilities	**11,204,603**	9,333,180
Total	**11,613,360**	9,655,180

Changes in the present value of employee benefit liabilities for the year ended 31 December 2014 and 2013 were as follows:

	For the year ended 31 December	
In thousands Tenge	**2014**	2013
Employee benefit liabilities at the beginning of the year	**9,655,180**	6,800,263
Unwinding of discount *(Note 31)*	**579,311**	417,000
Current services cost *(Note 26,27)*	**–**	1,008,000
Past services cost *(Note 26,27)*	**802,461**	495,000
Actuarial losses	**992,599**	1,292,000
Benefits paid	**(416,191)**	(357,083)
Employee benefit liabilities at the end of the year	**11,613,360**	9,655,180

Principal actuarial assumptions used for valuation of employee benefit obligation at 31 December 2014 and 2013 were as follows:

	2014	**2013**
Discount rate	**7.3%**	6.0%
Rate of inflation	**6.04%**	5.6%
Future increase of non-current annual payment	**6.04%**	5.5%
Future salary increases	**6.04%**	6.0%
Mortality rate	**12.0%**	12.0%

As at 31 December 2014 and 2013 the average duration of post-retirement benefit obligations was 16 years.

18. EMPLOYEE BENEFIT LIABILITY (continued)

Sensitivity analysis for significant assumptions as at 31 December 2014 is as follows:

In thousands of Tenge	**Decrease**	**Increase**
Discount rate	**-0.5%**	**+0.5%**
	1,058,797	(927,475)
Inflation rate	**-0.5%**	**+0.5%**
	(933,335)	1,057,500
Future salary increase	**-0.5%**	**+0.5%**
	(933,335)	1,057,500
Life duration	**-1 year**	**+1 year**
	(1,367,730)	964,252

19. DEFERRED INCOME

Deferred income as at 31 December 2014 and 2013 was presented as follows:

In thousands of Tenge	**31 December 2014**	31 December 2013
Deferred income from third parties	**4,423,082**	3,819,666
Deferred income from related parties *(Note 34)*	**–**	260,305
Total	**4,423,082**	4,079,971

20. TRADE AND OTHER ACCOUNTS PAYABLE

Trade and other accounts payable as at 31 December 2014 and 2013 were presented as follows:

In thousands of Tenge	**31 December 2014**	31 December 2013
Accounts payable to third parties for goods and services	**14,907,024**	10,194,390
Accounts payable to related parties for goods and services *(Note 34)*	**672,991**	650,602
Other payables to third parties	**193,726**	249,065
Other payables to related parties *(Note 34)*	**–**	1,950
Total	**15,773,741**	11,096,007

Trade and other accounts payables included payables to related and third parties, related to the construction-in-progress in the amount of 9,580,016 thousand Tenge (as at 31 December 2013: 7,711,017 thousand Tenge).

Trade and other accounts payable as at 31 December 2014 and 2013 were denominated in the following currencies:

In thousands of Tenge	**31 December 2014**	**31 December 2013**
Tenge	**15,258,129**	10,550,602
US Dollars	**105,615**	351,156
Euro	**12,455**	13,480
Russian Roubles	**6,219**	48,590
Other currency	**391,323**	132,179
Total	**15,773,741**	11,096,007

21. ADVANCES RECEIVED

Advances received as at 31 December 2014 and 2013 were presented as follows:

In thousands of Tenge	**31 December 2014**	31 December 2013
Advances received from related parties (Note 34)	**10,615,166**	10,706,153
Advances received from third parties	**6,131,270**	6,475,570
Total	**16,746,436**	17,181,723

22. OTHER TAXES PAYABLE

Other taxes payable as at 31 December 2014 and 2013 was presented as follows:

In thousands of Tenge	**31 December 2014**	**31 December 2013**
Personal income tax	**1,531,057**	998,348
Withholding tax at the source of payment to non-residents	**609,231**	507,988
Social tax	**504,779**	550,961
Property tax	**351,287**	355,611
VAT payable	**12,823**	564
Other taxes	**217,751**	173,879
Total	**3,226,928**	2,587,351

