# KazTransOil JSC

Separate financial statements

*For the year ended 31 December 2014*
*with Independent auditors' report*

# CONTENTS

Independent auditors' report

**Separate financial statements**

EY
Building a better working world

«Эрнст энд Янг» ЖШС
Әл-Фараби д-лы, 77/7
«Есентай Тауэр» гимараты
Алматы қ., 050060
Қазақстан Республикасы
Тел.: +7 727 258 5960
Факс: +7 727 258 5961
www.ey.com

ТОО «Эрнст энд Янг»
пр. Аль-Фараби, 77/7
здание «Есентай Тауэр»
г. Алматы, 050060
Республика Казахстан
Тел.: +7 727 258 5960
Факс: +7 727 258 5961

Ernst & Young LLP
Al-Farabi ave., 77/7
Esentai Tower
Almaty, 050060
Republic of Kazakhstan
Tel.: +7 727 258 5960
Fax: +7 727 258 5961

## Independent auditors' report

To the shareholders of KazTransOil JSC:

We have audited the accompanying separate financial statements of KazTransOil JSC ("the Company"), which comprise the separate statement of financial position as at 31 December 2014, and the separate statement of comprehensive income, separate statement of changes in equity and separate cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's responsibility for the separate financial statements*

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

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

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

Building a better
working world

*Opinion*

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

Ernst & Young LLP

Alexander Nazarkulov
Auditor

Auditor Qualification Certificate
No. 0000059 dated 6 January 2012

Evgeny Zhemaletdinov
General Director
Ernst & Young LLP

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

24 February 2015

# SEPARATE STATEMENT OF FINANCIAL POSITION

| *In thousands of Tenge* | Note | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | **387,584,884** | 364,998,307 |
| Intangible assets | 6 | **1,307,502** | 1,170,444 |
| Investments in subsidiaries | 7 | **28,208,864** | 28,208,864 |
| Investments in joint ventures | 8 | **7,404,945** | 7,404,945 |
| Advances to suppliers for property, plant and equipment | 9 | **10,714,631** | 5,770,520 |
| Bank deposits | 15 | **3,729,880** | 576,541 |
| Other non-current assets | | **10,341** | 117,760 |
| | | **438,961,047** | 408,247,381 |
| **Current assets** | | | |
| Inventories | 10 | **2,316,435** | 1,681,832 |
| Trade and other accounts receivable | 11 | **5,132,826** | 4,130,038 |
| Advances to suppliers | 12 | **674,842** | 695,544 |
| Prepayment for corporate income tax | | **5,814,078** | – |
| VAT recoverable and other prepaid taxes | 13 | **3,057,461** | 648,705 |
| Other current assets | 14 | **3,295,466** | 4,138,189 |
| Bank deposits | 15 | **32,111,695** | 83,112,238 |
| Cash and cash equivalents | 16 | **39,248,732** | 24,398,342 |
| | | **91,651,535** | 118,804,888 |
| Assets classified as held for sale | | **1,261** | 32,138 |
| | | **91,652,796** | 118,837,026 |
| **Total assets** | | **530,613,843** | 527,084,407 |

*The accounting policy and explanatory notes on pages 7 through 47 form an integral part of these separate financial statements.*

## SEPARATE STATEMENT OF FINANCIAL POSITION (continued)

| *In thousands of Tenge* | Note | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | 17 | **61,937,567** | 61,937,567 |
| Asset revaluation reserve | | **108,539,359** | 138,931,685 |
| Other capital reserves | 17 | **(1,810,510)** | (1,016,431) |
| Retained earnings | | **244,927,026** | 215,903,107 |
| **Total equity** | | **413,593,442** | 415,755,928 |
| | | | |
| **Non-current liabilities** | | | |
| Employee benefits liability | 18 | **11,204,603** | 9,333,180 |
| Deferred tax liabilities | 31 | **39,801,492** | 38,732,066 |
| Provision on asset retirement obligation and land recultivation obligaiton | 22 | **20,631,009** | 16,677,538 |
| Deferred income from related parties | 32 | **–** | 260,305 |
| | | **71,637,104** | 65,003,089 |
| | | | |
| **Current liabilities** | | | |
| Employee benefits liability | 18 | **408,757** | 322,000 |
| Trade and other accounts payable | 19 | **15,293,796** | 10,939,939 |
| Advances received | 20 | **16,651,614** | 17,031,800 |
| Corporate income tax payable | | **–** | 680,117 |
| Other taxes payable | 21 | **886,648** | 1,096,412 |
| Provisions | 22 | **94,692** | 41,642 |
| Other current liabilities | 23 | **12,047,790** | 16,213,480 |
| | | **45,383,297** | 46,325,390 |
| **Total liabilities** | | **117,020,401** | 111,328,479 |
| **Total equity and liabilities** | | **530,613,843** | 527,084,407 |
| | | | |
| **Book value per ordinary share *(in Tenge)*** | 17 | **1,072** | 1,078 |

Signed and approved for issue on 24 February 2015.

General Director

Kabyldin K.M.

Chief Accountant

Sarmagambetova M.K.

*The accounting policy and explanatory notes on pages 7 through 47 form an integral part of these separate financial statements.*

## SEPARATE STATEMENT OF COMPREHENSIVE INCOME

| *In thousands of Tenge* | Note | For the years ended 31 December 2014 | 2013 |
|---|---|---|---|
| Revenue | 24 | **186,996,455** | 174,560,034 |
| Cost of sales | 25 | **(104,111,671)** | (94,404,328) |
| **Gross profit** | | **82,884,784** | 80,155,706 |
| | | | |
| General and administrative expenses | 26 | **(11,371,158)** | (9,190,686) |
| Other operating income | 27 | **1,406,706** | 1,518,056 |
| Other operating expenses | 28 | **(529,856)** | (288,029) |
| Impairment of property, plant and equipment | 5 | **(294,384)** | (10,664,313) |
| **Operating profit** | | **72,096,092** | 61,530,734 |
| | | | |
| Net foreign exchange gain | | **1,014,930** | 43,860 |
| Dividends income | | **717,897** | 908,906 |
| Finance income | 29 | **4,395,019** | 3,971,102 |
| Finance costs | 30 | **(1,615,566)** | (1,374,236) |
| **Profit before tax** | | **76,608,372** | 65,080,366 |
| | | | |
| Income tax expense | 31 | **(18,910,200)** | (13,063,819) |
| **Profit for the year** | | **57,698,172** | 52,016,547 |
| | | | |
| **Other comprehensive (loss)/income** | | | |
| **Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent events** | | | |
| Actuarial loss from employee benefit | 18 | **(992,599)** | (1,292,000) |
| Income tax effect | 31 | **198,520** | 258,400 |
| | | **(794,079)** | (1,033,600) |
| | | | |
| Revaluation and impairment of property, plant and equipment, net | 5 | **(19,748,198)** | 41,486,811 |
| Income tax effect | 31 | **3,949,639** | (8,297,362) |
| | | **(15,798,559)** | 33,189,449 |
| | | | |
| Provision on asset retirement obligation and land recultivation | 22 | **(1,678,425)** | – |
| Income tax effect | 31 | **335,685** | – |
| | | **(1,342,740)** | – |
| **Net other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods, net of tax** | | **(17,935,378)** | 32,155,849 |
| **Total other comprehensive (loss)/income for the year, net of tax** | | **(17,935,378)** | 32,155,849 |
| **Total comprehensive income for the year, net of tax** | | **39,762,794** | 84,172,396 |
| | | | |
| **Earnings per share *(in Tenge)*** | 17 | **150** | 135 |

Signed and approved for issue on 24 February 2015.

