

**Confirmed by resolution
of the Sole Shareholder
of JSC “KazTransOil”
(minutes of the meeting
of the Management Board
of JSC NC “KazMunaiGas”
dated «__» _____ 2011 №__)**

**Annual Report
JSC “KazTransOil”
for 2010**

Astana city, 2011

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I. About the company

1. Mission, vision, history of foundation and core activities

Mission

Provision of qualitative, timely and cost-competitive services on uninterrupted oil transportation, transshipment and storage with provision of equal conditions of customer access to the network of main oil pipelines of JSC “KazTransOil”.

Vision

JSC “KazTransOil” - highly efficient, competitive, and profitable oil transportation company with modern diversified oil pipeline network.

History of foundation

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

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

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

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

Core Activities

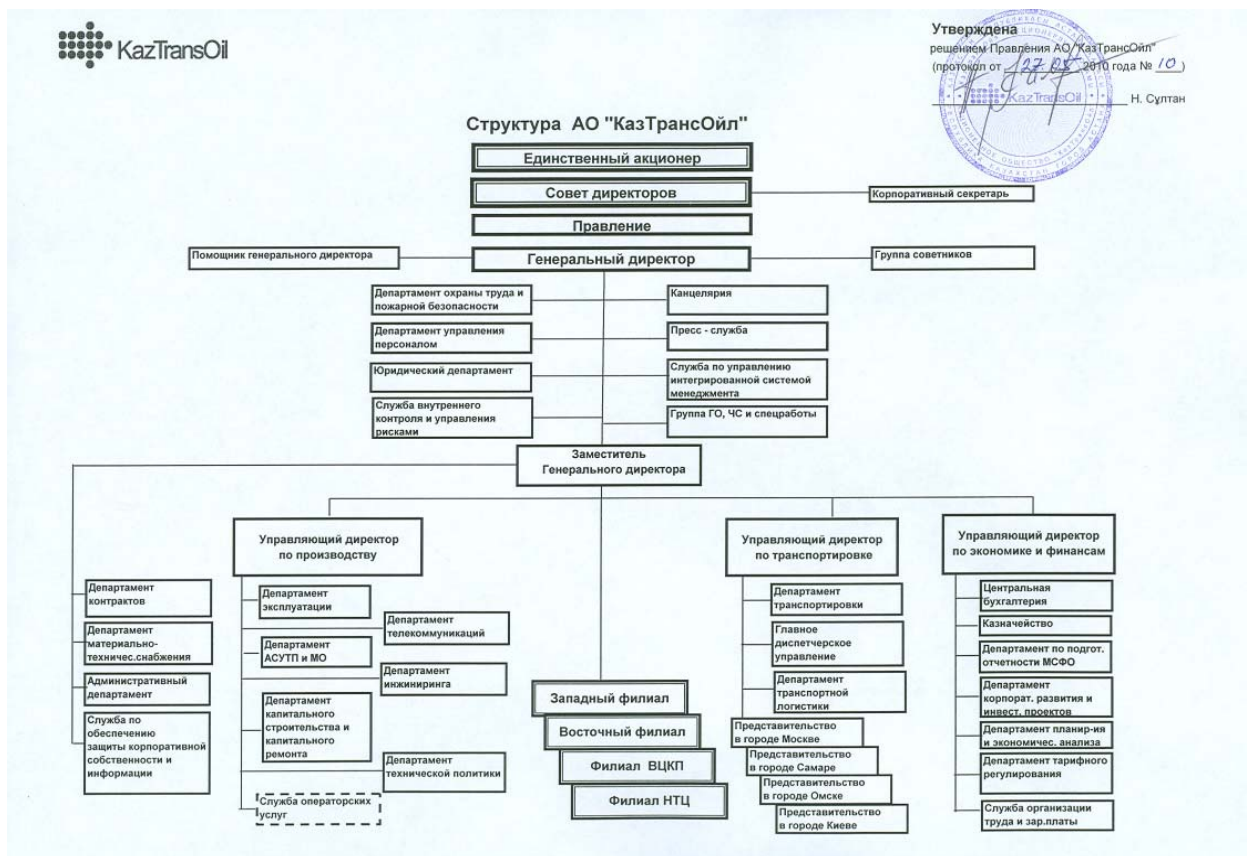
The subject of activities of the Company is provision of services on oil transportation (pumping, transshipment, unloading, loading, storage, mélange) via main oil pipelines, transportation and transit of Kazakh oil via oil pipeline networks of other countries (operator activity on unified routing), operation and technical maintenance of main pipelines that belong to other legal bodies, provision of services on water supply via main pipeline, provision of services on production, transfer and distribution of heating energy, transfer and distribution of electrical energy, transportation of natural gas through distribution pipelines for consumers of the Republic of Kazakhstan, as well as other kinds of activity not prohibited by the legislation of the Republic of Kazakhstan.

2. Structure of JSC “KazTransOil”, subsidiary, jointly controlled, and other organizations of the Company

The Company has four branches: The Western Branch (the city of Atyrau); The Eastern Branch (the city of Pavlodar); “Computing Center of Collective Use of JSC “KazTransOil” (the city of Astana); “Scientific-Technical Center of JSC “KazTransOil” (the city of Almaty).

The Company has three representations in the Russian Federation in the cities of Moscow, Samara, Omsk and one representation in the Ukraine in the city of Kiev.

Structure of the Company



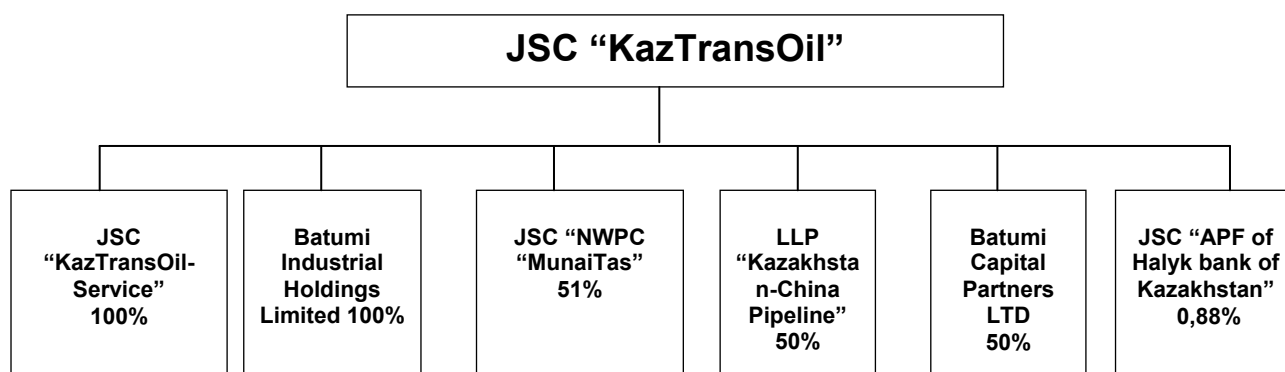
Structure of production assets

The Company operates the following production objects (as of January 1, 2011).

Main pipelines::	
extension	7 258,54 km
length (single-line)	7 458,09 km
Including:	
Main oil pipelines	
extension	5 287,34 km
length (single-line)	5 309,99 km
Main water pipelines	
extension	1 971,2 km
length (single-line)	2 148,1 km
Tank farms	1 373,9 thou.cub.m
including:	
For oil	1 219 thou.cub.m
For water	154,9 thou.cub.m
Oil pumping stations	38 pieces
Oil heating stations/points	7 pieces
Preheaters	64 pieces
Loading/unloading racks	4 pieces
Main disposal facilities	1 piece
Water pump stations	3 pieces
Water treatment installations	1 piece

The Company possesses shares (interest) in the following organizations:

Subsidiary, jointly controlled, and other organizations of the Company



Organization	Share of the Company, %	Subsidiary and jointly controlled organizations	Share, %
JSC "KazTransOil-Service"	100	LLP "MC "Meirim"	100
"Batumi Industrial Holdings Limited"	100	Port Capital Partners Limited	100
		Batumi Services Limited	100
		Batumi Capital Partners Limited	50
		Batumi Terminals Limited	38,12
JSC "NWPC "MunaiTas"	51	—	—
LLP "Kazakhstan-China Pipeline"	50	KCP Finance B.V.	100
"Batumi Capital Partners LTD"	50	Batumi Terminals LTD	61,88
JSC "APF of Halyk Bank of Kazakhstan"	0,88	—	—

3. Key performance results as of the end of the year, as well as in dynamics for the last three years

Main consolidated production indicators

	2008	2009	2010	2010 to 2009, %
Volume of transportation ¹ , thousand tons	60 630	64 187	65 825	102,6
Oil cargo turnover, mln.tons.km	36 533	38 709	41 351	106,8
Supply of water, thousand cubic meter	19 501	18 926	21 361	112,9
Staff size as 31 December, persons	9 829	9 993	10 034	100,4

¹ Volume of oil transportation includes data on transfer of oil products of BIHL

Main consolidated financial indicators, (mln. tenge)

	2008	2009	2010	2010 to 2009, %
Revenue from products sold and services provided	118 815	126 181	138 241	109,6
Prime cost	69 015	71 443	82 407	115,3
Gross margin	49 800	54 739	55 834	102,0
Income before CIT	19 772	28 395	26 082	91,9
Total income	20 058	15 538	19 618	126,3
Assets at the year end	305 087	325 333	418 715	128,7
Long term liabilities at the year end	48 737	38 899	44 214	113,7
Current liabilities at the year end	35 837	43 632	36 186	82,9
Equity	220 514	242 803	338 315	139,3

Consolidated assets of the Company as of December 31, 2010 grew up to 418.7 billion tenge, which is for 28.7% higher of the indicator of 2009 (325.3 billion tenge). Consolidated income of the Company from core activity in 2010 is equal to 138.2 billion tenge, which is higher than the same indicator of 2009 (126.2 billion tenge) for 9.6% and higher than the same indicator of 2008 (118.8 billion tenge) for 16.3%. The main reasons for growth of incomes of the Company are growth of oil transportation volumes, increase of tariff per unit for the services of oil pumping for export (starting from January 1, 2010).

Total income of the Company for 2009 is equal to 19.6 billion tenge, which is lower than the level of 2009 for 26.3% (4.1 billion tenge).

4. Key markets of the Company

Within the following years a significant growth due to increase of production of oil on Tengiz, Karachaganak, as well as beginning of production on new oil field of Kashagan and other sea shore structures of Kazakhstan sector of Caspian Sea is forecasted. Meanwhile, on onshore oil deposits which represent basic resource base for the Company reduction of production level is forecasted from 2014-2015.

Considering tight interactions of oil transport networks of the Republic of Kazakhstan with CIS countries, strengthening of cooperation of Company with oil transporting enterprises of Russia, Azerbaijan, Ukraine and Belarus, carrying out transit of Kazakh oil, plays important role in increase of oil transportation volume.

Oil pipeline networks of Russian Federation are one of the most prioritized directions of oil transportation, in which significant volumes of oil are directed for delivery of oil to Europe.

Kazakhstan-China oil pipeline occupies significant share in transported by the Company oil to prospective and rapidly developing market of China.

Moreover, important export direction for Kazakhstan oil companies is Aktau Sea port, where the Company transships oil from pipeline and railroad transport to tankers.

Apart from oil transportation for export, the Company provides for transportation of oil to oil refineries of Kazakhstan, which is important objective for ensuring the internal market with oil products.

5. Strategic development directions

Strategic development directions of the Company are activities aimed at

maximization of shareholder value (capitalization) of the Company.

The essence of this direction is in integration of practice of managerial; decisions aimed at maximization of future free cash flow.

Implementation of the strategic development of the Company is planned on the basis of accomplishment of the following strategic goals:

1. Preservation/growth of current and future revenues of the Company.
2. Optimization of expenditures.
3. Increasing of efficiency of capital investments.
4. Development of existing system of main oil pipelines and participation in construction and exploitation of new oil export pipelines.
5. Construction of high-performance oil pipeline company.
6. Improvement of existing system of organization of labor and capacity building of personnel.
7. Ensuring observance of requirements and constant improvement of work in the field of fire, labor, and environmental safety.

For ensuring further growth of volumes of transportation and maximization of income the Company intends to:

- follow the strategy of provision of reliable, uninterrupted and high-performance oil transportation, both on internal market and for export, and diversification of directions of oil transportation;
- hold negotiations with oil producing companies to attract volumes from new oil deposits;
- participate in implementation of new oil pipeline projects (Yeskene-Kuryk, expansion of throughput capacity of Atyrau-Samara section of Uzen-Atyrau-Samara oil pipeline, expansion of throughput capacity of "Kazakhstan-China" oil pipeline);
- contribute to loading of capacities and development of foreign assets of the Company (Batumi Oil Terminal);
- hold constant upgrade and technical re-equipment of existing production assets with purpose of improvement of quality of services provided, optimization of operational expenditures, improvement of energy efficiency, power saving, exploitation reliability, environmental and industrial safety of functioning of production objects;
- continue monitoring of the main international projects such as expansion of throughput capacity of "Baku-Tbilisi-Ceyhan" oil pipeline, design and construction of "Burgas-Alexandropoulos" and "Samsun-Ceyhan" oil pipelines, which can be used upon transportation of Kazakhstan oil to global markets.

The Company, while preserving, strengthening, and growing its position as of the largest oil pipeline company of the Republic of Kazakhstan, by 2015 will strive for achieving consolidated volume of oil transportation in the amount of 67 175 thousand tons, oil cargo turnover 46 715 mln.ton.km per year, EBITDA margin not lower than 47%, and ROACE at the level of 13,6%.

Considering that presently Kazakhstan, represented by JSC NC "KazMunaiGas" controls about 27% of oil production in the country, the basic leverage of state influence on petroleum industry is state oil pipeline company.

The Company, while securing interests of state in oil transportation must increase its share on the market of oil transportation services and diversify supply directions, both for internal market, and for export.