23. PROVISIONS

Movements in provisions for the year ended 31 December 2014 and 2013 was presented as follows:

Short-term provisions

In thousands of Tenge	**Tax provisions (BTL)**	**Environmental provisions (Company)**	**Others (Company)**	**Total**
As at 31 December 2013	**186,483**	**41,642**	**–**	**228,125**
Charged / (reversed) for the year	**–**	**(7)**	**53,567**	**53,560**
Use of provision	**–**	**(510)**	**–**	**(510)**
Foreign currency translation	**34,890**	**–**	**–**	**34,890**
As at 31 December 2014	**221,373**	**41,125**	**53,567**	**316,065**
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

23. PROVISIONS (continued)

Long-term provisions

In thousands of Tenge	**31 December 2014**	31 December 2013
As at 1 January	**16,677,538**	15,531,037
Provision for the year	**962,826**	189,265
Revision of estimates through other comprehensive income	**1,678,425**	–
Revision of estimates through profit or loss (Note 29)	**275,965**	–
Unwinding of discount on asset retirement and land recultivation obligation *(Note 31)*	**1,036,255**	957,236
As at 31 December	**20,631,009**	16,677,538

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.

Additionally provision on liquidation of the waste landfills is reflected as part of the asset retirement and land recultivation obligation. Provision was created 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.

Company revised the long-term provisions considering current best estimate. Assumptions used and the sensitivity to changes in the discount rate are reflected in *Note 5*.

24. OTHER CURRENT LIABILITIES

Other current liabilities as at 31 December 2014 and 2013 were presented as follows:

In thousands of Tenge	**31 December 2014**	**31 December 2013**
Salaries and wages	**5,738,615**	7,385,065
Accounts payable for oil transportation coordination services for related parties *(Note 34)*	**2,871,849**	4,153,476
Accounts payable for oil transportation coordination services for third parties	**2,464,587**	3,281,040
Current portion of deferred income from third parties	**732,135**	324,578
Payable to pension fund	**659,667**	593,575
Current portion of deferred income from related parties *(Note 34)*	**260,305**	312,366
Accounts payable under an agency agreement for the transportation of oil to related parties (Note 34)	**–**	651,706
Other accruals	**227,093**	44,086
Total	**12,954,251**	16,745,892

Salaries and wages comprise of current salary payable, remunerations based on the year results and vacation payments payable.

25. REVENUE

Revenue for the year ended 31 December 2014 and 2013 was presented as follows:

In thousands of Tenge	**2014**	**2013**
Crude oil transportation	**164,393,577**	153,861,014
Oil reloading and railway shipment	**15,516,062**	17,810,315
Pipeline operation services	**8,230,639**	6,816,579
Fees for undelivered oil volumes*	**6,714,971**	6,345,133*
Water transportation	**6,860,568**	6,573,345
Oil transportation coordination services and seaport	**3,787,746**	3,995,350
Oil storage services	**91,553**	174,555
Other	**1,041,997**	790,514
Total	**206,637,113**	196,366,805

For the year ended 31 December 2014 the revenue from the two major customers amounted 45,143,090 and 23,386,961 thousand Tenge, respectively. For the year ended 31 December 2013 revenue from two major customers: 41,333,606 thousand Tenge, 18,434,349 thousand Tenge, respectively.

**Income from fees for undelivered and unreported oil volumes have been received by the Company in accordance with the contracts for oil transportation services based on «ship-or-pay" terms. Due to the fact that the comparative information in the consolidated financial statements for the year ended 31 December 2013 was recorded in other operating income, income from fees for undelivered oil volumes have been reclassified from other operating income to revenue in the current period.*

26. COST OF SALES

Cost of sales for the year ended 31 December 2014 and 2013 were presented as follows:

