

KazTransOil

The Company was founded on April 1997 by Regulation of the Government of the Republic of Kazakhstan. Purpose of its foundation was necessity to observe interests of the Republic of Kazakhstan in the field of oil transportation, export and import. April 2nd, 1997 the Government of the Republic of Kazakhstan approved Regulation # 461 on foundation of the Closed Joint Stock Company „National Oil Transportation Company KazTransOil”, 100% state-owned.

In 2001 state share holding of the CJSC National Oil Transportation Company KazTransOil (renamed CJSC KazTransOil) was transferred to the CJSC National Company „Transportation of Oil and Gas” („TNG”), which has been established according to Regulation # 591 of the Government of the Republic of Kazakhstan dated May 2nd, 2001.

In view of necessity to protect interests of the Republic of Kazakhstan in oil and gas sector, taking into account its onrush development, according to the Decree # 811 of President of the Republic of Kazakhstan of February 20th, 2002 on the basis of joint stock companies National Oil and Gas Company KazakhOil and CJSC National Company „Transportation of Oil and Gas” it was founded Closed Joint Stock Company National Company KazMunaiGaz, which became the KazTransOil Company’s sole shareholder.

According to requirements of the Law of the Republic of Kazakhstan „About joint stock companies” on May 31st, 2004 the Company was reregistered as KazTransOil JSC.

The Joint Stock Company KazTransOil, affiliate of the public company JSC NC KazMunaiGaz, is one of the leading companies in Kazakhstan.

Now the JSC KazTransOil exercises control and management of crude oil delivery via major pipeline system of the country and provides its transportation to export and petroleum refineries of Kazakhstan.

The JSC KazTransOil has four branch offices:

Western (Atyrau), Eastern (Pavlodar), Scientific — Technical Center (Almaty), Computing Centre of Corporate Usage (CCCU) (Astana).

The Company has 5 Foreign Branch Offices in:

Moscow, Orsk, Omsk, Samara, and Kiev.

Major Kazakhstan oil transportation operator takes an active stand in development of industrial infrastructure, research of alternative and optimal routes for energy product, as well as attraction of investments for its construction.

The Company confidently strengthens its international positions. Annual upgrade of its ratings, which are today one of the highest amidst corporate issuers of the Republic of Kazakhstan, is a graphic evidence of this.

Critical line of corporate development of the Company is a steady development of personnel. Today about 7000 people successfully work for KazTransOil.

Investment to construction of social and cultural objects is one of the most important items of expenses. On planning of priority list of social objects, the Company takes into consideration not only its own requirements but also needs of regions and state programs.

KazTransOil allocates significant means for charity and sponsorship aimed at socially unprotected sections of population, society of veterans and disabled people.

On exercising of its activity KazTransOil monitors environment state, which allows detecting all negative environment effects of pipeline system and elaborating ecological measures for emergency prevention, providing integrity, reliability and modernization of main pipelines.

TOTAL:	
Main pipelines, km: including:	7461,9
- oil pipeline, km	5286,7
- waterline, km	2175,2
Tank farm, thousand m3: including:	1306,4
- for oil, thousand m3	1154,0
- for water, thousand m3	152,4
Oil pumping station	37
Oil heating station	15
Furnace	59
Loading - Unloading Trestle	5
Water pumping station	4
Water treating plant	2
WESTERN BRANCH:	
Main pipeline, single, km:	4827,8
Including	
- oil pipeline, km	2652,2
- waterline, km	2175,2
Tank farm, thousand m3:	
Including:	900,4
- for oil, thousand m3	748,0
- for water, m3	152,4
Furnace,	59
EASTERN BRANCH	
Oil pipeline, single, km:	2562,9
Tank farm (oil), thousand m3:	406,0
Acceptance Point «Orsk»: Main pipeline, single, km:	71,7

With independence, on a path leading to market economy, Kazakhstan certainly announced itself as a state possessing high and dynamically growing oil-&-gas potential. New realities make totally different demands to the pipeline network of Kazakhstan. As President of the Republic of Kazakhstan Nursultan Nazarbayev has emphasized „creation of the most effective routes of energy resources is a major constituent of the industrial policy of the Republic, directed toward provision of brisk pace of economic development, improvement of the well-being of Kazakhstan people”. Taking into account strategic importance of the JSC KazTransOil for the Republic of Kazakhstan we consider the first and foremost provision of uninterrupted transportation of oil produced in the country to export and domestic market.

Formation of the pipeline system agreeable to the modern standards required serious reorganization, improvement of existing pipelines and further extension of transport infrastructure.

From the time of declaration of independence Kazakhstan has fulfilled great job to develop main pipeline system with the view to increase of competitiveness and reliability of existing pipelines and construction of new facilities for oil transportation and transshipment, as well as creation of necessary contract basis for oil transit via other countries.

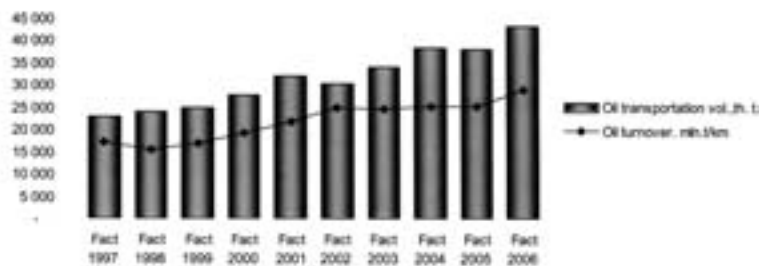
KazTransOil became a conductor of state policy in protection of economic interests of the Republic of Kazakhstan on problems of oil transportation, import and export, optimization of company management structure, attraction of investments, following unified tariff policy for all main pipelines.

During mentioned time new pipelines were put into operation — Kenkyak — Atyrau, Alibekmola — Kenkyak, Severnye Buzachi — Karazhanbas, Atasu — Alashankou; expansion of pipelines Atyrau — Samara, port Aktau and several railroad oil loading and unloading terminals.

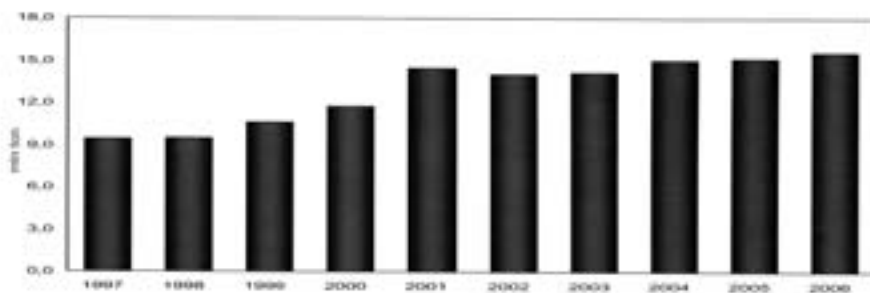
Company has signed agreements with operators of oil pipeline systems, such as Public Corporations SC Transneft, Ukrtransneft, Gomeltransneft, Novopolotsk oil transportation company Druzhba.

One of the key showings of successful activity of JSC KazTransOil is a volume of oil transportation and turn-

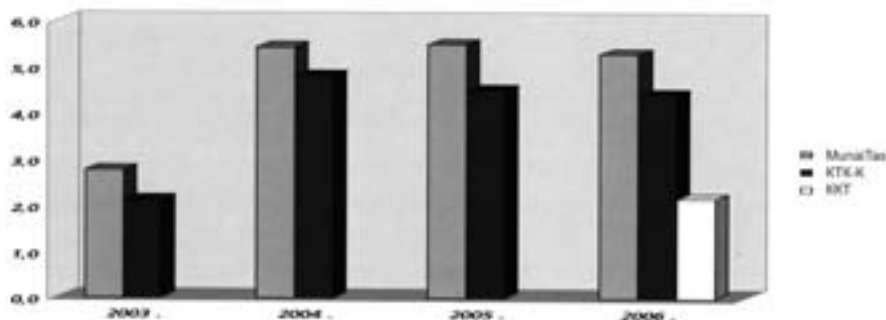
Oil transportation volumes and turnover (1997 - 2006 yr.)



Transportation via main pipeline Atyrau - Samara 1997-2006



Volume of oil transshipment to CPC, Munaytas, KCP 2001-2006



over. Increase of these showings on the whole came out from, on the one hand - growing volume of oil production in Kazakhstan, on the other hand - works performed in Company for extension and modernization of the existing main pipeline system of JSC KazTransOil, organization of new routes, strategic policy of integration of the Western and Eastern Branches systems, as well as operator's activity, oil transit via territory of CIS countries and Europe. Thus, during 10 years oil transportation volume has increased from 22,9 mln. ton in 1997 up to 43,3 mln. ton in 2006. Accordingly, turnover has increased from 17,2 mld.t.km in 1997 up to 28,8 mld.t.km in 2006.

Interaction between JSC KazTransOil and pipeline companies of Russia, Ukraine and Belarus in the field of Kazakhstan oil transportation and transit is a key constitu-

ent of economic cooperation, support and extension of mutual integration between CIS countries.

Signing of the intergovernmental agreement on oil transit on June 07th, 2002 in Saint - Petersburg between Republic of Kazakhstan and Russian Federation is an example of extension of mutual interest in cooperation in the field of oil transportation. This document stipulates for possibility of guaranteed transit of Kazakhstan oil via Transneft pipeline systems in volumes no less than 15 mln. ton/year along Atyrau — Samara and no less than 2,5 mln. ton/year via pipeline Mahachkala — Novorossisk.