General Director

*Kabyldin K.M.*

Chief Accountant

*Sarmagambetova M.K.*

*The accounting policy and explanatory notes on pages 7 through 47 form an integral part of these separate financial statements.*

## SEPARATE STATEMENT OF CASH FLOWS

| *In thousands of Tenge* | Note | For the years ended 31 December 2014 | 2013 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | | **76,608,372** | 65,080,366 |
| **Non-cash adjustment to reconcile profit before tax to net cash flows:** | | | |
| Depreciation and amortization | 25, 26 | **30,663,438** | 28,263,650 |
| Provision for allowance for doubtful debts, net | 26 | **3,251** | 56,405 |
| Charge of provisions, net | 22 | **53,560** | 517 |
| Finance costs | 30 | **1,615,566** | 1,374,236 |
| Dividends income | | **–** | (908,906) |
| Finance income | 29 | **(4,395,019)** | (3,971,102) |
| Employee benefits, past service costs | 18 | **–** | 1,008,000 |
| Employee benefits, current service costs | 18 | **802,461** | 495,000 |
| Loss on disposal of property, plant and equipment and intangible assets | 28 | **160,452** | 148,897 |
| Write-off of idle oil pumping stations | 28 | **89,126** | 21,212 |
| Gain from disposal of long-term assets, net | 27 | **(61,090)** | (257,696) |
| Gain on disposal of inventory, net | 27 | **(248.512)** | (314,320) |
| Impairment of property, plant and equipment | 5 | **294,384** | 10,664,313 |
| Revision of estimates for provision on asset retirement obligation and land recultivation | 22, 28 | **275,965** | – |
| Income from write-off of payables | 27 | **(74,793)** | (23,549) |
| Amortization of deferred income | 27 | **(312,366)** | (312,366) |
| Amortization of financial guarantee issued on behalf of related party | 27 | **–** | (26,463) |
| Derecognition of financial guarantee issued on behalf of related party | 27 | **–** | (177,743) |
| (Reversal)/charge of provision for slow-moving and obsolete inventories, net | 26 | **(5,342)** | 2,524 |
| **Operating cash flows before working capital changes** | | **105,469,453** | 101,122,975 |
| **(Increase)/decrease in operating assets:** | | | |
| Inventories | | **3,494,034** | 526,566 |
| Trade and other accounts receivable | | **(1,054,214)** | (1,871,456) |
| Advances to suppliers | | **21,611** | (320,703) |
| VAT recoverable and other prepaid taxes | | **(3,295,369)** | (887,863) |
| Other current assets | | **(115,284)** | 235,351 |
| **Increase/(decrease) in operating liabilities:** | | | |
| Trade and other accounts payable | | **2,727,048** | (299,243) |
| Advances received | | **(380,186)** | 1,077,837 |
| Taxes payable | | **(209,764)** | 218,451 |
| Other current and non-current liabilities and employee benefits liability | | **(4,530,330)** | 4,386,697 |
| **Cash generated from operations** | | **102,126,999** | 104,188,612 |
| Income tax paid | | **(18,964,514)** | (16,256,328) |
| Interest received | | **5,878,926** | 2,356,479 |
| **Net cash flow from operating activities** | | **89,041,411** | 90,288,763 |

*The accounting policy and explanatory notes on pages 7 through 47 form an integral part of these separate financial statements.*

## SEPARATE STATEMENT OF CASH FLOWS (continued)

| *In thousands of Tenge* | Note | For the years ended 31 December 2014 | 2013 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Withdrawal of bank deposits | | 128,557,876 | 56,047,879 |
| Placement of bank deposits | | (81,978,050) | (85,124,420) |
| Dividends received | | 979,800 | 647,770 |
| Purchase of property, plant and equipment | | (79,681,571) | (27,753,395) |
| Purchase of intangible assets | | (213,862) | (144,488) |
| Proceeds from disposal of property, plant and equipment, intangible assets and assets classified as held for sale | | 350,813 | 1,067,491 |
| **Net cash flow used in investing activities** | | (31,984,994) | (55,259,163) |
| **Cash flows from financing activities** | | | |
| Dividends paid | 17 | (41,925,280) | (28,847,670) |
| **Net cash flow used in financing activities** | | (41,925,280) | (28,847,670) |
| The effects of changes in foreign exchange rates | | (280,747) | 84,052 |
| **Net change in cash and cash equivalents** | | 14,850,390 | 6,265,982 |
| **Cash and cash equivalents at the beginning of the year** | | 24,398,342 | 18,132,360 |
| **Cash and cash equivalents at the end of the year** | 16 | 39,248,732 | 24,398,342 |

Signed and approved for issue on 24 February 2015.

General Director — *Kabyldin K.M.*

Chief Accountant — *Sarmagambetova M.K.*

KazTransOil

*The accounting policy and explanatory notes on pages 7 through 47 form an integral part of these separate financial statements.*

## SEPARATE STATEMENT OF CHANGES IN EQUITY

| *In thousands of Tenge* | Share capital | Asset revaluation reserve | Other capital reserves | Retained earnings | Total |
|---|---|---|---|---|---|
| **As at 31 December 2013** | 61,937,567 | 138,931,685 | (1,016,431) | 215,903,107 | 415,755,928 |
| Profit for the year | – | – | – | **57,698,172** | **57,698,172** |
| Other comprehensive loss | – | **(17,141,299)** | **(794,079)** | – | **(17,935,378)** |
| **Total comprehensive (loss)/income for the year** | – | **(17,141,299)** | **(794,079)** | **57,698,172** | **39,762,794** |
| Depreciation transfer of revalued property, plant and equipment | – | **(13,251,027)** | – | **13,251,027** | – |
| Dividends *(Note 17)* | – | – | – | **(41,925,280)** | **(41,925,280)** |
| **As at 31 December 2014** | **61,937,567** | **108,539,359** | **(1,810,510)** | **244,927,026** | **413,593,442** |
| **As at 31 December 2012** | 61,937,567 | 117,159,149 | 17,169 | 181,317,317 | 360,431,202 |
| Profit for the year | – | – | – | 52,016,547 | 52,016,547 |
| Other comprehensive income/(loss) | – | 33,189,449 | (1,033,600) | – | 32,155,849 |
| **Total comprehensive income/(loss) for the year** | – | 33,189,449 | (1,033,600) | 52,016,547 | 84,172,396 |
| Depreciation transfer of revalued property, plant and equipment | – | (11,416,913) | – | 11,416,913 | – |
| Dividends *(Note 17)* | – | – | – | (28,847,670) | (28,847,670) |
| **As at 31 December 2013** | 61,937,567 | 138,931,685 | (1,016,431) | 215,903,107 | 415,755,928 |

Signed and approved for issue on 24 February 2015.

General Director ________ *Kabyldin K.M.*

Chief Accountant ________ *Sarmagambetova M.K.*

*The accounting policy and explanatory notes on pages 7 through 47 form an integral part of these separate financial statements.*

## 1. GENERAL

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

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

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

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

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

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

The Company operates network of main oil pipelines of 5,700 km and water pipelines of 2,148 km within the Republic of Kazakhstan. Also the Company is engaged in storage, loading, transshipment and transfer of crude oil to other related pipeline systems. Company's joint ventures MunaiTas and KCP own Kenkiyak-Atyrau, Kenkiyak-Kumkol and Atasu-Alashankou pipelines used for transportation of Kazakhstani crude oil to China. Company's subsidiary BTL owns Batumi Oil Terminal and has controlling interest of Batumi Sea Port, main activity of which is storage and transshipment of oil and dry cargoes.

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

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

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

## 1. GENERAL (continued)

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

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

## 2. BASIS OF PREPARATION

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

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

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

These separate financial statements were issued in addition to the consolidated financial statements of the Company. These consolidated financial statements were signed and approved for issue by the General Director and the Chief Accountant of the Company on 24 February 2015. A copy of the consolidated financial statements may be obtained from the head office of the Company *(Note 1)*.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Investments in subsidiary

Investments in subsidiary is accounted for at cost less any impairment in value in these separate financial statements.

The Company assesses at each reporting date whether there is any objective evidence that an investment in a subsidiary may be impaired. If any such indication exists, the Company makes an estimate of the recoverable amount on investment. Recoverable amount on investment is higher than its fair value less costs to sell and its value in use; recoverable amount on investment is determined for an individual investment.

Where the cost of an investment exceeds its recoverable amount, the investment 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 assessment of the time value of money and the risks specific to the investments. In determining fair value less costs to sell several methods are applied. These calculations, if applicable, are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment loss is recognized as current expenses in the period when impairment is recognized.

### 3.2 Interest in joint ventures

Investments in joint ventures are accounted for in these separate financial statements at initial cost less impairment. As discussed in *Note 1,* the Company participates in two jointly controlled entities: KCP and MunaiTas *(Note 8)*.

### 3.3 Foreign currency translation

These separate financial statements are presented in Tenge, which is the Company's functional and presentation currency.

*Transactions and balances*

Transactions in foreign currencies are initially recorded by the Company at the functional currency spot rate prevailing at the date of the transaction first qualified for recognition.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.3 Foreign currency translation (continued)

*Transactions and balances (continued)*

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 differences are taken to the gain and loss as part of the statement of comprehensive income.

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

*Exchange rates*

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

The National Bank of the Republic of Kazakhstan starting from 11 February 2014 made a decision to cease supporting exchange rate of Tenge against US dollar and other major currencies on the same level, reduce volume of currency interventions and reduce interventions in process of exchange rate formation. Exchange rate before and after devaluation was 155.56 Tenge and 184.5 Tenge per 1 US dollar, respectively. As at 24 February 2015 exchange rate was 185.05 Tenge per 1 US dollar.

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

| *Tenge* | **2014** | 2013 |
|---|---|---|
| US dollar | **182.35** | 153.61 |
| Russian Ruble | **3.17** | 4.69 |
| Euro | **221.97** | 211.17 |

### 3.4 Current versus non-current classification

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

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

All other assets are classified as non-current. A liability is current when:

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

The Company classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.5 Fair value measurement

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

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

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

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

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

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

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

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

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

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

Analysis of the fair value of property, plant and equipment and additional information on methods of its determining are provided in *Note 4*.