In thousands of Tenge	**2014**	**2013**
Personnel cost	**40,101,012**	35,939,251
Depreciation and amortization	**32,876,926**	29,442,621
Railway services	**9,436,954**	10,298,681
Materials and fuel	**6,805,708**	6,112,086
Electric energy	**6,280,668**	6,065,868
Repair and maintenance costs	**5,501,143**	4,670,474
Taxes other than corporate income tax	**4,978,621**	4,895,316
Security services	**4,493,473**	3,466,756
Gas expense	**2,435,270**	2,211,319
Air services	**1,474,160**	1,296,160
Environmental protection	**952,258**	612,422
Business trip expenses	**892,934**	816,498
Post-employment benefits	**754,969**	1,406,914
Diagnostics of pipelines	**624,316**	389,203
Insurance	**507,481**	446,548
Communication services	**264,938**	253,297
Rent expenses	**248,969**	295,453
Other	**2,679,273**	2,349,832
Total	**121,309,073**	110,968,699

Increase in personnel costs is due to the indexation of salaries of production staff.

27. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the year ended 31 December 2014 and 2013 were presented as follows:

In thousands of Tenge	**2014**	2013
Personnel cost	**6,875,924**	6,529,810
Charity expenses	**2,020,737**	166,028
Depreciation and amortization	**819,123**	760,231
Consulting	**606,053**	413,088
Office maintenance	**390,499**	355,714
Expenses on VAT	**342,980**	194,727
Impairment of intangible assets	**302,114**	165,670
Business trip expenses	**280,022**	228,849
Taxes other than corporate income tax	**240,182**	229,479
Social sphere expenses	**193,888**	274,705
Repair and technical maintenance	**155,085**	223,186
Training	**140,685**	112,962
Bank costs	**135,476**	111,417
Materials and fuel	**133,819**	182,300
Communication services	**124,136**	111,544
Insurance and security	**104,163**	217,343
Post-employment benefits	**47,492**	96,086
Net charge of allowance for doubtful debts	**18,661**	56,405
Net (reversal)/charge of provision for obsolete and slow-moving inventory	**(5,342)**	2,524
Other	**667,238**	595,436
Total	**13,592,935**	11,027,504

In 2014 the Group sponsored the construction of a secondary school for 300 pupils in the Atyrau region, kindergarten for 280 children in the South Kazakhstan region and a kindergarten for 320 children in the Pavlodar region.

28. OTHER OPERATING INCOME

Other operating income for the year ended 31 December 2014 and 2013 was presented as follows:

In thousands of Tenge	**2014**	**2013**
Income from fines and penalties	**620,787**	349,480
Amortization of deferred income *(Note 34)*	**312,366**	312,366
Gain on disposal of inventory	**263,499**	314,320
Income from write-off of payables	**75,689**	23,853
Gain on disposal of assets, net	**61,090**	257,696
Management services fees	**13,688**	5,505
Derecognition of financial guarantee issued on behalf of related party *(Note 34)*	**–**	177,743
Amortization of financial guarantee issued on behalf of related party *(Note 34)*	**–**	26,463
Other income	**114,353**	124,564
Total	**1,461,472**	1,591,990

29. OTHER OPERATING EXPENSES

Other operating expenses for the year ended 31 December 2014 and 2013 were presented as follows:

In thousands of Tenge	**2014**	2013
Expenses from revision of estimates for provision on asset retirement obligation and land recultivation	**275,965**	–
Net loss on disposal of property, plant and equipment and intangible assets	**208,654**	461,068
Write off of idle oil pumping stations	**89,126**	21,212
Loss on disposal of inventory	**14,987**	2,594
Other expenses	**61,297**	196,868
Total	**650,029**	681,742

30. FINANCE INCOME

Finance income for the year ended 31 December 2014 and 2013 was presented as follows:

In thousands of Tenge	**2014**	2013
Interest income on bank deposits	**4,407,247**	3,967,511
Dividends income	**80,277**	194,185
Employees loans: unwinding of discount	**14,292**	23,672
Other finance income from third parties	**15,231**	7,758
Other finance income from related parties *(Note 34)*	**–**	4,108
Total	**4,517,047**	4,197,234