II. Production Activity

1. Oil transportation and water supply

In 2010, consolidated volume of oil transportation was equal to 65.8 mln.tons, having exceeded the indicator of 2009 for 2,6% (1,6 mln.tons). The increase of volumes of

oil transportation via pipeline system of the Company is related to increase of submissions of oil to the system of main oil pipelines from oil and gas producer organizations.

Consolidated oil cargo via system of main oil pipelines of the Company for 2010 is equal to 41,4 billion ton.km, which is higher than the correspondent indicator of 2009 for 7,8% (2,6 billion ton.km).

In 2010, the volume of oil transportation at "Atyrau – Samara" oil pipeline reduced by 2.2 mln. tons down to 15,3 mln. tons. Upon results of 2010, the volume of oil through put via "Atasu-Alashankou" oil pipeline was equal to 10,1 mln. tons, which is for 2,4 mln. tons more than in the same period of 2009 (7,7 mln.tons of oil).

The Company carries out supply of Volga water to consumers in Atyrau and Mangistau oblasts of Kazakhstan via "Astrahan-Mangyshlak" waterline. In 2010 the volume of water supply was equal to 21,4 mln.m3, for 2,4 mln.m3 more than indicator of 2009.

2. Development of the existing system of main oil pipelines

For the purposes of systematic development of the oil transport system, the Company implements activities in accordance with the Program of development of main oil pipeline system, which is annually updated.

Thus, in the framework of activities on development and maintenance of existing system of main pipelines the following works were executed in 2010:

1. The Program of gradual change of pump aggregates of JSC "KazTransOil" for 2011-2015 was confirmed.

2. The plan of activities on energy saving and reduction of technical losses of heating and energy power of JSC "KazTransOil" for 2011 was confirmed.

3. The Program of technical re-equipment of the Company for 2010-2020 was confirmed.

Main goals of elaboration of the program are:

- Increasing operating reliability and environmental safety of production facilities (compliance with Kazakhstan and international standards of production activity safety);
- Provision oil producer companies with quality, modern, and competitive services on oil transportation;
- Reduction of operational expenditures.

Apart from that the Company, upon development of new projects constantly brings in technical solution on application of advanced types of equipment, including scientific technologies and new types of equipment.

3. Investment projects

The Company actively holds work on implementation of investment projects aimed at comprehensive and prospective development of own network of main pipelines in accordance with requirements of dispatchers.

In 2010 activities on the following investment projects were executed:

Head oil pumping station "Kumkol"

To provide for oil pumping from oil fields of Kumkol and Aktobe regions in direction of China, within the frames of implementation of project on the second stage of construction of Kazakhstan-China oil pipeline, in December 2010 new and essential for production activity facility – head oil pumping station Kumkol of Zhezkazgan oil pipeline board of the Eastern branch of the Company (hereinafter – HOPS "Kumkol") was launched.

HOPS "Kumkol" is a part of implementation of the largest project of the Company and the country in a whole – creation of exporting main oil pipeline Kazakhstan – China. Construction of HOPS "Kumkol" was conditioned by framework agreement, concluded between the government of the Republic of Kazakhstan and the government of Chinese

People Republic on development of comprehensive cooperation in the field of oil and gas (Beijing, May 17, 2004).

The main purpose of HOPS “Kumkol” is acceptance of oil from the Western oil fields of Kazakhstan and Kumkol region through the new oil pipeline Kenkiyak-Kumkol for its further transportation via Kumkol-Karakoin pipeline in the direction of Shymkent oil refinery and through main oil pipeline “Pavlodar-Shymkent” in direction of Chinese People Republic via Atasu-Alashankou.

Equipment representing the advanced developments of leading global producers is installed on HOPS “Kumkol”: pumping equipment “Ruhrpumpen” (Germany), “Siemens” (Germany) automated system, energy power – from “ABB” (Finland), system of vibration diagnostics and pumping aggregates “Bentley Nevada” (USA).

HOPS “Kumkol” has become the first in the Eastern branch and the sixth pumping station in the Company on which one of the advanced methods of oil pipeline mode regulation – variable speed drive (hereinafter - VSD) of main pumping aggregate was introduced. For the first time VSD was introduced on the facilities of the Company in 2002, allowing to reduce the consumption of electrical energy by 30%. Moreover, the Company has become the first company in CIS, which successfully implemented VSD on pipeline transport. With its help also increase of coefficient of performance of pumping aggregates up to 90% was reached.

Loading-unloading rack No.1 of OPS “Atyrau”

In February of 2010 the Company accomplished works on reconstruction of two-side loading-unloading rack No.1 of OPS Atyrau.

As a result of modernization the Company received contemporary and progressively equipped production object that is managed by means of automated programmed technical complex. This will allow to qualitatively improve technological process of Atyrau rail loading and unloading terminal and increase its throughput capacity.

On the terminal accounted for simultaneous serving of 60 railroad cisterns, during the process of modernization previous facilities of oil loading were replaced by modern equipment, complying with advanced international standards, automated system of management process was introduced, allowing to monitor the loading, necessary measurements and calculations, compiling the dispatching documents through SCADA system. To strength the fire safety on the object the rack was equipped by stationary automated fire extinguishing installation, envisaging automated execution of protective activities, as well as distance and local management and alarm. Should be noted that loading-unloading rack No.1, tank farm and inner park infrastructure of OPS “Atyrau” allow preserve the quality of oil of dispatcher.

Batumi Oil Terminal and Batumi Sea Port

In February of 2008 the Company acquired 100% of shares of “Batumi Industrial Holdings Limited” (hereinafter - BIHL). The main production structures of BIHL group of companies are Batumi Oil Terminal and Batumi Sea Port.

Strategic goal of acquisition of BIHL is concluded in creation by the Company of strategically important oil transport corridor, ensuring direct access of Kazakh oil and oil products to the liquid market of the Black Sea.

For acquisition of BIHL company the Company was rendered a financial assistance by JSC NC “KazMunaiGas”. For the purposes of return of given financial assistance the Company attracted a “club loan” at beneficiary conditions for the Company. On March 10, 2010 the Company early redeemed the remaining part of the principle debt on “club loan” at the amount of 137 million USD.

Batumi Oil Terminal (hereinafter – BOT)

BOT provides services on unloading, storing and loading of petroleum products. The capacities of the terminal allow transshipping up to 21 kinds of oil and oil products using 139 tanks, 6 unloading racks, 3 piers and one single buoy mooring (SBM). Total

effective tonnage of BOT comprises 452 859 tons on light and heavy oil products, oil and gas. Maximal throughput capacity of BOT equals to 15 mln. tons a year.

Batumi Sea Port (hereinafter – BSP)

BSP is located on the Georgian sea shore of the Black Sea and represents the transport knot, uniting marine, railroad and motor transport.

BSP specializes on throughput of wide range of cargo. In the structure of cargo turnover transit of liquid oil and dry cargo prevails.

In 2010 in comparison with 2009 reduction of oil and oil products throughput volumes by 5% along BIHL group of companies emerged. According to the results of 2010 the volume of oil and oil products throughput comprised 6 116 thou.tons.

Capital investment made on BIHL in 2010 allowed updating and strengthening the available assets in BOT and BSP. On BOT it was managed to successfully accomplish the installation of gas capturing systems on railroad racks and tanks, allowing to throughput oil from Tengiz oil fields.

In 2010 work on BIHL group of companies restructuring with purpose of elimination of intermediate managerial levels between the Company and main production assets and liquidation of non-production companies of BIHL group was continued.

Within the restructuring of BIHL group of companies held in 2010:

- by resolution of Committee under the Management Board of JSC NC “KazMunaiGas” on business-direction “Oil transportation” target structure of BIHL group was approved;

- «Caucasus Maritime Ltd», «Alegratrans Overseas Limited» (by means of merger) and «Batumi Port Holdings Limited » were liquidated;

- transfer of 100% controlling interest of BSP was executed from Batumi Port Holdings Limited to BOT.

During the period 2011-2015 it is planned to implement the activities on upgrade of gas capturing system of tank farms and oil piers, construction of buffering reservoirs of oil and jet-fuel sections, construction of offshore mooring, new tank farm and other activities on maintenance of reliability of BSP and BOT.

4. Tariff Policy

In accordance with the Law of the Republic of Kazakhstan “On natural monopolies and regulated markets”, the Company is included into the Republican Section of State Register of subjects of natural monopolies, confirmed by the order of the Chair of the Agency of the Republic of Kazakhstan for Regulation of Natural Monopolies (hereinafter – ARNM) No.16-OD dated January 24, 2005, in the following spheres of natural monopolies:

- service on transportation of oil and/or oil products through main pipelines;
- services on water and/or disposal systems;
- services on storage, transportation of gas or gas condensate via main and/or distribution pipelines, operation of gas distribution plants and gas distribution gas pipelines related to them;
- services on production, transfer, distribution and/or provision of heating energy;
- services on transfer and/or distribution of electric energy.

Altogether the Company provides 49 regulated services.

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

The existing Methodology of calculation of tariffs on the services of oil transportation

through main pipelines is confirmed by the order of the ARNM No.202-OD, dated July 27, 2007. In accordance with the given Methodology, the tariffs on pumping of oil through sections are calculated on the basis of tariff per unit, i.e. tariff on pumping of 1 ton of oil per 1000km. The net current capital is included into calculation of income only to the tariff on oil transportation. For the purposes of load stimulation of internal market of the Republic of Kazakhstan, upon calculation of the tariff level subsidizing of routes for internal market is permitted at the expense of routes for export and transit oil transportation.

Besides, by the order of the ARNM No.304-OD, dated July 5, 2004 the Instruction on calculation of the rate of income on regulated base of employed assets of subjects of natural monopolies, providing services on transportation of oil through main pipeline system was confirmed.

Thus, from January 1, 2010 ARNM introduced new tariffs on the following services on oil transportation via system of main pipelines of the Company:

- tariff on oil pumping via main pipelines system for export was confirmed at the level of 3 331 tenge for 1 ton per 1000 km without VAT. The tariff on the service of oil pumping via main pipeline system to internal market remained at the same level of 1 303 tenge for 1 ton per 1000 km without VAT;

- the tariff on the service on storage of oil in tanks in the amount of 223,42 tenge for storage of 1 ton per month without VAT;

- the tariff on the service on transfer of oil at OPS "Makat" of to "Kenkiyak-Atyrau" oil pipeline in the amount of 425 tenge for 1 ton without VAT.

As a result of reconstruction of rail rack No.1 at OPS "Atyrau", the tariff on the service of loading of oil to rail tanks at OPS "Atyrau" was reconsidered and determined at the level of 304,18 tenge for 1 ton without VAT, effective from January 1, 2010.

5. Activities on elimination of illegal tie-ins

To fight with tie-ins into oil pipelines and oil steal the Program on development and improvement of measures on ensuring security of objects of JSC "NC "KazMuaniGas" and its subsidiary organizations for 2008 – 2011, confirmed by the order of Chair of the Management Board of JSC NC "KazMunaiGas" No. 312, dated October 12, 2010, was adopted.

To increase the safety level of the linear part of the main oil pipelines of the Company in the most criminal regions of main oil pipelines "QinetiQ Optasense" security system, functioning on the basis of fiber-optic cable laid along main oil pipelines, was introduced and been operating. Given security system is the newest technical development based on the method of acoustical monitoring of illegal tie-ins to the secured zone of oil pipeline, allowing to monitor day-an-night in real-time mode.

The analysis of operation of the "QinetiQ Optasense" security system installed at "Zhanazhol – Kenkiyak" main oil pipeline demonstrated its efficiency on protection from illegal tie-ins. In result of functioning of given system on "Zhanazhol – Kenkiyak" main oil pipeline the number of detected illegal tie-ins reduced from 10 till 4 in 2010.

Considering the positive experience of operation of given system at the end of 2010 analogical systems were launched on the sections "Tauchik – 250km" (77km) of "Kalamkas – Karazhanbas – Aktayu" oil pipeline and "1504km-1619km" (115 km between HOPS Chulak-Kurgan – HOPS Shymkent) of "Pavlodar – Shymkent" oil pipeline.

Also works on launch of leakage detection system (LDS) on main oil pipelines of Western and Eastern branches of the Company: hydro-acoustic LDS IMS (Russia) and statistical LDS ATMOS Pipe (England), are been performed. Given security system is the newest technical development, based on the approach of acoustic monitoring of illegal tie-ins into secured zone of oil pipelines, and allows holding constant real time monitoring.

Parametrical system of leakage detection ATMOS (minimal detected volume no less than 2% of pumped volume, the coordinate of leakage place ± 1 km) is introduced on

the sections of main oil pipelines of the Company:

- "Uzen-Atyrau-Samara" (section OPS "Kulsary" (528 km) – HOPS "Bolshoi Chagan" (1152,4 km).

- "Prorva-Kulsary" (length of the section – 103 km).

- "Pavlodar – Shymkent" (section HOPS "Atasu" – OPS "Zhuan-Tobe", length of the section 608,3 km)

- "Kumkol-Karakoin" (2 lines, total length of the sections – 397,8 km).

Hydro-acoustic leakage detection system (minimal detected volume no less than 0.5% of pumped volume, the coordinate of leakage place $\pm 300\text{m}$) is introduced on the sections of main oil pipelines of the Company:

- "Uzen- Atyrau -Samara" (section HOPS "Uzen" –"Sai-Utes" (145 km)

- "Uzen -Zhetybai-Aktau" (section HOPS "Uzen" – OPS "Zhetybai" (63 km) length of the section – 63km)

- "Pavlodar – Shymkent" (section "Zhuan-Tobe" (1289,3 km) – HOPS "Chulak-Kurgan" (1438,9 km) length of the section – 149,6 km).

For the purposes of control over navigation of the oil pipelines security mobile groups on the linear part of main oil pipelines of the Western and Eastern branches of the Company "Step-test" system is introduced and has been operating.

In October of 2010 the Head of the state endorsed a Law of the Republic of Kazakhstan "On introduction of changes and addenda to some legislative acts of the Republic of Kazakhstan on issues of strengthening of the responsibility in the sphere of oil and some kinds of oil products turnover", aimed at strengthening of criminal and administrative liability in the indicated activity area.