Pipeline Atyrau — Samara is one of the major export lines to transport Kazakhstan oil via pipeline systems of Public Corporation SC Transneft and CIS countries, to be delivered to the Black Sea terminals (Odessa, Novorossisk, Uzhny), Baltic Sea (Primorsk, Gdansk, Butinge), as well as European markets (Poland, Germany, Hungary, Slovakia, Czechia and others).

Principal increase of oil transportation volumes in this direction has been achieved since 2000 and in 2001 owing to antiturbulent agent at limiting sites, as well as reconstruction of the pipeline Uzen — Atyrau — Samara allowed expanding carrying capacity from 12,3 up to 15,6 mln. ton/year, and volume of transportation from 11,8 mln. ton/year up to 15,6 mln. ton/year in 2006. At that, in May 2006 all-time high volume — 1 370 thousand tons of oil — was pumped over through oil pipeline Atyrau — Samara.

Now we can say with confidence that in comparison with 90-s of the last century, when overwhelming majority of Kazakhstan oil exported via Atyrau — Samara, lately oil companies has considerably diversified oil routes, in many respects owing to creation of oil transportation and transshipment facilities.

Commissioning of the pipeline Tengiz-Novorossisk of the Caspian Pipeline Consortium (CPC) in 2001 became an important event in the history of oil industry of Kazakhstan.

Because of many oil companies having right for carrying facilities of CPC, had had no direct access to this main pipeline, JSC KazTransOil has commissioned at oil pumping station Atyrau transshipment facilities to CPC system; now hydrocarbon raw product arrives via Uzen-

Atyrau, Kenkyak — Atyrau, Martishy — Atyrau pipelines and by rail way.

In 2006 volume of transshipment to CPC pipelines via KazTransOil system was 4,4 mln. ton.

With a view of provision of transportation of growing volumes of oil produced in Aktubinsk province, Company commissioned in 2003 pipelines Kenkyak - Atyrau, with a capacity of 6 mln. t/year and Alibekmola - Kenkyak, with a capacity of 3,6 mln. t/year.

Commissioning of the pipeline Kenkyak — Atyrau allowed considerably increase volumes of Aktubinsk oil transportation toward OPS Atyrau; at that consignors obtained more reliable and economically sound alternative in comparison with rail traffic. Project of pipeline Kenkyak — Atyrau has been fulfilled by NWPC Munaytas, in which JSC KazTransOil holds 51% of shares, and Chinese company CNPS International, with 49% of shares.

Taking into account interest of consignor in delivery of oil to Chinese market, Company put into operation Railroad oil loading trestle HOPS Atasu in 2000.

With the purpose of diversification of Kumkol oil delivery JSC KazTransOil placed in operation Railroad oil loading point on the Shagyr station, with a capacity of 3 mln. t/year.

Shagyr performs perennial loading of Kumkol oil to tank cars. One of the primary advantages of this facility is low tariff for oil transshipment, as well as principle of non-discriminatory access, which is followed by the Company in its activity. It is necessary to mention that this trestle is in popular demand and highly growth.

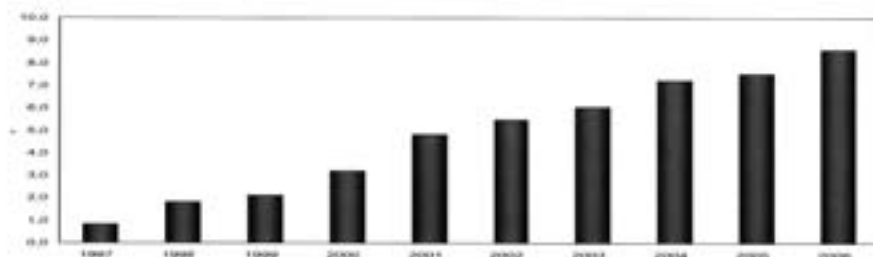
Very important export route for Kazakhstan oil companies is the Caspian port Aktau, where JSC KazTransOil reloads oil to tankers from pipeline and railroad tank cars.

Now oil is delivered to the port's oil loading terminals:

- via existing pipeline Kalamkas-Karazhanbas-Aktau
- by railroad from oil fields of the Western Kazakhstan, Aktubinsk province and Kumkol region. After modernization of the railroad overpass of HOPS Aktau, it become possible to load Kumkol oil, which has high temperature of congelation, all the year round.

Taking into consideration increasing demand for transcaspian oil shipping operations, Company performed reconstruction and expansion of the unloading railroad overpass at HOPS Aktau, which allowed increasing volumes of oil unloaded from railroad tank cars for further transshipment to oil tankers from 2,9 mln. t/year up to 4,5 ton in 2006.

Diagrams of oil transshipment in Aktau port



Oil is to be exported from Aktau port in the following directions:

- Aktau — Makhachkala, with transshipment to pipeline system of the Public Corporation SC Transneft and further delivery via pipeline Makhachkala-Novorossisk.
- Multimodal transportation (usage of several type of transport) of oil in tanker or ferry in railroad tank cars from Aktau to Baku and for further delivery by railroad to Black Sea port Batumi;
- Delivery to the Iranian port Neka.

An active development of mentioned export routes made possible to provide growth of transshipment's volume in Aktau port through JSC KazTransOil system up to 8,5 mln. ton in 2006.

In connection with planned increase of oil production at oilfield Severnye Buzachi in May 31, 2006 JSC KazTransOil built and put into operation a lateral pipeline at the Central Point of Oil Treatment Severnye Buzachi — OPS Karazhanbas, which provided growing demand for oil transportation from oilfield Severnya Buzachi via JSC KazTransOil main pipeline systems with the further export.

Commissioning of the pipeline Atasu-Alashankou became one of the prime event of 2006, a major phase of the strategy of multiple vector of oil transportation system and has provided oil companies with reliable and economically sound route of oil delivery to promising and thriving Chinese market. Besides, this pipeline makes possible to enable transit potential of Kazakhstan for transportation of Russian oil to China. This project was implemented by Kazakhstan — Chinese Pipeline LLP — joint enterprise of JSC KazTransOil and CNODC (daughter enterprise of the Chinese National Corporation for oil and gas exploration and production - CNPC) established on terms of parity (in 50% of shares).

In an effort to provide reliable and uninterrupted receive and transportation of oil via Atasu — Alashankou system, JSC KazTransOil has carried out measures on modernization and reconstruction of objects of the Eastern Branch at site Priirtyshsk — Atasu, Karakoin — Atasu and at HOPS Atasu, which is Head Oil Pumping Station of the pipeline Atasu — Alashankou.

Oil from oilfields of the Central Kazakhstan is delivered via pipeline Atasu — Alashankou. It is also possible that deliver oil from Western Kazakhstan, for which oil unloading trestle was built in Atasu to receive oil in railroad tank cars for further transshipment to Atasu

— Alashankou pipeline. According to overall results of 2006 volume of oil transportation via Atasu — Alashankou is more than 2 mln. ton, including oil assigned for pipeline infilling.

Volume of oil production in Kazakhstan tends stable increase ~ in 2006 Kazakhstan produced about 65 mln. ton, which exceeds similar showings of 1997 (25,7 mln.

ton) over 2,5 times more. Within the next few years it is expected to implement a number of projects in oil industry, which would result in considerable increase of oil production - it is first of all scheduled for 2007 commissioning of the Plant of the second generation in Tengiz oilfield, expansion of the Karachaganak Refinery, as well as the following oil production at Kashagan and other oilfields of the Kazakhstan sector of the Caspian Sea.

Hence, it is expected that by 2010 volume of oil production would make up to 90 mln.t / year, and by 2015 — 150 mln.t/year, when new deposits would have been commissioned at Kazakhstan shelf of the Caspian Sea.

Considering so high volumes of oil production, it is very important to produce favourable conditions for oil export. This problem solving is in provision of multiple vector of oil routes, what was declared as one important tasks while realizing the State Program on development of the Kazakhstan sector of the Caspian Sea, approved by Head of the State.

In December 2006 JSC KazTransOil established a Joint Venture with company Gree-noak Holdings and its daughter enterprise Naftrans Capital Partners, which owns a number of strategic assets in Georgia, including Batumi Oil Terminal and first-rate oil and petroleum product transportation company Petrotrans. The major objective of the new enterprise — Batumi Terminals, where partners perform on an equal footing — is provision of direct entry of Kazakhstan oil producing companies to the Black Sea.

As a result of this bargain JSC KazTransOil takes up share holding in company, which owns assets at the Black Sea coast of Georgia, having favorable strategic and geopolitical location. Thus, oil terminal in Batumi became the first foreign asset of the Republic of Kazakhstan with direct entry to Great Oceans.

Within last seven years volume of oil and petroleum product transshipment at Batumi terminal has increased practically four times as much; according to overall results of 2006, volume of transshipment achieved a record figures — approximately 12 mln. ton. Terminal is a key component of the Trans Caucasian Oil Corridor. Among its clients are major world oil companies, including ExxonMobil, Chevron and BP.

This Project is a harmonic constituent of Development Strategy of KazMunaiGaz Group on increasing of market capitalization and competitiveness of its daughter enterprises and diversification of Kazakhstan oil export routes.