31. FINANCE COSTS

Finance costs for the year ended 31 December 2014 and 2013 were presented as follows:

In thousands of Tenge	**2014**	2013
Unwinding of discount on asset retirement and land recultivation obligation *(Note 23)*	**1,036,255**	957,236
Employee benefits:unwinding of discount *(Note 18)*	**579,311**	417,000
Total	**1,615,566**	1,374,236

32. INCOME TAX EXPENSE

Income tax expenses for the year ended 31 December 2014 and 2013 were presented as follows:

In thousands of Tenge	2014	2013
Current income tax expense	**13,409,791**	18,870,045
Deferred income tax expense/(benefit)	**2,289,155**	(5,022,884)
Income tax expense	**15,698,946**	13,847,161

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	2014	2013
Profit before income tax	**62,129,511**	77,390,761
Statutory rate	**20%**	20%
Income tax expense on accounting profit	**12,425,902**	15,478,152
Adjustment of the past periods	**(33,207)**	–
Tax effect of permanent differences		
Loss/(profit) of joint ventures recognized based on equity method	**1,251,010**	(2,369,313)
Gain on surplus of technological oil	**1,142,794**	198,393
Other non-deductible expenses	**351,955**	607,170
Effect of difference in tax rates	**560,492**	(67,241)
Corporate income tax expense reported in the consolidated statement of comprehensive income	**15,698,946**	13,847,161

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 2014	Charged to profit and loss	Foreign currency translation	Charged to other comprehe-nsive income	31 December 2013	Charged to profit and loss	Foreign currency translation	Charged to other comprehe-nsive income	1 January 2013
Deferred tax assets									
Employee benefits and other employee compensation and related costs	**3,117,632**	**(105,027)**	**493**	**198,520**	3,023,646	1,199,277	–	258,400	1,565,969
Financial guarantee issued on behalf of related party	**–**	**–**	**–**	**–**	–	(39,931)	–	–	39,931
Allowance for doubtful debts	**150,355**	**2,907**	**47**	**–**	147,401	113,051	–	–	34,350
Provision for slow-moving and obsolete inventory	**6,242**	**(3,429)**	**28**	**–**	9,643	(3,440)	–	–	13,083
Provision on environmental protection and other provisions	**48,677**	**(39,487)**	**–**	**–**	88,164	17,425	–	–	70,739
Provision on asset retirement and land recultivation obligation	**4,085,750**	**457,097**	**–**	**335,685**	3,292,968	186,761	–	–	3,106,207

32. INCOME TAX EXPENSE (continued)

In thousands of Tenge	31 December 2014	Charged to profit and loss	Foreign currency translation	Charged to other comprehe-nsive income	31 December 2013	Charged to profit and loss	Foreign currency translation	Charged to other comprehe-nsive income	1 January 2013
Taxes payable	**97,362**	**(156,528)**	**–**	**–**	253,890	253,890	–	–	–
Loans to employees	**–**	**(5,086)**	**–**	**–**	5,086	(9,354)	–	–	14,440
Deferred Income from related party	**52,061**	**(62,473)**	**–**	**–**	114,534	(62,473)	–	–	177,007
Financial liabilities on intercompany loans	**128,832**	**128,510**	**322**	**–**	–	–	–	–	–
	7,686,911	**216,484**	**890**	**534,205**	6,935,332	1,655,206	–	258,400	5,021,726
Deferred tax liabilities									
Taxes payable	**–**	**–**	**–**	**–**	–	33,759	–	–	(33,759)
Property, plant and equipment	**(48,854,826)**	**(2,505,639)**	**(552,762)**	**4,676,756**	(50,473,181)	3,333,919	83,936	(9,496,299)	(44,394,737)
	(48,854,826)	**(2,505,639)**	**(552,762)**	**4,676,756**	(50,473,181)	3,367,678	83,936	(9,496,299)	(44,428,496)
Net deferred income tax liabilities	**(41,167,915)**	**(2,289,155)**	**(551,872)**	**5,210,961**	(43,537,849)	5,022,884	83,936	(9,237,899)	(39,406,770)

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.