According to the results of 2010 106 illegal tie-ins to the main oil pipelines of the Company were detected. For comparison, in 2009 148 tie-ins were detected.

Thus, for the first time within the last 6 years the reduction of number of security incidents took place, while earlier the annual growth was observed. The number of detected illegal tie-ins into oil pipelines reduced almost by one third: of the Western branch - from 92 till 78, Eastern branch of the Company– from 56 till 28.

The cost of expenditures on emergency restoration works equaled to 35 mln. tenge, damage too environment comprised 8.6 mln. tenge.

6. The system of management of information security

Information is the most important part of assets of any company. Effective control over these assets, their protection from illegal access, steal and any other not envisaged by the order application is of primary importance for the company.

As far as information system of the Company develops and grows a necessity in constant and gradual development and upgrade of System of information security management (SISM) emerges.

During May-June of 2010 the leading specialists of "BSI" company educated the employees of the Company on the following topics:

- "System of information security management in standards of ISO 27001:2005 and ISO 17799:2005"; "Internal audit of information security in compliance with requirements of ISO 27001:2005" – 16 persons;

- "Comprehension of the standard BS 25999 and Business continuity management system" – 18 persons;

In October of 2010 LLP "Ernst and Young" conducted audit of IFRS in part of IT-audit of the Company.

During the period from May till November of 2010 jointly with consultants of LLP "Jet Info systems" the following activities were accomplished:

- methodology of analyses of information security risks, as well as business continuity ensuring methodology was developed;

- report on inventory of assets of the Company, report on results of analysis of risks of the Company, report on assessment of impact of SAP FI system on business and risk analysis of the Company was prepared;
- plan of processing of risks of the Company, plan of recovery of resources after failures (for SAP FI) was compiled;
- assessment of security of resources of information safety of the Company (external and internal scanning) was conducted.

In December 2010 the visit of employees of the Company to JSC “Uralsibnefteprovod” was organized for sharing experience on battling illegal tie-ins and development of information safety.

In November 2010 recertifying audit by “BSI” Company on compliance with standard of informational safety ISO/IEC 27001:2005 was conducted. The certified area is module FI of SAP system.

7. Integrated Management System

The Company developed, integrated and operated integrated management system on quality, health, safety, and environment (hereinafter IMS), developed on the basis of requirements of ISO 9001, ISO 14001, OHSAS 18001.

For the purposes of development and improvement of IMS, in 2010 the Company planned and implemented a number of activities. Assessment of environmental aspects and risks in the field of health and environment at the oil departments of the Western and Eastern branches of the Company was conducted. Correspondent activities were developed and implemented for reduction of revealed high risks. IMS was audited for the purposes of confirming compliance with requirements of international standards ISO 9001, ISO 14001, OHSAS 18001, legislation of the Republic of Kazakhstan, as well as internal documents of the Company. Correction and prevention actions were developed. 12 documents of IMS were developed, processed and confirmed.

In 2010 the reforming of the system of labor safety and management has been started.

Within the frames of this work the foundational standard of the Company “Unified system of works organization on safety and labor safety in JSC “KazTransOil” (hereinafter – USWOSLS) was processed. On December 30, 2010 according to resolution of the Management Board a new edition of given Standard was confirmed as “System of management of safety, labor, and environment in JSC “KazTransOil” (hereinafter – Standard).

The Standard establishes requirements to all key business- processes of the Company: planning, educating, control, analysis on behalf of top management etc. A new edition of Standard includes international practice, aimed firstly, at preventive measures, not on reacting. In accordance with Standard the planning of operation must be based on risks assessment. Principles and approaches to inspections were also significantly amended. From now they represent planned in advance, complex, systematical audits, searching for the reasons of emergence of nonconformance, not the guilty ones. The production personnel must have representatives, authorized to defend the views of employees. In accordance with Standard big attention is paid to qualification and competence of employees of the Company.

In 2004 the Company introduced the system of environmental management and in 2006 – system of management of professional safety and labor safety in accordance with international standards ISO 14001, OHSAS 18001, based on above requirements.

With introduction of both two management systems in the field of safety and labor safety appeared in the Company. These are system of safety management and labor safety in accordance with OHSAS 18001 and Unified system of works organization on safety and labor safety in accordance with the USWOSLS standard. After processing

USWOSLS the Company managed to exclude duplication of given systems, having withdrawn from the existing system the best practice and having included in it international requirements.

The necessity of actualization of USWOSLS was also conditioned by various external and internal changes. Such as the necessity in establishing the procedure of encouraging of employees in the field of labor safety.

The standard was coordinated with Ministry of Labor and Social Safety of the Republic of Kazakhstan, Ministry on Emergency Situations of the Republic of Kazakhstan and Ministry of Environmental Safety of the Republic of Kazakhstan.

III. CORPORATE SOCIAL RESPONSIBILITY

1. Social policy and responsibility

One of the motivating factors contributing to high-performance operation of the Company is its social policy which includes the following:

- sponsorship (charity) assistance;
- coordination of issues on social payments (material assistance to employees and retired employees);
- payments of compensational character;
- arrangement of work on medical insurance of employees of the Company;
- organization and holding of ceremonial corporate events;
- arrangement of sports activities (visiting fitness club, ice skating rink, as well as holding sports contests).

In 2010, in the framework of sponsorship (charity) assistance, the Company provided assistance to socially vulnerable layers of population, veterans, public union of disabled and various public funds in the amount exceeding 310 mln. tenge.

The Company pays special attention to culture and health activities which contribute to formation of corporate culture, maintenance and development of healthy life style.

An integral part of the social policy of the Company is care for health of the personnel working at sites with harmful work conditions.

The Company while recognizing social responsibility of businesses and for the purposes of ensuring maximal benefit to the nation of the Republic of Kazakhstan from its activities, undertakes voluntary obligations on socially responsible participation in the lives of employees of the Company and population as a whole.

On March 10, 2010 the Board of directors of the Company confirmed the Code of Social Responsibility.

The Company highlights the following major principles of social responsibility:

- transparency
- initiative
- economic efficiency
- socially responsible regulation of labor, employment, and production relations issues
- quality of conditions of labor and life of employees and their families
- labor and environmental safety
- economics of the regions
- sports and culture
- sponsorship (charity) activity of the company
- implementation of constant control over social expenses
- improving efficiency of social services provision
- implementation of principles of joint financing
- socially responsible investment

- socially responsible relation with contractors and suppliers

The Company is convinced that the social aspect is getting more significant for business reputation. It supports dissemination of this tendency in the world and is one of the instruments which allows to:

- improve business reputation, establish effective and balanced relations with all interested parties – the government, the Sole Shareholder, consumers, personnel, partners, etc.;
- effectively manage non-production risks occurring in business process;
- ensure systematic development of business by means of quality implementation of contractual obligations with partners and suppliers of services.

2. Development of staff potential and corporate ethics

Development of staff potential

The Company pays special attention to the issues of personnel recruiting, selection, preparation and development.

On March 10, 2010 the Board of Directors confirmed Personnel Policy for 2010-2014. The aim of the Personnel policy is effective management of personnel and strengthening and development of human potential, increasing the value of the Company by means of creation competitive advantage in human capital.

The key priorities of the Personnel Policy of the Company are:

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

The main principles of Personnel Policy are:

- long term character of relations;
- compliance of qualifications of employees with occupied positions;
- interconnection of interests and goals of the company and employees;
- continuity of knowledge and experience, emphasis on development and training of employees;
- remuneration and promotion based on merit and achieved performance results.

For purposes of observance of given principles of personnel policy, as well as for ensuring transparency of the process of recruiting, in July 2010 the Rules on competitive selection of personnel for vacant positions, determining the procedure of attraction and selection on a competitive basis of candidates for vacant positions, were confirmed in the Company. The procedure of competitive selection of personnel for vacant positions is accomplished in the Central office and in administrative offices of branches of the Company.

Preparation and development of personnel, as well as improvement of qualification level of employees is one of priority objectives of the Company. Hundreds of highly qualified employees, who passed targeted preparation and re-training at high educational facilities of the country and abroad, in specialized colleges and education practical facility of the Western branch of the Company (hereinafter - EPC) are working in the Company. On the basis of EPC 1 994 employees of the Company were trained, 1 532 of which are the worker personnel.

As a whole in 2010, the Company trained, re-trained and increased qualification of 5 696 employees on various topics which are directly related to operation of the Company.

Within the frames of realization of Program on educating on master's course in

foreign higher institutions (business-schools) in 2010 an employee of the Company passed education in King's College London upon graduation of which a given employee was awarded a degree in MSc Engineering with Business Management.

Moreover, presently at the expense of the Company an education of employee of the Company in Business-school of Nottingham University for receiving MBA degree is being accomplished.

For the purposes of attraction of young specialist from among best students of leading Universities of the country, the Company admitted 151 students educational and production internships during 2010.

In 2010 "Personnel Pool" program was launched, aimed at revelation of the strongest, potentially successful employees and search of correct application of their skills. Upon its results in 2010 a personnel pool of the Company was formed in the amount of 51 employee. Ratio of production personnel and administrative-managerial personnel among those in the pool is 47% and 53% correspondingly.

Individual plans of development of careers (IPDC) of employees, enrolled in personnel pool of the Company were developed and confirmed. During 2010 in accordance with IPDC more than 10 directions of training programs were organized for pool members, for development of personal skills. 166 participants passed given training. For the purpose of summing-up the first year of training of employees, enrolled in personnel pool, the personnel service of the Company assessed the development of competence of pool members by "360 degrees" method.

In 2010 12 employees, included in personnel pool, were promoted.

For the purpose of strengthening motivation of staff of the Company, for ensuring accident free, highly productive work and increasing professional skills the Company organized contests on the "Best oil pumping station", and the "Best professional". Upon results of the last contest, winners on five specializations became employees of the Eastern branch and three from the Western branch. The winners received certificates and bonuses.

In 2010 the Company held an event on assessment of the Company personnel satisfaction which allowed determining the level of awareness and understanding by employees of corporate goals and objectives of the Company, trust of the Company personnel to its management, identify material and psychological incentives which mostly influence the level of satisfaction and other.

The conducted analyses of key indicators of activity of the Company demonstrated a stable reduction of labor turnover from 4.98% in 2005 till 2.10% in 2010 and increase of satisfaction degree from 73% in 2008 till 77% in 2010.

Corporate ethics

For the purpose of creation of a managerial instrument for effective interaction with interested parties on the basis of observance of ethical norms and norms of legislation of the Republic of Kazakhstan, the Board of Directors confirmed a Code of Corporate Ethics on March 10, 2010,

Ethical norms of the Company regulate the following major fields of business relations: relations with officials and employees of the Company, state bodies, subsidiary and jointly controlled organizations (hereinafter – SJCO), business partners and the public.

The Company operates in accordance with the following principles of business ethics:

- honesty;
- fairness;
- good faith;
- transparency;
- responsibility.

3. Labor and environment safety

Environmental program

The environmental activity of the Company is accomplished according to the confirmed action plans coordinated with authorized bodies in the field of environment protection as well as with requirements of Environment Code of the Republic of Kazakhstan, acting regulating documents.

In 2010 environment allowances were received, plans of environmental activities and programs of environmental production control for 2011 and further for the objects of the Company with expiring terms of allowances are coordinated in the Ministry of environment of the Republic of Kazakhstan and its structural divisions.

In the framework of implementation of the Comprehensive environmental program of JSC NC "KazMunaiGas" for 2009-2015, in 2010 the Company held a number of activities aimed at prevention of negative affects on the environment, stabilization and improvement of its condition. The following activities are held annually:

- monitoring of air, subsoil, ground, and surface water and soil;
- utilization of wastes of equipment and technique (tires, accumulators, waste oils etc.);
- portioning of emissions (development of standards of maximally permitted emission, wastes, etc.).

In accordance with provisions of Law of Republic of Kazakhstan "On obligatory environmental insuring" the Company annually insures production facilities from emergency pollution of environment. As result of this work in 2010 the Company was paid by the insuring company 4.5 mln.tenge in the result of pollution of soil by oil on 1 623 km of "Pavlodar - Shymkent" main oil pipeline caused by illegal tie-in in 2009.

In 2010 "STC of JSC "KazTransOil" branch also conducted inventory of resources of greenhouse gas emissions on the facilities of the Company. Passports of inventory passed the registration in the authorized state bodies in the established procedure.

In the reporting period the Company continued to held nature preserving activity in accordance with requirements of legislation and international standard ISO 14001. In accordance with Action plan on integrated management system on quality, environment, health and safety, provisions of international standards ISO 14001 and internal standards of the Company actualization and assessment of environmental aspects was conducted in the structural divisions of the Company. Register of substantial environmental aspects of the Company for 2010 was compiled and confirmed.

In June of 2010 compliance audit in the filed of the standard ISO 14001 was conducted in result of which none discrepancies were revealed.

In accordance with agreements concluded in 2010 works on environmental control (air, water and soil) on the objects, portioning of emissions, demercuration of worked out fluorescent lamps, utilization of production and consumption wastes, oil sludge and ground polluted by oil, as well as re-cultivation of polluted lands in the Western and Eastern branches, disposal of sewage were held in full volume and within established terms.

For the purposes of reduction of emissions in air constant works on equipping the tanks with pontoons and gas-equalizing systems are held. For example, to reduce the losses of light fractions of oil in the result of evaporation and decrease of negative impact on the environment in 2010 2 tanks on HOPS named after Dzhumagaliyev of Zhezkazgan oil pipeline department of Eastern branch of the Company were equipped with pontoons, allowing to reduce the volumes of emissions into the air from each tank from calculated 786.75 tons down to 158.83 tons (5 times) in 2010. Environmental payments on given resources comprised 556.4 thou.tenge in 2009 and 111.2 thou.tenge in 2010.

The dynamics of Company's spending (not considering the environmental payments) on activities on article "Environment protection" comprised: in 2007 – 365 mln. tenge, in 2008 – 665,5 mln. tenge, in 2009 - 403 mln. tenge, in 2010 – 837 mln.tenge.

