

PROSPECTUS



KazTransGas Aimak

JSC KAZTRANSGAS AIMAK

(incorporated in the Republic of Kazakhstan)

KZT 30,500,000,000 Medium Term Note Programme

Under this KZT 30,500,000,000 Medium Term Note Programme (the “**Programme**”), JSC KazTransGas Aimak (the “**Issuer**”) may from time to time issue notes (the “**Notes**”) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Notes will be issued in registered form. The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed KZT 30,500,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under “*Overview of the Programme*” and any additional Dealer appointed under the Programme from time to time by the Issuer (each a “**Dealer**” and together the “**Dealers**”), which appointment may be for a specific issue or on an ongoing basis. References in this prospectus (the “**Prospectus**”) to the “**relevant Dealer**” shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see “*Risk Factors*”.

The Issuer will use its reasonable endeavours to cause all the Notes to be admitted to the “*debt securities of the subjects of the quasi state sector*” category of the “*debt securities*” sector of the official list of the Kazakhstan Stock Exchange (the “**KASE**”). In addition, no Notes may be issued, placed or listed outside of Kazakhstan without the prior permits of the National Bank of the Republic of Kazakhstan (the “**NBK**”) for issuance and placement of the Notes outside of Kazakhstan (the “**NBK Permits**”).

References in this Prospectus to Notes being “**listed**” (and all related references) shall mean that such Notes have been admitted to trading to the “*debt securities of the subjects of the quasi state sector*” category of the “*debt securities*” sector of the official list of the KASE. The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market. The relevant final terms in respect of the issue of any Notes will specify whether or not such Notes have been admitted to trading on such other stock exchange as may be agreed between the Issuer and the relevant Dealer.

The Issuer may agree with any Dealer that Notes may be issued in a form or with terms and conditions not contemplated by the Terms and Conditions of the Notes herein, in which event a supplemental Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

The Issuer has been assigned long term issuer rating of BBB- and short term issuer rating F3 by Fitch Ratings Ltd (“**Fitch**”). Notes issued under the Programme may be rated or unrated by the rating agency referred to above. Where a Tranche of Notes is rated, such rating will be disclosed in the Pricing Supplement and will not necessarily be the same as the rating assigned to the Programme by the relevant rating agency. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Arrangers

**JSC Private Asset Management
MeritKapital Limited**

Dealers

**JSC Private Asset Management
MeritKapital Limited**

The date of this Prospectus is 3 August 2015

The purpose of this Prospectus is to give information with regard to the Issuer and each Tranche of Notes issued under the Prospectus that, according to the particular nature of the Issuer and the relevant Tranche of Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and of the rights attaching to the relevant Tranche of Notes. The Issuer, accept(s) responsibility for the information contained in this Prospectus. To the best of the knowledge (having taken all reasonable care to ensure that such is the case) of the Issuer, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus is not a prospectus for the purpose of Article 5 of Directive 2003/71/EC as amended by Directive 2010/73/EU as implemented in member states of the European Economic Area (the “Prospectus Directive”). This Prospectus has been prepared on the basis that all offers of Notes issued under the Programme made to persons in the European Economic Area will be made pursuant to an exemption under the Prospectus Directive from the requirement to produce a prospectus in connection with offers of the Notes.

This Prospectus should be read and construed together with any amendments or supplements hereto and, in relation to any Series of Notes, should be read and construed together with the relevant Pricing Supplement.

Copies of the Pricing Supplements will be available from the registered office of the Issuer and the specified office set out below of the Principal Paying Agent (as defined below).

The Arrangers, the Dealers, the Trustee and the Agents have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arrangers or the Dealers as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer in connection with the Programme. None of the Arrangers, the Dealers, the Trustee nor the Agents accepts any liability in relation to the information contained in this Prospectus or any other information provided by the Issuer in connection with the Programme.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Arrangers or Dealers.

Neither this Prospectus nor any other information supplied in connection with the Programme or any Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Arrangers or Dealers that any recipient of this Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Arrangers or Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document

containing the same. The Arrangers and the Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”). Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (see “Subscription and Sale”).

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. This Prospectus may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. The Issuer and the Arrangers and Dealers do not represent that this Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Arrangers or Dealers which is intended to permit a public offering of any Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom) and Kazakhstan, see “Subscription and Sale”.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (a) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement;
- (b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (d) understands thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

- (e) is able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) Notes are legal investments for it, (b) Notes can be used as collateral for various types of borrowing and (c) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

No comment is made or advice given by the Issuer, the Arrangers, the Dealers, the Trustee or the Agents in respect of taxation matters relating to any Notes or the legality of the purchase of the Notes by an investor under any applicable law.

EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS OWN TAX ADVISER, LEGAL ADVISER AND BUSINESS ADVISER AS TO TAX, LEGAL, BUSINESS AND RELATED MATTERS CONCERNING THE PURCHASE OF ANY NOTES.

STABILISATION

In connection with the issue of any Tranche of Notes, one or more relevant Dealers (the “**Stabilisation Manager(s)**”) (or persons acting on behalf of any Stabilisation Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager(s) (or persons acting on behalf of a Stabilisation Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Managers(s)) in accordance with all applicable laws and rules.

SUPPLEMENT TO THIS PROSPECTUS

Following the publication of this Prospectus, a supplement may be prepared by the Issuer. Statements contained in any such supplement shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus. The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus that is capable of affecting the assessment of any Notes, prepare a supplement to this Prospectus or publish a new Prospectus for use in connection with

any subsequent issue of Notes. The Issuer may agree with any Dealer that a Series of Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event a supplemental Prospectus will be published, if appropriate, which will describe the effect of the agreement reached in relation to such Series of Notes.

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

Financial Information

The independent auditors of the Issuer, Ernst & Young LLP, issued an independent auditor's report dated 10 February 2015 relating to the Issuer's financial statements as at and for the year ended 31 December 2014, which includes comparative data as at and for the year ended 31 December 2013 (the "**2014 Financial Statements**") and an independent auditor's report dated 20 February 2014 relating to the Issuer's financial statements as at and for the year ended 31 December 2013, which include comparative data as at and for the year ended 31 December 2012 (the "**2013 Financial Statements**", together with the 2014 Financial Statements are collectively referred to as the "**Financial Statements**").

Ernst & Young LLP's independent auditor's report in respect of the 2014 Financial Statements appears on page F-46 of this Prospectus and Ernst & Young's independent auditor's report in respect of the 2013 Financial Statements appears on page F-3 of this Prospectus. The financial information set forth herein relating to the Issuer, unless otherwise indicated, has been extracted without material adjustment from the Financial Statements and the notes thereto contained in this Prospectus beginning on page F-5.

The Financial Statements have been prepared in accordance with the International Financial Reporting Standards ("**IFRS**"), as issued by the International Accounting Standards Board.

Currencies

Unless otherwise specified or the context so requires, references to "**Tenge**" and "**KZT**" are to the lawful currency of Kazakhstan, references to "**dollars**", "**U.S. Dollars**" and "**U.S.\$**" are to the lawful currency of the United States of America and references to "**€**" or "**euro**" are to the currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty Establishing the European Community, as amended.

Solely for convenience, this Prospectus includes conversions of certain Tenge amounts into U.S. Dollars at specified rates. Unless otherwise stated, any consolidated statement of financial position data in U.S. Dollars is converted from Tenge at the applicable exchange rate on the date of such consolidated statement of financial position (or, if no such rate was quoted on such date, the immediately preceding date on which such rate was quoted) and any statement of comprehensive income data in U.S. Dollars is converted from Tenge into U.S. Dollars at the average exchange rate applicable to the period to which such statement of comprehensive income data relates, in each case, calculated in accordance with the published exchange rates for U.S. Dollars on the KASE, as reported by the NBK. Such conversion rates may not be reflective of conversion rates in accordance with IFRS and it should not be construed as a representation that the Tenge amounts have been or could be converted into U.S. Dollars at that rate or any other rate.

The following table sets forth the period-end and average, high and low rates for Tenge, each expressed in Tenge and based on the Tenge/U.S. Dollar exchange rates quoted on the KASE, as reported by the NBK for the periods indicated:

Year	Period End	Average⁽¹⁾	High	Low
	<i>(Tenge/U.S. dollar)</i>			
2010	147.40	147.36	148.46	146.41
2011	148.04	146.62	148.36	145.17
2012	150.29	149.11	150.86	147.50
2013	153.61	152.12	154.52	150.23
2014	182.35	179.20	184.95	154.06

Note:

(1) The average of the rates reported by the KASE for each month during the relevant period.

The Tenge/U.S. Dollar exchange rate as reported by the NBK on 30 July 2015, was KZT 187.45 per U.S.\$1.00.

The above rates may differ from the actual rates used in the preparation of the financial statements or other financial information appearing in this Prospectus.

Rounding

Certain amounts which appear in this Prospectus have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be the sum of the figures which precede them.

Third-Party Information

Certain statistical and market information that is presented in this Prospectus has, unless otherwise stated herein, been extracted from documents and other publications released by the NBK and the National Statistics Agency of Kazakhstan (the “NSA”).

The Issuer has accurately reproduced such information and, so far as the Issuer is aware and is able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this data with caution. Where third-party information has been used in this Prospectus, the source of such information has been identified.

Prospective investors should note that some of the Issuer’s estimates are based on such third-party information. Neither the Issuer nor the Arrangers or Dealers have independently verified the figures, market data or other information on which third parties have based their studies. Official data published by Kazakhstan governmental or regional agencies is substantially less complete or researched than those of more developed countries. Further, official statistics, including those produced by the NBK and the NSA, may be produced on different bases than those used in more developed countries. Unless otherwise stated, macroeconomic data which appear in this Prospectus have been derived from statistics published by the NSA. See “*Risk Factors—Risk Factors relating to the Republic of Kazakhstan— Official statistics may be unreliable*”. Any discussion of matters relating to Kazakhstan’s economy and related topics in this Prospectus is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

FORWARD-LOOKING STATEMENTS

Some statements in this Prospectus may be deemed to be “forward-looking statements”. Forward-looking statements include statements concerning the Issuer's plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. When used in this Prospectus, the words “anticipates”, “estimates”, “expects”, “believes”, “intends”, “plans”, “aims”, “seeks”, “may”, “will”, “should” and any similar expressions generally identify forward-looking statements. These forward-looking statements are contained in the sections entitled “*Risk Factors*”, “*Business*”, “*Operating and Financial Review*”, “*Recent Developments*” and other sections of this Prospectus. The Issuer has based these forward-looking statements on the current view of its management with respect to future events and financial performance. Although the Issuer believes that the expectations, estimates and projections reflected in its forward-looking statements are reasonable, if one or more of the risks or uncertainties materialise, including those identified below or which the Issuer has otherwise identified in this Prospectus, or if any of the Issuer's underlying assumptions prove to be incomplete or inaccurate, the Issuer's actual results of operation may vary from those expected, estimated or predicted. Investors are therefore strongly advised to read the sections “*Risk Factors*”, “*Business*”, “*Operating and Financial Review*”, “*The Gas Industry in Kazakhstan*”, and “*Recent Developments*”, which include a more detailed description of the factors that might have an impact on the Issuer's business development and on the industry sector in which the Issuer operates.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under “*Risk Factors*”.

These forward-looking statements speak only as at the date of this Prospectus. Without prejudice to any requirements under applicable laws, the Issuer expressly disclaims any obligation or undertaking to disseminate after the date of this Prospectus any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any forward-looking statement is based.

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RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. Most of these factors are contingencies that may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

Factors that the Issuer believes are material for the purpose of assessing the market risks associated with the Notes are described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in respect of the Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate.

Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme

Risks factors relating to the Issuer

The Issuer relies heavily on third party gas transportation systems to supply natural gas to its customers.

The Issuer in its activities, in addition to its own gas pipelines network, uses gas transportation networks owned by the Republic of Kazakhstan (the “State”), JSC National Company KazMunayGas (“KMG”) and JSC Intergas Central Asia (“ICA”), and, in addition, is dependent upon connections to third-party pipeline networks in Turkmenistan, Uzbekistan and Russia to receive and deliver natural gas. Accordingly, a reduction in the allocation of usage rights capacity to the Issuer in respect of any of these third-party pipelines, due to maintenance breakdowns, security issues, disputes, political developments or natural disasters, among other things, could result in the reduction of volumes of gas distributed and have a corresponding material adverse effect on the Issuer’s business, prospects, financial condition, cash flows or results of operations.

Many of the Issuer’s transportation and distribution facilities were constructed many years ago and will require significant further investment, in particular, to meet required ecological standards.

The Issuer’s gas transportation and distribution facilities largely rely on old infrastructure, which could materially adversely affect the Issuer’s activities. The natural gas transportation systems operated by ICA, including the pipelines and compressor stations, were, for the most part, constructed over 30 years ago. Most of the pipelines are over 25 years old with some parts of the pipelines being more than 35 years old; overall, the pipelines have depreciated in value. Considerable sums of money have been invested by the Issuer to overhaul and improve the pipeline network and compressor stations to bring them in compliance with internationally accepted standards. There can be no assurance that there will not be any delays or curtailments of the supply of natural gas to the Issuer’s customers in the future due to the stress and corrosion of pipelines, defective construction of compressor stations, problems associated with harsh climate, the insufficient maintenance or refurbishment of the network or the breakdown or failure of equipment or processes leading to performance below expected levels of output or efficiency.

The Issuer’s business and other activities could be reduced by adverse weather events.

Kazakhstan's climate is characterised by harsh winters and hot summers. A large number of the Issuer's facilities and large segments of its networks are located in areas that experience severe weather conditions, particularly in winter, and extreme variability in winter and summer weather, which can accelerate wear and tear on pipelines and related equipment. Extremely harsh weather conditions and the remoteness of certain of the Issuer's facilities may make it difficult to gain access to conduct repairs or maintenance quickly. In addition, winter storms may negatively affect the Issuer's ability to repair or maintain facilities due to the inability of staff and equipment to reach relevant sites and other facilities. There can be no assurance that significant weather events will not negatively affect the Issuer's operations in the future, which could, in turn, have a materially adverse effect on the Issuer's business, financial condition, results of operations and prospects.

The Issuer is exposed to the Kazakhstan banking sector.

For the past several years, the Issuer has mainly deposited its excess cash with Kazakhstan banks. As a result, the Issuer has maintained substantial deposits with JSC Halyk Bank of Kazakhstan ("**Halyk Bank**"), JSC Eurasian Bank, and, among others JSC Qazaq Banki. As a result of the global financial crisis of 2008-2009 the majority of Kazakhstan banks, including Halyk Bank, encountered considerable financial difficulties.

In the event that the Kazakhstan banking sector encounters difficulties, it could result in a de facto or de jure freezing of all or a portion the Issuer's cash, which could have a material adverse effect on the Issuer's business, prospects, financial condition, cash flows or results of operations.

The Issuer operates in remote or otherwise inaccessible areas.

Because of the remote location of many of the Issuer's pipelines and facilities, the Issuer generally does not have ready access to equipment or facilities to address problems such as, among other things, equipment breakdowns and failures, and delays may occur in accessing required materials or supplies in order to carry out necessary repairs or maintenance. Similarly, operating in remote areas exposes the Issuer's operations to risks caused by poor infrastructure. The remote location of many of the Issuer's network also makes its assets and infrastructure susceptible to acts of terrorism or sabotage and natural disasters. As a result, the Issuer may not be able to immediately respond to or repair damage resulting from such acts, which could have a material adverse effect on the Issuer's business, prospects, financial condition, cash flows or results of operations.

Sustained periods of high inflation could adversely affect the Issuer's business.

The Issuer's operations are located principally in Kazakhstan and a majority of the Issuer's costs are incurred in Kazakhstan. Since the majority of the Issuer's expenses are denominated in Tenge, inflationary pressures in Kazakhstan are a significant factor affecting the Issuer's expenses. For example, employee and contractor wages, and consumable prices have been, and are likely to continue to be, particularly sensitive to monetary inflation in Kazakhstan. According to the NBK, annual consumer price inflation for the years ended 31 December 2014, 2013, 2012 and 2011 was 7.4%, 4.8%, 6.0% and 7.4%, respectively. The inflation rate for the three months ended 31 March 2015 (on an annualised basis) was 5.2%. Due to being regulated as a natural monopoly, the Issuer may not be able to sufficiently increase the prices that it receives from supply of gas in order to preserve existing operating margins.

On 11 February 2014, the NBK devalued the Tenge by 18.3% to KZT 184.50 per U.S.\$1.00. There can be no assurance that, by itself or coupled with other inflationary pressures, this devaluation will not lead to an increase in inflation in the coming periods. Any increase in inflation could have a material adverse effect on the Issuer's business, prospects, financial condition, cash flows or results of operations.

The Issuer relies on the services of third parties.

The Issuer relies to a large extent on external contractors to carry out maintenance of the Issuer's assets and infrastructure. For example, although the Issuer is actively seeking to perform more of these services internally, a significant majority of the maintenance work relating to the operations performed by the Issuer is carried out by external contractors. The Issuer relies on external contractors in all regions of Kazakhstan to perform major works, such as wells workovers and maintenance, repairs and maintenance of pipe isolation systems and electrochemical protection systems, maintenance and replacement of pipes and maintenance of other general buildings and structures. As a result, the Issuer is largely dependent on the satisfactory performance by its external contractors and the fulfilment of their obligations. If an external contractor fails to perform its obligations satisfactorily, this may lead to delays or curtailment of the transportation or delivery of gas and related products, which could have an adverse effect on the Issuer's results of operations.

The Government, which indirectly controls the Issuer, may cause the appointment or removal of members of the Issuer's management team.

The Government, through JSC Sovereign Wealth Fund Samruk-Kazyna ("**Samruk-Kazyna**"), KMG and JSC KazTransGas ("**KTG**") indirectly controls the Issuer and, therefore, is in a position to appoint and remove, or influence the appointment and removal of, the members of management of the Issuer. There can be no assurance that the Government will not make further or frequent management changes at the Issuer, which could be disruptive to its operations.

The Government, which indirectly controls the Issuer, may cause the Issuer to engage in business practices that may not be in the interests of the Noteholders.

Through its ultimate control of the Issuer, the Government is in a position to influence the Issuer's activities. There can be no assurance that the Government will not cause the Issuer to engage in business practices that may materially affect the Issuer's ability to operate on a commercial basis or in a way that is consistent with the best interests of the Noteholders. As has been the case in the past with other Government-owned companies, the Government may cause the Issuer, to indirectly subsidise local communities through regulated domestic transportation tariffs at rates lower than market rates. In addition, the Issuer may be forced by the Government to sell gas at below market prices, engage in activities outside of its core activities or acquire assets not on an arm's length basis. The Government may also impose other social duties, such as construction of social and recreational infrastructure, charitable activities and implementation of community development programmes on the Issuer, which will increase the Issuer's capital expenditures.

The Issuer's gas supply revenue is heavily dependent upon KTG.

In 2012, the Law of the Republic of Kazakhstan "On Gas and Gas Supply" (No. 532-IV, dated 9 January 2012) (the "**Gas Law**") has created the concept of a so-called "national operator". It was decided that for the purpose of uninterrupted and reliable gas supply there should be one company entitled to be engaged in wholesale gas distribution throughout the entire territory of Kazakhstan. According to legislation, the national operator must be a legal entity, the control stake in which is owned by the State, or a national management holding company or a national company. The national operator purchases gas from gas producing entities in Kazakhstan and abroad and distributes it to retail distribution companies such as the Issuer. See "*Business*", "*The Gas Industry in Kazakhstan*".

As of the date of this Prospectus the national operator in the gas industry of Kazakhstan is KTG who is the only supplier of natural gas to the Issuer.

Although, the absence of alternative gas suppliers is a result of legislative peculiarities rather than economic demand, as well as the fact that KTG is indirectly owned by the Government (through KMG and Samruk-Kazyna) and therefore supported by it, the Issuer's inability to purchase gas from any other source makes it highly dependent on KTG at all time.

Regulated oil and gas transportation tariffs may be set by the Government at below market rates.

The Issuer's tariffs for natural gas transportation are subject to regulation and approval by the Committee for Regulation of Natural Monopolies and Protection of Competition of the Ministry of the Republic of Kazakhstan of National Economy (the "CREM"). Once approved, the tariffs remain in effect subject to the Issuer's right to apply to the CREM with a request to review and modify such tariffs. The CREM also has the right to initiate a review of the transportation tariffs. No assurance can be given that any actions of the CREM in gas transportation tariffs at lower than market rates will not have a material adverse effect on the Issuer's business, prospects, financial condition, cash flows or results of operations.

The Issuer's operations in the ordinary course of business is subject to developing and uncertain environmental and operational health and safety regulations and requirements to comply with ecological standards, non-compliance with which could result in severe fines and suspension or permanent shut down of activities.

The operations of the Issuer are subject to environmental legislation, laws and other requirements of Kazakhstan applicable to gas transportation companies. The Issuer's operations, which are often potentially hazardous, are subject to limitations as to air emissions, water use and disposal, waste management, impacts on wildlife as well as land use and reclamation. Although the level of pollution and potential clean-up is difficult to assess, the Issuer, like most other gas transportation companies operating in the Commonwealth of Independent States ("CIS"), are burdened with a soviet-era legacy of environmental mismanagement. There are problems relating to the maturity of pipes and other distribution facilities, some of which have been exploited for more than 30 years.

The legal framework in Kazakhstan for environmental protection and operational health and safety is developing. Stricter environmental requirements, such as those governing discharges to air and water, the handling and disposal of solid and hazardous wastes, land use and reclamation and remediation of contamination, are being imposed and environmental authorities are moving towards a stricter interpretation of environmental legislation.

The costs of environmental compliance in the future and potential liability due to any environmental damage that may be caused by the Issuer could be material. Moreover, the Issuer could be adversely affected by future actions and fines imposed on it by the environmental authorities, including the potential suspension or revocation of one or more of the Issuer's licences or environmental permits. To the extent that any provision in the Issuer's accounts relating to remediation costs for environmental liabilities proves to be insufficient, this could have a material adverse effect on the Issuer's business, prospects, financial condition, cash flows or results of operations.

Although the Issuer is obliged to comply with all applicable environmental laws and regulations, it cannot, given the changing nature of environmental regulations, guarantee that it will be in compliance at all times. Any failure to comply with these environmental requirements could lead to, among other things, civil liabilities and penalty fees and possibly temporary or permanent shutdown of the Issuer's operations. Any imposition of environmental fines, increase in the costs associated with compliance or suspension or revocation of licences could have a material adverse effect on the Issuer's business, prospects, financial condition, cash flows or results of operations.

In addition, in March 2009, the President of Kazakhstan signed the law on the ratification of the United Nations Framework Convention on Climate Change (the "**Kyoto Protocol**"), under which Kazakhstan has undertaken a commitment to limit emissions of greenhouse gases such as carbon dioxide.

Furthermore, Kazakhstan has not yet accepted the Doha amendment (the "**Doha amendment**") to the Kyoto Protocol setting out the rules governing the second phase until 2020. Should Kazakhstan accept the Doha amendments its implementation in Kazakhstan may have an impact on environmental

regulation in Kazakhstan. Potential compliance costs associated with the Doha amendment are unknown and may be significant. Any increase in compliance costs could have a material adverse effect on the Issuer's business, prospects, financial condition, cash flows or results of operations.

The Environmental Code dated 9 January 2007 No. 212-III (the "**Environmental Code**") is the main Kazakhstan law governing nature use-related activities. Under the Environmental Code, legal entities emitting the equivalent of more than 20,000 tonnes of carbon dioxide in a year are required to obtain quotas. Emissions quotas are allocated pursuant to a national allocation plan that establishes quotas only for legal entities emitting more than 20,000 tonnes of carbon dioxide. The Issuer emits less than the threshold established for carbon dioxide in the national allocation plan, but more than threshold established in the Environmental Code. If special legislation is adopted and the Issuer would have to obtain quotas this could have a material adverse effect on the Issuer's business, prospects, financial condition, cash flows or results of operations.

The Issuer's corporate governance procedures differ significantly from those applicable to comparable companies in other jurisdictions.

The Issuer's existing corporate governance policies are based upon the laws governing companies incorporated in Kazakhstan. The corporate governance policies of the Issuer under Kazakhstan law are different from, and may be less stringent than, those generally applicable to companies organised in the United Kingdom, the United States or other jurisdictions.

Any deficiencies in the Issuer's corporate governance policies could subject the Issuer to civil penalties, which could, in turn, materially adversely affect the Issuer's business, prospects, financial condition, cash flows or results of operations.

The Issuer is required to comply with certain financial and other restrictive covenants.

The Issuer during the last few years entered into a number of loans with JSC Development Bank of Kazakhstan ("**DBK**"), JSC Sberbank, JSC VTB Bank, and JSC Citibank Kazakhstan. In addition, in 2014, the Issuer placed on the KASE fixed interest bonds with a nominal value of KZT 1,000 each bearing interest at 7.5% per annum bond maturity in 2018. Certain of the loan agreements provide for financial and other restrictive covenants to be complied with by the Issuer. Any breach of the financial and other restrictive covenants by the Issuer may result in penalties and/or occurrence of events of defaults which may enable the Issuer's creditors to accelerate loans which in its turn may adversely affect the financial condition of the Issuer.

The Issuer's insurance coverage may not be adequate to cover losses arising from potential operational hazards and unforeseen interruptions.

The amount of insurances which are in place is more limited than that which would normally be acquired by similar companies in more developed economies. Hence, the Issuer's insurance programme does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Issuer's property or relating to the Issuer's operations. The Issuer can give no assurance that the proceeds of insurance are adequate to cover increased costs and expenses relating to these losses or liabilities. Accordingly, the Issuer may suffer material losses from uninsurable or uninsured risks or insufficient insurance coverage.

Risks factors relating to emerging markets

General

Investors in emerging markets such as Kazakhstan should be aware that such markets are subject to greater risk than more developed markets, including in some cases significant legal, regulatory, economic, social and political risks. Investors should also note that emerging economies such as

Kazakhstan's are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, making an investment in emerging markets is suitable only for sophisticated investors who fully appreciate the significance of the risks involved. Investors are urged to consult with their own legal and financial advisers before making an investment in the Notes.

Disruptions experienced in the international capital markets over the last few years and changing regulatory environments have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Countries located in emerging markets may be particularly susceptible to these disruptions and changes and also to reductions in the availability of credit or increases in financing costs, which could result in them experiencing financial difficulty.

In addition, the availability of credit to entities operating within emerging markets is significantly influenced by levels of investor confidence in such markets as a whole. Accordingly, any factors that impact market confidence, such as a decrease in credit ratings or state or central bank intervention in a particular market, could affect the price or availability of funding for entities within any of these markets, which could, in turn, have an impact on the wider economies of such markets.

Fluctuations in the global economy or an increase in the perceived risks associated with investing in countries located in emerging markets could reduce foreign investment in Kazakhstan and, as a result, have an adverse effect on Kazakhstan's economy. If foreign investment in Kazakhstan's economy declines, it may experience liquidity constraints. Kazakhstan's economy is also not immune from developments in the economies of other countries located in emerging markets. Even if Kazakhstan's economy remains relatively stable, financial unrest or instability experienced in one or more countries located in an emerging market, especially countries in the CIS, the Caspian Sea or Central Asian regions (which have recently experienced significant political instability, including terrorism and internal unrest), could have a negative impact upon Kazakhstan's economy.

Any of the aforementioned risks could have a negative effect on Kazakhstan's economy, and thus could have a material adverse effect on the trading price of the Notes.

Risks Relating to the Conflict in Ukraine

The ongoing, and significant, civil and political unrest relating to Ukraine is inherently volatile and uncertain. Following political unrest and the formation of a new government in Ukraine in early 2014, escalating military activities within the country and on its borders, which have included Crimea's independence vote and subsequent absorption by Russia, have combined with Ukraine's very weak economic conditions to create significant uncertainty in Ukraine, the region as a whole and global markets. Resolution of Ukraine's volatile political and economic situation will likely not be obtained for some time, and the situation could further deteriorate into increased violence and/or economic collapse. Such instability could have a material adverse effect on Kazakhstan's economy, particularly as a result of the impact on the global economy and the Russian economy, which could in turn have a material adverse effect on the trading price of the Notes.

Risks factors relating to the Republic of Kazakhstan

Kazakhstan's economy is vulnerable to external shocks and fluctuations in the global economy

Kazakhstan's economy and finances have been and continue to be affected adversely by the recent global financial crisis and recent political turmoil in certain emerging markets (for example, Ukraine and Russia). Real GDP growth decreased from 8.9% in 2007 to 3.3% in 2008 and to 1.2% in 2009, before increasing to 7.3% in 2010 and 7.5% in 2011 and then decreasing to 5.0% in 2012 and increasing to 6.0% in 2013 and further decreasing to 4.3% in 2014. Real GDP growth year-on-year in the three months ended 31 March 2015 was 2.2%, as compared to 3.8% in the three months ended 31

March 2014, according to preliminary data. The global financial crisis and resulting changes in the regulatory environment have resulted in, among other things, lower liquidity levels across the banking sector, tighter credit conditions for Kazakhstan companies generally and fluctuating global demand for and instability in the price of crude oil and other commodities and downward pressure on the Tenge.

While Kazakhstan's economy has generally recovered following the most severe stage of the global financial crisis, its economy remains vulnerable to further external shocks and the economic performance of its trading partners. A significant decline in economic growth in the EU or any of Kazakhstan's other major trading partners, including Russia (whether or not resulting from the recent sanctions imposed by, among others, the U.S. and the EU), could have a material adverse effect on Kazakhstan's balance of trade and adversely affect Kazakhstan's economic growth. Kazakhstan also depends on neighbouring states to access world markets for a number of its major exports. Should access to these export routes be materially impaired, this could adversely impact Kazakhstan's economy. Events occurring in one geographic or financial market sometimes have so-called "contagion effects", whereby they result in an entire region or class of investments being disfavoured by international investors. Kazakhstan has been adversely affected by contagion effects in the past and it is possible that the market for investments in Kazakhstan, including the Notes, will be similarly affected in the future by negative economic or financial developments in neighbouring countries or countries whose economies or credit ratings are similar to those of Kazakhstan. See "*Sanctions imposed on Russia could have an indirect adverse impact on Kazakhstan's economy*" below.

There can be no assurance that current weaknesses in the global economy, or a future external economic crisis, will not have a negative effect on Kazakhstan's economy or on investors' confidence in Kazakhstan's markets or Kazakhstan's ability to raise capital in the international debt markets, all of which could have a material adverse effect on the trading price of the Notes.

Sanctions imposed on Russia could have an indirect adverse impact on Kazakhstan's economy

The U.S. and the EU (as well as other nations, such as Australia, Canada, Japan and Switzerland) have imposed sanctions on certain Russian and Ukrainian persons and entities in connection with the current conflict in Ukraine, including, sanctions imposed by the U.S. and the EU on 12 September 2014. The sanctions imposed to date have had an adverse effect on the Russian economy, prompting downward revisions to the credit ratings of the Russian Federation and a number of major Russian companies that are ultimately controlled by the Russian Federation, causing extensive capital outflow from Russia and impairing the ability of Russian issuers to access the international capital markets. The governments of the U.S. and certain EU member states, as well as certain EU officials, have indicated that they may consider additional sanctions should such tensions between Russia and Ukraine continue.

While Kazakhstan maintains strong independent diplomatic relationships with both Russia and Ukraine and has confirmed its neutral position with respect to the tensions between Russia and Ukraine, Kazakhstan has significant economic and political relations with Russia. Russia and Kazakhstan, together with Belarus, are members of the Customs Union and Common Economic Space and established the Eurasian Economic Union (the "EEU") on 1 January 2015. While the establishment of the EEU is not expected to have an immediate significant impact on Kazakhstan's relationship with Russia because it is essentially a continuation of the Customs Union and Common Economic Space structures that have been in place since 1 January 2010 and 1 January 2012, respectively, the establishment and functioning of the EEU is expected to continue to strengthen Kazakhstan's economic relations with Russia going forward. In 2014, based on actual trade flows, Kazakhstan's imports from Russia accounted for 33.3% of Kazakhstan's total imports, and its exports to Russia accounted for 6.6% of its total exports. In addition, a significant amount of the natural gas transported through Kazakhstan's natural gas pipeline system is transported to Russia or from one part of Russia to another through Kazakhstan's territory.

As at 1 March 2015, the total assets of four Russian banks operating in Kazakhstan (Sberbank, Alfa-Bank, VTB Bank (Kazakhstan) and Bank Home Credit) represented 10.1% of the total assets of Kazakhstan's banking sector. Primarily due to the effects of the recently imposed sanctions on the Russian economy, Kazakhstan's trade turnover with Russia decreased from approximately U.S.\$4.1 billion in the first quarter of 2015, as compared to U.S.\$3.3 billion in the first quarter of 2014, and it may decrease further, as may the activities of the Russian banks operating in Kazakhstan.

Kazakhstan's close economic links with Russia, the existing sanctions imposed on Russia or any future sanctions could have a material adverse effect on Kazakhstan's economy, which in turn could have a material adverse effect on the trading price of the Notes.

Any material reduction in the price of commodities, particularly oil and petroleum products, may materially adversely affect the revenues and financial condition of Kazakhstan

Kazakhstan's economy and the state budget rely in part on the export of oil, oil products and other commodities, as well as the import of capital equipment and significant foreign investments in infrastructure projects, could be adversely affected by volatility in oil and other commodity prices and by any sustained fall in those prices or by the discontinuation or delay of any infrastructure projects caused by political or economic instability in countries engaged in such projects.

Any fluctuations in the value of the U.S. Dollar relative to other currencies may cause volatility on earnings from U.S. Dollar denominated oil exports. An oversupply of oil or other commodities in world markets or a general downturn in the economies of any significant market for oil or other commodities or weakening of the U.S. Dollar relative to other currencies would have a material adverse effect on the Kazakhstan economy, which would, in turn, have an adverse effect on the business, financial condition, results of operations or prospects of the Issuer.

In addition, taxes on oil and petroleum product companies are a major source of revenue for the National Fund of Kazakhstan (the "**National Fund**"), which has an important stabilising function in the Kazakhstan economy and is responsible for accumulating financial resources for the benefit of future generations in Kazakhstan. The National Fund's revenues were KZT 5.4 trillion in 2014 as compared to KZT 4.0 trillion, KZT 3.8 trillion, KZT 3.5 trillion and KZT 2.4 trillion in 2013, 2012, 2011 and 2010, respectively.

The National Fund acts as a fiscal buffer against external shocks to the economy and it compensates for losses that may be incurred as a result of tax revenues from extraction sector enterprises being less than anticipated in a given year. However, there can be no assurance that the resources of the National Fund will be sufficient in the event of a sustained decline in oil prices and in the absence of a corresponding rise in oil production.

Any material reduction in commodity prices generally would have an adverse effect on Kazakhstan's economy and a sustained or further material decline in the price of crude oil will have a significant effect on Kazakhstan's budgetary revenues and foreign reserves and may materially adversely affect Kazakhstan's financial condition, which could, in turn, have a material adverse effect on the business, financial condition, results of operations or prospects of the Issuer.

Kazakhstan's banking sector remains weak and vulnerable to external shocks

Kazakhstan's banking sector was adversely affected by the global financial crisis. Between 2000 and 2007, while the economy was experiencing rapid growth, banks in Kazakhstan incurred high levels of foreign debt in order to fund a rapid expansion of credit, largely concentrated in the construction and real estate sectors. Following the onset of the global financial crisis which began in 2008, credit growth stopped due to the lack of availability of wholesale debt financing, deposits became volatile and property prices decreased significantly. Oil prices declined significantly as well, which had an adverse effect on Kazakhstan's banking sector and the broader economy. These factors caused

significant losses for Kazakhstan's banks and a general destabilisation of Kazakhstan's banking sector.

Weaknesses in the global financial markets since the onset of the global financial crisis have also contributed to several major bank failures in Kazakhstan and their subsequent restructurings. Overall, the Kazakhstan banking sector remains under stress with persistently high levels of non-performing loans ("NPLs"), and there can be no assurance that the reforms implemented recently, with the aim of reducing NPLs, will be successful or sufficient. There is also a high level of concentration in the banking sector, with the five largest banks holding more than half of all customer deposits. While measures have been taken to address and reduce systemic risk, such measures are ongoing and there remains a risk that further reforms may be required, the impact of which is not certain. There is also a risk that further financial assistance to the banking sector may be needed from the State, which it may not be willing and/or able to provide. Deficiencies in the Kazakhstan banking sector, combined with a deterioration in NPL portfolios held by banks in Kazakhstan, may result in the banking sector being more susceptible to the current worldwide credit market downturn and economic slowdown.

The Kazakhstan banking sector remains vulnerable and there can be no assurance that future turmoil in the global banking sector and the wider economy will not have a negative effect on Kazakhstan's banking sector, which could have a material adverse effect on the trading price of the Notes.

The Kazakhstan currency is subject to volatility and depreciation

Although the Tenge is convertible for current account transactions, it is not a fully convertible currency for capital account transactions outside Kazakhstan. Since the NBK adopted a floating rate exchange policy for the Tenge in April 1999, the Tenge has fluctuated significantly. The Tenge had generally appreciated in value against the U.S. Dollar over the previous decade until its devaluation by the NBK in February 2009. Between February 2009 and February 2014, the Tenge had generally stabilised. On 11 February 2014, the NBK devalued the Tenge by 18.3% to KZT 184.50 per U.S.\$1.00. The NBK stated that such devaluation was made in light of the situation in the global financial and commodity markets and the depreciation of the Russian Rouble over the course of 2013 and 2014. As at 30 June 2015, the official KZT/U.S.\$ exchange rate reported by the KASE was KZT 186.2 per U.S.\$1.00 compared to KZT 183.51 per U.S.\$1.00 as at 30 June 2014 and KZT 153.61 as at 31 December 2013. While the NBK decided to devalue the Tenge in February 2014, there can be no assurance that there will not be a need for a further devaluation as a result of external factors.

The Issuer's accounts are sensitive to currency exchange rate fluctuations, and the devaluation of the Tenge against the U.S. Dollar may have an overall adverse effect on the Issuer. In addition, since the Issuer is a regulated company that operates on the basis of tariffs or maximum prices established by the regulator in Tenge, such tariffs may not always be amended to reflect currency exchange fluctuations in a timely manner or at all.

In addition, there can be no assurance that the NBK will maintain its managed exchange rate policy. Any change in the NBK's exchange rate policy could have an adverse effect on Kazakhstan's public finances and economy, which could, in turn, have a material adverse effect on the Issuer's business, prospects, financial condition, cash flows or results of operations.

Official statistics may be unreliable

Kazakhstan's system for gathering and publishing statistical information relating to its economy generally or specific economic sectors within it or corporate or financial information relating to companies and other economic enterprises may not be as complete or reliable as the systems of more developed countries. Official statistics and other data may also be produced on different bases from those used in more developed countries. In particular, information about Kazakhstan's hydrocarbon and mineral reserves is partially based on a system employed in the former Soviet Union and does not necessarily reflect economically recoverable reserves, and economic data may underestimate the contribution of the unofficial economy to Kazakhstan's overall economy.

Corruption

Kazakhstan is a member of the Extractive Industries Transparency Initiative in relation to a number of companies, and Kazakhstan continues to work towards improving accountability and governance standards in various extractive sectors. However, independent analysts, including Transparency International, have identified corruption as a problem in Kazakhstan. Of the 175 countries and territories included in the 2014 Corruption Perceptions Index published by Transparency International, Kazakhstan ranked number 126, indicating that a perception of public sector corruption occurring within the country remains widespread. Any future allegations of corruption in Kazakhstan could have a negative effect on the ability of Kazakhstan to attract foreign investment, and thus have a negative effect on both the economy of Kazakhstan and could have a material adverse effect on the trading price of the Notes.

The President of Kazakhstan, Nursultan Nazarbayev, has been in office since 1991; should he leave office without a smooth transfer to a successor, the socio-political and macroeconomic situation in Kazakhstan could become unstable.

The President of Kazakhstan, Nursultan Nazarbayev, is 75 years old and has been in office since Kazakhstan became an independent sovereign state in 1991. As a result, Kazakhstan's constitutional succession processes have never been tested. Under President Nazarbayev's leadership, the foundations of a market economy have taken hold, including the privatisation of state assets, the liberalisation of capital controls, tax reforms and pension system development. In May 2007, Kazakhstan's parliament voted to amend Kazakhstan's constitution to allow President Nazarbayev to run in an unlimited number of elections. Most recently, in April 2015, President Nazarbayev was re-elected by a 97.75% majority for a new five year term. While the constitutional amendment will allow President Nazarbayev to seek re-election at the end of his current term, there is no guarantee that he will seek or achieve re-election. Should President Nazarbayev leave office for whatever reason without a smooth transfer to a successor, Kazakhstan's socio-political situation and economy could become unstable and the investment climate could change, which could have a material adverse effect on the economy of Kazakhstan.

The Issuer may be part-privatised pursuant to the Government's privatisation programme.

The Government's privatisation programme is driven by the need for substantial investment in many enterprises. The programme has, however, excluded certain enterprises deemed strategically significant by the Government and there remains a need for substantial investment in many sectors of the Kazakhstan economy, including business infrastructure. Further, the significant size of the shadow economy (or black market in Kazakhstan) may adversely affect the implementation of reforms and hamper the efficient collection of taxes. The Government has stated that it intends to address these problems by improving the business infrastructure and tax administration and by continuing the privatisation process. There can be no assurance, however, that these measures will be effective or that any failure to implement them may not have a material adverse effect on the Issuer's business, prospects, financial condition, cash flows or results of operations.

Government Decree No. 280 dated 31 March 2014 sets out the Government's "Complex Privatisation Plan" to be implemented between 2014 and 2016 (the "**Complex Privatisation Plan**"). The Complex Privatisation Plan mandates the sale in 2015 of 49% of each of the Issuer and LLP KazTransGas-Almaty ("**KTG Almaty**"), another subsidiary of KTG, such sales will, however, still enable KTG to maintain controlling interests in the Issuer.

In addition, the Government has launched its programme of "People's IPOs", in order to stimulate the domestic equities market and give the public an opportunity to have a direct stake in Kazakhstan's wealth. In December 2012, approximately 9.99% of the shares of JSC KazTransOil ("**KTO**") were sold to Kazakhstan investors, as part of this programme. KTG was also identified as a potential target for inclusion in the "People's IPO" programme, although KTG was not referred to in Government Decree dated 31 March 2014 regarding the "People's IPO" programme. There can be no assurance as

to KTG's inclusion or exclusion from the "People's IPO" programme, as to any definitive plans in the event that KTG is included in the programme or that the programme will be completed.

Kazakhstan has a less developed securities market than the United States, the United Kingdom and the rest of Western Europe, which may hinder the development of Kazakhstan's economy.

Kazakhstan has a less-developed securities market than the United States or the United Kingdom and other Western European countries, which may hinder the development of the Kazakhstan economy. An organised securities market was established in Kazakhstan only in the mid-to-late 1990s and procedures for settlement, clearing and registration of securities transactions may therefore be subject to legal uncertainties, technical difficulties and delays. Although significant developments have occurred in recent years, including an initiative to develop Astana as a regional financial centre, the sophisticated legal and regulatory frameworks necessary for the efficient functioning of modern capital markets have yet to be fully developed in Kazakhstan. In particular, legal protections against market manipulation and insider trading are not as well developed or as strictly enforced in Kazakhstan as they are in the United States or the United Kingdom and other Western European countries, and existing laws and regulations may be applied inconsistently. In addition, less information relating to Kazakhstan-based entities, such as the Issuer may be publicly-available to investors in such entities than is available to investors in entities organised in the United States or the United Kingdom and other Western European countries. The above-mentioned factors may impair foreign investment in Kazakhstan and hinder the development of Kazakhstan's economy.

Enforcement of liabilities. It may be difficult to effect service of legal process and enforce judgments obtained outside of Kazakhstan against the Issuer and its management.

The Issuer is a joint stock company organised under the laws of Kazakhstan and a substantial part of its businesses, assets and operations are located in Kazakhstan. In addition, all of its directors and executive officers reside in Kazakhstan and substantially all of their assets are located in Kazakhstan. As a result, it may not be possible to effect service of process within the United Kingdom or elsewhere outside Kazakhstan upon the Issuer or such directors or executive officers.

Moreover, Kazakhstan's courts will not enforce a judgment obtained in a court outside Kazakhstan unless there is a treaty in effect between the relevant country and Kazakhstan providing for reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Kazakhstan and the United Kingdom. However, Kazakhstan and the United Kingdom are parties to the New York Convention and, accordingly, an arbitral award should generally be recognised and enforceable in Kazakhstan provided the conditions to enforcement set out in the New York Convention are met. However, even if an applicable international treaty is in effect or a foreign judgment might otherwise be recognised and enforced on the basis of reciprocity, the recognition and enforcement of a foreign judgment will in all events be subject to exceptions and limitations provided for in Kazakhstan law. For example, a Kazakhstan court may refuse to recognise or enforce a foreign judgment if its recognition or enforcement would be contrary to Kazakhstan public policy. As a result, it may be difficult to obtain recognition or enforcement in Kazakhstan of a foreign judgment in respect of the Notes.

Further, in February 2010, the Parliament passed legislation amending, *inter alia*, the Civil Code of the Republic of Kazakhstan (the "Civil Code") to provide for certain immunities to the Government and its ownership, which may include state-owned companies, such as the Issuer, in the context of foreign court judgments. While normally these immunities should apply to government entities to the extent they are performing sovereign functions and not commercial activities, and the issuance of Notes under the Programme should be considered a commercial activity (and under the amendments these immunities can be effectively waived in an agreement, accordingly, under the Trust Deed, the Issuer has, to the full extent permitted by applicable laws, waived any immunity that may be attributed to it in respect of the Notes, if any) whether a particular activity is deemed to be sovereign or commercial in nature is subject to determination by a Kazakhstan court on a case by case basis.

Insolvency laws in Kazakhstan may not be as favourable to holders of Notes as English insolvency laws or those of another jurisdiction with which the Noteholders may be familiar.

The Issuer is organised in Kazakhstan and is subject to the bankruptcy law of Kazakhstan. Kazakhstan bankruptcy law may prohibit the Issuer from making payments pursuant to the Trust Deed and the Notes under certain circumstances. From the moment bankruptcy proceedings are initiated in court, a Kazakhstan debtor is prohibited from paying any debts outstanding prior to the bankruptcy proceedings, subject to specified exceptions.

After the initiation of bankruptcy proceedings, creditors of the debtor may not pursue any legal action to obtain payment to set aside a contract for non-payment or to enforce the creditor's rights against any asset of the debtor until completion of the bankruptcy procedure. Contractual provisions, such as those contained in the Trust Deed and the Notes, which would accelerate the payment of the debtor's obligations upon the occurrence of certain bankruptcy events, would accelerate the amount due but each accelerated amount becomes part of the total liabilities within the proper priority class.

Specifically, Kazakhstan bankruptcy law provides that transactions of a debtor can be recognised as invalid if they are entered into or made within three years prior to the institution of the bankruptcy or rehabilitation proceedings and contain elements which can form the grounds of invalidation under Civil Code or contain the following elements (i) the price of the transaction or other conditions which are more onerous for the debtor than the price and conditions for similar transactions in the market concluded under similar circumstances; (ii) transactions that are beyond the framework of activities authorised for the debtor by the law, its constituent documents or the competence of the corporate bodies of the debtor; (iii) assets transferred free of charge or at a price which was worse for the debtor than a price of other transactions under similar economic circumstances or otherwise the transfer infringes the interests of the creditors; (iv) transactions were entered into six months before the bankruptcy or rehabilitation proceedings and resulted in preferential payments to certain creditors; (v) the debtor has gifted its assets and entered in transactions, which are significantly different from the transactions entering into during the year before the institution of bankruptcy or rehabilitation proceedings. Since Kazakhstan's courts are not experienced with complex commercial issues, there is no way to predict the outcome of a bankruptcy proceeding. In addition, Kazakhstan's bankruptcy law provides for rehabilitation procedures which are similar to the Kazakhstan bank restructuring procedures promulgated for banks in 2009.

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme.

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

Notes subject to optional redemption by the Issuer

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At any such time, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes are Notes which may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

Notes issued in Tenge

Since the NBK adopted a floating rate exchange policy for the Tenge in April 1999, the Tenge has fluctuated significantly. The Tenge had generally appreciated in value against the U.S. Dollar over the previous decade until its devaluation by the NBK in February 2009. On 11 February 2014, the NBK devalued the Tenge by 18.3% to KZT 184.50 per U.S.\$1.00. The NBK stated that such devaluation was made in light of the situation in the global financial and commodity markets and the depreciation of the Russian Rouble over the course of 2013 and 2014. As at 30 June 2015, the official KZT/U.S.\$ exchange rate reported by the KASE was KZT 186.2 per U.S.\$1.00 compared to KZT 183.51 per U.S.\$1.00 as at 30 June 2014 and KZT 153.61 as at 31 December 2013. While the NBK decided to devalue the Tenge in February 2014, there can be no assurance that there will not be a need for a further devaluation as a result of external factors, especially taking into account the depreciation of the Russian Rouble.

Risks related to Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

English law governs Notes and all agreements under the Programme

Prospective investors should note that each Series of Notes will be governed by and construed in accordance with the laws of England and that the courts of England or arbitration proceedings in accordance with the Rules of the London Court of International Arbitration (solely for the purpose of any legal action or proceeding brought to enforce the relevant Issuer's obligations under this Prospectus) shall have exclusive jurisdiction in respect of any disputes involving the Notes. English law may be materially different from the equivalent law in the home jurisdiction of prospective investors in its application to the Notes. If a prospective investor is in doubt as to the implication of English law being the governing law in respect of the Notes, such investor should consult its legal advisors.

No assurance can be given as to the impact of any possible judicial decision or changes in English law or administrative practice after the date of this Prospectus.

Provisions of Notes permit defined majorities to bind all Noteholders and permit the Trustee to take certain action without Noteholder consent.

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such.

Financial turmoil in emerging markets may lead to unstable pricing of Notes

The market price of Notes is influenced by economic and market conditions in Kazakhstan and, to a varying degree, economic and market conditions in other CIS countries and emerging markets generally. Financial turmoil in other emerging markets in the past has adversely affected market prices in the world's securities markets for companies that operate in those and other developing economies. Even if Kazakhstan's economy remains relatively stable, financial turmoil in other emerging markets could materially adversely affect the market price of Notes.

Notes where denominations involve integral multiples

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination.