33. 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 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.

33. SEGMENT INFORMATION (continued)

	For the year ended 31 December 2014				For the year ended 31 December 2013			
In thousands Tenge	**Oil Transportation and related services (Kazakhstan)**	**Oil transshipment (Georgia)**	**Other**	**Total segments**	Oil Transportation and related services (Kazakhstan)	Oil transshipment (Georgia)	Other	Total segments
Revenue								
External customers	**186,996,455**	**15,516,062**	**4,124,596**	**206,637,113**	174,560,034	17,810,315	3,996,456	196,366,805
Total revenue	**186,996,455**	**15,516,062**	**4,124,596**	**206,637,113**	174,560,034	17,810,315	3,996,456	196,366,805
Financial results								
Impairment of property, plant and equipment through profit and loss	**(294,384)**	**(7,619,876)**	**(205,172)**	**(8,119,432)**	(12,663,453)	–	–	(12,663,453)
Impairment of intangible assets through profit and loss	**–**	**–**	**(302,114)**	**(302,114)**	–	–	(165,670)	(165,670)
Depreciation and amortization	**(30,663,438)**	**(2,284,673)**	**(747,938)**	**(33,696,049)**	(28,263,650)	(1,718,004)	(221,198)	(30,202,852)
Interest income	**4,380,727**	**17,561**	**24,191**	**4,422,479**	3,947,430	10,953	14,910	3,973,293
Share in (loss)/income of joint ventures	**(6,255,050)**	**–**	**–**	**(6,255,050)**	11,846,567	–	–	11,846,567
Income tax expense	**(17,146,980)**	**1,441,763**	**6,271**	**(15,698,946)**	(13,647,262)	(265,163)	65,264	(13,847,161)
Segment profit for the period	**52,568,722**	**(5,485,006)**	**(653,151)**	**46,430,565**	62,564,948	748,936	229,716	63,543,600
Total assets	**544,843,461**	**25,391,508**	**15,172,248**	**585,407,217**	544,763,581	31,127,379	14,636,268	590,527,228
Total liabilities	**118,386,824**	**3,515,708**	**5,860,364**	**127,762,896**	112,645,472	5,905,229	4,706,610	123,257,311
Other disclosures								
Investments in joint ventures *(Note 8)*	**49,843,334**	**–**	**–**	**49,843,334**	53,554,027	–	–	53,554,027
Capital expenditures	**69,871,111**	**1,126,388**	**415,184**	**71,412,683**	24,900,504	3,066,226	2,268,820	30,235,550

In thousands of Tenge	**31 December 2014**	31 December 2013
Reconciliation of profit		
Segment profit	**51,560,015**	52,995,198
Adjustments and eliminations	**1,125,600**	(1,298,165)
Recognition of share in (loss)/income of joint ventures	**(6,255,050)**	11,846,567
Group profit	**46,430,565**	63,543,600

In thousands of Tenge	**31 December 2014**	31 December 2013
Reconciliation of assets		
Segment operating assets	**571,177,599**	572,848,054
Adjustments and eliminations	**14,229,618**	17,679,174
Total assets	**585,407,217**	590,527,228

In thousands of Tenge	**31 December 2014**	31 December 2013
Reconciliation of liabilities		
Segment operating liabilities	127,951,554	121,940,318
Adjustments and eliminations	(188,658)	1,316,993
Total liabilities	127,762,896	123,257,311

34. 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 2014 and 2013 and the related balances as at 31 December 2014 and 2013:

Carrying amount of transactions with related parties

Trade and other accounts receivables from related parties were presented as follows:

In thousands Tenge	**Notes**	**31 December 2014**	*31 December 2013*
Trade and other accounts receivable from related parties			
Trade accounts receivable from joint ventures		**1,261,676**	806,094
Trade accounts receivable from entities under common control of KMG		**679,430**	609,882
Trade accounts receivable from entities under common control of Samruk-Kazyna Group		**206**	993
	11	**1,941,312**	1,416,969
Other accounts receivables from entities under common control of KMG and Samruk-Kazyna Group	**11**	**102,156**	35,828
Total		**2,043,468**	1,452,797