**Table of indicators
on environment protection**

№	Name	units	2010
1	Emissions of pollutants	tons	23 590
2	Spillover of wastewaters	Thou. m3	685
3	Content of pollutants in wastes	tons	155
4	Wastes generation within the reporting period	tons	16 244
5	Disturbed soils in the reporting period	ha	5,6
6	Disturbed soils, total	ha	4,9
7	Re-cultivation of disturbed lands	ha	7,2
8	Environmental payments	Thou.tenge	80 288
9	Current expenses on environmental activities	Thou.tenge	837 321

Labor and fire safety

Activity of the Company in the field of labor and industrial safety is held in strict compliance with existing legislation of the Republic of Kazakhstan and correspondent technical documents regulating rules and instructions on safety and labor safety, industrial and fire safety.

In the reporting period, the Company implemented plan of organizational - technical, social - economic, sanitary and hygienic, medical and preventive activities on improvement and enhancement of labor conditions, prevention of industrial traumatism and professional injuries in the Company.

In accordance with existing 5 step control system over state of labor conditions, a permanent commission on labor safety of Central office of the Company in 2010 6 complex inspections of structural divisions of the Company were conducted, upon result of which acts with list of breaches revealed were compiled in the established manner. Further, structural divisions of the Company developed action plans on their elimination.

Moreover, for implementation of the order of JSC NC "KazMunaiGas" No.343 dated November 15, 2010 "On holding complex inspections of subsidiary and jointly controlled organizations of JSC NC "KazMunaiGas" on the issues of labor safety and observance of safety measures", working commission No.2 - business-direction "Oil Transportation" during the period starting from November 29 till December 10, 2010, conducted total inspection of structural divisions of the Company on the issues of labor safety and accident prevention. Upon the results of given inspection none of violations were revealed.

In ETC of the Company and on specialized courses 1 141 employees maintaining the objects of gas boiler control, 415 heads and specialists passed training. Apart from that total number of employees and engineer-technical employees, having passed training and further inspection on knowledge of Law of the Republic of Kazakhstan "On Industrial Safety on dangerous production objects" in the reporting period comprised 1 599 people.

In 2010 4 casualties were registered in the Company.

Dynamics of casualties in 2008-2010

Indicators	2008	2009	2010
Total number of casualties	3	3	4

In all casualties correspondent investigations were conducted and information on casualties was compiled, according to which unplanned instructions and knowledge inspections in structural divisions of the Company were held.

Also necessary activities aimed at prevention of accidents were carried out, including bringing to disciplinary liability of individuals, responsible for the case, unplanned inspection of buildings and extraordinary testing of certain employees of the Company.

– In 2010 work on labor safety management system reforming of the Company was started. Within the frames of project draft structure of labor safety management system of the Company was prepared, envisaging changes pursuing receiving of operating independence of employees of labor and fire safety services of the Company from the management of division, which they are attributed to. Moreover, the draft of reforming envisages creation of additional 17 staff units on labor safety, enabling presence of employee on labor safety in most of production divisions of the Company. The documents, regulating given procedures will enter into force in 2011.

Apart from that, in 2010 on internal web-portal of the Company section on labor and fire safety was created and training for 202 representatives of heads and staff of structural divisions of the Company was organized on topic “Labor safety on enterprise”. After completion of training courses all employees of the Company were examined and awarded with correspondent certificates.

The expenses of the Company on labor safety activities comprised: in 2008– 88,3 mln.tenge, in 2009 - 348,1 mln.tenge, in 2010 – 395,1 mln.tenge.

The work of the Company in the sphere of fire safety ensuring is based on observance of provisions of Law of the Republic of Kazakhstan “On Fire Safety”, technical regulations, and other regulating and technical documents, stipulating requirements in the field of fire safety.

During 2010 a certain scope of work was accomplished directed at provision of fire safety, fire prevention and maintenance of fire safety mode on the facilities of the Company. All facilities of the Company are provided with primary fire extinguishing means.

In 2010 the following activities were held in the Company:

- Fire-tactical exercises (33 activities);
- Fire-tactical trainings (643 activities);
- Checking of working efficiency of automatically fire extinguishing installations (142 activities);
- Checking of технического состояния пожарной сигнализации (659 activities);
- 6 845 employees were trained on fire-technique minimum.

Expenses of the Company on fire safety comprised activities 1 034 mln. tenge in 2010.

IV. Corporate Governance

The Company considers corporate governance as a tool of improving efficiency of the Company operation, strengthening its reputation and reduction of expenditures on capital attracted.

The main goal of development of the corporate governance in the Company is ensuring sustainable growth of capitalization of the Company and realization of the interests of the Sole Shareholder.

1. The bodies of the corporate governance

The bodies of the corporate governance of the Company are:

1. The Sole shareholder – the highest body.

2. The Board of Directors – management body which carries out general management of the Company operation and determines priority directions of activity. The Board of Directors of the Company consists of 5 members, 2 of them are independent directors.

3. The Management Board – collegial executive body, which manages day-to-day operation of the Company aiming at execution of goals and implementation of the strategy of the Company.

The Management Board of the Company consists of 7 persons.

2. Composition of the Board of Directors of the Company as of December 31, 2010

Nurtas Shmanov – Chair of the Board of Directors, representative of the interests of the Sole Shareholder

Mr. Shmanov graduated from Ufa Oil Institute with specialization in Designing and Exploitation of Oil and Gas Pipelines, Gas Storages and Petroleum Installations, and later from the Institute of Market under the Kazakh State Academy with specialization in “Finance and Credit”, and Massachusetts University (Boston, USA). For over 28 years he worked in pipeline transportation industry of the Republic of Kazakhstan. He occupied various responsible positions in companies like “Caspian Pipeline Consortium – Russia”, “ChevronOil&Gas”, “Chevron Overseas Petroleum Inc.”, etc. In 2007 he was appointed to position of the General Director (Chair of the Management Board) of the Company.

Presently, he is a Managing Director on oil transportation (member of the Management Board) of JSC NC “KazMunaiGas”.

Arman Darbayev – representative of the interests of the Sole Shareholder

Mr. Darbayev graduated from the Academy of Management after S. Orjonikidze (Moscow, Russian Federation) with specialization in “Organization of management in construction”. He has over 10 years of experience of work in the field of project management and oil transportation.

From 1999 to 2002, he worked at the Ministry of Transport and Communications of the Republic of Kazakhstan and coordinated a number of major investment projects. In the period from 2002 to 2004 he worked at different positions of JSC “KazTransOil”. Later he became Deputy Director of the Department on Management of Projects on Pipeline Transport of Oil and Gas, and then Executive Director on Transportation of JSC NC “KazMunaiGas”. At present he is a General Manager on Oil Transportation Projects of JSC NC “KazMunaiGas”.

Daniel Mihalik – independent director

Mr. Mihalik has Master’s degrees in chemical engineering and business administration, as well as a doctoral degree in law. He graduated from the Universities of Toledo (Ohio), Michigan, and Houston (Texas). He has over 30 years of work experience in oil, gas and chemical industry. He has large knowledge in technical, legal, and commercial areas, work experience in the USA, Central Asia, Europe and the Middle East. He worked as chief engineer-researcher in «Getty & later Texaco Research & Engineering», manager in «Gaviota Terminal Co.». He was a Chief Regional Vice-President of «Texaco Pipeline International», consultant in KNCP. Presently he is General Counsel at the Association of Oil Pipelines in Washington, DC.

Moustafa Habib – independent director

Mr. Habib has a bachelor degree in Natural Sciences, and Master degree in Physics. He graduated from the University of Caen (France). He has degrees in Electro-Technical and Petrochemical Engineering. He has extensive work experience in the USA, Central Asia, Europe, Africa and Middle East. For a long time he worked in such companies like Shell and Chevron. He coordinated marketing and crude oil and by-products transportation. He participated in designing and construction of demercaptanization plant at Tengiz, worked as the General Manager on marketing and development of alternative oil and gas transportation routes at Tengiz Chevroil, as a General Manager at Chevron Overseas Petroleum Inc. (COPI) in London, and as the vice president of Chevron International.

Nurbol Sultan – General Director (Chair of the Management Board) of the Company

Mr. Sultan graduated from Kazakh State Management Academy and London Guildhall University with degree in Finance. He has over 10 years of work experience in the oil and gas industry. He started his professional career in 1997 as a specialist in the Department of Investment Projects of the Company. He occupied positions the head of the Corporate Finance Department and head of Asset Management Department of the Company. In 2001, he was appointed as Director of Corporate Finance Department of CJSC “NC “Transport of Oil and Gas” and later headed Corporate Finance Department CJSC “NC “KazMunaiGas”, He also was a Deputy General Director on Development of the Company and General Director of LLP “Meridian Capital”. Was appointed as a General Director of the Company from January 5, 2009.

3. Composition of the Management Board of the Company as of December 31, 2010

Nurbol Sultan – General Director (Chair of the Management Board)

Talgat Taubaldiyev – Deputy General Director

In 1991, Mr. Taubaldiev graduated from Moscow Institute of Oil and Gas Industry after I. M. Gubkin with specialization in “Drilling of oil and gas wells” with qualification of “Mining Engineer”. Candidate of Technical Sciences.

He has been working in the oil and gas industry since 1980. He worked at Caspian oil exploration expedition of the Ministry of Geology of USSR, at Production Union “Yuzhnefteprovod”, “Tengizchevroil”, Mangistau Oil Pipeline Department of the Western branch of the Company. From 2004 till 2009, he occupied positions of the First Deputy General Director, Director of the Western branch, First Deputy General Director of the Company. From June 15, 2009 due to change of structure of the Company was appointed as a Deputy General Director.

Assem Nussupova – Managing Director on Economics and Finance

In 1996, Mrs. Nussupova graduated from Kazakh State National University after Al-Farabi with Bachelor degree in Economics and Management. In 1998, she received her Master degree in Economics in Kazakh State National University after Al-Farabi. During 2003-2004, she passed academic-scientific traineeship at Economic Department of Moscow State University after M.V. Lomonosov. She worked in the Security Council of the Republic of Kazakhstan, Center of Systemic Research at the Administration of the President of the Republic of Kazakhstan. From 2003 to 2005, she occupied position of advisor of the Minister of Finance of the Republic of Kazakhstan, from 2005 to 2007 she was a head of Coordination and Analytical Unit at the Chancellery of the Prime Minister of

the Republic of Kazakhstan. In the period from 2007 to 2008, she was a vice minister of Health Care of the Republic of Kazakhstan. On December 31, 2008, she was admitted to the position of the Deputy General Director of the Company on Economics and Finance. From June 15, 2009 due to change of structure of the Company was appointed as a Managing Director on Economics and Finance.

Bolat Otarov – Managing Director on Transportation

In 1988, Mr. Otarov graduated from Kazakh Polytechnic Institute after V.I.Lenin with specialization in “Technology of machine-building, metal-cutting machines and instruments”, with qualification of engineering mechanic.

He has been working in the oil and gas industry since 1988. He worked at Oil and Gas Production Departments of “Karazhanbastermneft”, “Komsomolskneft”, “KalamkasMunaiGas”, and “Yuzhnefteprovod”. In February 1998, he was appointed as Deputy General Director of the Western branch of the Company on Transportation, head of Goods Transportation Department, and then worked in the capacity of the Director of the Transportation Department, Executive Director on goods transportation operations, Executive Director of Transportation Department and Deputy General Director of the Company on Transportation. From June 15, 2009 due to change of structure of the Company was appointed as a Managing Director on Transportation.

Alexey Pirogov – Managing Director on Production

In 1980, Mr. Pirogov graduated from Groznyi Oil Institute. In 1992 he graduated from Kazakh Polytechnic Institute after V.I.Lenin, Doctor of Technical Sciences.

In the period from 1997-2004 he worked in the capacity of the Head of the Unit on oil pipeline operation of the Western branch of the Company, as advisor of the General Director on Production, Technical Director, and as the First Deputy General Director. From 2004 to 2006, he also held positions of the Deputy Director of Oil Industry Department and Director of Gas Industry at the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan. From 26 March 2006, he was admitted to the work in the Company in the capacity of the Deputy General Director of the Company on Production. In February 2009, he was appointed as a Technical Director. From June 15, 2009 due to change of structure of the Company was appointed as a Managing Director on Production.

Zhanna Sultangalieva – Chief Accountant

Mrs. Sultangalieva graduated from Almaty branch of Jambul Technological Institute of Food Manufacturing Industry with qualification of production engineer, and then graduated from the education facility “UNAT” under the Kazakh National Technical University after K. Satpaev with specialization in Economics. She has international CAP qualification of “Certified Accountant – practitioner”. She worked at Almaty Food Plant, Production Union “Mangyshlakneft”, Republican Center on standardization and metrology State Agriculture Industry of Kazakh Soviet Republic, and Trade and Industry Chambers of Kazakh Soviet Republic, CJSC “Akcept Corporation”. In August of 1998 she was admitted to the position of the Chief Accountant of the Company.

Zhaidarman Isakov – Director of Legal Department

In 1989, Mr. Isakov graduated from Kazakh State University after S.V. Kirov with specialization on “Jurisprudence” and qualification of the “Lawyer”.

He started his work experience as a lawyer at Trade base No.456 of the Trade Department of Ministry of Defense of USSR, then worked in law firms, Kazakhstan Joint Stock Company “Turanbank” and the Ministry of Finance of the Republic of Kazakhstan. He started working in the oil and gas industry from December 2000 as a Deputy Director of the Legal Department of CJSC “KazTransGas”, General Lawyer of the Legal Department

of CJSC “NC “Transport of Oil and Gas” and the Department of legal provision of CJSC NC “KazMunaiGas”. From October 1, 2002 he has been working as the Director of the Legal Department of the Company.

4. Criteria of selection of members of the Board of Directors and the Management Board, determination of their independence

The process of selection and election of members of the Board of Directors, including Independent Directors, is conducted in the procedure established by the legislation of the Republic of Kazakhstan and Charter of the Company in accordance with established internal procedures on the basis of sufficient data about the candidate, interactions of candidate with the Company (affiliation, cooperation etc.), independence criteria, information on correspondent work experience, knowledge, qualification, positive achievements, and impeccable reputation.