Trading in the clearing systems

Notes issued under the Programme will be represented on issue by one or more Global Notes that may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in each Global Note, investors will not be entitled to receive Notes in definitive form. Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note held through it. While the Notes are represented by a Global Note, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by Global Notes, the Issuer will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer, the Trustee and the Agents have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note.

Payments made in respect of Notes may be subject to withholding tax and have other tax consequences for investors

Generally, payments of interest on borrowed funds made by a Kazakhstan entity to a non-resident are subject to Kazakhstan withholding tax at the rate of 15% for legal entities, unless such withholding tax is reduced or eliminated pursuant to the terms of an applicable double tax treaty.

If payments in respect of any Notes are subject to withholding of Kazakhstan tax as a result of which the Issuer would reduce such payments by the amount of such withholding, the relevant Issuer is obliged to increase payments as may be necessary so that the net payments received by holders of Notes will not be less than the amounts they would have received in the absence of such withholding. However no withholding tax should apply to the payments under the Notes as long as the Notes are admitted to the official list of KASE.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of to an individual resident in that other Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive (the “**Directive**”) amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented. In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

Foreign Account Tax Compliance withholding may affect payments on the Notes

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (“**FATCA**”) impose a new reporting regime and, potentially, a 30 per cent. withholding tax with respect to (i) certain payments from sources within the United States, (ii) “foreign passthru payments” made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution.

Whilst the Notes are in global form and held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. The Issuer's obligations under the Notes are discharged once it has paid the clearing systems (as registered holder of the Notes) and the Issuer has therefore no responsibility for any amount thereafter transmitted through the clearing systems and custodians or intermediaries. Prospective investors should refer to the section “*Taxation – Foreign Account Tax Compliance Act*”.

Risk factors relating to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the “**Investor's Currency**”) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (a) the Investor's Currency-equivalent yield on the Notes, (b) the Investor's Currency equivalent value of the principal payable on the Notes and (c) the Investor's Currency- equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Notes, this will adversely affect the value of the Fixed Rate Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Issuer or the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes issued under the Programme.

OVERVIEW OF THE PROGRAMME

The following overview must be read as an introduction to this Prospectus. Any decision by any investor to invest in any Notes should be based on a consideration of this Prospectus as a whole. This overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the relevant Pricing Supplement. The Issuer and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, in the case of listed Notes only and if appropriate, a supplemental Prospectus will be published.

Words and expressions defined in “*Form of the Notes*” and “*Terms and Conditions of the Notes*” shall have the same meanings in this overview.

Issuer:	JSC KazTransGas Aimak.
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme. These are set out under “ <i>Risk Factors</i> ”. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under “ <i>Risk Factors</i> ” and include certain risks relating to the structure of particular Series of Notes and certain market risks.
Description:	Medium Term Note Programme.
Arrangers:	JSC Private Asset Management and MeritKapital Limited.
Dealers:	JSC Private Asset Management, MeritKapital Limited and any other Dealers appointed in accordance with the Programme Agreement.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “ <i>Subscription and Sale</i> ”) including the following restrictions applicable at the date of this Prospectus.

Notes having a maturity of less than one year

Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent in other currencies, see “*Subscription and Sale*”.

Issuing and Principal Paying Agent:	Citibank N.A., London Branch.
Registrar:	Citigroup Global Markets Deutschland AG.
Programme Size:	Up to KZT 30,500,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.
Maturities:	The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price:	Notes may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in registered form as described in “ <i>Form of the Notes</i> ”.
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Floating Rate Notes:	<p>Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none"> (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (b) on the basis of the reference rate set out in the relevant Pricing Supplement. <p>The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each</p>

Series of Floating Rate Notes.

Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both.

Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.

Zero Coupon Notes:

Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.

Redemption:

The relevant Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.

Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see “*Certain Restrictions – Notes having a maturity of less than one year*” above.

Denomination of Notes:

The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see “*Certain Restrictions – Notes having a maturity of less than one year*” above, and save that the minimum denomination of each Note will be the Tenge equivalent of €100,000 (or, if the Notes are denominated in a currency other than Tenge or euro, the equivalent amount in such currency).

Taxation:

All payments in respect of the Notes will be made without withholding or deduction for or on account of taxes imposed by any Tax Jurisdiction, as provided in Condition 8. In the event that any such withholding or deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.

Negative Pledge:

The terms of the Notes will contain a negative pledge provision as further described in Condition 3.

Cross Default:

The terms of the Notes will contain a cross default provision as further described in Condition 10.

Status of the Notes:	The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and will rank <i>pari passu</i> among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer from time to time outstanding.
Rating:	The Programme has not been rated by any credit rating agency. Series of Notes issued under the Programme may be individually rated. Where a Series of Notes is rated, such rating will be disclosed in the relevant Pricing Supplement. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Listing and admission to trading:	Notes may be listed or admitted to trading, as the case may be, on the Kazakhstan Stock Exchange or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued. The relevant Pricing Supplement will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.
Governing Law:	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom), Kazakhstan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see “ <i>Subscription and Sale</i> ”.
United States Selling Restrictions:	Regulation S, Category 2. TEFRA C/TEFRA D/TEFRA not applicable, as specified in the relevant Pricing Supplement.

FORM OF THE NOTES

The Notes of each Series will be in registered form, without interest coupons attached. Notes will be issued outside the United States in reliance on Regulation S under the Securities Act (“**Regulation S**”).

Global Note

Each Tranche of Notes will initially be represented by a global note in registered form (a “**Global Note**”). The Global Notes will be deposited with the Common Depositary and registered in the name of its nominee. Persons holding beneficial interests in Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

Payments of principal, interest and any other amount in respect of the Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 6.2) as the registered holder of the Global Notes. None of the Issuer, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 6.2) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without interest coupons or talons attached only upon the occurrence of an Exchange Event. The Issuer will promptly give notice to Noteholders in accordance with Condition 13 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Global Note) may give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

General

Pursuant to the Agency Agreement (as defined under “*Terms and Conditions of the Notes*”), the Principal Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes at a point after the Issue Date of the further Tranche, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single Series, which shall not be prior to the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such Tranche.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear and/or Clearstream, Luxembourg each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the registered holder of the relevant Global Note shall be

treated by the Issuer, its agents and the Trustee as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions “**Noteholder**” and “**holder of Notes**” and related expressions shall be construed accordingly.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the relevant Pricing Supplement.

FORM OF THE PRICING SUPPLEMENT

Set out below is the form of the Pricing Supplement which will be completed for each Tranche of Notes issued under the Programme.

[Date]

JSC KazTransGas Aimak
Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the KZT 30,500,000,000
Medium Term Note Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Prospectus dated 3 August 2015 [and the supplement[s] to it dated [*insert date*] [and [*insert date*]]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Prospectus. The Prospectus [, any supplements thereto] and this Pricing Supplement are available for viewing at the specified office of the Trustee at Citicorp Centre, Canada Square, London E14 5LB, United Kingdom during normal business hours and copies may be obtained from those offices.

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement.]

- | | | |
|----|--|--|
| 1. | Issuer: | JSC KazTransGas Aimak |
| 2. | (a) Series Number: | [] |
| | (b) Tranche Number: | [] |
| | (c) Date on which the Notes will be consolidated and form a single Series: | The Notes will be consolidated and form a single Series with [<i>identify earlier Tranches</i>] on [the Issue Date] [Not Applicable] |
| 3. | Specified Currency or Currencies: | [] |
| 4. | Aggregate Nominal Amount: | |
| | (a) Series: | [] |
| | (b) Tranche: | [] |
| 5. | Issue Price: | [] per cent. of the Aggregate Nominal Amount [plus accrued interest from [<i>insert date</i>] (<i>if applicable</i>)] |
| 6. | (a) Specified Denominations: | [] |
| | (b) Calculation Amount: | [] |

(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)

7. (a) Issue Date: []
- (b) Interest Commencement Date: [specify/Issue Date/Not Applicable]
- (N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)*
8. Maturity Date: [Fixed rate – specify date/Floating rate – Interest Payment Date falling in or nearest to [specify month]]
9. Interest Basis: [[] per cent. Fixed Rate]
- [[[] month
LIBOR/EURIBOR/EIBOR/LIBID/LIMEAN/
SHIBOR/HIBOR/CNH HIBOR/ TRLIBOR or
TRYLIBOR/SIBOR/KLIBOR/TIBOR/SAIBOR/
BBSW/AUD LIBOR/JPY LIBOR/PRIBOR] +/-
[] per cent. Floating Rate]
- [Zero Coupon]
- (see paragraph [15][16][17] below)
10. Redemption/Payment Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at 100 per cent. of their nominal amount
11. Change of Interest Basis: [Specify the date when any fixed to floating rate change occurs cross refer to paragraphs 14 and 15 below and identify there] [Not Applicable]
12. Put/Call Options: [Investor Put]
- [Issuer Call]
- [(see paragraph [17] below)]
13. (a) Status of the Notes: Senior Notes
- (b) [Date [Board] approval for [] [and [], respectively]] (N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes) issuance of Notes obtained:

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14. Fixed Rate Note Provisions [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Rate(s) of Interest: [] per cent. per annum payable in arrear
- (b) Interest Payment Date(s): [[] in each year up to and including the Maturity Date]
- (c) Fixed Coupon Amount(s): [] per Calculation Amount
(Applicable to Notes in definitive form)
- (d) Broken Amount(s): [[] per Calculation Amount, payable on the Interest Payment Date falling [in/on] []] [Not Applicable]
(Applicable to Notes in definitive form)
- (e) Day Count Fraction: [30/360] [Actual/Actual (ICMA)]
- (f) Determination Date(s): [[] in each year] [Not Applicable]
- (Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)]*
15. Floating Rate Note Provisions [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Specified Period(s)/Specified Interest Payment Dates: [] [, subject to adjustment in accordance with the Business Day Convention set out in (b) below/, not subject to adjustment, as the Business Day Convention in (b) below is specified to be Not Applicable]
- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention][Not Applicable]
- (c) Additional Business Centre(s): []
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination]
- (e) Party responsible for calculating []

the Rate of Interest and Interest Amount (if not the Principal Paying Agent):

(f) Screen Rate Determination:

- Reference Rate: [] month [LIBOR/EURIBOR/EIBOR/LIBID/LIMEAN/ SHIBOR/HIBOR/CNH HIBOR/TRLIBOR or TRYLIBOR/SIBOR/KLIBOR/TIBOR/SAIBOR/BBSW/AUD LIBOR/JPY LIBOR/PRIBOR]

- Interest Determination Date(s): []
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR, the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR and second Dubai business day prior to the start of each Interest Period if EIBOR)

- Relevant Screen Page: []
(In the case of EURIBOR, if not Reuters EURIBORO1 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately or, in the case of EIBOR, if not Reuters AEIBOR, ensure it is a page which shows a composite rate.)

- Relevant Financial Centre: []

- Relevant Time: []

(g) ISDA Determination:

- Floating Rate Option: []

- Designated Maturity: []

- Reset Date: []

(In the case of a LIBOR, EURIBOR or EIBOR based option, the first day of the Interest Period)

(h) Linear Interpolation:

[Not Applicable/Applicable - the Rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (specify for each short or long interest period)]

- (i) Margin(s): [+/-] [] per cent. per annum
- (j) Minimum Rate of Interest: [] per cent. per annum
- (k) Maximum Rate of Interest: [] per cent. per annum
- (l) Day Count Fraction: [Actual/Actual (ISDA)][Actual/Actual]
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
[30/360] [360/360] [Bond Basis]
[30E/360][Eurobond Basis]
30E/360 (ISDA)

(See Condition 5 for alternatives)

16. Zero Coupon Note Provisions [Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

- (a) Accrual Yield: [] per cent. per annum
- (b) Reference Price: []
- (c) Day Count Fraction in relation to Early Redemption Amounts: [30/360]

[Actual/360]

[Actual/365]

PROVISIONS RELATING TO REDEMPTION

17. Notice periods for Condition 7.2: Minimum period: [] days

Maximum period: [] days

18. Issuer Call: [Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

- (a) Optional Redemption Date(s): []
- (b) Optional Redemption Amount: [[] per Calculation Amount]
- (c) If redeemable in part:
 - (i) Minimum Redemption Amount: []
 - (ii) Maximum Redemption Amount: []

(d) Notice periods: Minimum period: [] days

Maximum period: [] days

(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent)

19. Investor Put: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)

(a) Optional Redemption Date(s): []

(b) Optional Redemption Amount: [] per Calculation Amount]

(c) Notice periods: Minimum period: [] days

Maximum period: [] days

(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 15 business days' notice for a put) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent)

20. Final Redemption Amount [[] per Calculation Amount]

21. Early Redemption Amount payable on redemption for taxation reasons or on event of default: [] per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

22. Form of Notes: [Global Note registered in the name of a nominee for a common depository for Euroclear and Clearstream, Luxembourg]

23. Additional Financial Centre(s): [Not Applicable/give details]
(Note that this paragraph relates to the date of payment and not Interest Period end dates to which item 15(c) relates)

24. Other final terms:

[Not Applicable/*give details*]

Signed on behalf of the Issuer:

By:.....
Duly authorised

PART B – OTHER INFORMATION

Part C LISTING AND ADMISSION TO TRADING:

25. LISTING

Listing and Admission to trading:

[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on *[specify relevant market]* with effect from [].]

[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on *[specify relevant market]* with effect from [].]

[Not Applicable.]

26. RATINGS

Ratings:

[The Notes to be issued [[have been]/[are expected to be]] rated] *[insert details]* by *[insert the legal name of the relevant credit rating agency entity(ies) and associated defined terms]*
[Not Applicable].

[A rating is not a recommendation by any rating organisation to buy, sell or hold Notes and maybe subject to revision or withdrawal at any time by the assigning rating organisation.]

(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

27. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealer], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealer] and [their/its] affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business for which they may receive fees – *Amend as appropriate if there are other interests*]

28. YIELD *(Fixed Rate Notes Only)* [] INDICATION OF YIELD:

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

29. HISTORIC INTEREST RATES *(Floating Rate Notes only)*

Details of historic *[LIBOR/EURIBOR/EIBOR]* rates can be obtained from [Reuters].

30. OPERATIONAL INFORMATION

- (a) ISIN Code: []
- (b) Common Code: [[]]
- (c) Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/give name(s), address(es) and number(s)]
- (d) Delivery: Delivery [against/free of] payment
- (e) Names and addresses of additional Paying Agent(s) (if any): []
- (f) Deemed delivery of clearing system notices for the purposes of Condition 13: Any notice delivered to Noteholders through the clearing systems will be deemed to have been given on the [second] [business] day after the day on which it was given to Euroclear and Clearstream, Luxembourg.

31. DISTRIBUTION

- (a) Method of distribution: [Syndicated/Non-syndicated]
- (b) If syndicated, names of Managers: [Not Applicable/give names]
- (c) Date of Subscription Agreement: []
- (d) If non-syndicated, name of relevant Dealer: [Not Applicable/give name]
- (e) U.S. Selling Restrictions: [Reg. S Compliance Category 2]; TEFRA D/TEFRA C/TEFRA not applicable]

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which, as supplemented, modified or placed for the Notes of a particular Tranche by the Pricing Supplement for that Tranche. The Terms and Conditions of the Notes will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The relevant Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to “Form of the Notes” for a description of the content of the Pricing Supplement which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by JSC KazTransGas Aimak (the “**Issuer**”) constituted by a Trust Deed (such Trust Deed as modified and/or supplemented and/or restated from time to time, the “**Trust Deed**”) dated 3 August 2015 made between the Issuer and Citicorp Trustee Company Limited (the “**Trustee**”, which expression shall include any successor as Trustee).

References herein to the Notes shall be references to the Notes of this Series and shall mean:

- (a) in relation to any Notes represented by a global Note (a “**Global Note**”), units of each Specified Denomination in the Specified Currency;
- (b) any Global Note; and
- (c) any definitive Notes in registered form (“**Registered Notes**”) (whether or not issued in exchange for a Global Note in registered form).

The Notes (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the “**Agency Agreement**”) dated 3 August 2015 and made between the Issuer, the Trustee and Citibank N.A., London Branch as issuing and principal paying agent and agent bank (the “**Principal Paying Agent**”, which expression shall include any successor agent) and the other paying agents named therein (together with the Principal Paying Agent, the “**Paying Agents**”, which expression shall include any additional or successor paying agents), Citigroup Global Markets Deutschland AG as registrar (the “**Registrar**”, which expression shall include any successor registrar) and a transfer agent and the other transfer agents named therein (if any) (together with the Registrar, the “**Transfer Agents**”, which expression shall include any additional or successor transfer agents).

Registered Notes and Global Notes do not have coupons or talons attached on issue.

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Pricing Supplement attached to or endorsed on this Note which supplement these Terms and Conditions (the **Conditions**). References to the “**relevant Pricing Supplement**” are, unless otherwise stated, to Part A of the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

The Trustee acts for the benefit of the “**Noteholders**” (which expression shall mean the persons in whose name the Notes are registered and shall, in relation to any Notes represented by a Global Note, be construed as provided below) in accordance with the provisions of the Trust Deed.

As used herein, “**Tranche**” means Notes which are identical in all respects (including as to listing and admission to trading) and “**Series**” means a Tranche of Notes together with any further Tranche or

Tranches of Notes which (a) are expressed to be consolidated and form a single series and (b) have the same terms and conditions or terms and conditions which are the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue.

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the specified office of the Trustee at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom and at the Principal Paying Agent, the Registrar and each of the Paying Agents and Transfer Agents (such Agents and the Registrar being together referred to as the “**Agents**”). Copies of the relevant Pricing Supplement are available for viewing at the registered office of the Issuer and of the Principal Paying Agent and copies may be obtained from those offices save that, if this Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive (Directive 2003/71/EC) (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member state of the European Economic Area), the relevant Pricing Supplement will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, Agency Agreement and the Pricing Supplement applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.

Words and expressions defined in the Trust Deed and the Agency Agreement or used in the relevant Pricing Supplement shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed, the Agency Agreement and the relevant Pricing Supplement, the relevant Pricing Supplement will prevail.

1. FORM, DENOMINATION AND TITLE

The Notes are in registered form and, in the case of definitive Notes, serially numbered, in the currency (the “**Specified Currency**”) and the denominations (the “**Specified Denomination(s)**”) specified in the relevant Pricing Supplement. Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note may be a Fixed Rate Note, a Floating Rate Note or a Zero Coupon Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the relevant Pricing Supplement.

Subject as set out below, title to the Registered Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer, the Trustee and any Paying Agent will (except as otherwise required by law) deem and treat the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank SA/NV (“**Euroclear**”) and/or Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such

Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the registered holder of the relevant Global Note, as the case may be, shall be treated by the Issuer and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions “**Noteholder**” and “**holder of Notes**” and related expressions shall be construed accordingly.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in Part B of the relevant Pricing Supplement.

2. TRANSFERS OF NOTES

2.1 Transfers of interests in Global Notes

Transfers of beneficial interests in Global Notes will be effected by Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form only in the authorised denominations set out in the relevant Pricing Supplement and only in accordance with the rules and operating procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Trust Deed and the Agency Agreement.

2.2 Transfers of Registered Notes in definitive form

Upon the terms and subject to the conditions set forth in the Trust Deed and the Agency Agreement, a Registered Note in definitive form may be transferred in whole or in part (in the authorised denominations set out in the relevant Pricing Supplement). In order to effect any such transfer (a) the holder or holders must (i) surrender the Registered Note for registration of the transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (ii) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (b) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer, the Trustee and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 2 to the Agency Agreement).

Subject as provided above, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Note in definitive form of a like aggregate nominal

amount to the Registered Note (or the relevant part of the Registered Note) transferred. In the case of the transfer of part only of a Registered Note in definitive form, a new Registered Note in definitive form in respect of the balance of the Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

2.3 Registration of transfer upon partial redemption

In the event of a partial redemption of Notes under Condition 7 (*Redemption and Purchase*), the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

2.4 Costs of registration

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

3. STATUS OF THE NOTES

The Notes are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4.1 ()) unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer from time to time outstanding.

4. COVENANTS AND NEGATIVE PLEDGE

4.1 Negative Pledge

So long as any of the Notes remains outstanding the Issuer will not create or have outstanding and will procure that no Material Subsidiary will create or have outstanding any mortgage, charge, lien, pledge or other security interest (each a “**Security Interest**”), other than a Permitted Security Interest (as defined below), upon, or with respect to, any of its present or future business, undertaking, assets or revenues (including any uncalled capital) to secure any Indebtedness (as defined below), unless the Issuer, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that:

- (a) all amounts payable by it under the Notes are secured by the Security Interest equally and rateably with the Relevant Indebtedness; or
- (b) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided as is approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

For the purposes of these Conditions:

“**Indebtedness**” means any Indebtedness of any Person for or in respect of:

- (i) moneys borrowed;

- (ii) amounts raised by acceptance under any acceptance credit facility;
- (iii) amounts raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or similar instruments;
- (iv) the amount of any liability in respect of leases or hire purchase contracts, which would, in accordance with generally accepted accounting standards in the jurisdiction of incorporation of the lessee, be treated as finance or capital leases;
- (v) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred primarily as a means of raising finance or financing the acquisition of the relevant asset or service; and
- (vi) amounts raised under any other transaction (including any forward sale or purchase agreement and the sale of receivables on a “with recourse” basis) having the commercial effect of a borrowing (but excluding trade accounts payable and other accrued liabilities arising in the ordinary course of its business);

“**Material Subsidiary**” means at any relevant time a Subsidiary of Issuer:

- (i) whose total assets or gross revenues (or, where the Subsidiary in question prepares consolidated financial statements, whose consolidated total assets or consolidated gross revenues, as the case may be) represents not less than 10 per cent., of the consolidated total assets or the consolidated gross revenues of the Issuer and its respective Subsidiaries, all as calculated by reference to the then latest audited financial statements (or consolidated accounts, as the case may be) of such Subsidiary and the then latest audited consolidated financial statements of the Issuer; or
- (ii) to which is transferred all or substantially all of the assets and undertakings of a Subsidiary which immediately prior to such transfer is a Material Subsidiary;

“**Permitted Security Interest**” means, without duplication:

- (i) any Security Interest existing as at the Issue Date of the relevant Notes;
- (ii) any Security Interest granted in favour of the Issuer or any Material Subsidiary;
- (iii) any Security Interest on property acquired (or deemed to be acquired) under a financial lease, or claims arising from the use or loss of or damage to such property; *provided* that any such Security Interest secures Indebtedness only under such lease;
- (iv) any Security Interest securing Indebtedness of a Person existing at the time that such Person is merged into or consolidated with the Issuer or a Material Subsidiary or becomes a Material Subsidiary; *provided* that such Security Interests were not created in contemplation of such merger or consolidation or event and do not extend to any assets or property of the Issuer already existing or any Material Subsidiary other than those of the surviving Person and its subsidiaries or the Person acquired and its subsidiaries;
- (v) any Security Interest already existing on assets or property acquired or to be acquired by the Issuer or any Material Subsidiary; *provided* that such Security Interests were not created in contemplation of such acquisition and do not extend to any other assets or property (other than proceeds of such acquired assets or property);

- (vi) any Security Interest granted upon or with regard to any property hereafter acquired or constructed in the ordinary course of business by the Issuer or any Material Subsidiary to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition and repairs related to such property; *provided* that the maximum amount of Indebtedness thereafter secured by such Security Interest does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property and related transactional expenses;
- (vii) any Security Interest arising by operations of law;
- (viii) any Security Interest for ad valorem, income or property taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings and for which the Issuer or any Material Subsidiary has set aside in its books of account appropriate reserves;
- (ix) easements, rights of way, restrictions (including zoning restrictions), reservations, permits, servitudes, minor defects or irregularities in title and other similar charges or encumbrances, and Security Interests arising under leases or subleases granted to others, in each case not interfering in any material respect with the business of the Issuer and its Subsidiaries (taken as a whole) and existing, arising or incurred in the ordinary course of business;
- (x) (a) statutory landlords' Security Interests (so long as such Security Interests do not secure obligations constituting Indebtedness for borrowed money and such any Security Interests are incurred in the ordinary course of business), and (b) any Security Interests arising from any judgment, decree or other order which does not constitute an Event of Default under Condition 10.1(g);
- (xi) a right of set-off, right to combine accounts or any analogous right which any bank or other financial institution may have relating to any credit balance of the Issuer or a Material Subsidiary;
- (xii) any Security Interest on the property, income or assets of the Issuer or any Material Subsidiary securing Indebtedness to the extent that at the time of incurrence of such Indebtedness, such Indebtedness together with the aggregate principal amount of other Indebtedness subject to any Security Interest granted in accordance with this paragraph (xii) does not exceed in the aggregate 10% of the Issuer's consolidated asset at any one time outstanding. For the avoidance of doubt, this paragraph (xii) does not include any Security Interest created in accordance with paragraphs (i) to (xi) above; and
- (xiii) any Security Interest arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by a Security Interest permitted by any of the above exceptions, *provided* that the Indebtedness thereafter secured by such Security Interest does not exceed the amount of the original Indebtedness and such Security Interest is not extended to cover any property not previously subject to such Security Interest;

“Person” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality; and

“**Subsidiary**” means in relation to any Person (the “**first person**”) at any particular time, any other Person (the “**second person**”) whose affairs and policies the first person controls or has power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second person or otherwise.

4.2 Limitation on Payment of Dividends

The Issuer shall not pay any dividends, in cash or otherwise, or make any other distributions (whether by way of redemption, acquisition or otherwise) in respect of its share capital at any time when there exists an Event of Default or an event or circumstance which could with the giving of notice, lapse of time, issue of a certificate and/or fulfilment of any other requirement provided for in Condition 10.1(*Events of Default*), become an Event of Default.

The foregoing limitation shall not apply to the payment of (A) any dividends in respect of any preferred shares of the Issuer, which may be issued by the Issuer from time to time; or (B) any dividends in respect of any common shares of the Issuer, which are paid through the issuance of additional common shares.

4.3 Limitation on Changes in Business

So long as any Note remains outstanding, the Issuer shall procure that the business of the Issuer and each Material Subsidiaries shall comprise of gas distribution and the provision of support to the Kazakh gas sector.

4.4 Limitation on Disposals by the Issuer and each Material Subsidiary

So long as any Note remains outstanding, the Issuer will not and will procure that each of its Material Subsidiaries will not, either in a single transaction or in a series of transactions, whether related or not and whether voluntarily or involuntarily, sell, assign, convey, transfer, grant or otherwise dispose of all or any of its respective assets or property to any Person, except as follows:

- (i) disposals of assets in the ordinary course of business by the Issuer or the relevant Material Subsidiary;
- (ii) disposals of assets to the Issuer or a wholly-owned Subsidiary of the Issuer;
- (iii) disposals of assets which are obsolete, redundant, surplus or not necessary for the operation of the Issuer’s or the relevant Material Subsidiary’s business;
- (iv) disposals of assets for which the Issuer or such Material Subsidiary, as the case may be, receives consideration at the time of such disposal at least equal to the Fair Market Value (including as to the value of all non-cash consideration) of the assets subject to such disposal, provided that the net proceeds of any such disposal shall be reinvested in capital assets of the Issuer or any wholly-owned Subsidiary of the Issuer within 180 days following the date of receipt thereof;
- (v) disposals of assets by the Issuer or any Subsidiary pursuant to a Permitted Reorganisation; or
- (vi) disposals of other assets not covered by the provisions of (i) through (v) above, provided that the aggregate value of all such other assets disposed of since the Issue Date does not exceed at any time 25% of the Issuer’s consolidated total assets as

shown in the Original Financial Statements or, if greater, the Issuer's then most recent audited consolidated financial statements prepared in accordance with IFRS.

5. INTEREST

5.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the relevant Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the relevant Pricing Supplement, amount to the Broken Amount so specified.

As used in the Conditions, "**Fixed Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where a Fixed Coupon Amount or Broken Amount is specified in the relevant Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (a) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note; or
- (b) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 5.1 (*Interest on Fixed Rate Notes*):

- (i) if "Actual/Actual (ICMA)" is specified in the relevant Pricing Supplement:
 - (A) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "**Accrual Period**") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the relevant Pricing Supplement) that would occur in one calendar year; or

- (B) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
 - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (ii) if “30/360” is specified in the relevant Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In the Conditions:

“**Determination Period**” means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

“**sub-unit**” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

5.2 Interest on Floating Rate Notes

(a) Interest Payment Dates

Each Floating Rate Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the relevant Pricing Supplement; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the relevant Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an “**Interest Payment Date**”) which falls the number of months or other period specified as the Specified Period in the relevant Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In the Conditions, “**Interest Period**” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If a Business Day Convention is specified in the relevant Pricing Supplement and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (i) in any case where Specified Periods are specified in accordance with Condition 5.2(a)(ii) above (*Interest on Floating Rate Notes*), the Floating Rate Convention, such Interest Payment Date (A) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (II) below shall apply *mutatis mutandis* or (B) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (I) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (II) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (ii) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (iii) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (iv) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In the Conditions, “**Business Day**” means a day which is both:

- (v) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and each Additional Business Centre specified in the relevant Pricing Supplement; and
- (vi) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the “**TARGET2 System**”) is open.

(b) **Rate of Interest**

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the relevant Pricing Supplement.

- (i) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the relevant Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the relevant Pricing Supplement) the Margin (if any). For the purposes of this subparagraph (i), “**ISDA Rate**” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the “**ISDA Definitions**”) and under which:

- (A) the Floating Rate Option is as specified in the relevant Pricing Supplement;
- (B) the Designated Maturity is a period specified in the relevant Pricing Supplement; and
- (C) the relevant Reset Date is the day specified in the relevant Pricing Supplement.

For the purposes of this subparagraph (i), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**” and “**Reset Date**” have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the relevant Pricing Supplement the Minimum Rate of Interest shall be deemed to be zero.

(ii) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (A) the offered quotation; or
- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (as specified in the relevant Pricing Supplement) which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) as at the Relevant Time on the Interest Determination Date in question plus or minus (as indicated in the relevant Pricing Supplement) the Margin (if any), all as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

As used in these Conditions:

“**Reference Rate**” means one of the following benchmark rates (as specified in the relevant Pricing Supplement) in respect of the currency and period specified in the relevant Pricing Supplement:

- (iii) Euro-Zone interbank offered rate (EURIBOR);
- (iv) London interbank bid rate (LIBID);
- (v) London interbank offered rate (LIBOR);
- (vi) London interbank mean rate (LIMEAN);
- (vii) Shanghai interbank offered rate (SHIBOR);
- (viii) Hong Kong interbank offered rate (HIBOR);
- (ix) Singapore interbank offered rate (SIBOR);
- (x) Kuala Lumpur interbank offered rate (KLIBOR);
- (xi) Emirates interbank offered rate (EIBOR);
- (xii) Saudi Arabia interbank offered rate (SAIBOR);
- (xiii) Australia Bank Bill Swap (BBSW);
- (xiv) Australian dollar LIBOR (AUD LIBOR);
- (xv) Japanese Yen LIBOR (JPY LIBOR);
- (xvi) Prague interbank offered rate (PRIBOR);
- (xvii) CNH Hong Kong interbank offered rate (CNH HIBOR);
- (xviii) Turkish Lira interbank offered rate (TRLIBOR or TRYLIBOR); and
- (xix) Tokyo interbank offered rate (TIBOR);

“**Relevant Financial Centre**” shall mean (i) London, in the case of a determination of LIBOR; (ii) Brussels, in the case of a determination of EURIBOR; (iii) Tokyo, in the case of a determination of TIBOR; or (iv) Hong Kong, in the case of a determination of HIBOR, as specified in the relevant Pricing Supplement, or such other financial centre as specified in the relevant Pricing Supplement; and

“**Relevant Time**” shall mean (i) in the case of LIBOR, 11.00 a.m.; (ii) in the case of EURIBOR, 11.00 a.m.; (iii) in the case of TIBOR, 11.00 a.m.; or (iv) in the case of

HIBOR, 11.00 a.m., in each case in the Relevant Financial Centre, or such other time as specified in the relevant Pricing Supplement.

(c) **Minimum Rate of Interest and/or Maximum Rate of Interest**

If the relevant Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the relevant Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) **Determination of Rate of Interest and calculation of Interest Amounts**

The Calculation Agent will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Calculation Agent will calculate the amount of interest (the “**Interest Amount**”) payable on the Floating Rate Notes for the relevant Interest Period by applying the Rate of Interest to:

- (i) in the case of Floating Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note; or
- (ii) in the case of Floating Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest in accordance with this Condition 5.2 (*Interest on Floating Rate Notes*):

- (i) if “Actual/Actual (ISDA)” or “Actual/Actual” is specified in the relevant Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

- (ii) if “Actual/365 (Fixed)” is specified in the relevant Pricing Supplement, the actual number of days in the Interest Period divided by 365;
- (iii) if “Actual/365 (Sterling)” is specified in the relevant Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “Actual/360” is specified in the relevant Pricing Supplement, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified in the relevant Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

- (vi) if “30E/360” or “Eurobond Basis” is specified in the relevant Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D₂ will be 30;

- (vii) if “30E/360 (ISDA)” is specified in the relevant Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30.

(e) **Linear Interpolation**

Where Linear Interpolation is specified as applicable in respect of an Interest Period in the relevant Pricing Supplement, the Rate of Interest for such Interest Period shall be calculated by the Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the relevant Pricing Supplement) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the relevant Pricing Supplement), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the

Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period provided however that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

“**Designated Maturity**” means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

(f) **Notification of Rate of Interest and Interest Amounts**

The Calculation Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee and any stock exchange on which the relevant Floating Rate Notes are for the time being listed (by no later than the first day of each Interest Period) and notice thereof to be published in accordance with Condition 13 (*Notices*) as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will promptly be notified to each stock exchange on which the relevant Floating Rate Notes are for the time being listed and to the Noteholders in accordance with Condition 13 (*Notices*). For the purposes of this paragraph, the expression “**London Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(g) **Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5.2 (*Interest on Floating Rate Notes*), whether by the Principal Paying Agent shall (in the absence of wilful default, bad faith or manifest error or proven error) be binding on the Issuer, the Principal Paying Agent, the Calculation Agent (if applicable), the other Agents and all Noteholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the Noteholders shall attach to the Principal Paying Agent or, if applicable, the Calculation Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

5.3 **Accrual of interest**

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) as provided in the Trust Deed.

6. PAYMENTS

6.1 Method of payment

Subject as provided below:

- (a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Tenge, Australian dollars or New Zealand dollars, shall be Astana, Sydney and Auckland, respectively); and
- (b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*), and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof) or (without prejudice to the provision of Condition 8 (*Taxation*) any law implementing an intergovernmental approach thereto.

6.2 Payments in respect of Notes

Payments of principal in respect of each Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Note appearing in the register of holders of the Notes maintained by the Registrar (the “**Register**”) at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (a) a holder does not have a Designated Account or (b) the principal amount of the Notes held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, “**Designated Account**” means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and “**Designated Bank**” means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Tenge, Australian dollars or New Zealand dollars, shall be Astana, Sydney or Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest in respect of each Note (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Note appearing in the Register (i) where in global form at, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of

business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the “**Record Date**”) at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Note on redemption will be made in the same manner as payment of the principal amount of such Note.

Holders of Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Notes.

None of the Issuer, the Trustee nor the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

6.3 General provisions applicable to payments

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

6.4 Payment Day

If the date for payment of any amount in respect of any Note is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, “**Payment Day**” means any day which (subject to Condition 9 (*Prescription*)) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (i) in the case of Notes in definitive form only, the relevant place of presentation;
 - (ii) each Additional Financial Centre specified in the relevant Pricing Supplement; and
- (b) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and

are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Tenge, Australian dollars or New Zealand dollars shall be Astana, Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

6.5 Interpretation of principal and interest

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 8 (*Taxation*);
- (b) the Final Redemption Amount of the Notes;
- (c) the Early Redemption Amount of the Notes;
- (d) the Optional Redemption Amount(s) (if any) of the Notes;
- (e) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7.5 (*Early Redemption Amounts*)); and
- (f) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8 (*Taxation*) or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

7. REDEMPTION AND PURCHASE

7.1 Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its Final Redemption Amount specified in the relevant Pricing Supplement in the relevant Specified Currency on the Maturity Date specified in the relevant Pricing Supplement.

7.2 Redemption for tax reasons

Subject to Condition 7.5 (*Early Redemption Amounts*), the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate Note), on giving not less than the minimum period and not more than the maximum period of notice specified in the relevant Pricing Supplement to the Trustee and the Principal Paying Agent and, in accordance with Condition 13 (*Notices*), the Noteholders (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately before the giving of such notice that:

- (a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 8 (*Taxation*)) or any change in the application or official interpretation of such laws or regulations, which change or

amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and

- (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee to make available at its specified office to the Noteholders (i) a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders.

Notes redeemed pursuant to this Condition 7.2 (*Redemption for tax reasons*) will be redeemed at their Early Redemption Amount referred to in Condition 7.5 below (*Early Redemption Amounts*) together (if appropriate) with interest accrued to (but excluding) the date of redemption.

7.3 Redemption at the option of the Issuer (Issuer Call)

If Issuer Call is specified as being applicable in the relevant Pricing Supplement, the Issuer may, having given:

- (a) not less than the minimum period nor more than the maximum period of notice specified in the relevant Pricing Supplement to the Noteholders in accordance with Condition 13 (*Notices*); and
- (b) not less than the minimum period nor more than the maximum period of the notice referred to in (a) above, notice to the Trustee and the Principal Paying Agent and, in the case of a redemption of Notes, the Registrar;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the relevant Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the relevant Pricing Supplement. In the case of a partial redemption of Notes, the Notes to be redeemed (“**Redeemed Notes**”) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the “**Selection Date**”). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 13 (*Notices*) not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection

Date to (and including) the date fixed for redemption pursuant to this Condition 7.3 (*Redemption at the option of the Issuer (Issuer Call)*) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 13 (*Notices*) at least five days prior to the Selection Date.

7.4 Redemption at the option of the Noteholders (Investor Put)

If Investor Put is specified as being applicable in the relevant Pricing Supplement, upon the holder of any Note giving to the Issuer in accordance with Condition 13 (*Notices*) not less than the minimum period nor more than the maximum period of notice specified in the relevant Pricing Supplement the Issuer will, upon the expiry of such notice, redeem, such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Notes may be redeemed under this Condition 7.4 (*Redemption at the option of the Noteholders (Investor Put)*) in any multiple of their lowest Specified Denomination.

To exercise the right to require redemption of this Note the holder of this Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of the Registrar (in the case of Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a “**Put Notice**”) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition and, in the case of Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Notes so surrendered is to be redeemed, an address to which a new Note in respect of the balance of such Notes is to be sent subject to and in accordance with Condition 2.2 (*Transfers of Registered Notes in definitive form*), in each case accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control. If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depository for them to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Principal Paying Agent for notation accordingly.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg given by a holder of any Note pursuant to this Condition 7.4 (*Redemption at the option of the Noteholders (Investor Put)*) shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and the Trustee has declared the Notes to be due and payable pursuant to Condition 10.1 (*Events of Default*), in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 7.4 (*Redemption at the option of the Noteholders (Investor Put)*).

7.5 Early Redemption Amounts

For the purpose of Condition 7.2 above (*Redemption for tax reasons*), Condition 7.3 (*Redemption at the option of the Issuer (Issuer Call)*) above and Condition 10 (), each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (a) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (b) in the case of a Note (other than a Zero Coupon Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in the relevant Pricing Supplement or, if no such amount or manner is so specified in the relevant Pricing Supplement, at its nominal amount; or
- (c) in the case of a Zero Coupon Note, at an amount (the “**Amortised Face Amount**”) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

“**RP**” means the Reference Price;

“**AY**” means the Accrual Yield expressed as a decimal; and

“**y**” is the Day Count Fraction specified in the relevant Pricing Supplement which will be either (i) 30/360 (in which case the numerator will be equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 365).

For the avoidance of doubt, neither the Trustee nor any Agent shall be responsible for the calculation of the Early Redemption Amount.

7.6 Purchases

The Issuer or any Subsidiary of the Issuer may at any time purchase Notes at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent or the Registrar for cancellation.

7.7 Cancellation

All Notes which are redeemed will forthwith be cancelled. All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 7.6 above (*Purchases*) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

7.8 Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 7.1 (*Redemption at maturity*), 7.2 (*Redemption for tax reasons*), 7.3 (*Redemption at the option of the Issuer (Issuer Call)*), 7.3 (*Redemption at the option of the Issuer (Issuer Call)*) or 7.4 above (*Redemption at the option of the Noteholders (Investor Put)*) or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 7.5(c) above (*Early Redemption Amounts*) as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Principal Paying Agent or the Registrar or the Trustee and notice to that effect has been given to the Noteholders in accordance with Condition 13(*Notices*).

8. TAXATION

All payments of principal and interest in respect of the Notes by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note:

- (a) presented for payment in a Tax Jurisdiction; or
- (b) a holder of which is liable for such taxes or duties in respect of such Note by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 6.4 (*Payment Day*)); or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

- (e) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union.

As used herein:

- (i) “**Tax Jurisdiction**” means the Republic of Kazakhstan or any political subdivision or any authority thereof or therein having power to tax; and
- (ii) the “**Relevant Date**” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Trustee or the Principal Paying Agent or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 13 (*Notices*).

9. PRESCRIPTION

The Notes will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8 (*Taxation*)) therefor.

10. EVENTS OF DEFAULT

10.1 Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction), give notice in writing to the Issuer that each Note is, and each Note shall thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest as provided in the Trust Deed if any of the following events (each an “**Event of Default**”) shall occur:

- (a) default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of at least seven days in the case of principal or at least 14 days in the case of interest; or
- (b) the Issuer fails to perform or observe any of its other obligations under the Conditions or the Trust Deed and (except in any case where, in the opinion of the Trustee, the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by the Trustee on the Issuer of written notice requiring the same to be remedied; or
- (c) (i) any Indebtedness of the Issuer or any of its Material Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period, (ii) any such Indebtedness becomes due and payable prior to its stated maturity by reason of default (however described) or (iii) the Issuer or any of its Material Subsidiaries fails to pay when due or (as the case may be) within any originally applicable grace period any amount payable by it under any Guarantee of any Indebtedness, provided that each such event shall not constitute an Event of Default unless the aggregate amount of all such Indebtedness, either alone or when aggregated with all other Indebtedness

in respect of which such an event shall have occurred and be continuing, shall be more than U.S.\$ 50,000,000 (or its equivalent in any other currency or currencies); or

- (d) one or more judgments or orders for the payment of any sum in excess of U.S.\$50,000,000 is rendered against the Issuer or any of its Subsidiaries and continues unsatisfied, unstayed and unappealed (or, if appealed, the appeal is unsuccessful and thereafter the judgment continues unsatisfied and unstayed for a period of 30 days) for a period of 30 days after the date thereof; or
- (e) any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer or any of its Material Subsidiaries, save in connection with a Permitted Reorganisation; or
- (f) the Issuer or any of its Material Subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business, save in connection with a Permitted Reorganisation, or the Issuer or any of its Material Subsidiaries stops or threatens to stop payment of, or is unable to, or admits its inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (g) (i) any court or other formal proceedings are initiated against the Issuer or any of its Material Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official (and such proceedings are not being actively contested in good faith by the Issuer or the relevant Material Subsidiary, as the case may be), or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any of its Material Subsidiaries or, as the case may be, in relation to the whole or a substantial part of the undertaking or assets of any of them, or an encumbrancer takes possession of the whole or a substantial part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a substantial part of the undertaking or assets of any of them and (ii) in any case (other than the appointment of an administrator) is not discharged within 30 days; or
- (h) the Issuer or any of its Material Subsidiaries initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors) save in connection with a Permitted Reorganisation; or
- (i) any event occurs which under the laws of the Republic of Kazakhstan or any other jurisdiction, has or may have, in the Trustee's opinion an analogous effect to any of the events referred to in paragraphs (a) to (a) below; or
- (j) at any time it is or becomes unlawful for the Issuer to perform or comply with any or all of its obligations under or in respect of the Notes or any of the material obligations of the Issuer thereunder are not or cease to be legal, valid, binding or enforceable; or

- (k) by or under the authority of any government (i) the management of the Issuer or any of its Material Subsidiaries is wholly or substantially displaced or the authority of the Issuer or any Material Subsidiary in the conduct of its business is wholly or substantially curtailed or (ii) all or a majority of the issued share capital of the Issuer or any Material Subsidiary or the whole or a substantial part of its revenues or assets are seized, nationalised, expropriated or compulsorily acquired.

10.2 Definitions

As used in these Conditions:

“Guarantee of any Indebtedness” means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

- (a) any obligation to purchase such Indebtedness;
- (b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;
- (c) any indemnity against the consequences of a default in the payment of such Indebtedness; and
- (d) any other agreement to be responsible for such Indebtedness;

“Indebtedness” means any Indebtedness of any Person for or in respect of:

- (a) moneys borrowed;
- (b) amounts raised by acceptance under any acceptance credit facility;
- (c) amounts raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or similar instruments;
- (d) the amount of any liability in respect of leases or hire purchase contracts, which would, in accordance with generally accepted accounting standards in the jurisdiction of incorporation of the lessee, be treated as finance or capital leases;
- (e) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred primarily as a means of raising finance or financing the acquisition of the relevant asset or service; and
- (f) amounts raised under any other transaction (including any forward sale or purchase agreement and the sale of receivables on a “with recourse” basis) having the commercial effect of a borrowing (but excluding trade accounts payable and other accrued liabilities arising in the ordinary course of its business);

“Material Subsidiary” means at any relevant time a Subsidiary of Issuer (regardless of whether Issuer owns such Subsidiary directly or indirectly):

- (a) whose total assets or gross revenues (or, where the Subsidiary in question prepares consolidated financial statements, whose consolidated total assets or consolidated gross revenues, as the case may be) represents not less than 10 per cent., of the consolidated total assets or the consolidated gross revenues of the Issuer and its

respective Subsidiaries, all as calculated by reference to the then latest audited financial statements (or consolidated accounts, as the case may be) of such Subsidiary and the then latest audited consolidated financial statements of the Issuer; or

- (b) to which is transferred all or substantially all of the assets and undertakings of a Subsidiary which immediately prior to such transfer is a Material Subsidiary; and

“**Permitted Reorganisation**” means:

- (a) any disposal by any Subsidiary of the Issuer of the whole or a substantial part of its business, undertaking or assets to the Issuer or any wholly owned Subsidiary of the Issuer;
- (a) any amalgamation, consolidation or merger of a Subsidiary with any other Subsidiary or any other wholly owned Subsidiary of the Issuer;
- (b) any amalgamation, consolidation, restructuring, merger or reorganisation on terms previously approved by the Trustee or by an Extraordinary Resolution; or
- (c) any disposal of business, undertakings or assets or any amalgamation, consolidation, merger, restructuring or reorganisation required to give effect to (i) a consolidation (*‘prisoedinenie’*) of KTG Almaty (or its successor) with the Issuer or (ii) any other transaction pursuant to which KTG Almaty (or its successor) and the Issuer are consolidated for the purposes of preparing financial statements.

11. REPLACEMENT OF NOTES

Should any Note be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

12. AGENTS

The names of the initial Agents and their initial specified offices are set out below. If any additional Agents are appointed in connection with any Series, the names of such Agents will be specified in Part B of the relevant Pricing Supplement.

The Issuer is entitled, with the prior written approval of the Trustee, to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

- (a) there will at all times be a Principal Paying Agent and a Registrar;
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent and a Transfer Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and
- (c) there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6.3 (*General provisions applicable to payments*). Notice of any variation, termination, appointment or change in Paying Agents will be given to the Noteholders promptly by the Issuer in accordance with Condition 13 (*Notices*).

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Noteholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

13. NOTICES

All notices regarding the Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Notes are listed on a stock exchange or admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a manner which complies with those rules. Any such notice shall be deemed to have been given to the holders of the Notes on such day as is specified in the relevant Pricing Supplement after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Registrar.

Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Registrar through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent or the Registrar, as the case may be, and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

14. MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVER

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Issuer if required in writing by Noteholders holding not less than 20 per cent. in nominal amount of the Notes of any Series for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes of the relevant Series for the time being

outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes of the relevant Series so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes or the Trust Deed (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes, or altering the currency of payment of the Notes), the quorum shall be one or more persons holding or representing not less than three-quarters in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-quarter in nominal amount of the Notes of the relevant Series for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting.

The Trustee may agree, without the consent of the Noteholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default or potential Event of Default shall not be treated as such, where, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders so to do or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct a manifest error or an error which, in the opinion of the Trustee, is proven. Any such modification shall be binding on the Noteholders, and any such modification shall be notified to the Noteholders in accordance with Condition 13 (*Notices*) as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of the Noteholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Noteholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders except to the extent already provided for in Condition 8 (*Taxation*) and/or any undertaking or covenant given in addition to, or in substitution for, Condition 8 (*Taxation*) pursuant to the Trust Deed.

15. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Noteholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue and so that the same shall be consolidated and form a single Series with the outstanding Notes.

16. INDEMNIFICATION OF THE TRUSTEE AND TRUSTEE CONTRACTING WITH THE ISSUER

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or any of its Subsidiaries and to act as Trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of its Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such Trusteeship without regard to the interests of, or consequences for, the Noteholders and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

18. GOVERNING LAW AND SUBMISSION TO JURISDICTION

18.1 Governing law

The Trust Deed, the Agency Agreement, the Notes and these Conditions (including the remaining provisions of this Condition 18 (*Governing Law and Submission to Jurisdiction*)) and any non-contractual obligations arising out of or in connection thereto are governed by, and shall be construed in accordance with, English law.

18.2 Arbitration

Subject to Condition 18.3 (*Trustee's Option*) and Condition 18.4 (*Jurisdiction*), the Issuer agrees that any claim, dispute or difference of whatever nature arising under, out of or in connection with the Trust Deed or the Notes (including a claim, dispute or difference regarding its existence, termination or validity or any non-contractual obligations arising out of or in connection with the Trust Deed or the Notes) (a "**Dispute**"), shall be referred to and finally settled by arbitration in accordance with the LCIA rules (the "**Rules**") as at present in force and as modified by this Condition, which Rules shall be deemed incorporated into this Condition. The number of arbitrators shall be three, one of whom shall be nominated by the Issuer, one by the Trustee and the third of whom, who shall act as Chairman, shall be nominated by the two party-nominated arbitrators, provided that if the third arbitrator has not been nominated within 30 days of the nomination of the second party-nominated arbitrator, such third arbitrator shall be appointed by the LCIA Court. The parties hereby agree that any restriction in the Rules upon the nomination or appointment of an arbitrator by reason of nationality shall not apply to any arbitration commenced pursuant to this Condition 18.2 (*Arbitration*). The seat of arbitration shall be London, England and the language of arbitration shall be English.