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.6 Non-current assets held for sale or for distribution to equity holders of the parent and discontinued operations (continued)

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

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale or as held for distribution.

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

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

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

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

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

### 3.7 Property, plant and equipment

Property, plant and equipment are measured at fair value less accumulated depreciation (except for land, technological oil and construction in process) and impairment losses recognised after the date of the revaluation. The Company periodically engages independent appraisers to revalue property, plant and equipment to their depreciated replacement cost. According to Accounting Policy property, plant and equipment is revalued each 3 years (except for technological oil, which is revalued annually) in order to ensure that fair value of the revalued asset does not significantly differ from its book value.

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

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

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

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to significant accounting judgments, estimates and assumptions and provisions for further information about the asset retirement and land recultivation obligation *(Notes 4, 22)*.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.7 Property, plant and equipment (continued)

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

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

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

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

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

### 3.8 Leases

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

*Company as a lessee*

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

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

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

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

*Company as a lessor*

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

### 3.9 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit and loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as finite.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.9 Intangible assets (continued)

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

The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible assets.

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

### 3.10 Research and development costs

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

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

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

### 3.11 Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (hereinafter – "CGU") fair value less costs to sell and its value in use and is determined for an individual asset. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.11 Impairment of non-financial assets (continued)

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 CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised through profit in the statement of comprehensive income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

### 3.12 Financial assets

***Initial recognition and measurement***

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

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

***Subsequent measurement***

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

*Loans and receivables*

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

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

*Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs. The Company had deposits held-to-maturity during the years ended 31 December 2014 and 2013.

***Derecognition***

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized (or excluded from Company separate statement of financial position) 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.

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.12 Financial assets (continued)

***Derecognition (continued)***

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

### 3.13 Impairment of financial assets

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

- Disclosures for significant assumptions *(Note 4)*;
- Advances to suppliers for property, plant and equipment *(Note 9)*;
- Trade receivables *(Note 11)*;
- Advances to suppliers *(Note 12)*;
- Other current assets *(Note 14)*.

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

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the 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 been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate.

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.14 Financial liabilities

***Initial recognition and measurement***

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

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

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

***Subsequent measurement***

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

*Loans and borrowings*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs in the statement of comprehensive income.

*Financial guarantee contracts*

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

Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortization.

***Derecognition***

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

### 3.15 Offsetting of financial instruments

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

### 3.16 Inventories

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.17 Cash and cash equivalents

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

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

### 3.18 Provisions

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

The Company records a provision on asset retirement and land recultivation obligation. Asset retirement and land recultivation obligation costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the provisions for asset retirement and land recultivation obligation. The unwinding of the discount is expensed as incurred and recognised in the statement of comprehensive income as a finance cost. The estimated future costs of asset retirement and land recultivation are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset *(Note 4)*.

### 3.19 Employees benefits

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

The expected costs of the benefits associated with one-off retirement payments are accrued over the period of employment using the same accounting methodology as used for defined benefit post-employment plans with defined payments on the end of labor activity. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred. Other movements are recognised in the current period, including current service cost, any past service cost and the effect of any curtailments or settlements.

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

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.19 Employees benefits (continued)

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

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

### 3.20 Revenue and other income 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, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements, except for transportation expedition contract where the Company is acting as an agent. The following specific recognition criteria must also be met before revenue is recognised:

*Rendering of transportation services*

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

*Rendering of other services*

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

*Interest income*

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

*Dividends*

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

*Fees for undelivered oil volumes*

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

*Property, plant and equipment received from customers*

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

### 3.21 Taxes

*Corporate income tax*

Corporate income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the Republic of Kazakhstan, where the Company operates and generates taxable income.

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.21 Taxes (continued)

*Corporate income tax (continued)*

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

*Deferred tax*

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

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

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

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

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

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

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

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

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

*Value added tax (VAT)*

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

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.21 Taxes (continued)

*Value added tax (VAT) (continued)*

Receivables and payables are stated including VAT.

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

### 3.22 Equity

*Share capital*

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

*Dividends*

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

At the moment of distribution of non-monetary assets the difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognized in profit or loss and other comprehensive income

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

### 3.23 Changes in accounting policies and disclosures

The Accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as at 1 January 2014:

**New and amended standards and interpretations applied by the Company for the first time**

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

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

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

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

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

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

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Company, since none of the entities in the Company has any offsetting arrangements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.23 Changes in accounting policies and disclosures (continued)

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

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

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Company as the Company had no derivatives during the current or prior periods.

*IFRIC 21 Levies*

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Company as it has applied the recognition principles under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of IFRIC 21 in prior years.

**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 separate financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

*IFRS 9 Financial Instruments*

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

*IFRS 14 Regulatory Deferral Accounts*

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

*Amendments to IAS 19 Defined Benefit Plans: Employee Contributions*

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.23 Changes in accounting policies and disclosures (continued)

**Annual improvements 2010-2012 Cycle**

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

*IFRS 2 Share-based Payment (Amendment)*

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

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

*IFRS 3 Business Combinations (Amendment)*

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

*IFRS 8 Operating Segments (Amendment)*

The amendment is applied retrospectively and clarifies that:

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

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

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

*IAS 24 Related Party Disclosures (Amendment)*

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

**Improvement to IFRS 2011-2013 Cycle**

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

*IFRS 3 Business Combinations (Amendment)*

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.23 Changes in accounting policies and disclosures (continued)

**Improvement to IFRS 2011-2013 Cycle (continued)**

*IFRS 13 Fair Value Measurement (Amendment)*

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

*IAS 40 Investment Property (Amendment)*

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

*IFRS 15 Revenue from Contracts with Customers*

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

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

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

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

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

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

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

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

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

*Amendments to IAS 27: Equity Method in Separate Financial Statements*

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

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

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

- financial risk management and policies *(Note 34)*;
- sensitivity analyses disclosures *(Note 18, 34)*.

**Estimates and assumptions**

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

*Revaluation of property, plant and equipment*

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

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

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

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

- Discount rate 12.7%;
- Remaining useful life of the primary asset – 13.6 years;
- Long-term growth rate for the remaining life of the primary asset – 5.16%.

The assessment of the value in use is sensitive to the forecasted volumes of services rendered, tariffs for the services rendered, the amount of capital repair and operating costs.

The Company assesses at each reporting date whether the carrying amount of its property, plant and equipment does not differ materially from that, which would be determined using estimated fair value at the balance sheet date. On 31 December 2014 the management of the Company revised its assessments with respect to the fair value of its property, plant and equipment. As a result, management concluded that there were no significant changes in the fair value of the Company's property, plant and equipment (except for technological oil) as at 31 December 2014 from the date of last revaluation on 31 July 2013. As a result, the fair value of the Company's property, plant and equipment approximated their carrying amount.

*Revaluation of technological oil*

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

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

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

**Estimates and assumptions (continued)**

*Revaluation of technological oil (continued)*

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

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

Taking into account all these factors, the management concluded that the most appropriate price to reflect fair value for the technological oil in pipeline that would be determined by informed market participant as at 31 December 2014 in the amount 164,52 US Dollars (30,000 Tenge) per tonne (as at 31 December 2013: 264,7 US Dollars (40,663 Tenge) per tonne). The effect of the change in oil price is equal to 19,736,819 thousand tenge.

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

*Impairment of property, plant and equipment*

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

*Useful lives of items of property, plant and equipment*

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

*Asset retirement and land recultivation obligation*

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

Asset retirement and land recultivation obligation is estimated based on the value of the work to decommission and rehabilitate calculated by the Company in accordance with the technical regulations of the Republic of Kazakhstan (pipeline decommission expense is equal to 3,581 thousand Tenge per km (as at 31 December 2013: 2,891 thousand Tenge per km).

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

### Estimates and assumptions (continued)

*Asset retirement and land recultivation obligation (continued)*

Reserve on liquidation of landfills and waste management is reflected within the asset retirement and land recultivation obligation. The reserve was created in 2013 in accordance with the requirements of Environmental Code of Republic of Kazakhstan, which states that the owner of the landfills has to create a liquidation fund for recultivation of land and for monitoring of environmental impact right after the closure of the landfill.

The reserve was determined at the end of the reporting period using the projected inflation rate for the expected period of fulfillment of obligations (17 years), and the discount rate at the end of the reporting period which are presented below:

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

The discount rate is based on the risk-free government bonds of the Republic of Kazakhstan. As at 31 December 2014 the carrying amount of the asset retirement and land recultivation obligation was 20,631,009 thousand Tenge (as at 31 December 2013: 16,677,538 thousand Tenge) *(Note 22).*

Assessing the cost of rehabilitation of the environment is subject to potential changes in environmental requirements and interpretations of the law. Furthermore uncertainties in the estimates of these costs include potential changes in regulatory requirements, alternative disposal and recovery of damaged land and levels of discount and inflation rates, and the time, when the such obligations will be due.