It is necessary to underline that Kazakhstan intends to enter to the list of leading world oil producers, for which we have all necessary prerequisites — geological resources and existing relationships with both Kazakhstan and international investors. So it is appropriate mention here that Kazakhstan is a material supplier of energy resources to

the world markets. Considering remoteness of our country from key centers of oil consumption, provision of reliable and economically sound oil transportation systems with adequate capacity is a critical problem.

Nowadays facilities of the Kazakhstan oil transportation system of the Republic of Kazakhstan satisfy oil production, but further development of mining industry is impossible without new projects. Guided by the purpose of creation of integrated pipeline system of the Republic of Kazakhstan Company is considering construction of the second stage of pipeline Kazakhstan — China.

According to the Agreement between JSC National Company KazMunaiGaz and Chinese National Corporation for oil and gas exploration and production on philosophy of construction of the second stage of the pipeline Kazakhstan — China dated December 12, 2006, it is scheduled to complete construction of the pipeline Kenkyak — Kumkol by 2010.

According to understanding between JSC National Company KazMunaiGaz and Chinese National Corporation for oil and gas exploration and production it is envisaged to construct the pipeline at the site Kenkyak — Kumkol at the second stage of pipeline Kazakhstan — China, as well as expansion and modernization of associate pipeline systems.

A primary intent of this project is creation of oil transportation system from oilfields of Aktubinsk, Western Kazakhstan and Kazakhstan sector of the Caspian Sea to the very promising Chinese market, as well as provision of

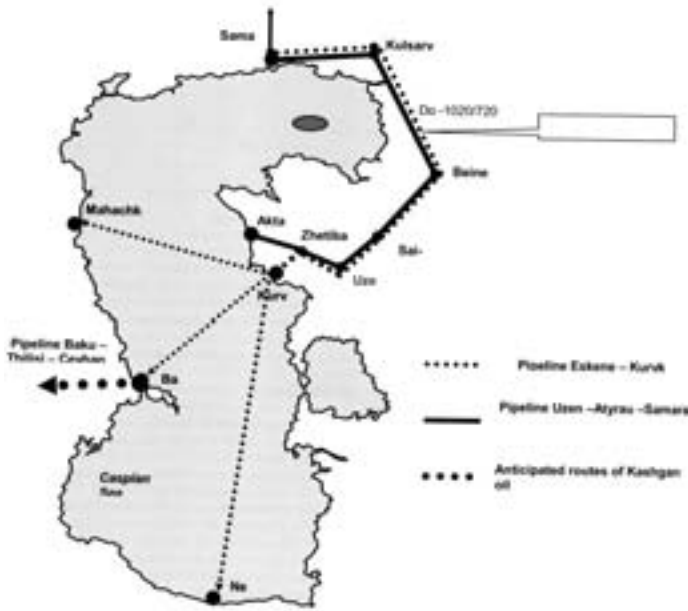
energy safety and independence of Kazakhstan by means of integration of separate pipeline systems of the Western and Eastern Branches. In an effort to provide oil producers of the Western Kazakhstan with access to perspective Chinese market, Company is stipulating for an integration of the pipeline Kenkyak — Atyrau into the Kazakhstan — Chinese pipeline by means of its reversal

One of the most promising projects of our Company is construction of the pipeline Eskene - Kuryk.

This pipeline is designed to connect the Kashagan Oil Treating Plant in Eskene (in Atyrau region) with port Kuryk, where it is proposed to build a new oil loading terminal for dead-weight capacity tankers — up to 60 thousand ton. At that, pipeline route is to be in the same technical corridor as existing pipeline Uzen — Atyrau — Samara, which would allow optimization of construction capital costs. Besides Kashagan oil, primary volume of new pipeline, this route is to be used by other oil companies too.

Within the framework of the Memorandum of conjunct elaboration of investment feasibility of JSC National Company KazMunaiGaz, JSC KazTransOil and Total, abovementioned companies are carrying out joint analysis of the Eskene —Kuryk project, during which Declaration of intentions has been signed. At the first stage of the construction, pipeline throughput would be 23 mln. t/year, length — about 750 km, with the following step-by-step expansion up to 35 and 56 mln. t/year depending on resource base.





JSC KazTransOil celebrates its ten-year anniversary with next goals and objectives. We are facing major creative work: rapid development of oil production is making increasingly complicated and scaled demands from transport infrastructure. JSC KazTransOil is able effectively solve tasks set by the State - practically proved.

Kazakhstan oil delivery routes

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Delivery, total	16,1	16,3	18,0	20,0	24,8	21,9	24,7	24,7	38,2	43,3
Acceptance Point Samara	9,4	9,5	10,6	11,8	14,5	14,0	14,2	15,0	15,2	15,6
Atyrau refinery	4,1	2,6	1,9	2,2	2,1	2,1	2,1	2,6	3,2	3,3
Pavlodar refinery	1,6	2,2	0,7	1,0	2,0	2,1	2,5	2,9	3,7	3,9
PetroKazakhstan OilProducts	2,6	3,0	4,0	4,8	5,6	7,1	5,9	3,8	2,9	3,8
Akatu port	0,8	1,8	2,1	3,2	4,8	5,5	6,0	7,2	7,5	8,6
NWPC Munaitas	-	-	-	-	-	-	2,8	5,4	5,5	5,3
CPC-K	-	-	-	-	-	-	2,1	4,8	4,5	4,4
KCP	-	-	-	-	-	-	-	-	-	2,2

At the same time, according to Kazakhstan — Azerbaijan Contract about support and encourage of oil transportation from the Republic of Kazakhstan via Caspian sea and Azerbaijan territory to the international markets through Baku — Tbilisi — Ceyhan, signed by Heads of States in June 2006, works on creation of the Trans Caspian system are to be performed, including formation of a large - capacity tanker fleet and corresponding receiving facilities in Azerbaijan, right up to connection to the pipeline Baku — Ceyhan. In addition, such a system, in global energy policy, would allow Kazakhstan oil companies to take advantage of new routes, which especially important, and provide an entry to deep-water Ceyhan port, detouring Turkish Bosphorus and Dardanelles. This perspective, in its turn, opens economically sound access to distant oil markets, such as America and South — Eastern Asia. It is outlined to deliver oil first of all, from Kashagan field and other Caspian shelf and Western Kazakhstan. It is also possible to deliver oil from port Kuryk in other directions, including Baku — Batumi and Iran.

During last years Kazakhstan has performed extensive works on development of oil transportation system. Policy of multiple vectors has been realized. Plans on development of the Caspian shelf and other Kazakhstan oilfields are posing new large-scale problems. From its part JSC KazTransOil, making a long path during the last 10 years, through coming-to-be, being one of the leading domestic companies, would play an active role in this process.

We are ready for further development of cooperation, both with oil companies and oil transport operators of other countries, in order to provide reliable and economically sound transportation of Kazakhstan oil to the world markets.

Oil transportation strategy of the Republic of Kazakhstan based on multiple vector of export routes, further upgrade of potential and provision of nondiscriminatory access of hydrocarbon producers to existing and perspective pipelines.

Tasks on implementation of this strategy has been laid on the National Oil Transportation Company JSC KazTransOil, operating as an affiliated enterprise of the National Holding KazMunaiGaz and authorized to represent interests of the Republic of Kazakhstan in all pipeline projects, including international.

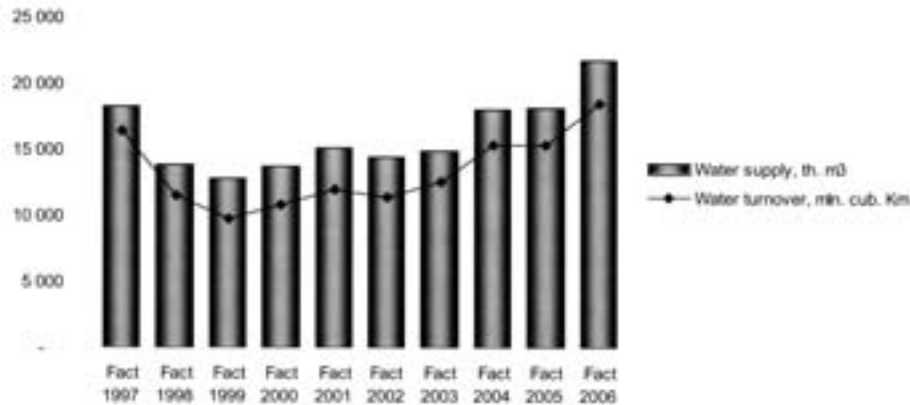
Today the Company performs transportation of about 60% of oil produced in Kazakhstan. During years of activity the JSC KazTransOil managed to build up one of the most successful financial - economic and industrial models. Today the Company has real prospects for further progress.

The Kazakhstan oil transport operator possesses 5272,7 kilometers of pipelines. Besides, the Company renders service on operation and maintenance of 2046 kilometers of pipelines, belong to other companies.