18.3 Trustee's Option

At any time before the Trustee has nominated an arbitrator to resolve any Dispute(s) pursuant to Condition 18.2 (*Arbitration*), the Trustee, at its sole option, may elect by notice in writing (an "**Election Notice**") to the Issuer that such Dispute(s) shall instead be resolved in the manner set out in Condition 18.4 (*Jurisdiction*). Following any such election, no arbitral tribunal shall have jurisdiction in respect of such Dispute(s).

18.4 Jurisdiction

In the event that the Trustee serves an Election Notice in respect of any Dispute(s) pursuant to Condition 18.3 (*Trustee's Option*), the Issuer agrees for the benefit of the

Trustee and the Noteholders that the courts of England shall have exclusive jurisdiction to hear and determine any such Dispute(s) and, that the Issuer may not commence any proceedings (“**Proceedings**”) for the determination of any Dispute(s) in any other jurisdiction. Subject to Condition 18.2 (*Arbitration*), nothing in this Condition shall (or shall be construed so as to) limit the right of the Trustee to bring Proceedings for the determination of any Dispute(s) in the courts of England or in any other court of competent jurisdiction, nor shall the bringing of such Proceedings in any one or more jurisdictions preclude the bringing of Proceedings by the Trustee in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

18.5 Appropriate Forum

For the purposes of Condition 18.4 (*Jurisdiction*), the Issuer irrevocably submits to the jurisdiction of the courts of England and waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and agrees not to claim that any such court is not a convenient or appropriate forum.

18.6 Service of Process

The Issuer agrees that the process by which any Proceedings are commenced in England pursuant to Condition 18.4 (*Jurisdiction*) or by which any proceedings are commenced in the English courts in support of, or in connection with, an arbitration commenced pursuant to Condition 18.2 (*Arbitration*) may be served on it by being delivered to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom or, if different, its registered office for the time being or at any address of the Issuer in the United Kingdom at which process may be served on it in accordance with Part 34 of the Companies Act 2006 or any successor provision thereto. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of the Trustee, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 5 days, the Trustee shall be entitled to appoint such a person by written notice to the Issuer. Nothing in this paragraph shall affect the right of the Trustee and the Noteholders to serve process in any other manner permitted by law.

18.7 Waiver of Immunity

To the extent that the Issuer may in respect of any Proceedings or arbitration contemplated in Condition 18.2 (*Arbitration*) be entitled to claim for itself or its assets immunity from jurisdiction, suit, execution, attachment (whether in aid of execution of a judgment, before judgment or award or otherwise) or other legal process, including in relation to the enforcement of any arbitration award, and to the extent that in any such jurisdiction there may be attributed to itself or its assets such immunity (whether or not claimed), the Issuer irrevocably consents to the enforcement of any judgment or award, agrees not to claim and irrevocably waives such immunity to the fullest extent permitted by the laws of the jurisdiction.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes.

SELECTED FINANCIAL INFORMATION

The Issuer has extracted the selected financial data presented below as at and for the years ended 31 December 2014 and 2013 from its Financial Statements, and it should be read in conjunction with, and is qualified in its entirety by, the Financial Statements, including the notes thereto, contained elsewhere in this Prospectus. Prospective investors should read the summary financial information in conjunction with the information contained in “Risk Factors”, “Operating and Financial Review” and “Business”, as well as the Financial Statements including the notes thereto, and all other financial data appearing elsewhere in this Prospectus.

Statement of Financial Position

	As at 31 December	
	2014	2013
	(KZT thousands)	
ASSETS		
Non-current assets		
Property, plant and equipment	126,381,299	95,543,254
Intangible assets	248,786	270,943
Long-term bank deposits	425,647	200,000
Restricted cash	788,802	187,744
Advances paid for non-current assets	7,563,750	-
Deferred expenses	906,384	1,437,941
Total non-current assets	136,314,668	97,639,882
Current assets		
Inventories	1,587,980	4,477,344
Trade receivables	22,175,999	15,412,501
Advances paid	642,071	3,131,439
Taxes receivable	1,035,647	2,404,224
Corporate income tax prepaid	590,147	609,279
Short-term bank deposits	11,374,231	3,022,444
Other current assets	658,251	501,455
Cash and cash equivalents	1,535,944	1,943,773
	39,600,270	31,502,459
TOTAL ASSETS	175,914,938	129,142,341
EQUITY AND LIABILITIES		
Equity		
Share capital	66,489,226	62,478,299
Retained earnings	29,236,663	11,314,392
Total equity	95,725,889	73,792,691
Non-current liabilities		
Interest bearing loans	17,578,146	4,000,136
Debt securities issued	8,484,687	-
Abandonment and site restoration provision	470,463	-
Deferred income tax liabilities	505,701	1,869,651
Deferred income	3,884,527	3,888,782
	30,923,524	9,758,569
Current liabilities		
Interest bearing loans	11,129,862	16,555,389
Trade payables	32,451,956	23,719,020
Advances received	2,959,897	2,523,078
Taxes payable	415,839	62,904
Interest payable on debt securities	323,595	-
Deferred income	258,490	251,682
Liability on gas borrowings	-	1,394,651
Other current liabilities	1,725,886	1,084,357
	49,265,525	45,591,081
Total liabilities	80,189,049	55,349,650
Total liabilities and equity	175,914,938	129,142,341

Statement of Comprehensive Income

For the year ended 31 December

	2014	2013
	<i>(KZT thousands)</i>	
Revenue	140,042,401	108,334,936
Cost of sales	(131,269,134)	(101,759,467)
Gross profit	8,773,267	6,575,469
General and administrative expenses.....	(7,886,746)	(5,100,331)
Other operating income	5,428,920	4,315,016
Other operating expenses	(2,883,509)	(2,551,715)
Operating profit	3,431,932	3,238,439
Foreign exchange (loss)/gain, net	(806,616)	44,113
Finance income	874,148	521,049
Finance costs	(1,972,702)	(1,001,757)
Profit before income tax	1,526,762	2,801,844
Income tax benefit/(expenses)	197,204	(707,571)
Net profit for the year	1,723,966	2,094,273
Total comprehensive income for the year	1,723,966	2,094,273

OPERATING AND FINANCIAL REVIEW

The following operating and financial review of the Issuer's results of operations and financial performance should be read in conjunction with the Financial Statements together with the related notes thereto, included elsewhere in this Prospectus. The Financial Statements have been prepared in accordance with IFRS.

This operating and financial review contains forward-looking statements, which involve risks and uncertainties. See "Forward-Looking Statements". The Issuer's actual results could differ materially from those anticipated in the forward looking statements contained herein for several reasons, including those set forth under "Risk Factors" and elsewhere in this Prospectus.

The Current Economic Environment

Kazakhstan's economy has been and is likely to continue to be subject to worldwide market downturns and economic slowdowns and recent political turmoil in certain emerging markets (for example, Ukraine and Russia). The global financial crisis and resulting changes in the regulatory environment have resulted in, among other things, lower liquidity levels across the banking sector, tighter credit conditions for Kazakhstan companies generally and fluctuating global demand for and instability in the price of crude oil and other commodities and downward pressure on the Tenge. According to statistics published by the NSA, the GDP has continued to grow in real terms increasing by 7.0 % in 2010, 7.5% in 2011, 5.0% in 2012, 6.0% in 2013, and 4.3% in 2014. Real GDP growth year-on-year in the three months ended 31 March 2015 was 2.2%, as compared to 3.8% in the three months ended 31 March 2014, according to preliminary data. Nonetheless, global economic circumstances and related developments in Kazakhstan have had an adverse effect on the Issuer's financial position and results of operations, and may continue to do so in the future. Moreover, despite positive signs in the overall economy, uncertainties remain.

These uncertainties in the global financial markets have also contributed to bank failures globally, including in Kazakhstan, and put downward pressure on emerging markets currencies, including the Tenge. Most notably, on 11 February 2014, the NBK devalued the Tenge by 18.3% against the U.S. Dollar. The NBK stated that such devaluation was made in light of the depreciation of the Russian Rouble over the course of 2013 and 2014, as well as the overall situation in the global financial and commodity markets. While the Government is continuing to pursue economic reforms and development of its legal, tax and regulatory frameworks and while the Government has introduced and continues to implement a range of stabilisation measures aimed at providing liquidity and supporting refinancing of foreign debt for Kazakhstan banks and companies, there continues to be uncertainty regarding the Issuer's access to capital and cost of capital. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government, as well as developments in other economies in the region, particularly, the Russian economy and related effects on the value of the Russian Rouble. Global economic circumstances and related developments in Kazakhstan and the region, including continued economic recovery and, in particular, the volatility of oil prices since 1 January 2011 and change in foreign exchange rates, have had a material effect on the Issuer's financial position and results of operations and may continue to do so in the future.

The future stability of the Kazakhstan economy is largely dependent upon certain economic reforms and legal, tax and regulatory developments, which the government of Kazakhstan continues to pursue, as well as a range of stabilization measures aimed at providing liquidity and supporting the refinancing of foreign debt for Kazakhstan banks and companies. See "*Risk Factors—Risks Factors relating to Kazakhstan*".

In addition, through its ultimate control of the Issuer, the Government is in a position to influence the Issuer's activities, including the imposition of certain social and other obligations on the Issuer, which may have an adverse effect on the Issuer's financial position and results of operations.

Overview

The Issuer is engaged in the purchase and sale of natural gas to end consumers, the maintenance and development of natural gas distribution networks and other gas distribution related services in the Republic of Kazakhstan. The Issuer provides gas transportation services using its own gas distribution networks and the networks owned by third parties, including the State. The tariffs and price limits for gas sale and transportation are subject to regulation by the law of the Republic of Kazakhstan on natural monopolies and controlled by the CREM.

The Issuer's sole shareholder is KTG which is domiciled in the Republic of Kazakhstan and is a 100% subsidiary of KMG. KMG is controlled by the Government through Samruk-Kazyna

According to the Government's purpose of creating a unified gas distribution operator in 2013, the Issuer was consolidated with JSC Arkagas, a subsidiary of KTG. JSC Arkagas' business was the sale of natural gas to end customers. In 2014, the Issuer was consolidated with JSC Aktaugasservice, another subsidiary of KTG.

The Issuer's management believes, based on NSA statistics and the Issuer's internal information, that, as at 30 June 2015, the Issuer was the largest distributor of natural gas in Kazakhstan, having the largest distribution network in Kazakhstan. According to NSA statistics and the Issuer's internal information, the Issuer also operates the largest gas pipeline networks in Kazakhstan in terms of length and throughput capacity.

The results of the Issuer's operations and their period to period comparability are affected by various external factors. Because the Issuer's principal business activities are located within Kazakhstan, such factors include the political climate and the economy in Kazakhstan, as well as global and regional economic conditions and political and military stability; the underdevelopment and evolution of the legislative, tax and regulatory frameworks, including the securities market in Kazakhstan, and the effectiveness of economic, financial and monetary measures undertaken by the Government; and financial risk factors, including credit rate risk and liquidity risk deriving from (among other things) the recent and continuing turmoil in the Kazakhstan banking sector. See "*Risk Factors—Risk Factors Relating to the Republic of Kazakhstan*".

The Issuer generates revenue primarily from sales of natural gas to end consumers, the maintenance and development of natural gas distribution networks and other gas distribution related services in the Republic of Kazakhstan. The Issuer's revenue is reported under the Issuer's two operating segments: gas sales and gas transportation. For each of the years ended 31 December 2014 and 2013, the Issuer's largest operating segment in terms of revenue was gas sales.

The Issuer's total revenue increased by 29.3% to KZT 140.0 billion for the year ended 31 December 2014 from KZT 108.3 billion for the year ended 31 December 2013. The Issuer's net profit decreased by 19.0% to KZT 1.7 billion for the year ended 31 December 2014 from KZT 2.1 billion for the year ended 31 December 2013. As at 31 December 2014, the Issuer had total assets of KZT 175.9 billion compared to total assets of KZT 129.1 billion as at 31 December 2013.

Recent Developments

On 5 January 2015, the Issuer made an interest payment on debt securities issued in the amount of KZT 323.6 thousand (Note 15 of the 2014 Financial Statements).

On 26 January 2015, the Issuer made a repayment of principal on the loan from DBK in the amount of

KZT 76.8 million (Note 14 of the 2014 Financial Statements).

On 26 January 2015, the Issuer made a repayment of interest on the loan from DBK in the amount of KZT 113.4 million (Note 14 of the 2014 Financial Statements).

On 10 February 2015, the Issuer withdrew bank deposits held with RBK Bank JSC in the amount of KZT 2.8 billion in order to pay to suppliers (Note 11 of the 2014 Financial Statements).

On 1 July 2015, the Issuer made an interest payment on debt securities issued in the amount of KZT 323.6 thousand.

On 24 July 2015, the Issuer made a repayment of principal on the loan from DBK in the amount of KZT 76.8 million.

On 24 July 2015, the Issuer made a repayment of interest on the loan from DBK in the amount of KZT 113.4 million.

Critical Accounting Policies and Estimates

The Financial Statements have been prepared in conformity with IFRS. The preparation of financial statements in conformity with IFRS requires the Issuer's management to select appropriate accounting policies and to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities. For a full description of the Issuer's significant accounting policies, see Note 3 of the 2014 and 2013 Financial Statements. Management's selection of appropriate accounting policies and the making of such estimates and assumptions involve judgments and uncertainties to such an extent that there is a reasonable likelihood that materially different amounts would have been reported under different conditions, or if different assumptions had been used, and actual amounts may differ from these estimates. Set forth below are summaries of the most critical accounting estimates and judgments required of the Issuer's management.

Useful lives of property, plant and equipment

The Issuer assesses the remaining useful lives of items of property, plant and equipment at the end of each financial year-end at the least. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. These estimates may have a significant effect on the carrying amount of property, plant and equipment and depreciation expenses reflected in the statement of comprehensive income.

Allowance for doubtful debts

Management maintains an allowance for doubtful debts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful debts, management bases its estimates on the aging of accounts receivable balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As at 31 December 2014, allowances for doubtful debts have been created in the amount of KZT 587.4 million (as at 31 December 2013: KZT 117.2 million) (Note 7 of the 2014 and 2013 Financial Statements).

Taxation

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in the tax legislation and the amount and timing of future taxable income. The Issuer establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation might arise on a wide range of issues. Deferred tax assets are recognized for unused tax losses to the extent to which it is probable that a taxable profit against which tax losses may be offset will be generated. A significant judgment of management is required to calculate the amount of deferred tax assets, which may be recognized in the financial statements based on possible dates of generation and amount of future taxable profit as well as strategy of tax planning. Additional information on tax risks is presented in Note 30 of the 2014 and 2013 Financial Statements.

Deferred income tax assets

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable temporary differences and the business nature of such expenses will be proved, as well as on the successful implementation of tax planning strategies. The Issuer's recognised deferred income tax assets were equal to KZT 1.5 billion at 31 December 2014 (as at 31 December 2013: KZT 1.1 billion) (Note 28 of the 2014 and 2013 Financial Statements).

Impairment of non-financial assets

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

Results of Operations for the year ended 31 December 2014, as compared to the year ended 31 December 2013

Comprehensive Income

The table below sets forth information derived from the Issuer's statement of comprehensive income for the periods indicated:

	For the year ended 31 December	
	2014	2013
	(KZT thousands)	
Revenue	140,042,401	108,334,936
Cost of sales	(131,269,134)	(101,759,467)
Gross profit	8,773,267	6,575,469
General and administrative expenses	(7,886,746)	(5,100,331)
Other operating income	5,428,920	4,315,016
Other operating expenses	(2,883,509)	(2,551,715)
Operating profit	3,431,932	3,238,439
Foreign exchange (loss)/gain, net	(806,616)	44,113
Finance income	874,148	521,049
Finance costs	(1,972,702)	(1,001,757)
Profit before income tax	1,526,762	2,801,844
Income tax benefit/(expenses)	197,204	(707,571)
Net profit for the year	1,723,966	2,094,273
Total comprehensive income for the year	1,723,966	2,094,273

Cash Flows

The tables below set forth certain information derived from the Issuer's statement of cash flows for the periods indicated:

	For the year ended 31 December	
	2014	2013
	(KZT thousands)	
Net cash flows from operating activities	10,909,436	6,226,801
Net cash flows used in investing activities	28,486,053	21,703,523
Net cash flows from financing activities	17,168,788	14,904,120

Revenue

The table below sets forth a breakdown of the Issuer's revenue, by source, for the periods indicated:

	For the year ended 31 December	
	2014	2013
	(KZT thousands)	
Revenue from sales of gas	125,391,270	97,762,386
Revenue from gas transportation	14,651,131	10,572,550
Total	140,042,401	108,334,936

For the year ended 31 December 2014, the Issuer's total revenue was KZT 140.0 billion, as compared to KZT 108.3 billion for the year ended 31 December 2013, reflecting an increase of KZT 31.7 billion, or 29.3%. This increase was primarily due to increase in the revenue from gas sales.

Cost of Sales

The table below sets forth certain information regarding the Issuer's cost of sales for the periods indicated:

	For the year ended 31 December	
	2014	2013
	<i>(KZT thousands)</i>	
Cost of gas sold.....	106,119,581	82,864,488
Payroll and related taxes	7,370,134	5,424,392
Transportation and delivery	6,063,845	5,288,590
Depreciation and amortization.....	4,942,082	2,707,747
Billing services.....	2,191,602	1,946,368
Property tax and other taxes.....	1,458,357	1,088,568
Gas losses within normal range	1,387,126	947,931
Inventories.....	428,973	624,776
Repair and maintenance.....	612,473	189,300
Gas storage services.....	103,924	141,762
Other.....	591,037	535,545
Total.....	131,269,134	101,759,467

For the year ended 31 December 2014, the Issuer's total cost of sales was KZT 131.3 billion, as compared to KZT 101.8 billion for the year ended 31 December 2013, reflecting an increase of KZT 29.5 billion, or 29.0%. This increase was primarily due to an increase in the cost of gas sold.

Gross Profit

As a result of the foregoing, the Issuer's total gross profit increased to KZT 8.8 billion for the year ended 31 December 2014, as compared to KZT 6.6 billion for the year ended 31 December 2013, reflecting an increase of KZT 2.2 billion, or 33.3%.

General and Administrative Expenses

For the year ended 31 December 2014, the Issuer's total general and administrative expenses were KZT 7.9 billion, as compared to KZT 5.1 billion for the year ended 31 December 2013, reflecting an increase of KZT 2.8 billion, or 54.9%. This increase was primarily attributable to a KZT 1.0 billion increase in payroll and related taxes costs, a KZT 1.1 billion allowance for doubtful debts and a KZT 0.5 billion increase of compensation for housing purchase.

Operating Profit

As a result of the foregoing, for the year ended 31 December 2014, the Issuer's total operating profit was KZT 3.4 billion, as compared to KZT 3.2 billion for the year ended 31 December 2013, reflecting an increase of KZT 0.2 billion, or 6.2%.

Finance Cost

For the year ended 31 December 2014, the Issuer's total finance cost was KZT 2.0 billion, as compared to KZT 1.0 billion for the year ended 31 December 2013, reflecting an increase of KZT 1.0 billion, or 100%. This increase was primarily attributable to a KZT 0.3 billion increase in banks loans interest and KZT 0.6 billion paid as interest on debt securities issued by the Issuer in 2014.

Foreign Exchange Loss

For the year ended 31 December 2014, the Issuer recorded a foreign exchange loss of KZT 0.8 billion. The foreign exchange loss recorded by the Issuer for the year ended 31 December 2014 was attributable to the adjustment of exchange rate of Tenge to US dollar and other major currencies made by the NBK on 13 February 2014.

Profit before Income Tax

As a result of the foregoing, for the year ended 31 December 2014, the Issuer's total profit before income tax was KZT 1.5 billion, as compared to KZT 2.8 billion for the year ended 31 December 2013, reflecting a decrease of KZT 1.3 billion, or 46.4%.

Income Tax Expenses

For the year ended 31 December 2014, the Issuer recorded a total income tax benefit of KZT 0.2 billion, as compared to an income tax expense of KZT 0.7 billion for the year ended 31 December 2013, reflecting a change of KZT 0.9 billion, or 129%. This decrease was primarily due to a KZT 1.4 billion deferred tax benefit.

Profit for the Period

As a result of the foregoing, the Issuer's total net profit for the year decreased by KZT 0.4 billion, or 19.0%, to KZT 1.7 billion for the year ended 31 December 2014, as compared to KZT 2.1 billion for the year ended 31 December 2013. This decrease was primarily due to the increase in the costs of sales, general and administrative expenses.

Results of Operations for the year ended 31 December 2013, as compared to the year ended 31 December 2012

Comprehensive Income

The table below sets forth the line items of the Issuer's statement of comprehensive income for the periods indicated:

	For the year ended 31 December	
	<i>(KZT thousands)</i>	
	2013	2012
Revenue.....	108,334,936	115,139,721
Cost of sales	(101,759,467)	(106,161,559)
Gross profit	6,575,469	8,978,162
General and administrative expenses.....	(5,100,331)	(4,289,069)
Other operating income.....	4,315,016	3,913,874
Other operating expenses.....	(2,551,715)	(2,349,147)
Operating Profit	3,238,439	6,253,820
Foreign exchange gain (loss), net	44,113	(27,996)
Finance income	521,049	397,478
Finance costs	(1,001,757)	(627,998)
Profit before income tax	2,801,844	5,995,304
Income tax expense	(707,571)	(1,488,725)
Net profit for the year	2,094,273	4,506,579
Total comprehensive income for the year	2,094,273	4,506,579

Cash Flows

The tables below set forth certain information derived from the Issuer's statement of cash flows for the periods indicated:

	For the year ended 31 December	
	2013	2012
	<i>(KZT thousands)</i>	
Net cash flows from/(used in) operating activities	6,226,801	(2,601,264)
Net cash flows used in investing activities	21,703,523	6,958,284
Net cash flows from financing activities	14,904,120	11,484,211

Revenue

The table below sets forth a breakdown of the Issuer's revenue, by source, for the periods indicated:

	For the year ended 31 December	
	2013	2012
	<i>(KZT thousands)</i>	
Revenue from sales of gas	97,762,386	108,401,561
Revenue from gas transportation	10,572,550	6,716,752
Income from rent of gas pipelines	-	21,408
Total	108,334,936	115,139,721

For the year ended 31 December 2013, the Issuer's total revenue was KZT 108.3 billion, as compared to KZT 115.1 billion for the year ended 31 December 2012, reflecting a decrease of KZT 6.8 billion, or 5.9%. This decrease was primarily due to the decrease in the revenue received from gas sales.

Cost of Sales

The table below sets forth certain information regarding the Issuer's cost of sales for the periods indicated:

	For the year ended 31 December	
	2013	2012
	<i>(KZT thousands)</i>	
Cost of gas sold	82,864,488	89,570,237
Payroll and related taxes	5,424,392	3,548,483
Transportation and delivery	5,288,590	6,438,813
Depreciation and amortization	2,707,747	2,133,891
Billing services	1,946,368	1,246,598
Property tax and other taxes	1,088,568	652,477
Gas losses within normal range	947,931	789,008
Inventories	624,776	401,631
Repair and maintenance	189,300	255,582
Gas storage services	141,762	644,663
Other	535,545	480,176
Total	101,759,467	106,161,559

For the year ended 31 December 2013, the Issuer's total cost of sales was KZT 101.8 billion, as compared to KZT 106.2 billion for the year ended 31 December 2012, reflecting a decrease of KZT 4.4 billion, or 4.1%. This decrease was primarily due to a decrease in the cost of gas sold.

Gross Profit

As a result of the foregoing, the Issuer's total gross profit decreased to KZT 6.6 billion for the year ended 31 December 2013, as compared to KZT 9.0 billion for the year ended 31 December 2012, reflecting a decrease of KZT 2.4 billion, or 26.7%.

General and Administrative Expenses

For the year ended 31 December 2013, the Issuer's total general and administrative expenses were KZT 5.1 billion, as compared to KZT 4.3 billion for the year ended 31 December 2012, reflecting an increase of KZT 0.8 billion, or 18.6%. This increase was primarily attributable to a KZT 0.5 billion increase in payroll and related taxes costs, a KZT 121.4 million increase in rent payments, and payment of KZT 71.6 million for compensation for housing purchase.

Operating Profit

As a result of the foregoing, for the year ended 31 December 2013, the Issuer's total operating profit was KZT 3.2 billion, as compared to KZT 6.25 billion for the year ended 31 December 2012, reflecting a decrease of KZT 3.1 billion, or 48.8%.

Finance Cost

For the year ended 31 December 2013, the Issuer's total finance cost was KZT 1.0 billion, as compared to KZT 0.6 billion for the year ended 31 December 2012, reflecting an increase of KZT 0.4 billion, or 66.7%. This increase was primarily attributable to increase in interest paid on interest bearing loans and borrowings.

Profit before Income Tax

As a result of the foregoing, for the year ended 31 December 2013, the Issuer's total profit before income tax was KZT 2.8 billion, as compared to KZT 6.0 billion for the year ended 31 December 2012, reflecting a decrease of KZT 3.2 billion, or 53.3%.

Income Tax Expenses

For the year ended 31 December 2013, the Issuer recorded total income tax expenses of KZT 0.7 billion, as compared to KZT 1.5 billion for the year ended 31 December 2012, reflecting a decrease of KZT 0.8 billion, or 53.3%. This decrease was primarily due to a KZT 1.2 billion decrease in current income tax, which was, in turn, due to the decrease in profit in 2013.

Profit for the Period

As a result of the foregoing, the Issuer's total net profit for the year decreased by KZT 2.4 billion or 53.3%, to KZT 2.1 billion for the year ended 31 December 2013, as compared to KZT 4.5 billion for the year ended 31 December 2012.

Financial Position for the year ended 31 December 2014, as compared to the year ended 31 December 2013

Total Assets

As at 31 December 2014, the Issuer's total assets amounted to KZT 175.9 billion, compared to KZT 129.1 billion for the year ended 31 December 2013, reflecting an increase of 36.3%. The increase in total assets during 2014 was primarily due to the transfer of gas pipelines and other assets from KMG,

KTG and local government to the Issuer, including those received under the trust management agreements. See “*Share Capital and Related Party Transactions*”.

As at 31 December 2014, the net book value of the Issuer’s property, plant and equipment amounted to KZT 126.4 billion, compared to KZT 95.5 billion as at 31 December 2013 reflecting an increase of 32.4% which primarily was due to the transfer of gas pipelines and other assets from KMG, KTG and local government to the Issuer, including those received under the trust management agreements.

Inventory

The table below sets forth certain information regarding the Issuer’s inventory for the periods indicated:

	For the year ended 31 December	
	2014	2013
	<i>(KZT thousands)</i>	
Material and supplies	1,363,938	1,705,903
Natural gas	297,535	2,781,134
	1,661,473	4,487,037
Less: reserve for obsolete and slow moving inventories	(73,493)	(9,693)
	1,587,980	4,477,344

Cash and cash equivalents

As at 31 December 2014, the Issuer’s cash and cash equivalents amounted to KZT 1.5 billion, a decrease of 21.1% from KZT 1.9 billion as at 31 December 2013.

As at 31 December 2014, the Issuer’s bank long-term deposits amounted to KZT 425.6 million, an increase of 112.8% from KZT 200 million as at 31 December 2013. The increase in 2014 was attributable to placement of Tenge long-term deposits with JSC Eurasian Bank, Halyk Bank, JSC Bank RBK, JSC Qazaq Banki, and JSC Temirbank.

As at 31 December 2014, the Issuer’s bank short-term deposits amounted to KZT 11.4 billion, compared to KZT 3 billion as at 31 December 2013 reflecting an increase of 280%.

Total Liabilities

As at 31 December 2014, the Issuer’s total liabilities amounted to KZT 80.2 billion, reflecting an increase of 45% from KZT 55.3 billion as at 31 December 2013. Overall, the increase over the course of 2014 was principally due to increase in interest bearing loans and issuance of debt securities by the Issuer in 2014.

In 2014, the Issuer entered into a credit line agreement No. 11-CM-X/05-03 dated 12 March 2014 with DBK in accordance with which DBK has agreed to provide a credit line amounting to KZT 21.4 billion for the term of up to 13 years. Under this credit line agreement, the Issuer has an undertaking to comply with certain ratios including a debt/EBITDA ratio. The Issuer observes its compliance with financial covenants and confirms that as a result of issuance of the Notes under the Programme it will not violate its contractual financial covenants including but not limited to the debt/EBITDA ratio provided by clause 5.3.22 of the above mentioned credit line agreement.

Debt securities issued

During 2014 the Issuer placed on the KASE bonds with an aggregate principal amount of KZT 8,629,170,000 bearing interest at 7.5% per annum for the purpose of financing investment projects and refinancing of received loans. Cash consideration received for the bonds by the Issuer was equal to KZT 8.5 billion.

Liability on gas borrowings

On 7 September 2012 and 7 February 2014, the Issuer received gas from KTG in the volume of 326,951 cubic meters and 374,320 cubic meters, respectively, for consideration of KZT 2.5 billion and KZT 4.2 billion, respectively. In 2014, the Issuer returned 95,397 cubic meters of gas (in 2013: 79,932 cubic meters), the remainder of the gas in the volume of 525,943 cubic meters in the amount of KZT 4.9 billion excluding VAT was offset with trade receivables from KTG in accordance with gas sale contracts. In accordance with the terms of the agreement, if the Issuer is unable to fulfil its obligation on a timely basis, no fines and penalties will arise.

Capital

The table below sets forth certain information regarding the Issuer's share capital for the periods indicated:

	31 December 2014	31 December 2013
	shares	shares
	<i>(shares)</i>	
	<i>(audited)</i>	
Issued at KZT 1,000.00.....	54,837,260	53,283,420
Issued at KZT 3,493.00.....	1,554,256	1,554,256
Issued at KZT 1,453.00.....	2,591,374	2,591,374
Issued at KZT 1,461.00.....	685,440	-
Issued at KZT 10,000.00.....	145,546	-
Total issued and outstanding shares	59,813,876	57,429,050

As at 31 December 2014, the Issuer's total equity amounted to KZT 95.7 billion, an increase of 29.7%, from KZT 73.8 billion as at 31 December 2013. This increase was attributable to issuance of new shares during 2014 all of which have been acquired by KTG as sole shareholder.

Capital management

As at 31 December 2014, the Issuer's gearing ratio comprised as follows:

	For the year	
	ended 31 December	
	2014	2013
	<i>(KZT thousands)</i>	
Interest bearing loans	28,708,008	20,555,525
Debt securities issued	8,484,687	-
Trade payables	32,451,956	23,719,020
Other current liabilities	1,725,886	1,084,357
Less: Cash and cash equivalents, bank deposits <i>(Notes 11 and 12)</i>	(13,335,822)	(5,166,217)
Net debt	58,034,715	40,192,685
Net equity and net debt	153,760,604	113,985,376
Debt-to-equity ratio	0.38	0.35

Financial Position for the year ended 31 December 2013, as compared to the year ended 31 December 2012

Total Assets

As at 31 December 2013, the Issuer's total assets amounted to KZT 129.1 billion, compared to KZT 105.4 billion for the year ended 31 December 2012, reflecting an increase of 22.5%. The increase in total assets during 2013 was primarily due to the transfer of gas transportation systems and other assets from KMG, KTG and local government to the Issuer.

As at 31 December 2013, the net book value of the Issuer's property, plant and equipment amounted to KZT 95.5 billion, compared to KZT 74 billion as at 31 December 2012, reflecting an increase of 29.1%. The increase over the course of 2013 was primarily due to the transfer of gas transportation systems and other assets from KMG, KTG and local government to the Issuer.

On 30 September 2013, KTG decided to merge JSC Arkagas with the Issuer. Since the transfer of ownership represented merger of entities under common control of KTG this transaction was accounted for using the pooling interests method based on the Issuer's accounting policies. Net assets of JSC Arkagas as at the date of acquisition were KZT 3.8 billion.

Inventory

The table below sets forth certain information regarding the Issuer's inventory for the periods indicated:

<i>In KZT thousands</i>	2013	2012 (Restated)
Natural gas	2,781,134	5,453,981
Material and supplies	1,705,903	895,454
	4,487,037	6,349,435
Less: reserve for obsolete and slow moving inventories	(9,693)	(29,008)
	4,477,344	6,320,427

Cash and cash equivalents

As at 31 December 2013, the Issuer's cash and cash equivalents amounted to KZT 1.9 billion, a decrease of 24% from KZT 2.5 billion as at 31 December 2012.

As at 31 December 2013, the Issuer's bank long-term deposits amounted to KZT 387.7 million, an increase of 267.8% from KZT 105.4 million as at 31 December 2012. The increase in 2013 was attributable to placement of Tenge long-term deposits with JSC Eurasian Bank and Halyk Bank.

As at 31 December 2013, the Issuer's bank short-term deposits amounted to KZT 3 billion, compared to KZT 3.3 billion as at 31 December 2012 reflecting a decrease of 9.1%.

Total Liabilities

As at 31 December 2013, the Issuer's total liabilities amounted to KZT 55.3 billion, reflecting an increase of 44% from KZT 38.4 billion as at 31 December 2012. Overall, the increase over the course of 2013 was principally due to an increase in interest bearing loans and borrowings.

Liability on borrowed gas

On 7 September 2012, the Issuer received gas in the volume of 326,951 thousand cubic meters from KTG. In accordance with the agreement with KTG, the Issuer was obliged to return gas until 31 December 2013. In 2013, the Issuer returned 79,932 thousand cubic meters of gas (2012:78,762 thousand cubic meters); the remaining balance of the gas in the amount of KZT 1.3 billion was supposed to be returned in kind of gas during 2014.

Capital

The table below sets forth certain information regarding the Issuer's share capital for the periods indicated¹:

<i>In thousands</i>	<i>KZT</i>	Common shares outstanding (number of shares)			Common shares outstanding (in KZT thousands)			Total share capital
		Nominal value of KZT 1,000	Nominal value of KZT 3,493	Nominal value of KZT 1,453	Nominal value of KZT 1,000	Nominal value of KZT 3,493	Nominal value of KZT 1,453	
At December 31, 2013		53,283,420	1,554,256	2,591,374	53,283,420	5,429,017	3,765,862	62,478,299
At December 31, 2012		45,118,672	1,554,256	-	45,118,672	5,429,017	-	50,547,689

During 2013 the Issuer issued 8,164,748 common shares with a nominal value of KZT 1,000 each and 2,591,374 common shares with a nominal value of KZT 1,453 each (2012: 40,818,316 shares with a nominal value of KZT 1,000 each)². All issued shares were acquired by the KTG as sole shareholder of the Issuer and paid in cash in the amount of KZT 4.2 billion (2012: KZT 9 billion), and in kind by fixed assets contributed in the amount of KZT 4.0 billion (2012: KZT 33.7 billion) and by assets of JSC Arkagas in the amount of KZT 3.8 billion. The fair value of fixed assets at the date contribution to the equity was valued by an independent appraiser.

As at 31 December 2013, the Issuer's total equity amounted to KZT 73.8 billion, an increase of 10.1%, from KZT 67 billion as at 31 December 2012. This increase was primarily attributable to the issuance of new shares acquired by KTG as a sole shareholder.

Capital management

As at 31 December 2013, the Issuer's gearing ratio comprised as follows:

	For the year ended 31 December	
	2014	2013
	<i>(KZT thousands)</i>	
Interest bearing loans and borrowings	20,555,525	9,756,133
Trade payables	23,719,020	17,695,882
Other current liabilities	1,084,357	1,637,189
Less: Cash and cash equivalents, bank deposits (<i>Notes 12 and 13</i>)	(5,353,961)	(5,940,497)
Net debt	40,004,941	23,148,707
Net equity and net debt	73,792,691	67,008,265
Debt-to-equity ratio	0.54	0.35

¹ The Issuer has confirmed that the numbers in the table were incorrectly reflected in the 2013 Financial Statements, and for the purpose of the disclosure in the Prospectus the Issuer has provided correct numbers. The Issuer also has confirmed that it does not plan to restate the 2013 Financial Statements.

² The Issuer has confirmed that these numbers were incorrectly reflected in the 2013 Financial Statements, and for the purpose of the disclosure in the Prospectus the Issuer has provided correct numbers. The Issuer also has confirmed that it does not plan to restate the 2013 Financial Statements.

BUSINESS

General

The Issuer is the largest gas distribution company in the Republic of Kazakhstan, operating through the network of cross-country and distribution pipelines. There are fourteen regions in the Republic of Kazakhstan and one city with a so-called republican status (Almaty), meaning that it has a special status in the hierarchic system of subordination of cities in Kazakhstan. Out of fourteen regions, eleven regions are connected to the gas distribution system of Kazakhstan. Through its distribution chain the Issuer transports natural gas to ten out of the eleven gas-connected regions of Kazakhstan and covers 90% of the natural gas market in Kazakhstan. The remaining 10% of the market is supplied by KTG Almaty, another subsidiary of KTG located in Almaty, Kazakhstan. However, it is expected that KTG Almaty and the Issuer will be reorganized by mean of the consolidation (*'prisoedinenie'*) of KTG Almaty with the Issuer, as a result of which the Issuer will become a supplier to Almaty city region as well and therefore will cover 100% of the natural gas market in Kazakhstan. See "*Recent Developments*". The Issuer operates a monopoly and has no competitors on the Kazakhstan market.

History

2002

- The Issuer was established on 15 April 2002 by the decision of KTG and initially named KazTransGas Distribution Closed Joint Stock Company.
- The Issuer opened its branches in the following regions of Kazakhstan:
 - i. South-Kazakhstan region;
 - ii. Jambyl region;
 - iii. Mangistau; and
 - iv. Aktobe region.

2003

- On 6 October 2003 as a result of change of the form of legal entity, the Issuer was re-registered from KazTransGas Distribution Closed Joint Stock Company to KazTransGas Distribution Joint Stock Company.

2004

- Opening of the Issuer's branch in Kyzylorda region.

2005

- The Issuer was reorganized and merged with Regional Gas Transportation System Joint Stock Company.

2007

- On 25 January 2007 the Issuer was renamed to KazTransGas Aimak Joint Stock Company and holds this legal name since then.
- Opening of the Issuer's branch in West-Kazakhstan region and Kostanay region.

2008

- Establishment of the Labor Union of the Issuer for the purpose of adequate protection of employees' rights.

2009

- Opening of the Issuer's branch in Zhetisu region;
- The Issuer initiated one of its biggest investment projects in South-Kazakhstan region – reconstruction and modernization of the gas infrastructure of the region. Since the beginning of the project more than 2,000 km of new gas pipelines have been built;
- Beginning of modernization of the gas distribution network in the city of Taraz.

2010

- Opening of the Issuer's branch in Atyrau region.

2013

- Opening of the Issuer's branch in East-Kazakhstan region;
- The Issuer completed the process of unification of the gas distribution network of all regions in Kazakhstan;
- Fitch Ratings assigned to the Issuer a long-term debt rating of BB+;
- The Issuer completed the project on connection of the city of Kyzylorda to Beineu-Bozoi-Shymkent cross-country gas pipeline;
- Consolidation of JSC Arkagas with the Issuer;
- The Issuer has successfully passed the certification of integrated management system and received ISO 9001:2008, ISO 14001:2004 and BSOHSAS 180001:2007 certificates.

2014

- Fitch Ratings upgraded the Issuer's long-term debt rating to BBB-;
- Consolidation of JSC Aktaugasservice with the Issuer.

As a result of various reorganizations, the Issuer is the legal successor of the following companies: Aktobe Administration of Gas-Supply Facilities LLP, Kyzylorda Administration of Gas-Supply Facilities LLP, Taraz Administration of Gas-Supply Facilities LLP, South Kazakhstan Administration of Gas-Supply Facilities LLP, Mangystau Gas Transportation System LLP, Ural Administration of Gas-Supply Facilities LLP.

Strengths

The Issuer believes that it benefits from the following strengths:

The largest gas distribution and transportation company in the Republic of Kazakhstan

The Issuer is the operator of the biggest gas pipeline network in the Republic of Kazakhstan that covers 90% of the natural gas market in Kazakhstan. The customers of the Issuer's gas transportation services include JSC TNK Kazhrom AZF, Kazfosfat LLP, Ural Gas Turbine Power Electric Station LLP, Aktobe Copper Company LLP, Aktobe Thermal Power Station, and others.

As at the date of this Prospectus, the length of gas pipelines operated by the Issuer was 35,204.774 km. The Issuer also provides operation and maintenance services for gas pipelines owned by third

parties. As at the date of this Prospectus, the total length of such third party-owned gas pipelines was 15,048.327 km.

The Issuer plays an important role for the economy of the Republic of Kazakhstan

As one of the major businesses in the oil and gas sector, the Issuer plays a key role for the economy of the Republic of Kazakhstan.

The oil and gas sector is of strategic importance in the Republic of Kazakhstan because it is the principal source of the Republic of Kazakhstan's export earnings and reserves, fiscal revenue and future foreign direct investment inflows.

The Issuer is the major infrastructure company in the gas sector of the economy of the Republic of Kazakhstan, providing steady and secure deliveries of gas to the domestic market.

The Issuer is a major employer and taxpayer in Kazakhstan. As at 30 June 2015, the Issuer employed 4,412 full-time employees. In 2013, and 2014 the Issuer transferred KZT 7.9 billion and KZT 5.3 billion in taxes to the state budget, respectively.

The Issuer has a stable operational and financial history

The Issuer demonstrates a stable dynamics in terms of key business performance indicators. The volumes of gas sales and transportation have been growing in the last two years and amounted to 10.2 billion cubic metres in 2014, as compared to 9.1 billion cubic metres in 2013 in terms of gas sales and 8.4 billion cubic metres in 2014, as compared to 6.4 billion cubic metres in 2013 in terms of gas transportation.

The Issuer is a natural monopoly under the legislation of Kazakhstan and provides regulated services, including transportation of gas via gas pipelines, in exchange for a tariff which is set by the Committee for the Regulation of Natural Monopolies. The Issuer's revenues from gas distribution and transportation services have been growing and for the years ended 31 December 2013, and 2014 amounted to KZT 108.3 billion and KZT 140.0 billion, respectively.

The stable and predictable cash flows of the Issuer have allowed it to distribute dividends. The Issuer distributed dividends amounting to KZT 0.8 billion in 2014 and KZT 1.4 billion in 2011.

The Issuer has an experienced management team

The Issuer's senior management team has solid experience and knowledge both in the gas industry and in the gas transportation industry, as well as a comprehensive understanding of the conditions in the markets in which the Issuer operates.

The majority of the senior management, including members of the Management Board and the Board of Directors, has been in the gas transportation industry for more than 10 years. In particular, Mr. Serdiyev, the general director, chairman of the Management Board, who has over 10 years of experience working in the gas industry.

Mr. Aidosov, the first deputy general director of the Issuer on finance and economy, has worked in the gas industry of the Republic of Kazakhstan for more than 15 years and has held various responsible positions at JSC Alautransgas, JSC KTG Distribution and the Issuer. The Issuer's Board of Directors also includes top experts in the area of gas industry.

Mr. Suleymanov, the Chairman of the Board of Directors started his career in 1994 and worked as an economist and financial inspector in various commercial organizations. He has working in the gas field for 13 years.

The Issuer believes that its senior management team has the financial and commercial skills, operational knowledge and experience required to continue to develop and expand its business.

Strategy

The Issuer's goal is the increase of its market value. The Issuer intends to achieve that goal by, amongst other things:

Increasing gas distribution and transportation volumes

The Issuer intends to maintain and strengthen its position as the largest gas transportation company in Kazakhstan by increasing its gas distribution and transportation volumes, increasing its geographical coverage and maintaining the high quality of its services.

Financial strategy aimed at improving profitability

The Issuer intends to adhere to a financial strategy aimed at maintaining stable cash flows, increasing the efficiency of its operations and decreasing its operating costs.

The long-term financial strategy of the Issuer is to increase revenues and optimise costs. The Issuer's cost management programme provides for optimisation of costs primarily through implementation of energy and resource-saving technologies, decreasing the rates of consumption of raw materials, materials and fuel, decreasing general and administrative expenses and other costs, and improvement of labour efficiency. To reduce the cost of its borrowings, the Issuer will also seek to maintain its long-term debt ratings at levels not lower than "BBB-" by Fitch (or the equivalent ratings by other agencies).

The Issuer seeks to satisfy the technological standards of the leading global gas transportation companies in order to improve its competitiveness. The Issuer plans to conduct modernisation and technical upgrades of its existing pipelines to improve their operational efficiency and reliability, reduce their energy consumption levels, and improve environmental and industrial safety.

Maintaining high corporate governance, risk management and operational standards

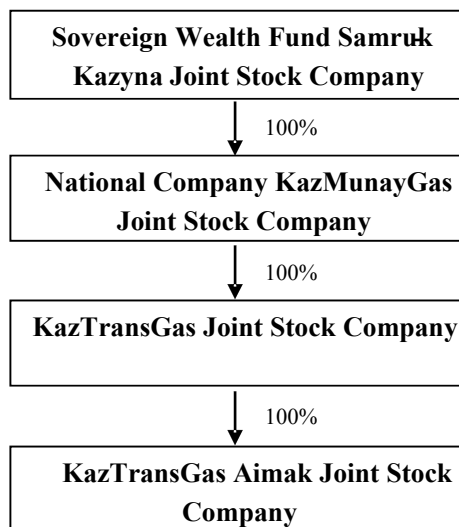
The Issuer plans to maintain high standards of corporate governance, risk management, human resources management, occupational health and safety, fire safety and environmental protection.

In particular, the Issuer has been taking steps to improve its corporate governance systems to a level that exceeds, in many respects, the requirements applicable to companies listed on the KASE. It is intended that independent auditors will assess the level of corporate governance on an annual basis and that any deviations identified during such exercise will be remedied.

The Issuer seeks to conduct its operations in full compliance with international requirements and standards relating to occupational health and safety, fire safety and environmental protection. The Company intends to apply ISO 14001:2004, a standard related to environmental management systems, and OHSAS 18001:2007, a standard related to occupational health and safety control system in the future.

Corporate Structure of the Issuer

The following chart illustrates the Issuer’s ownership structure as of the date of this Prospectus:



As of the date of this Prospectus the Government of the Republic of Kazakhstan indirectly through Samruk-Kazyna wholly owns KMG. KMG in turn 100% owns KTG, which is the sole shareholder of the Issuer. As a result, the Government of Kazakhstan indirectly influences all of the business and activities of the Issuer, including its budget, capital expenditures program and borrowings program. See “Recent Developments”.

Regional Branches

As of the date of this Prospectus, the Issuer has 10 regional branches spread throughout the Republic of Kazakhstan.

Each regional branch is responsible for the development of the region, supply of gas to the relevant region and provision of associated services to the customers of the region. A regional branch is also responsible for maintenance of the gas pipelines passing through its territory.

1. Aktobe Regional Branch

2002	Year of establishment
8	Number of gas areas
10	Number of covered districts of the Aktobe region
597	Number of employees
172,036	Number of subscribers
169,465	Number of customers
4,162.635 km	Length of the pipeline in operation
28%	Level of gasification of the region
1,675 mln. m ³	Volumes of gas sales
1,283 mln. m ³	Volumes of gas transportation

2. Atyrau Regional Branch

2010	Year of establishment
4,983	Number of gas distribution cabinets
9	Number of subscriber service centres
486	Number of employees
97,347	Number of subscribers
4,405.409 km	Length of the pipeline in operation

76%	Level of gasification of the region
414 mln m ³	Volumes of gas sales
575 mln. m ³	Volumes of gas transportation

3. East-Kazakhstan Regional Branch

2013	Year of establishment
46,225 km	Length of the pipeline in operation
80,000	Number of people that are covered
2	Number of covered districts of the region
9	Number of residential areas to be gasified
276 000 m ³	Volumes of gas sales
1%	Level of gasification of the region

4. Jambyl Regional Branch

2002	Year of establishment
8	Number of covered districts of the region
5	Number of subscriber service centres
613	Number of employees
159,587	Number of customers
3,830.114 km	Length of the pipeline in operation
58,4%	Level of gasification of the region
1,451 mln. m ³	Volumes of gas sales
579 mln. m ³	Volumes of gas transportation

5. Kostanai Regional Branch

2007	Year of establishment
6	Number of gas areas
6	Number of subscriber service centres
465	Number of employees
160,370	Number of subscribers
2,433.736 m	Length of the pipeline in operation
56,3%	Level of gasification of the region
858 mln. m ³	Volumes of gas sales
547 mln. m ³	Volumes of gas transportation

6. Kyzylorda Regional Branch

2004	Year of establishment
4	Number of gas areas
184	Number of employees
51,641	Number of customers
1,139.805 km	Length of the pipeline in operation
393 mln. m ³	Volumes of gas sales
305 mln. m ³	Volumes of gas transportation
30,9%	Level of gasification of the region

7. Mangistau Regional Branch

2002	Year of establishment
6	Number of district gas units
464	Number of employees
85,177	Number of customers
3,593.794 km	Length of the pipeline in operation
428.219 km	Length of the cross-country network of MГ «Zhanaozen-Aktau »
2,689,538 m	Length of the distribution network
97,8%	Level of gasification of the region

2,805 mln. m ³	Volumes of gas sales
2,486 mln. m ³	Volumes of transportation of gas through cross-country pipeline
1,058 mln. m ³	Volumes of transportation of gas through distribution pipelines

8. South-Kazakhstan Regional Branch

2002	Year of establishment
9	Number of gas areas
2	Number of subscriber service centres
852	Number of employees
8,157.647 km	Length of the pipeline in operation
27%	Amount of covered residential areas
1,176 mln. m ³	Volumes of gas sales
819 mln. m ³	Volumes of gas transportation
233,347	Number of customers
48,8%	Level of gasification of the region

9. West-Kazakhstan Regional Branch

2007	Year of establishment
2	Number of covered cities
214	Number of residential areas
756	Number of employees
5,917.066 km	Length of the pipeline in operation
86%	Level of gasification of the region
89%	Number of covered residential areas
155,732	Number of subscribers
1,495 mln. m ³	Volumes of gas sales

10. Zhetysu Regional Branch (Almaty region)

2009	Year of establishment
1	Gas area in Iliiskiy district of the Almaty region
2	Number of covered districts in Almaty region
26	Number of employees
469	Population
10	Industrial and municipal enterprises
1,090.095 km	Length of the pipeline in operation
14%	Level of gasification of the region
1,861,333 m ³	Volumes of gas sales

Information on the regional branches in relation to number of customers, volume of gas sales and gas transportation is provided as at the end of 2014.