If the estimated discount rate before tax used in the calculation was 1% higher than management's estimates, the carrying amount of the provision would have been by 2,706,086 thousand Tenge less than recognized amount.

*Allowances for doubtful debts*

The Company accrues allowances for doubtful accounts receivable, advances to suppliers and other assets. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the separate financial statements. As at 31 December 2014 and 2013 allowances for doubtful accounts have been created for the amount of thousand 738,100 thousand Tenge and 734,849 thousand Tenge, respectively *(Notes 9, 11,12 and 14).*

*Taxes*

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

*Deferred tax assets*

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The amount of recognized deferred tax assets as at 31 December 2014 was 7,525,200 thousand Tenge (as at 31 December 2013: 8,689,523 thousand Tenge) *(Note 31).* As at 31 December 2014 and 2013 the Company did not have unrecognized deferred tax assets.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

**Estimates and assumptions (continued)**

*Employee benefits*

The cost of defined long-term employee benefits to employees before, on and after retirement and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

As there is no active market for corporate securities in Kazakhstan, in determining the appropriate discount rate, management considers the interest rates of government securities (MEUKAM) with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying securities are further reviewed for quality on a timely basis.

The mortality rate is based on publicly available mortality tables. Increase in future salary and pension is based on expected future inflation rates for the respective country.

On 21 January 2014 the Company adopted the Collective agreement with the employees of the Company in new edition. Additionally, on 5 February 2014 the Company adopted The Rules on social support of not working pensioners and disabled people of KazTransOil JSC. Document separately allocates provision of the material assistance to not working pensioners and disabled people which are registered in the Company.

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

# NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

## 5. PROPERTY, PLANT AND EQUIPMENT

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

| *In thousands of Tenge* | Land | Pipelines | Transportation assets | Buildings and constructions | Machinery and equipment | Technological oil | Other | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| **At cost as at 31 December 2013** | 3,899,931 | 97,334,066 | 4,959,367 | 55,900,255 | 78,321,789 | 89,188,248 | 11,916,998 | 35,677,946 | 377,198,600 |
| Additions | 926 | 962,826 | 1,678,498 | 10,586 | 1,090,951 | – | 709,409 | 69,087,643 | 73,540,839 |
| Disposals | (8,993) | (158,670) | (71,707) | (318,781) | (234,484) | (212,857) | (189,282) | (24,227) | (1,219,001) |
| Impairment (asset revaluation reserve) | – | – | – | – | – | (19,585,387) | – | – | (19,585,387) |
| Impairment (through profit and loss) | – | – | – | – | – | (151,432) | – | – | (151,432) |
| Transfer to non-current assets, held for sale | – | – | (2,270) | – | – | – | – | (834) | (3,104) |
| Transfer from construction-in-progress | 13,306 | 49,332,447 | 95,409 | 3,715,657 | 21,943,330 | – | 1,654,036 | (76,754,185) | – |
| Transfer to intangible assets *(Note 6)* | – | – | – | – | (123) | – | – | (360,575) | (360,698) |
| Transfers and reclassifications | – | 3,786 | (379,914) | 7,856 | 189,728 | – | 178,544 | – | – |
| **At cost as at 31 December 2014** | **3,905,170** | **147,474,455** | **6,279,383** | **59,315,573** | **101,311,191** | **69,238,572** | **14,269,705** | **27,625,768** | **429,419,817** |
| **Depreciation and impairment as at 31 December 2013** | – | (4,240,358) | (486,794) | (2,119,082) | (4,184,306) | – | (1,169,753) | – | (12,200,293) |
| Depreciation charge | – | (10,084,580) | (1,145,468) | (5,206,935) | (10,609,944) | – | (3,231,665) | – | (30,278,592) |
| Disposals | – | 107,510 | 67,519 | 222,954 | 221,796 | 146,540 | 179,903 | 2,484 | 948,706 |
| Impairment (revaluation reserve) | – | (44,865) | – | (7,453) | (5,345) | (101,186) | – | (3,962) | (162,811) |
| Impairment (through profit and loss) | – | (64,898) | – | (6,172) | (7,891) | (45,354) | – | (18,637) | (142,952) |
| Transfer to non-current assets, held for sale | – | – | 1,009 | – | – | – | – | – | 1,009 |
| Transfers and reclassifications | – | 161 | 16,837 | (38) | (15,918) | – | (1,042) | – | – |
| **Depreciation and impairment as at 31 December 2014** | – | **(14,327,030)** | **(1,546,897)** | **(7,116,726)** | **(14,601,608)** | – | **(4,222,557)** | **(20,115)** | **(41,834,933)** |

# NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

## 5. PROPERTY, PLANT AND EQUIPMENT (continued)

| *In thousands of Tenge* | Land | Pipelines | Transportation assets | Buildings and constructions | Machinery and equipment | Technological oil | Other | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| **At cost as at 31 December 2012** | 3,441,667 | 118,622,650 | 6,617,172 | 71,739,933 | 80,011,813 | 82,892,325 | 14,295,140 | 22,669,151 | 400,289,851 |
| Additions | 76,084 | 2,904 | 125,545 | 452,380 | 1,384,011 | 2,348 | 779,781 | 24,557,460 | 27,380,513 |
| Disposals | (16,318) | (176,228) | (75,835) | (927,092) | (483,830) | (444,756) | (243,843) | (199,971) | (2,567,873) |
| Revaluation (revaluation reserve) | 531,442 | 9,292,586 | 1,472,715 | 2,613,927 | 16,976,305 | 6,738,331 | 2,549,778 | 1,589,874 | 41,764,958 |
| Impairment (through profit and loss) | (143,012) | (4,074,954) | (222,476) | (3,425,081) | (1,957,345) | – | (469,498) | – | (10,292,366) |
| Offsetting of accumulated depreciation and impairment with cost | – | (29,954,950) | (2,934,325) | (16,084,267) | (23,331,477) | – | (5,759,275) | – | (78,064,294) |
| Transfer to non-current assets, held for sale | (2,319) | – | – | (878,154) | (3,941) | – | – | – | (884,414) |
| Transfer from construction-in-progress | 12,387 | 3,566,168 | 5,292 | 2,398,692 | 5,783,969 | – | 709,169 | (12,475,677) | – |
| Transfer to intangible assets *(Note 6)* | – | – | – | – | (477) | – | (224) | (131,136) | (131,837) |
| Transfers and reclassifications | – | 55,890 | (28,721) | 9,917 | (57,239) | – | 55,970 | (331,755) | (295,938) |
| **At cost as at 31 December 2013** | 3,899,931 | 97,334,066 | 4,959,367 | 55,900,255 | 78,321,789 | 89,188,248 | 11,916,998 | 35,677,946 | 377,198,600 |
| **Depreciation and impairment as at 31 December 2012** | – | (24,434,933) | (2,460,162) | (13,910,907) | (18,874,189) | – | (4,442,556) | (186,201) | (64,308,948) |
| Disposals | – | 136,193 | 74,331 | 838,753 | 432,158 | 306,798 | 231,742 | 172,084 | 2,192,059 |
| Depreciation charge | – | (9,856,859) | (1,035,238) | (5,186,527) | (9,069,024) | – | (2,722,996) | – | (27,870,644) |
| Impairment (revaluation reserve) | – | (537) | – | (7,126) | (230) | (262,238) | – | (8,016) | (278,147) |
| Impairment (through profit and loss) | – | 1,345 | – | (10,250) | (1,258) | (44,560) | (1,313) | (315,911) | (371,947) |
| Offsetting of accumulated depreciation and impairment with cost | – | 29,954,950 | 2,934,325 | 16,084,267 | 23,331,477 | – | 5,759,275 | – | 78,064,294 |
| Transfer to non-current assets, held for sale | – | – | – | 73,165 | 3,918 | – | – | – | 77,083 |
| Transfer to intangible assets *(Note 6)* | – | – | – | – | – | – | 19 | – | 19 |
| Transfers and reclassifications | – | (40,517) | (50) | (457) | (7,158) | – | 6,076 | 338,044 | 295,938 |
| **Depreciation and impairment as at 31 December 2013** | – | (4,240,358) | (486,794) | (2,119,082) | (4,184,306) | – | (1,169,753) | – | (12,200,293) |
| **As at 31 December 2014** | | | | | | | | | |
| At cost | **3,905,170** | **147,474,455** | **6,279,383** | **59,315,573** | **101,311,191** | **69,238,572** | **14,269,705** | **27,625,768** | **429,419,817** |
| Accumulated impairment and depreciation | **–** | **(14,327,030)** | **(1,546,897)** | **(7,116,726)** | **(14,601,608)** | **–** | **(4,222,557)** | **(20,115)** | **(41,834,933)** |
| **Net book value** | **3,905,170** | **133,147,425** | **4,732,486** | **52,198,847** | **86,709,583** | **69,238,572** | **10,047,148** | **27,605,653** | **387,584,884** |
| **As at 31 December 2013** | | | | | | | | | |
| At cost | 3,899,931 | 97,334,066 | 4,959,367 | 55,900,255 | 78,321,789 | 89,188,248 | 11,916,998 | 35,677,946 | 377,198,600 |
| Accumulated impairment and depreciation | – | (4,240,358) | (486,794) | (2,119,082) | (4,184,306) | – | (1,169,753) | – | (12,200,293) |
| **Net book value** | 3,899,931 | 93,093,708 | 4,472,573 | 53,781,173 | 74,137,483 | 89,188,248 | 10,747,245 | 35,677,946 | 364,998,307 |

## 5. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 July 2013 the Company performed revaluation of property, plant and equipment (except for technological oil). As result of revaluation accumulated depreciation has been eliminated against carrying value of property, plant and equipment and net amount has been reflected to revalued value of property, plant and equipment.