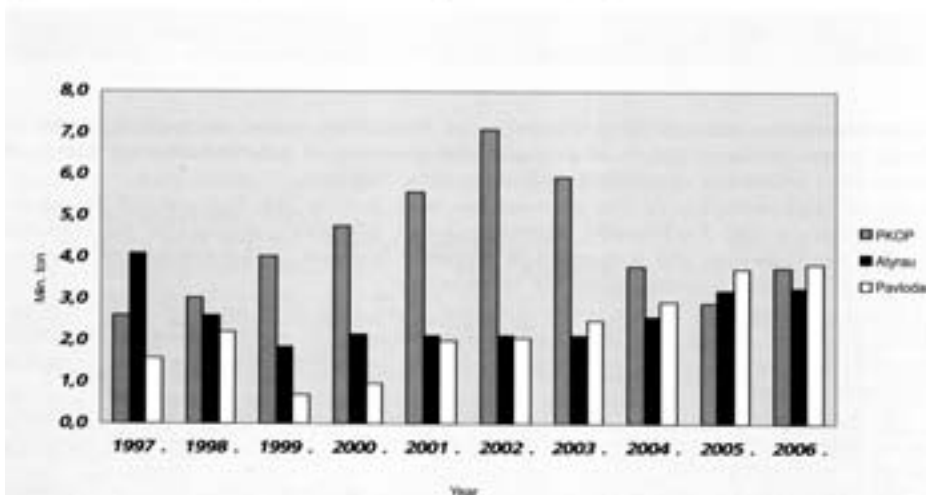
Since foundation KazTransOil was entrusted with several paramount tasks, including — increase of reliability and provision of trouble-free operation of pipelines.

This problem was especially critical because of natural aging of the pipeline system of KazTransOil, which was generally built at the Soviet time. Age structure of the KazTransOil' pipelines, which are in use over 20 years - 3 500,4 km, 20-10 years - 993,9 km, less than 10 years - 778,4 km.

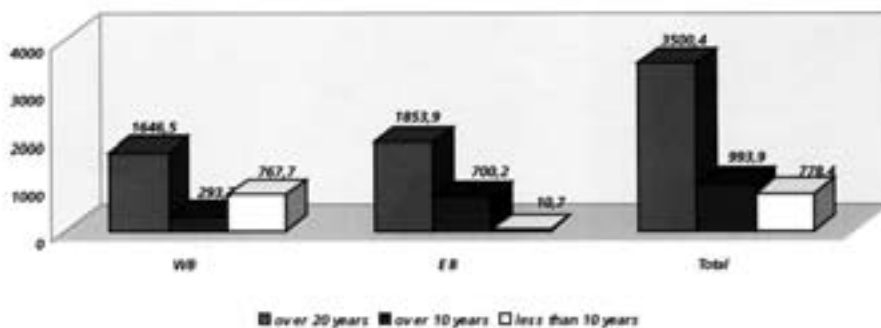
Water supply volumes



Dynamic of oil delivery to Kazakhstan petroleum refinery



Age structure of pipelines (km)



In general the practice shows that after 10-15 years of operation of main pipelines, number of failures and breakdowns increases. Inspections, conducted in the Company, confirmed assumption that considerable accumulation of corrosion and fatigue damages in metal pipes and joint welds and presence of pipe defects. At the same time detected accumulations and development of failure of different sectors of pipeline were uneven. Often failures

relate to corrosion and mechanical fatigue of a pipe metal and, as a consequence, local loss of metal, its stability and strength.

Necessity in prolongation of service life of main pipelines required elaboration of measures for reliability and trouble-free operation, search of new technologies and special equipment, which enable identification of local defects of pipeline.

Pipeline System Diagnosis

One of the most effective methods of survey of pipeline' technical condition is diagnosis using in-tube inspection bullet, widely used in the Company since 1999. This system allows to conduct overall survey of pipeline and identify considerable number both external and internal defects of different type. Its application was a result of study and introduction of the state-of-the-art world experience in the sphere of pipeline condition diagnosis.

The JSC KazTransOil has introduced the technology of the flaw detection and deformations by means of magnetic and ultrasonic intra-tube flaw detectors in the close partnership with a number of world famous English, German and Russian firms - members of the international association of diagnostic companies PPSA, whose activity corresponds to standards ISO 9001 and 14001. Works were performed on the competitive basis, by such firms, as „Pipeline Integrity International Group Ltd” (Great Britain), „H. Rosen Engineering GmbH” (Germany), InterEng — Almaty Ltd. (Kazakhstan — Germany), „Diascan” (Russia).

Monitoring, based on the results of intra-tube diagnostics with the use of intra-tube inspection projectiles (IIB) of high resolution, allows to trace the development of separate defects, and dynamics of a change of the technical state of main pipeline as a whole, taking into account the environment effect and man-caused factors, and to control the execution of the programs on defects elimination.

Each inspection of pipeline gives information on one of parameters of defects, detected by different types of IIB. Therefore the most complete and objective information of

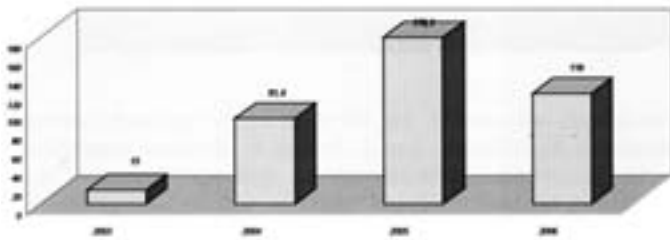
the dynamics of a change in the technical state of conduit is the result of periodic diagnosis on entire complex of IIB.

The conducted monitoring allows over many years to control the service life of pipeline system with the minimum expenditures, and accordingly, considerably extends the service life of pipelines.

At present KazTransOil systematically carries out intra-tube diagnostics of oil pipelines. According to its results, measures for operational localization of dangerous defective places are conducted by the Company.

The type of repair - selective or thorough - depends on the density of defects distribution on the section of oil pipeline. The sample of sections is produced, where defect accumulations located, which is more expeditiously to eliminate by replacing the pipe, i.e. by thorough repair.

At the given moment, 80% of oil pipelines, subject to diagnosis, have been inspected; diagnostics of the rest 20% is scheduled for 2007 and 2008. According to the results of inspections of main oil pipelines, KazTransOil carried out the work on the replacement of pipeline, altogether 402,9 km of oil pipelines during 2003 - 2006.



KazTransOil main pipeline technical conditions control requires detailed elaboration of stored data, usage of the state-of-the-art computing facilities.

One of the means of monitoring the technical state of pipelines is the automation monitoring and control system for technical state and repair ASKUTSR. This system is an integrated system of storage, working-out, data analysis on technical state of main oil pipelines and intended for:

1. storage of entire information on the main oil pipeline. For this purpose information will be brought in into the data base, obtained according to the results of intra-tube diagnostics and the repair of pipes on the linear part;
2. technical reports analysis according to the results of intra-tube diagnostics and formation of operational information for monitoring of technical state main pipeline;
3. provision of information on technical state of oil pipelines, results of the previous intra-tube inspections, necessary for planning of repair work on the linear part.

System makes allows to carry out control and analysis of all necessary data through the technical state of main pipeline, operationally form reports according to normative documents.

- System of supervisory control and management of pipelines (SCADA);
- Automated control system of the Company activity (SAP/3).

The SCADA System is designed for realization of remote control and management of the geographically-distributed technological facilities of KazTransOil JSC main pipelines.

The JSC KazTransOil has reconstructed and updated Operating Equipment of Automated System of Oil Pumping Stations (OPS) and Oil Heating Stations (OHS) and has introduced Supervisory Control and Management System which facilitates automated monitoring and main pipeline pumping process control (total — 33 objects).

There are redundant servers SCADA with WinCC 6.0, Automated Work Stations and Internet Clients at all Control and Management Levels (Local, Regional, Central Dispatcher Point, Main Dispatcher Point — 23 Local Dispatcher Points and 10 Regional Dispatcher Points, Central Dispatcher Point and Main Dispatcher Point). Up-to-date distributed microprocessor systems are set at Oil Pumping Stations (more than 260 Automation Cabinets) instead of obsolete relay equipment of 1975-1985. Redundant Programmable

Logic Controllers joined into United Local Network by the ring structure; communication of controllers with distributed data acquisition unit is realized using standard interface of industrial network. Unified Information Mathematical Provision is used for the whole Project. Control equipment and instrumentation have been replaced and reconstructed (more than 5 800 detectors and sensors).

Commercial Level Gauging Systems in Tank Farms have been set at 11 Oil Pumping Stations within the SCADA Project. Connection of the Telemechanic System of the Linear Part of the Western and Eastern Branches (146 Linear Monitoring Points) to the SCADA System is executed, as well as all existing external systems are integrated into the SCADA System (Commercial oil measurement systems, pressure regulation systems, frequency regulation systems etc.).

All Automation Systems and SCADA Systems of Oil Pumping Stations of the Western (18 objects) and Eastern Branches (5 objects) were commissioned in September 2006.

With commissioning of the SCADA System reliability was increased and reached trouble-free operation of individual equipment and pipeline as a whole; availability of uninterrupted and objective processing equipment state and operating personnel control; oil pumping cost saving;

increase of effectiveness of industrial and economic activity of KazTransOil on the whole.

More than three years KazTransOil successfully operates Automation Activity Management System SAP/R3. The SAP/R3 System, operating in the real-time mode, allowed to exercising an effective financial and material resources management on the basis of prompt data input.

Within the framework project were automated the processes of bookkeeping calculation and account, management of control of company, material and technical supply, the transport of oil and water. The united classifier of materials is created and inculcated, made it possible to reach „the transparency” of warehouse reserves. Reference books common on the company are created, made it possible to exclude duplicating information input.

Within the framework of this project the processes of accounting and report, company economics management, material and technical supply, oil and water transportation have been automated. The united classifier of materials is created and applied, allowing to reaching „the transparency” of warehouse reserves. Company general Reference books are created, allowing to exclude duplicating of data input.