Operations of the Issuer

The Issuer's main business is the distribution of natural gas through its network of pipelines.

The sole supplier of natural gas to the Issuer is its parent company KTG. The sale of natural gas from KTG to the Issuer is arranged through gas supply agreements that are renewed annually.

In 2012, the Kazakhstan legislation regulating gas industry was amended to introduce the concept of a so-called "national operator". It was decided that for the purpose of uninterrupted and reliable gas supply there should be one company entitled to be engaged in the wholesale gas distribution throughout the entire territory of Kazakhstan. According to legislation, the national operator must be a legal entity, the control stake in which is owned by the State, or a national management holding company or a national company. The national operator purchases gas from gas producing entities in Kazakhstan and abroad and distributes it to retail distribution companies such as the Issuer.

The following chart represents the volume of natural gas acquired from KTG for 2013 and 2014:

Volume of gas acquired from KTG (in thousand m3)	2013	2014
	300,002	5,269,491

As of the date of this Prospectus the national operator in the gas industry of Kazakhstan is KTG who is the only supplier of natural gas to the Issuer.

Through its network of pipelines the Issuer provides gas to the following ten regions of Kazakhstan:

- i. Aktobe;
- ii. Atyrau;
- iii. East-Kazakhstan;
- iv. Jambyl;
- v. Kostanai;
- vi. Kyzylorda;
- vii. Mangistau;
- viii. South-Kazakhstan;
- ix. West-Kazakhstan; and
- x. Almaty region (excluding the city of Almaty),

and therefore covers 90% of the Kazakhstan natural gas market.

The only region which is not covered by the Issuer is the city of Almaty which is supplied by KTG Almaty, another subsidiary of KTG.

The Issuer operates the largest gas pipeline network in the Republic of Kazakhstan by length and throughput capacity. As of the date of this Prospectus, the total length of the pipelines operated by the Issuer is 35,204.774 km of gas pipelines (including a portion of the Mangistau cross-country pipeline of 428 km), of which 20,156.447 km of gas pipelines are owned by the Issuer. The majority of the remaining 15,000 kilometres of pipelines are owned by the State and operated by the Issuer on the basis of trust management agreements.

The following table set forth information on the gas pipelines operated by the Issuer as at the date of this Prospectus:

No	Name	Unit	Total length	including manufacturing branches:										
				South Kazakhstan	Zhambyl	Aktobe	West Kazakhstan	Kyzylorda	Kostanay	Mangystau cross-country pipeline	Mangystau distribution pipelines	Atyrau	East Kazakhstan	Almaty
1	Total length of Issuer's pipelines:	km	24,005.992	5,485.641	3,384.773	2,186.504	3,253.616	1,114.474	1,992.474	428.219	2,689.541	2,342.556	38.100	1,090.095
1.1	including: high pressure pipelines -total:	km	6,320.749	607.609	244.681	559.188	2,200.103	172.461	461.953	428.219	856.528	785.056	4.951	
	above-ground	km	1,644.747	70.219	44.035	45.666			7.222	0.162	731.838	38.523	4.951	
	underground	km	4,676.002	537.390	200.646	513.522	702.131	172.461	454.731	428.057	124.690	746.533		
							1,497.972							
1.2	medium pressure -total:	km	4,187.361	1,318.785	1,038.887	177.769	323.245	5.615	137.016	0.000	263.894	889.000	33.149	
	underground	km	1,351.757	611.371	191.259	42.228		0.015	10.901		153.448	124.756	33.149	
							184.630							
	underground	km	2,835.603	707.414	847.628	135.541		5.6	126.115		110.446	764.244		
							138.615							
1.3	low pressure pipeline -total:	km	12,407.788	3,559.246	2,101.205	1,449.547	730.268	936.398	1,393.505	0.000	1,569.119	668.500	0.000	
	above-ground	km	9,958.678	3,396.680	1,888.009	1,135.134		196.3	970.371		1,408.592	330.521		
							633.117							
	underground	km	2,332.503	162.566	96.589	314.413		740.14	423.134		160.527	337.979		
							97.151							
			116.607		116.607									
	total: underground	km	12,955.183	4,078.271	2,123.303	1,223.028	1,519.878	196.269	988.494	0.162	2,293.879	493.800	38.100	
	total: underground	km	9,844.108	1,407.370	1,144.863	963.476	1,733.738	918.205	1,003.980	428.057	395.663	184.756	0.000	
2	Quantity of Gas-Distributing Stations	pcs	61.000					39	0	13		9		
	including: Issuer's ownership	pcs	4.000					0		4				
3	Quantity of Gas-Distributing Points	pcs	833.000	253	79	110	58	89	163		73	8		
	including: Issuer's ownership	pcs	328.000	149	52		16	30	81					
	under the trust management	pcs	105.000		2		21		82			0		
4	Quantity of Cabinet-type Regulation Points	pcs	53,596.000	41,641	8838	439	1,980	0	256	1	402	39		
	including: Issuer's ownership	pcs	33,900.000	32,952	944			0	3	1				
5	under the trust management	pcs	17,887.000	3,014	7759				253			6861		
6	Total length of pipelines under Issuer's operations	km	35,204.774	8,157.647	3,830.114	4,162.635	5,917.066	1,139.805	2,433.736	428.219	3,593.794	4,405.409	46.255	1,090.095

The following chart represents the volume of gas distributed by the Issuer through the network of its pipelines for the years 2013 and 2014:

No.	Name of the region	2013 thousands m3	2014 thousands m3
1	Distribution of gas	9,095,717	10,272,211
	Jambyl region	1,211,770	1,451,906
	South-Kazakhstan region	987,397	1,176,693
	Kyzylorda region	260,167	393,560
	West-Kazakhstan region	1,523,394	1,495,620
	Aktobe region	1,458,940	1,675,248
	Kostanai region	882,142	858,891
	Mangistau region	2,422,858	2,805,148
	Atyrau region	349,050	414,871
	East-Kazakhstan region		276
2	Transportation of gas	6,374,265	8,368,515
2.1	Through distribution pipelines	4,235,152	5,881,885
	Jambyl branch	510,138	579,637
	South-Kazakhstan branch	630,736	819,517
	Kyzylorda branch	259,711	305,376
	West-Kazakhstan branch	553,118	711,332
	Aktobe branch	1,158,793	1,283,692
	Kostanai branch	242,804	547,455
	Mangistau branch	396,029	1,058,967
	Atyrau branch	483,823	575,633
	East-Kazakhstan branch		276
2.2	Through cross-country pipeline	2,139,114	2,486,630
	Mangistau branch (cross-country)	2,139,114	2,486,630

As of the date of this Prospectus, the Issuer directly distributes gas to about 1.1 million customers in Kazakhstan. Gas distribution to a customer is arranged through the entrance into a standardized gas distribution agreement between the Issuer (represented by one of its regional branches) and the customer.

The following two charts represent the number of customers for the years of 2013 and 2014 and the volume of consumption by these customers:

Number of customers:

No.	Name of the Region	Number of customers in 2013	Number of customers in 2014
1.	Aktobe	165,057	169,465
2.	Atyrau	98,759	101,616
3.	East-Kazakhstan	133,311	157,962
4.	Jambyl	154,738	159,587
5.	Kostanai	153,661	157,613
6.	Kyzylorda	47,618	51,641
7.	Mangistau	66,994	85,177
8.	South-Kazakhstan	219,843	233,347
9.	West-Kazakhstan	0	43
10.	Zhetisy	0	0

Volume of gas consumption by customers:

No.	Name of the Region	Volume of gas consumption in 2013	Volume of gas consumption in 2014
1.	Aktobe	1,458,940	1,675,248
2.	Atyrau	349,050	414,871
3.	East-Kazakhstan	0	0
4.	Jambyl	1,211,770	1,451,906
5.	Kostanai	882,142	858,891
6.	Kyzylorda	260,167	393,560
7.	Mangistau	2,422,858	2,805,148
8.	South-Kazakhstan	987,397	1,176,693
9.	West-Kazakhstan	1,523,394	1,495,620
10.	Zhetisy	0	0
11.	Aktobe	1,458,940	1,675,248

The Issuer does not transport gas belonging to third parties. However, when gas is transferred from cross-country pipelines to distribution pipelines (in instances where a customer is not connected directly to a cross-country pipeline), the Issuer adds a transportation mark-up to its gas distribution price. Hence, distribution and transportation profits are accounted separately in the financial statements of the Issuer.

In addition to its main gas distribution activity, the Issuer is engaged in the following businesses:

- containment and elimination of emergency situations at gas networks, facilities constructed on such networks and domestic gas equipment, as well as dealing with emergency requests;
- release of gas into the gas-supply systems, gas networks and related facilities, operating the gas supply facilities, connecting newly constructed segments of gas pipelines with the current gas networks;
- diagnosis of gas transmission instruments and testing the gas transmission systems;
- operation, scheduled preventative and ongoing maintenance and total overhaul of the domestic gas equipment, external gas distribution networks and related facilities, as well as gas distribution terminals, electrochemical protection systems, main pipelines and related facilities;
- technical supervision at construction facilities;
- granting technical specifications; engineering design, approval of designs, assembling and dismantling of distribution and main gas pipelines and related facilities, drawing up construction and technical documentation;
- protection of underground gas pipelines and related facilities from electrochemical corrosion, construction and installation works concerning the maintenance and replacement of gas pipelines and related facilities;
- operation and maintenance of special motor transport intended for servicing operational maintenance and emergency services;
- operation of hoisting mechanisms (cranes);
- maintenance and replacement of main and distribution pipelines and related facilities as well as block valves;
- maintenance, periodic inspection and technical maintenance of boilers;
- development, planning, engineering design and construction of gas networks and storage facilities such as catch basins and other objects of infrastructure;

- purchase, sale, installation, servicing, testing and maintenance of metering devices and measuring devices used in the activity of the Issuer;
- training personnel for the maintenance of gas-supply facilities;
- operation of main gas pipelines and hoist facilities, as well as high pressure boilers, vessels, and pipelines;
- production and maintenance works in connection with the gasification of residential and utility objects;
- transportation of dangerous freight; and
- other activities technologically or inextricably associated with the provided goods, works and services (“GWS”).

In 2014, the Issuer’s total revenue amounted to KZT 140,042,401 thousand. See “*Selected Financial Information*”.

Recently Completed Investment Projects

Modernization of the country’s gas distribution networks

The Issuer is engaged in the large-scale modernization of Kazakhstan’s existing gas networks and the extension of the gas distribution networks to residential areas not previously connected to the gas network.

The Issuer started the modernization of the gas system of the Republic of Kazakhstan from the South region of Kazakhstan, in which equipment deterioration has exceeded 50%. A large amount of work has been and continues to be done in the city of Shymkent, which became the first city in Kazakhstan in which at least half of the population already receives blue flame natural gas through a new gas supply system as a result of the large-scale modernization process.

The implementation of the investment projects of the Issuer has been completed ahead of schedule. This enabled the construction of 2,435 kilometers of new gas pipelines across the whole country, as well as 19,604 gas distribution cabinets (“GDC”), 12 points of gas blocks, and 2 automatically-controlled gas distribution plants with a capacity of 90 and 10 thousand cubic meters per hour.

Modernization of the gas distribution system of the South-Kazakhstan region and the city of Shymkent

The implementation of this project commenced in 2009. New gas system infrastructure was created in the region, old gas pipelines are being gradually replaced by polyethylene gas pipelines and modular packaged units are being constructed as a substitute for the old gas distribution units.

The modernization of the gas supply network in the South-Kazakhstan region led to a reduction in standard technical losses and production costs during the supply of gas. Since the commencement of the implementation of the project, 55,325 users and 250,000 residents of the regional centre have been transferred to a new gas supply scheme. More than 2,000 new gas pipelines have been constructed.

The financing of the project was made through own funds of the Issuer as well as through financing from the DBK which provided a credit facility to the Issuer in the total amount of KZT 21.5 billion, of which, as at 30 June 2015, the Issuer’s debt amounts to KZT 12.2 billion.

Modernization of the gas distribution network of the city of Taraz

Taraz is the second city after Shymkent in which gas supply systems have been fully updated and new gas supply systems are in the process of construction. The use of innovative technologies enabled the

replacement of more than 370 km of old gas pipelines, as well as the installation of 7,218 modern individual gas distribution units. Now more than 11,000 users in the private sector and 4,000 users in the communal sector, as well as 723 domestic and 64 industrial enterprises of the city of Taraz receive gas through new gas system. The replacement of an old aboveground steel gas pipeline with a longer-lasting underground polyethylene gas pipeline has increased not only the stability and security of the gas distribution networks but has also enabled the unique architectural vision of the city of Taraz to be maintained.

The financing of the project was made through own funds of the Issuer as well as through financing from the DBK which provided a credit facility to the Issuer in the total amount of KZT 16.4 billion, of which, as at 30 June 2015, the Issuer's debt amounts KZT 5.1 billion.

Within the next few years it is planned to construct 935.5 km long underground polyethylene gas pipelines, to change the gas supply system from a three-tier gas supply system to a two-tier gas supply system, to install 23,051 individual cabinet stations and to introduce an automated control system in the city of Taraz.

Extension of the gas distribution networks to the city of Turkestan

The extension of the gas distribution networks to the city of Turkestan began with the first stage of the "Beyneu – Bozoi - Shymkent" main pipeline being put into operation. The length of the bridging gas pipeline is 22 km; the automated gas distribution plant with a capacity of 100,000 cubic meters per hour and two gas control units were constructed. The forecasted annual consumption is 92.6 million cubic meters. Among the potential gas consumers are 26,528 households, 384 municipal enterprises, 11 hospitals, 19 kindergartens, 47 schools, 32 industrial companies and 18 governmental agencies.

The construction of the intra-urban gas distribution systems of the city of Turkestan began on 1 March 2014 within a framework of a previously approved plan of the Issuer on the extension of the gas distribution networks to residential areas along the "Beyneu – Bozoi - Shymkent" main pipeline. The construction of intra-urban gas distribution systems, facilities and gas pipelines supplying gas to households, as well as the connection of users to the gas supply system is performed by the Issuer and at the cost of the Issuer.

This investment project is ongoing and will have a great economic, social and cultural importance to the city of Turkestan and the region as a whole.

Construction of the bridging gas pipeline from the "Kordai" gas distribution plant to the city of Shu

In 2012, the Issuer successfully implemented the investment project "Construction of the bringing gas pipeline from the Kordai automated gas distribution plant to the city of Shu in Dzhambul region". The construction works had been carried out ahead of schedule, and the bridging high-pressure gas pipeline "Kordai-Shu" with a capacity of 462 million cubic meters per year was put into operation following a national teleconference with the President of Kazakhstan, Nursultan Nazarbayev, in his capacity as head of state, which took place on 25 December 2012. The length of the bridging underground steel high-pressure gas pipeline is 106 km and a block gas distribution plant with a capacity of 80,000 cubic meters per hour was constructed and placed on the sustaining plant site "Kordai". The "Kordai-Shu" gas pipeline can also operate in reverse flow in case of instability in the transmission of gas, on the occurrence of which the pipeline will feed a blue flame natural gas in the reverse direction. As a result of this project, gas was provided to this region for the first time in history. The project had been planned to be implemented during the Soviet era, and the local population has been waiting for "blue flame natural gas" for more than 30 years.

As a result, the technological base for further extension of the gas distribution networks to the local population in the city of Shu and 32 residential areas of the Kordai and Shu regions has been created. These regions contain more than 100,000 residents within a radius of 10 km from the gas pipeline. Pursuant to the project, 12 gas pipeline-offshoots and block valves were installed for the residents of these residential areas so that they can be connected to the network. Users in the city of Shu and three other residential areas of the Kordai region (Kasyk, Stepnoe and Saribulak) are currently connected to the gas supply system. Along with the gasification process in these regions, gasification is also being conducted in other villages, such as Dzhambyl, Beitkanar, Kakpatas, Kainar, Zhanaturmys Kordai region and Kokkainar, Belbasar and Enbekshi villages of Zhanazhol Shu region.

Extension of the gas distribution networks to the city of Kyzylorda

Construction of high pressure gas pipelines (12 km in total), and low pressure gas pipelines (195 km) with an output of 22,000 cubic meters of gas per hour enabled previously unconnected areas of the city of Kyzylorda to be supplied with natural gas.

This includes households and municipal enterprises connected to the gas network of such residential districts as Al-Farabi, Sayakhat, Jana-Auyl, Beybarys and Rismash, as well as districts of the settlement of Titov in the city of Kyzylorda. After the expansion of the gas distribution network of the Issuer, around 5,500 households and around 300 municipal enterprises in the city were provided with natural gas. As a result, 80% of the city has now been connected to the gas network.

Construction of a high-pressure gas pipeline from KMRTTs to GDP-1 in the city of Kyzylorda

This project is designed to increase the reliability of the gas distribution system, stabilize gas pressure in gas pipelines and provide sustainable gas supply for all consumers in the region, including those in the most remote areas. The project is also aimed at minimising the impact of accidents that can occur at the gas distribution networks. The connection of the urban gas supply system will enable the operational costs from the recommencement of gas distribution resulting from automatic switching equipment of gas control units during excessive reduction of gas pressure in the gas distribution pipelines to be reduced, as well as reducing losses from purges of gas.

Construction of the bridging high-pressure gas pipeline in the Southern industrial zone in the city of Kyzylorda

The opening of a new facility will allow 23 companies located in the South industrial zone of the city of Kyzylorda to use gas in their production activities. In turn, this is another practical contribution of the Issuer to the socio-economic development of cities and small and medium-scale businesses in particular. The new gas pipeline is ecologically friendly and was built without any damage to the environment — as it was constructed through the use of modern technologies.

Connecting the city of Kyzylorda to the main gas pipeline “Beyneu-Bozoi-Shymkent”

By putting the first line of “Beyneu-Bozoi-Shymkent” main gas pipeline into operation, the city and districts of the region were able to connect to an alternative source of gas supply. Additionally, the connection of the city of Kyzylorda to the “Beyneu-Bozoi-Shymkent” gas pipeline ensured the stability of the city by eliminating deficiencies of gas supply and creating the conditions for enterprises and households to switch to full gas consumption. Previously, enterprises had to use expensive oil as a fuel source. The deficiency is about 210 million cubic meters of gas annually with a possibility for growth which results from the increase in its consumption by the city.

In order to solve these problems, “Automated gas distribution station-2” (AGRS) with a capacity of 160,000 cubic meters per hour and with a few heating units of gas as well as a high-pressure gas pipeline from Automated gas distribution station “Kyzylorda” (AGRS) to “Main gas regulation station 2” (GGRP-2) made of polyethylene pipe were constructed. A 24 km long supply pipeline from

”Beyneu-Bozoi-Shymkent” main gas pipeline to the urban networks of the city of Kyzylorda was constructed. The construction of 2.8 km of polyethylene gas pipelines has also been completed.

Construction of a gas pipeline to the Integrated gas-chemical complex (IGCC) in the Atyrau region

In 2013, the construction of a gas pipeline to the Integrated gas-chemical complex (IGCC) near the Karabatan plant in Atyrau region was successfully completed. It was aimed at the creation of petrochemical production, deep processing of hydro carbonic raw materials and production of polyethylene. 7.6 km of high-pressure gas pipelines (capacity of 120,000 cubic meters per hour) with the AGDS installation (10,000 cubic meters per hour) and a gas metering station were also put into operation. The implementation of this project created the conditions for the connection of new consumers, expanded the gas sales market and increased the volume of transportation by 28 million cubic meters per hour in 2014.

Extension of the gas distribution networks to the city of Zaisan project

The “Gasification of the city of Zaisan” investment project provides for the construction of gas pipelines and facilities 154 km long. The realization of this two-stage project was planned for 2013-2014. The construction of 18.4 km of intra-urban and intra-district distribution networks within the first turn of the project was completed in November 2013 with a coverage of 470 users and a local school under the name Auezov. A new branch of the Issuer (the East-Kazakhstan production branch) was created in the region for the purpose of the extension of the gas distribution networks to Zaisan. This project has a huge social importance both for the city of Zaisan, and for the whole region.

As a result of the works carried out by the Issuer, a new technological base for the further extension of the gas distribution networks to residential areas in the Zaisan and Tarbagatay districts has been created. In the future, this will allow 80,000 residents in two districts of the East-Kazakhstan region to be provided with natural gas. Apart from the city of Zaisan, it is also planned to provide gas via the main gas pipeline to another nine residential areas of the Zaisan district, including such villages as Kararal, Ainabulak, Kaisar, Dzhambyl, Kogedai, Shalkar, Ulken Karatal, Karabulak and Kensai.

This project is of high social importance to both the city of Zaisan and the region as a whole. The arrival of blue flame natural gas is expected to aid the development of existing and newly created industrial enterprises of the region. As at the date of this Prospectus, the Issuer has fully completed the project.

New Investment Projects

New investment project of the Issuer include the following:

- Connection to the main gas distribution network of small towns and residential areas of Kyzylorda region (the city of Aral and Baikonyr, Aiteke Bi, Shieli, Zhanakorgan residential areas). The total estimated amount of investments in the project will be around KZT 22.8 billion (excluding VAT). It is anticipated that the Issuer will construct 1,439 km of new gas pipelines during the implementation of the project;
- Construction of Arys-kum-Zhosaly cross-country gas pipeline, which is aimed to cover the demand of the Southern region of Kazakhstan. The estimated cost of construction of the pipeline and compressor station is KZT 10.5 billion (excluding VAT). The approximate timeline for the implementation of the project is 2015-2016;
- Connection to the main gas distribution network, modernization of networks, technical re-equipment, update and creation of new assets of the Aktobe production branch of the Issuer for 2015-2020. The estimated cost of construction of the pipeline and compressor station is KZT 21.8 billion (excluding VAT).

- Modernization, reconstruction and construction of new gas-distribution networks for Mangistau region settlements, as well as maintenance of the operating assets of Mangistau production branch of the Issuer. The Project is planned to be implemented between 2015 and 2020. The total estimated amount of investments in the project will be around KZT 24.3 billion (excluding VAT).

Gas Distribution Price and Transportation Tariffs

Price Limits Overview

In accordance with the legislation of the Republic of Kazakhstan, the procedure for the determination of price limits for the wholesale distribution of commercial gas is set by the Ministry of Energy of the Republic of Kazakhstan (the “**Ministry of Energy**”). Price limits for the wholesale distribution of commercial gas are set annually on 1 July for each region, city of republican significance and the capital separately. A single price limit is set for all gas distribution systems situated in the aforementioned locations.

The proposals on the level of the price limits for the wholesale trade of commercial gas for the upcoming year for a region, city of republican significance and the capital is developed by the Ministry of Energy on the basis of the sum of:

1. the aggregate of the weighted-average mean of:
 - the prices of commercial gas scheduled for purchase by the national operator from subsoil users for the purpose of supplying the aforementioned locations;
 - prices of commercial gas scheduled for purchase within the frame of the counter-delivery transactions of the Central Asian and (or) Russian gas for the Kazakhstan commercial gas for the scheduled period; and
 - prices of commercial gas scheduled for purchase on the border of the Republic of Kazakhstan within the frame of the import delivery transactions for the scheduled period;
2. the weighted-average expenses for the transportation of commercial gas by the main gas pipelines from the location where it is purchased to the gas distribution systems situated in the aforementioned locations and for the storage of commercial gas in the underground gas storage facilities determined on the basis of tariffs approved by the CRNM; and
3. the profitability rates for the scheduled period separately for the aforementioned locations approved by the Ministry of Energy.

The proposals should not envisage the increase of price limits by more than 15% during one calendar year.

The proposals should be developed by the Ministry of Energy within a period of not later than 65 calendar days prior to the starting period and introduced for the approval of the Ministry of National Economy of the Republic of Kazakhstan (the “**Ministry of National Economy**”) with the information used for their development attached. The Ministry of National Economy may request additional information from the Ministry of Energy, which shall be provided within a period of not later than five calendar days from the date of such request. If the Ministry of Energy fails to provide such information within the time period specified, then the Ministry of National Economy rejects the proposals. The Ministry of Energy with the agreement with the Ministry of National Economy approves the price limits for the wholesale distribution of commercial gas on the domestic market for the upcoming year not later than 15 May.

The price limits for the wholesale distribution of commercial gas set for individuals carrying out retail distribution of commercial gas and which are subjects of the regulated market can be defined on a group basis by the CRNM.

The price limits are approved every year for each gasified region of Kazakhstan. Pursuant to the Decree of the Minister of Energy No. 354, dated 14 May 2015, the price limits for wholesale distribution of natural gas for the period of 1 July 2015 to 30 June 2016 are set in the following amounts:

No.	Name of the Region	Price per 1,000 m3 without VAT 1 July 2015 – 30 June 2016	Price per 1,000 m3 without VAT 1 July 2014 – 30 June 2015
1.	City of Almaty	18,263	15,881
2.	Almaty region	18,263	15,881
3.	South-Kazakhstan region	16,808	14,616
4.	Jambyl region	16,457	14,310
5.	Kyzylorda region	6,561	5,705
6.	West-Kazakhstan region	11,266	10,961
7.	Aktobe region	4,105	4,105
8.	Atyrau region	5,464	5,439
9.	Kostanai region	17,105	15,748
10.	East-Kazakhstan region	7,563	7,563
11.	Mangistau region	11,894	11,164

Tariffs Overview

In accordance with the legislation of the Republic of Kazakhstan, the Issuer is considered a natural monopoly which provides regulated services, i.e. gas transportation through gas pipelines, and therefore its transportation tariffs are subject to governmental regulation. Tariffs are set by the CRNM. Tariffs charged to customers for gas transportation via the Company's trunk and distribution gas pipeline network represented more than 10% and 10% of the Issuer's total revenues in both 2013 and 2014.

The tariffs are meant to cover the costs of financing, operating and maintaining the pipeline network and to provide for some profit margin. The Issuer is entitled to file an application with the CRNM for the review of tariffs on regulated services not more than once every 12 months. After considering such an application, the CRNM is entitled to change the tariff or reject the application. The Issuer regularly interacts with the CRNM concerning the tariffs system relating to the Issuer's services and its potential improvement in order to create a more flexible and efficient tariff policy.

Tariff Calculation

Regulated tariffs for natural monopolies are based on the "cost-plus" principle, meaning that tariffs must be no less than the entity's costs related to the regulated services and should allow such entity to generate some profit to maintain its business. Costs are defined for this purpose to include operating expenses, asset depreciation and interest expenses on loans and borrowings.

According to the methodology approved by the CRNM, the tariff formula for transportation of 1000 m³ of gas by main pipeline is as follows:

$Tariff = Tariff\ profit / Volume$, where:

$Volume$ = annual volume of internal gas transportation,

$Tariff\ profit$ = planned tariff profit from internal transportation = $Costs + Profit\ margin / Tax$, where:

$Costs$ = costs of all branches + costs of the central office,

$Profit\ margin$ = profit margin for the activity for internal gas transportation of sales gas by main pipeline, determined according to a specific formula.

Tax = coefficient of recalculation of profit margin (net income) inclusive of payment of corporate income tax and other payments payable to the budget from net income for the planned period.

Currently, the Issuer's tariff for gas transportation varies from KZT 591.80 to KZT 3,737.77/1000m³, depending on the region in which the Issuer provides services.

The following table set forth information on the current gas transportation tariffs of the Issuer:

No.	Name of the Region	Transportation tariff, KZT per 1000 m3
1.	Aktobe	1,001.10
2.	Atyrau	1,269.32
3.	East-Kazakhstan	1,550.00
4.	Jambyl	3,737.77
5.	Kostanai	1,382.00
6.	Kyzylorda	3,576.15
7.	Mangistau – distribution pipeline	1,284.12
8.	Mangistau – cross-country pipeline	591.80
9.	South-Kazakhstan	5,184.58
10.	West-Kazakhstan	2,266.20
11.	Zhetisy	3,454.64

Maintenance and Upgrade of Existing Pipeline Networks

The operations of the Issuer require capital investments for the purpose of the maintenance of the current condition of pipeline networks, modernisation of infrastructure and compliance with the requirements of environmental legislation. Capital investments made by the Issuer in 2013 and 2014 amounted to KZT 297,123,000 and KZT 428,400, respectively.

The Issuer generally purchases raw materials for maintenance work from a variety of suppliers in accordance with the procurement rules of Samruk-Kazyna.

Accidents at the Issuer's pipelines

During the years of 2013, 2014 and the first six months of 2015 the Issuer had 6,783, 8,210 and 3,380 accidents at its pipelines, respectively. The total amount of damages caused by the accidents amounted to KZT 43,348,294, KZT 44,664,981.80 and KZT 25,838,370 respectively. The major cause of the accidents is motor vehicles crashing into the gas pipelines.

Research and Development

One of the primary goals of the Issuer is to use the results of advanced scientific research and high-end technologies in the area of pipeline transportation of gas, with the aim of reducing operational costs and increasing the reliability of equipment.

Competition

As a natural monopolist engaged in distribution of gas and providing gas transportation services in the Republic of Kazakhstan, the Issuer is not subject to commercial competition.

ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

Environmental Compliance

The Issuer is subject to a variety of Kazakhstan's environmental laws, regulations and requirements that govern air emissions, water use and disposal, waste management, impacts on wildlife, as well as land use and reclamation. *See "Business"*.

Under Kazakhstan law, companies are obligated to obtain permits (as described below) for the contamination of the environment and must observe all requirements set out in such permits. The Environmental Code is the main Kazakhstan law governing nature use-related activities. The officials authorised to monitor environmental compliance and enforce environmental requirements include the Chief State Ecological Inspector, the Deputy State Ecological Inspector and other regional officials who have the authority to supervise environmental compliance and initiate judicial proceedings.

The Issuer is obliged to have various environmental programmes in place and implement these programmes on a regular basis. In connection with this, the Issuer is conducting a number of activities aimed at preventing/mitigating the negative effects of its business operations on the environment, stabilization and improvement of the environment's condition, including monitoring air, subsoil, ground, and surface water and soil, utilization of waste disposal equipment and techniques (tires, accumulators, waste oils etc.) and portioning of emissions (development of standards of maximum permitted emissions, waste, etc.). The Issuer's total expenses for environmental protection were KZT 43.6 million in 2014 and KZT 47.3 million in 2013 and included expenses for, among others, industrial environmental control, sanitary and bacteriological surveys of water, environmental insurance and disposal of waste.

For the period ended 31 December 2014, the Issuer also conducted a number of activities at its facilities targeting a reduction in its emissions volumes. In particular, the Issuer is currently modernising its Mangistau and Zhambyl regions branches and is planning to modernise the gas distribution network in the South Kazakhstan and Aktyubinsk regions. Such modernisation includes replacing steel pipelines with polyethylene pipelines that minimise gas leaks due to corrosion and do not require current cathodic protection, which in turn reduces consumption of electricity by the Issuer. Additionally, the Issuer is replacing old pipelines with new pipelines to minimise of gas leaks.

In carrying out its environmental policies, the Issuer generally seeks to adhere to international standards for environmental protection and monitors its compliance with these principles. Accordingly, as part of the Issuer's development plan, it is in the process of implementing policies and making investments that it believes will enable it to adhere to these standards in all of its operations.

Environmental permits

The concept of an environmental permit (the "EP") was developed as a means for the Government to regulate pollution. An EP is a special permit that grants a user a temporary right to emit or disperse emissions into the atmosphere and discharge waste substances into surface and underground waters. EPs contain the conditions governing the user's impact on the environment. Companies whose operations impact the environment are required to obtain an EP. Depending on the quantity of pollutants emitted into the environment, an EP is to be issued for up to ten years either by regional executive authorities or by the competent authority for environmental protection, which, following the reorganisation of the Government is the Ministry of Energy. Fees for pollution of the environment are established by the Tax Code of Kazakhstan and may be increased (within certain limits) by local representative bodies (Maslikhat). The holding of an EP shall not exempt a user from liability to pay compensation for damage to the environment caused by its activities, or exempt the user from administrative or criminal liability.

The Issuer currently holds several EPs to emit and disperse emissions into the atmosphere and discharge waste substances into surface and underground waters, through its branches located in the South Kazakhstan, Mangistau, Kyzylorda, Atyrau, Aktyubinsk, Kostanay, West Kazakhstan and Zhambyl regions.

The Environmental Code sets out the framework of climate change control in Kazakhstan. Starting from 1 January 2013, no person may carry on a specified activity (this includes energy activities) without quotas set out in the relevant greenhouse gas emissions permit to be issued annually by the environmental control committee, although legal entities not emitting more than 20,000 tonnes of carbon dioxide in a year are exempted from this prohibition. The relevant amendments were introduced to the Environmental Code in relation to applications for a greenhouse gas emission permit, including the required information relating to the installation in respect of which the permit is sought, the programme for the reduction of emissions and the planned arrangements for the implementation of the programme, including the grounds on which an application may be refused.

Emissions quotas are allocated pursuant to a national allocation plan. The Resolution of the Government of the Republic of Kazakhstan No. 586 dated 7 May 2012 sets guidelines for allocation of quotas, namely the quotas in a national allocation plan for existing installations are established at the level of emissions made in the previous years. For 2014 to 2015, the national allocation plan was approved by the Resolution of the Government of the Republic of Kazakhstan, No. 1536 dated 31 December 2013.

The Issuer is not included in the national allocation plan for 2014 - 2015 and was not included in 2013.

Water Permits

The Water Code dated 9 July 2003 No. 481-II (the “**Water Code**”) aims at implementing governmental policy in relation to the utilisation and protection of water resources. The Water Code sets out obligations for the use of water and discharge of certain materials into the water, on the basis of Water Use Permits (the “**WUP**”). WUPs can be withdrawn if the terms as specified in the relevant WUP are breached. Such terms include monitoring the quality of undergrounds water, submitting statistical reports and monitoring reports, complying with requirements relating to water pollution during mining operations and regular checking of equipment. The term of a WUP may be extended subject to compliance with requirements specified within the WUP.

The Issuer does not hold a WUP for the purposes of its business activities.

Health and Safety Matters

The Issuer’s activities are subject to the laws and regulations of Kazakhstan relating to safety and health matters and are regulated by various governmental agencies based upon provisions of the legislation of Kazakhstan.

The Issuer implements measures for the improvement and enhancement of working conditions and the prevention of industrial injuries. Applicable laws and regulations require an employer to provide its employees with properly functioning and safe equipment, to train its employees on health and safety requirements, to adopt corporate health and safety regulations, to provide special uniform and footwear, special nutrition, to perform periodic medical examinations of its employees, to obtain periodic third party attestation for equipment and worksites and to comply with fire safety, sanitary and hygienic regulations.

The Issuer has conducted scientific and technological studies to develop its base environmental standards and implement new engineering mechanisms in its upstream operations that are designed to minimise environmental, health and safety hazards. The Issuer utilises systems based upon the best

practices of environmental protection and certified under the requirements of environmental international standards (“**ISO 14001**”) and the occupational health and safety management systems (“**OHSAS 18001**”). The Issuer has obtained ISO 14001 and OHSAS 18001 certifications for its occupational health and safety management systems.

The actual capital expenditures of the Issuer on labour safety activities totalled KZT 153.5 million in 2014 and KZT 169.4 million in 2013.

There were no material industrial accidents involving employees of the Issuer in first quarter of 2015 or during the course of 2014 and 2013.

MANAGEMENT

Management

Pursuant to Kazakhstan's laws and the Issuer's charter, the control and management of the Issuer are carried out by the sole shareholder – KTG (the supreme body of the Issuer), the Board of Directors (the management body), and the Management Board (the executive body).

Sole Shareholder

The sole shareholder performs the functions of the general shareholders' meeting as set forth in the Law of the Republic of Kazakhstan "On Joint Stock Companies" (No. 415-II dated 13 May 2003) (the "JSC Law"), and the Issuer's charter. Such functions include, among others, the following:

- approving voluntary reorganisation or liquidation of the Issuer;
- adopting decision on dividends payment;
- determining the conditions and procedure for converting the Issuer's securities and amending the same;
- appointing the members of the Board of Directors of the Issuer;
- approving the appointment of the Chairman of the Management Board of the Issuer;
- appointing the Issuer's external auditors; and
- approving participation by the Issuer in the establishment or activity of other entities where the amount of consideration paid by the Issuer for such acquisition or participation exceeds 25% of the balance sheet value of the Issuer's assets.

Board of Directors

The Board of Directors is responsible for the general management of the Issuer's activities and has the authority to make decisions on all aspects of the Issuer's activities, except those matters expressly reserved to the sole shareholder and / or the Management Board pursuant to the JSC Law and the Issuer's charter (as outlined above). In particular, the powers of the Board of Directors include, among others, the following:

- approving the Issuer's business plan;
- defining the Issuer's areas of priority;
- defining terms and conditions of the Issuer's notes and derivatives;
- appointing the members of the Management Board;
- adopting decisions on major transactions (which are considered by the JSC Law as transactions involving amounts greater than or equal to 25% of the balance sheet value of a company's assets) and related party transactions (unless the counterparty to an interested

party transaction is within the Samruk-Kazyna group³, in which case, the Management Board may adopt decisions relating to such transactions); and

- approving purchases and disposals by the Issuer of 10% or more of the shares (participatory interests) in other legal entities.

Members of the Board of Directors are appointed by a resolution of the sole shareholder for a term of up to three years and shall not serve on the Board of Directors for more than nine consecutive years (although this limit is subject to certain exceptions)..

As at the date of this Prospectus, the Issuer’s Board of Directors consists of the following members:

<u>Name</u>	<u>Age</u>	<u>First Appointed</u>	<u>Term expires</u>	<u>Current Position</u>
Rustam Suleymanov	42	2015	2016	Chairman of the Board of Directors
Ibulla Serdiyev	39	2014	2016	Member of the Board of Directors
Serik Zhamanbalin	32	2010	2016	Member of the Board of Directors, Independent Director

Rustam Suleymanov. Mr. Suleymanov was born in 1973. He graduated from Almaty Institute of Agriculture with a degree in Economic Cybernetics. Mr. Suleymanov started his career in 1994 and worked as an economist and financial inspector in various commercial organizations. He has worked in the gas field for 13 years. From 1997 to 2000, Mr. Suleymanov worked as an appointed person to different positions and was in charge of departments of financial control and economy at Alautransgas JSC. From 2000 to 2001, he worked as a manager of the consulting working party on the gas supply project. He then worked as a regional manager at KTG distribution JSC for two years. Mr. Suleymanov has worked as a Director of the Marketing and Contracts Department at the Issuer since May 2002. He was awarded a medal by KazEnergy Association of Legal Entities. Mr. Suleymanov has been Chairman of the Board of Directors of the Issuer since 19 May 2015.

Ibulla Serdiyev. Mr. Serdiyev was born in 1976. He graduated from Kazakh Academy of Transport and Communication of M. Tynyshpayev in 1999 with a degree in Engineering and Economics. Mr. Serdiyev started his career in 1995 in Oil Contract OJSC. From 2003 to 2005, he worked as a chief specialist of the Monitoring and Tender Procedures Department of ICA. Mr. Serdiyev has worked as a head of the Control and Monitoring of Procurements Department in the National Company Kazakhstan Temir Zholy JSC from 2006. In the following years, Mr. Serdiyev held senior positions at various business entities. From 2009, he held the position of a leading specialist, a chief specialist and a manager at the Issuer. Mr. Serdiyev worked as a Director of Mangystau’s production branch in 2009. In September 2011, he became a Director of the Department of Monitoring of Contracts and Prices at the Issuer, and then he became a Managing Director at the Issuer. Mr. Serdiyev was awarded a “20 years of independence of the Republic of Kazakhstan” medal in 2011. Mr. Suleymanov has been a member of the Board of Directors of the Issuer since 3 November 2014.

³ Samruk-Kazyna group is defined under the Law of the Republic of Kazakhstan “On Sovereign Wealth Fund” (No. 550-IV dated 1 February 2012) (the “S-K Law”) as the fund, companies, their subsidiaries with more than fifty percent of voting shares (interest) owned by the companies, as well as legal entities with more than fifty percent of voting shares (interest) owned by the subsidiaries of the listed companies, in relation to which there is a special legal regime under the S-K Law.

Serik Zhamanbalin. Mr. Zhamanbalin was born in 1983. He graduated from Kazakh Humanitarian and Law University in Almaty with a degree in International Law and specialization in external economic activity. Mr. Zhamanbalin also graduated from the Intensive English Institute at Dean College in Boston, Massachusetts, United States of America, the Centre of European Law and Economic Studies on specialization “Company Law” in Almaty and the Karaganda Economic University of Kazpotrebsoyuz, a university branch in Astana, the faculty of “Finance and Debt” with specialization in “Tax and taxation” and qualifications of “Financial expert”. Mr. Zhamanbalin has been a manager of the investment projects in Olympex Advisers LLP. Mr. Zhamanbalin has been a member of the Board of Directors and an independent director of the Issuer since 11 June 2010.

The business address of each of the members of the Board of Directors is the registered office of the Issuer at 14/3, Kunayev Street, Astana 010000, Kazakhstan.

Management Board

The Management Board is responsible for the day-to-day management and administration of the Issuer, subject to the supervision of the Board of Directors and the sole shareholder. The Management Board’s responsibilities include, among others, the following:

- approving purchases and disposals by the Issuer of up to 10% of the shares (participatory interests) in other legal entities;
- adopting decisions relating to interested party transactions concluded with the Samruk-Kazyna group of companies;
- adopting binding resolutions and instructions to the Issuer’s employees; and
- coordinating activities of the Issuer’s branches.

As at the date of this Prospectus, the Issuer’s Management Board consists of six members. The Board of Directors may at any time terminate the authority of any Management Board members, other than the Chairman of the Management Board, who is appointed or whose authorities are terminated by the sole shareholder.

As at the date of this Prospectus, the Issuer’s Management Board consists of the following members:

Name	Age	Position with the Issuer
Ibulla Serdiyev	39	Chairman of the Management Board, Member of the Board of Directors
Galym Aidossov	55	First Deputy Chairman of the Management Board Deputy Chairman of the Management Board for
Akilbay Saparov	49	Corporate Development
Adilbek Batalov	33	Deputy Chairman of the Management Board
Nurlan Matvaliyev	60	Managing Director
Ruslan Sagymbekov	29	Managing Director

Ibulla Serdiyev. See “—Board of Directors”.

Galym Aidossov. Mr. Aidossov was born in 1960. He graduated from Moscow State University named after Lomonosov in 1982 with a degree in Mechanics and he also graduated from the Kazakh Engineering and Economics University in 2006 with a degree in Economics. Mr. Aidossov is a Doctor of Engineering, a Candidate of Physical and Mathematical Sciences and an associate professor. He started his career in Almaty Architecture and Construction Institute as a lecturer of the Further Maths

Academic Department; he also worked as a Chairperson of the Further Maths Academic Department and Vice-Dean of the Advanced Maths Academic Department. From 1997 to 1999, Mr. Aidossov worked as the head of various departments at Air Kazakhstan JSC. He has worked in the gas field since 1999 as a Counsel to the president on economic matters, a Financial Director at Alautransgas JSC, and as a Financial Director at KTG Distribution JSC. Mr. Aidossov has been within the Issuer since 2002 as a Financial Director, deputy General Director in Economics and Finances, a Managing Director in Economics and Finances and a First Deputy Director General. Mr. Aidossov has been a member of the Management Board of the Issuer since 26 August 2011.

Akilbay Saparov. Mr. Saparov was born in 1966. He graduated from the Kazakh State Polytechnic University in 1991 with a degree Mechanical engineering. He started his career in 1990 and worked in the administration of Alatau district. From 1993 to 2001, he worked in the State Committee of the Republic of Kazakhstan on State Property. From 2001 to 2002 he worked as a Deputy Director in Economics and Finances of KazTransOil JSC, a Director of the Asset Management Department at KMG and as the First Deputy Director of Tenniz Service LLP. From 2005 to 2014, Mr. Saparov worked as a Deputy Chairperson and further as Chairperson at KTG Almaty . Mr. Saparov has been a Deputy General Director of the Issuer from 2014. Mr. Saparov has been a member of the Management Board of the Issuer since 24 November 2014.

Adilbek Batalov. Mr. Batalov was born in 1982. He graduated from the Kazakh National Economical University named after Turar Ryskulov in 2003 with a degree in Economics. He also graduated from Nottingham University in Nottingham, United Kingdom with a degree in Finance. Mr. Batalov started his career as a manager in Munai Dariya LLP, worked as a specialist and as a chief specialist at Bank TuranAlem JSC, and as a senior manager at TD KazMuaniGaz JSC. From 2008 to 2012, he worked in The RompetrolGroup N.V. as a secretary of the Board of Directors, a Deputy of the General Director and the head of the representative office. He also held the position of the General Director's Counsel of KazMunaiGaz Processing and Marketing JSC. From 2012, Mr. Batalov has worked as a Director of Processing and Marketing Department in KMG. From December 2014, he has held the position of a Managing Director and a Deputy of the General Director of the Issuer. Mr. Batalov has been a member of the Management Board of the Issuer since 8 June 2015.

Nurlan Matvaliyev. Mr. Matvaliyev was born in 1955. He graduated from the Institute of the National Economy in 1977 with a degree in Finance and Debt. Mr. Matvaliyev started his career at the Ministry of Finance of the Republic of Kazakhstan as an economist, and subsequently worked there as a senior economist, leading economist and the head of a department. From 1990 to 1997, he has been appointed to various positions at tax authorities and legal entities in Almaty. From 1997 to 1999, Mr. Matvaliyev worked as the president of EnergoCenter-ES-Kazakhstan OJSC. From 1999 he held managing positions at the tax authorities of Taraz, Almaty, Dzhambyl and Almaty regions. From 2009 to the present day, Mr. Marvaliyev has worked as a Managing Director of KazTransGaz Aimak JSC. Mr. Matvaliyev has been a member of the Management Board of the Issuer since 29 April 2009.

Ruslan Sagymbekov. Mr. Sagymbekov was born in 1986. He graduated from the Kazakh University of International Relations and World Languages with a degree in State and Local Management. He is a Master of Economics on the specialization in Finance. Mr Sagymbekov started his career in 2009 as a chief specialist of the Almaty Department of the Agency of the Republic of Kazakhstan for Regulation of Natural Monopolies. From 2010, he has held the positions of the Senior Manager and Director of the Investment Policy Department of the Issuer. From November 2014, he has worked as a Managing Director at the Issuer. Mr. Sagymbekov has been a member of the Management Board of the Issuer since 24 November 2014.

The business address of each of the members of the Management Board and its Chairman is the registered office of the Issuer at 14/3, Kunayev Street, Astana 010000, the Republic of Kazakhstan.

The Chairman of the Management Board is the Issuer's chief executive officer. The current Chairman of the Management Board, Ibulla Serdiyev, was appointed by a resolution of KMG in October 2014.

Internal Audit Service

Internal audit of the Issuer is performed by KMG Internal Audit Service.

Management Remuneration

In accordance with the Issuer's charter, the remuneration of the members of the Board of Directors is determined by the sole shareholder, while remuneration of the Chairman of the Management Board, the members of the Management Board and the Internal Audit Service is determined by the Board of Directors.

Total compensation paid to the key management personnel of the Issuer amounted to approximately KZT 426.3 million for the year ended 31 December 2014 and KZT 788.2 million for the year ended 31 December 2013. Compensation paid to key management personnel consists of bonuses, short-term payments and social tax.

Employment Contracts with Senior Executive Officers

In general, the Issuer enters into employment contracts of indefinite duration with its senior executive officers. Under these contracts, the senior executive officers of the Issuer are entitled, in addition to their regular salary, to annual bonuses based on the Issuer's annual performance. "Golden Parachute" clauses are not included in the employment contracts with senior executive officers of the Issuer,

Employees

As at 1 January 2015, the Issuer had 4,412 full-time employees, compared to 5,392 full-time employees as at 1 January 2014.

Employee compensation is based on fixed salary. The fixed salary is based on market rates required to hire a specific profile of employee based on experience and capabilities. In addition, all employees get premiums quarterly for the public holidays: Nauryz, Unity of Kazakhstan Nations; Constitution Day and Independence Day.

Compensation of the Board of Directors is established and approved by the sole shareholder. Compensation for the Management Board is established by the Board of Directors. Compensation for all other employees is the responsibility of the Chairman and the Management Board.

Top managers receive annual bonuses at financial year-end.

The Issuer's trade union was established in April 2008. As at 30 June 2015, the Issuer's trade union had 3,373 members, all of whom are employees of the Issuer.

The Issuer also maintains medical insurance for its employees.

In September 2013, the Issuer decided to finance housing purchases for employees transferred to Astana in 2013. As a result of this decision, 116 employees received compensation for housing purchases in the amount of KZT 15.5 million under the condition that the employee will work for the Company for the next five years.

As at the date of this Prospectus, the Issuer has not experienced any material labour disputes or strikes.

SHARE CAPITAL, SOLE SHAREHOLDER AND RELATED PARTY TRANSACTIONS

Share Capital

As at 30 June 2015, the authorized and issued share capital of the Issuer comprised 61,592,587 fully paid common shares. As at 30 June 2015, the Issuer had no issued and outstanding preference shares. All shares of the Issuer are in registered form in the share register of the Bank, maintained by a unified registrar - JSC “Unified Registrar of Securities”.

Issued capital and share premium

	31 December 2014	31 December 2013
	shares	shares
	<i>(audited)</i>	<i>(shares)</i>
Issued at KZT 1,000.00.....	54,837,260	53,283,420
Issued at KZT 3,493.00.....	1,554,256	1,554,256
Issued at KZT 1,453.00.....	2,591,374	2,591,374
Issued at KZT 1,461.00.....	685,440	-
Issued at KZT 10,000.00.....	145,546	-
Total issued and outstanding shares	59,813,876	57,429,050

In April 2015 the Issuer placed additional shares which were acquired by the sole shareholder of the Issuer.

Sole Shareholder

KTG currently holds 100% of the Issuer’s share capital. KTG is a joint stock company which has been appointed as the national operator for the transportation of gas and whose shares are held by KMG (the national oil and gas company of Kazakhstan with vertically-integrated upstream, midstream and downstream operations located principally in Kazakhstan), which is majority-owned by Samruk-Kazyna (the national managing holding company for substantially all state enterprises), which is itself wholly-owned by the Government. *See “Recent Developments”.*

Samruk-Kazyna

Samruk-Kazyna is a State-owned, sovereign wealth fund and a locally incorporated joint stock company which was established in 2008 and which owns, either in whole or in part, many important companies in the country, including the national railway company (JSC Kazakhstan Temir Zholy), the national postal service, the national oil and gas company (KMG), the national atomic company (Kazatomprom), the national grid (KEGOC) and the national flagship airline (Air Astana). As at 1 January 2015, Samruk-Kazyna had 371 subsidiaries. As at 31 December 2014, Samruk Kazyna controlled assets of approximately KZT 16.6 trillion, representing approximately 43.0% of Kazakhstan’s GDP in 2014. Samruk-Kazyna was established in order to enhance the competitiveness and sustainability of the economy of Kazakhstan and prevent any potential negative impact of changes in world markets on economic growth. The key purpose of Samruk-Kazyna is to hold the shares of national companies and other legal entities that it owns with the aim of maximising their long-term value and competitiveness in the world markets.