As a result of the revaluation performed in 2013 it was revealed that fair value of certain objects of property, plant and equipment is lower than their carrying value, as a result of no overhaul and modernization on these objects over the past several years. Respectively, excess of the carrying amount over the fair value was accounted as decrease in respective revaluation reserve to the extent that revaluation surplus was previously recognized on these assets, while the remaining amount was recognized in statement of comprehensive income as an impairment of property, plant and equipment for the total amount of 10,664,313 thousand Tenge.

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

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

As at 31 December 2013 construction in progress mainly includes following production projects:

- main oil pipelines under construction (including: construction of main oil pipeline "Kumkol-Karakoin", realized as a part of interstate "Kazakhstan-China" oil pipeline construction project);
- reconstruction of main oil pipelines "Kalamkas-Karazhanbas-Aktau" (Karazhanbas-Aktau field) and "Uzen-Zhetybai-Aktau";
- reconstruction of HOPS "Kenkiyak";
- reconstruction of firefighting system, electricity supply systems and others.

As at 31 December 2014 the initial cost and correspondingly accumulated depreciation of fully depreciated but still in use property, plant and equipment were 2,981,191 thousand Tenge (31 December 2013: 2,883,614 thousand Tenge).

The amount of depreciation for 2014 included in the cost of construction in progress was 12,079 thousand Tenge (31 December 2013: 11,639 thousand Tenge).

As at 31 December 2014 construction in progress included materials and spare parts in the amount of 2,489,518 thousand Tenge (31 December 2013: 13,212,631 thousand Tenge), which were acquired for construction works. This decrease between years is mainly due to usage of materials and spare parts in 2014 during construction of main oil pipeline Kumkol-Karakoin.

The carrying value of each revalued class of property, plant and equipment that would have been recognized in the separate financial statements had the assets been carried at cost less any accumulated depreciation and any accumulated impairment loss is as follows:

| | Land | Pipelines | Transportation assets | Buildings and constructions | Machinery and equipment | Technological oil | Other | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| **As at 31 December 2014** | **885,361** | **97,829,484** | **4,392,954** | **30,461,554** | **66,280,665** | **1,168,388** | **7,131,531** | **25,698,188** | **233,848,125** |
| As at 31 December 2013 | 873,142 | 53,347,278 | 2,679,847 | 29,695,511 | 50,855,701 | 1,171,808 | 7,294,565 | 33,749,252 | 179,667,104 |

## 6. INTANGIBLE ASSETS

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

| *In thousands of Tenge* | Licenses | Software | Other | Total |
|---|---|---|---|---|
| **Net book value as at 31 December 2013** | 146,430 | 995,600 | 28,414 | 1,170,444 |
| Additions | **–** | **168,119** | **6,762** | **174,881** |
| Disposals | **(3,712)** | **(30,799)** | **(528)** | **(35,039)** |
| Amortization charge | **(68,307)** | **(325,506)** | **(4,708)** | **(398,521)** |
| Accumulated amortization on disposals | **3,712** | **30,799** | **528** | **35,039** |
| Transfer from construction-in-progress *(Note 5)* | **49,949** | **308,711** | **2,038** | **360,698** |
| Transfers and reclassifications | **17,379** | **(17,379)** | **–** | **–** |
| **Net book value as at 31 December 2014** | **145,451** | **1,129,545** | **32,506** | **1,307,502** |
| **Net book value as at 31 December 2012** | 209,936 | 1,058,027 | 30,802 | 1,298,765 |
| Additions | 3,805 | 140,701 | – | 144,506 |
| Disposals | – | (102,971) | – | (102,971) |
| Amortization charge | (70,036) | (332,221) | (2,388) | (404,645) |
| Accumulated amortization on disposals | – | 102,971 | – | 102,971 |
| Transfer from construction-in-progress *(Note 5)* | 905 | 130,913 | – | 131,818 |
| Transfers and reclassifications | 1,820 | (1,820) | – | – |
| **Net book value as at 31 December 2013** | 146,430 | 995,600 | 28,414 | 1,170,444 |
| **As at 31 December 2014** | | | | |
| At cost | **465,256** | **3,970,277** | **84,321** | **4,519,854** |
| Accumulated amortization and impairment | **(319,805)** | **(2,840,732)** | **(51,815)** | **(3,212,352)** |
| **Net book value** | **145,451** | **1,129,545** | **32,506** | **1,307,502** |
| **As at 31 December 2013** | | | | |
| At cost | 397,647 | 4,155,437 | 76,048 | 4,629,132 |
| Accumulated amortization and impairment | (251,217) | (3,159,837) | (47,634) | (3,458,688) |
| **Net book value** | 146,430 | 995,600 | 28,414 | 1,170,444 |

## 7. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries as at 31 December 2014 and 2013 were presented as follows:

| *In thousands of Tenge* | 31 December 2014 | 31 December 2013 |
|---|---|---|
| BTL | **47,074,550** | 47,074,550 |
| Less: impairment of investments in BTL | **(18,865,686)** | (18,865,686) |
| **Total** | **28,208,864** | 28,208,864 |

Movements in the provision for impairment of investments in subsidiaries are as follows:

| *In thousands of Tenge* | 2014 | 2013 |
|---|---|---|
| **As at 1 January** | **18,865,686** | 18,865,686 |
| Charge for the year | **–** | – |
| **As at 31 December** | **18,865,686** | 18,865,686 |

## 8. INVESTMENTS IN JOINT VENTURES

Investments in joint venture as at 31 December 2014 and 2013 were presented as follows:

| *In thousands of Tenge* | 31 December 2014 | 31 December 2013 |
|---|---|---|
| KCP | **6,500,000** | 6,500,000 |
| MunaiTas | **904,945** | 904,945 |
| **Total** | **7,404,945** | 7,404,945 |

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

### 9. ADVANCES TO SUPPLIERS FOR PROPERTY, PLANT AND EQUIPMENT

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

| *In thousands of Tenge* | **31 December 2014** | 31 December 2013 |
|---|---|---|
| Advances to third parties for property, plant and equipment | **10,814,157** | 5,869,850 |
| Less: allowance for doubtful debts | **(99,526)** | (99,330) |
| **Total** | **10,714,631** | 5,770,520 |

Movement in allowance for doubtful debts related to the advances given to suppliers for property, plant and equipment is as follows:

| *In thousands of Tenge* | **2014** | 2013 |
|---|---|---|
| **As at 1 January** | **99,330** | 99,330 |
| Charge for the year | **196** | – |
| **As at 31 December** | **99,526** | 99,330 |

Advances issued to suppliers for property, plant and equipment are denominated in Tenge.

### 10. INVENTORIES

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

| *In thousands of Tenge* | **31 December 2014** | 31 December 2013 |
|---|---|---|
| Spare parts | **1,371,518** | 856,248 |
| Fuel | **589,785** | 530,804 |
| Construction materials | **107,620** | 77,790 |
| Goods | **93,138** | 76,520 |
| Overalls | **78,892** | 82,764 |
| Chemical reagents | **35,575** | 33,496 |
| Other | **63,184** | 58,292 |
| | **2,339,712** | 1,715,914 |
| Less: provision for slow-moving and obsolete inventory | **(23,277)** | (34,082) |
| **Total** | **2,316,435** | 1,681,832 |

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

| *In thousands of Tenge* | **2014** | 2013 |
|---|---|---|
| **As at 1 January** | **34,082** | 46,420 |
| Net (reversal)/charge for the year *(Note 26)* | **(5,342)** | 2,524 |
| Write-off of inventories | **(5,463)** | (14,862) |
| **As at 31 December** | **23,277** | 34,082 |

### 11. TRADE AND OTHER ACCOUNTS RECEIVABLE

Trade and other accounts receivable as at 31 December 2014 and 2013 were presented as follows:

| *In thousands of Tenge* | **31 December 2014** | 31 December 2013 |
|---|---|---|
| Trade accounts receivable from related parties *(Note 32)* | **1,902,654** | 1,397,768 |
| Trade accounts receivable from third parties | **1,489,130** | 801,179 |
| Other accounts receivable from third parties | **2,273,771** | 2,526,184 |
| Other accounts receivable from related parties *(Note 32)* | **102,156** | 35,828 |
| | **5,767,711** | 4,760,959 |
| Less: allowance for doubtful debts | **(634,885)** | (630,921) |
| **Total** | **5,132,826** | 4,130,038 |

Other receivables mainly represent receivables from fines and penalties for nominated and non-delivered crude oil volumes under oil transportation contracts on "ship or pay" terms.

# NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

## 11. TRADE AND OTHER ACCOUNTS RECEIVABLE (continued)

Movement in allowance for doubtful accounts related to trade and other receivables is as follows:

| *In thousands of Tenge* | 2014 | 2013 |
|---|---|---|
| **As at 1 January** | **630,921** | 575,174 |
| Charge for the year | **3,964** | 55,905 |
| Write-off of receivable | **–** | (158) |
| **As at 31 December** | **634,885** | 630,921 |

As at 31 December 2014 and 2013 the ageing analysis of trade receivables is as follows:

| | | Neither past due | Past due but not impaired | | | | |
|---|---|---|---|---|---|---|---|
| *In thousands of Tenge* | Total | nor impaired | <30 days | 30-60 days | 60-90 days | 90-120 days | >120 days |
| **2014** | **5,132,826** | **4,957,436** | **15,409** | **73,093** | **50,919** | **35,969** | **–** |
| 2013 | 4,130,038 | 3,840,644 | 106,566 | 107,335 | 32,277 | 15,908 | 27,308 |

The current amounts of the Company's trade and other accounts receivables are denominated in the following currencies:

| *In thousands of Tenge* | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Tenge | **5,131,578** | 4,128,282 |
| Foreign currencies | **1,248** | 1,756 |
| **Total** | **5,132,826** | 4,130,038 |

## 12. ADVANCES TO SUPPLIERS

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

| *In thousands of Tenge* | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Advances to related parties *(Note 32)* | **447,876** | 257,165 |
| Advances to third parties | **228,039** | 440,361 |
| | **675,915** | 697,526 |
| Less: allowance for doubtful debts | **(1,073)** | (1,982) |
| **Total** | **674,842** | 695,544 |

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

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

## 13. VAT RECOVERABLE AND OTHER PREPAID TAXES

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

| *In thousands of Tenge* | 31 December 2014 | 31 December 2013 |
|---|---|---|
| VAT recoverable | **2,890,385** | 554,866 |
| Other taxes prepaid | **167,076** | 93,839 |
| **Total** | **3,057,461** | 648,705 |

# NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

## 14. OTHER CURRENT ASSETS

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

| *In thousands of Tenge* | **31 December 2014** | 31 December 2013 |
|---|---|---|
| Due for oil transportation coordination services | **3,245,840** | 3,770,279 |
| Prepaid insurance | **42,498** | 38,840 |
| Due from employees | **9,610** | 70,381 |
| Deferred expenses to third parties | **134** | 168 |
| Dividends receivable *(Note 32)* | **–** | 261,137 |
| | **3,298,082** | 4,140,805 |
| Less: allowance | **(2,616)** | (2,616) |
| **Total** | **3,295,466** | 4,138,189 |

## 15. BANK DEPOSITS

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

| *In thousands of Tenge* | **31 December 2014** | 31 December 2013 |
|---|---|---|
| Short-term bank deposits | **31,984,190** | 81,550,000 |
| Long-term bank deposits | **3,729,880** | 576,541 |
| Accrued interest on deposits | **127,505** | 1,562,238 |
| **Total** | **35,841,575** | 83,688,779 |

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

- US Dollars denominated deposits placed with Kazakhstani banks with maturity from 3 to 12 months, with interest from 0.6% to 3.5% per annum (as at 31 December 2013: nil), maturing in December 2015;
- restricted long-term bank deposits with interest from 2% to 3.5% per annum maturing in 2029 (as at 31 December 2013: 2% per annum maturing in 2028), which represent guarantee of mortgages issued by "Halyk Bank Kazakhstan" to employees of the Company.

## 16. CASH AND CASH EQUIVALENTS

| *In thousands of Tenge* | **31 December 2014** | 31 December 2013 |
|---|---|---|
| Time deposits with banks – US Dollars | **19,451,877** | – |
| Time deposits with banks – Tenge | **19,311,501** | 22,980,000 |
| Current accounts with banks – Tenge | **471,928** | 1,374,515 |
| Current accounts with banks – Russian Ruble | **347** | 492 |
| Current accounts with banks – US Dollars | **80** | 31,028 |
| Other current accounts with banks | **11,542** | 11,374 |
| Cash on hand | **1,457** | 933 |
| **Total** | **39,248,732** | 24,398,342 |

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

## 17. EQUITY

### Share capital

As at 31 December 2014 and 2013 the Company's share capital was comprised of 384,635,600 ordinary shares authorized, issued and fully paid in the amount of 62,503,284 thousand Tenge, except for 1 share which was authorized but not issued and not paid.

As at 31 December 2014 and 2013 the share capital was equal to 61,937,567 thousand Tenge, net of consulting costs related to the issuance of shares in the amount of 565,717 thousand Tenge.

## 17. EQUITY (continued)

### Distributions to the shareholder

*Dividends*

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

### Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the period. As the Parent of the Company does not issue convertible financial instruments, basic earnings per share of the Company is equal to diluted earnings per share.

The following reflects the net profit and share data used in the basic earnings per share computations:

| *In thousands Tenge* | **2014** | 2013 |
|---|---|---|
| Net profit for the period attributable to ordinary equity holders of the Parent for basic earnings | **57,698,172** | 52,016,547 |
| Weighted average number of ordinary shares for the period for basic earnings per share | **384,635,599** | 384,635,599 |
| **Basic earnings per share, in relation to profit for the year attributable to ordinary equity holders of the Company *(in Tenge)*** | **150** | 135 |

### Book value of ordinary shares

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

| *In thousands Tenge* | **31 December 2014** | 31 December 2013 |
|---|---|---|
| Total assets | **530,613,843** | 527,084,407 |
| Less: intangible assets *(Note 6)* | **(1,307,502)** | (1,170,444) |
| Less: total liabilities | **(117,020,401)** | (111,328,479) |
| **Net assets for calculation of book value of ordinary shares** | **412,285,940** | 414,585,484 |
| | | |
| **Number of ordinary shares** | **384,635,599** | 384,635,599 |
| **Book value per ordinary share *(in Tenge)*** | **1,072** | 1,078 |

### Other capital reserves

As at 31 December 2014 reserve amounted 1,810,510 thousand Tenge (as at 31 December 2013: loss in amount of 1,016,431 thousand Tenge). Decrease in reserve is due to accrual of actuarial re-measurement of defined benefit plans in the amount of 992,599 thousand Tenge, income tax effect of which amounted 198,520 thousand Tenge.

## 18. EMPLOYEE BENEFITS LIABILITY

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

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

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

## 18. EMPLOYEE BENEFITS LIABILITY (continued)

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

| *In thousands Tenge* | For the year ended 31 December 2014 | 2013 |
|---|---|---|
| **Employee benefit liabilities at the beginning of the year** | **9,655,180** | 6,800,263 |
| Unwinding of discount *(Note 30)* | **579,311** | 417,000 |
| Past service cost *(Note 26, 27)* | **–** | 1,008,000 |
| Current services cost *(Note 26, 27)* | **802,461** | 495,000 |
| Actuarial losses | **992,599** | 1,292,000 |
| Benefits paid | **(416,191)** | (357,083) |
| **Employee benefit liabilities at the end of the year** | **11,613,360** | 9,655,180 |

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

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

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

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

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

## 19. TRADE AND OTHER ACCOUNTS PAYABLE

Trade and other accounts payable as at 31 December 2014 and 2013 were presented as follows:

| *In thousands of Tenge* | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Accounts payable to third parties for goods and services | **14,427,444** | 10,042,623 |
| Accounts payable to related parties for goods and services *(Note 32)* | **672,626** | 646,301 |
| Other payables to third parties | **193,726** | 249,065 |
| Other payables to related parties *(Note 32)* | **–** | 1,950 |
| **Total** | **15,293,796** | 10,939,939 |

Trade and other accounts payables included payables to related and third parties, related to the construction-in-progress in the amount of 9,412,619 thousand Tenge (as at 31 December 2013: 7,711,017 thousand Tenge).