The candidate for membership in the Board of Directors and member of the Board of Directors shall be individuals, have the trust of the Sole Shareholder and other members of the Board of Directors, have impeccable reputation, professional skills and qualifications, experience of managerial work of not less than 3 three years, preferable in the field corresponding to core activity of the Company, positive achievements and stainless reputation in business and industry circles.

Independent Director of the Board of Directors shall be a member of the Board of Directors, who is not affiliated entity of the Company and has not been the one during three years, preceding to his election in the Board of Directors (except for the case of occupying position of Independent Director of the Company), is not affiliated entity pursuing to affiliated entities of the Company, is not connected by subordination with officials of the Company or organizations – affiliated entities of the Company, and has not been connected by subordination with given entities for three years, preceding to his election to the Board of Directors; is not a state servant; is not an auditor of the Company and has not been the one during three years, preceding to his election in the Board of Directors; does not participate in audit of the Company as an auditor, working in auditing organization, and has not participated in such audit during three years, preceding to his election in the Board of Directors.

Determination of quantitative composition, term of powers of the Management Board, election (appointment) of members, early termination of the powers, except for General Director (Chair of the Board) is carried out upon the decision of the Board of Directors of the Company in accordance with legislation of the Republic of Kazakhstan and Charter of the Company. Election (appointment) of General Director (Chair of the Board) and early termination of the powers is attributed to exceptional competence of the Sole Shareholder of the Company.

Member of the Management Board must possess relevant work experience, knowledge, qualification, and business reputation.

5. Interaction with subsidiary and jointly controlled organizations

The Company strives to balanced development of SJCO, based on efficient mechanisms of corporate governance. For the purposes of realization of its rights as of shareholder (participant), the Company carries out interactions with SJCO in accordance with the requirements of the legislation, the Charter and internal documents of the Company, and Charters of SJCO.

The main goals of interactions of the Company with SJCO are:

- Ensuring stable financial development, returns from operation, improving investment attractiveness of the Company and SJCO;
- Ensuring protection of rights and legally protected interests of the Sole Shareholder and shareholders (participants) of SJCO;

- Harmonization of relations between shareholders, officials, and employees of the Company and SJCO, taking systemic measures on prevention of conflicts between them and within the mentioned groups;

- Development and implementation of coordinated and effective strategy and investment policy of the Company and SJCO.

The founding principles of the corporate governance of the Company are:

- 1) the principle of protection of rights and interest of the Sole Shareholder;
- 2) the principle of efficient management of the Company by the Board of Directors and the Management Board;

- 3) the principle of independent operation of the Company;
- 4) the principles of transparency and objectivity of disclosure of information about activities of the Company;

- 5) the principles of legality and ethics;

- 6) the principles of efficient dividend policy;

- 7) the principles of efficient human resource policy;

- 8) the principle of protection of environment;

- 9) the policy on regulation of Corporate conflicts and conflict of interests;

- 10) the principle of responsibility.

The Company introduced complex system of the policy of corporate governance, corresponding to the best global practices and ensuring compliance with requirements.

The given system sets accountability in ensuring compliance and includes guidance and rules on corporate governance. For the purposes of improvement of the system of corporate governance, the Company conducts internal and external audit on compliance with requirement of the legislation of the Republic of Kazakhstan internal procedures of the Company.

For the purposes of building the efficient corporate management system, responding to requirements of international standards, the Company annually develops and implements action plan on improvement of corporate governance.

In the framework of improving management efficiency of the Company, the Company holds activities on improvement of internal corporate governance system of the Company aimed at:

- ensuring clear division of responsibilities and functions between structural divisions of the Central Office of the Company, between the Central Office and the branches and SJCO of the Company;

- holding re-engineering of business processes at all levels of management to ensure the its integrity and personalization of responsibility for inappropriate implementation;

- graduate automation of business processes.

V. RISK MANAGEMENT SYSTEM

For the purpose of raising the efficiency of operation, value maximization and ensuring stable development a system of risk management has been introduced in the Company.

The system of risk management is an integral part of management system of the Company and represents an uninterrupted developing process, according to which the Company systematically detects, assesses and manages risks. The Company performs introduction of risk management system on consolidated basis considering risks of subsidiary and jointly-controlled organizations. The process of risk management is preventive and is accomplished under control and direct participation of top-management of the Company.

Risk management policy was adopted in the Company, which determines goals,

basic principles of risk management and the structure of risk management system and functions of participants of the process of risk management.

During elaboration of the Risk management program for 2010-2012 13 most substantial risks were revealed, key factors of which are change of the currency rate, possible quoting, political instability, transport monopoly and military conflicts in transit countries, illegal tie-ins into the main oil pipelines etc.

During 2010 the Company continued work on introduction of risk management system. The issues and risk management process are integrated in all levels of management and functions, and are in tight correlation with process of strategic planning.

Major activities on integration of risk management system in 2010

Period	Activities
March	The Board of Directors confirmed the Program of risk management of JSC "KazTransOil" for 2010-2012
June	Internal control and risk management service was created with direct accountability to the General Director (Chair of the management Board) of the Company
June - July	Corporate seminar "Risk management" for heads of structural divisions and employees of Central Office of the Company was held
July - November	The Board of Directors confirmed Regulation on the system of internal control of JSC "KazTransOil"
August	Presentation «Vision of Service of internal control and risk management" relating to JSC "KazTransOil" for the top-management and heads of structural division of Central office of the Company was held
August - October	Negotiations were held and presentations of leading companies rendering a wide range of services in the sphere of technical audit of production assets, assessment of production risks, introduction of integrity management system and forming the program of technical rearmament (DNV, Veritas Bureau, Lloyd's Register) were organized.
August – September	Draft Regulation on Service of internal control and risk management of JSC "KazTransOil" was developed and coordinated
September - November	Introduction presentations on "System of management of production risks" were held for top-management and employees of managerial staff of western and Eastern branches, managerial staff of Pavlodar, Atyrau, Mangistau and Kulsary oil pipeline departments, Base of production-technical administration and equipment complement, CBPE, educational-training center
September - November	Amendments and addenda to Regulation on Risk committee were confirmed. New composition of risk committee was formed
September -December	Draft Policy on risk management of JSC "KazTransOil" was developed and approved by the Management Board
October – December	Activities on identification and assessment of risks of subsidiary company «Batumi Industrial Holding Limited»
November	Risks were detected, scenarios of events and risk assessment during acceptance of TON-2 oil pipeline in property of the Company weredeveloped
December	Uni-factor stress-test (sensitivity analyses) of operation of JSC "KazTransOil" was conducted

VI. MAIN EVENTS OF 2010

1. Launch of Head oil pumping station “Kumkol” of Zhezkazgan oil pipeline department of Eastern branch of the Company.

2. Completion of reconstruction of two-side loading-unloading rack No.1 of oil pumping station (OPS) “Atyrau”.

3. On March 10, 2010 JSC “KazTransOil” early redeemed the remaining part of principle debt on “club loan” at the amount of 137 mln. USD.

4. Financial model of the Company for a long-term period till 2030, assuming the possibility of application of various development scenarios for the Company and SJCO, was developed.

5. Revaluation of fixed assets was completed. In the result of revaluation of fixed assets capitalization of the Company has increased by 73 billion tenge.

6. Plan-schedule of activities on improvement of internal corporate management in the Company consisting of 50 activities was confirmed.

7. Work on transfer of salary calculation system of Central office and branches/representatives to automated system SAP R3 was carried out.

8. In 2010 work on elaboration and automation of tax accounting in the Company was accomplished.

9. From July 1, 2010 System of management statement was introduced in the Company and subsidiary organizations.

10. Within the frames of restructure of BIHL group of companies:

- target structure of BIHL group was approved by resolution of Committee under the Management Board of JSC “NC “KazMunaiGas” on business-direction “Oil transportation”;
- «Caucasus Maritime Ltd» and «Alegratrans Overseas Ltd» companies were liquidated;
- Transfer of controlling interest of 100% of stocks of “Batumi Sea Port” from “Batumi Port Holdings Limited” to “Batumi Oil Terminal”.

11. According to the results of 2010 the volume of oil throughput into “Atasu-Alashankou” oil pipeline comprised 10.1 mln. tons of oil. In comparison with 2009 given indicator has increased by 2.4 mln. tons.

12. The volume of oil throughput into “Kenkiyak-Kumkol” oil pipeline in 2010 comprised 3.4 mln. tons of oil.

ATTACHMENT 1

To the Annual report of JSC “KazTransOil” for 2010, confirmed by resolution of the Sole Shareholder of JSC “KazTransOil” (minutes of the meeting of the Management Board of JSC NC “KazMunaiGas” dated _____ 2011, No. _____)

1. General information on the Board of Directors

Managerial body of the Joint Stock Company “KazTransOil” (hereinafter – the Company) is the Board of Directors. The Board of Directors operates in accordance with the Law of the Republic of Kazakhstan “On Joint Stock Companies”, Charter, Code of Corporate Management, Regulation on the Board of Directors and other internal documents of the Company.

The composition of the Board of Directors is determined by decision of the Sole Shareholder – JSC “National Company “KazMunaiGas”.

In accordance with the Law of the Republic of Kazakhstan “On Joint Stock Companies” and Charter of the Company not less than one third of members of the Board of Directors must be represented by Independent Directors.

2 independent Directors – Daniel Mihalik and Moustafa Habib – were elected to the Board of Directors of the Company.

General Director Nurbol Sultan, heading the Management Board, is also the member of the Board of Directors of the Company and is the sole representative of executive body of the Company in the Board of Directors.

Two other members of the Board of Directors, including the Chair Nurtas Shmanov, are the representatives of the Sole Shareholder – JSC “National Company “KazMunaiGas”.

During 2010 the composition of the Board of Directors has not changed.

2. Composition of the Board of Directors of the Company as of December 31, 2010

Nurtas Shmanov	Chair of the Board of Directors, Representative of interests of the Sole Shareholder
Nurbol Sultan	member of the Board of Directors, General Director (Chair of the Management Board)
Arman Darbayev	member of the Board of Directors, Representative of interests of the Sole Shareholder
Daniel Mihalik	Independent Director
Moustafa Habib	Independent Director

3. Criteria of selection of members of the Board of Directors

Criteria of selection of members of the Board of Directors, including Independent Directors, are determined in the Law of the Republic of Kazakhstan “On Joint Stock Companies”, Charter and Code of Corporate Governance of the Company.

In accordance with Code of Corporate Governance the Board of Directors established a fact of independency of directors and considers that Moustafa Habib and Daniel Mihalik are independent in terms of taking decisions. The Board of Directors established absence of relations or circumstances which affect or might affect significantly the independent decisions of given directors.

4. Competence of the Board of Directors

The Board of Directors determines strategic goals, priority directions of development and sets basic milestones of activity of the Company for a long term prospective, ensures availability of necessary financial and human resources to implement the goals set and considers other issues in accordance with legislation of the Republic of Kazakhstan.

The Board of Directors is authorized to resolve any issues which are not attributed to the exceptional competence of the Sole Shareholder and the Management Board in accordance with Law of the Republic of Kazakhstan “On Joint Stock Companies”, Charter and Code of Corporate governance of the Company.

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

The Board of Directors is not entitled to take decisions on the issues attributed to the competence of the Management Board of the Company in accordance with Charter of the Company, as well as take decisions, contradicting to interests of the Sole Shareholder.

5. Liability of the Board of Directors

Division of powers between the Board of Directors, Management Board and General Director (Chair of the Management Board) is stipulated in the Charter of the Company in articles 11 and 12.

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

6. Information on the meetings of the Board of Directors

The Board of Directors holds the meetings basing on the principle of rationality, effectiveness and regularity. The Board of Directors is to meet not less than 6 times a year.

During 2010 the Board of Directors held 14 meetings, including eight formal and six – by the means of absentee voting, having taken decisions on 109 issues.

Attendance by members of the Board of Directors of the meetings of the Board of Directors

Members of the Board of Directors	Number of meetings of the Board of Directors, held in 2010	
	8 – formal	6 – absentee
<i>Nurtas Shmanov</i>	8	6
<i>Nurbol Sultan</i>	5	6
<i>Arman Darbayev</i>	6	6
<i>Daniel Mihalik</i>	8	6
<i>Moustafa Habib</i>	8	6

During the observed period The Board of Directors took a range of decisions on financial and economical activity of the Company, risk management, issues of operation,

attributed to the competence of general meetings of shareholders (participants) subsidiary and jointly-controlled organizations, corporate management and issues of personnel policy.

7. Committees of the Board of Directors

For the purposes of enabling efficient performing of functions the Board of Directors on June 24, 2010 founded Committee on appointments and Committee on remuneration.

Status, competence, rights and responsibilities of given committees, procedure of their work and interactions with bodies of the Company are determined by correspondent regulations, confirmed by the resolution of the Board of Directors.

Committee on appointments

In accordance with provisions of Code of Corporate Governance the Committee on appointments consists of three directors, two of which are independent directors. Chair of Committee on appointments is elected by the Board of Directors among the Independent Directors.

Members of Committee on appointments

Taking into account the objectives and functions of mentioned committee, professional experience of acting composition of the Board of Directors Daniel Mihalik (Chair of Committee), Nurbol Sultan, Moustafa Habib were elected in Committee on appointments.

Terms of powers of members of the Committee coincide with terms of their powers as members of the Board of Directors.

Objectives of Committee on appointments

Key objectives of the Committee on appointments are elaboration and suggestion of recommendations to the Board of Directors on election or appointment of candidates to Independent Directors, composition of the Management Board and other positions, appointment or coordination of appointments of which is carried out by the Board of Directors.

Committee on remuneration

Committee on remuneration is composed of three directors, at least, two of which must be Independent Directors. Chair of Committee on remuneration is elected by the Board of Directors among the Independent Directors.