KMG

KMG was created in 2002 to represent the State’s interests in Kazakhstan’s oil and gas industry. KMG has a number of subsidiaries, including JSC KMG Exploration and Production (an upstream operator), JSC KazMunaiTeniz (an offshore oil and gas operator), JSC KazTransOil (an oil pipeline operator), and KTG (a gas pipeline operator). KMG holds equity interests in the Kashagan field (16.8%) and the Tengiz field (20%), as well as interests ranging between 15% and 100% in many onshore projects. It holds at least a 50% interest in most of the offshore projects.

Related Party Transactions

In the ordinary course of its business, the Issuer from time to time enters into transactions with related parties. Related parties for purposes of this discussion follows the definition set out in the 2014 Financial Statements, (see Note 29), pursuant to which parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Under Kazakhstan laws, related party transactions shall be made in accordance with the JSC Law, as well as Samruk-Kazyna's internal regulations if relevant, on terms agreed between the parties. Such terms may not necessarily be at market rates, except for certain regulated services, which are provided based on the tariffs available to related and third parties.

Under the 2014 and 2013 Financial Statements, during 2014 and 2013, the sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions.

The Issuer identifies related party transactions as transactions with KTG, KMG and:

- the key management personnel of the Issuer;
- companies under the control of KTG;
- companies under the control or common control of KMG; and
- companies under the control or common control of Samruk-Kazyna.

The major transactions with related parties for the years ended 31 December 2014 and 2013 and balances as at 31 December 2014 and 2013 were as follows:

Related party	For the period ended	Revenue	Revenue	Expenses	Trade receivables	Advanced paid
		(Sales of gas and other goods)	(Rendering of services)	(Purchases of GWS)		
<i>(KZT thousands)</i>						
KTG	31 December 2014	13,222,234	38,642	51,665,520	2,947,486	—
	31 December 2013	14,108,780	5,943	1,580,408	2,696,992	—
KMG	31 December 2014	—	158,261	—	—	—
	31 December 2013	—	—	—	—	—
Companies under control of KTG ⁴	31 December 2014	2,004,436	620	6,084,808	2,212,716	—
	31 December 2013	2,383,713	—	5,306,490	795,441	—
Companies under control or common control of KMG ⁵	31 December 2014	910,925	99,892	21,253,557	9,499	3835
	31 December 2013	808,162	113,255	28,696,391	32,297	2,983,192
Companies under control or common control of Samruk-Kazyna ⁶	31 December 2014	388,641,67	1,183,561	138,406	4,068,825	2,844
	31 December 2013	27,119,205	438,619	173,028	2,869,562	7

Related party	For the period ended	Trade payables	Advanced received	Other current assets	Other current liabilities
		<i>(KZT thousands)</i>			
KTG	31 December 2014	26,615,947	—	—	—
	31 December 2013	589,454	—	—	—
KMG	31 December 2014	—	—	177,252	—
	31 December 2013	—	—	—	—
Companies under control of KTG	31 December 2014	1,895,040	—	6,126	—
	31 December 2013	4,254,730	—	8,042	—
Companies under control or common control of KMG	31 December 2014	2,604	162,657	—	—
	31 December 2013	3,598,013	3,219	—	—
Companies under control or common control of Samruk-Kazyna	31 December 2014	8,206	280,620	—	—
	31 December 2013	22,625	212,229	355,630	9

Transactions with Samruk-Kazyna

In 2013 - 2014 the Issuer entered into several trust management agreements under which the Issuer received gas pipelines and related plants and property in the West Kazakhstan, Zhambyl, Aktobe and

⁴ Transactions with KTG are mainly represented by transactions of the Issuer with ICA; JSC KazTransGas Onimderi; KTG Almaty; Almaty Gas Trade LLP.

⁵ Transactions with KMG are mainly represented by transactions of the Issuer with KTO; JSC Kazakhstan Petrochemical Industries; JSC Embamunaygas; KMG Transkaspi LLP; KMG EP Catering LLP; JSC MangistauMunaiGas; Urikhtau Operating LLP; NII Kaspimunaygas LLP; Zhol – Service LLP; JSC Ozenmunaygas; JSC EuroAsia Air; KazakhoilAktobe LLP; Oil Construction Company LLP; Ken – Kurylesservice LLP; Mangistauenergumunai LLP; SemserOrt – Sondirushi LLP; KMG Karachaganak LLP; KMG Service LLP; KRUZ LLP; JSC KMG Onimderi; Kazakhturkmunay LLP; JSC EP KazMunayGas; Teniz Service LLP; KMG EP Catering LLP; Tengizchevroil LLP; KazRosGas LLP; KazGPZ LLP; Kazgermunay LLP; JSC KBTU; JSC Ozenmunaygas.

⁶ Transactions with Samruk-Kazyna are mainly represented by transactions of the Issuer with JSC NAC Kazatomprom; JSC Zhambyl GRES, JSC SamrukEnergo; JSC NC Kazakhstan Temir Zholy; JSC NAC Kazakhstan Engineering; JSC Kazpost; JSC Kazakhtelecom; Samruk – Kazyna Contract LLP.

the Kostanai regions from Samruk-Kazyna. Under the trust management agreement with respect to the Kostanai region the Issuer has also been provided with property.

Transactions with KTG

Since KTG is the sole supplier of gas to the Issuer, the main group of the Issuer's transactions with KTG is the sale and purchase of gas. In addition to the sale and purchase of gas in 2014, the Issuer also entered into agreements with KTG, under which the Issuer lends gas to KTG; and borrows gas from KTG.

Another group of significant transactions entered between the Issuer and KTG is trust management agreements with respect to gas pipelines and other property. Thus, in 2015 the Issuer received property in Kostanai region from KTG under a trust management agreement. In 2014, the Issuer received gas pipelines and property in West Kazakhstan, Zhambyl and Aktobe regions from KTG under several trust management agreements.

In 2014, KTG acted as a guarantor on credit facility agreement between the Issuer and JSC Citibank Kazakhstan and loan obtained from the DBK.

In 2014 the Issuer entered into agreements with KTG, under which the Issuer provides technical assistance for gas realization services to KTG; and KTG provides gas transportation services to the Issuer.

Transactions with KMG

In 2013 - 2014, the Issuer entered into trust management agreements with KMG under which the Issuer received gas pipelines and related plants and property in the West Kazakhstan, Zhambyl and Aktobe regions from KMG. In order to expand its presence in the Kostanai region as a major gas supplier, in November 2014 the Issuer entered into a trust management agreement with KMG under which the Issuer received property, including gas-distribution plants and constructions in the Kostanai region from KMG.

Transactions with ICA

In April 2013, the Issuer entered into a purchase and sale agreement with ICA, under which the Issuer sells natural gas to ICA.

In 2013, the Issuer entered into agreements with ICA, under which ICA provides gas transportation and gas storing services to the Issuer.

Transactions with key management personnel

Total compensation paid to the key management personnel of the Issuer amounted to approximately KZT 426.3 million for the year ended 31 December 2014 and KZT 788.2 million for the year ended 31 December 2013. Compensation paid to key management personnel consists of bonuses, short-term payments and social tax.

THE GAS INDUSTRY IN KAZAKHSTAN

The oil and gas sector is of strategic importance to the Republic of Kazakhstan because it is the principal source of Kazakhstan's export earnings and reserves, fiscal revenue and future foreign direct investment inflows.

According to the June 2014 BP Statistical Review of World Energy, as at 31 December 2013 Kazakhstan had proven reserves of approximately 53.9 trillion cubic feet of natural gas, or 0.8% of global reserves, and had production capacity of 18.5 billion cubic metres of gas, or 0.5% of global production capacity. Most of Kazakhstan's natural gas reserves are located in the west of the country near the Caspian Sea, with 29.7% of proven reserves situated in the Karachaganak field. Another important natural gas field, the Amangeldy field, is situated in the south of the country, near Zhambul.

Total production of natural gas in Kazakhstan in 2012, 2013 and 2014 amounted to 40,299.4 mcm, 42,404.8 mcm and, according to preliminary estimates, 43,239 mcm, respectively. Output from natural gas extraction accounted for 0.19%, 0.27%, and 0.23% of Kazakhstan's GDP in 2011, 2012, and 2013 respectively.

Karachaganak is currently the largest gas-producing field in Kazakhstan. Karachaganak operates within the scope of a final production sharing agreement entered into between the Government of Kazakhstan and a consortium of foreign investors (the "FPSA"). From the commencement of its operations in 1998 until 31 March 2015, the field has produced approximately 151 million tonnes of liquid hydrocarbon and approximately 191 billion cubic metres of gas. The gas re-injected into the field during the same period amounted to approximately 75 million cubic metres.

The following table sets out the amount of gas and liquid hydrocarbon produced and the amount of re-injected gas by the Karachaganak field for the periods indicated:

	Years ended 31 December					Three months ended 31 March
	2010	2011	2012	2013	2014	2015
	<i>(million cubic metres)</i>					
Production of gas	15,008	16,868	17,519	17,531	18,248	3,072
Re-injection of gas	6,437	8,129	8,666	8,570	8,818	4,816
	<i>(million tonnes)</i>					
Production of liquid hydrocarbon	11.4	12.1	12.2	11.7	12.2	2.2

In 2014, the total volume of production at the Karachaganak field was 18,248 million cubic metres of natural gas (of which 8,818 million cubic metres was re-injected gas) and 12.2 million tonnes of liquid hydrocarbons.

Natural gas production in Kazakhstan has increased significantly since 1999. Under Kazakhstan laws, subsoil users (such as oil companies) are required to include natural gas utilisation projects in their development plans. Since the passing of this law, natural gas production has steadily increased and, by 2000, it had surpassed its pre-independence production levels. Increases in Kazakhstan's gas production are expected to come primarily from associated gas in the Tengiz, Karachaganak and Kashagan fields.

Natural gas in Kazakhstan is almost entirely "associated" gas, meaning it is produced with oil. For this reason, several fields including the Karachaganak field re-inject significant quantities of gas into the ground to maintain crude wellhead pressure for liquids extraction. In the long-term, when the liquids are exhausted, this gas can then be recovered. Associated gas that is not re-injected is instead flared, which is economically inefficient and is particularly harmful to the environment. With a view to reducing the occurrence of natural gas flaring, in May 2005, the Government of Kazakhstan

ordered all oil producing firms to reduce oil production. One of the main sources of pollution related to exploration and operation of oil, gas and gas condensate fields are the products of associated petroleum gas flaring, and consequently the utilisation of associated gases at Kazakhstan oil and gas fields has become an issue of State significance. According to the Subsoil Law, the Ministry of Energy conducts a permanent monitoring over fulfilment of the approved Associated Gas Utilisation Programmes by Kazakhstan subsoil users. Pursuant to Article 86.8 of the Subsoil Law, subsoil users are required to provide for associated gas processing development programmes, which are to be updated every three years for the purpose of rational use of associated gas and mitigation of environmental impact by reducing the volumes of gas flaring or re-injecting (utilising) it. Since these measures were introduced, fulfilment of gas utilisation measures from 2006 to 2014 has caused a reduction of gas flaring from 3.1 to 0.8 billion cubic metres, i.e., by 2.3 billion cubic metres, whereas oil production has increased from 64.9 million tonnes in 2006 to 80.8 million tonnes in 2014 and gas production has increased from 27.0 to 43.2 billion cubic metres during the same period. The volume of utilised gas has increased from 23.9 billion cubic metres to 42.5 billion cubic metres in 2014, i.e., by 18.6 billion cubic metres. In 2014, the volume of flared gas was reduced by 74.2% as compared to 2006 and amounted to 0.8 billion cubic metres in 2014.

In 2012, the Kazakhstan legislation regulating the gas industry was amended to introduce the concept of a so-called “national operator”. It was decided that for the purpose of an uninterrupted and reliable gas supply there should be one company entitled to be engaged in wholesale gas distribution throughout the entire territory of Kazakhstan. According to legislation, the national operator must be a legal entity, control stake in which is owned by the State, or a national management holding company or a national company. The national operator purchases gas from gas producing entities in Kazakhstan and abroad and distributes it to retail distribution companies such as the Issuer. As of the date of this Prospectus, the national operator in the gas industry of Kazakhstan is KTG who is the only supplier of natural gas to the Issuer.

Kazakhstan has two separate domestic natural gas distribution networks: one in the west that services the country’s producing natural gas fields and one in the south that mainly delivers imported natural gas to the southern consuming regions, including Almaty.

Domestic gas consumption in Kazakhstan is increasing. Kazakhstan encourages the use of gas instead of coal and other sources of energy that are associated with higher levels of air pollution. For example, public transport in some cities is now powered by gas. Another state priority is the development of a petrochemical industry for the production of polyethylene and polypropylene from associated gas.

In 2012, a new law on gas and gas supply was adopted, which aims to ensure that Kazakhstan continues to meet its domestic gas needs through, among other things, storing gas reserves and ensuring that the State has a right of first refusal over any gas assets that are sold, which are currently privately owned. In addition, the new law on gas and gas supply aims to provide for the efficient, reliable and safe operation of gas supply systems through the continuous remote monitoring of gas transportation and the unification of Kazakhstan’s gas supply system.

On 5 December 2014, the Government of Kazakhstan approved a programme, the “Development of Gas Sector until 2030” which provides for various measures, including a pilot project on the production of coal-bed methane in the Karaganda region and identification of gas fields on which it is practicable to construct facilities for the production of liquefied natural gas, synthetic oil products and methanol or which can feasibly be connected to gas collection centres of a national gas operator.

International cross-country gas pipelines

In addition to domestic natural gas distribution networks, there are two cross-country pipelines passing through the territory of Kazakhstan.

The Kazakhstan-China Gas Pipeline (“**Asia Gas Pipeline**”) is part of the Central Asia-China Pipeline (“**CAC Pipeline**”) which extends from Turkmenistan through Uzbekistan to Khorgos in China, passing through Kazakhstan, ensuring the transportation of natural gas from Central Asia to China.

The Asia Gas Pipeline aims to expand transit capacity to China and serve the market in southern Kazakhstan, which is otherwise dependent on imported gas from Uzbekistan. On 12 December 2009, the first phase of this project, comprising a pipeline with a throughput capacity of 10 billion m3 per year, was completed. The second phase, comprising a pipeline with a throughput capacity of 30 billion m3 per year, was completed in December 2012. Construction of the third phase of the project began in November 2012 and is expected to be completed by January 2016.

Asia Gas Pipeline LLP, a joint venture of KTG and CNPC, is the operator of the Asia Gas Pipeline.

The Beineu- Bozoi-Shymkent Gas Pipeline

The Beineu-Bozoi-Shymkent Gas Pipeline (“**BSGP**”) is the second section of the Asia Gas Pipeline project which will run along the Mangystau, Aktobe, Kyzylorda and South Kazakhstan regions and interconnect with the first section of the Asia Gas Pipeline. It is intended to transmit gas from West Kazakhstan for use in the southern regions of Kazakhstan and its further export to China.

The construction of the BSGP began in September 2011. In December 2013, the first linear section of the pipeline between Bozoi and Shymkent with a length of 1,143 km and a throughput capacity of 2.5 billion m3 was commissioned. The first stage of the BSGP, comprising all sections of the Bozoi-Shymkent part, was launched in May 2015, bringing the throughput capacity of the pipeline to 6 billion m3 per year. The capacity of the BSGP is expected to be further expanded to 10 billion m3 by the end of 2016, when the portion of the pipeline between Beineu and Bozoi becomes operational.

The operator of the project is Beineu-Shymkent Gas Pipeline LLP, a joint venture of KTG and CNPC.

REGULATION OF THE GAS INDUSTRY IN KAZAKHSTAN

General Regulation of the Gas Industry

The regulation of the gas industry in Kazakhstan is mainly based on the Law of the Republic of Kazakhstan “On Trunk Pipeline” (No. 20-V dated 22 June 2012) (the “**Trunk Pipeline Law**”) and on the Law “On Gas and Gas Supply” (No. 532-IV dated 9 January 2012) (the “**Gas Law**”).

Trunk Pipeline Law

The Trunk Pipeline Law sets out a unified legislative basis for the construction, ownership, and operation of trunk pipelines, as well as the State’s control over strategic industries.

The Trunk Pipeline Law defines a trunk pipeline as an integrated production and technological facilities complex and includes an obligation to ensure the safe transportation of products. Pursuant to the Trunk Pipeline Law, the owner of a trunk pipeline must perform environmental rehabilitation procedures upon the removal of a trunk pipeline from operation. The costs of complying with such a requirement are, at present, unknown.

The Trunk Pipeline Law (as well as legislation regulating natural monopolies) provides for equal rights of access to trunk pipeline services for all shippers if there is free throughput capacity, subject to certain statutory limitations. If there is limited throughput pipeline capacity, gas transportation services must be rendered in the priority established by the Trunk Pipeline Law, where first priority is given to shippers supplying gas to domestic refineries. The Trunk Pipeline Law also provides for the possibility of swap operations (*i.e.*, swaps of products by one shipper for the products of another shipper) for the purposes of supplying oil to domestic refineries and gas to the domestic market or outside Kazakhstan, upon written consent of the pipeline owner (or other person legally holding rights to the pipeline), the competent authority, and the relevant swapping entities.

The Trunk Pipeline Law provides that, for trunk pipelines in which the State, a national management holding company, or a national company directly or indirectly owns more than a 50% interest, operator services must be provided by the national operator (namely, KTG), unless otherwise agreed by the Government.

Gas Law

The Gas Law consolidates and streamlines various legislation that previously regulated this area.

Pursuant to the Gas Law, the State is the owner of associated gas produced in Kazakhstan (under all new contracts, and under old contracts that provide for the State’s ownership) or transferred to the State by producers (under old contracts that provide that the subsoil user is the owner of associated gas).

The Gas Law establishes the State’s priority right to purchase (through KTG): (i) any facility within an integrated sales gas supply system (*i.e.*, connecting pipelines, trunk pipelines, sales gas storage facilities and other facilities for production, transport, storage, sale and consumption of gas); (ii) a share in the right of common ownership over such facilities, and (iii) shares (or a participatory interest) in the ownership of such facilities (*i.e.*, any oil producer that owns gas processing facilities or connecting pipelines for sales gas). Such purchases must be made on terms no less favourable than those offered by a third party.

In addition, the Gas Law provides for the State’s pre-emptive right to buy (through KTG) natural and purified gas at a price approved by the Ministry of Energy and determined pursuant to a formula provided in an order of the Minister of Energy. The price of natural and purified gas includes production costs, processing costs, transportation costs and a maximum profit margin. If the State waives its pre-emptive right, the seller may sell the gas to a third party.

In accordance with the Gas Law, under the Governmental Decree No.914 of 5 July 2012, KTG has been appointed as the “national operator” for the transportation of gas. Accordingly, KTG has been given a priority right to purchase (on behalf of the State) all associated gas produced in Kazakhstan at a regulated price, which it will then sell on the domestic market at a premium, using a significant portion of the premium to modernise and extend the domestic network.

Competent State Authorities and By-Laws

The State plays significant role in regulating gas transportation activity and design and construction of gas pipelines.

The Government is a general regulating authority, responsible for approval of the guidance of preparation and following approval of so prepared master plan of gas infrastructure development within the State, appointment of the national operator of the gas grid, regulation of gas export from Kazakhstan, making a decision on construction of export and transit gas pipelines, imposing regulations for the purposes of national security, environmental security and the protection of life and health of the population, regulating gas export by imposing customs, protection, antidumping and compensation duties and quotes.

Within the Government, *the Ministry of Energy* is the competent authority for gas and gas supply. According to the Gas Law, Trunk Pipeline Law and other applicable legislation, it is responsible for implementing state policies regarding gas and gas supply. For that purpose, and on the basis of the Gas Law and Trunk Pipeline Law, the Ministry of Energy adopts by-laws and issues technical regulations and standards regarding gas and gas supply, which are mandatory for the Issuer and other parties engaged in gas supply operations (as applicable). In particular, such regulations includes rules for preparing and exercising control over implementation of the general scheme of provision of gas supply of the Republic of Kazakhstan, rules for operation of trunk gas pipelines, rules for trunk pipelines patrol, rules for centralized operational dispatch management of objects of integrated sales gas supply system, accreditation rules for, and performing accreditation of, the gas-network organizations, rules for provision of data on monitoring of production, transportation, storage and sale of liquefied petroleum gas and liquefied natural gas, the order of a liquefied petroleum gas supply schedule to the domestic market of the Republic of Kazakhstan etc.

The consent of the Ministry of Energy is required for the construction, modernisation and reconstruction of trunk gas pipelines, as well as for alienation of objects of integrated sales gas supply system owned by KTG or gas transmission and/or gas-distributing organizations in which fifty or more percent of voting shares (participatory interests) belong to KTG.

Design, Construction and Operation of Gas Pipelines

The Issuer is engaged in design, construction and operation of gas pipelines.

The Committee for Construction, Housing and Utilities, and Land Resources Management of the of the Ministry of National Economy of the Republic of Kazakhstan is responsible for the approval of design and construction projects and the use of land resources and and issuance of licences for the design and construction in general, and particularly for the design and construction of gas pipelines (including the Issuer’s licenses for design and construction).

The design and construction of gas pipelines is principally regulated by the Law of the Republic of Kazakhstan “On Architecture, Urban Planning and Construction Activities in the Republic of Kazakhstan” (No. 242, dated of 16 July 2001), and the Trunk Pipeline Law. Together with the Civil Code, the Land Code of the Republic of Kazakhstan, and other legislative acts of the Republic of Kazakhstan these laws establish the relevant procedures, starting from allocation of a land plot and preliminary assessment of environmental impact to acceptance of a trunk pipeline by a state acceptance commission, which gives the owner of the constructed trunk pipeline the right to register its ownership of a newly constructed trunk pipeline.

Furthermore the requirements of the Environmental Code related to allocation, design and construction of trunk pipelines must be complied with by gas pipelines designers and constructors.

For safety purposes, no structures unrelated to a trunk pipeline may be constructed within the minimum distance set out by construction standards and rules.

The State, represented by the Kazakhstan Government, has a pre-emptive right to participate in any project relating to the construction of a new trunk pipeline with a share of not less than 51%. The State may waive its pre-emptive right or subscribe for less than a 51% interest. A person intending to construct a trunk pipeline must submit to the authorised state agency an offer to participate in the construction of a trunk pipeline. A person intending to construct a trunk pipeline may begin construction, together with other entities or independently, only if the State declines to participate in the construction or with the participation of the State, if the State decides to participate. The provisions on the pre-emptive right of the Kazakhstan Government to participate in a project do not apply to the expansion of an existing pipeline.

Trunk pipeline facilities must be operated in compliance with technical regulations adopted by the Kazakhstan Government. Owners of trunk pipelines, in coordination with local agencies and other interested parties, must develop measures to prevent accidents and other hazards during construction and operation of trunk pipelines.

Licensing

On 21 November 2014, the Law of the Republic of Kazakhstan “On Permits and Notifications” (No. 202-V dated 16 May 2014) (the “**Licensing Law**”) came into force, fully replacing the previous law that used to regulate licensing in Kazakhstan since 2007. According to both such laws, the design and construction of gas pipelines and the operation of trunk gas pipelines are (and, under the previous law, were) licenced activities in Kazakhstan.

The licences are granted for an unlimited period of time. The licences are granted by the relevant state authorities after submission of the required documentation and payment of the relevant fee.

A licence can be suspended or terminated in case a licensee fails to comply with the qualification requirements, including but not limited to lack of qualified personnel or proper equipment.

Further, if a legal entity conducts activities without the relevant licence, as required by the Licensing Law, such entity and its managers are subject to administrative and/or criminal liability.

Accordingly the Issuer has obtained and holds the relevant state licences required for its operations.

Procurement

Under the Law of the Republic of Kazakhstan “On National Wealth Fund” (No. 550-IV of 1 February 2012) (the “**NWF Law**”), Samruk-Kazyna and subsidiaries in which Samruk-Kazyna directly or indirectly owns 50% or more of shares (or participatory interest) or carries out trust management in respect of such shares (or participatory interest) (which includes the Issuer) must comply with the Samruk-Kazyna procurement rules dated 26 May 2012 (the “**SK Procurement Rules**”). Under the NWF Law, the Issuer must give priority to local GWS suppliers. Samruk-Kazyna exercises overall supervision over compliance with the SK Procurement Rules. The SK Procurement Rules require public tenders in order to procure most types of GWS. However in certain cases provided by the SK Procurement Rules, GWS may be procured from single source or outside of the application of the SK Procurement Rules.

Regulation of Natural Monopolies and Tariffs

The Issuer is included in the Republican section of the State Register of Natural Monopolies, approved by the Order of the CREM Chairman No. 16-OD of 24 January 2005.

Natural monopolies and the prices charged by them are subject to state control and regulation by the CREM pursuant to the Law of the Republic of Kazakhstan “On Natural Monopolies and Regulated Markets” (No. 272 of 9 July 1998) (the “**Natural Monopolies Law**”).

The following services among the Issuers activities are regulated types of services: (i) transportation of natural gas through gas-distributing systems for consumers within the Republic of Kazakhstan; (ii) transportation of natural gas through trunk gas pipelines.

According to the Natural Monopolies Law, the prior consent of the CREM is required for:

- any natural monopoly (except for airports) to conduct any activities other than the activities described in the Natural Monopolies Law and activities technologically connected therewith (according to the lists of such connected activities from time to time approved by competent state authorities together with the CREM) and in the Trunk Pipeline Law (which could be obtained only subject to compliance with (i) one of the following conditions: (a) when the income of a natural monopoly from provided regulated GWS does not exceed 1 per cent of its total income in one calendar year; (b) when the income of a natural monopoly from such other activities does not exceed 5 per cent of its total income in one calendar year; and (c) when it is impossible to organisationally and territorially separate the structural subdivision performing such other activities from the natural monopoly; and (ii) both of the following conditions: (a) the income from such other activities cover the expenses required for performance thereof; and (b) performance of such other activities shall not cause limitation of completion on the relevant market of GWS). However this requirement remains applicable only until 1 January 2017;
- alienation and/or other transactions with assets of a natural monopoly intended for production and provision of regulated GWS, if the value of the disposed assets or of the assets of a natural monopoly, who is the subject of the other transactions, reflected in the balance sheet as at the beginning of the current year, exceeds 0.05% of the balance value of its assets in accordance with the balance sheet as at the beginning of the current year (which could be obtained only subject to a condition that such transactions do not entail increase of tariffs or tariff ceilings for the regulated GWS of a natural monopoly, breach of customer contracts, disruption of the continuous technological system, interruption or significant reduction of the volume of provided regulated GWS); and
- reorganisation and liquidation of a natural monopoly.

Also, according to the Natural Monopolies Law, until 1 January 2017 the advance notification to the CREM shall be made if:

- any person is acquiring more than 10% of the voting shares or participatory interests in a natural monopoly; and
- a natural monopoly is acquiring shares or participatory interests or is otherwise participating in commercial legal entities carrying out activities permitted by the Natural Monopolies Law.

Furthermore, the CREM approves, *inter alia*, certain allowed technical losses, technical and technological volumes of raw materials, other materials, fuels, lubricants and electrical power to be used by a natural monopoly for its operations as well as the allowed number of employees to be involved.

In general, a natural monopoly must comply with the rules for procurement of GWS by natural monopolies which are taken into account when approving tariffs and tariff ceilings for regulated GWS. However, since the Issuer is a part of the Samruk-Kazyna group, the rules for procurement of GWS by natural monopolies do not apply to the Issuer, whose procurement shall be conducted as described in “*Procurement*” above.

World Trade Organisation

Kazakhstan initially applied to the World Trade Organisation (the “**WTO**”) membership in 1996. In 2003, Kazakhstan completed the information phase of the WTO accession process and entered an active negotiation phase with member countries of the working group with regard to the conditions for obtaining WTO membership. Kazakhstan finalised the negotiation of its WTO membership terms with WTO members at the working party meeting on Kazakhstan’s accession on 10 June 2015.

On 27 July 2015 the WTO Director-General Roberto Azevêdo and President Nazarbayev signed the Protocol on the Accession of Kazakhstan following the General Council’s approval of the country’s WTO terms of entry. The document is subject to domestic ratification by Kazakhstan’s Parliament by 31 October 2015.

As part of the accession negotiations, Kazakhstan concluded 29 bilateral market access agreements on goods and 15 bilateral market access agreements on services.

Kazakhstan’s bilateral market access deals were:

- On goods with: Argentina, Australia, Brazil, Canada, China, Cuba, Dominican Republic, Ecuador, Egypt, El Salvador, European Union, Georgia, Guatemala, Honduras, India, Israel, Japan, Korea, Kyrgyz Republic, Malaysia, Mexico, Norway, Oman, Pakistan, Kingdom of Saudi Arabia, Switzerland, Chinese Taipei, Turkey and the United States.
- On services with: Australia, Brazil, Canada, China, Egypt, European Union, India, Japan, Korea, Norway, Kingdom of Saudi Arabia, Switzerland, Chinese Taipei, Turkey and the United States.

On services, Kazakhstan has made specific commitments in 10 services sectors, including 116 sub-sectors. These include:

- Telecommunications: Foreign equity limitation (49%) to be eliminated 2.5 years after accession (except for JSC “Kazakhtelecom”). Agreed to apply the WTO Basic Telecommunications Agreement.
- Insurance: Foreign insurance companies will be allowed to establish branches 5 years after accession.
- Banking: Foreign banks will be allowed to establish branches 5 years after accession.
- Transport: Commitments in maritime and road transport services, including transportation of freight and passengers.
- Tourism: Cross-border travel agency and tour operator services to be allowed 2 years after accession.
- Distribution: Wholesale distribution of pharmaceutical, para-pharmaceutical and medical goods to be allowed 5 years after accession.

RECENT DEVELOPMENTS

Consolidation of KTG Almaty with the Issuer

According to the Issuer, it is planned to carry out reorganization of the Issuer by means of consolidation (*‘prisoedinenie’*) of KTG Almaty with the Issuer.

KTG Almaty was established in 2003 and is currently located in Almaty, Kazakhstan. KTG Almaty is a 100% owned subsidiary of KTG, the sole shareholder of the Issuer. The main business activity of KTG Almaty is supply of gas to end customers in Almaty city, the only region which is not covered by the Issuer’s network as of the date of this Prospectus. KTG Almaty operations are also subject to CREM’s regulation.

As of 30 June 2015 total assets of KTG Almaty amounted to KZT 41.4 billion, the amount of total liabilities of KTG Almaty as of 30 June 2015 was 40.6 billion. Notwithstanding the loss reported by KTG Almaty in the last years, which was mainly caused by gas borrowing operations and related foreign exchange loss, the Issuer expects that the impact of the consolidation of KTG Almaty with the Issuer shall be positive. Thus, as of 30 June 2015 the net profit of KTG Almaty amounted to KZT 1.1 billion.

The purpose of the consolidation is to expand the Issuer’s network of gas distribution by covering Almaty city which is considered as a profitable region due to a big number of customers.

The consolidation will be carried out by transfer of all assets and liabilities of KTG Almaty to the Issuer after both KTG Almaty and the Issuer sign the accession agreement and transfer act. The completion of the consolidation is subject to certain approvals by the corporate bodies of the Issuer and KTG Almaty, including approval by KTG as their sole shareholder, and the receipt of certain regulatory approvals.

The consolidation is scheduled to be completed by the end of 2015.

Advantages of the consolidation

The Issuer believes that the consolidation will allow the Issuer to operate as the biggest gas distributor in Kazakhstan. It is expected that:

- the consolidation will allow the Issuer to expand its presence in Almaty city region, one of the biggest gas consumption markets in Kazakhstan;
- assets and operations of KTG Almaty shall become a part of the Issuer’s assets and operations and shall be structured as the Issuer’s Almaty city branch; and
- switching from borrowing gas from foreign suppliers to purchasing it from KTG in fixed prices denominated in Tenge will allow the Issuer to increase its profitability.

Privatisation

In March 2014 the Government approved the Complex Privatisation Plan for 2014-2016. Implementation of the plan is designed to reduce the State’s involvement in the economy and strengthen its foundations by increasing private sector participation. The plan includes a list of approximately 850 entities (including subsidiaries of the national management holding companies and socio-entrepreneurial corporations) that will be privatised. Since the approval of this plan and as at 31 March 2015, 156 entities (mostly subsidiaries of the national management holding companies and socio-entrepreneurial corporations) have been privatised; this has raised KZT 42.9 billion.

The sale of 49% in the Issuer's capital under the Complex Privatisation Plan is expected to take place in 2015, such sales will, however, still enable KTG to maintain controlling interests in the Issuer.

Transfer of 10% in KMG to the NBK

In July 2015 it was announced that the Government had adopted resolutions providing for the disposal by Samruk-Kazyna of 58,420,748 common shares in KMG, which comprise approximately 10% of the total amount of shares to the NBK. The price for the transaction shall be indicated by an independent appraiser however may not be less than KZT 750 billion. KMG is the national oil and gas company in Kazakhstan which owns 100% in the charter capital of KTG, being the sole shareholder of the Issuer.

TAXATION

General

The following is a general description of certain tax considerations relating to Notes issued under the Programme. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes are advised to consult their tax advisers as to the consequences, under the tax laws of the countries of their respective citizenship, residence or domicile, of acquiring, holding and disposing of Notes and receiving payments under the Notes. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Kazakhstan Taxation

Interest

Payments of interest on the Notes issued by the Issuer to an individual who is a tax non-resident of Kazakhstan or to a legal entity that is neither established in accordance with the legislation of Kazakhstan, nor has its actual governing body (place of actual management) in, nor maintains a permanent establishment in, Kazakhstan or otherwise has no legal taxable presence in Kazakhstan (together, “**Non-Kazakhstan Holders**”) will be subject to withholding tax of Kazakhstan at a rate of 15%, unless reduced by an applicable double taxation treaty. Payments of interest on the Notes to Non-Kazakhstan Holders registered in countries with a favourable tax regime which appear in a list published from time to time by the Kazakhstan Government (these countries currently include Cyprus, Liechtenstein, Luxembourg, Nigeria, Malta, Aruba and others) (and to Non-Kazakhstan Holders who failed to submit to the Issuer proper documentary evidence of its tax residency in a country which is not included into such list of countries with a favourable tax regime) will be subject to withholding of Kazakhstan tax at a rate of 20%, unless reduced by an applicable double taxation treaty.

Non-Kazakhstan holders who are resident in countries, such as the United States or the United Kingdom, with which Kazakhstan has bilateral taxation treaties may be entitled to a reduced rate of withholding tax, subject to timely submission to the Issuer of the duly issued tax residency certificate from such country of residence.

Payments of interest on the Notes issued by the Issuer to residents of Kazakhstan or to tax non-residents who maintain a permanent establishment in Kazakhstan (together, “**Kazakhstan Holders**”), other than to individuals (who are exempt) and Kazakhstan investment funds and certain other entities, will be subject to withholding tax at a rate of 15%.

The withholding tax on interest will not apply in either case if the Notes are, as at the date of accrual of interest, listed on the official list of a stock exchange operating in the territory of Kazakhstan (such as, the KASE).

Gains

Gains realised by Kazakhstan Holders as a result of the disposal, sale, exchange or transfer of the Notes will be included in the income of such Kazakhstan Holders. The net income of such Kazakhstan Holders will be subject to corporate income tax at a rate of 20% or individual income tax at a rate of 10%, as the case may be.

If on the date of sale, the Notes are listed on the official list of a stock exchange operating in the territory of Kazakhstan (such as the KASE) and are sold through open trades on such stock exchange, any gains realized by Kazakhstan Holders are not subject to withholding tax in Kazakhstan.

Gains realised by Non-Kazakhstan Holders derived as a result of the disposal, sale, exchange or transfer of the Notes will be subject to withholding tax at a rate of 15%, unless an applicable double taxation treaty provides for an exemption from capital gains tax. If the disposal of the Notes is made by a Non-Kazakhstan Holder registered in a country with a favourable tax regime, as referred to above, gains derived from such disposal are subject to withholding tax in Kazakhstan at the rate of 20%, unless exempt by an applicable double taxation treaty.

Non-Kazakhstan holders who are residents of countries, such as the United States or the United Kingdom, with which Kazakhstan has bilateral double taxation treaties may be entitled to an exemption from withholding tax, subject to compliance with certain administrative procedures.

In respect of the gains realised by Non-Kazakhstan Holders a purchaser or the transferee of the Notes may be treated as a withholding agent and, therefore, required to withhold the capital gains tax from the seller and pay it in Kazakhstan. However, Kazakhstan tax legislation does not specify a mechanism for the collection of any such tax from the purchasers or transferees who are Non-Kazakhstan Holders or have no taxable presence in Kazakhstan otherwise. Any prospective purchasers or transferees of the Notes from Non-Kazakhstan Holders should consult their own tax advisors on the tax consequences of such purchase.

Gains realised by Non-Kazakhstan Holders in relation to Notes which are listed as at the date of sale on the official list of a stock exchange operating in the territory of Kazakhstan (such as the KASE) or a foreign stock exchange and are

EU Savings Directive

Under Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments (the “**EU Savings Directive**”), each member state is required to provide to the tax authorities of another member state details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain entities (as described in Article 4.2 of the EU Savings Directive, each a “**Residual Entity**”) established in that other member state; however for a transitional period, Austria may instead apply a withholding system in relation to such payments. The end of this transitional period depends on the conclusion of certain other agreements relating to exchange of information with certain other countries.

A number of non EU countries, including Switzerland, (“**Third Countries**”) and certain dependent or associated territories of certain member states (“**Dependent and Associated Territories**”) have adopted similar measures (either provision of information or transitional withholding) in relation to payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or Residual Entities established in another member state, or certain Third Countries or Dependent and Associated Territories.

The Council of the European Union formally adopted a Council Directive amending the EU Savings Directive on 24 March 2014 (the “**Amending Directive**”). The Amending Directive broadens the scope of the requirements described above. Member states have until 1 January 2016 to adopt national legislation to comply with the Amending Directive (and such national legislation must apply from 1 January 2017). The changes made under the Amending Directive include extending the scope of the EU Savings Directive to payments made to, or collected for, certain other entities and legal arrangements. They also broaden the definition of “interest payment” to cover income that is equivalent to interest.

The EU Savings Directive may, however, be repealed in due course in order to avoid overlap with the amended Council Directive 2011/16/EU on administrative cooperation in the field of taxation, pursuant to which member states will be required to apply other new measures on mandatory automatic exchange of information from 1 January 2016.

The Proposed Financial Transactions Tax (FTT)

On 14 February 2013, the European Commission issued a proposal (the “**Commission’s Proposal**”), including a draft directive, for a financial transaction tax (“**FTT**”) to be adopted in certain participating EU Member States (Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia) (the “**participating Member States**”).

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission’s Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including: (i) by transacting with a person established in a participating Member State; or (ii) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating Member States indicate an intention to implement the FTT by 1 January 2016.

However, the FTT proposal remains subject to negotiation between the participating Member States and the scope of any such tax is uncertain. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (“**FATCA**”) impose a new reporting regime and potentially a 30 per cent. withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a “foreign financial institution”, or “**FFI**” (as defined by FATCA)) that does not become a “**Participating FFI**” by entering into an agreement with the U.S. Internal Revenue Service (“**IRS**”) to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a “United States Account” of the Issuer (a “**Recalcitrant Holder**”).

The new withholding regime will be phased in beginning 1 July 2014 for payments from sources within the United States and will apply to “**foreign passthru payments**” (a term not yet defined) no earlier than 1 January 2017. This withholding would potentially apply to payments in respect of (i) any Notes characterized as debt (or which are not otherwise characterized as equity and have a fixed term) for U.S. federal tax purposes that are issued after the “**grandfathering date**”, which is the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified after the grandfathering date and (ii) any Notes characterized as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued. If Notes are issued on or before the grandfathering date, and additional Notes of the same series are issued after that date, the additional Notes may not be treated as grandfathered, which may have negative consequences for the existing Notes, including a negative impact on market price.

Whilst the Notes are in global form and held within the clearing systems, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Issuer and any paying agent, given that each of the entities in the payment chain between the Issuer and the

participants in the clearing systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an intergovernmental agreement will be unlikely to affect the Notes. The documentation expressly contemplates the possibility that the Notes may go into definitive form and therefore that they may be taken out of the clearing systems. If this were to happen, then a non-FATCA compliant holder could be subject to withholding. However, definitive Notes will only be printed in remote circumstances.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations and official guidance, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Notes.

TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement (such programme agreement as modified and/or supplemented and/or restated from time to time, the “**Programme Agreement**”) dated 3 August 2015, agreed with the Issuer the basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*”. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Kazakhstan

Each Dealer has represented and agreed that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy or sell the Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale in Kazakhstan except in compliance with the applicable laws of Kazakhstan and the regulations of the KASE.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus as completed by the relevant Pricing Supplement in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision: (i) the expression an “**offer of Notes to the public**” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe to the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State; (ii) the expression “**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive), and includes any relevant implementing measure in each Relevant Member State; and (iii) the expression “**2010 PD Amending Directive**” means Directive 2010/73/EU.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

General

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will (to the best of its knowledge and belief) comply with all applicable securities laws, regulations and directives in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any applicable restrictions on the distribution of this Prospectus and the offering and sale of Notes.

With regard to each Tranche, the relevant Dealer will be required to comply with any additional restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the relevant subscription agreement or dealer confirmation letter (howsoever described), as the case may be.

GENERAL INFORMATION

Documents Available

For so long as any of the Notes is outstanding, copies of the following documents will be available for inspection from the registered office of the Issuer and from the specified office of the Principal Paying Agent during normal business hours:

- (a) the constitutional documents of the Issuer;
- (b) the Programme Agreement, the Trust Deed, the Agency Agreement and the form of the Global Note;
- (c) a copy of this Prospectus; and
- (d) any future prospectuses, prospectuses, information memoranda, supplements to this Prospectus and Pricing Supplements.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the relevant Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the relevant Pricing Supplement.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is Clearstream Banking, *société anonyme*, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Conditions for determining price

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions.

Significant or Material Change

There has been no significant change in the financial or trading position of the Issuer and its subsidiaries since 31 December 2014 and there has been no material adverse change in the financial position or prospects of the Issuer and its subsidiaries since 31 December 2014.

Litigation

The Issuer is not involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Prospectus which may have or have in such period had a significant effect on the financial position or profitability of the Issuer.

Auditors

The Issuer's independent auditors are Ernst & Young LLP, acting as auditors under licence No. 0000003 dated 15 July 2005 issued by the Ministry of Finance of the Republic of Kazakhstan. Ernst & Young LLP is a member of the Chamber of Auditors of Kazakhstan, the professional body which oversees audit firms in Kazakhstan. The Issuer's financial statements are prepared in accordance with IFRS. The Issuer's audited financial statements for each of the financial years ended 31 December 2013 and 31 December 2014 were audited by Ernst & Young LLP, which issued reports thereon

without qualification. The business address of Ernst & Young LLP is Esentai Tower, 77/7, Al-Farabi Ave., Almaty 050060, Kazakhstan.

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KazTransGas Aimak JSC

Financial statements

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

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Independent auditors' report

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Independent auditors' report

To the Shareholder and Management of KazTransGas Aimak JSC.

We have audited the accompanying financial statements of KazTransGas Aimak JSC (the "Company"), which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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



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

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

Opinion

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

Ernst & Young LLP



Bakhtiyor Eshonkulov
Auditor / Audit partner

Audit qualification certificate
No. MΦ-0000099 dated 27 August 2012



Evgeny Zhemaletdinov
General Director
Ernst and Young LLP

State audit license for audit activities on the
territory of the Republic of Kazakhstan: series
MΦЮ-2 No. 0000003 issued by the Ministry of
finance of the Republic of Kazakhstan
on 15 July 2005

20 February 2014

STATEMENT OF FINANCIAL POSITION

As at December 31, 2013

In thousands of Tenge

	Notes	2013	2012 (Restated)*	2011 (Restated)*
Assets				
Non-current assets				
Property, plant and equipment	6	95,543,254	74,048,357	29,366,559
Intangible assets		270,943	291,944	177,843
Long-term bank deposits	13	387,744	105,375	59,216
Deferred expenses	11	1,437,941	1,491	5,302
		97,639,882	74,447,167	29,608,920
Current assets				
Inventory	7	4,477,344	6,320,427	10,632,575
Trade receivables	8	15,412,501	15,786,189	19,464,100
Advances paid	9	3,131,439	2,160,392	1,631,710
Taxes receivable	10	2,404,224	388,461	272,105
Prepayment for corporate income tax	26	609,279	2,766	362,182
Short-term bank deposits	13	3,022,444	3,318,747	7,596,022
Other current assets	11	501,455	494,905	825,123
Cash and cash equivalents	12	1,943,773	2,516,375	591,712
		31,502,459	30,988,262	41,375,529
Total assets		129,142,341	105,435,429	70,984,449
Equity and liabilities				
Equity				
Share capital	14	62,478,299	50,547,689	9,729,373
Retained earnings		11,314,392	16,460,576	10,050,763
Total equity		73,792,691	67,008,265	19,780,136
Non-current liabilities				
Interest bearing loans and borrowings	15	4,000,136	2,021,512	2,246,235
Deferred income tax liabilities	26	1,869,651	1,148,022	840,842
Deferred income	16	3,888,782	2,605,870	506,420
		9,758,569	5,775,404	3,593,497
Current liabilities				
Interest bearing loans and borrowings	15	16,555,389	7,734,621	5,057,022
Trade payables	17	23,719,020	17,695,882	10,844,143
Advances received	19	2,523,078	2,249,099	30,208,391
Corporate income tax payable	26	-	343,096	-
Taxes payable	18	62,904	688,848	365,441
Deferred income	16	251,682	185,558	37,473
Liability on borrowed gas	20	1,394,651	2,117,467	-
Other current liabilities	21	1,084,357	1,637,189	1,098,346
		45,591,081	32,651,760	47,610,816
Total liabilities		55,349,650	38,427,164	51,204,313
Total equity and liabilities		129,142,341	105,435,429	70,984,449

* Certain balances on the above accounts are not consistent with the balances in the financial statements for the year ended December 31, 2012 and represent restatements, details of which are disclosed in Note 5.

Signed and authorized for issue on February 20, 2014

Managing director

Chief accountant



Nurlanov N.N.

Meldekhanov B.N.

The accompanying notes on pages 6 to 40 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

As at December 31, 2013

In thousands of Tenge

	Notes	2013	2012 (Restated)*
Revenue	22	108,334,936	115,139,721
Cost of sales	23	(101,759,467)	(106,161,559)
Gross profit		6,575,469	8,978,162
General and administrative expenses	24	(5,100,331)	(4,289,069)
Other operating income	25	4,315,016	3,913,874
Other operating expenses	25	(2,551,715)	(2,349,147)
Operating profit		3,238,439	6,253,820
Foreign exchange gain/(loss), net		44,113	(27,996)
Finance income	13	521,049	397,478
Finance costs	15	(1,001,757)	(627,998)
Profit before income tax		2,801,844	5,995,304
Income tax expenses	26	(707,571)	(1,488,725)
Net profit for the year		2,094,273	4,506,579
Total comprehensive income for the year, net of income tax		2,094,273	4,506,579

* Certain balances on the above accounts are not consistent with the balances in the financial statements for the year ended December 31, 2012 and represent restatements, details of which are disclosed in Note 5.

Signed and authorized for issue on February 20, 2014

Managing director



Nurlanov N.N.

Chief accountant

Meldekhonov B.N.

The accompanying notes on pages 6 to 40 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2013

In thousands of Tenge

	Notes	2013	2012 (Restated)*
Cash flows from operating activities			
Profit before income tax		2,801,844	5,995,304
Non-cash adjustments to reconcile profit before income tax to net cash flows:			
Depreciation and amortization	23, 24, 25	3,164,219	2,471,560
Finance costs, net		480,708	230,520
(Reversal)/accrual of allowance for doubtful debts, impairment of advances paid and other current assets	24	(53,172)	426
(Gain)/loss from disposal of property, plant and equipment and intangible assets, net		(19,076)	919
Unrealized foreign exchange gain		(122,962)	(40,764)
Amortization of deferred income	16	(208,504)	(106,684)
Amortization of compensation for housing purchase	24	71,558	-
Accrual of unused vacation reserve and employees' bonuses (Reversal)/accrual of reserve for obsolete and slow moving inventory	24	(605)	5,175
Operating cash flows before changes in working capital		6,656,343	8,593,765
<i>(Increase)/decrease in operating assets:</i>			
Trade receivables		936,704	3,659,837
Advances paid		(971,047)	(548,579)
Taxes receivable		(97,872)	(32,031)
Inventory		1,843,688	4,306,973
Other current assets		(1,656,605)	372,481
<i>Increase/(decrease) in operating liabilities:</i>			
Trade payables		3,039,018	8,978,304
Advances received		273,979	(27,965,673)
Other taxes payable		(683,435)	723,407
Other current liabilities		(1,817,951)	501,534
Cash inflows/(outflows) from operating activities		7,522,822	(1,409,982)
Interest paid		(910,815)	(636,784)
Income tax paid		(507,587)	(969,119)
Interest received		122,381	414,621
Net cash flows from/(used in) operating activities		6,226,801	(2,601,264)
Cash flows from investing activities			
Purchase of intangible assets		(46,493)	(158,605)
Withdrawal of bank deposits, net		476,158	4,256,766
Purchase of property, plant and equipment		(20,829,625)	(11,086,612)
Proceeds from sale of property, plant and equipment		494,437	30,167
Deferred expenses		(1,798,000)	-
Net cash flows used in investing activities		(21,703,523)	(6,958,284)
Cash flows from financing activities			
Proceeds from interest bearing loans and borrowings		61,804,354	18,215,581
Repayment of interest bearing loans and borrowings		(51,070,012)	(15,755,948)
Contributions to the share capital	14	4,169,778	9,024,578
Net cash flows from financing activities		14,904,120	11,484,211
Net change in cash and cash equivalents		(572,602)	1,924,663
Cash and cash equivalents, as at January 1		2,516,375	591,712
Cash and cash equivalents, as at December 31	12	1,943,773	2,516,375

* Certain balances on the above accounts are not consistent with the balances in the financial statements for the year ended December 31, 2012 and represent restatements, details of which are disclosed in Note 5.