Trade and other accounts payables as at 31 December 2014 and 2013 were denominated in the following currencies:

| *In thousands of Tenge* | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Tenge | **15,258,129** | 10,550,602 |
| US Dollar | **20,458** | 332,416 |
| Russian Ruble | **6,219** | 48,590 |
| Euro | **8,990** | 6,414 |
| Other currencies | **–** | 1,917 |
| **Total** | **15,293,796** | 10,939,939 |

## 20. ADVANCES RECEIVED

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

| *In thousands of Tenge* | **31 December 2014** | 31 December 2013 |
|---|---|---|
| Advances received from related parties *(Note 32)* | **10,615,166** | 10,706,153 |
| Advances received from third parties | **6,036,448** | 6,325,647 |
| **Total** | **16,651,614** | 17,031,800 |

## 21. OTHER TAXES PAYABLE

Other taxes payable as at 31 December 2014 and 2013 were presented as follows:

| *In thousands of Tenge* | **31 December 2014** | 31 December 2013 |
|---|---|---|
| Personal income tax | **434,951** | 488,363 |
| Social Tax | **412,145** | 467,858 |
| Property tax | **5,004** | 117,208 |
| VAT Payable | **12,823** | 564 |
| Other taxes | **21,725** | 22,419 |
| **Total** | **886,648** | 1,096,412 |

## 22. PROVISIONS

Movements in provisions for the year ended 31 December 2014 and 2013 were presented as follows:

***Short-term portion of provisions***

| *In thousands of Tenge* | **Environmental provision** | **Other rovisions** | **Total** |
|---|---|---|---|
| **As at 31 December 2013** | 41,642 | – | 41,642 |
| Charge/(reversed) for the year | **(7)** | **53,567** | **53,560** |
| Used provision | **(510)** | **–** | **(510)** |
| **As at 31 December 2014** | **41,125** | **53,567** | **94,692** |
| | | | |
| **As at 31 December 2012** | 167,477 | 11,814 | 179,291 |
| Charge for the year | 517 | – | 517 |
| Used provision | (126,352) | (11,814) | (138,166) |
| **As at 31 December 2013** | 41,642 | – | 41,642 |

*Environmental provisions*

The Company made ecology provision due to oil spill as a result of unauthorized penetration of pipeline.

***Long-term portion of provisions***

| *In thousands of Tenge* | **2014** | 2013 |
|---|---|---|
| **As at 1 January** | **16,677,538** | 15,531,037 |
| Accrued for the year | **962,826** | 189,265 |
| Revision of estimates through other comprehensive income | **1,678,425** | – |
| Revision of estimates through profit and loss *(Note 28)* | **275,965** | – |
| Unwinding of discount on asset retirement and land recultivation obligation *(Note 30)* | **1,036,255** | 957,236 |
| **As at 31 December** | **20,631,009** | 16,677,538 |

*Asset retirement and land recultivation obligation*

According to the Law of the Republic of Kazakhstan "About the main pipeline", which came into force on 4 July 2012 the Company has a legal obligation to decommission the main pipeline (oil pipeline) after the operation and subsequent activities to restore the environment, including land recultivation.

## 22. PROVISIONS (continued)

***Long-term portion of provisions (continued)***

*Asset retirement and land recultivation obligation (continued)*

Additionally provision on liquidation of the waste landfills is reflected as part of the asset retirement and land recultivation obligation. Provision was created based on the requirements of the Ecological Code of the Republic of Kazakhstan, according to which owner of the waste landfill must create liquidation fund for subsequent activities for land remediation and monitoring the impact on the environment after the landfill closure. Ecological Code of the Republic of Kazakhstan also prohibits usage of landfill without liquidation fund created.

Company revised the long-term provisions considering current best estimate. Assumptions used and the sensitivity to changes in the discount rate are reflected in *Note 4*.

## 23. OTHER CURRENT LIABILITIES

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

| *In thousands of Tenge* | **31 December 2014** | 31 December 2013 |
|---|---|---|
| Salaries and wages | **5,589,818** | 7,221,317 |
| Accounts payable for oil transportation coordination services for related parties *(Note 32)* | **2,871,849** | 4,153,475 |
| Accounts payable for oil transportation coordination services for third parties | **2,464,587** | 3,281,041 |
| Accounts payable under an agency agreement for the transportation of oil to related parties *(Note 32)* | **–** | 651,706 |
| Accounts payable to pension funds | **659,667** | 593,575 |
| Current portion of deferred income from related parties *(Note 32)* | **260,305** | 312,366 |
| Other current liabilities | **201,564** | – |
| **Total** | **12,047,790** | 16,213,480 |

Salaries and wages comprise of current salary payable, remunerations based on the year results and vacation payments payable.

## 24. REVENUE

Revenue for the year ended 31 December 2014 and 2013 was presented as follows:

| *In thousands of Tenge* | **2014** | 2013 |
|---|---|---|
| Crude oil transportation | **164,393,577** | 153,861,014 |
| Pipeline operation services | **8,230,639** | 6,816,579 |
| Water transportation | **6,860,568** | 6,573,345 |
| Fees for undelivered oil volumes* | **6,714,971** | 6,345,133 |
| Oil transportation coordination services | **639,557** | 702,192 |
| Oil storage services | **91,553** | 174,555 |
| Other | **65,590** | 87,216 |
| **Total** | **186,996,455** | 174,560,034 |

For the year ended 31 December 2014 the revenue from the major customer amounted to 45,143,090 and 23,386,961 thousand Tenge, respectively. (For the year ended 31 December 2013 revenue from two major customers: 41,333,606 thousand Tenge and 18,434,349 thousand Tenge, respectively).

* Income from fees for undelivered and unreported oil volumes have been received by the Company in accordance with the contracts for oil transportation services based on "ship-or-pay" terms. Due to the fact that the comparative information in the separate financial statements for the year ended 31 December 2013 was recorded in other operating income, income from fees for undelivered oil volumes have been reclassified from other operating income to revenue in the current period.

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

### 25. COST OF SALES

Cost of sales for the year ended 31 December 2014 and 2013 were presented as follows:

| *In thousands of Tenge* | 2014 | 2013 |
|---|---|---|
| Personnel cost | 38,215,396 | 34,181,693 |
| Depreciation and amortization | 29,989,638 | 27,673,653 |
| Electric energy | 6,141,079 | 5,942,186 |
| Materials and fuel | 5,650,290 | 5,068,018 |
| Repair and maintenance cost | 5,209,063 | 4,698,958 |
| Taxes other than corporate income tax | 4,593,362 | 4,563,520 |
| Security services | 4,202,648 | 3,212,395 |
| Gas expense | 2,435,270 | 2,211,319 |
| Air services | 1,474,160 | 1,296,160 |
| Environmental protection | 952,258 | 612,422 |
| Business trip expense | 870,894 | 814,368 |
| Post-employment benefits | 754,969 | 1,406,914 |
| Diagnostics of pipelines | 624,316 | 389,203 |
| Insurance | 430,429 | 379,002 |
| Communication services | 248,990 | 240,062 |
| Other | 2,318,909 | 1,714,455 |
| **Total** | **104,111,671** | 94,404,328 |

Increase in personnel costs is due to the indexation of salaries of production staff.

### 26. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the year ended 31 December 2014 and 2013 were presented as follows:

| *In thousands of Tenge* | 2014 | 2013 |
|---|---|---|
| Personnel cost | 5,702,229 | 5,651,107 |
| Charity expense | 2,013,569 | 126,474 |
| Depreciation and amortization | 673,800 | 589,997 |
| Consulting | 449,441 | 305,380 |
| Office services | 370,071 | 337,154 |
| Write off of VAT recoverable | 293,703 | 194,727 |
| Business trip expenses | 218,201 | 179,102 |
| Social sphere expenses | 193,888 | 204,421 |
| Taxes other than corporate income tax and VAT | 154,171 | 193,424 |
| Training | 134,055 | 109,919 |
| Repair and maintenance | 132,865 | 171,310 |
| Bank costs | 130,459 | 105,028 |
| Materials and fuel | 124,680 | 175,758 |
| Communication services | 106,217 | 98,309 |
| Post-employment benefits | 47,492 | 96,086 |
| Provision for allowance for doubtful debt, net | 3,251 | 56,405 |
| (Reversal)/charge of provision for slow-moving and obsolete inventories, net | (5,342) | 2,524 |
| Other | 628,408 | 593,561 |
| **Total** | **11,371,158** | 9,190,686 |

In 2014 year the Company gave the sponsorship for the construction of a secondary school for 300 pupils in the Atyrau region, kindergarten for 280 children in the South Kazakhstan region and a kindergarten for 320 children in the Pavlodar region.