Thus, the introduction of the state-of-the-art methods of diagnostics and monitoring of the technical state of pipelines, allowed to react operationally to all changes of technical state of main pipeline system, which leads to the significant reduction of a quantity of emergency switching of linear part and stop of the pumping process.

Pipeline defects elimination

During the elimination of the pipeline defects, detected according to the results of intra-tube diagnosis, advance technologies and materials are used. Among existing worldwide technologies and methods of current repair of pipeline, the Company uses such, as CLOCK SPRING (hour spring), composite spiral coupling (CSC).

In 2006. the JSC KazTransOil for the first time used composite- coupling technologies, allowing to rehabilitate bearing capacity of the damaged sections to the faultless level. The application of this method allowed during inspection of defective sections, installation of repair construction and during rejection of composite composition, on the assumption of decrease of passage pressure, to work without pumping process stoppage. It is necessary to note, that in the comparison with the bobbin repair this method is considerably more economical, since it does not require the stopping of pipeline, its emptying, taking other measures connected with earth and fire works, actions on displacement of air and output of pipeline in operating mode. The Composite- coupling technology does not lead pollution of

the earth and atmosphere, and it means, that problems of environmental safety of production are solved.

Power supply modernization

Since 2004 KazTransOil carries out scheduled measures directed toward increase of reliability of the power supply of the objects of the linear part of the main oil pipelines, including - the modernization of the high-voltage lines of 6/10 kV along the main pipeline. Within the frameworks of work performed 46 re-closers. The carried out work allowed to reducing a quantity of emergency failures in 2006 in comparison with 2004-2005 for 20%. It is scheduled to install 94 more re-closers.

During of repair work high-voltage lines are equipped with traverses „dovetail” with the suspension insulators, which leads to a substantial increase of reliability of power supply.

The introduction of the variable-frequency electric drive also was started on the objects of company since 2002. The frequency regulation of aggregates rotation was preferred on the basis of the economic value analysis during control of pumps of the main oil pipelines in the varying modes. Advantage of this frequency converters in securing of optimum work of electric motor due to the realization of economical regulation, the increased stability in the emergency operations, the possibility of regenerative braking, the guarantee of sinusoidal output voltage and practically sinusoidal output current, which excludes the need for the installation of output shielding filters, in the low level of harmonics, generated into the power line.

Thus, with the decrease of the pump capacity 2 times, the consumption of electric power with the frequency regulation is reduced almost 8 times.

The pilot introduction of the variable frequency electric drives was begun on OPS Kalamkas. Applications in the production regime allowed to confirm the presence a number of advantages on the comparison by the previous diagram:

- considerably increased the service life of the work of entire power machinery equipment (electric engines, cable lines of force, distributors) due to the absence of starting transient currents. If the starting current of direct launching is 950-1100 amperes, then with the frequency it is equal to 60-70 amperes;
- the absence of dynamic impact starting loads substantially increased time to failure of pumping facility, half-couplings and electric engines. During operation of the variable frequency drive on OPS Kalamkas none failure was registered on the pumps, electric engines and to half-couplings;
- there appeared the possibility of smooth regulation of the productivity of station due to a change in the frequency of the rotation of pump, which makes it possible to exploit station without the pressure regulator,

-
- decrease essentially vibration, noise and elevated pressure in the pump and the supply header. This advantage generally excluded failure of end packings, gave the savings of electric power to 20-25% due to the exception of hydraulic losses in the regulator and the losses on exceeding of pressure;
- to test the fundamentally new diagram of pumping oil without the support aggregates. The regimes of the work of main pumps obtained with the frequency regulation make it possible to ensure necessary productivity due to the static pressure of reservoirs without any signs of cavitation;
 - to obtain the additional saving of electric power and savings due to reduction in the expenditures for the operation of support aggregates.

According to the results of approbations it was decided to introduce this energy-saving technology on other objects of the Company. Thus, the in 2006 variable frequency drives also was applied on the 2nd main pumping units nm -2500/230 on HOPS Uzen and on the 4th main pumping units nm - 3600/230 OPS Bolshoi Chagan.

In the future, as it is stated in „the Development Program of main oil pipelines 2007-2009, the variable — frequency electric drives would be installed on 4 objects of the JSC KazTransOil.

Thus, as a result of intra-tube diagnostics and complex of measures for the liquidation of the most dangerous defective places, the major selective overhaul of sections, the introduction of new methods and technologies considerably was reduced the number of failures, emergencies on the main oil pipelines the JSC KazTransOil. Assigned to the company tasks on provision of reliability, safety of the operation of main oil pipelines are carried out entirely.

Industrial safety systems

„Taking into account the possibility of the potential negative environment effect of our activity, we realize our responsibility for provision of safety of environment and eco-logical safety of production”.

Concern of the JSC KazTransOil about the personnel, equipment and to environment is confirmed by introduction in recent years of many innovation projects. Each project deserves special attention. Project SCADA allows to integrate control of entire oil pipeline network into one whole, to convert the systems of management of production to up-to-date technical equipment, to improve the standard of production, to decrease emergencies; the ecological monitoring of pipe installation is one of the tasks of the introduced geo-information system; the introduced leak detection system allows to determine the gap of pipe and the place for emergency within a few seconds, thus minimizing the losses of oil and, accordingly environmental impact. The adherence of the JSC KazTransOil to the policy of works quality improvement the environment pro-

tection testifies obtaining certificates ISO 9001:2000, ISO 14001:2004, OHSAS 18001:99. The system of industrial safety (SS) of the station facilities of the JSC KazTransOil is one of innovative projects of the JSC KazTransOil, directed toward increase of technological processes safety, service personnel and environment protection.

If for the man safety is the second priority, after life, then for the enterprise safety in the first place.

The process of oil pumping is complicated technological process. To pump-over ten and hundreds of kilometers, with a total length of 6 510 km, pumps generate large pressures. Presence of large tank farm with a summary volume 1 of 128 thousand cubic m. it requires special safety regulations. The furnaces of preheating also are used together with the pumping plants, also of large productivity. It is not necessary to explain, what danger the process of preheating the flammable liquid with such volumes bears. Mentioned factors are already sufficient, to understand, how important technological safety is. Industrial safety system consists of three systems: automatic fire extinguishing, gas detection and accident-prevention protection.

The automatic system of fire extinguishing (ASPT) - is the totality of technical equipment, directed toward averting of action on the people of the dangerous factors of fire and the limitation of material damage from it. Protection is achieved via the warning indication, the automatic early detection of the center of fire, notice and extinguishing by its aeromechanical foam on the protected objects, the water supply of the entire territory of industrial area for the fire hydrants and creating the water curtains (irrigation) on the tank farm additionally is ensured.

The systems of gas signaling (GS) serve for the protection of objects from the formation of the dangerous concentrations of dangerously explosive gases and vapors, and also the maximum permissible concentrations of hydrogen sulfide.

Basic purpose of accident-prevention protection (APP) - the protection of equipment, personnel and environment with the deviation from the' provided by regulations maximum permissible values of the parameters of process in all operating modes, the failures of software-and-hardware means, technological equipment, or the erroneous actions of personnel, by guaranteeing the safe stoppage and/or the transfer of process into the safe state according to the predetermined program.

One of the special features of the construction of safety system is systems approach. The connected with each other subsystems not only prevent danger, but also are taken integrated measure for its elimination. For example, during the detection of the center of fire safety system, besides the measures for the liquidation of fire, is transferred flammable object into the technological isolation, and rest - into the safe state, preventing, thus, the propagation of threat.

The operating speed of safety system is caused by the application of contemporary means of microprocessor technology. The presence of the function of diagnostics and self-diagnosis of practically all means they make possible safety system to avoid false responses, preventing the expensive stopping of oil pipeline.

During designing of the systems of accident-prevention protection it was used criterion SIL 2 (safety of integrity level) on the international standard IEC 61508 „functional safety of the electrical electronic the programmed electronic systems, connected with the safety”.

At present industrial safety systems are already introduced on eight station facilities. The tests of these systems showed the high efficiency of protection. In 2007-

2009.14 additional station objects, being subject to equipment industrial safety system are scheduled in the Development plan of the JSC KazTransOil. Detailed instruction of 21 specialist is carried out the in the training centers, and also at the level of the users of the system of industrial safety - technical - operational personnel directly on the objects.

The basic purpose of introduced industrial safety systems is not only reaching technical and economic showings, characterized by decrease financial losses from the emergencies, compensations to the victims and environmental penalties. The main objective - cleanliness of environment and safety of personnel, value of which is irreplaceable.

Diagram 1. Flow of incomes from operations for 10 years (1997-2006), mlrd. KZT.

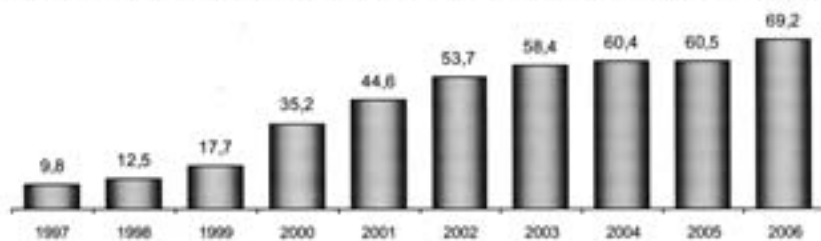


Diagram 2. Net profit behavior for 10 years (1997-2006), mlrd. KZT.