Advances provided to related parties were presented as follows:

In thousands Tenge	**Notes**	**31 December 2014**	*31 December 2013*
Advances paid to related parties			
Advances paid to entities under common control of KMG		**361,049**	176,380
Advances paid to entities under common control of Samruk-Kazyna Group		**86,746**	80,785
Advances paid to joint ventures		**81**	–
Total	**12**	**447,876**	257,165

Non-current portion of deferred income to related parties was presented as follows:

In thousands Tenge	**Notes**	**31 December 2014**	31 December 2013
Non-current portion of deferred income from related parties			
Non-current portion of deferred income from entities under common control of KMG		–	260,305
Total	**19**	–	260,305

34. RELATED PARTY TRANSACTIONS (continued)

Carrying amount of transactions with related parties (continued)

Trade and other accounts payable to related parties were presented as follows:

In thousands Tenge	Notes	31 December 2014	31 December 2013
Accounts payables to related parties for goods and services			
Accounts payables to entities under common control of KMG		**629,359**	632,581
Accounts payables to entities under common control of Samruk-Kazyna Group		**43,632**	18,021
Total accounts payable to related parties for goods and services	**20**	**672,991**	650,602
Other payables to related parties			
Other payables to entities under common control of Samruk-Kazyna Group		**–**	1,950
Total other accounts payable to related parties		**–**	1,950
Total	**20**	**672,991**	652,552

Advances received from related parties were presented as follows:

In thousands Tenge	Notes	31 December 2014	31 December 2013
Advances received from related parties			
Advances from entities under common control of KMG		**9,087,230**	8,764,571
Advances from entities under common control of SamrukKazyna Group		**1,527,936**	1,941,567
Advances from joint ventures		**–**	15
Total	**21**	**10,615,166**	10,706,153

Other current liabilities to related parties were presented as follows:

In thousands Tenge	Notes	31 December 2014	31 December 2013
Accounts payable for oil transportation expedition to related parties			
Accounts payable for oil transportation expedition to entities under common control of KMG		**2,871,849**	4,153,476
	24	**2,871,849**	4,153,476
Accounts payable under the agency agreement to the related parties			
Accounts payable under the agency agreement for the transportation of oil to the joint venture		**–**	651,706
	24	**–**	651,706
Employee benefits of key management personnel			
Employee benefits of key management personnel		**6,155**	5,516
		6,155	5,516
Current portion of deferred income from related parties			
Current portion of deferred income from entities under common control of KMG		**260,305**	312,366
	24	**260,305**	312,366
Total other current liabilities to related parties		**3,138,309**	5,123,064

34. RELATED PARTY TRANSACTIONS (continued)

Transactions with related parties

The following tables provide the total amount of transactions, which have been entered into with related parties during the year ended 31 December:

	For the year ended 31 December	
In thousands Tenge	**2014**	2013
Sales to related parties		
Revenue from main activities with entities under common control of KMG	**105,183,134**	94,333,240
Revenue from main activities with joint ventures	**7,048,142**	5,742,000
Revenue from main activities with entities under common control of Samruk-Kazyna Group	**6,724,720**	10,878,953
Revenue from other activities with entities under common control of KMG	**19,852**	315,896
Revenue from other activities with entities under common control of Samruk-Kazyna Group	**8**	103
Revenue from main activities with other related parties	**–**	4,108
Total	**118,975,856**	111,274,300

Revenue from main activities with entities under common control of KMG are related to the services of oil and water transportation.