The accompanying notes on pages 6 to 40 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS (continued)**NON-CASH TRANSACTIONS – SUPPLEMENTAL DISCLOSURE**

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

Transfer of property, plant and equipment

In 2013, the Company received property, plant and equipment for trust management from KazTransGas JSC in the amount of KZT 520,375 thousand as payment for issued common shares. The Company also received property, plant and equipment free of charge in the amount of KZT 1,557,540 thousand. Additional information on property, plant, and equipment received is disclosed in *Note 6*.

Trade payables for supply of property, plant and equipment

In 2013, additions of property, plant and equipment in the amount of KZT 2,649,554 thousand were financed with increase in trade payables.

Signed and authorized for issue on February 20, 2014

Managing director




Nurlanov N.N.

Chief accountant


Meldekhanov B.N.

The accompanying notes on pages 6 to 40 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2013

In thousands of Tenge

	Share capital	Retained earnings	Total equity
At January 1, 2012 (restated)*	9,729,373	10,050,763	19,780,136
Net profit for the year	-	4,506,579	4,506,579
Total comprehensive income for the year	-	4,506,579	4,506,579
Contribution by the Shareholder	-	33,696,971	33,696,971
Issue of shares (Note 14)	40,818,316	(31,793,737)	9,024,579
At December 31, 2012 (restated)*	50,547,689	16,460,576	67,008,265
Net profit for the year	-	2,094,273	2,094,273
Total comprehensive income for the year	-	2,094,273	2,094,273
Contribution by the Shareholder (Note 6)	-	520,375	520,375
Issue of shares (Note 14)	11,930,610	(7,760,832)	4,169,778
At December 31, 2013	62,478,299	11,314,392	73,792,691

* Certain balances on the above accounts are not consistent with the balances in the financial statements for the year ended December 31, 2012 and represent restatements, details of which are disclosed in Note 5.

Signed and authorized for issue on February 20, 2014

Managing director



N. N. Nurlanov
Nurlanov N.N.

Chief accountant

B. N. Meldekhanov
Meldekhanov B.N.

The accompanying notes on pages 6 to 40 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended December 31, 2013****1. CORPORATE INFORMATION**

KazTransGas Aimak JSC (the "Company") was originally established under the name of KazTransGas Distribution JSC in April 2002 in accordance with the legislation of the Republic of Kazakhstan. KazTransGas JSC ("KTG") is the sole shareholder of the Company. KTG is domiciled in the Republic of Kazakhstan and is a 100% subsidiary of National Company KazMunayGas JSC ("KazMunayGas"). KazMunayGas is wholly owned by the Government of the Republic of Kazakhstan as represented by Sovereign Wealth Fund Samruk-Kazyna ("Samruk-Kazyna") and, respectively, all subsidiaries of KazMunayGas, Samruk-Kazyna and other state controlled entities are considered as related parties in these financial statements (*Note 27*).

The Company is engaged in purchase and sale of natural gas to end customers, maintenance and development of natural gas distribution networks and other gas distribution related services in the Republic of Kazakhstan. The Company provides gas transportation using its own gas distribution networks and the networks owned by Intergas Central Asia JSC, a subsidiary of KTG. The tariffs for gas sale and transportation are subject to regulation by the law of the Republic of Kazakhstan on natural monopolies and controlled by the Agency for the Regulation of Natural Monopolies and Protection of Competition of the Republic of Kazakhstan ("AREM").

As at December 31, 2013 the Company has 9 branches located in Kazakhstan (2012: 7).

The Company's head office is located at: Astana, Kunayev str. 14/3, Republic of Kazakhstan.

2. BASIS OF PREPARATION

The accompanying financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by International Accounting Standard Board ("IASB").

The financial statements are prepared under the historical cost basis, except as described in the accounting policies and the notes to the financial statements. All values in these financial statements are rounded to the nearest thousands, except when otherwise indicated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Changes in accounting policies**

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

New and amended standards and interpretations

- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Government Loans*;
- Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*;
- IFRS 12 *Disclosure of Interests in Other Entities*;
- IFRS 13 *Fair Value Measurement*;
- IAS 19 *Employee Benefits* (Revised 2011) ;
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*;
- Amendments to IFRS 1 – *Repeat Application of IFRS 1*;
- Amendments to IFRS 1 – *Borrowing Costs*;
- Amendments to IAS 1 – *Clarification of the Requirement for Comparative Information*;
- Amendments to IAS 16 – *Classification of Servicing Equipment*;
- Amendments to IAS 32 – *Tax Effects of Distributions to Holders of Equity Instruments*;
- Amendments to IAS 34 – *Interim Financial Reporting and Segment Information for Total Assets and Liabilities*;
- The amendment IAS 1 *Presentation of Items of Other Comprehensive Income – Amendments to IAS 1* that became effective as of July 1, 2012 is also applied by the Company for the first time in the current period.

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****New and amended standards and interpretations (continued)**

Adoption of these standards is described below:

Amendments to IFRS 1 – Government Loans

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods beginning on or after January 1, 2013. This amendment did not have any impact on the financial statements of the Company.

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

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The amendments will have no impact on the financial position or performance of the Company. This amendment did not have any impact on the financial statements of the Company.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 has been renamed to IAS 28 *Investments in Associates and Joint Ventures*, and now describes the application of the equity method to investments in joint ventures in addition to associates. This amendment did not have any impact on the financial statements of the Company.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New requirements to disclosures have also been introduced, however, application of the standard did not have any impact on the financial position or performance of the Company.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when entities must use the fair value and provides guidance regarding measurement of fair value as per IFRS, when use of fair value is required or permitted. This standard did not have any impact on the financial statements of the Company.

IAS 19 Benefits to Employees (as revised)

The IASB issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. This edition did not have any impact on the financial statements of the Company.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. This interpretation did not have any effect on the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****New and amended standards and interpretations (continued)***Annual improvements to IFRSs (May 2012)*

The improvements listed below didn't have any effect on the financial statements of the Company:

IFRS 1 First-time Adoption of International Financial Reporting Standards

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property, Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments: Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

Amendment to IAS 1 Financial Statements: Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time (for example, net income from hedging of net investments, foreign exchange differences upon restatement of financial statements of foreign operations, net change in hedging of cash flows and net expenses or income on financial assets available for sale) must be presented separately from items that will never be reclassified (for example, actuarial income and expenses on defined benefit plans and revaluation of land and buildings). This amendment did not have any impact on the financial position or performance of the Company.

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Standards issued but not yet effective (continued)***Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*

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

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of currently has a legally enforceable right to set-off and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after January 1, 2014. These amendments are not expected to be relevant to the Company.

IFRIC Interpretation 21 Levies (IFRIC 21)

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

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

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

Foreign currency translation

The financial statements are presented in tenge (“KZT”), which is the functional currency of the Company and presentation currency of the financial statements of the Company.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Company at functional currency spot rates prevailing at the date when the transaction meets recognition criteria. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All currency exchange differences arising from repayment or translation of monetary items are included in the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Gains or expenses arising on translation of non-monetary items are recorded in accordance with principles of income or expense recognition as a result of change in the fair value.

The following foreign exchange rates to tenge established at Kazakhstan Stock Exchange (“KASE”) have been used in preparation of these financial statements as official exchange rates in the Republic of Kazakhstan:

	Currency exchange rate as at	Weighted average rate during the year
December 31, 2013	153.61	152.14
December 31, 2012	150.74	149.11

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Acquisition of entities under common control**

Acquisition of entities under common control of KazTransGas JSC is accounted for using the pooling of interests method. Assets and liabilities of the subsidiary transferred under common control are accounted for in the financial statements at the carrying value of the transferring organizations (Predecessor) on the date of transfer. The difference between the total book value of net assets and the consideration paid is recognized in the financial statements as an adjustment to equity.

Property, plant and equipment

Property, plant and equipment are recognised at acquisition cost less accumulated depreciation and impairment losses. The initial cost of the property, plant, and equipment comprises its purchase price, including import duties and non-refundable taxes, interest expenses and any directly attributable costs of bringing the asset to its working condition.

Depreciation is calculated on a straight-line method based on the estimated useful lives of property, plant and equipment. The estimates useful life of assets is presented as follows (in years):

Buildings	7-10
Gas transportation system	10-30
Machinery and equipment	3-30
Motor vehicles	5-10
Other	3-15

Land is not depreciated.

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

When assets are sold or retired, their cost and accumulated depreciation are eliminated and any gain or loss resulting from their disposal is included in the statement of comprehensive income.

Construction in progress represents the unfinished construction of fixed assets carried at cost. Construction in progress includes cost of construction, equipment, inventory of non-current nature, and other direct costs. Construction-in-progress is not depreciated. Depreciation of construction-in-progress starts as the relevant assets are placed into operational use.

Expenditures incurred after the fixed assets have been placed into operation, such as repairs and maintenance and overhaul costs, are normally charged to the expenses in the period when such costs are incurred. The expenditures that have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard performance (increase of useful life, capacity, etc.) are capitalized as an additional cost of property, plant and equipment.

Intangible assets

Intangible assets acquired separately are measured initially at cost. Following initial recognition, intangible assets are carried at initial cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets have finite and indefinite useful lives. Intangible assets with finite useful lives are amortised over the useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the estimated useful life or alleged structure of consumption of future economic benefits embodied in the asset are recorded through a change in the period or method of amortization and accounted for as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive income in the expense category consistent with the function of the intangible assets.

In 2013 and 2012 intangible assets consisted mainly of software with useful life of 6-7 years.

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial assets***Initial recognition and measurement*

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include cash and cash equivalents, bank deposits, trade receivables, and other current assets.

Subsequent measurement

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

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss classified as held for trading, unless they are defined as effective hedging instruments.

The Company has not designated any financial assets upon initial recognition as at fair value through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in financial income in the statement of comprehensive income. Losses arising from impairment are recognized in general and administrative expenses.

The Company did not have any held for sale investments during the years ended December 31, 2013 and 2012.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

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

In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Impairment of financial assets**

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

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation. Besides, such evidence include observable data indicating that there is a measurable decrease in the estimated future cash flows on a financial instrument such as changes in arrears or economic conditions that correlate with defaults. Reversal of losses on doubtful debts previously recognised is recorded when the decrease in the loss can be objectively related to an event occurring after the write-down. Such reversal of the impairment loss is recognized as income.

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's current amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The current value of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced current amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

Financial liabilities***Initial recognition and measurement***

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

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

The Company's financial liabilities include interest-bearing loans and borrowings, trade payables and other current liabilities.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Gains or losses on liabilities held for trading are recognised in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial liabilities (continued)***Subsequent measurement (continued)*

The Company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised or impaired, as well as through the amortisation process.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised through the statement of comprehensive income.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded at an active market, the fair value is determined by using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in *Note 29*.

Offsetting of financial instruments

Financial assets and financial liabilities are only offset and reported at the net amount in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Company intends to either settle on a net basis, to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash includes cash on hand and cash in the Company's bank accounts. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of 3 (three) months or less and that are subject to an insignificant risk of change in value.

Impairment of non-financial assets*Non-financial assets*

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's or cash-generating unit's (CGU) recoverable amount is the higher of fair value of the asset (CGU) less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the current amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Impairment of non-financial assets (continued)***Non-financial assets (continued)*

The Company bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Company's cash generating units to which individual assets are allocated. These budgets and forecast calculations are generally covering a period of 5 (five) years. For longer periods, a long-term growth rate is calculated and applied to project future cash flow after the fifth year.

Impairment losses of continuing operations are recognised in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

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

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at December 31, either individually or at the cash-generating unit level, as appropriate, and when circumstances indicate that the carrying value may be impaired. Impairment is tested either individually or at the cash-generating unit level, if necessary.

Inventory

Inventory is stated at the lower of initial cost and net realizable value on a first-in first-out (FIFO) basis. Cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition. Net realisable value is based on estimated selling price in the ordinary course of business less any further costs expected to be incurred to completion and disposal.

Trade receivables

Trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement trade and other receivables are carried at amortized cost using the effective interest method less any allowance for doubtful debts.

Gains and losses are recognized in the statement of comprehensive income when trade receivables are written off or impaired, as well as through the amortization process.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. Where the Company expects a provision to be reimbursed, for instance an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Trade accounts payable

Liabilities for trade amounts payable are recognized at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The Company capitalises borrowing costs for all eligible assets.

Value added tax (VAT)

The tax authorities permit the settlement of sales and purchases value added tax (VAT) on a net basis. Thus, value added tax receivable represents VAT on purchases net of VAT on sales.

VAT payable

VAT payable is accrued in accounting on revenues from sales of goods, work and services subject to VAT in accordance with the Tax Code of the Republic of Kazakhstan. Where allowance has been created for impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT.

VAT receivable

VAT receivable is recorded in accounting on purchased goods, work and services, which were purchased with VAT and if they were used in order to derive income.

At each reporting date, the VAT receivable amount is subject to offset against the VAT payable amount.

Social tax

The Company pays a social tax to the budget of the Republic of Kazakhstan for its employees at the rate of 11% of the taxed income of employees.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

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

Deferred income tax

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

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

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

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

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Deferred income tax (continued)**

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax relating to items recognized outside of the statement of comprehensive income is recognized outside of the statement of comprehensive income. Deferred tax items are recognised in correlation to the underlying transaction either in the statement of comprehensive income or directly in equity.

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

Equity*Share capital*

External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are approved before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised.

Contingent assets and contingent liabilities

Contingent assets are not recognized in the financial statements. When the realization of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Subsequent events

The results of post-year-end events that provide additional information on the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, and taxes.

Sales of gas

Revenue from sales is recognized when the significant risks and rewards of ownership of the gas have passed to the customer.

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Revenue and expense recognition (continued)***Rendering of gas transportation services*

Revenue from transportation services is recognised based on actual volumes of gas transported during the reporting period.

Rendering of repair and maintenance services

Revenue from rendering of repair and maintenance services is recognised in the period the services are provided based on the total contract value and the stage of completion.

Interest income

Income is recognised as interest is accrued (using the effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net current value of the financial asset).

Interest income is included in finance income in the statement of comprehensive income.

Expenses

Expenses are accounted for at the time the actual flow of the related goods or services occur, regardless of when cash or its equivalents is paid, and are reported in the financial statements in the period to which they relate.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ASSUMPTIONS

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of property, plant and equipment

The Company assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted prospectively for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a significant effect on the carrying amount of property, plant and equipment and depreciation reflected in the statement of comprehensive income.

Allowances for doubtful debts

Management maintains an allowance for doubtful debts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful debts, management bases its estimates on the aging of accounts receivable balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As at December 31, 2013, allowances for doubtful debts have been created in the amount of KZT 117,172 thousand (as at December 31, 2012 and 2011: KZT 381,767 thousand and KZT 361,365 thousand, respectively) (*Note 8*).

Taxation

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in the tax legislation and the amount and timing of future taxable income. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation might arise on a wide range of issues. Deferred tax assets are recognized for unused tax losses to the extent in which it is probable to generate taxable profit against which tax losses may be offset. A significant judgement of management is required to calculate the amount of deferred tax assets, which may be recognized in the financial statements based on possible dates of generation and amount of future taxable profit as well as strategy of tax planning. Additional information on tax risks is presented in *Note 28*.

NOTES TO THE FINANCIAL STATEMENTS (continued)**4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ASSUMPTIONS (continued)***Deferred income tax assets*

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable temporary differences and business nature of such expenses will be proved, as well as on the successful implementation of tax planning strategies. The recognised deferred income tax assets was equal to KZT 1,052,681 thousand as at December 31, 2013 (as at December 31, 2012 and 2011: KZT 947,599 thousand and KZT 408,810 thousand, respectively) (*Note 26*).

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of: its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next 5 (five) years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and growth rates used for extrapolation purposes.

5. POOLING OF INTEREST IN ARKAGAS JSC

On September 30, 2013 the Board of Directors of KTG decided to liquidate Arkagas JSC by its merger with the Company. Arkagas JSC is a company under common control of KTG. Arkagas JSC was engaged in purchase and sale of natural gas to final customers. Since the transfer of ownership represents merger of entities under common control, this transaction was accounted for using the pooling of interests method, based on the Company's accounting policies, under which acquisition of a business from parties under common control is accounted for using the pooling of interests method.

Carrying amount of the identifiable assets and liabilities of Arkagas JSC as of the date of acquisition were as follows:

<i>In thousands of Tenge</i>	September 30, 2013
Assets	
Property, plant and equipment	3,630,758
Intangible assets	246
Inventory	13,407
Trade receivables	13,609
Advances paid	17,743
Prepayment for corporate income tax	3,416
Taxes receivable	9,736
Other current assets	48
Cash and cash equivalents	132,117
Total assets	3,821,080
Liabilities	
Trade payables	(12,740)
Advances received	(37,870)
Due to employees	(1,135)
Taxes payable	(235)
Other current liabilities	(3,238)
Total liabilities	(55,218)
Net assets	3,765,862

Application of the pooling of interests method has been used retrospectively, resulting in a corresponding comparative statement of financial position as at December 31, 2012 and as at January 1, 2012 and the statements of comprehensive income, cash flows and changes in equity for the year ended December 31, 2012 being restated.

NOTES TO THE FINANCIAL STATEMENTS (continued)**5. POOLING OF INTEREST IN ARKAGAS JSC (continued)**

The impact of such changes on the comparative information is presented in the following tables. Effect of restatement of the statement of financial position as at January 1, 2012 is also provided below in accordance with the requirements of IAS 1:

<i>In thousands Tenge</i>	Reported in prior years	Effect of the merger	Effect of reclassifi- cations	As restated
Statement of financial position, as at December 31, 2012				
Non-current assets				
Property, plant and equipment	70,528,674	3,519,683	-	74,048,357
Current assets				
Inventory	6,305,801	14,626	-	6,320,427
Trade receivables	15,742,361	43,828	-	15,786,189
Advances paid	2,159,781	611	-	2,160,392
Taxes receivable	383,257	5,204	-	388,461
Prepayment for corporate income tax	-	2,766	-	2,766
Other current assets	494,676	229	-	494,905
Cash and cash equivalents	2,404,666	111,709	-	2,516,375
Equity				
Share capital	50,547,688	-	1	50,547,689
Retained earnings	12,777,281	3,683,296	(1)	16,460,576
Current liabilities				
Trade payables	19,813,152	197	(2,117,467)	17,695,882
Advances received	2,236,448	12,651	-	2,249,099
Liabilities on borrowed gas	-	-	2,117,467	2,117,467
Other current liabilities	1,634,677	2,512	-	1,637,189

The impact of such changes on the comparative information is presented in the following tables. Effect of restatement of the statement of financial position as at January 1, 2012 is also provided below in accordance with the requirements of IAS 1:

<i>In thousands Tenge</i>	As reported in prior years	Effect of the merger	Effect of reclassifi- cations	As restated
Statement of comprehensive income, for the year ended December 31, 2012				
Revenue	114,826,498	313,223	-	115,139,721
Cost of sales	(105,831,592)	(329,967)	-	(106,161,559)
General and administrative expenses	(4,221,035)	(68,034)	-	(4,289,069)
Other operating income	3,878,222	35,652	-	3,913,874
Other operating expenses	(2,348,121)	(1,026)	-	(2,349,147)
Foreign exchange gain/loss	(28,076)	80	-	(27,996)
Net profit for the year	4,556,651	(50,072)	-	4,506,579
Statement of financial position, as at January 1, 2012				
Non-current assets				
Property, plant and equipment	25,746,481	3,620,078	-	29,366,559
Current assets				
Inventory	10,613,812	18,763	-	10,632,575
Trade receivables	19,429,227	34,873	-	19,464,100
Advances paid	1,611,628	20,082	-	1,631,710
Taxes receivable	266,344	5,761	-	272,105
Prepayment for corporate income tax	361,566	616	-	362,182
Cash and cash equivalents	550,994	40,718	-	591,712
Equity				
Retained earnings	6,317,396	3,733,367	-	10,050,763
Current liabilities				
Trade payables	10,834,474	9,669	-	10,844,143
Advances received	30,214,772	(6,381)	-	30,208,391
Other current liabilities	1,094,110	4,236	-	1,098,346

NOTES TO THE FINANCIAL STATEMENTS (continued)**5. POOLING OF INTEREST IN ARKAGAS JSC (continued)**

Impact of the restatements related to application of the pooling of interests method on the statement of cash flows for the year ended December 31, 2012 is as follows:

<i>In thousands Tenge</i>	As reported in prior years	Effect of the merger	Effect of reclassifications	As restated
Statement of cash flows for the year ended December 31, 2012				
Net cash inflows/(outflows) from operating activities	(2,693,657)	92,393	-	(2,601,264)
Net cash flows used in investing activities	(6,936,882)	(21,402)	-	(6,958,284)
Net change in cash and cash equivalents	1,853,672	70,991	-	1,924,663
Cash and cash equivalents, as at January 1	550,994	40,718	-	591,712
Cash and cash equivalents, as at December 31	2,404,666	111,709	-	2,516,375

6. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment for the years ended December 31, 2013 and 2012 were as follows:

<i>In thousands of Tenge</i>	Land	Buildings	Machinery and equipment	Gas transportation system	Vehicles	Other	Construction-in-progress	Total
Cost								
At January 1, 2012	106,177	3,502,406	1,489,140	25,592,605	1,380,471	388,316	7,153,946	39,613,061
Additions	2,159	8,895	249,601	37,947,171	240,326	129,971	8,561,829	47,139,952
Transfers	-	692,767	70,846	12,041,037	701	(13,525)	(12,791,826)	-
Disposals	-	(424)	(558,317)	(67,986)	(13,118)	(15,737)	(10)	(655,592)
At December 31, 2012	108,336	4,203,644	1,251,270	75,512,827	1,608,380	489,025	2,923,939	86,097,421
Additions	14,097	44,278	483,766	2,373,004	352,502	117,512	22,171,935	25,557,094
Transfers	1,936	133,565	6,246	2,822,174	121	3,368	(2,967,410)	-
Disposals	(3,937)	(1,460,281)	(34,187)	(243,823)	(9,516)	(21,373)	(188)	(1,773,305)
At December 31, 2013	120,432	2,921,206	1,707,095	80,464,182	1,951,487	588,532	22,128,276	109,881,210
Accumulated depreciation								
At January 1, 2012	-	(852,281)	(817,251)	(7,637,986)	(531,753)	(116,292)	(290,939)	(10,246,502)
Charge for the year	-	(286,264)	(170,581)	(1,767,253)	(155,372)	(47,588)	-	(2,427,056)
Transfers	-	(922)	1,468	1,116	5,345	(7,007)	-	-
Disposals	-	159	554,576	46,570	6,406	16,783	-	624,494
At December 31, 2012	-	(1,139,308)	(431,788)	(9,357,553)	(675,374)	(154,102)	(290,939)	(12,049,064)
Charge for the year	-	(339,559)	(164,639)	(2,359,104)	(177,786)	(65,637)	-	(3,096,725)
Transfers	-	-	(2,130)	3	2,119	8	-	-
Disposals	-	544,482	30,401	209,615	8,136	15,199	-	807,833
At December 31, 2013	-	(934,385)	(568,166)	(11,507,039)	(842,905)	(194,532)	(290,939)	(14,337,956)
Net book value								
At January 1, 2012 (as restated)	106,177	2,650,125	671,889	17,954,619	848,718	272,024	6,863,007	29,366,559
At December 31, 2012 (as restated)	108,336	3,064,336	819,482	66,155,274	933,006	334,923	2,633,000	74,048,357
At December 31, 2013	120,432	1,986,821	1,138,939	68,957,143	1,108,582	394,000	21,837,337	95,543,254

During 2013 the Company received property, plant and equipment free of charge from the local government in the amount of KZT 1,557,540 thousand (2012: KZT 2,354,219 thousand) (Note 16).

On May 31, 2012 gas pipeline assets were received from KazMunayGas as increase in retained earnings in the amount of KZT 30,222,376 thousand. These assets are located in Southern Kazakhstan, Kyzylorda, Mangistau oblasts. On December 6, 2012 the Company received gas pipeline assets in the amount of KZT 3,474,595 thousand located in Western Kazakhstan and Aktobe oblasts (Note 14).

NOTES TO THE FINANCIAL STATEMENTS (continued)**6. PROPERTY, PLANT AND EQUIPMENT (continued)**

In 2013, the Company also received gas transportation systems from KTG located in Aktobe oblast, as consideration for common shares issued in the amount of KZT 520,375 thousand (*Note 14*).

During 2013 the Company purchased inventories, paid salaries and paid contractors' work in the amount of KZT 22,171,935 thousand (2012: KZT 8,561,829 thousand). Main part of these costs relates to the construction and modernization of loading gas pipelines in South Kazakhstan oblast in the amount of KZT 10,682,960 thousand, Kyzylorda oblast in the amount of KZT 5,481,598 thousand, Zhambyl oblast in the amount of KZT 3,694,094 thousand, and Atyrau oblast in the amount of KZT 1,699,683 thousand.

As at December 31, 2013 the carrying amount of fully depreciated property, plant and equipment still in use was equal to KZT 3,743,528 thousand (as at December 31, 2012: KZT 3,621,479 thousand).

7. INVENTORY

As at December 31, inventory was as follows:

<i>In thousands Tenge</i>	2013	2012 (Restated)	2011 (Restated)
Natural gas	2,781,134	5,453,981	9,945,051
Materials and supplies	1,705,903	895,454	711,357
	4,487,037	6,349,435	10,656,408
Less: reserve for obsolete and slow moving inventories	(9,693)	(29,008)	(23,833)
	4,477,344	6,320,427	10,632,575

As at December 31, 2013, natural gas in the volume of 198,795 thousand cubic meters and in the amount of KZT 2,580,479 thousand (as at December 31, 2012: 405,680 thousand cubic meters in the amount of KZT 5,061,073 thousand) was stored at underground gas storage facilities Bozoi, Poltoratskoye and Akyrtobe, located in the Western and Southern Kazakhstan, owned by Intergas Central Asia JSC, a subsidiary of KazTransGas JSC.

Movements in reserve for obsolete and slow moving inventory were as follows:

<i>In thousands Tenge</i>	2013	2012 (Restated)
At January 1	29,008	23,833
Charge for the year (<i>Note 24</i>)	1,529	5,175
Reversal (<i>Note 24</i>)	(2,134)	-
Write-off	(18,710)	-
At December 31	9,693	29,008

8. TRADE RECEIVABLES

As at December 31, trade receivables were as follows:

<i>In thousands Tenge</i>	2013	2012 (Restated)	2011 (Restated)
Trade receivables from related parties (<i>Note 27</i>)	6,394,292	6,114,190	12,994,213
Trade receivables from third parties	9,135,381	10,053,766	6,831,252
	15,529,673	16,167,956	19,825,465
Less: allowance for doubtful debts	(117,172)	(381,767)	(361,365)
	15,412,501	15,786,189	19,464,100

As at December 31, 2013, 2012 and 2011, trade and other receivables were denominated in Tenge.

Movements in the allowance for doubtful debts were as follows:

<i>In thousand Tenge</i>	2013	2012 (Restated)
At January 1	381,767	361,365
Charge for the year (<i>Note 24</i>)	279,030	37,113
Reversal (<i>Note 24</i>)	(332,202)	-
Write-off	(211,423)	(16,711)
At December 31, 2013	117,172	381,767

NOTES TO THE FINANCIAL STATEMENTS (continued)**8. TRADE RECEIVABLES (continued)**

As at December 31, the aging analysis of trade receivables, except for receivables from related parties, was as follows:

<i>In thousands Tenge</i>	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-60 days	60-90 days	90-120 days	>120 days
2011 (Restated)	6,469,887	–	1,134,492	923,709	387,392	2,692,689	1,331,605
2012 (Restated)	9,671,999	8,247,694	648,775	328,915	131,654	37,101	277,860
2013	9,018,209	6,034,460	2,423,735	393,216	82,913	12,852	71,033

9. ADVANCES PAID

As at December 31, advances paid were as follows:

<i>In thousands Tenge</i>	2013	2012 (Restated)	2011 (Restated)
Advances paid to related parties (Note 27)	2,983,199	2,041,012	1,529,072
Advances paid to third parties	148,240	136,570	119,402
	3,131,439	2,177,582	1,648,474
Less: allowance for impairment of advances paid	–	(17,190)	(16,764)
	3,131,439	2,160,392	1,631,710

Movements in allowance for impairment of advances paid were as follows:

<i>In thousands Tenge</i>	2013	2012 (Restated)
At January 1	17,190	16,764
Charge for the year (Note 24)	–	428
Write-off	(17,190)	–
At December 31	–	17,190

10. TAXES RECEIVABLE

As at December 31, taxes receivable were as follows:

<i>In thousands Tenge</i>	2013	2012 (Restated)	2011 (Restated)
Customs duties paid, but not offset with VAT	1,997,538	–	–
VAT receivable	326,133	3,010	4,473
Property tax	72,800	38,863	57,728
Withholding tax	–	305,348	190,087
Other	7,753	41,240	19,819
	2,404,224	388,461	272,105

As at December 31, 2013, the Company prepaid customs duties on imported Uzbek gas from Gazprom Schweiz AG which were not offset with VAT payable in the reporting period due to delays in preparing necessary documentation.

11. DEFERRED EXPENSES AND OTHER CURRENT ASSETS

Deferred expenses were as follows:

<i>In thousands Tenge</i>	2013	2012 (Restated)	2011 (Restated)
Compensation for housing purchase	1,366,842	–	–
Other	71,099	1,491	5,302
	1,437,941	1,491	5,302

NOTES TO THE FINANCIAL STATEMENTS (continued)**11. DEFERRED EXPENSES AND OTHER CURRENT ASSETS (continued)**

In September 2013 Management of the Company decided to finance housing purchase for employees transferred to Astana in 2013. As a result of this decision, 116 employees received compensation for housing purchase in the amount of KZT 15,500 thousand under the condition that the employee will work for the Company for the next 5 years. Total amount of compensation paid was equal to KZT 1,798,000 thousand, which will be charged by equal installments to the general and administrative expenses of the Company till the end of 2017. As a result, the Company allocated amount of KZT 1,366,842 thousand to long-term portion and KZT 359,600 thousand to the current portion as due from employees. During 2013 the Company expensed KZT 71,558 thousand (Note 24).

As at December 31, other current assets were as follows:

<i>In thousands Tenge</i>	2013	2012 (Restated)	2011 (Restated)
Due from employees	419,833	17,730	21,126
Prepaid insurance	25,543	48,230	35,078
Prepaid expenses	9,064	21,517	63,541
Rent payable	6,688	8,232	241
Payable under the contract on assignment of claims (Note 27)	–	363,672	742,250
Other	40,327	35,524	–
	501,455	494,905	862,236
Less: allowances for impairment of other current assets	–	–	(37,113)
	501,455	494,905	825,123

12. CASH AND CASH EQUIVALENTS

As at December 31, cash and cash equivalents were as follows:

<i>In thousands Tenge</i>	2013	2012 (Restated)	2011 (Restated)
Current account in KZT	919,033	963,373	574,060
Current account in USD	811,720	–	–
Current deposits in KZT	100,000	–	–
Current deposits in USD	76,805	1,493,354	–
Cash in transit	34,042	7,236	17,652
Cash on hand	2,173	52,412	–
	1,943,773	2,516,375	591,712

As at December 31, 2013, 2012 and 2011, current bank accounts are interest free. Short-term deposits in U.S. dollars in the amount of KZT 76,805 thousand were placed in DB Sberbank of Russia JSC with a maturity of March 20, 2014 at interest rate of 5.2% per annum.

13. LONG-TERM AND SHORT-TERM BANK DEPOSITS

Long-term bank deposits were as follows:

<i>In thousands Tenge</i>	2013	2012 (Restated)	2011 (Restated)
Long-term deposits in KZT	387,744	–	–
Long-term deposits in USD	–	105,375	59,216
	387,744	105,375	59,216

As at December 31, 2013, long-term bank deposits in tenge were placed with Eurasian Bank JSC with interest rate of 5.2% per annum with maturity of April 5, 2016 and Halyk Bank of Kazakhstan JSC with interest rate of 3.5% per annum with maturity of October 11, 2023.

NOTES TO THE FINANCIAL STATEMENTS (continued)**13. LONG-TERM AND SHORT-TERM BANK DEPOSITS (continued)**

Short-term bank deposits were as follows:

<i>In thousands Tenge</i>	2013	2012 (Restated)	2011 (Restated)
Short-term deposits in KZT	2,606,123	1,558,123	3,059,852
Short-term deposits in USD	31,535	1,700,633	4,459,036
Interest receivable	384,786	59,991	77,134
	3,022,444	3,318,747	7,596,022

As at December 31, 2013, short-term bank deposits in foreign currency and tenge were placed with Halyk Bank of Kazakhstan JSC, Eurasian Bank JSC and Bank Center Credit JSC. Interest rates were 2.98% per annum on KZT deposits with Halyk Bank of Kazakhstan JSC, 6% per annum on KZT deposits with Eurasian Bank JSC, and 2.5% on foreign currency deposits with Bank Center Credit JSC.

Interest accrued on deposits in 2013 was equal to KZT 521,049 thousand (2012: KZT 397,478 thousand).

14. EQUITY**Share capital**

Share capital was comprised from the following:

<i>In thousands Tenge</i>	Common shares outstanding (number of shares)		Common shares outstanding (in thousands of Tenge)		Total share capital
	Nominal value of KZT 1,000	Nominal value of KZT 3,493	Nominal value of KZT 1,000	Nominal value of KZT 3,493	
At December 31, 2013	57,049,282	1,554,256	57,049,282	5,429,017	62,478,299
At December 31, 2012	45,118,672	1,554,256	45,118,672	5,429,017	50,547,689
At December 31, 2011	4,300,356	1,554,256	4,300,356	5,429,017	9,729,373

During 2013 the Company issued 11,930,610 common shares with a nominal value of KZT 1,000 each (2012: 40,818,316 shares with a nominal value of KZT 1,000 each). All issued shares were acquired by the Sole Shareholder of the Company and paid in cash in the amount of KZT 4,169,778 thousand (2012: KZT 9,024,579 thousand), and in kind by fixed assets contribution in the amount of KZT 3,994,970 thousand (2012: KZT 33,696,971 thousand) and by net assets of Arkagas JSC in the amount of KZT 3,765,862 thousand. The fair value of fixed assets at the date of contribution to the equity was valued by an independent appraiser (*Note 6*).

As at December 31, 2013 all the common shares of the Company were authorized for issue, issued and fully paid. Holders of common shares are entitled to receive dividends when they are declared and are entitled to vote at meetings of the Company. Dividends on common shares are paid at the discretion of the shareholders. In 2013, the Company did not declare dividends (in 2012: no dividends declared as well).

NOTES TO THE FINANCIAL STATEMENTS (continued)**15. INTEREST BEARING LOANS AND BORROWINGS**

As at December 31, interest bearing loans and borrowings were as follows:

Bank	Currency	Maturity	Interest rate	2013	2012 (Restated)	2011 (Restated)
DB Sberbank Kazakhstan JSC	Tenge	June 20, 2014	6.50%	3,000,000	--	--
DB Sberbank Kazakhstan JSC	Tenge	March 19, 2014	6.50%	2,629,227	--	--
VTB Bank Kazakhstan JSC	Tenge	February 28, 2014	7.00%	2,406,600	--	--
Development Bank of Kazakhstan JSC	Tenge	September 19, 2023	8.10%	2,282,616	--	--
Development Bank of Kazakhstan JSC № 2	Tenge	July 25, 2022	8.42%	2,040,782	2,267,538	--
DB Sberbank Kazakhstan JSC	Tenge	March 12, 2014	6.50%	2,000,000	--	--
DB Sberbank Kazakhstan JSC	Tenge	June 12, 2014	7.50%	1,370,773	--	--
Citibank Kazakhstan JSC	Tenge	July 10, 2014	6.00%	1,300,000	--	--
Citibank Kazakhstan JSC	Tenge	April 18, 2014	6.00%	1,200,000	--	--
Citibank Kazakhstan JSC	Tenge	June 27, 2014	6.00%	1,176,000	--	--
VTB Bank Kazakhstan JSC	Tenge	March 5, 2014	7.00%	393,398	--	--
Citibank Kazakhstan JSC	Tenge	January 24, 2014	6.00%	381,479	--	--
VTB Bank Kazakhstan JSC	Tenge	March 10, 2014	7.00%	199,999	--	--
Citibank Kazakhstan JSC	Tenge	April 25, 2014	6.00%	123,000	--	--
Citibank Kazakhstan JSC	Tenge	April 1, 2013	5.50%	--	3,000,000	--
Citibank Kazakhstan JSC	Tenge	January 25, 2013	4.75%	--	2,250,000	--
Citibank Kazakhstan JSC	Tenge	April 24, 2013	5.75%	--	1,000,000	--
Citibank Kazakhstan JSC	Tenge	February 12, 2013	4.25%	--	557,547	--
Citibank Kazakhstan JSC	Tenge	April 25, 2013	5.25%	--	524,419	--
Citibank Kazakhstan JSC	Tenge	January 19, 2013	5.00%	--	88,034	--
Citibank Kazakhstan JSC	Tenge	October 5, 2012	4.75%	--	--	3,000,000
Citibank Kazakhstan JSC	Tenge	October 27, 2012	5.25%	--	--	1,000,000
Development Bank of Kazakhstan JSC № 2	Tenge	July 25, 2022	9.00%	--	--	2,494,289
HSBC Kazakhstan	Tenge	January 23, 2012	5.20%	--	--	733,614
Less: unamortised loan origination fee				(96,508)	(19,272)	(21,300)
				20,407,366	9,668,266	7,206,603
Interest payable				148,159	87,867	96,654
				20,555,525	9,756,133	7,303,257
Less: current portion of interest-bearing loans and borrowings				(16,555,389)	(7,734,621)	(5,057,022)
Long-term portion of interest-bearing loans and borrowings				4,000,136	2,021,512	2,246,235

Citibank Kazakhstan JSC

In accordance with amendment to the general credit line agreement dated September 22, 2004, Citibank Kazakhstan JSC provided the Company in 2013 an additional financing in several tranches totaling KZT 38,703,738 thousand for working capital replenishment.

During 2013 principal debt in the amount of KZT 41,943,258 thousand and interest payable in the amount of KZT 357,554 thousand were repaid. KTG acts as a guarantor under this general credit line agreement. As at December 31, 2013, the Company does not have assets pledged as collateral under this loan.

DB Sberbank JSC

In accordance with the revolving credit line agreement dated September 13, 2013 in the amount of KZT 9,000,000 thousand at 6.5%-8% per annum with a maximum loan term of 12 months, Sberbank JSC provided the Company in 2013 an additional financing in several tranches totaling KZT 9,000,000 thousand for working capital replenishment. This facility is confirmed and available until September 9, 2016.

During 2013 the accrued interest in the amount of KZT 100,927 thousand was repaid under this loan. KTG acts as a guarantor under this credit line agreement. As at December 31, 2013, the Company does not have assets pledged as collateral on the loan.

NOTES TO THE FINANCIAL STATEMENTS (continued)**15. INTEREST BEARING LOANS AND BORROWINGS (continued)****HSBC JSC**

Under the credit line agreement dated September 26, 2006, during 2013 HSBC Bank Kazakhstan JSC provided financing to the Company in the amount of KZT 8,900,000 thousand for working capital replenishment, which was repaid in the same period, as well as the interest accrued in the amount of KZT 188,540 thousand. As at December 31, 2013, the Company does not have assets pledged as collateral on the loan.

VTB Bank (Kazakhstan) JSC

In accordance with the credit line agreement dated August 29, 2013 in the amount of KZT 3,000,000 thousand under 5-7% per annum with a maximum loan term of up to 6 months, in 2013 VTB Bank (Kazakhstan) JSC provided the Company in 2013 an additional financing in several tranches in total amount of KZT 2,999,997 thousand for working capital replenishment. This facility is confirmed and available until August 29, 2014.

During 2013 the accrued interest was repaid in the amount of KZT 64,818 thousand. KTG acts as a guarantor under this credit line agreement. As at December 31, 2013, the Company has no assets pledged as collateral on the loan.

JSC Development Bank of Kazakhstan № 2

Loan from Development Bank of Kazakhstan № 2 JSC is repayable in semi-annual installments of KZT 113,337 thousand, beginning from January 2012. On July 17, 2013 the Company received additional financing by concluding a credit line agreement in the amount of KZT 2,282,616 thousand at 8.1% per annum for a period of 10 years to finance investment project on modernization of the gas pipeline system of Taraz.

In 2013, the Company repaid the principal amount of KZT 226,753 thousand (2012: KZT 226,753 thousand) and monthly accrued interest of KZT 198,976 thousand (2012: KZT 219,384 thousand). KTG acts as a guarantor under the contract. As at December 31, 2013, the Company does not have assets pledged as collateral on the loan.

Interest accrued on interest-bearing loans for 2013 was equal to KZT 971,107 thousand (2012: KZT 627,998 thousand).

16. DEFERRED INCOME

Deferred income was as follows:

In thousands Tenge

As at December 31, 2011 (restated)	543,893
Property, plant and equipment obtained free of charge (Note 6)	2,354,219
Amortisation of deferred income (Note 25)	(106,684)
Less: current portion of deferred income	(185,558)
Long-term portion of deferred income	2,605,870
As at December 31, 2012 (restated)	2,791,428
Property, plant and equipment obtained free of charge (Note 6)	1,557,540
Amortisation of deferred income (Note 25)	(208,504)
Less: current portion of deferred income	(251,682)
Long-term portion of deferred income	3,888,782

17. TRADE PAYABLES

As at December 31, trade payables were as follows:

<i>In thousands Tenge</i>	2013	2012 (Restated)	2011 (Restated)
Trade payables to third parties	15,254,198	6,704,353	7,449,637
Trade payables to related parties (Note 27)	8,464,822	10,991,529	3,394,506
	23,719,020	17,695,882	10,844,143

NOTES TO THE FINANCIAL STATEMENTS (continued)**17. TRADE PAYABLES (continued)**

As at December 31, trade payables of the Company were denominated in different currencies as follows:

<i>In thousands Tenge</i>	2013	2012 (Restated)	2011 (Restated)
KZT	17,526,749	15,840,619	6,373,035
US Dollars	6,190,771	1,855,263	4,471,108
Russian Ruble	1,500	-	-
	23,719,020	17,695,882	10,844,143

18. TAXES PAYABLE

As at December 31, taxes payable were as follows:

<i>In thousands Tenge</i>	2013	2012 (Restated)	2011 (Restated)
Individual income tax	46,705	39,738	28,891
Social tax	15,905	29,687	15,073
VAT payable	-	617,825	319,433
Other	294	1,598	2,044
	62,904	688,848	365,441

19. ADVANCES RECEIVED

As at December 31, advances received were as follows:

<i>In thousands Tenge</i>	2013	2012 (Restated)	2011 (Restated)
Advances received for gas supply	1,641,847	1,930,595	1,748,077
Advances received from related parties for gas supply	215,448	69,890	28,127,676
Other advances received	665,783	248,614	332,638
	2,523,078	2,249,099	30,208,391

20. LIABILITY ON BORROWED GAS

On September 7, 2012 the Company received gas in the volume of 326,951 thousand cubic meters from KTG. In accordance with the agreement with KTG, the Company was obliged to return gas until December 31, 2013. In 2013, the Company returned the gas in the volume of 79,932 thousand cubic meters (2012: 78,762 thousand cubic meters), remaining balance of the gas in the amount of KZT 1,394,651 thousand will be also returned in kind of gas during 2014. In accordance with the terms of the agreement, if the Company is unable to fulfill its obligation on time, no fines and penalties will be imposed. The agreement is valid until fulfillment of obligations and has no restrictions.

21. OTHER CURRENT LIABILITIES

As at December 31, other current liabilities were as follows:

<i>In thousands Tenge</i>	2013	2012 (Restated)	2011 (Restated)
Accrued liabilities	966,579	1,518,596	1,061,075
Due to employees	-	18,691	5,744
Other	117,778	99,902	31,527
	1,084,357	1,637,189	1,098,346

22. REVENUE

Revenue for the year ended December 31 was comprised as follows:

<i>In thousands Tenge</i>	2013	2012 (Restated)
Revenue from sales of gas	97,762,386	108,401,561
Revenue from gas transportation services	10,572,550	6,716,752
Income from rent of gas pipelines	-	21,408
	108,334,936	115,139,721

NOTES TO THE FINANCIAL STATEMENTS (continued)**22. REVENUE (continued)**

During 2012, the Company supplied gas to KazRosGas LLP, a related party, in the volume of 1,450,000 thousand cubic meters for a total amount of KZT 25,919,621 thousand, excluding VAT (*Note 27*).

Income from sales and gas transportation to related parties is disclosed in *Note 27*.

23. COST OF SALES

Cost of sales for the year ended December 31 was comprised as follows:

<i>In thousands Tenge</i>	2013	2012 (Restated)
Cost of gas sold	82,864,488	89,570,237
Payroll and related taxes	5,424,392	3,548,483
Transportation and distribution	5,288,590	6,438,813
Depreciation and amortization	2,707,747	2,133,891
Billing services	1,946,368	1,246,598
Property tax and other taxes	1,088,568	652,477
Gas losses within normal limits	947,931	789,008
Inventories	624,776	401,631
Repair and maintenance	189,300	255,582
Gas storage services	141,762	644,663
Other	535,545	480,176
	101,759,467	106,161,559

During 2012, the Company supplied gas to KazRosGas LLP, related party, in the volume of 1,450,000 thousand cubic meters for a total amount of KZT 25,919,621 thousand, excluding VAT (*Note 27*).

Due to start of repaying liability on gas delivery to KazRosGas LLP the Company incurred additional gas storage and transportation expenses. In 2012, the tariff for export transportation was equal to KZT 371.25 per 1,000 cubic meters of gas and tariff for storage – KZT 120 per 1,000 cubic meters of gas.

24. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the year ended December 31 were comprised as follows:

<i>In thousands Tenge</i>	2013	2012 (Restated)
Payroll and related taxes	2,932,134	2,394,003
Depreciation and amortization	405,006	322,452
Bank charges	283,045	181,390
Rent	247,493	126,112
Sponsorship	202,473	159,714
Professional services	175,490	98,216
Business trip expenses	175,426	102,615
Repair and maintenance	145,876	156,472
Professional development	93,464	51,375
Communication services	82,721	51,416
Compensation for housing purchase	71,558	-
Advertising	64,911	45,582
Taxes other than income tax	63,509	112,181
Insurance	48,960	95,605
Office supplies	36,444	23,234
Social and cultural events expenses	32,808	22,624
Fuel and materials	31,114	21,817
Abnormal gas losses	-	89,278
Accrual of allowance for obsolete and slow moving inventory (<i>Note 7</i>)	(605)	5,175
Accrual of allowance for doubtful debts, impairment of advances paid and other current assets (<i>Notes 8, 9, 11</i>)	(53,172)	426
Other	61,676	229,382
	5,100,331	4,289,069

NOTES TO THE FINANCIAL STATEMENTS (continued)**25. OTHER OPERATING INCOME/(EXPENSES)**

Other operating income/(expenses) for the year ended December 31 were comprised as follows:

<i>In thousands Tenge</i>	2013	2012 (Restated)
Other operating income:		
Income from services provided (gas supply to residential housing, tie-in, technical maintenance)	3,393,830	2,958,211
Income from sale of inventory (counters, boilers, etc.)	519,884	608,687
Amortisation of deferred income (<i>Note 16</i>)	208,504	106,684
Fines and penalties	97,249	117,987
Rental income	68,817	36,574
Gain on disposal of property, plant and equipment and intangible assets	19,076	2,045
Trust management income	-	79,867
Other income	7,656	3,819
	4,315,016	3,913,874

<i>In thousands Tenge</i>	2013	2012 (Restated)
Other operating expenses:		
Expenses on services provided (gas supply to residential housing, tie-in, technical maintenance)	(2,123,919)	(1,789,505)
Expenses on sale of inventory	(367,606)	(467,226)
Lease expenses – depreciation of leased out buildings, operating lease to third parties	(60,190)	-
Trust management expenses	-	(89,452)
Loss on disposal of property, plant and equipment and intangible assets	-	(2,964)
	(2,551,715)	(2,349,147)

Depreciation and amortization expenses in the amount of KZT 51,466 thousand is included in other operating expenses (2012: KZT 15,217 thousand).

26. INCOME TAX EXPENSES

The Company is subject to corporate income tax at the applicable statutory rate of 20% as at December 31, 2013 and 2012.

Main components of corporate income tax expenses in the statement of comprehensive income are as follows:

<i>In thousands Tenge</i>	2013	2012 (Restated)
Current income tax	(14,058)	1,181,545
Current income tax expenses	709,779	1,140,545
Adjustments with respect to prior year income tax	(723,837)	41,000
Deferred income tax expense	721,629	307,180
Income tax expenses	707,571	1,488,725

Below is reconciliation of profit before income tax for the financial reporting purposes with tax expenses:

<i>In thousands Tenge</i>	2013	2012 (Restated)
Profit before income tax	2,801,844	5,995,304
Statutory tax rate	20%	20%
Income tax expenses at statutory rate	560,369	1,199,061
Tax effect of non-deductible differences:		
Non-deductible expenses	63,473	216,731
Sponsorship	19,120	31,933
Adjustments in respect of prior year income tax reported during the period	(723,837)	41,000
Adjustments in respect of prior year deferred income tax reported during the period	788,446	-
Income tax expenses	707,571	1,488,725

NOTES TO THE FINANCIAL STATEMENTS (continued)**26. INCOME TAX EXPENSES (continued)**

As at December 31, 2013 and 2012 components of deferred income tax assets/(liabilities) were comprised as follows:

<i>In thousands Tenge</i>	2011 (Restated)	Origination and reversal of temporary differences in the statement of comprehen- sive income	2012 (Restated)	Origination and reversal of temporary differences in the statement of comprehen- sive income	2013
Deferred income tax assets					
Deferred income	108,779	449,507	558,286	269,806	828,092
Accrued liabilities on management bonuses	181,326	84,143	265,469	(124,384)	141,085
Provision for vacations	30,889	7,362	38,251	5,568	43,819
Allowance for doubtful debts	79,696	(3,343)	76,353	(56,357)	19,996
Due from employees	-	-	-	14,312	14,312
Allowance for impairment of advances paid	3,353	85	3,438	-	3,438
Allowance for obsolete and slow moving inventories	4,767	1,035	5,802	(3,863)	1,939
Gas pipelines received in trust management	-	-	-	1,955,403	1,955,403
Provision on assets from gas pipelines in trust management	-	-	-	(1,955,403)	(1,955,403)
Deferred income tax assets	408,810	538,789	947,599	105,082	1,052,681
Deferred income tax liabilities					
Property, plant and equipment	(1,249,652)	(836,739)	(2,086,391)	(835,941)	(2,922,332)
Taxes receivable	-	(9,230)	(9,230)	9,230	-
Deferred income tax liabilities	(1,249,652)	(845,969)	(2,095,621)	(826,711)	(2,922,332)
Net deferred income tax assets/(liabilities)	(840,842)	(307,180)	(1,148,022)	(721,629)	(1,869,651)

As at December 31, 2013 the Company had prepayment for corporate income tax in the amount of KZT 609,279 thousand (as at December 31, 2012: payable of KZT 343,096 thousand).