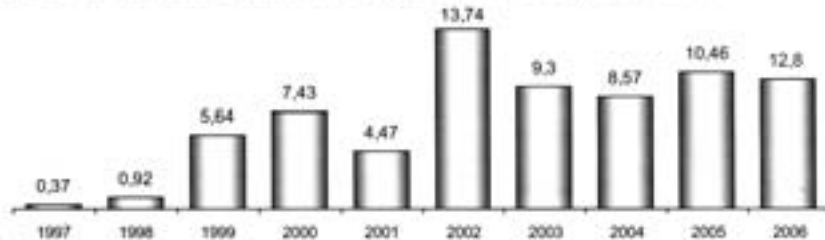


Diagram 6. Assets behavior for 10 years (1997 - 2006), mlrd. KZT.

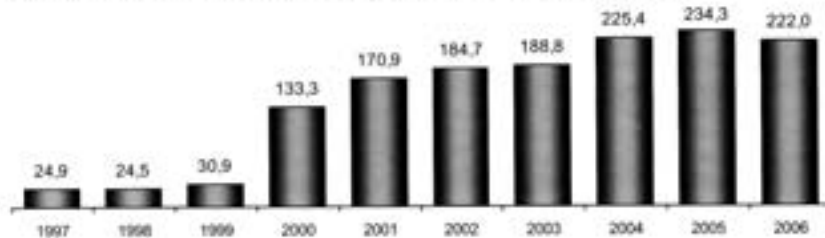
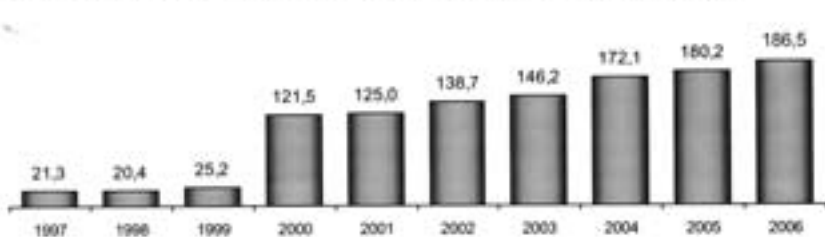


Diagram 3. Equity Capital flows for 10 years (1997 - 2006), mlrd. KZT.



According to on-line data Proceeds of activity for 2006 is KZT.69, 2 mlrd. Outturn — 109%. In comparison with 2005 (KZT 60, 4 mlrd.) this showing has increased by 14%.

Tariff gain increasing is closely related to increase in turnover of oil transported via KazTransOil's main pipelines.

According to on-line data Net profit of 2006 is KZT 12,8 mlrd. Outturn - 134%.

It is necessary to note that JSC KazTransOil, being branch establishment of National Company JSC KazMunaiGaz, which holds 100% of shares, has paid out dividends to the total amount of KZT 2,8 mlrd. only during the last three years.

Since JSC«KazTransOil» establishment assets have increased nine times more and according to on-line data, make up KZT 222 mlrd.

Considerable increase of assets holdings in 2000 was the result of independent appraiser's revision of fixed assets of JSC KazTransOil.

According to on-line data, Equity Capital in 2006 was KZT. 186, 5 mlrd. Since 1997 Equity Capital of JSC KazTransOil has increased nine times more.

Budgetary policy

JSC KazTransOil follows a budgetary policy towards effective allocation of financial resources in order to fulfill production program and investment projects.

Company has formed Business Planning System, which meets the requirements of international standards. Underlying principles of business planning are:

- planning of basic financial statements on the basis of international standards of financial statements;

- system of double control of budgeting data;
- segregation of purchases and usage of Stockpile in production cycle of the JSC KazTransOil as a separate business process and individual „budgeting of purchases“;
- clear segregation of responsibility for information provision and execution of approved plans (centers of responsibility — branch offices, departments and divisions);
- operational budgeting with the purpose of contracts registration and examination for compliance with approved budget, accounting of changes due to adjustment to production plans of departments and branch establishments, monitoring of budget performance.

For sustainable and stable functioning of the Business Planning System Company has elaborated and brought into accord its normative basis. Internal normative document of the Company which regulates process of formation, approval and alterations into business plan and budget, analysis of the industrial and financial activity, which determines functions and tasks of the Budget Committee, as well as Regulations of internal documents circulation.

High information technologies are widely used for business accounting and business planning automation. Now Company keeps books on the basis of SAP R/3. It is necessary to note that JSC KazTransOil was one of the first among KazMunaiGaz's affiliate companies which introduced this accounting system.

With the view to increase effectiveness of its production activity, JSC KazTransOil has applied the program „Contract Monitoring“, which is also fulfilled on the basis of SAP/R3. It must be noted that it is a unique project and has no analogues in Kazakhstan.

The next development phase of effective company management is application of separate accounting on the basis of existing system, built on the base of SAP. Goals and objectives of this accounting are:

- fixation of economically sound oil and water pipeline transportation tariffs, electric-power transmission and (or) distribution, gas transportation, transmission and distribution of heat energy, approved by the authorized public body, which exercises control and regulation of natural monopolies;
- creation of effective managerial tool in Company, which provides transparency of expenditures, assets and profits patterns; usage of this tool for supporting of strategic and tactic managerial decisions of the Company Management;
- higher transparency of expenditure pattern / tariff formation;
- better insight and capability for cost management;
- forecasting and business planning capability on the basis of separate accounting hereafter.

Balanced Indexes System

The Balanced Indexes System transfers Mission and Strategy of JSC KazTransOil to the system of clearly formulated goals and objectives, as well as indexes, which determine degree of achievement of these aims in the framework of four key perspectives: finance, clients, internal business processes, training and development.

It was established Management Committee on elaboration and application of the Balanced Indexes System (hereinafter BIS) in the National Company JSC KazMunaiGaz (hereinafter — KMG) while designing and introducing the Balanced Indexes System.

The first phase of elaboration and application of BIS was preparation of the Strategic Map of President, Vice-President, Managing Directors of KMG, General Directors of affiliated and subsidiary companies; formation of Basic Indices of Strategic Maps and also design procedures.

Strategic Map, List and Design Procedures of Basic Indexes of JSC KazTransOil General Director's activity (hereinafter — Strategic Map) have been elaborated by consulting firm — PriceWaterHouseCoopers and approved by KMG.

Strategic Management Board of NC JSC KazMunaiGaz has approved requirements for BIS project elaboration and application in affiliate and subordinate companies. JSC KazTransOil is planning to elaborate and introduce BIS in 2007-2008 in KazTransOil itself and its subsidiary companies on the basis of the approved General Director's Strategic Map.

Expected result:

1. Fulfillment of the Development Strategy of JSC KazTransOil;
2. Quantitative and Qualitative assessment of JSC KazTransOil activity on the basis of key indexes of General Director's Strategic Map activity;
3. Automated Model of separate accounting is designed to calculate actual values of efficiency on the base of separate accounting and management accounting, which allow carrying out more detailed analysis of organization departments and JSC KazTransOil as a whole.
4. In the framework of the project on elaboration and automation of the Long-term Financial-Economic Model of development of JSC KazTransOil BIS is to be integrated into Financial Model, which allows forecasting and analyzing methods and means of achievement of the JSC KazTransOil Strategy.

Restructuring of assets

In pursuance of Address of President of the Republic of Kazakhstan dedicated to alienation of non-specialized assets to competitive environment, prescription of the Agency of the Republic of Kazakhstan on Natural Monopolies Control dated May 23, 2005, JSC KazTransOil has ap-

proved Program of JSC KazTransOil Assets Restructuring (hereinafter — Program) in accordance with the Decision of Board of Directors (Minutes of Meeting #21 dated December 01, 2005).

Implementation of this Program will allow creating effective and transparent pattern of assets of JAC KazTransOil corresponding to modern requirements.

Restructuring philosophy:

- Transfer or alienation of small and medium business, non-specialized assets not used in basic activity, to competitive environment;
- Further capital contribution and development of daughter enterprises exercising basic activity of JSC KazTransOil;
- Drop out of non-specialized assets participation by means of sale of non-specialized assets of JSC KazTransOil.

Mechanism of Program implementation:

- For the purpose of maximal reimbursement of investments JSC KazTransOil intended sale abovementioned non-specialized assets of daughter enterprises according to Law of the Republic of Kazakhstan.

Anticipated result of assets restructuring:

- Decline of non-specialized assets burden not used for basic activity of JSC KazTransOil;
- Reduction of structural organizations of JSC KazTransOil would considerably reduce expenditures and increase recoument of capital investments;
- Focusing on key activity of JSC KazTransOil.

For the purpose of implementation of the Program JSC KazTransOil has elaborated and approved Rules of disposal of assets.

Now JSC KazTransOil disposes non-specialized assets to competitive environment of the small and medium business. So, within 2006:

- 18 assets have been alienated;
- 8 assets have been transferred to the total amount of 4,77 mlrd. KZT on account of daughter enterprise KazTransOil — Service stock floatation;
- Restructuring Committee of JSC KazTransOil has approved alienation of 25 assets;
- Board of Directors of JSC KazTransOil has approved alienation of 20 assets;
- JSC KazTransOil has dropped out CJSC ComackInvest.

No	Description	Unit of measurement	2005	2006	Total
1	Alienation of assets	Object	55	18	73
2	Transferred to chartered capital of JSC KazTransOil- Service	-/-	6	8	14

Tariff policy of jsc «KazTransOil»

JSC «KazTransOil» is listed in Public Register of Natural Monopolies on the following categories of service:

- oil pipeline transportation;
- waterworks facilities service;
- production, transmission and distribution of thermal energy;
- transmission and distribution of electric energy;
- gas transportation via distribution pipeline.