	For the year ended 31 December	
In thousands Tenge	**2014**	2013
Purchases from related parties		
Purchases of services from entities under common control of KMG	**8,249,333**	7,998,048
Purchases of services from entities under common control of Samruk-Kazyna Group	**1,250,632**	1,191,689
Purchases of inventory from entities under common control of KMG	**1,107,080**	1,997
Purchases of services from joint ventures	**17,758**	–
Purchases of services from other related parties	**–**	2,721,149
Purchases of inventory from entities under common control of Samruk-Kazyna Group	**14,795**	9,226
Purchases of intangible assets from entities under common control of Samruk-Kazyna Group	**111,221**	–
Purchases of property, plant and equipment from entities under common control of Samruk-Kazyna Group	**48,000**	–
Purchases of property, plant and equipment from entities under common control of KMG	**–**	148,401
Total	**10,798,819**	12,070,510

Other operating income of the Group from transactions with related parties was presented as follows:

		For the year ended 31 December	
In thousands of Tenge	**Notes**	**2014**	2013
Other operating income from related parties			
Derecognition of financial guarantee issued on behalf of joint venture	**28**	**–**	177,743
Amortization of deferred income from related parties	**28**	**312,366**	312,366
Amortization of financial guarantee issued on behalf of joint venture	**28**	**–**	26,463
Total		**312,366**	516,572

34. RELATED PARTY TRANSACTIONS (continued)

Finance income of the Group from transactions with related parties was presented as follows:

		For the year ended 31 December	
In thousands Tenge	**Notes**	**2014**	2013
Finance income from related parties			
Other finance income from related parties	**30**	–	4,108
Total		–	4,108

The total remuneration of members of the key management personnel comprised:

In thousands Tenge	**31 December 2014**	31 December 2013
Salary	**146,847**	121,691
Other short-term benefits	**33,355**	16,925
Bonuses based on the results of the previous year	**219,238**	183,989
Post-employment benefits	**1,062**	1,301
Total	**400,502**	323,906
Number of persons	**8**	7

35. 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 preceeding 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 2014.

As at 31 December 2014 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 2014.

As at 31 December 2014 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.

35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Taxation (continued)

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 except fot those described in the present financial statements *(Note 5, 23)*.

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 and environmental damage arising from accidents on Group's property or relating to Group's operations.

Contractual commitments

As at 31 December 2014, the Group had contractual obligations to acquire property, plant and equipment, and construction services for the amount of 29,256,791 thousand Tenge (31 December 2013: 33,130,344 thousand Tenge).

Share of the Group as at 31 December 2014 in contractual obligations of joint ventures to acquire property, plant and equipment, and construction services for the amount of 159,201 thousand Tenge (31 December 2013: 1,248,036 thousand Tenge).

Legal proceedings

Legal proceedings with Georgian Railway

In December 2005 Georgian Railway appealed to the court with the claim against Batumi Oil Terminal, which is the part of BTL Group, requesting for debt collection in the amount of 13,942 thousand of Lari (equivalent to 1,391,272 thousands Tenge) as a result of the tank cars being idle from May 2003 till November 2005.

The Group's management considers the claim of Georgian Railway as groundless and estimates the risk of losses as possible and no provision for losses was recognized.

Legal proceedings with Batumi International Container Terminal LLC

BSP was sued by Batumi International Container Terminal LLC (hereinafter-"BICT"), a lessee of berths #4, #5 and #6, certain movable property and 13 hectares of land for a period of 48 years, for violating the lease agreement dated 20 September 2007. The amount of compensation mostly for moral compensation and the lost profits requested by BICT LLC is 5,422 thousands USD (equivalent to 988,702 thousands Tenge) . Presently the Parties signed the Memorandum about suspension of dispute for the period of 6 (six) months for the further negotiations with purpose to conclude an agreement.

The Group's management considers the claim of BICT as possible and no provision for losses was recognized.

Expropriation of the Batumi Sea Port (hereinafter-"BSP") assets

In accordance with BSP Management Right agreement between BTL (before BIHL) and Georgia Government, Georgian Government has the right for expropriation of the BSP's assets, in case the BSP in the course of 2 years does not meet its obligations on minimum volume of transshipment, which

35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Expropriation of the Batumi Sea Port (hereinafter-“BSP”) assets (continued)

is 4 million tons per year. As at 31 December 2014 the Group’s management considers BSP was not exposed to risk of asset expropriation from the Government of Georgia, as actual volumes of transshipment were more than 7.8 million tons (31 December 2013: 10 million tons).