27. RELATED PARTIES TRANSACTIONS

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions that unrelated parties would not and also, transactions between related parties may not be made at the same amounts as between unrelated parties. Management believes that the Company has appropriate procedures for identification and appropriate disclosure of information on related parties transactions.

During 2013 and 2012, the sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions.

NOTES TO THE FINANCIAL STATEMENTS (continued)**27. RELATED PARTIES TRANSACTIONS (continued)**

The major transactions with related parties for the years ended December 31, 2013 and 2012 and balances as at December 31, 2013, 2012 and 2011 comprise as follows:

Revenue

<i>In thousands Tenge</i>	2013	2012 (Restated)
Sale of goods		
KazTransGas JSC	14,108,780	7,432,645
<i>Companies under control of KazTransGas:</i>		
Intergas Central Asia JSC	2,383,713	1,392,262
Almaty Gas Trade LLP	-	1,128,112
<i>Under control or joint control of KazMunayGas:</i>		
KazTransOil JSC	741,504	91,160
EP KazMunayGas JSC	26,393	13,988
Kazakhstan Petrochemical Industries JSC	21,713	20,732
Teniz Service LLP	6,570	-
Mangistaumunaigas JSC	4,895	6,906
NII Kaspimunaygas LLP	1,837	1,683
Oil Construction Company LLP	1,160	1,132
EuroAsia Air JSC	1,148	718
KazakhoilAktobe LLP	763	-
KMG Service LLP	618	469
SemserOrt-Sondirushi LLP	562	-
Mangistauenergomunai LLP	527	520
KMG Onimderi JSC	319	311
KMG Transkaspi LLP	68	-
KMG Karachaganak LLP	64	-
Kazakhturkmunay LLP	21	2
KazRosGas LLP	-	25,919,621
Semser-Security LLP	-	564
<i>Under control or joint control of Samruk-Kazyna:</i>		
MAEC KazAtomProm JSC	21,409,750	19,292,367
Zhambyl GRES JSC	5,531,664	3,610,518
NC Kazakhstan Temir Zholy JSC	123,525	98,125
NAC Kazakhstan Engineering JSC	29,350	27,548
Kazakhtelecom JSC	13,002	8,175
Kazpost JSC	10,986	7,041
Alliance Bank JSC	882	332
Temirbank JSC	46	95
SamrukEnergo JSC	-	284,529
BTA Bank JSC	-	10
	44,419,860	59,339,565

NOTES TO THE FINANCIAL STATEMENTS (continued)**27. RELATED PARTIES TRANSACTIONS (continued)****Revenue (continued)**

<i>In thousands Tenge</i>	2013	2012 (Restated)
Rendering of services		
<i>Companies under control of KazTransGas:</i>		
KTG Onimderi JSC	5,943	-
<i>Under control or joint control of KazMunayGas:</i>		
EP KazMunayGas JSC	58,285	1,688
KazTransOil JSC	47,879	24,761
Mangistaumunaigas JSC	2,428	1,604
Kazakhstan Petrochemical Industries JSC	2,346	3,500
Teniz Service LLP	633	-
EuroAsia Air JSC	573	109
Oil Construction Company LLP	337	285
Mangistauenergomunai LLP	246	130
NII Kaspimunaygas LLP	217	159
KMG Service LLP	154	65
SemserOrt-Sondirushi LLP	93	-
KMG Transkaspi LLP	31	-
Kazakhturkmunay LLP	16	-
KMG Onimderi JSC	13	46
KMG Karachaganak LLP	4	-
KBTU JSC	-	2,317
Semser-Security LLP	-	72
<i>Under control or joint control of Samruk-Kazyna:</i>		
SamrukEnergo JSC	333,928	284,529
NC Kazakhstan Temir Zholy JSC	71,677	14,702
MAEC KazAtomProm JSC	17,386	45,025
Kazakhtelecom JSC	6,587	1,108
NAC Kazakhstan Engineering JSC	5,032	4,683
Kazpost JSC	3,840	1,033
Alliance Bank JSC	149	42
Temirbank JSC	11	11
BTA Bank JSC	9	-
	557,817	385,869

NOTES TO THE FINANCIAL STATEMENTS (continued)**27. RELATED PARTIES TRANSACTIONS (continued)****Expenses**

<i>In thousands Tenge</i>	2013	2012 (Restated)
Purchases of goods and services		
KazTransGas JSC	1,580,408	15,205,629
<i>Companies under control of KazTransGas:</i>		
Intergas Central Asia JSC	5,306,490	6,985,831
Almaty Gas Trade LLP	-	5,726,488
<i>Under control or joint control of KazMunayGas:</i>		
Tengizshevroil LLP	16,389,469	12,940,780
KazRosGas LLP	7,672,715	4,427,666
EP KazMunayGas JSC	3,244,011	2,798,756
Kazakhturkmunay LLP	741,966	-
KazakhoilAktobe LLP	373,035	-
Kazgermunay LLP	157,206	157,218
KMG Onimderi JSC	103,073	72,527
KMG Service LLP	7,365	-
KBTU JSC	4,200	-
EuroAsia Air JSC	2,126	-
KMG Karachaganak LLP	888	-
Kazakhstan Petrochemical Industry JSC	215	175
KazTransOil JSC	122	-
<i>Under control or joint control of Samruk-Kazyna:</i>		
MAEC KazAtomProm JSC	97,498	67,453
Kazpost JSC	58,161	-
SamrukKazyna Contract LLP	11,246	-
SamrukEnergo JSC	2,580	-
Kazakhtelecom JSC	2,573	4,693
NC Kazakhstan Temir Zholy JSC	340	6
Temirbank JSC	319	-
BTA Bank JSC	293	-
Alliance Bank JSC	18	-
	35,756,317	48,387,222

NOTES TO THE FINANCIAL STATEMENTS (continued)**27. RELATED PARTIES TRANSACTIONS (continued)****Trade receivables**

Trade receivables from related parties are due within 90 days and bear no interest. This assessment is undertaken each reporting year through examining the financial position of the related party and the market in which the related party operates. Outstanding balances as at December 31, 2013, 2012 and 2011 are unsecured and their settlement occurs in cash. No issued or obtained guarantees exist for receivables from related parties.

<i>In thousands Tenge</i>	December 31, 2013	December 31, 2012 (Restated)	December 31, 2011 (Restated)
KazTransGas JSC	2,696,992	1,528,800	9,986,651
<i>Companies under joint of KazTransGas:</i>			
Intergas Central Asia JSC	794,763	450,611	304,303
KTG Onimderi JSC	678	630	-
Almaty Gas Trade LLP	-	7,424	-
KazTransGas Almaty JSC	-	-	1,438,345
KazTransGas LNG LLP	-	-	10,470
<i>Under control or joint control of KazMunayGas:</i>			
EP KazMunayGas JSC	28,910	4,154	1,701
KMG Onimderi JSC	1,659	27	-
Mangistaumunaigas JSC	955	-	2,393
NII Kaspimunaygas LLP	304	1,782	-
KMG Karachaganak LLP	184	-	-
KMG Service LLP	165	110	-
EuroAsia Air JSC	67	-	-
KazTransOil JSC	53	2,196	419
KazRosGas LLP	-	942,485	-
Mangistauenergomunay LLP	-	669	-
Oil Construction Company LLP	-	-	48
Semser-Security LLP	-	-	320
KMG Processing and Marketing	-	-	137
<i>Under control or common control of Samruk-Kazyna:</i>			
MAEC KazAtomProm JSC	2,861,853	3,116,243	1,204,472
NC Temirzholy JSC	6,982	13,177	429
Kazpost JSC	499	357	254
Kazakhtelecom JSC	215	1,527	328
Alliance Bank JSC	13	113	51
SamrukEnergo JSC	-	43,885	43,681
Halyk Bank JSC	-	-	209
NAC Kazakhstan Engineering JSC	-	-	2
	6,394,292	6,114,190	12,994,213
Advances paid			
<i>In thousands Tenge</i>	December 31, 2013	December 31, 2012 (Restated)	December 31, 2011 (Restated)
<i>Under control or joint control of KazMunayGas:</i>			
Tengizshevroil LLP	2,980,672	2,036,795	1,526,095
KBTU JSC	2,520	2,520	840
KMG Onimderi JSC	-	1,315	-
KMG Processing and Marketing	-	-	1,618
<i>Under control of Samruk-Kazyna:</i>			
Alliance Bank JSC	7	-	-
SamrukEnergo JSC	-	375	505
NC Kazakhstan Temir Zholy JSC	-	7	14
	2,983,199	2,041,012	1,529,072

NOTES TO THE FINANCIAL STATEMENTS (continued)**27. RELATED PARTIES TRANSACTIONS (continued)****Trade payables**

<i>In thousands Tenge</i>	December 31, 2013	December 31, 2012 (Restated)	December 31, 2011 (Restated)
KazTransGas JSC	589,454	2,431,633	860,345
<i>Companies under control of KazTransGas:</i>			
Intergas Central Asia JSC	2,523,525	1,594,532	760,741
Almaty Gas Trade LLP	1,731,205	4,731,165	-
<i>Under control or joint control of KazMunayGas:</i>			
KazRosGas LLP	2,816,206	2,027,278	1,553,570
EP KazMunayGas JSC	406,967	122,069	147,811
Kazakhturkmunay LLP	186,475	35,277	12,423
KazakhoilAktobe LLP	141,600	-	-
Kazgermunay LLP	29,712	19,698	42,301
KazTransOil JSC	12,093	2,047	2
KMG Service LLP	2,431	-	14
Kazakhstan Petrochemical Industry JSC	1,395	2,129	21
KMG Onimderi JSC	451	-	-
Oil Construction Company LLP	328	5	-
EuroAsia Air JSC	190	-	-
Mangistauenergomunay LLP	119	-	-
KMG Karachaganak LLP	46	-	-
KMG Processing and Marketing	-	-	205
<i>Under control or joint control of Samruk-Kazyna:</i>			
MAEC KazAtomProm JSC	15,523	25,696	8,270
Kazpost JSC	7,018	-	3,150
Kazakhtelecom JSC	50	-	5,586
SamrukEnergO JSC	22	-	-
BTA Bank JSC	9	-	37
NC Kazakhstan Temir Zholy JSC	3	-	-
Temirbank JSC	-	-	30
	8,464,822	10,991,529	3,394,506

Advances received

<i>In thousands Tenge</i>	December 31, 2013	December 31, 2012 (Restated)	December 31, 2011 (Restated)
<i>Companies under control of KazTransGas:</i>			
Almaty Gas Trade LLP	-	40	-
<i>Under control or joint control of KazMunayGas:</i>			
KMG Transkaspı JSC	3,219	-	-
Mangistaumunaıgas JSC	-	2,612	-
EuroAsia Air JSC	-	160	55
KazRosGas LLP	-	-	28,087,490
Kazakhstan Petrochemical Industries JSC	-	-	3,331
KazTransOil JSC	-	-	306
EP KazMunayGas JSC	-	-	15
<i>Under control or joint control of Samruk-Kazyna:</i>			
Zhambyl GRES JSC	184,527	54,330	16,768
NAC Kazakhstan Engineering JSC	13,733	12,568	10,914
SamrukEnergO JSC	13,698	-	-
Kazakhtelecom JSC	204	-	173
Alliance Bank JSC	37	26	-
NC Kazakhstan Temir Zholy JSC	22	-	8,533
Temirbank JSC	8	15	4
Kazpost JSC	-	139	59
BTA Bank JSC	-	-	28
	215,448	69,890	28,127,676

NOTES TO THE FINANCIAL STATEMENTS (continued)**27. RELATED PARTIES TRANSACTIONS (continued)****Other current assets**

<i>In thousands Tenge</i>	December 31, 2013	December 31, 2012 (Restated)	December 31, 2011 (Restated)
<i>Companies under control of KazTransGas:</i>			
KTG Onimderi JSC	-	8,042	-
<i>Under control of Samruk-Kazyna:</i>			
Zhambyl GRES JSC	-	355,630	742,250
	-	363,672	742,250

Other current liabilities

<i>In thousands Tenge</i>	December 31, 2013	December 31, 2012 (Restated)	December 31, 2011 (Restated)
<i>Under control of Samruk-Kazyna:</i>			
Temirbank JSC	9	-	-
	9	-	-

Compensation to key management personnel

As at December 31, 2013, key management personnel comprise 26 persons (as at 31 December 2012: 16 persons). Total compensation to the key management personnel included in general and administrative expenses in the statement of comprehensive income was equal to KZT 788,237 thousand for the year ended December 31, 2013 (for the year ended December 31, 2012: KZT 190,994 thousand).

Remuneration to the key management personnel for the period comprise as follows:

<i>In thousands Tenge</i>	2013	2012 (Restated)
Bonuses	485,860	14,859
Short-term payments to employees	238,014	160,009
Social tax	64,363	16,126
Total	788,237	190,994

Loans and borrowings

In 2004 KTG acted as a guarantor on credit facility agreement between the Company and Citibank Kazakhstan JSC. Also, KTG acts as a guarantor on the loan obtained from Development Bank of Kazakhstan JSC, VTB Bank (Kazakhstan) JSC and Sberbank JSC (*Note 15*).

28. CONTINGENT AND CONTRACTUAL COMMITMENTS**Taxation**

Kazakhstan tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of the Republic of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by the authorities in respect of taxes for 5 (five) calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2013.

As at December 31, 2013, Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Company's tax positions will be sustained.

NOTES TO THE FINANCIAL STATEMENTS (continued)**28. CONTINGENT AND CONTRACTUAL COMMITMENTS (continued)****Environmental matters**

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. Potential liabilities which may arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation cannot be reasonably estimated.

On July 4, 2012, the Law of RK *On main pipelines* was enforced. This law regulates public relations arising during the design, construction, operation, preservation and liquidation of main pipeline, and aimed at providing efficient, reliable and safe operation of the main pipelines. As at December 31, 2013 the Company owned 428 km of main pipeline in Mangistau oblast, with a net book value of KZT 444,365 thousand. The Company made no provision for liquidation of this gas pipeline and restoration of related land site.

According to the current legislation, Management believes that there are no probable or possible environmental liabilities which could have a material adverse effect on the Company's financial position and results of operations.

Insurance matters

The insurance industry in the Republic of Kazakhstan is at a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Company's property or relating to the Company's operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position. Management believes that no additional provisions need to be made, except for these recognized in these financial statements.

Contingent liabilities

The Company assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that actual events giving rise to liability will occur and the amount of the liability can be reasonably estimated. No provision has been made in these financial statements for any of the contingent liabilities mentioned above.

Legal proceedings

During the year, the Company was involved in a number of court proceedings (as a plaintiff) arising in the ordinary course of business. In the opinion of Management, there are no current legal proceedings or other claims outstanding, which could have a material negative effect on the results of operations or financial position of the Company and which have not been recognized or disclosed in these financial statements.

Contractual commitments

As at December 31, 2013, contractual commitments of the Company to purchase gas were equal to KZT 13,835,673 thousand (December 31, 2012: KZT 3,220,519 thousand), commitments to sell gas were equal to KZT 3,597,823 thousand (December 31, 2012: KZT 48,748,088 thousand).

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The primary financial liabilities of the Company comprise interest bearing loans and trade and other payables. The main purpose of these financial instruments is to raise financing for the Company's operations. The Company has trade receivables, cash, long-term and short-term bank deposits arising directly from operational activities of the Company.

The Company is exposed to market risk, credit risk, currency risk and liquidity risk.

Management of the Company reviews and approves the following actions undertaken to manage these risks.

Market risk

Market risk is the risk that the fair value of future cash flows from financial instruments will fluctuate as a result of changes in market prices. The Company manages market risk through the periodic estimation of potential losses that could arise from adverse changes in market conditions.

NOTES TO THE FINANCIAL STATEMENTS (continued)**29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Currency risk**

As a result of significant trade payables and short-term bank deposits denominated in US Dollars, the Company's statement on financial position can be affected significantly by movement in the US Dollar / KZT exchange rates. The Company also has transactional currency exposures. Such exposure arises from as the result of purchases in the US Dollars. Approximately 65% of the Company's cost of gas purchases is denominated in the US Dollars, while 100% of revenues are denominated in KZT.

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar exchange rate, with all the variables held constant, of the Company's profit before income tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Company's equity.

	Increase/ decrease in US Dollar rate	Effect on profit before income tax
2013	30%	(9,691)
	10%	(3,230)
2012	1.57%	81,850
	-1.57%	(81,850)

The Company does not hedge accounts receivable and accounts payable since Management does not believe the foreign exchange risk is significant.

Credit risks

Credit risk is the risk that one party with financial instrument will not be able to fulfil an obligation and cause the other party to incur a financial loss. The Company is exposed to a credit risk from its operating activities and certain types of investing activities. With regard to investing activities, the Company places deposits with Kazakhstani banks (*Notes 12 and 13*). The Company's Management reviews credit ratings of these banks periodically to eliminate extraordinary credit risks. The Company's Management believes that recent international credit crisis and subsequent changes in credit ratings of local banks do not justify extraordinary credit risk. Accordingly, no impairment provision against bank deposits placed by the Company is required.

The table below shows the balances of bank deposits, cash at bank accounts as of the reporting date using Standard & Poor's, Moody's and Fitch credit rating symbols.

	Location	Agency	Rating		2013	2012
			2013	2012		
Eurasian Bank JSC	Kazakhstan	S&P	B+/positive/B	B+/stable/B, BBB	2,849,660	1,563,895
Senim Bank JSC	Kazakhstan	S&P	B+/negative	-	939,949	-
Halyk Bank Kazakhstan JSC	Kazakhstan	S&P	BB/stable/B	Ba2/stable/NP	896,011	517,176
Sberbank Kazakhstan JSC	Kazakhstan	Fitch	Ba2/stable/NP	BBB-/stable/F3	449,923	1,803,367
Citibank Kazakhstan JSC	Kazakhstan	Moody's	Baa2/negative	Baa2/negative	67,717	250,646
Kazkommertsbank JSC	Kazakhstan	S&P	B/stable/C	B+/negative/B	44,959	81,035
BankCenterCredit JSC	Kazakhstan	Fitch	B+/stable/B	B1/negative/NP	31,634	1,544,050
Kaspi Bank JSC	Kazakhstan	S&P	BB-/stable	-	31,394	-
Tsesna Bank JSC	Kazakhstan	S&P	B/positive/B	-	2,738	-
HSBC Bank Kazakhstan JSC	Kazakhstan	S&P	BBB/stable/A-3	BBB/stable/A-2	2,210	8,458
Alfa Bank JSC	Kazakhstan	S&P	B+/stable/B	BB+/stable	824	1,001
RBS Bank Kazakhstan JSC	Kazakhstan	S&P	A-2/stable	A-2/stable	573	618
VTB Bank JSC	Kazakhstan	Fitch	BBB-	-	154	-
ATF Bank JSC	Kazakhstan	Moody's	B-/stable	B1/stable/NP	-	100
					5,317,746	5,770,346

At the current level of operations, Management believes that the Company has established appropriate credit verification procedures and monitoring of industrial customers, which enabled the Company to trade only with recognized, creditworthy third parties. The Company monitors the outstanding receivables on an ongoing basis with the result that the Company's exposure to bad debts is not significant. Credit risks are taken through individual impairments.

NOTES TO THE FINANCIAL STATEMENTS (continued)**29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Credit risks (continued)**

Credit risk associated with the population is controlled by switching off the gas supply after several notices during 60 days. Also, the Company has agreements with billing companies in all regions of the country, which manage the population's accounts and accept 90% of the risk of default on its debt for gas and transportation themselves.

With respect to credit risk arising from other financial assets of the Company, which comprise cash and cash equivalents, trade and other receivables, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the current value of these instruments.

Fair value

Set out below is a comparison of the carrying amounts and fair values of the Company's financial instruments that are recorded in the financial statements (in thousands of KZT):

	Carrying value		Fair value	
	2013	2012	2013	2012
Financial assets				
Bank deposits	3,410,188	3,424,122	3,410,188	3,424,122
Trade receivables	15,412,501	15,786,189	15,412,501	15,786,189
Cash and cash equivalents	1,943,773	2,516,375	1,943,773	2,516,375
Financial liabilities				
Interest bearing loans and borrowings with fixed interest	20,555,525	9,756,133	20,555,525	9,756,133
Trade payables	23,719,020	17,695,882	23,719,020	17,695,882

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The carrying amount of cash, trade accounts receivable, other current assets, trade payables and other current liabilities approximates their fair value due to the short-term maturity of these financial instruments.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with its financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. Liquidity requirements are monitored on a regular basis and Management ensures that sufficient funds are available to meet any commitments as they arise. The Company's financial liabilities are payable on demand with average maturities of less than 3 (three) months, except for the Company's borrowings whose maturity profile is shown in *Note 15*.

For the year ended December 31, 2013	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Interest bearing loans and borrowings	-	8,167,704	8,682,986	2,904,044	2,095,359	21,850,093
Trade payables	23,719,020	-	-	-	-	23,719,020
	23,719,020	8,167,704	8,682,986	2,904,044	2,095,359	45,569,113

For the year ended December 31, 2012	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Interest bearing loans and borrowings	-	3,541,737	4,309,559	1,832,793	1,093,690	10,777,779
Trade payables	17,695,882	-	-	-	-	17,695,882
	17,695,882	3,541,737	4,309,559	1,832,793	1,093,690	28,473,661

NOTES TO THE FINANCIAL STATEMENTS (continued)**29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Capital management**

The capital comprises common shares attributable to the Sole Shareholder.

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may regulate distribution of dividends to shareholders, return capital to shareholders or issue new shares.

The Company monitors capital using gearing ratio, which is net debt divided by equity plus net debt. The Company includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents.

As at December 31 gearing ratio comprises as follows:

	2013	2012
Interest bearing loans and borrowings	20,555,525	9,756,133
Trade payables	23,719,020	17,695,882
Other current liabilities	1,084,357	1,637,189
Less: cash and cash equivalents and bank deposits (Note 12 and 13)	(5,353,961)	(5,940,497)
Net debt	40,004,941	23,148,707
Net equity and net debt	73,792,691	67,008,265
Debt-to-equity ratio	0.54	0.35

30. EVENTS AFTER REPORTING PERIOD

On January 16, 2014 the Company has withdrawn bank deposits with Eurasian Bank JSC in the amount of KZT 2,598,000 thousand due to its maturity (Note 13).

On January 24, 2014 the Company made repayment of principal on the loan from Citibank Kazakhstan JSC in the amount of KZT 381,479 thousand according to the schedule under loan agreement (Note 15).

On January 27, 2014 the Company made repayment of principal on the loan from Development Bank of Kazakhstan JSC №2 in the amount of KZT 113,377 thousand, according to the schedule under loan agreement (Note 15).

On January 29, 2014 a special trading session was conducted at Kazakhstan Stock Exchange to offer bonds with a nominal value of KZT 1,000 each, interest rate 7.5% per annum with a coupon payment on June 27 and December 27 each year till 2018 inclusive. Total number of bonds placed was equal to 2,629,170. Major buyers are Nomad Life (1,870,000 bonds), BTA Life (255,000 bonds). Proceeds received from issue were equal to KZT 2,573,220 thousand. Bonds yield for the holders equals to 8.2% per annum.

On January 30, 2014 the Company made repayment of principal on the loan from JSCVTB Bank in the amount of KZT 2,073,220 thousand, according to the schedule under loan agreement (Note 15).

On February 11, 2014 the Government of the Republic of Kazakhstan, represented by the National Bank of the Republic of Kazakhstan (the "NBRK") conducted currency devaluation. NBRK decided not to maintain the exchange rate as at the same level (KZT 155.5 / \$ 1), to reduce amount of foreign exchange interventions and to reduce intervention in the formation of KZT exchange rate. New exchange rate will be around KZT 185 for 1 U.S. dollar according to statements by the NBRK.

NBRK does not provide for any limitation of the current regime of currency transactions. On February 11, 2014 NBRK introduced a limit deviation between purchase rate and the selling rate for Tenge in currency transactions. Management of the Company believes that the devaluation will have no impact on the information provided in the financial statements for the year ended December 31, 2013.

KazTransGas Aimak JSC

Financial statements

*For the year ended December 31, 2014
with independent auditors' report*

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Independent auditors' report

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Independent auditors' report

To the Shareholder and Management of KazTransGas Aimak JSC.

We have audited the accompanying financial statements of KazTransGas Aimak JSC (the "Company"), which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement

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

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

Opinion

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

Ernst & Young LLP



Bakhtiyor Eshonkulov
Auditor / Audit partner

Audit qualification certificate
No. MΦ-0000099 dated 27 August 2012



Evgeny Zhemaldinov
General Director
Ernst and Young LLP

State audit license for audit activities on the
territory of the Republic of Kazakhstan: series
MΦЮ-2 No. 0000003 issued by the Ministry of
finance of the Republic of Kazakhstan
on 15 July 2005

10 February 2015

STATEMENT OF FINANCIAL POSITION

As at December 31, 2014

In thousands of Tenge

	Notes	2014	2013
Assets			
Non-current assets			
Property, plant and equipment	5	126,381,299	95,543,254
Intangible assets		248,786	270,943
Long-term bank deposits	11	425,647	200,000
Restricted cash	12	788,802	187,744
Advances paid for non-current assets	8	7,563,750	–
Deferred expenses	10	906,384	1,437,941
		136,314,668	97,639,882
Current assets			
Inventories	6	1,587,980	4,477,344
Trade receivables	7	22,175,999	15,412,501
Advances paid	8	642,071	3,131,439
Taxes receivable	9	1,035,647	2,404,224
Corporate income tax prepaid	28	590,147	609,279
Short-term bank deposits	11	11,374,231	3,022,444
Other current assets	10	658,251	501,455
Cash and cash equivalents	12	1,535,944	1,943,773
		39,600,270	31,502,459
Total assets		175,914,938	129,142,341
Equity and liabilities			
Equity			
Share capital	13	66,489,226	62,478,299
Retained earnings	13	29,236,663	11,314,392
Total equity		95,725,889	73,792,691
Non-current liabilities			
Interest bearing loans	14	17,578,146	4,000,136
Debt securities issued	15	8,484,687	–
Abandonment and site restoration provision		470,463	–
Deferred income tax liabilities	28	505,701	1,869,651
Deferred income	16	3,884,527	3,888,782
		30,923,524	9,758,569
Current liabilities			
Interest bearing loans	14	11,129,862	16,555,389
Trade payables	17	32,451,956	23,719,020
Advances received	19	2,959,897	2,523,078
Taxes payable	18	415,839	62,904
Interest payable on debt securities	15	323,595	–
Deferred income	16	258,490	251,682
Liability on gas borrowings	20	–	1,394,651
Other current liabilities	21	1,725,886	1,084,357
		49,265,525	45,591,081
Total liabilities		80,189,049	55,349,650
Total equity and liabilities		175,914,938	129,142,341

Signed and authorized for issue on February 10, 2015.

Managing Director



[Signature]
Batalov A.A.

[Signature]
Moor K.A.

Chief Accountant

The accounting policies and explanatory notes on pages 6 to 39 are an integral part of these financial statements.


STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2014

In thousands of Tenge

	Notes	2014	2013
Revenue	22	140,042,401	108,334,936
Cost of sales	23	(131,269,134)	(101,759,467)
Gross profit		8,773,267	6,575,469
General and administrative expenses	24	(7,886,746)	(5,100,331)
Other operating income	25	5,428,920	4,315,016
Other operating expenses	25	(2,883,509)	(2,551,715)
Operating profit		3,431,932	3,238,439
Foreign exchange (loss)/gain, net	26	(806,616)	44,113
Finance income	11	874,148	521,049
Finance costs	27	(1,972,702)	(1,001,757)
Profit before income tax		1,526,762	2,801,844
Income tax benefit/(expenses)	28	197,204	(707,571)
Net profit for the year		1,723,966	2,094,273
Total comprehensive income for the year, net of income tax		1,723,966	2,094,273

Signed and authorized for issue on February 10, 2015.

Managing Director



Batalov A.A.

Chief Accountant

*Moor K.A.**The accounting policies and explanatory notes on pages 6 to 39 are an integral part of these financial statements.*


STATEMENT OF CASH FLOWS

For the year ended December 31, 2014

In thousands of Tenge

	Notes	2014	2013
Cash flows from operating activities			
Profit before income tax		1,526,762	2,801,844
Non-cash adjustments to reconcile profit before income tax to net cash flows:			
Depreciation and amortization	23, 24, 25	5,288,684	3,164,219
Finance costs/(income), net		1,098,554	480,708
Accrual/(reversal) of allowance for doubtful debts	24	1,032,972	(53,172)
Loss/(gain) on disposal of property, plant and equipment, net	25	3,256	(19,076)
Unrealized foreign exchange gain		(155,590)	(122,962)
Amortization of deferred income	25	(256,237)	(208,504)
Amortization of employees' compensation for housing purchase	24	582,025	71,558
Accrual of unused vacation reserve and employees' bonuses		1,169,040	542,333
Allowance for obsolete and slow-moving inventory	24	65,363	(605)
Operating cash flows before changes in working capital		10,354,829	6,656,343
<i>(Increase)/decrease in operating assets</i>			
Trade receivables		(7,788,742)	936,704
Advances paid		2,489,368	(971,047)
Taxes receivable		1,697,120	(97,872)
Inventories		2,561,358	1,843,688
Deferred expenses and other current assets		(831,222)	(1,656,605)
<i>Increase/(decrease) in operating liabilities</i>			
Trade payables		5,272,008	3,039,018
Advances received		436,819	273,979
Taxes payable		770,297	(683,435)
Other current liabilities		(1,909,173)	(1,817,951)
Cash inflows from operating activities		13,052,662	7,522,822
Interest paid		(1,724,617)	(910,815)
Income tax paid		(997,967)	(507,587)
Interest received		579,358	122,381
Net cash flows from operating activities		10,909,436	6,226,801
Cash flows from investing activities			
Purchase of intangible assets		(71,672)	(46,493)
(Placement)/withdrawal of bank deposits, net		(8,250,805)	476,158
(Placement)/withdrawal of restricted cash, net		(601,058)	-
Purchase of property, plant and equipment		(12,499,355)	(20,829,625)
Advances paid for non-current assets		(7,563,750)	-
Proceeds from sale of property, plant and equipment		500,587	494,437
Deferred expenses		-	(1,798,000)
Net cash flows used in investing activities		(28,486,053)	(21,703,523)
Cash flows from financing activities			
Proceeds from interest bearing loans		39,457,455	61,804,354
Proceeds from debt securities issued	15	8,455,124	-
Repayment of interest bearing loans		(31,459,922)	(51,070,012)
Dividends paid	13	(837,709)	-
Contributions to the share capital	13	1,553,840	4,169,778
Net cash flows from financing activities		17,168,788	14,904,120
Net change in cash and cash equivalents		(407,829)	(572,602)
Cash and cash equivalents, as at January 1	12	1,943,773	2,516,375
Cash and cash equivalents, as at December 31	12	1,535,944	1,943,773

The accounting policies and explanatory notes on pages 6 to 39 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS (continued)**NON-CASH TRANSACTIONS – SUPPLEMENTAL DISCLOSURE**

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

Transfer of property, plant and equipment

In 2014 the Company received property, plant and equipment under trust management from KazTransGas JSC and NC KazMunayGas JSC in the amount of KZT 17,155,530 thousand and KZT 1,335,937 thousand, respectively (in 2013: KZT 520,375 thousand) as payment for issued common shares. The Company also received property, plant and equipment free of charge in the amount of KZT 258,790 thousand (in 2013: KZT 1,557,540 thousand). Additional information on property, plant, and equipment received is disclosed in *Note 5*.

Trade payables for delivery of property, plant and equipment

In 2014 additions to property, plant and equipment in the amount of KZT 3,083,846 thousand were financed by increase in trade payables (in 2013: KZT 2,649,554 thousand).

Transfer of inventories

In 2014 inventories in the amount of KZT 262,643 thousand were included in property, plant and equipment (in 2013: nil) (*Note 5*).

Asset on gas pipelines abandonment and site restoration included in property, plant and equipment

In 2014 additions to property, plant and equipment comprises an asset on gas pipelines abandonment and site restoration in the amount of KZT 404,093 thousand created as a provision (in 2013: nil).

Capitalization of borrowing costs

In 2014 additions to property, plant and equipment included capitalization of borrowing costs in the amount of KZT 335,864 thousand (2013: nil) (*Notes 14 and 15*).


Signed and authorized for issue on February 10, 2015.

Managing Director



Batalov A.A.

Chief Accountant



Moor K.A.

The accounting policies and explanatory notes on pages 6 to 39 are an integral part of these financial statements.



STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2014

In thousands of Tenge

	Notes	Share capital	Retained earnings	Total equity
At January 1, 2013		50,547,689	16,460,576	67,008,265
Net profit for the year		–	2,094,273	2,094,273
Total comprehensive income for the year		–	2,094,273	2,094,273
Contribution by Shareholder		–	520,375	520,375
Issue of shares		11,930,610	(7,760,832)	4,169,778
At December 31, 2013		62,478,299	11,314,392	73,792,691
Net profit for the year		–	1,723,966	1,723,966
Total comprehensive income for the year		–	1,723,966	1,723,966
Contribution by NC KazMunayGas JSC	13	–	1,335,937	1,335,937
Contribution by Shareholder	13	–	17,155,530	17,155,530
Issue of shares	13	4,010,927	(1,455,453)	2,555,474
Dividends	13	–	(837,709)	(837,709)
At December 31, 2014		66,489,226	29,236,663	95,725,889

Signed and authorized for issue on February 10, 2015.

Managing Director



Batalov A.A.

Chief Accountant

*Moor K.A.**The accounting policies and explanatory notes on pages 6 to 39 are an integral part of these financial statements.*


NOTES TO THE FINANCIAL STATEMENTS**For the year ended December 31, 2014***In thousands of Tenge*

1. CORPORATE INFORMATION

KazTransGas Aimak JSC (the “Company”) was originally established under the name of KazTransGas Distribution JSC in April 2002 in accordance with the legislation of the Republic of Kazakhstan. KazTransGas JSC (“KTG”) is the sole shareholder of the Company. KTG is domiciled in the Republic of Kazakhstan and is a 100% subsidiary of National Company KazMunayGas JSC (“KazMunayGas”). KazMunayGas is wholly owned by the Government of the Republic of Kazakhstan as represented by Sovereign Wealth Fund Samruk-Kazyna JSC (“Samruk-Kazyna”) and, respectively, all subsidiaries of KazMunayGas, Samruk-Kazyna and other state controlled entities are considered as related parties in these financial statements (*Note 29*).

The Company is engaged in purchase and sale of natural gas to end consumers, maintenance and development of natural gas distribution networks and other gas distribution related services in the Republic of Kazakhstan. The Company provides gas transportation using its own gas distribution networks and the networks owned by Intergas Central Asia JSC, a subsidiary of KTG. The tariffs for gas sale and transportation are subject to regulation by the law of the Republic of Kazakhstan on natural monopolies and controlled by the Committee for the Regulation of Natural Monopolies and Protection of Competition of the Republic of Kazakhstan (“CREM”).

As at December 31, 2014 the Company has 10 branches located in Kazakhstan (as at December 31, 2013: 9 branches).

The Company’s head office is located at: Astana, Kunayev str. 14/3, Republic of Kazakhstan.

2. BASIS OF PREPARATION

The accompanying financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by International Accounting Standard Board (“IASB”).

The financial statements have been prepared on a historical basis, except for assets and liabilities stated at fair value as discussed in accompanied accounting policies and notes to these financial statements.

All values in these financial statements are rounded to the nearest thousands, except when otherwise indicated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Changes in accounting policies**

The accounting policies adopted are consistent with those of the previous financial year, except for the new and amended standards and interpretations effective as of January 1, 2014.

New and amended standards and interpretations

In 2014 the Company adopted new standards and amendments. However, they did not influence financial statements of the Company.

New standards and interpretations adopted as of January 1, 2014:

- *Investment Entities* – Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements*;
- *Offsetting Financial Assets and Financial Liabilities* – Amendments to IAS 32 *Financial Instruments: Presentation*;
- *Recoverable Amount Disclosures for Non-Financial Assets* – Amendments to IAS 36 *Impairment of Assets*;
- *Novation of Derivatives and Continuation of Hedge Accounting* – Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*;
- IFRIC 21 *Levies*;
- Improvements to IFRSs – 2010-2012 Cycle: Amendments to IFRS 13 *Short-term Receivables and Payables*;
- Improvements to IFRSs – 2011-2013 Cycle: Amendments to IFRS 1 *Meaning of ‘Effective IFRSs’*.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**New and amended standards and interpretations (continued)***Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements* and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments had no impact on the Company's financial statements.

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments had no impact on the Company's financial statements.

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

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments had no impact on the Company's financial statements.

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. These amendments had no impact on the Company's financial statements.

Annual improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 *Fair Value Measurement*. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at January 1, 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 had no impact on the Company's financial statements.

Annual improvements 2011-2013 Cycle

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at January 1, 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements.

Standards and interpretations issued but not yet effective

Below are the standards that have been issued but are not yet effective as at the date of the financial statements of the Company. The list includes standards and interpretations issued, which, from the Company's point of view, will have an impact on disclosure, financial position or results of operations in case of future use.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Standards and interpretations issued but not yet effective (continued)***IFRS 14 Regulatory Deferral Accounts*

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after January 1, 2016.

Annual improvements 2010-2012 Cycle

These improvements are effective from July 1, 2014 and are not expected to have a material impact on the Company's financial statements. They include:

IFRS 2 Share-based Payment

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

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

IFRS 3 Business Combinations

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

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

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

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

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

IAS 24 Related Party Disclosures

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Standards and interpretations issued but not yet effective (continued)***Annual improvements 2011-2013 Cycle*

These improvements are effective from July 1, 2014 and are not expected to have a material impact on the Company's financial statements. They include:

IFRS 3 Business Combinations

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

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

IFRS 13 Fair Value Measurement

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

IAS 40 Investment Properties

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted.

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

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization

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

Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Foreign currency translation**

The financial statements are presented in Tenge or KZT, which is the functional currency of the Company and presentation currency of its financial statements.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Company at functional currency spot rates prevailing at the date when the transaction meets recognition criteria. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All currency exchange differences arising from repayment or translation of monetary items are included in the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Gains or expenses arising on translation of non-monetary items are recorded in accordance with principles of income or expense recognition as a result of change in the fair value.

The following foreign exchange rates to Tenge established at Kazakhstan Stock Exchange ("KASE") have been used in preparation of these financial statements as official exchange rates in the Republic of Kazakhstan:

	Currency exchange rate as at	Weighted average rate during the year
December 31, 2014	182.35	179.12
December 31, 2013	153.61	152.14

Acquisition of entities under common control

Acquisition of entities under common control of KazTransGas JSC is accounted for using the pooling of interests method.

Assets and liabilities of the subsidiary transferred under common control are accounted for in the financial statements at the carrying amount of the transferring entity (Predecessor) on the date of transfer. The difference between the total carrying amount of net assets and the consideration paid is recognized in the financial statements as an adjustment to equity.

Property, plant and equipment

Property, plant and equipment is recognised at acquisition cost less accumulated depreciation and impairment losses. The initial cost of the property, plant, and equipment comprises its purchase price, including import duties and non-refundable taxes, interest expenses and any directly attributable costs of bringing the asset to its working condition.

Depreciation is calculated on a straight-line method based on the estimated useful lives of property, plant and equipment. The estimates useful life of assets is presented as follows (in years):

Buildings	7-100
Gas transportation system	10-30
Machinery and equipment	3-30
Motor vehicles	5-10
Other	3-15

Land is not depreciated.

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

When assets are sold or retired, their cost and accumulated depreciation are eliminated and any gain or loss resulting from their disposal is included in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Property, plant and equipment (continued)**

Construction in progress represents the unfinished construction of fixed assets carried at cost. Construction in progress includes cost of construction, equipment, inventory of non-current nature, and other direct costs. Construction-in-progress is not depreciated. Construction-in-progress starts to depreciate as the relevant assets are placed into operational use.

Expenditures incurred after the fixed assets have been placed into operation, such as repairs and maintenance and capital costs, are normally charged to the expenses in the period when such costs are incurred. The expenditures that have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard performance (increase of useful life, capacity, etc.) are capitalized as an additional cost of property, plant and equipment.

Intangible assets

Intangible assets acquired separately are measured initially at cost. Following initial recognition, intangible assets are carried at initial cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets have finite and indefinite useful lives. Intangible assets with finite useful lives are amortised over the useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the estimated useful life or alleged structure of consumption of future economic benefits embodied in the asset are recorded through a change in the period or method of amortization and accounted for as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive income in the expense category consistent with the function of the intangible assets.

In 2014 and 2013 intangible assets consisted mainly of software with useful life of 6-7 years.

Financial assets*Initial recognition and measurement*

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include cash and cash equivalents, restricted cash, short-term and long-term deposits, trade and other receivables.

Subsequent measurement

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

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with net changes in fair value recognized in finance income or finance costs in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial assets (continued)***Subsequent measurement (continued)*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income as period expenses.

The Company did not have any held for sale investments during the years ended December 31, 2014 and 2013.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

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

In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

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

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation. Besides, such evidence include observable data indicating that there is a measurable decrease in the estimated future cash flows on a financial instrument such as changes in arrears or economic conditions that correlate with defaults. Reversal of previously recognized allowance for debts is recorded when the decrease in impairment loss can be objectively related to an event occurring after initial allowance. This reversal of the impairment loss is recognized as income.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial assets (continued)***Impairment of financial assets (continued)*

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The current value of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced current amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

Financial liabilities*Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

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

The Company's financial liabilities include interest-bearing loans and debt securities issued, trade payables and other current liabilities.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Gains or losses on liabilities held for trading are recognised in the statement of comprehensive income.

The Company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised or impaired, as well as through the amortisation process.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised through the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Fair value of financial instruments**

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded at an active market, the fair value is determined by using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in *Note 31*.

Offsetting of financial instruments

Financial assets and financial liabilities are only offset and reported at the net amount in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Company intends to either settle on a net basis, to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash includes cash on hand and cash in the Company's bank accounts. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of 3 (three) months or less and that are subject to an insignificant risk of change in value.

Impairment of non-financial assets*Non-financial assets*

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's or cash-generating unit's (CGU) recoverable amount is the higher of fair value of the asset (CGU) less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Company's cash generating units to which individual assets are allocated. These budgets and forecast calculations are generally covering a period of 5 (five) years. For longer periods, a long-term growth rate is calculated and applied to project future cash flow after the fifth year.

Impairment losses of continuing operations are recognised in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

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

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at December 31, either individually or at the cash-generating unit level, as appropriate, and when circumstances indicate that the carrying amount may be impaired. Impairment is tested either individually or at the cash-generating unit level, if necessary.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Inventories**

Inventories are stated at the lower of initial cost and net realizable value on a first-in first-out (FIFO) basis. Cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition. Net realisable value is based on estimated selling price in the ordinary course of business less any further costs expected to be incurred to completion and disposal.

Trade receivables

Trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement trade and other receivables are carried at amortized cost using the effective interest method less any allowance for impairment.

Gains and losses are recognized in the statement of comprehensive income when trade receivables are derecognized or impaired, as well as through the amortization process.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. Where the Company expects a provision to be reimbursed, for instance an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

Trade accounts payable

Liabilities for trade amounts payable are recognized at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds.

The Company capitalises borrowing costs for all eligible assets.

Value added tax (VAT)

The tax authorities permit the settlement of sales and purchases value added tax (VAT) on a net basis. Thus, value added tax receivable represents VAT on purchases net of VAT on sales.

VAT payable

VAT payable is accrued in accounting records on revenues from sales of goods, work and services subject to VAT in accordance with the Tax Code of the Republic of Kazakhstan. Where provision has been made for impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT.

VAT receivable

VAT receivable is recorded in accounting records on purchased goods, work and services, which were purchased with VAT and if they were used in order to derive income.

At each reporting date, VAT receivable amount is subject to offset against VAT payable amount.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Social tax**

The Company pays a social tax to the budget of the Republic of Kazakhstan for its employees at the rate of 11% of the taxable income of employees.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

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

Deferred income tax

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

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

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

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

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

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

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

Deferred tax relating to items recognized outside of the statement of comprehensive income is recognized outside of the statement of comprehensive income. Deferred tax items are recognised in correlation to the underlying transaction either in the statement of comprehensive income or directly in equity.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Equity***Share capital*

External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are approved before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised.

Contingent assets and contingent liabilities

Contingent assets are not recognized in the financial statements. When the realization of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Subsequent events

The results of post-year-end events that provide additional information on the Company's financial position at the reporting date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, and taxes.

Sales of gas

Revenue from sales is recognized when the significant risks and rewards of ownership of gas have passed to the consumer.

Rendering of gas transportation services

Revenue from transportation services is recognised based on actual volumes of gas transported during the reporting period.

Rendering of repair and maintenance services

Revenue from rendering of repair and maintenance services is recognised in the period the services are provided based on the total contract value and the percentage completed.

Interest income

Income is recognised as interest is accrued (using the effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net current amount of the financial asset).

Interest income is included in finance income of the statement of comprehensive income.

Expenses

Expenses are accounted for at the time the actual flow of the related goods or services occur, regardless of when cash or its equivalent is paid, and are reported in the financial statements in the period to which they relate.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ASSUMPTIONS

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of property, plant and equipment

The Company assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a significant effect on the carrying amount of property, plant and equipment and depreciation expenses reflected in the statement of comprehensive income.

Allowance for doubtful debts

Management maintains an allowance for doubtful debts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful debts, management bases its estimates on the aging of accounts receivable balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As at December 31, 2014, allowances for doubtful debts have been created in the amount of KZT 587,417 thousand (as at December 31, 2013: KZT 117,172 thousand) (*Note 7*).

Taxation

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in the tax legislation and the amount and timing of future taxable income. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation might arise on a wide range of issues. Deferred tax assets are recognized for unused tax losses to the extent in which it is probable to generate taxable profit against which tax losses may be offset. A significant judgment of management is required to calculate the amount of deferred tax assets, which may be recognized in the financial statements based on possible dates of generation and amount of future taxable profit as well as strategy of tax planning. Additional information on tax risks is presented in *Note 30*.

Deferred income tax assets

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable temporary differences and business nature of such expenses will be proved, as well as on the successful implementation of tax planning strategies. The recognised deferred income tax assets were equal to KZT 1,543,293 thousand as at December 31, 2014 (as at December 31, 2013: KZT 1,052,681 thousand) (*Note 28*).

Impairment of non-financial assets

Impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount, which is the higher of: its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next 5 (five) years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and growth rates used for extrapolation purposes.

NOTES TO THE FINANCIAL STATEMENTS (continued)**5. PROPERTY, PLANT AND EQUIPMENT**

Movements in property, plant and equipment for the years ended December 31, 2014 and 2013 were as follows:

<i>In thousands of Tenge</i>	Land	Buildings	Machinery and equipment	Gas transportation system	Vehicles	Other	Construction-in-progress	Total
Cost								
At January 1, 2013	108,336	4,203,644	1,251,270	75,512,827	1,608,380	489,025	2,923,939	86,097,421
Additions	14,097	44,278	483,766	2,373,004	352,502	117,512	22,171,935	25,557,094
Transfers	1,936	133,565	6,246	2,822,174	121	3,368	(2,967,410)	–
Disposals	(3,937)	(1,460,281)	(34,187)	(243,823)	(9,516)	(21,373)	(188)	(1,773,305)
At December 31, 2013	120,432	2,921,206	1,707,095	80,464,182	1,951,487	588,532	22,128,276	109,881,210
Additions	1,592	440,756	219,424	20,972,567	183,045	99,718	14,552,922	36,470,024
Transfer from inventory	–	–	–	–	–	–	262,643	262,643
Transfers	–	1,035,479	96,423	21,638,413	181,200	8,372	(22,959,887)	–
Disposals	–	(10,532)	(101,876)	(104,162)	(123,754)	(40,137)	–	(380,461)
At December 31, 2014	122,024	4,386,909	1,921,066	122,971,000	2,191,978	656,486	13,983,954	146,233,416
Accumulated depreciation								
At January 1, 2013	–	(1,139,308)	(431,788)	(9,357,553)	(675,374)	(154,102)	(290,939)	(12,049,064)
Charge for the year	–	(339,559)	(164,639)	(2,359,104)	(177,786)	(55,637)	–	(3,096,725)
Transfers	–	–	(2,130)	3	2,119	8	–	–
Disposals	–	544,482	30,401	209,615	8,136	15,199	–	807,833
At December 31, 2013	–	(934,385)	(568,156)	(11,507,039)	(842,905)	(194,532)	(290,939)	(14,337,956)
Charge for the year	–	(320,028)	(264,165)	(4,793,847)	(307,277)	(91,351)	–	(5,776,668)
Transfers	–	–	–	–	–	–	–	–
Disposals	–	6,988	49,907	82,978	108,417	14,217	–	262,507
At December 31, 2014	–	(1,247,425)	(782,414)	(16,217,908)	(1,041,765)	(271,666)	(290,939)	(19,852,117)
Net book value								
At December 31, 2013	120,432	1,986,821	1,138,939	68,957,143	1,108,582	394,000	21,837,337	95,543,254
At December 31, 2014	122,024	3,139,484	1,138,652	106,753,092	1,150,213	384,819	13,693,015	126,381,299

During 2014 the Company received property, plant and equipment free of charge from the local authorities in the amount of KZT 258,790 thousand (2013: KZT 1,557,540 thousand) (*Note 16*).