Members of Committee on remuneration

In 2010 the Committee on remuneration was composed as follows Moustafa Habib (Chair of Committee), Arman Darbayev and Daniel Mihalik.

Terms of powers of members of Committee coincide with terms of their powers as members of the Board of Directors.

Objectives of Committee on remuneration

Committee on Remunerations is created for the purposes of development and presentation of recommendations to the Board of Directors on the issues of remuneration of Directors, members of the Management Board and other employees of the Company, the appointment or coordination of appointment of which are carried by the Board of Directors, in accordance with goals, objectives, current position of the Company and level of remuneration in analogical companies, introduction of structured and open system of remuneration.

Meetings of Committee on remuneration are held when the need arises. During 2010 The Committee held one meeting.

In 2010 Committee on remuneration considered and elaborated recommendations on such issues as:

- confirmation of labor payment scheme of employees of Central Office of the Company.
- determination of sizes of official salaries and conditions of labor and bonus payment to the members of the Management Board of the Company.
- determination of sizes of official salary and conditions of labor and bonus payment to the Corporate Secretary of the Company.

8. Interaction with the Shareholder

The Board of Directors realizes the importance of constant and effective interaction with the Sole Shareholder.

The Company brings to the notice of the Sole Shareholder in time and in full volume the information on operating, which affects the interests of the Sole Shareholder in the procedure, stipulated in the Charter and internal documents of the Company.

The Company provides the following reports to the Board of Directors:

- Half-year: on management of subsidiary and jointly controlled organizations, on impact of results of financial and economical activity of subsidiary and jointly controlled organizations on key performance indicators of the Company;
- annual: on actualization of Business-plan of the Company.

9. Sums of remuneration, accrued to the Independent Directors for the year, ended by December 31, 2010

<i>Independent Director</i>	<i>Annual remuneration thou. US\$</i>	<i>Taxes accrued in 2010 thou. US\$</i>	<i>Total for 2010 (incl.taxes) thou. US\$</i>
Moustafa Habib	80	8,9	88,9
Daniel Mihalik	80	8,9	88,9
Total:	160	17,8	177,8

US\$ exchange rate as of the date of payment 147,01 tenge

Other members of the Board of Directors are not paid the remuneration as the members of the Board of Directors for the work in given body.

10. The most important issues, considered by the Board of Directors during 2010

- Business-plan of the Company for 2011-2015 was confirmed.
- Regulation on system of internal control of the Company was confirmed.
- The Board of Directors approved Report on management of subsidiary and jointly controlled organizations, on impact of results of financial and economical activity of subsidiary and jointly controlled organizations on key performance indicators of the Company in the first half year of 2010.
 - Adjusted budget of the Company for 2010 was confirmed.
 - Annual report of the Company for 2009 was preliminary confirmed.
 - Report on actualization of Business-plan of the Company for 2009 was considered.
 - List of documents, regulating internal activity of the Company, confirmed by the Board of Directors was expanded.
 - Tax accounting policy of the Company was confirmed.
 - Suggestions of the Company on “the situation that has evolved in the field prospective planning and coordination of oil transportation industry in the Republic of Kazakhstan” were considered and discussed.

- new edition of Rules on business trips of employees of the Company was confirmed.
- new edition of Accounting policy of the group of companies of the Company was confirmed.
- the issues of implementation of construction of OPS11 of Atasu-Alashanlou oil pipeline were considered.
- the decision on long-term procurement of auditing services of the financial statement of the Company for 2010-2012 was taken.
- taking into consideration, that social responsibility is one of the basic elements of management, the Board of Directors confirmed the Code on Social Responsibility.
- for the purposes of determination of the system of principles and key directions of personnel management, improvement of organizational structure, planning and staff selection, the Board of Directors confirmed the Personnel Policy of the Company for 2010-2013.
- Code on Corporate Ethics of the Company was approved.

The Board of Directors considered a large block of issues on financial activity of the Company

- consolidated and separate financial statement of the Company for 2009, confirmed by the report of independent auditor LLP “Ernst and Young” was preliminary approved.
- according to the results of financial and economical activity in 2009 in 2010 the Board of Directors proposed the Sole Shareholder to confirm the dividends at the amount of 7 340 280 265 (seven billion three hundred forty million two hundred eighty thousand two hundred sixty five) tenge, or 223 (two hundred twenty three) tenge at one simple share.

In accordance with Law of the Republic of Kazakhstan “On Joint Stock Companies” taking decision on the issues, attributed to the competence of general meeting of shareholders (participants) of legal entity, 10 and more percent of stocks (participatory shares in the charter capital) of which belong to the Company, is also attributed to the exceptional competence of the Board of Directors.

In this regard, during the year the Board of Directors considered a range of issues attributed to the competence of general meetings of shareholders (participants) of jointly controlled organizations of the Company including but not limited to:

JSC «North-West Pipeline Company «MunaiTas»:

- on confirmation of annual financial statement for 2009;
- on confirmation of procedure of distribution of net profit in 2009, taking decision on simple share dividends payment and confirmation of the size of dividend in 2009;
- on early termination of powers of some members of the Board of Directors and election of new members of the Board of Directors;
- on determination of the auditing organization conducting the audit in 2010 and size of service payment.

LLP «Kazakhstan – China Pipeline»:

- on election of the Revision commission;
- on confirmation of annual financial statement for 2009;
- on conclusion of additional agreements (change orders) to the deal, the value of which exceeds 1 096 000 000 tenge;
- on confirmation of adjusted budget for 2010, capital investment in construction of oil pumping station No.11 of “Atasu-Alashankou” oil pipeline and capital investments in reconstruction of oil metering unit “Alashankou”.

- on conclusion of deal, the value of which exceeds 1 096 000 000 tenge, - contract on engineering, procurement and construction of OPS No.11 of “Atasu-Alashankou” oil pipeline.

- Rules on procurement of goods, works and services are confirmed.

The Board of Directors of the Company, possessing 100% of stocks of JSC “KazTransOil-Service” a range of decisions was taken on the issues, attributed to the exceptional competence of its Sole Shareholder:

- on confirmation of new edition of the charter;
- on increase of number of authorized simple shares;
- on confirmation of annual financial statement for 2009;
- on determination of auditing organization, conducting audit for 2010 and size of its service payment.

11. Assessment of position of the Company and prospective of its development

The Company is the largest oil pipeline company of the Republic of Kazakhstan. Presently the Company possesses a powerful branching network of main oil pipelines, ensuring transportation of about 57% of oil produced in the country. During 2010 consolidated volume of oil transportation comprised 65 825 thou.tons, which is 3% higher than the same indicator of 2009. Turnover of oil in 2010 comprised – 41 351 mln.tons.km, exceeding the factual indicator of 2009 by 4%.

The Company accomplishes a constant monitoring of attractiveness of various directions of oil transportation using the capacity of the network of main oil pipelines of the Company, subsidiary and jointly controlled organizations for all Kazakhstani dispatchers.

The Company is aimed at further increase of its share in oil transportation in the republic of Kazakhstan and expansion of production assets.

Considering the forecasted significant growth of oil production on Tengiz, Karachaganak, as well as start of production on Kashagan oil deposit and other offshore deposits in the future additional powers for transportation of those resources will be required.

To provide further growth of volume of services sales and incomes, both in the nearest future and in prospective the Company intends to:

- participate in implementation of new oil transporting projects;
- provide economically effective conditions of oil transportation for dispatchers;
- provide timely launch of additional export powers as the need raises;
- promote load of powers and development of foreign assets of the Company (Batumi oil terminal);
- increase the competitiveness of the Company in comparison with analogical companies.

The final indicator of assessment of activity of the Company is received economic effect as a maximization of shareholder's value of the Company and performance of credible, qualitative, and competitive services on oil transportation.

Success in realization of long-term plans of development mostly will be determined by effectiveness of system of management and determination at resolving of objectives set for the Company.

12. Internal control and risk management

The Company possesses a system of internal control and risk management.

Given system is elaborated for the purposes of determination, assessment and management by substantial risks, associated with achievement by the Company of its business goals.

In 2010 the Company continued work on introduction of the system of internal control and risk management. The system in the field of risk management is aimed at prevention and minimization of risks, that may negatively affect the achievement of goals of the Company, reduce and prevent possible financial losses of the Company.

Directors confirm that during 2010 processes determining, assessing and managing substantial risks, the Company faced were functioning. These processes have been integrating at all managerial levels and functions, and are in tight connection with strategic planning.

The following can be attributed to key events on introduction and improvement of internal control system and risk management in 2010:

- a separate meeting of the Board of Directors was devoted to consideration and confirmation of Program on risk management of the Company for 2010 – 2020.

- an independent structural division, responsible for organization of risk management process and internal control service was created in the Central office of the Company.

- Regulation on service of internal control and risk management was developed.

- new composition of Committee on risk under the Management Board of the Company was formed.

Starting from November of 2010 Committee on risk was operating chaired by the General Director (Chair of the Management Board) Nurbol Sultan.

- changes and addenda were introduced to Regulation on Risk Committee.

- Regulation on internal control system was confirmed.

- risks of BIHL company were identified and assessed.

- outcome scenarios and risk assessment of acceptance in ownership of TON-2 oil pipeline was developed.

- a uni-factor stress-test (sensitivity analyses) of Company's activity was conducted.

13. Report of the Management Board of the Company for 2010

The management of current activity of the Company is carried out by collegial executive body represented by the Management Board.

The basic principles of activity of the Management Board are honesties, scrupulosity, rationality, prudence, regularity, as well as full observance of rights and interests of the Sole Shareholder represented by JSC NC "KazMunaiGas" and answerability to the decisions of the Sole Shareholder and the Board of Directors.

The Management Board carries out its functions on the basis of the Charter of the Company, Regulation on the Management Board and other internal documents of the Company.

The Management Board is entitled to take decisions on any issues regarding the operating of the Company, not attributed to the exceptional competence of the Sole Shareholder and the Board of Directors of the Company by the legislation of the Republic of Kazakhstan and he Charter.

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

Powers allocation between the Management Board and General Director (Chair of the Management Board) of the Company is stipulated in article 12 of the Charter and article 3 of regulation on the Management Board of the Company.

14. Composition of the Management Board as of December 31, 2010

Nurbol Sultan	General Director (Chair of the Management Board)
Talgat Taubaldiyev	Deputy General Director
Assem Nussupova	Managing Director on Economics and Finance
Bolat Otarov	Managing Director on Transportation
Alexey Pirogov	Managing Director on Production
Zhanna Sultangalieva	Chief Accountant
Zhaidarman Isakov	Director of Legal Department

15. Information on meetings of the Management Board

The Management Board holds its meeting on the regular bases and when the need arises.

In 2010 25 meetings of the Management Board of the Company were held, 142 items were considered.

Among the most important issues, having been considered by the Management Board the following issues can be highlighted, but not limited to:

- renaming of HOPS “Karakoin” of Zhezkazgan oil pipeline board of Eastern branch of the Company to HOPS named after B.Dzhumagaliyev;
- conclusion by the Company of interested-party deals with companies, included in the group of JSC “Samruk-Kazyna”;
- confirmation of documents accepted for the purposes of organization of operation of the Company, including Book of accounts of JSC “KazTransOil”, Instruction on procedure of inventory of fixed assets, stock, cash, bills and other articles of the balance sheet in JSC “KazTransOil”, Rules on competitive selection of personnel for vacant positions in JSC “KazTransOil”, Regulation on Budget commissions of JSC “KazTransOil”, Regulation on Information council of JSC KazTransOil”, standards of organization, standards in the field of integrated management system;
- rendering of sponsorship (charity) by the Company.

The Management Board of the Company preliminary approves the issues, proposed further for consideration of the Board of Directors and/or the Sole Shareholder.

In the reporting period all meetings of the Management Board of the Company were formal.

In 2009 JSC “Samruk-Kazyna” took decision on non-payment of bonuses to top management of companies of group of the Fund in 2008-2010.

In the reporting period the payment of bonuses to the members of the Management Board of the Company for work in the executive body for 2010 was not made.

16. The liability of the Management Board

The Management Board is responsible for implementation of the goals and objectives, set for the Company, for current operational activity and for fullness and credibility of financial information. The Management Board is accountable to the Board of Directors for situation on work done regarding the achievement of goals of the Company.

In 2010 the composition of the Management Board of the Company was represented by General Director, Deputy General Director, Managing Directors and other top employees of the Company.