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group’s principal financial liabilities comprise 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: 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.

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.

The Group places deposits with Kazakhstani and foreign banks *(Notes 15 and 16)*. 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 cash and cash equivalents at the 31 December 2014 and 2013 using the “Moody’s” “Fitch” and “Standard & Poors” credit ratings.

Bank	Location	Rating			
		2014	2013	**2014**	2013
Halyk Bank Kazakhstan JSC	Kazakhstan	BB/Stable	Ba2/Stable	**43,979,994**	34,892,638
KazKommertsBank JSC	Kazakhstan	B/Stable	B2/Stable	**19,958,265**	44,793,592
Cesna Bank JSC	Kazakhstan	B+/Stable	B/Positive	**8,787,871**	10,040,000
SberBank Russia JSC	Kazakhstan	BB+/Negative	Ba2/Stable	**2,001,131**	10,424,707
BNP Paribas	Cyprus	A1/Negative	A2/Stable	**1,878,023**	922
Delta Bank JSC	Kazakhstan	–	–	**985,401**	–
TBC Bank	Georgia	B1/Stable	B1/Stable	**184,174**	23,502
Basis Bank	Georgia	BB/Stable	B/Stable	**117,980**	17,358
Hellenic Bank	Georgia	Caa3/Stable	Caa3/ Negative	**92,269**	318,280
Bank of Georgia	Georgia	B1/Stable	B1/Stable	**28,264**	13,825
Bank of Cyprus	Georgia	Caa3/Stable	Ca/Negative	**1,094**	6,450
Cartu Bank	Georgia	–	–	**365**	154
GazBank	Russia	–	–	**167**	490
RBS Bank Kazakhstan JSC	Kazakhstan	A3/Negative	A3/Negative	**12**	41
Citi Bank JSC	Kazakhstan	A2/ Stable	A2/ Stable	**10**	5
BankCentrCredit JSC	Kazakhstan	B2/ Stable	B2/ Stable	**–**	5,103,161
Kaspi Bank JSC	Kazakhstan	B1/Stable	B1/Stable	**–**	2,000,000

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Bank	Location	Rating			
		2014	2013	**2014**	2013
Bank Kassa Nova JSC	Kazakhstan	B/Stable	B/Stable	**–**	1,000,000
Berenberg Bank	Cyprus	–	–	**–**	701,690
ATF Bank JSC	Kazakhstan	B-/Stable	B-/Stable	**–**	62
HSBC Bank Kazakhstan JSC	Kazakhstan	–	–	**–**	3
Total				**78,015,020**	109,336,880

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 2014 and 2013 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 2014						
Trade and other payable	–	15,553,243	47,929	172,569	–	15,773,741
	–	**15,553,243**	**47,929**	**172,569**	**–**	**15,773,741**
As at 31 December 2013						
Trade and other payable	–	10,736,434	84,725	274,848	–	11,096,007
	–	10,736,434	84,725	274,848	–	11,096,007

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 2014					
Assets	**54,518,667**	**5,791**	**198,579**	**510,579**	**55,233,616**
Liabilities	**877,396**	**53,998**	**26,131**	**529,361**	**1,486,886**
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

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 significant impact on the Group's equity.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

In thousands of Tenge	Increase/decrease in US Dollar rate	Effect on profit before tax
2014	**+17.37%**	**9,317,893**
US Dollar	**-17.37%**	**(9,317,893)**
2014	**+33.54%**	**(16,168)**
Russian Ruble	**-33.54%**	**16,168**
2013	+30.00%	241,766
US Dollar	+10.00%	80,589
2013	+20.00%	(17,136)
Russian Ruble	-20.00%	17,136

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 2014 and 2013.

As at 31 December 2014 and 2013 the Group does not have significant debts. The Group has sufficient cash, exceeding its debt as at the reporting date.

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.

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