Tariffs for regulated types of services of JSC KazTransOil are to be approved by authorized state body — Agency of the Republic of Kazakhstan on Natural Monopolies Control (hereinafter — Agency).

Strategic target of JSC KazTransOil is reservation and increase of income level by means of improvement of tariff methodology.

Based on strategic interests of nation and consignors along with assurance of reliable operation of main pipelines, Company takes an active part in tariff methodology preparation. Improvement of the tariff methodology is directed toward creation of flexible price formation system, allowing raise competitive capacity of Company on oil transportation markets.

Rate making is based on international principles of price formation for Natural Monopolies services:

- compensation of expenditure necessary for service rendering and tax payment;
- profit earning for effective operation of Natural Monopoly.

Oil transportation tariff revenues are the major income item of JSC KazTransOil.

Oil transportation tariffs approved in 2000 (USD 15 per ton/1000 km) has enabled Company to achieve fair level of income. Since January the 1st, 2003 tariffs of JSC KazTransOil are estimated in KZT. Since May the 5th, 2004, as a result of changed tax legislation, Company has independently reduced specific rate quotation up to 2413 KZT per ton/1000 km. In an effort to protect internal market Company uses reduction factor (0,46) for oil delivery to Kazakhstan refineries for further processing.

Now with development of new alternative Kazakhstan oil transportation routes (oil pipelines Caspian Pipeline Consortium, Kenkyak — Atyrau, Atasu — Alashankou, Aksai — Bolshoi Chagan — Atyrau, Kumkol — Zhusaly) JSC KazTransOil is losing its exclusive control and faces competition in service markets — oil export. In the present state of affairs it is very important to improve tariff methodology in order to raise competitive ability of the Company, its appeal for consignors and protection of the State strategic interests.

JSC KazTransOil takes an active part in preparation of proposals on alteration in Law on Natural Monopolies

in close association with authorities of the Republic of Kazakhstan.

So, changes in methodology of rate making for water pipeline transport were made in 2006.

Main water line Astrakhan — Mangyshlak, with over 2 thousand kilometers in length, plays a large role for the whole Western Kazakhstan. The water line is a source of fresh water for the most regions of Atyrau and Mangistau provinces. Being in possession of the water line JSC KazTransOil not only supplies with water industrial objects but also bears social responsibility delivering water to population of these regions. At the same time, water line, built in 1986-1987, operates at the breaking point of technical potentials and is extremely depreciated and demands considerable capital investments.

Agency approved new tariffs for JSC KazTransOil water supply via main pipeline Astrakhan — Mangyshlak in November 2006, taking into account interests of both population and water supplier; new tariffs came into force from January the 1st, 2007.

Taking into consideration social responsibility, new tariffs for population of Atyrau and Mangistau provinces, as well as for non-profit organizations have been reduced by 3-7% depending on regions. Tariffs for agricultural production manufacturer remain unchanged.

Taking into account social importance, General Director of JSC KazTransOil signed Order on tariff reduction by a factor of two for electric power transmission in Ural Oil Administration of the Western Branch of JSC KazTransOil in 2007.

Finance and credit ratings

For financing of investment projects and replenishment of circulating assets JSC KazTransOil attracts loan capital of Kazakhstan and International Capital Markets.

In 2000 JSC KazTransOil issued bonds in Kazakhstan stock market to the total amount of USD 30 million with a period of circulation of 3 years, with coupon rate of interest 9% per annum. These bonds were in popular demand among Kazakhstan Institutional Investors.

JSC KazTransOil successfully repaid these bonds in 2003.

In 2001 JSC KazTransOil arranged debut issue of Eurobonds to the total amount of USD 150 million with period of circulation of 5 years. Eurobonds of JSC KazTransOil were debut issue of Kazakhstan corporate bonds in the International Capital Market. These Eurobonds have been listed in Luxemburg and Kazakhstan Stock Exchanges.

Popular demand among investors and, as a consequence, considerable excess of applications over the issue volume has allowed to fixing a low coupon rate — 8,5% per annum. 44,4% shares have been taken up by American Investors, 23,6% — by Great Britain Investors. Besides, investors from Switzerland, Germany, Austria,

Netherlands and Spain have participated stock floatation. JP Morgan became a Lead Manager of a deal.

Eurobonds of JSC KazTransOil were in great demand during the term of bond circulating among International and Kazakhstan Institutional Investors.

JSC KazTransOil repaid debut issue of Eurobonds in 2006.

JSC KazTransOil collaborates with International Financial Institutes, such as ABN AMRO Bank, Citigroup, HSBC, JPMorgan and EBRD.

In 2001 JSC KazTransOil obtained credit at ABB Export Bank to the total amount of USD 26 million for the purpose of construction of optical fiber communication line, with fee rate — Libor+3,75% per annum. In the same year Company has obtained a credit at Sumitomo-Fujikura Corporation to the total amount of USD 32 million for application of the SCADA System, with fee rate — Libor+3,75% per annum. This credit was repaid in advance in 2006.

In 2005 JSC KazTransOil obtained a credit at HSBC Kazakhstan to the amount of USD 10 million. This credit was repaid in advance in 2006.

In December 2006 the Board of Directors of the National Bank of the Republic Kazakhstan recognized JSC KazTransOil as a first-rate issuer of bill of credit with a limit of rediscount at the rate of KZT 2 milliard.

Jointly controlled enterprises of JSC KazTransOil are successfully obtaining loan proceeds at Kazakhstan and International Institutes. Thus, in 2004 joint enterprise „North-Western Pipeline Company MunayTas” obtained a credit at the European Bank of Reconstruction and Development for further extension of the pipeline Kenkyak — Atyrau against corporate security of JSC KazTransOil.

In the same year jointly controlled enterprise Kazakhstan — Chinese Pipeline LLP placed 1 tranche of debut issue of Eurobonds for construction of the pipeline Atasu — Alashankou to the amount of USD 300 million, the second tranche of this issue was placed in 2005 to the similar amount.

Bank of China allocated a credit to the amount of USD 80 million for Kazakhstan - Chinese Pipeline LLP in 2006.

These facts evidence achievements of JSC KazTransOil and its recognition by the International Financial Institutes.

JSC KazTransOil was one the first companies in Kazakhstan which received credit ratings of leading international rating agencies. In 2001 rating Agency Standard&Poor's conferred credit rating BB, outlook Stable at the level of sovereign rating of the Republic of Kazakhstan.

As of January the 1st, 2007 JSC KazTransOil were granted the following credit ratings of three leading Rating Agencies: Standard&Poor's, Fitch Ratings and Moody's Investors Service.

##	Rating Agency	Credit Rating
1	Standard&Poor's	BB+, outlook stable
2	Moody's Investors Service	Baa1, outlook stable
3	Fitch Ratings	BB+, outlook positive

These ratings are showing strategic importance for dynamically developing industry and further progress of the Republic of Kazakhstan, as well as recently improved operational and financial showings of JSC KazTransOil and state support.

For lessening of deleterious effect on environment with simultaneous growth of production volume, reduction of specific consumption of raw materials, energy saving, improvement of services rendered, in 2003 the Company decided to introduce an Integrated Quality and Environment Management System (hereinafter — IMS), agreeable to the international standards ISO 9001 and ISO 14001.

This strategy is aimed at creation and operation of safety and reliable systems of oil transportation, prompt rendering of qualitative and competitive in terms of price services, international recognition, new market sector penetration, increase of responsibility for environmental safety.

Introduction of IMS in the JSC KazTransOil has been fulfilled per successive and interrelated stages, including organization of works for build-up, designing, documentation, introduction and certification.

Diagram 4. History of JSC KazTransOil ratings according to the International Rating Agency Moody's Investor Services.

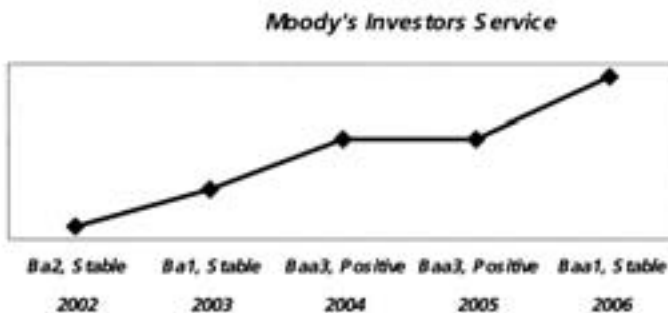
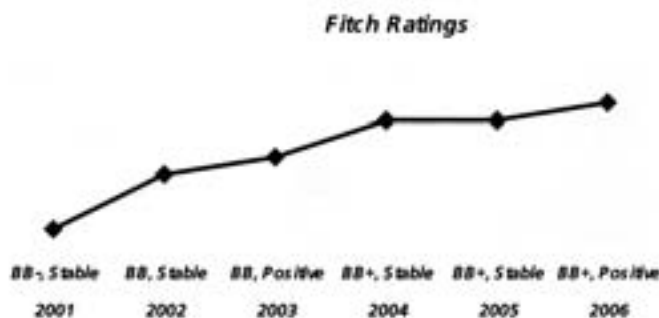


Diagram 5. History of JSC KazTransOil ratings according to the International Rating Agency Fitch Ratings



IMS build-up. At this stage special role plays Management of the JSC KazTransOil, who made a decision on introduction of IMS. Before elaboration, not only explicit benefits from this system, but also potential risks, scope, complexity and duration have been determined.