ATTACHMENT 2

To the Annual report of JSC "KazTransOil"
for 2010, confirmed by resolution of the Sole Shareholder
of JSC "KazTransOil" (minutes of the meeting of the
Management Board of JSC NC "KazMunaiGas"
dated _____ 2011, No. _____)

The list of interested party deals concluded by JSC "KazTransOil" in 2010

№	Name	Resolution of Body of the Company
LLP "Kazakhoil –Aktobe":		
1	Contract on procurement of services on water supply to HOPS Alibekmola of Aktobe oil pipeline department of western branch of the Company	Resolution of the Board of Directors of the Company dated May 12, 2010 (minutes № 6/2010)
2	Additional agreement №4 to the contract on provision of services on oil transportation №TR 25/2005 dated 10.09.2004	Resolution of the Board of Directors of the Company dated July 12, 2010 (minutes № 9/2010)
LLP "Petro-Kazakhstan Oil Products":		
3	Contract on procurement of services on water supply and effluent discharge Shymkent oil pipeline department of Eastern branch of the Company	Resolution of the Board of Directors of the Company dated May 12, 2010 (minutes № 6/2010)
JSC «Intergas Central Asia»:		
4	Contract on procurement of services on gas transportation for the needs of OHS 112km, OPS "Zhetybai", OHS "Sai Utes", OPS "Beineu", OHS "Oporny", OPS "663 km", OPS "Atyrau", OPS "Inder", LPDS "Kigach" of Western branch of the Company	Resolution of the Board of Directors of the Company dated May 12, 2010 (minutes № 6/2010)
5	contract on provision of services on water supply via main pipelines (services on technical water delivery to 309 km of main pipeline "Beineu-Uzen", to 546 and 652 km of main pipeline «Astrakhan - Mangyshlak » at the amount of 84 657 m ³)	Resolution of the Management Board of the Company dated November 4, 2010 (minutes № 20)
6	contract on provision of services on water supply via main pipelines (services on technical water delivery to 0,1 km of main pipeline « Kulsary – Prorva - Sargamys » at the amount of 11 000 m ³ and potable water to 45, 168 and 280km of pipeline « Astrakhan - Mangyshlak » at the amount of 84 657m ³)	
LLP JV «Kazgermunai»:		
7	Additional agreement №2 to the contract on provision of services on oil transportation dated November 27, 2006 No. TR 02/2007	Resolution of the Board of Directors of the Company dated July 12, 2010 (minutes № 9/2010)

JSC «Caspian Pipeline Consortium - K»:		
8	contract on provision of services on water supply via main pipelines (services on technical water delivery to 279 km of main pipeline «Astrakhan - Mangyshlak» at the amount of 11 000 m ³ and potable water to 106 km of pipeline «Kulsary – Prorva - Sargamys» at the amount of 10 840 m ³)	Resolution of the Board of Directors of the Company dated December 10, 2010 (minutes № 13/2010)
LLP «Tengizchevroil»:		
9	Agreement on procurement of natural gas for needs of OHS “Sai-Utes”, OPS “Beineu”, OHS “Oporny”, OPS “Kulsary”, WPS-8, OPS “Koschagyl”, OPS “663km”, OPS “Atyrau”, OPS “Inder”, LPDS “Kigach” of Western branch of the Company	Resolution of the Board of Directors of the Company dated May 12, 2010 (minutes № 6/2010)
10	Amendment №5 to contract on provision of services on oil transportation №TR 50/2005 dated 07.09.2004	Resolution of the Board of Directors of the Company dated July 12, 2010 (minutes № 9/2010)
11	Agreement on water supply via main pipeline services (services on water supply via main pipeline «Astrakhan - Mangyshlak» on section «449 – final customers» at the amount of 2 015 000 m ³ and on section «Kulsary – Prorva – Sargamys» at the amount of 1 735 175 m ³)	Resolution of the Board of Directors of the Company dated December 10, 2010 (minutes № 13/2010)
12	agreement on crude transportation services;	Resolution of the Board of Directors of the Company dated December 27, 2010 (minutes № 14/2010)
13	amendment No.4 to the Freight forwarding agreement No.EX 07/2008 dated August 25, 2008;	
JSC “Mangistaumunaigas”:		
14	agreement on procurement of heating energy in hot water (for heating) for objects of GOPS “Kalamkas” of Western branch of the Company;	Resolution of the Board of Directors of the Company dated May 12, 2010 (minutes № 6/2010)
15	agreement on procurement of natural gas for the needs of OPS “Karazhanbas” of Mangistau oil pipeline department of the Western branch of the Company;	
16	agreement on procurement of services on water supply to GOPS “Kalamkas”, OPS “Karazhanbas” of Mangistau oil pipeline department of the Western branch of the Company;	
17	agreement on procurement of services on transportation of gas for the needs of OPS “Zhetybai” of the Western branch of the Company	
18	additional agreement No.5 to the to the Agreement on crude transportation services dated 3 September 2004, No.TR 02/2005;	Resolution of the Board of Directors of the Company dated July 12, 2010 (minutes № 9/2010)

19	agreement on water supply via main pipeline services (services on technical water supply on 1040 km, 1041 km and on outlet from WPS «Karazhanbas» of main oil pipeline «Astrakhan - Mangyshlak» at the amount of 2 118 652 m ³);	Resolution of the Board of Directors of the Company dated December 10, 2010 (minutes № 13/2010)
20	Freight forwarding agreements;	Resolution of the Board of Directors of the Company dated December 27, 2010 (minutes № 14/2010)
LLP «Kazakhstan-China Pipeline»:		
21	agreement on operation and technical maintenance of «Kenkiyak-Kumkol» oil pipeline;	Resolution of the Board of Directors of the Company dated July 12, 2010 (minutes № 9/2010)
22	agreement on operation and technical maintenance of «Atasu-Alashankou» oil pipeline;	
23	agreement on reimbursement of expenses;	Resolution of the Board of Directors of the Company dated December 27, 2010 (minutes № 14/2010)
JSC «Kazakhtelecom»:		
24	agreements on procurement of communication services on provision of city numbers for the needs of the Central Office of the Company and «CCCU of JSC «KazTransOil»;	Resolution of the Board of Directors of the Company dated May 12, 2010 (minutes № 6/2010)
25	agreement on procurement of services on provision of channels in telephone channeling;	
26	agreement on procurement of services of local, intercity, and international communication, ADSL for the needs of the Central Office of the Company;	
27	agreement on procurement of services of local, intercity, and international calls in cities Atyrau, Aktau, Uralsk, Aktobe, Pavlodar, Karaganda, Zhezkazgan, Shymkent, for the needs of «CCCU of JSC «KazTransOil», Usharal and North-Kazakhstan oil pipeline departments of Eastern branches of the Company, OPS «Peterfeld» and «OPS Bulayevo» of North – Kazakhstan oil pipeline department of Eastern branch of the Company	
28	agreement on procurement of services on organization of data transfer channels Pavlodar-Astana, Pavlodar-Karaganda;	
29	agreements on procurement of services of local communications for the needs of OPS «Suzak» of Shymkent oil pipeline department and HOPS «Atasu» of Karaganda oil pipeline department of the Eastern branch of the Company;	
30	agreement on procurement of services on provision of E1 flow for the needs of Zhezkazgan oil pipeline department of the Eastern branch of the Company;	
31	agreement on procurement of services of local, intercity, and international communication, ADSL for the needs of the Central Office of the Company;	

32	model agreements on procurement of telecommunication services (services of local, inter-city, international communication) in cities Atyrau, Uralsk, Pavlodar, Karaganda, and Zhezkazgan;	Resolution of the Board of Directors of the Company dated July 12, 2010 (minutes № 9/2010)
33	model agreements on procurement of telecommunication services (services of local, inter-city, international communication) in cities Aktau and Shymkent, for the needs of Usharal and North-Kazakhstan oil pipeline departments of Eastern branches of the Company, OPS "Peterfeld" and "OPS Bulayevo" of North – Kazakhstan oil pipeline department of Eastern branch of the Company;	
34	model agreements on procurement of telecommunication services (services of local, inter-city, international communication) for the needs of HOPS "Atasu" of Karaganda oil pipeline department and OPS "Suzak" of Shymkent oil pipeline department of the Eastern branch of the Company;	
35	agreement on connecting to the networks of public telecommunication (services of local, inter-city, international communications) in Aktobe city;	
36	agreement on procurement of services on organization of data transfer channels Aktobe-Astana;	
37	agreement on provision of network resources during connection of owner of corporate network to the network of JSC "Kazakhtelecom" on local level (services on provision of E1 flow) for the needs of Zhezkazgan oil pipeline department of the Eastern branch of the Company;	
38	agreement on procurement of services of local, intercity, and international communication for the needs of "CCCU of JSC "KazTransOil" branch	
39	Additional agreement № 1 to the contract № US 74/2010 dated February 1, 2010;	
LLP «GSM Kazakhstan» OJSC "Kazakhtelecom"		
40	agreement on provision of services of cellular communication K-Cell through gate unit for the needs of the Central Office of the Company	Resolution of the Board of Directors of the Company dated May 12, 2010 (minutes № 6/2010)
41	agreement on provision of services of cellular communication through gate unit of the Eastern branch of the Company.	
JSC «Fund of National Welfare «Samruk-Kazyna»:		
42	- agreement on property transfer in trust management.	Resolution of the Management Board of the Company dated September 2, 2010 (minutes №17)
JSC «North-Western Pipeline Company «MunaiTas»:		
43	- agreement on procurement of services on operation and technical maintenance of "Kenkiya-Atyrau" main oil	Resolution of the Management Board of the

	pipeline;	Company dated March 12, 2010 (minutes №4)
44	- Additional agreement №1 to agreement on procurement of services on operation and technical maintenance of "Kenkiya-Atyrau" main oil pipeline dated march 15, 2010 №18 - 2010/US 140/2010.	Resolution of the Management Board of the Company dated July 13, 2010 (minutes №14)
ТОО «Казхтуркмунай»:		
54	- Additional agreement №6 to agreement on provision of services on oil transportation dated September 1, 2004 № TR 05/2005;	Resolution of the Management Board of the Company dated May 27, 2010 (minutes №10)
55	- freight forwarding agreement.	Resolution of the Management Board of the Company dated December 6, 2010 (minutes №23)
JSC «Production Exploration «KazMunaiGas»:		
56	- Additional agreement №1 to freight forwarding agreement dated December 20, 2009 № EX 01/2010//2811–20;	Resolution of the Management Board of the Company dated May 27, 2010 (minutes №10)
57	- Additional agreement №6 to agreement on provision of services on oil transportation dated September 10, 2004 № TR 10/2005;	
58	- Agreement on water supply via main pipeline services (services on technical and potable water supply via main pipeline «Astrakhan - Mangyshlak» at the amount of 307 516 m ³);	Resolution of the Management Board of the Company dated November 4, 2010 (minutes №20)
59	- freight forwarding agreement.	Resolution of the Management Board of the Company dated December 6, 2010 (minutes №23)
JSC «Trade House «KazMunaiGas»:		
60	- Additional agreement №1 to agreement on provision of services on oil transportation dated December 20, 2009 № TR 01/2010.	Resolution of the Management Board of the Company dated May 27, 2010 (minutes №10)
JSC «Offshore Oil Company KazMunayTeniz»:		
61	- agreement on provision of services on oil transportation;	Resolution of the Management Board of the Company dated September 2, 2010 (minutes №17)
62	- freight forwarding agreement;	
63	- Agreement on provision of services on water supply via main pipelines;	
64	- Agreement on provision of services on water supply via main pipelines;	Resolution of the Management Board of the Company dated December 6, 2010 (minutes №23)
65	- Agreement on cancellation of freight forwarding agreement dated September 14, 2010 №EX 08/2010;	Resolution of the Management Board of the

66	- Agreement on cancellation of agreement on provision of services on oil transportation dated September 14, 2010 №TR 05/2010;	Company dated December 30, 2010 (minutes №25)
67	- freight forwarding agreement;	
68	- agreement on provision of services on oil transportation.	
LLP «KMG EP –Catering»:		
69	- Agreement on water supply via main pipeline services (services on technical water supply to 70 km section of «Uzen-Kenderli» waterline of « Astrakhan - Mangyshlak» main oil pipeline at the amount of 158 900 m ³).	Resolution of the Management Board of the Company dated November 4, 2010 (minutes №20)
JSC « (Kazakhstan Electricity Grid Operating Company) «KEGOC»		
70	- Agreement on water supply via main pipeline services (services on potable water supply on 7 km, 101 km of «Kulsary – Prorva – Sargamys» pipeline of main pipeline «Astrakhan - Mangyshlak» at the amount of 2 260 m ³).	Resolution of the Management Board of the Company dated November 4, 2010 (minutes №20)
JSC «KazMunaiGas – processing and marketing » (earlier JSC «Trade House «KazMunaiGas»):		
71	- Additional agreement №1 to agreement on provision of services on oil transportation dated December 20, 2009 № TR 01/2010;	Resolution of the Management Board of the Company dated May 27, 2010 (minutes №10)
72	- Additional agreement №3 to agreement on provision of services on oil transportation dated December 20, 2009 № TR 01/2010;	Resolution of the Management Board of the Company dated July 13, 2010 (minutes №14)
73	- agreement on provision of services on oil transportation.	Resolution of the Management Board of the Company dated December 6, 2010 (minutes №23)
JSC «TYNYS»		
74	- agreement on supply of fire safety equipment for the needs of Western branch of the Company.	Resolution of the Management Board of the Company dated March 19, 2010 (minutes №5)
LLP «МАЭК-Kazatomprom»:		
75	- Additional agreement №2 to agreement on electrical power supply dated December 22, 2009 № M002/01-01-13/3144//DE622/2010.	Resolution of the Management Board of the Company dated December 6, 2010 (minutes №23)
LLP «МАЭК- Kazatomprom» and RSE «Aktau International Sea Trade Port »:		
76	- Additional agreement №2 to agreement on delivery and consumption of electrical power dated December 31, 2009 № MM322/01-01-13/3357//DE31/2010.	Resolution of the Management Board of the Company dated December 6, 2010 (minutes №23)
LLP «МАЭК – Kazatomprom» and state communal enterprise «Aktau Department		

of electricity networks»:		
77	- Additional agreement №2 to agreement on electrical power supply dated December 31, 2009 № Ю08009-Э/01-01-13/3251//DE34/2010.	Resolution of the Management Board of the Company dated December 6, 2010 (minutes №23)
LLP «МАЭК- Kazatomprom» and «Buzachi Operating Ltd»:		
78	- Additional agreement №2 to agreement on delivery and consumption of electrical power dated December 31, 2009 №МБ 311/01-01-13/3358//DE32/2010//SC10/072/00/S.	Resolution of the Management Board of the Company dated December 6, 2010 (minutes №23)
LLP «МАЭК- Kazatomprom» and LLP «Energy supply Department»:		
79	- Additional agreement №2 to agreement on electrical power supply dated December 31, 2009 года № Y153Э/01-01-13/3356//DE33/2010.	Resolution of the Management Board of the Company dated December 6, 2010 (minutes №23)
JSC «МРЭК»:		
80	- Additional agreement №2 to agreement on provision of services on supply and distribution of electrical energy dated December 22, 2009 № 284//DE627/2010;	Resolution of the Management Board of the Company dated December 6, 2010 (minutes №23)
81	- Additional agreement №2 to agreement on provision of services on supply and distribution of electrical energy dated March 31, 2010 № 438//DE259/2010;	
82	- Additional agreement №2 to agreement on provision of services on supply and distribution of electrical energy dated March 31, 2010 № 442//DE260/2010.	
LLP «Semser Security»:		
83	- agreement on provision of security services for Central office of the Company and CCCU branch of JSC "KazTransOil";	Resolution of the Management Board of the Company dated February 1, 2010 (minutes №2)
84	- agreement on provision of security services for Western branch of the Company;	
85	- agreement on provision of security services for Eastern branch of the Company;	
86	- agreement on provision of security services for Usharal oil pipeline department of Eastern branch of the Company;	
87	- agreement on provision of security services for Central office of the Company and CCCU branch of JSC "KazTransOil";	Resolution of the Management Board of the Company dated May 4, 2010 (minutes №8)
88	- agreement on provision of security services for Western branch of the Company;	
89	- agreement on provision of security services for Eastern branch of the Company;	
90	- Additional agreement № 2 to agreement on provision of security services dated February 1, 2010 № US 67/2010/1;	Resolution of the Management Board of the Company dated September 2, 2010
91	- Additional agreement № 1 to agreement on provision	