On November 28, 2014 the Company entered into the agreement with NC KazMunayGas JSC for transfer of gas pipeline assets under trust management agreement in Kostanay oblast in the amount of KZT 1,335,937 thousand (*Note 13*). In 2014 the Company received gas pipeline assets under trust management from KazTransGas JSC in the amount of KZT 17,155,530 thousand, which includes gas pipelines located in West Kazakhstan oblast in the amount of KZT 7,701,448 thousand, in Zhambyl oblast in the amount of KZT 2,605,311 thousand, in Aktobe oblast in the amount of 1,455,453 thousand and in Kostanay oblast in the amount of 5,393,318 thousand (*Note 13*).

During 2014 the Company purchased inventories, paid salaries and paid contractors' work in the amount of KZT 14,095,867 thousand (in 2013: KZT 22,171,935 thousand). Main part of these costs relates to the construction and modernization of gas pipelines in South Kazakhstan oblast in the amount of KZT 8,117,662 thousand, in Zhambyl oblast in the amount of KZT 3,321,603 thousand and Atyrau oblast in the amount of KZT 1,488,246 thousand.

As at December 31, 2014 the carrying amount of fully depreciated property, plant and equipment still in service was equal to KZT 3,991,628 thousand (as at December 31, 2013: KZT 3,743,528 thousand).

NOTES TO THE FINANCIAL STATEMENTS (continued)**6. INVENTORIES**

As at December 31 inventories were as follows:

<i>In thousands Tenge</i>	2014	2013
Materials and supplies	1,363,938	1,705,903
Natural gas	297,535	2,781,134
	1,661,473	4,487,037
Less: allowance for obsolete and slow-moving inventories	(73,493)	(9,693)
	1,587,980	4,477,344

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

<i>In thousands Tenge</i>	2014	2013
At January 1	9,693	29,008
Charge for the year (Note 24)	65,363	1,529
Reversal (Note 24)	-	(2,134)
Write-off	(1,563)	(18,710)
At December 31	73,493	9,693

7. TRADE RECEIVABLES

As at December 31 trade receivables were as follows:

<i>In thousands Tenge</i>	2014	2013
Trade receivables from third parties	13,524,890	9,135,381
Trade receivables from related parties (Note 29)	9,238,526	6,394,292
	22,763,416	15,529,673
Less: allowance for doubtful debts	(587,417)	(117,172)
	22,175,999	15,412,501

As at December 31, 2014 and 2013, trade and other receivables were denominated in Tenge.

Movements in the allowance for doubtful debts were as follows:

<i>In thousand Tenge</i>	2014	2013
At January 1	117,172	381,767
Charge for the year (Note 24)	1,032,972	279,030
Reversal (Note 24)	-	(332,202)
Write-off	(562,727)	(211,423)
At December 31	587,417	117,172

As at December 31 the aging analysis of trade receivables (net), except for receivables from related parties was as follows:

<i>In thousands Tenge</i>	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-60 days	60-90 days	90-120 days >120 days	
2013	9,018,209	6,034,460	2,423,735	393,216	82,913	12,852	71,033
2014	12,937,473	1,346,545	12,708	5,288,367	1,877,270	4,412,583	-

NOTES TO THE FINANCIAL STATEMENTS (continued)**8. ADVANCES PAID**

As at December 31, advances paid were as follows:

<i>In thousands Tenge</i>	2014	2013
Advances paid to suppliers for non-current assets		
Advances paid for non-current assets	7,563,750	–
	7,563,750	–
Advances to suppliers for current assets and services		
Advances paid to third parties	635,392	148,240
Advances paid to related parties (Note 29)	6,679	2,983,199
	642,071	3,131,439
Less: allowance for potential non-execution	–	–
	642,071	3,131,439

As at December 31, 2014, advances paid for non-current assets in the amount of KZT 7,563,750 thousand included advances paid for construction of gas distribution system, construction and assembling works, capital repair and reconstruction of gas pipelines in Kyzylorda oblast.

9. TAXES RECEIVABLE

As at December 31 taxes receivable were as follows:

<i>In thousands Tenge</i>	2014	2013
VAT receivable	927,459	326,133
Property tax	97,660	72,800
Customs duties paid, not offset with VAT	–	1,997,538
Other	10,528	7,753
	1,035,647	2,404,224

10. DEFERRED EXPENSES AND OTHER CURRENT ASSETS

As at December 31 deferred expenses were as follows:

<i>In thousands Tenge</i>	2014	2013
Compensation for housing purchase	843,458	1,366,842
Other	62,926	71,099
	906,384	1,437,941

In September 2013 Management of the Company decided to finance housing purchase for employees transferred to Astana in 2013. As a result of this decision, 116 employees received compensation for housing purchase in the amount of KZT 15,500 thousand under the condition that the employee will work for the Company for the next 5 (five) years. Total amount of compensation paid was KZT 1,798,000 thousand, which will be charged by equal installments to the general and administrative expenses of the Company till the end of 2017. Thus, the Company allocated KZT 843,458 thousand to long-term portion and KZT 313,721 thousand to the current portion as due from employees. During 2014 the Company expensed KZT 582,025 thousand (in 2013: 71,558 thousand) (Note 24).

As at December 31 other current assets were as follows:

<i>In thousands Tenge</i>	2014	2013
Due from employees	327,637	419,833
Prepaid expenses	90,110	9,064
Prepaid insurance	27,439	25,543
Rent payable	20,861	6,688
Other	192,204	40,327
	658,251	501,455

NOTES TO THE FINANCIAL STATEMENTS (continued)**11. LONG-TERM AND SHORT-TERM BANK DEPOSITS**

Long-term bank deposits were as follows:

<i>In thousands Tenge</i>	2014	2013
Long-term deposits in KZT	422,000	200,000
Long-term deposits in USD	3,647	–
	425,647	200,000

As at December 31, 2014, long-term bank deposits in Tenge were placed in Halyk Bank of Kazakhstan JSC with 1% per annum and maturity of October 11, 2023, in Eurasian Bank JSC with interest rate of 7% per annum and maturity of April 5, 2016, in Bank RBK JSC with interest rate of 9% per annum and maturity of September 10, 2016, in Qazaq Banki JSC with interest rate of 9% per annum and maturity of August 25, 2016 and Temirbank JSC with interest rate of 8.5% per annum and maturity of April-July 2015.

Short-term bank deposits were as follows:

<i>In thousands Tenge</i>	2014	2013
Short-term deposit in USD	5,528,138	31,535
Short-term deposits in KZT	5,268,149	2,606,123
Accrued interest	577,944	384,786
	11,374,231	3,022,444

As at December 31, 2014, short-term deposits in Tenge and foreign currency were placed in Bank RBK JSC, Temirbank JSC, Qazaq Banki JSC and Halyk Bank of Kazakhstan JSC. Interest rates were 9.0% per annum on KZT deposits and 4.5% per annum on foreign currency deposits in Bank RBK JSC, 8.5% per annum on KZT deposit in Temirbank JSC, 4.5% per annum on foreign currency in Qazaq Banki JSC and 6.3% per annum on KZT deposit in Halyk Bank of Kazakhstan JSC.

In 2014 accrued interest on bank deposits was equal to KZT 874,148 thousand (in 2013: KZT 521,049 thousand).

12. CASH AND CASH EQUIVALENTS

As at December 31 cash and cash equivalents were as follows:

<i>In thousands Tenge</i>	2014	2013
Current account in Tenge	2,296,334	1,106,708
Cash in transit	24,165	34,042
Current account in RUR	2,705	69
Cash on hand	1,503	2,173
Current account in USD	39	811,720
Current deposits in Tenge	–	100,000
Current deposits in USD	–	76,805
Less: restricted cash in Tenge	(788,802)	(187,744)
	1,535,944	1,943,773

As at December 31, 2014 and 2013, current bank accounts are interest free.

13. EQUITY**Share capital**

Share capital was as follows:

<i>In thousands Tenge</i>	2014	2013	2014	2013
Common shares outstanding	Number of shares		In thousands of Tenge	
Nominal value of 1,000 Tenge	54,837,260	53,283,420	54,837,260	53,283,420
Nominal value of 3,493 Tenge	1,554,256	1,554,256	5,429,017	5,429,017
Nominal value of 1,453 Tenge	2,591,374	2,591,374	3,765,862	3,765,862
Nominal value of 1,461 Tenge	685,440	–	1,001,627	–
Nominal value of 10,000 Tenge	145,546	–	1,455,460	–
	59,813,876	57,429,050	66,489,226	62,478,299

NOTES TO THE FINANCIAL STATEMENTS (continued)**13. EQUITY (continued)****Share capital**

During 2014 the Company issued common shares in the amount of 1,553,840 shares with a nominal value of KZT 1,000 per share, 685,440 shares with a nominal value of KZT 1,461 per share, 145,546 shares with a nominal value of KZT 10,000 per share. All issued shares were acquired by the Sole Shareholder of the Company and paid in cash in the amount of KZT 1,553,840 thousand, and by net assets of AktauGasService JSC in the amount of KZT 1,001,627 thousand and by property, plant and equipment in the amount of KZT 1,455,453 thousand (in 2013: KZT 3,994,970 thousand).

Retained earnings

As at December 31, 2014 all the common shares of the Company were authorized for issue, issued and fully paid. Holders of common shares are entitled to receive dividends when they are declared and are entitled to vote at meetings of the Company. Dividends on common shares are paid at the discretion of the shareholders. During 2014 the Company paid dividends to the Sole Shareholder KazTransGas JSC in the amount of KZT 837,709 thousand (in 2013: dividends have not been declared).

On November 28, 2014 the Company entered into the agreement with NC KazMunayGas JSC for transfer of gas pipeline assets under trust management agreement in Kostanay oblast in the amount of KZT 1,335,937 thousand (*Note 5*).

In 2014 the Company received from KazTransGas JSC gas pipeline assets under trust management agreement in the total amount of KZT 17,155,530 thousand, which included gas pipelines located in West Kazakhstan oblast in the amount of KZT 7,701,448 thousand, in Zhambyl region in the amount of KZT 2,605,311 thousand, in Aktobe oblast in the amount of 1,455,453 thousand and in Kostanay oblast in the amount of 5,393,318 thousand, for which the Company issued shares in the amount of KZT 1,455,453 thousand with a nominal value of KZT 10,000 per share (*Note 5*).

Trust management agreement is a short-term mechanism functioning until the title on these gas pipelines is transferred to the Company. The Company is a direct user of these assets, and according to the Trust management agreement it received all risks and rewards related to the ownership of these gas pipelines. Accordingly, the Company recognized the gas pipelines and gas pipelines transportation system and appropriate increase in retained earnings.

14. INTEREST BEARING LOANS

As at December 31 interest bearing loans were as follows:

Bank	Currency	Maturity	Interest rate	2014	2013
Development Bank of Kazakhstan JSC	Tenge	May 27, 2024	8.20%	12,728,036	–
Development Bank of Kazakhstan JSC	Tenge	September 19, 2023	8.10%	5,088,729	2,282,616
Sberbank Kazakhstan JSC	Tenge	March 24, 2015	6.50%	3,750,000	–
Sberbank Kazakhstan JSC	Tenge	March 18, 2015	6.50%	2,500,000	–
Development Bank of Kazakhstan JSC	Tenge	July 25, 2022	8.42%	1,814,028	2,040,782
Sberbank Kazakhstan JSC	Tenge	February 6, 2015	6.50%	1,450,000	–
Sberbank Kazakhstan JSC	Tenge	March 4, 2015	6.50%	1,300,000	–
VTB Bank Kazakhstan JSC	Tenge	February 28, 2015	7.00%	–	2,406,600
VTB Bank Kazakhstan JSC	Tenge	March 5, 2014	7.00%	–	393,398
VTB Bank Kazakhstan JSC	Tenge	March 10, 2014	7.00%	–	199,999
Sberbank Kazakhstan JSC	Tenge	March 12, 2014	6.50%	–	2,000,000
Sberbank Kazakhstan JSC	Tenge	July 12, 2014	7.50%	–	1,370,773
Sberbank Kazakhstan JSC	Tenge	March 19, 2014	6.50%	–	2,629,227
Sberbank Kazakhstan JSC	Tenge	July 20, 2014	6.50%	–	3,000,000
Citibank Kazakhstan JSC	Tenge	June 27, 2014	6.00%	–	1,176,000
Citibank Kazakhstan JSC	Tenge	July 10, 2014	6.00%	–	1,300,000
Citibank Kazakhstan JSC	Tenge	April 18, 2014	6.00%	–	1,200,000
Citibank Kazakhstan JSC	Tenge	January 24, 2014	6.00%	–	381,479
Citibank Kazakhstan JSC	Tenge	April 25, 2014	6.00%	–	123,000
Less: unamortised loan origination fee				(186,763)	(96,508)
				28,444,030	20,407,366
Interest payable				263,978	148,159
				28,708,008	20,555,525
Less: current portion of interest-bearing loans				(11,129,862)	(16,555,389)
Long-term portion of interest-bearing loans				17,578,146	4,000,136

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. INTEREST BEARING LOANS (continued)**Citibank Kazakhstan JSC**

In accordance with the General credit agreement on short-term loans to replenish working capital in the amount of USD 50,000 thousand at 3-month LIBOR plus 2% per annum with a maximum loan term of 12 (twelve) months, the Company received additional financing from Citibank Kazakhstan JSC in the amount of USD 41,740 thousand. Also, in accordance with amendment to the General credit line agreement dated September 22, 2004, in 2014 Citibank Kazakhstan JSC provided to the Company an additional financing in several tranches totaling KZT 586,892 thousand for working capital replenishment (in 2013: KZT 38,703,738 thousand).

During 2014 remaining principal debt in the amount of KZT 4,767,371 thousand and USD 41,740 thousand (in 2013: KZT 41,943,258 thousand) and monthly accrued interest in the amount of KZT 108,652 thousand (in 2013: KZT 357,554 thousand) were repaid. KTG acted as a guarantor under this general credit line agreement.

Sberbank JSC

In accordance with the agreement on opening of a revolving credit line dated September 9, 2013 in the amount of KZT 9,000,000 thousand at 6.5% per annum, Sberbank JSC provided to the Company an additional financing in the amount of KZT 4,629,227 thousand for working capital replenishment. During 2014 principal debt in the amount of KZT 4,629,227 thousand and monthly accrued interest in the amount of KZT 507,788 thousand (in 2013: KZT 100,927 thousand) were repaid. As at December 31, 2014, the Company does not have assets pledged as collateral under this loan.

VTB Bank (Kazakhstan) JSC

In accordance with the credit line agreement dated August 29, 2013 in the amount of KZT 3,000,000 thousand at 5%-7% per annum with a maximum loan term of up to 6 (six) months, VTB Bank (Kazakhstan) JSC provided the Company in 2013 an additional financing in several tranches amounting to KZT 2,999,997 thousand for working capital replenishment. This facility was available until August 29, 2014. In 2014 VTB Bank (Kazakhstan) JSC provided to the Company an additional financing in the amount of KZT 1,773,223 thousand.

During 2014 remaining principal debt in the amount of KZT 4,773,220 thousand and accrued interest in the amount of KZT 39,207 thousand (in 2013: KZT 64,818 thousand) were paid.

Development Bank of Kazakhstan JSC

In accordance with revolving credit line agreement dated March 12, 2014 in the amount of KZT 21,485,004 thousand at 8.2% per annum with a maximum loan term of 13 (thirteen) years, during 2014 the Company received additional financing from Development Bank of Kazakhstan JSC in the amount of KZT 13,164,028 thousand for the project "Modernization of gas pipeline system in South Kazakhstan oblast". Loans received under sublimit 1 are repayable in semiannual instalments in the amount of KZT 669,897 thousand starting November 2014. During 2014 principal debt in the amount of KZT 435,992 thousand and monthly accrued interest in the amount of KZT 355,369 thousand were paid.

In accordance with revolving credit line agreement dated July 17, 2013 in the amount of KZT 16,400,000 thousand at 8.1% per annum with a maximum loan term of 15 (fifteen) years, during 2014 the Company received additional financing from Development Bank of Kazakhstan JSC in the amount of KZT 2,806,112 thousand for the project "Modernization of gas distribution pipeline system in Taraz city". Loans received under sublimit 1 are repayable in semiannual instalments in the amount of KZT 165,065 thousand starting September 2015. During 2014 monthly accrued interest in the amount of KZT 221,249 thousand was paid.

In accordance with loan agreement dated June 12, 2007, loan in the amount of KZT 1,814,028 thousand is repayable in semiannual instalments in the amount of KZT 113,337 thousand. Loan was received for implementation of project "Stand-by line of gas pipeline Uzen-Zhetybai".

In 2014, the Company repaid the principal amount of KZT 226,754 thousand (in 2013: KZT 226,754 thousand) and monthly accrued interest of KZT 168,758 thousand (in 2013: KZT 198,976 thousand).

KTG acts as a guarantor under the loan agreement. As at December 31, 2014, the Company does not have assets pledged as collateral on the loan.

In 2014 the Company capitalized finance costs in the amount of KZT 291,912 thousand (in 2013: nil) as additions to property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS (continued)**15. DEBT SECURITIES ISSUED**

	Currency	Maturity	Interest rate	2014	2013
Nominal value of principal	Tenge	December 27, 2018	7.50%	8,629,170	-
Discount				(144,483)	-
Amounts due after 12 months				8,484,687	-

Movements in discount for year ended December 31, 2014 were as follows:

At January 1, 2014	-
Discount	(174,046)
Amortisation of discount (Note 27)	29,563
At December 31, 2014	(144,483)
Short-term interest payable on debt securities issued	323,595
Short-term interest payable on debt securities	323,595

During 2014, the Company placed on KASE trading system 8,629,170 coupon bonds with a nominal value of KZT 1,000 each at interest rate 7.5% per annum with a coupon payment on June 27 and December 27 each year till 2018 inclusive, for the purpose of financing investment projects and refinancing of loans received. Debt securities yield for the buyers was equal to 8.2% per annum. Cash consideration for bond issue was equal to KZT 8,455,124 thousand.

In 2014 the Company capitalized finance costs in the amount of KZT 43,952 thousand as additions to property, plant and equipment (in 2013: nil).

16. DEFERRED INCOME

As at December 31 deferred income was as follows:

<i>In thousands Tenge</i>	
As at December 31, 2013	2,791,428
Property, plant and equipment obtained free of charge (Note 5)	1,557,540
Amortisation of deferred income (Note 25)	(208,504)
Less: current portion of deferred income	(251,682)
Long-term portion of deferred income	3,888,782
As at December 31, 2014	4,140,464
Property, plant and equipment obtained free of charge (Note 5)	258,790
Amortisation of deferred income (Note 25)	(256,237)
Less: current portion of deferred income	(258,490)
Long-term portion of deferred income	3,884,527

17. TRADE PAYABLES

As at December 31 trade payables were as follows:

<i>In thousands Tenge</i>	2014	2013
Trade payables to related parties (Note 29)	28,521,797	8,464,822
Trade payables to third parties	3,930,159	15,254,198
	32,451,956	23,719,020

As at December 31 trade payables of the Company were denominated in different currencies as follows:

<i>In thousands Tenge</i>	2014	2013
Tenge	32,449,740	17,526,749
US Dollars	1,720	1,500
Russian Ruble	496	6,190,771
	32,451,956	23,719,020

NOTES TO THE FINANCIAL STATEMENTS (continued)**18. TAXES PAYABLE**

As at December 31 taxes payable were as follows:

<i>In thousands Tenge</i>	2014	2013
Individual income tax	213,874	46,705
Social tax	201,965	15,905
Other	–	294
	415,839	62,904

19. ADVANCES RECEIVED

As at December 31 advances received were as follows:

<i>In thousands Tenge</i>	2014	2013
Advances received for gas supply	1,843,779	1,641,847
Advances received from related parties (Note 29)	443,277	215,448
Other advances received	672,841	665,783
	2,959,897	2,523,078

20. LIABILITY ON GAS BORROWINGS

On September 7, 2012 and February 7, 2014 the Company received gas from KTG in the volume of 326,951 cubic meters and 374,320 cubic meters in the amount of KZT 2,526,588 thousand and KZT 4,227,028 thousand, respectively. In 2014 the Company returned the gas in volume of 95,397 cubic meters (in 2013: 79,932 cubic meters), the remainder of the gas in the volume of 525,943 cubic meters in the amount of KZT 4,932,465 thousand excluding VAT was offset with trade receivables from KTG in accordance with gas sale contracts. In accordance with the terms of the agreement, if the Company is unable to fulfill its obligation on a timely basis, no fines and penalties will arise.

21. OTHER CURRENT LIABILITIES

As at December 31 other current liabilities were as follows:

<i>In thousands Tenge</i>	2014	2013
Accrued liabilities	1,618,491	966,579
Other	107,395	117,778
	1,725,886	1,084,357

22. REVENUE

Revenue for the year ended December 31 was as follows:

<i>In thousands Tenge</i>	2014	2013
Revenue from sales of gas	125,391,270	97,762,386
Revenue from gas transportation services	14,651,131	10,572,550
	140,042,401	108,334,936

23. COST OF SALES

Cost of sales for the year ended December 31 was as follows:

<i>In thousands Tenge</i>	2014	2013
Cost of gas sold	106,119,581	82,864,488
Payroll and related taxes	7,370,134	5,424,392
Transportation and delivery	6,063,845	5,288,590
Depreciation and amortization	4,942,082	2,707,747
Billing services	2,191,602	1,946,368
Property tax and other taxes	1,458,357	1,088,568
Gas losses within normal range	1,387,126	947,931
Inventories	428,973	624,776
Repair and maintenance	612,473	189,300
Gas storage services	103,924	141,762
Other	591,037	535,545
	131,269,134	101,759,467

NOTES TO THE FINANCIAL STATEMENTS (continued)**24. GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses for the year ended December 31 were as follows:

<i>In thousands Tenge</i>	2014	2013
Payroll and related taxes	3,884,118	2,932,134
Allowance for doubtful debts (Note 7)	1,032,972	(53,172)
Compensation for housing purchase (Note 10)	582,025	71,558
Professional services	409,516	175,490
Rent	372,979	247,493
Depreciation and amortization	327,499	405,006
Bank charges	310,378	283,045
Repair and maintenance	179,923	145,876
Sponsorship	141,009	202,473
Business trip expenses	115,233	175,426
Taxes other than income tax	96,322	63,509
Communication services	74,146	82,721
Professional development	65,791	93,464
Accrual of allowance for obsolete and slow-moving inventory (Note 6)	65,363	(605)
Office supplies	49,251	36,444
Advertising	47,816	64,911
Insurance	41,987	48,960
Fuel and materials	30,928	31,114
Festive and cultural events expenses	13,023	32,808
Other	46,467	61,676
	7,886,746	5,100,331

25. OTHER OPERATING INCOME/(EXPENSES)

Other operating income/expenses for the year ended December 31 were as follows:

<i>In thousands Tenge</i>	2014	2013
Other operating income		
Income from services rendered (gas supply to residential buildings, hook-up, technical maintenance)	4,270,542	3,393,830
Income from sale of inventory (counters, boilers, etc.)	474,201	519,884
Amortisation of deferred income (Note 16)	256,237	208,504
Income under trust management	176,522	–
Fines and penalties	125,494	97,249
Rental income	68,616	68,817
Gain on disposal of property, plant and equipment	–	19,076
Other income	57,308	7,656
	5,428,920	4,315,016
Other operating expenses		
Expenses on services rendered (gas supply to residential buildings, hook-up, technical maintenance)	(2,528,200)	(2,123,919)
Expenses on sale of inventory	(325,501)	(367,606)
Lease expenses – depreciation of leased out buildings, operating lease to third parties	(26,552)	(60,190)
Loss on disposal of property, plant and equipment	(3,256)	–
	(2,883,509)	(2,551,715)

Depreciation and amortization expenses in the amount of KZT 19,103 thousand are included in other operating expenses (in 2013: KZT 51,466 thousand).

26. FOREIGN EXCHANGE LOSS/(GAIN), NET

On February 13, 2014 National Bank of the Republic of Kazakhstan adjusted the exchange rate of Tenge to US dollar and other major currencies. After the correction the exchange rate increased from 155.56 Tenge to 1 US dollar to 184.50 Tenge to 1 US dollar. The correction resulted in net foreign exchange loss in the amount of KZT 806,616 thousand, due to the fact that the Company has significant trade payables denominated in US dollars.

NOTES TO THE FINANCIAL STATEMENTS (continued)**27. FINANCE COSTS**

<i>In thousands Tenge</i>	2014	2013
Interest accrued on bank loans	1,260,254	971,107
Interest on debt securities issued	603,237	–
Amortisation of discount on asset retirement obligation	66,369	–
Amortisation of discount on debt securities issued (Note 15)	29,563	–
Other	13,279	30,650
	1,972,702	1,001,757

28. INCOME TAX BENEFIT/EXPENSES

The Company is subject to corporate income tax at the applicable statutory rate of 20% as at December 31, 2014 and 2013.

Main components of corporate income tax expense in the statement of comprehensive income were as follows:

<i>In thousands Tenge</i>	2014	2013
Current income tax	1,166,746	(14,058)
Current income tax expenses	1,166,746	709,779
Adjustments with respect to current income tax of prior year	–	(723,837)
Deferred income tax (benefit)/expense	(1,363,950)	721,629
Income tax (benefit)/expenses	(197,204)	707,571

Reconciliation of income tax expenses as applied to profit before income tax for the financial reporting purposes with actual tax expenses is provided below:

<i>In thousands Tenge</i>	2014	2013
Profit before income tax	1,526,762	2,801,844
Statutory tax rate	20%	20%
Income tax expenses at statutory rate	305,352	560,369
Tax effect of non-deductible differences		
Non-deductible expenses	39,768	63,473
Sponsorship	27,611	19,120
Difference arising from initial recognition of gas pipelines received under trust management agreement	(367,735)	–
Adjustments in respect of current income tax of previous years reported during the period	–	(723,837)
Adjustments in respect of deferred income tax of previous years reported during the period	(202,200)	788,446
Income tax (benefit)/expenses	(197,204)	707,571

NOTES TO THE FINANCIAL STATEMENTS (continued)**28. INCOME TAX BENEFIT/EXPENSES (continued)**

As at December 31, 2014 and 2013 components of deferred income tax assets/(liabilities) were as follows:

<i>In thousands Tenge</i>	2013	Origination and reversal of temporary differences in the statement of comprehensive income	2014
Deferred income tax assets			
Deferred income	828,092	511	828,603
Accrued liabilities on management remuneration	141,085	129,483	270,568
Provision for vacations	43,819	4,814	48,633
Allowance for doubtful debts	19,996	97,487	117,483
Due from employees	14,312	113,852	128,164
Provision for impairment of advances paid	3,438	(3,438)	-
Allowance for obsolete and slow-moving inventories	1,939	12,760	14,699
Finance costs	-	89,607	89,607
Taxes payable	-	45,536	45,536
Gas pipelines received under trust management	1,955,403	(1,955,403)	-
Provision for gas pipelines received under trust management	(1,955,403)	1,955,403	-
Deferred income tax assets	1,052,681	490,612	1,543,293
Deferred income tax liabilities			
Property, plant and equipment	(2,922,332)	873,338	(2,048,994)
Deferred income tax liabilities	(2,922,332)	873,338	(2,048,994)
Net deferred income tax assets/(liabilities)	(1,869,651)	1,363,950	(505,701)

As at December 31, 2014 the Company had corporate income tax prepaid in the amount of KZT 590,147 thousand (as at December 31, 2013: corporate income tax prepaid in the amount of KZT 609,279 thousand).

29. RELATED PARTIES TRANSACTIONS

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions that unrelated parties would not and also, transactions between related parties may not be made at the same amounts as between unrelated parties. The Management believes that the Company has appropriate procedures for identification and appropriate disclosure of information on related parties transactions.

During 2014 and 2013, the sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions.

NOTES TO THE FINANCIAL STATEMENTS (continued)**29. RELATED PARTIES TRANSACTIONS (continued)**

The major transactions with related parties for the years ended December 31, 2014 and 2013 and balances as at December 31, 2014 and 2013 were as follows:

Revenue

<i>In thousands Tenge</i>	2014	2013
Sale of gas and other goods		
KazTransGas JSC	13,222,234	14,108,780
<i>Companies under control of KazTransGas:</i>		
Intergas Central Asia JSC	1,988,598	2,383,713
KazTransGas Onimderi JSC	15,838	–
<i>Under control or common control of KazMunayGas:</i>		
KazTransOil JSC	840,095	741,504
Kazakhstan Petrochemical Industries JSC	28,942	21,713
Embamunaygas JSC	9,035	–
KMG Transkaspi LLP	5,577	68
KMG EP Catering LLP	4,691	–
MangistauMunaiGas JSC	4,682	4,895
Urikhtau Operating LLP	2,953	–
NII Kaspimunaygas LLP	2,867	1,837
Zhol-Service LLP	2,454	–
Ozenmunaygas JSC	2,157	–
EuroAsia Air JSC	2,065	1,148
KazakhoilAktobe LLP	1,356	763
Oil Construction Company LLP	1,166	1,160
Ken-Kurylysservice LLP	1,150	–
Mangistauenergomunai LLP	582	527
SemserOrt-Sondirushi LLP	504	562
KMG Karachaganak LLP	185	64
KMG Service LLP	171	618
KRUZ LLP	157	–
KMG Onimderi JSC	134	319
Kazakhturkmunay LLP	2	21
EP KazMunayGas JSC	–	26,393
Teniz Service LLP	–	6,570
<i>Under control or common control of Samruk-Kazyna:</i>		
NAC Kazatomprom JSC	27,090,673	21,409,750
Zhambyl GRES JSC	10,663,714	5,531,664
SamrukEnergO JSC	855,530	–
NC Kazakhstan Temir Zholy JSC	183,785	123,525
NAC Kazakhstan Engineering JSC	39,225	29,350
Kazpost JSC	16,150	10,986
Kazakhtelecom JSC	14,216	13,002
Alliance Bank JSC	874	882
Temirbank JSC	–	46
	55,001,762	44,419,860

NOTES TO THE FINANCIAL STATEMENTS (continued)**29. RELATED PARTIES TRANSACTIONS (continued)****Revenue (continued)**

<i>In thousands Tenge</i>	2014	2013
Rendering of services		
NC KazMunayGas JSC	158,261	–
KazTransGas JSC	38,642	5,943
<i>Companies under control of KazTransGas:</i>		
KazTransGas Onimderi JSC	620	–
<i>Under control or common control of KazMunayGas:</i>		
KazTransOil JSC	88,189	47,879
Embamunaygas JSC	2,924	–
MangistauMunayGas JSC	2,710	2,428
Kazakhstan Petrochemical Industries JSC	1,585	2,346
KMG Onimderi JSC	836	13
KMG EP Catering LLP	796	–
Zhol-Service LLP	506	–
KMG Transkaspi LLP	495	31
Ozenmunaygas JSC	370	–
Oil Construction Company LLP	343	337
EuroAsia Air JSC	304	573
NII Kaspimunaygas LLP	294	217
Ken-Kurylysservice LLP	215	–
Mangistauenergomunai LLP	148	246
SemserOrt-Sondirushi LLP	88	93
KMG Service LLP	40	154
KRUZ LLP	26	–
KMG Karachaganak LLP	14	4
Kazakhturkmunay LLP	9	16
EP KazMunayGas JSC	–	58,285
Teniz Service LLP	–	633
<i>Under control or common control of Samruk-Kazyna:</i>		
NAC Kazatomprom JSC	635,299	17,386
SamrukEnergo JSC	445,945	333,928
NC Kazakhstan Temir Zholy JSC	88,401	71,677
NAC Kazakhstan Engineering JSC	7,082	5,032
Kazpost JSC	4,627	3,840
Kazakhtelecom JSC	2,071	6,587
Alliance Bank JSC	136	149
Temirbank JSC	–	11
BTA Bank JSC	–	9
	1,480,976	557,817
	56,482,738	44,977,677

NOTES TO THE FINANCIAL STATEMENTS (continued)**29. RELATED PARTIES TRANSACTIONS (continued)****Expenses**

<i>In thousands Tenge</i>	2014	2013
Purchases of goods and services		
KazTransGas JSC	(51,665,520)	(1,580,408)
<i>Companies under control of KazTransGas:</i>		
Intergas Central Asia JSC	(6,078,345)	(5,306,490)
KazTransGas-Almaty JSC	(5,260)	-
KazTransGas Onimderi JSC	(1,203)	-
<i>Under control or common control of KazMunayGas:</i>		
Tengizchevroil LLP	(14,405,292)	(16,389,469)
KazRosGas LLP	(4,593,796)	(7,672,715)
KazGPZ LLP	(1,316,306)	-
Kazakhturkmunay LLP	(368,058)	(741,966)
KazakhoilAktobe LLP	(306,915)	(373,035)
KMG Onimderi JSC	(120,072)	(103,073)
Kazgermunay LLP	(111,687)	(157,206)
KMG Service LLP	(16,744)	(7,365)
Embamunaygas JSC	(10,181)	-
KBTU JSC	(4,200)	(4,200)
Kazakhstan Petrochemical Industries JSC	(280)	(215)
KazTransOil JSC	(26)	(122)
EP KazMunayGas JSC	-	(3,244,011)
EuroAsia Air JSC	-	(2,126)
KMG Karachaganak LLP	-	(888)
<i>Under control or common control of Samruk-Kazyna:</i>		
Kazpost JSC	(69,801)	(58,161)
NAC Kazatomprom JSC	(54,273)	(97,498)
Samruk-Kazyna Contract LLP	(12,900)	(11,246)
SamrukEnergo JSC	(304)	(2,580)
Kazakhtelecom JSC	(612)	(2,573)
NC Kazakhstan Temir Zholy JSC	(335)	(340)
Alliance Bank JSC	(181)	(18)
Temirbank JSC	-	(319)
BTA Bank JSC	-	(293)
	(79,142,291)	(35,756,317)

Trade receivables

Trade receivables from related parties are due within 90 days and bear no interest. This assessment is undertaken each reporting year through examining the financial position of the related party and the market in which the related party operates. Outstanding balances as at December 31, 2014 and 2013 are unsecured and their settlement occurs in cash. No issued or obtained guarantees exist for receivables from related parties.

NOTES TO THE FINANCIAL STATEMENTS (continued)**29. RELATED PARTY TRANSACTIONS (continued)****Trade receivables (continued)**

<i>In thousands Tenge</i>	2014	2013
KazTransGas JSC	2,947,486	2,696,992
<i>Companies under control of KazTransGas:</i>		
Intergas Central Asia JSC	2,211,805	794,763
KazTransGas Onimderi JSC	911	678
<i>Under control or common control of KazMunayGas:</i>		
KazTransOil JSC	7,889	53
Urikhtau Operating LLP	1,224	-
KMG Onimderi JSC	214	1,659
Ken-Kurylysservice LLP	108	-
EuroAsia Air JSC	33	67
KMG EP Catering LLP	27	-
KMG Karachaganak LLP	4	184
EP KazMunayGas JSC	-	28,910
Mangistaumunaigas JSC	-	955
NII Kaspimunaygas LLP	-	304
KMG Service LLP	-	165
<i>Under control or common control of Samruk-Kazyna:</i>		
NAC Kazatomprom JSC	3,568,096	2,861,853
SamrukEnergo JSC	463,618	-
NC Temirzholy JSC	30,347	6,982
Kazpost JSC	4,683	499
Kazakhtelecom JSC	2,081	215
Alliance Bank JSC	-	13
	9,238,526	6,394,292

Advances paid

<i>In thousands Tenge</i>	2014	2013
<i>Under control or common control of KazMunayGas:</i>		
KBTU JSC	2,520	2,520
KazMunayGas Onimderi JSC	1,315	-
Tengizchevroil LLP	-	2,980,672
<i>Under control or common control of Samruk-Kazyna:</i>		
Kazpost JSC	2,292	-
Samruk-Kazyna Contract LLP	500	-
Alliance Bank JSC	-	7
Kazakhtelecom JSC	52	-
	6,679	2,983,199

NOTES TO THE FINANCIAL STATEMENTS (continued)**29. RELATED PARTY TRANSACTIONS (continued)****Trade payables**

<i>In thousands Tenge</i>	2014	2013
KazTransGas JSC	26,615,947	589,454
<i>Companies under control of KazTransGas:</i>		
Intergas Central Asia JSC	1,589,108	2,523,525
Almaty Gas Trade LLP	300,041	1,731,205
KazTransGas-Almaty JSC	5,891	–
<i>Under control or common control of KazMunayGas:</i>		
KMG Service LLP	2,601	2,431
Kazakhturkmunay LLP	3	186,475
KazRosGas LLP	–	2,816,206
EP KazMunayGas JSC	–	406,967
KazakhoilAktobe LLP	–	141,600
Kazgermunay LLP	–	29,712
KazTransOil JSC	–	12,093
Kazakhstan Petrochemical Industries JSC	–	1,395
KMG Onimderi JSC	–	451
Oil Construction Company LLP	–	328
EuroAsia Air JSC	–	190
Mangistauenergomonay LLP	–	119
KMG Karachaganak LLP	–	46
<i>Under control or common control of Samruk-Kazyna:</i>		
Kazpost JSC	5,458	7,018
Samruk-Kazyna Contract LLP	2,352	–
NAC Kazatomprom JSC	248	15,523
Kazakhtelecom JSC	148	50
SamrukEnergo JSC	–	22
BTA Bank JSC	–	9
NC Kazakhstan Temir Zholy JSC	–	3
	28,521,797	8,464,822

Advances received

<i>In thousands Tenge</i>	2014	2013
<i>Under control or common control of KazMunayGas:</i>		
KazTransOil JSC	151,249	–
Mangistaumunaigas JSC	2,758	–
NII Caspimunaygas LLP	1,763	–
Oil Construction Company LLP	1,676	–
Embamunaygas JSC	1,665	–
Ozenmunaygas JSC	1,533	–
KMG Transkaspi JSC	1,150	3,219
Zhol-Service LLP	382	–
Mangistauenergomonay LLP	196	–
Kazakhstan Petrochemical Industries JSC	146	–
EuroAsia Air JSC	86	–
KRUZ LLP	53	–
<i>Under control or common control of Samruk-Kazyna:</i>		
Zhambyl GRES JSC	256,907	184,527
NAC Kazakhstan Engineering JSC	14,426	13,733
NC Kazakhstan Temir Zholy JSC	9,024	22
Kazakhtelecom JSC	198	204
Kazpost JSC	65	–
SamrukEnergo JSC	–	13,698
Alliance Bank JSC	–	37
Temirbank JSC	–	8
	443,277	215,448

NOTES TO THE FINANCIAL STATEMENTS (continued)**29. RELATED PARTY TRANSACTIONS (continued)****Other current assets**

<i>In thousands Tenge</i>	2014	2013
NC KazMunayGas JSC	177,252	–
<i>Companies under control of KazTransGas:</i>		
KazTransGas Onimderi JSC	6,126	8,042
<i>Under control of Samruk-Kazyna:</i>		
Zhambyl GRES JSC	–	355,630
	183,378	363,672

Other current liabilities

<i>In thousands Tenge</i>	2014	2013
<i>Under control of Samruk-Kazyna:</i>		
Temirbank JSC	–	9
	–	9

Compensation to key management personnel

As at December 31, 2014, key management personnel comprise 13 persons (as at December 31, 2013: 26 persons). Total compensation to the key management personnel included in general and administrative expenses in the statement of comprehensive income was equal to KZT 426,292 thousand for the year ended December 31, 2014 (for the year ended December 31, 2013: KZT 788,237 thousand).

Remuneration to the key management personnel for the period comprise as follows:

<i>In thousands Tenge</i>	2014	2013
Bonuses	231,342	485,860
Short-term payments to employees	156,372	238,014
Social Tax	38,578	64,363
Total	426,292	788,237

Loans and borrowings

In 2014 KTG acted as a guarantor on credit facility agreement between the Company and Citibank Kazakhstan JSC. Also, KTG acts as a guarantor on the loan obtained from Development Bank of Kazakhstan JSC (*Note 14*).

30. CONTINGENT AND CONTRACTUAL COMMITMENTS**Taxation**

Kazakhstan tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of the Republic of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by the authorities in respect of taxes for 5 (five) calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2014.

As at December 31, 2014, Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Company's tax positions will be sustained.

NOTES TO THE FINANCIAL STATEMENTS (continued)

30. CONTINGENT AND CONTRACTUAL COMMITMENTS (continued)**Environmental matters**

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. Potential liabilities which may arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation cannot be reasonably estimated.

On July 4, 2012, the Law of RK "On Main Pipelines was enforced. This law regulates relations arising during the design, construction, operation, preservation and liquidation of main pipeline, and aimed at providing efficient, reliable and safe operation of the main pipelines. In 2014 the Company accrued abandonment and site restoration provision for main pipelines in the amount of KZT 470,463 thousand (in 2013: nil).

According to the current legislation, Management believes that there are no probable or possible environmental liabilities which could have a material adverse effect on the Company's financial position and operation activities.

Insurance matters

The insurance industry in the Republic of Kazakhstan is at a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for its property, plant and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Company's property or relating to the Company's operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position. Management believes that no additional provisions need to be made, except for these recognized in these financial statements.

Contingent liabilities

The Company assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that actual events giving rise to liability will occur and the amount of the liability can be reasonably estimated. No provision has been made in these financial statements for any of the contingent liabilities mentioned above.

Legal proceedings

During the year, the Company was involved in a number of court proceedings (as a plaintiff) arising in the ordinary course of business. In the opinion of Management, there are no current legal proceedings or other claims outstanding, which could have a material negative effect on the results of operations or financial position of the Company and which have not been recognized or disclosed in these financial statements.

Contractual commitments

As at December 31, 2014, contractual commitments of the Company to purchase gas were equal to KZT 6,533,482 thousand (as at December 31, 2013: KZT 13,835,673 thousand), commitments to sell gas were equal to KZT 3,747,368 thousand (as at December 31, 2013: KZT 3,597,823 thousand). As at December 31, 2014 contractual commitments of the Company to purchase services of capital nature were equal to KZT 1,580,454 thousand (as at December 31, 2013: nil).

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The primary financial liabilities of the Company comprise bank loans, debt securities issued, trade and other payables. The main purpose of these financial instruments is to raise financing for the Company's operations. The Company has trade receivables, cash, long-term and short-term bank deposits arising directly from operational activities of the Company.

The Company is exposed to market risk, credit risk, currency risk and liquidity risk.

Management of the Company reviews and approves the following actions undertaken to manage these risks.

Market risk

Market risk is the risk that the fair value of future cash flows from financial instruments will fluctuate as a result of changes in market prices. The Company manages market risk through the periodic estimation of potential losses that could arise from adverse changes in market conditions.

NOTES TO THE FINANCIAL STATEMENTS (continued)**31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Currency risk**

As a result of significant trade payables and short-term bank deposits denominated in US Dollars, the Company's statement on financial position can be affected significantly by movement in the US Dollar / Tenge exchange rates. The Company also has transactional currency exposures. Such exposure arises from as the result of purchases in the US Dollars.

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar exchange rate, with all the variables held constant, of the Company's profit before income tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Company's equity.

	Increase/ decrease in US Dollar rate	Effect on profit before income tax
2014	+17.37%	964,089
	-17.37%	(964,089)
2013	30%	(1,581,214)
	10%	(527,071)

The Company does not hedge accounts receivable and accounts payable since Management does not believe the foreign exchange risk is significant.

Credit risks

Credit risk is the risk that one party with financial instrument will not be able to fulfil an obligation and cause the other party to incur a financial loss. The Company is exposed to a credit risk from its operating activities and certain types of investing activities. With regard to investing activities, the Company places deposits to Kazakhstani banks (*Notes 11 and 12*). The Management reviews credit ratings of these banks periodically to eliminate extraordinary credit risks. The Management believes that recent international credit crisis and subsequent changes in credit ratings of local banks do not justify extraordinary credit risk. Accordingly, no impairment provision against bank deposits placed by the Company is required.

The table below shows the balances of bank deposits, cash at bank accounts as of the reporting date using Standard & Poor's, Moody's and Fitch credit rating symbols.

	Location	Agency	Rating		2014	2013
			2014	2013		
Bank RBK JSC	Kazakhstan	S&P	B-/positive/C	–	8,732,046	–
Qazaq Banki JSC	Kazakhstan	S&P	B-/stable/C	B+/negative	1,929,977	939,949
Halyk Bank of Kazakhstan JSC	Kazakhstan	S&P	BB+/stable/B	BB/stable/B	1,628,665	896,011
TemirBank JSC	Kazakhstan	S&P	B-/stable	–	818,991	–
Citibank Kazakhstan JSC	Kazakhstan	Moody's	A/stable	Baa2/negative	380,401	67,717
Eurasian Bank JSC	Kazakhstan	S&P	B+/positive/B	B+/positive/B	309,661	2,849,660
Kazkommertsbank JSC	Kazakhstan	S&P	B/stable/C	B/stable/C	139,076	44,959
VTB Bank JSC	Kazakhstan	Fitch	BBB-	BBB-	86,515	154
HSBC Bank Kazakhstan JSC	Kazakhstan	S&P	BBB/stable/A-3	BBB/stable/A-3	25,612	2,210
Central Securities Depository JSC	Kazakhstan	S&P	A/positive/A	–	22,224	–
Alliance Bank JSC	Kazakhstan	S&P	B/stable/B	–	13,001	–
Sberbank JSC	Kazakhstan	Fitch	Ba2/negative/NP	Ba2/stable/NP	10,758	449,923
Kaspi Bank JSC	Kazakhstan	S&P	BB-/stable/B	BB-/stable	1,600	31,394
Tsesna Bank JSC	Kazakhstan	S&P	B+/stable/B	B/positive/B	416	2,738
Bank CenterCredit JSC	Kazakhstan	Fitch	B+/stable/B	B+/stable/B	13	31,634
Alfa Bank JSC	Kazakhstan	S&P	B+/stable/B	B+/stable/B	–	824
RBS Bank Kazakhstan JSC	Kazakhstan	S&P	A-/negative	A-2/stable	–	573
					14,098,956	5,317,746

At the current level of operations, Management believes that the Company has established appropriate credit verification procedures and monitoring of industrial consumers, which enabled the Company to trade only with recognized, creditworthy third parties. The Company monitors the outstanding receivables on an ongoing basis with the result that the Company's exposure to bad debts is not significant. Credit risks are taken through individual impairments.

NOTES TO THE FINANCIAL STATEMENTS (continued)**31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Credit risks (continued)**

Credit risk associated with the population is controlled by switching off the gas supply after several notices during 60 days. Also, the Company has agreements with billing companies in all regions of the country, which manage the population's accounts and accept 90% of the risk of default on its debt for gas and transportation themselves.

With respect to credit risk arising from other financial assets of the Company, which comprise cash and cash equivalents, trade and other receivables, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the current value of these instruments.

Fair value

Set out below is a comparison of the carrying amounts and fair values of the Company's financial instruments that are recorded in the financial statements (in thousands Tenge):

	Carrying value		Fair value	
	2014	2013	2014	2013
Financial assets				
Short-term bank deposits	11,374,231	3,022,444	11,374,231	3,022,444
Long-term bank deposits	425,647	200,000	425,647	200,000
Restricted cash	788,802	187,744	788,802	187,744
Trade receivables	22,175,999	15,412,501	22,175,999	15,412,501
Cash and cash equivalents	1,535,944	1,943,773	1,535,944	1,943,773
Financial liabilities				
Interest bearing loans	28,708,008	20,555,525	28,708,008	20,555,525
Debt securities issued	8,484,687	–	8,484,687	–
Trade payables	32,451,956	23,719,020	32,451,956	23,719,020

Valuation methods and assumptions

The fair value of the financial assets and liabilities is the amount at which the asset could be sold or the liability transferred in a current transaction between market participants, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

Fair value of the quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with its financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. Liquidity requirements are monitored on a regular basis and Management ensures that sufficient funds are available to meet any commitments as they arise. The Company's financial liabilities are payable on demand with average maturities of less than 3 (three) months, except for the Company's loans and debt securities issued whose maturity profile is shown in *Notes 14 and 15*.

For the year ended December 31, 2014	On demand	Less than	3-12	1-5	More than	Total
		3 months	months	years	5 years	
Interest bearing loans	–	9,526,896	3,017,935	13,240,446	10,876,656	36,661,933
Debt securities issued	–	323,595	647,190	10,570,740	–	11,541,525
Trade payables	32,451,956	–	–	–	–	32,451,956
	32,451,956	9,850,491	3,665,125	23,811,186	10,876,656	80,655,414

For the year ended December 31, 2013	On demand	Less than	3-12	1-5	More than	Total
		3 months	months	years	5 years	
Interest bearing loans	–	8,167,704	8,682,986	2,904,044	2,095,359	21,850,093
Trade payables	23,719,020	–	–	–	–	23,719,020
	23,719,020	8,167,704	8,682,986	2,904,044	2,095,359	45,569,113

NOTES TO THE FINANCIAL STATEMENTS (continued)**31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Capital management**

The capital comprises shares attributable to the parent shareholder.

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may regulate distribution of dividends to shareholders, return capital to shareholders or issue new shares.

The Company monitors capital using gearing ratio, which is net debt divided by equity plus net debt. The Company includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents.

As at December 31 gearing ratio comprises as follows:

	2014	2013
Interest bearing loans	28,708,008	20,555,525
Debt securities issued	8,484,687	-
Trade payables	32,451,956	23,719,020
Other current liabilities	1,725,886	1,084,357
Less: Cash and cash equivalents, bank deposits (<i>Notes 11 and 12</i>)	(13,335,822)	(5,166,217)
Net debt	58,034,715	40,192,685
Net equity and net debt	153,760,604	113,985,376
Debt-to-equity ratio	0.38	0.35

32. EVENTS AFTER REPORTING PERIOD

On January 5, 2015 the Company made coupon payment on debt securities issued in the amount of KZT 323,594 thousand in accordance with prospect of 1st issuance of bonds (*Note 15*).

On January 26, 2015 the Company made repayment of principal on the loan from Development Bank of Kazakhstan JSC in the amount of KZT 76,794 thousand according to the schedule of loan agreement (*Note 14*).

On January 26, 2015 the Company made repayment of interest on the loan from Development Bank of Kazakhstan JSC in the amount of KZT 113,377 thousand, according to the schedule of loan agreement (*Note 14*).

On February 10, 2015 the Company has withdrawn bank deposits in RBK Bank JSC in the amount of KZT 2,798,207 thousand due to need of payments to suppliers (*Note 11*).

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