It was important to evaluate competence of managers and specialists for successful fulfillment of this work, to determine the expediency of the attraction of external consultants. In view of this, Service on management of Integrated Management System has been entered to the organizational structure of Headquarter, Chief specialists on standardization have been appointed in Branch Offices, who were imposed a responsibility for build-up, introduction and operation of IMS. Each structured subdivision of Branch Offices had appointed administrators, internal IMS auditor.

Furthermore, it was exceptionally important to undertake measures, directed toward provision of psychological stability of personnel. As present practice shows, creation and introduction of the systems of management causes fatigue, irritation, and sometimes also complete disappointment amidst managers and specialists. Such measures, as: wide explanatory work, elaboration of clear strategy of IMS build-up, determination and allocation of the necessary resources for its realization, special exercises and trainings for the members of the leading and operating units in many respects made it possible to move psychological opposition and persuade them into introduction of the changes.

The Company conducted comprehensive training of specialists of different level. The Company has organized out training for average- and top managers. In the course of training seminars they became acquainted with the theoretical and practical aspects of development and introduction, as well as requirements of standards. Main emphasis laid on that, so that each of the participants would make aware of personal responsibility for quality of service rendered. The plans of actions on the introduction of IMS in the structural subdivisions were compiled; urgent problems of production were discussed, directed toward qualitative improvement of the Company's activity.

The most questions concerning introduction of international requirements in the field of environment protection have been solved precisely during seminar. The seminar audience was highly professional; there has been a lot of debate literally about each point of standard. In particular, about waste recovery, selection of the equipment class, estimation of new technologies projects, appropriate to up-to-date requirements and legislation, and many others.

Furthermore, to secure favorable starting conditions for work performance, leading and operating groups have been appointed, capable to give necessary pulse and steadiness to the IMS build-up process. For coordination of works on elaboration, introduction and further improvement of IMS the joint-stock company created corporate organ — Quality Council under the chairmanship General Director, and also working groups, coordinating elaboration and introduction of IMS in the subdivisions.

At the Designing stage of IMS we have determined processes of the Company which involve in IMS, their interaction, appointed person in charge of their efficacious management, determined specific requirements of international standards to be followed during each process, set monitoring parameters, methods and means for monitoring, measurements and analysis, criteria of effectiveness of the IMS as a whole.

IMS Documentation. The Company has elaborated IMS documentation, which is normative — organizational basis for construction, operation and permanent improvement of IMS. IMS documentation provides for solution of such tasks as identification of process requirements, comprehension of these requirements, repeatability, process traceability and estimation of achieved results, as well as rules of development and identification.

IMS introduction is of no less complicated than designing process. At this stage it is important to achieve operability of designed system and stable behaviour. At that, internal auditors play paramount role. Their key task is control of practical fulfillment of requirements stated in IMS documentation.

In view of this the JSC KazTransOil conducts annual internal audit at workplace of each structural subdivisions of the Company. Audit programs, discrepancy reports and corrective action plans are to be elaborated within the bounds of internal audits.

IMS certification is a logic completion of build-up works. Company Management did not start this stage until they ascertained completeness of IMS and saw real results of new system operation. Company policy during introduction of IMS lay in provision of effective operation of the integrated management system, supported by real achievements. A question of minor importance is IMS certification.

In 2004 the JSC KazTransOil successfully passed certification procedure in the recognized international company TUV Rheinland InterCert.

Certification of the National Technical Regulation System

The JSC KazTransOil, being a major enterprise in the country, 100% state owned, within the frames of implementation of the Industrial — Innovative Program and on the threshold of entry of the Republic of Kazakhstan to the World Trade Organization, has reached a decision on IMS

certification in the National Technical Regulation System of the Republic of Kazakhstan.

On request of the JSC KazTransOil in May 2005 Institute on standardization registered international standard ISO 14001:2004 in accordance with which conducted certification audit. As a result of audit of the JSC national Expert and Certification Center, compliance of IMS JSC KazTransOil with requirements of national standards ST RK ISO 9001 and ISO 14001 was confirmed. In this connection, it was decided to certify and register the JSC KazTransOil in the list of the National Technical Regulation System.

Environmental Strategy of the JSC KazTransOil

Against the background of increase of volume of oil production and transportation, it should be remembered that activity of the JSC KazTransOil related to environment effect, as an activity of any company consuming resources, producing wastes, pollutant emissions and waste disposal.

Fulfilling large-scale and technologically complicated activity, taking into consideration probability of negative environment effect, in 2005 the JSC KazTransOil within the frames of the Integrated Quality and Environment Management System, in accordance with International Standards ISO 9001 and ISO 14001 focused on environment.

Environment management system of the JSC KazTransOil means involvement of all personnel. At the initial stage environmental services identify factual and in posse environment influence of production processes. But we all understand that ecology is technology derivative. Therefore, the next step is involvement of personnel to discuss probability of alternative technical solutions for the purpose of determination of the most environmentally effective one. All proposals are to be considered during production meetings, where stage of its implementation is to be determined. Approval of initiatives resulted in short-term and long-term development program and plans of the JSC KazTransOil in accordance with which it conducts such measures as rehabilitation of existing equipment, application of new technical solutions, application of safety system of pipeline facilities (including automation firefighting system, gas detectors, switch of technology to safety mode in case of emergency), modernization of the records management system of water flow and water consumption balance, construction of filter field (evaporator pond), additional storehouse for oil-slime and many other things.

Since introduction of the system sense of responsibility for environment conditions amidst personnel has grown up. Today each specialist at his level becomes aware of his contribution to maintenance of environment management: from introduction of up-to-date environmentally safe technologies to separate storage and waste utilization, energy saving, safe handling of chemical agents.

Occupational safety and labour protection

The JSC KazTransOil does not stop at achieved point, but acknowledging its achievements, evaluates further improvement, adopts world advance experience and develops for the purpose of permanent perfection.

Thus in 2006 our Company elaborated and introduced the System of occupational safety and labour protection in accordance with specifications OHSAS 18001:1999, focusing on its risks arising as a result of activity of personnel with the object of elaboration and application of measures directed at safe operation.

The confirmation of the Company conformity to the requirements of the international practice on safety and industrial protection control became a new achievement of the JSC KazTransOil. Organization did not confine itself to creation of the Industrial Safety Management and Labour Protection System at one or several objects, what, undoubtedly would have simplified and accelerated the introduction of specification OHSAS 18001:1999. Understanding all complexities and problems the JSC KazTransOil has selected the most complicated, but also effective way, extending system to all objects, including non-production.

December 2006 the Norwegian Certification Company Det Norske Veritas (DNV) conducted audit of the Industrial Safety Management and Labour Protection System of the JSC KazTransOil and confirmed its compliance to the requirements of the specifications OHSAS 18001:1999. Besides, auditors have discovered examples of good practice in many respects, which pointed to the fact that in some cases the JSC KazTransOil not only fulfils minimum requirements of the international standard, but even exceeds them.

The process of development of the Industrial Safety Management and Labour Protection System has taken the whole year of the stressed work of entire personnel of the Company. Such a large Company managed to meet a tight schedule only because of the originally high level of the Industrial Safety Management and Labour Protection System of the JSC KazTransOil, and also because of the high involvement of entire personnel in the process of development of system.

Basic responsibility for the development of the of the Industrial Safety Management and Labour Protection System was laid on the Service on control of the Integrated Management System together with the Department of the Labour Protection and Industrial Safety. However, in different stages entire personnel participated in the system formation. Direct executors studied their work from the point of view of the presence different kind of dangers and estimation of risks connected with them, and also the development of proposals on the minimization of existing risks. All proposals were carried to the level of Management of the Company for approval or deviation. During the year the Company management conducted conferences time and again for monitoring and control the process of OHSAS 18001:1999 introduction.

The JSC KazTransOil does not plan to stop on these results, understanding, that the certification this is not a completion, and only beginning of the long, but, undoubtedly, successful way of constant improvement. On the contrary, there are long-range plans of further development of the Integrated of Management System, which implies further search for the most optimum and effective versions of control of such large and complicated structure as the JSC KazTransOil.

KazTransGaz

Joint stock company, KazTransGas is a subsidiary of the national oil and gas company, KazMunayGas being the leading driver of the most rapidly progressing economies in Central Asia. We are a dynamically developing Kazakh company, controlling the entire network of the main gas pipelines in the Republic of Kazakhstan, which business is involved in reconstruction and rehabilitation of the regional gas distribution networks and which performs wholesale supplies of natural gas to regional customers and transports the natural gas through distribution gas pipelines.

Within nearly seven years'period of its activities, our company has ensured the leading position in the energy sector responsible for gas supplies in the Republic of Kazakhstan. Consistently moving towards the improvement of its performance, today, the Company is

implementing the long-term strategy providing for the increase of transmission volumes, upgrading and expansion of the transmission networks, enhancement of the regional gas distribution networks, expanding of the gas sales markets and business development, also by means of take over of strategically important assets and improvement of the corporate management practice.

While addressing these strategic aims, our Company assumes that in the long run the consistent adherence to the social responsibility principles is the critical prerequisite to the prospective sustainable and effective business development.

KazTransGas views its social mission in facilitating the social progress and the growth of the public prosperity, stable development and welfare in the regions