	of security services dated May 6 , 2010 № US 345/2010/1;	(minutes №17)
92	- agreement on provision of security services for Central office of the Company and CCCU branch of JSC "KazTransOil";	Resolution of the Management Board of the Company dated December 30, 2010 (minutes №25)
93	- agreement on provision of security services for Western branch of the Company;	
94	- agreement on provision of security services for Eastern branch of the Company;	
95	- agreement on provision of security services for Usharal oil pipeline department of Eastern branch of the Company.	
JSC «Air company «Eurasia Ar»:		
96	- agreement on provision of aeronautic services (helicopter);	Resolution of the Management Board of the Company dated February 1,2010 (minutes №2)
97	- agreement on provision of aeronautic services (air plane) for needs of Western and Eastern branches of the Company;	
98	- agreement on provision of aeronautic services (air plane) for needs of Central office of the Company;	
99	- Additional agreement №2 to agreement on provision of aeronautic services (air plane) dated February 1,2010 №US 55/2010/2010-46;	Resolution of the Management Board of the Company dated October 14, 2010 (minutes №19)
100	- agreement on procedure of redemption of mutual debts.	Resolution of the Management Board of the Company dated December 30, 2010 (minutes №25)
LLP «Semser - Өрт сәндүріші»:		
101	- agreement on provision of fire security services of the facilities of Western branch of the Company;	Resolution of the Management Board of the Company dated February 1,2010 (minutes №2)
102	- agreement on provision of fire security services of the facilities of Eastern branch of the Company;	
103	- agreement on provision of fire security services of the facilities of Western branch of the Company;	Resolution of the Management Board of the Company dated December 30, 2010 (minutes №25)
104	- agreement on provision of fire security services of the facilities of Eastern branch of the Company;	

ATTACHMENT 3

To the Annual report of JSC "KazTransOil"
for 2010, confirmed by resolution of the Sole Shareholder
of JSC "KazTransOil" (minutes of the meeting of the
Management Board of JSC NC "KazMunaiGas"
dated _____ 2011, No. _____)

Information on the auditor of the Company

	Name of the auditing company	Services provided to the Company	Period of service provision
1	LLP "Ernst and Young"	auditing services	2008 – 2012 2002 – 2006
		Consulting services – holding conference	2009
		Consulting services	2007 - 2008
2	LLP "PricewaterhouseCoopers"	auditing services	2007
		Services on evaluation of fixed assets	2010
3	LLP "Deloitte TSF"	services on evaluation of fixed assets	2007 2008
		Testing of devaluation of business reputation	2008-2010
		Consulting services	2007

ATTACHMENT 4

To the Annual report of JSC "KazTransOil"
for 2010, confirmed by resolution of the Sole Shareholder
of JSC "KazTransOil" (minutes of the meeting of the
Management Board of JSC NC "KazMunaiGas"
dated _____ 2011, No. _____)

Report of independent auditors and consolidated financial statement as of December 31, 2010



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INDEPENDENT AUDITORS' REPORT

To the Shareholder 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 2010, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

A member firm of Ernst & Young Global Limited



ERNST & YOUNG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Nicholas Rytel
Audit Partner

Evgeny Zhemaletdinov
Auditor / 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



Auditor Qualification Certificate No. 0000553
dated 24 December 2003

28 February 2011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>In thousands of Tenge</i>	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	6	325,522,559	247,050,582
Intangible assets	7	7,189,956	9,805,960
Investments in joint ventures	8	9,118,148	5,262,464
Advances to suppliers for property, plant and equipment	9	417,522	1,886,728
Other non-current assets		170,410	194,918
		342,418,595	264,200,652
Current assets			
Inventories	10	3,191,088	3,192,705
Trade and other accounts receivable	11	6,552,547	7,035,257
Advances to suppliers	12	742,008	685,674
Prepayment for corporate income tax	34	1,337,084	1,946,748
VAT recoverable and other prepaid taxes	13	6,471,575	5,530,917
Other current assets	14	154,506	670,174
Short-term bank deposits	15	40,932,958	25,291,135
Cash and cash equivalents	16	16,914,394	16,401,503
		76,296,160	60,754,113
Assets classified as held for sale		-	378,378
		76,296,160	61,132,491
TOTAL ASSETS		418,714,755	325,333,143

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

<i>In thousands of Tenge</i>	Note	31 December 2010	31 December 2009
EQUITY AND LIABILITIES			
Equity			
Share capital	17	32,916,055	32,916,055
Revaluation reserve		124,828,954	48,783,757
Other reserves	17	17,104	17,104
Currency translation reserve		8,590,235	8,878,846
Retained earnings		171,962,450	152,206,983
Total equity		338,314,798	242,802,745
Non-current liabilities			
Loans and borrowings	18	294,800	10,346,912
Financial guarantee issued on behalf of related party		232,071	301,141
Employee benefit liability	19	2,580,804	2,337,120
Deferred tax liabilities	34	36,044,262	20,686,894
Deferred income	20	5,053,861	5,218,819
Other non-current accounts payable		8,465	7,731
		44,214,263	38,898,617
Current liabilities			
Loans and borrowings	18	296,864	10,345,517
Employee benefit liability	19	141,000	131,880
Income tax payable	34	908,131	476,041
Trade and other accounts payable	21	14,100,509	12,890,968
Advances received	22	10,886,410	10,096,754
Other taxes payable	23	1,449,103	917,594
Provisions	24	3,946,660	4,530,699
Other current liabilities	25	4,457,017	4,242,328
		36,185,694	43,631,781
Total liabilities		80,399,957	82,530,398
TOTAL EQUITY AND LIABILITIES		418,714,755	325,333,143

The accounting policy and explanatory notes on pages 7 through 48 form an integral part of these consolidated financial statements.

General Director

Chief Accountant



Sultan N.S.

Abdulgaliyeva Zh.O.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>In thousands of Tenge</i>	Note	2010	2009
Revenue	26	138,240,940	126,181,133
Cost of sales	27	(82,406,630)	(71,442,500)
Gross profit		55,834,310	54,738,633
General and administrative expenses	28	(7,114,619)	(9,104,796)
Other operating income	29	2,055,088	1,092,860
Other operating expenses	30	(805,658)	(1,124,886)
Impairment of property, plant and equipment	6	(22,333,457)	(1,246,788)
Effect of recognizing of liabilities associated with acquisition in 2008		-	(5,017,821)
Impairment of goodwill	7	(2,370,792)	(1,306,548)
Operating profit		25,264,872	38,030,654
Net foreign exchange loss	31	(265,221)	(7,011,967)
Finance income	32	1,882,967	2,283,646
Finance costs	33	(863,112)	(1,995,645)
Share in income / (losses) of joint ventures	8	62,702	(2,912,125)
Profit before income tax		26,082,208	28,394,563
Income tax expense	34	(6,463,907)	(12,856,131)
Net profit for the year		19,618,301	15,538,432
Other comprehensive income, net of tax			
Foreign currency translation		(288,611)	8,956,622
Revaluation of property, plant and equipment		83,522,643	3,817,133
Total other comprehensive income, net of tax		83,234,032	12,773,755
Total comprehensive income for the year		102,852,333	28,312,187

The accounting policy and explanatory notes on pages 7 through 48 form an integral part of these consolidated financial statements.

General Director

Chief Accountant



CONSOLIDATED STATEMENT OF CASH FLOWS

<i>In thousands of Tenge</i>	Note	For the years ended 31 December	
		2010	2009
Cash flows from operating activities:		26,082,208	28,394,563
Profit before income tax			
Adjustments for:			
Depreciation and amortization	27, 28	22,058,358	17,204,943
(Reverse of) / allowance for doubtful debts	28	(2,117,636)	380,575
Share in (income) / losses of joint ventures	8	(62,702)	2,912,125
Finance costs	33	863,112	1,995,645
Finance income	32	(1,882,967)	(2,283,646)
Actuarial losses	30	27,000	276,474
Employee benefits	19	203,000	191,000
Provisions	24	-	564,522
Loss on disposal of property, plant and equipment and intangible assets, net	30	253,784	88,524
Gain from disposal of assets classified as held for sale		(186,219)	-
Effect of recognizing of liabilities associated with acquisition in 2008		-	5,017,821
Impairment of goodwill	7	2,370,792	1,306,548
Impairment of property plant and equipment		22,333,457	1,246,788
Income from write-off of payables	29	(30,692)	(25,038)
Amortization of deferred income	29	(312,366)	(519,071)
Write-off of VAT recoverable	28	346,922	341,258
Amortization of financial guarantee issued on behalf of related party	29	(67,098)	(67,171)
Unrealized foreign exchange loss		265,221	6,872,546
Write-off of loans given to employees		1,875	-
Reversal of provision for allowance for obsolete inventory	28	(2,984)	(118,181)
Operating cash flows before working capital changes:		70,143,065	63,780,225
Changes in inventories		2,710,616	15,947
Changes in trade and other accounts receivable		(86,719)	(1,401,006)
Changes in advances to suppliers		(56,125)	(412,331)
Changes in taxes recoverable and other current assets		1,189,384	(177,970)
Changes in trade and other accounts payable		1,239,500	(666,544)
Changes in advances received		789,656	2,025,276
Changes in taxes payable		531,509	113,753
Changes in other current and non-current liabilities and employee benefits		226,459	3,977,959
Cash generated from operations:		76,687,345	67,255,309
Income taxes paid		(10,005,630)	(8,295,068)
Interest received		1,371,197	3,308,075
Interest paid		(376,228)	(2,224,053)
Net cash flow from operating activities		67,676,684	60,044,263

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of Tenge

	Note	For the years ended 31 December	
		2010	2009
Cash flows from investing activities:			
Withdrawal of term deposits		51,143,178	45,292,327
Placement of term deposits		(66,486,370)	(50,852,310)
Repayment of loans provided to related parties		-	3,777,305
Purchase of property, plant and equipment		(25,637,918)	(29,260,128)
Purchase of intangible assets		(131,064)	(110,513)
Proceeds from disposal of property, plant and equipment and intangible assets		604,943	847,189
Proceeds from disposal of assets classified as held for sale		564,597	-
Dividends received		422,916	765,020
Net cash flow used in investing activities		(39,519,718)	(29,541,110)
Cash flows from financing activities:			
Proceeds from loans and borrowings		44,205	103,250
Repayment of loans and borrowings		(20,348,000)	(26,005,469)
Dividends paid		(7,340,280)	(6,023,638)
Net cash flow used in financing activities		(27,644,075)	(31,925,857)
Net change in cash and cash equivalents		512,891	(1,422,704)
Cash and cash equivalents at the beginning of the year	16	16,401,503	17,824,207
Cash and cash equivalents at the end of the year	16	16,914,394	16,401,503

NON-CASH TRANSACTIONS

The following non-cash transactions have been excluded from the consolidated statement of cash flows:

Depreciation included in cost of inventory

The amount of depreciation for 2010 included in cost of inventory was 13,021 thousand Tenge (2009: 15,164 thousand Tenge).

Deferred income

In 2009 the Group recognized deferred income of 1,874,193 thousand Tenge from reconstruction of railroad overpass which was received free-of-charge in 2009. Deferred income amortized in 2010 amounted to 312,366 thousand Tenge (2009: 356,232 thousand Tenge).

The accounting policy and explanatory notes on pages 7 through 48 form an integral part of these consolidated financial statements.

General Director

Chief Accountant



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>In thousands of Tenge</i>	Note	Share capital	Revaluation reserve	Other reserves	Currency translation reserve	Retained earnings	Total
As at 1 January 2009		32,916,055	49,917,152	17,104	(77,776)	137,741,661	220,514,196
Net profit for the year		-	-	-	-	15,538,432	15,538,432
Foreign currency translation		-	-	-	8,956,622	-	8,956,622
Impairment of property, plant and equipment		-	(193,833)	-	-	-	(193,833)
Revaluation of property, plant and equipment		-	4,010,966	-	-	-	4,010,966
Total comprehensive income for the year		-	3,817,133	-	8,956,622	15,538,432	28,312,187
Amortisation of revaluation reserve		-	(4,950,528)	-	-	4,950,528	-
Dividends	17	-	-	-	-	(6,023,638)	(6,023,638)
As at 31 December 2009		32,916,055	48,783,757	17,104	8,878,846	152,206,983	242,802,745
Net profit for the year		-	-	-	-	19,618,301	19,618,301
Foreign currency translation		-	-	-	(288,611)	-	(288,611)
Impairment of property, plant and equipment		-	(6,390,810)	-	-	-	(6,390,810)
Revaluation of property, plant and equipment		-	89,913,453	-	-	-	89,913,453
Total comprehensive income for the year		-	83,522,643	-	(288,611)	19,618,301	102,852,333
Amortisation of revaluation reserve		-	(7,477,446)	-	-	7,477,446	-
Dividends	17	-	-	-	-	(7,340,280)	(7,340,280)
As at 31 December 2010		32,916,055	124,828,954	17,104	8,590,235	171,962,450	338,314,798

The accounting policy and explanatory notes on pages 7 through 48 form an integral part of these consolidated financial statements.

General Director

Chief Accountant



Sultan N.S.

Suzangaliyeva Zh.O.