## 27. OTHER OPERATING INCOME

Other operating income for the year ended 31 December 2014 and 2013 was presented as follows:

| *In thousands of Tenge* | 2014 | 2013 |
|---|---|---|
| Income from fines and penalties | **604,660** | 331,529 |
| Amortization of deferred income from related parties *(Note 32)* | **312,366** | 312,366 |
| Gain on disposal of inventory | **248,512** | 314,320 |
| Income from writte-off of payables | **74,793** | 23,549 |
| Gain on disposal of non-current assets, net | **61,090** | 257,696 |
| Management services fees | **13,688** | 5,505 |
| Derecognition of financial guarantee issued on behalf of related party *(Note 32)* | **–** | 177,743 |
| Amortization of financial guarantee issued to related party *(Note 32)* | **–** | 26,463 |
| Other income | **91,597** | 68,885 |
| **Total** | **1,406,706** | 1,518,056 |

## 28. OTHER OPERATING EXPENSES

Other operating expenses for the year ended 31 December 2014 and 2013 were presented as follows:

| *In thousands of Tenge* | 2014 | 2013 |
|---|---|---|
| Expenses from revision of estimates for provision on asset retirement obligation and land recultivation | **275,965** | – |
| Loss on disposal of property, plant and equipment and intangible assets, net | **160,452** | 148,897 |
| Write-off of idle oil pumping stations | **89,126** | 21,212 |
| Loss on disposal of inventory | **–** | 2,594 |
| Other expenses | **4,313** | 115,326 |
| **Total** | **529,856** | 288,029 |

## 29. FINANCE INCOME

Finance income for the year ended 31 December 2014 and 2013 was presented as follows:

| *In thousands of Tenge* | 2014 | 2013 |
|---|---|---|
| Interest income on bank deposits | **4,380,727** | 3,947,430 |
| Employees and related party loans: unwinding of discount | **14,292** | 23,672 |
| **Total** | **4,395,019** | 3,971,102 |

## 30. FINANCE COSTS

Finance costs for the year ended 31 December 2014 and 2013 were presented as follows:

| *In thousands of Tenge* | 2014 | 2013 |
|---|---|---|
| Unwinding of discount on asset retirement and land recultivation obligation *(Note 22)* | **1,036,255** | 957,236 |
| Employee benefits: unwinding of discount *(Note 18)* | **579,311** | 417,000 |
| **Total** | **1,615,566** | 1,374,236 |

## 31. INCOME TAX EXPENSE

Income tax expenses for the year ended 31 December 2014 and 2013 were presented as follows:

| *In thousands of Tenge* | 2014 | 2013 |
|---|---|---|
| Current income tax expense | **13,356,930** | 18,871,869 |
| Deferred expense/(benefit) | **5,553,270** | (5,808,050) |
| **Income tax expense** | **18,910,200** | 13,063,819 |

## 31. INCOME TAX EXPENSE (continued)

A reconciliation of income tax expense on accounting profit, multiplied by income tax rate and current income tax expense for the years ended 31 December, is as follows:

| *In thousands of Tenge* | 2014 | 2013 |
|---|---|---|
| **Profit before income tax** | **76,608,372** | 65,080,366 |
| Statutory rate | **20%** | 20% |
| **Income tax expense on accounting profit** | **15,321,674** | 13,016,073 |
| Tax effect of the previous year adjustments | **(33,207)** | – |
| **Tax effect of permanent differences** | | |
| Non-deductible gain from dividends | **(143,579)** | (129,554) |
| Gain on surplus of technological oil | **1,142,794** | 198,393 |
| Non-recognized income of foreign subsidiary | **2,133,390** | – |
| Other non-deductible expenses | **489,128** | (21,093) |
| **Corporate income tax expense reported in the statement of comprehensive income** | **18,910,200** | 13,063,819 |

Deferred income tax balances, calculated by applying the statutory income tax rates in effect at the respective statement of financial position dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the separate financial statements are comprised of the following as at 31 December:

| *In thousands of Tenge* | 31 December 2014 | Charged to profit and loss | Charged to other comprehen-sive income | 31 December 2013 | Charged to profit and loss | Charged to other comprehen-sive income | 1 January 2013 |
|---|---|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | | | |
| Employee benefits and other employee compensation and related costs | **3,089,075** | **(131,432)** | **198,520** | 3,021,987 | 1,197,618 | 258,400 | 1,565,969 |
| Financial guarantee issued on behalf of related party | **–** | **–** | **–** | – | (39,931) | – | 39,931 |
| Allowance for doubtful debts | **147,620** | **650** | **–** | 146,970 | 113,222 | – | 33,748 |
| Provision for slow-moving and obsolete inventory | **4,655** | **(2,161)** | **–** | 6,816 | (2,468) | – | 9,284 |
| Taxes payable | **97,362** | **(156,528)** | **–** | 253,890 | 253,890 | – | – |
| Provision on environmental protection and other provisions | **48,677** | **(2,191)** | **–** | 50,868 | 15,010 | – | 35,858 |
| Provision on asset retirement and land recultivation obligation | **4,085,750** | **457,097** | **335,685** | 3,292,968 | 186,761 | – | 3,106,207 |
| Employees and related party loans | **–** | **(5,083)** | **–** | 5,083 | (5,136) | – | 10,219 |
| Income from foreign entities under control | **–** | **(1,796,407)** | **–** | 1,796,407 | 582,207 | – | 1,214,200 |
| Deferred income from related parties | **52,061** | **(62,473)** | **–** | 114,534 | (62,473) | – | 177,007 |
| | **7,525,200** | **(1,698,528)** | **534,205** | 8,689,523 | 2,238,700 | 258,400 | 6,192,423 |
| **Deferred tax liabilities** | | | | | | | |
| Investments in joint ventures | **(176,032)** | **–** | **–** | (176,032) | – | – | (176,032) |
| Taxes payable | **–** | **–** | **–** | – | 33,759 | – | (33,759) |
| Property, plant and equipment | **(47,150,660)** | **(3,854,742)** | **(3,949,639)** | (47,245,557) | 3,535,591 | (8,297,362) | (42,483,786) |
| | **(47,326,692)** | **(3,854,742)** | **(3,949,639)** | (47,421,589) | 3,569,350 | (8,297,362) | (42,693,577) |
| **Net deferred income tax liabilities** | **(39,801,492)** | **(5,553,270)** | **(4,483,844)** | (38,732,066) | 5,808,050 | (8,038,962) | (36,501,154) |

The deferred taxes on property, plant and equipment represent differences between tax and book base of property, plant and equipment due to different depreciation rates in tax and accounting books and impairment of property, plant and equipment.

In 2014, according to the tax legislation of the Republic of Kazakhstan the Company changed its estimates for recoverable tax assets on income of controlled foreign companies, received in countries with preferential tax treatment. Accordingly, the Company discontinued recognition of assets for deferred income tax in the amount of 1,796,407 thousand tenge.

## 32. RELATED PARTY TRANSACTIONS

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related party transactions were made on agreed terms between the parties that may not necessarily be at market rates, except for certain regulated services, which were provided based on the tariffs available to related and third parties.

The following tables provides the total amount of transactions, which have been entered into with related parties during 2014 and 2013 and the related balances as at 31 December 2014 and 2013.

Trade and other accounts receivables from related parties are as follows:

| *In thousands of Tenge* | Note | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| **Trade and other accounts receivable from related parties** | | | |
| Trade accounts receivable from joint venture | | **1,261,676** | 806,094 |
| Trade accounts receivable from entities under common control of KMG | | **640,772** | 590,681 |
| Trade accounts receivable from entities under common control of Samruk-Kazyna Group | | **206** | 993 |
| **Total trade and other accounts receivable from related parties** | 11 | **1,902,654** | 1,397,768 |
| Other accounts receivables from entities under common control of KMG and Samruk-Kazyna Group | 11 | **102,156** | 35,828 |
| **Total trade and other accounts receivable** | | **2,004,810** | 1,433,596 |

Advances provided to related parties are as follows:

| *In thousands of Tenge* | Note | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| **Advances paid to related parties** | | | |
| Advances paid to entities under common control of KMG | | **361,049** | 176,380 |
| Advances paid to entities under common control of Samruk-Kazyna Group | | **86,746** | 80,785 |
| Advances paid to other related parties | | **81** | – |
| **Total advances issued to related parties** | 12 | **447,876** | 257,165 |

Other current assets are as follows:

| *In thousands of Tenge* | Note | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| **Dividends receivable from related parties** | | | |
| Dividends receivable from subsidiary | | – | 261,137 |
| **Total dividends receivable from related parties** | 14 | – | 261,137 |

Other non-current deferred income from related parties are as follows:

| *In thousands of Tenge* | 31 December 2014 | 31 December 2013 |
|---|---|---|
| **Non-current deferred income from related parties** | | |
| Non-current deferred income from entities under common control of KMG | – | 260,305 |
| **Total other non-current liabilities to related parties** | – | 260,305 |

Accounts payables and other payables to related parties are as follows:

| *In thousands of Tenge* | Note | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| **Accounts payables to related parties for goods and services** | | | |
| Accounts payables to entities under common control of KMG | | **628,994** | 628,280 |
| Accounts payables to entities under control of Samruk-Kazyna Group | | **43,632** | 18,021 |
| | 19 | **672,626** | 646,301 |
| Other payables to entities under control of Samruk-Kazyna Group | 19 | – | 1,950 |
| **Total trade and other accounts payable to related parties** | | **672,626** | 648,251 |

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

### 32. RELATED PARTY TRANSACTIONS (continued)

Advances received from related parties are as follows:

| *In thousands of Tenge* | Note | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| **Advances received from related parties** | | | |
| Advances from entities under common control of KMG | | **10,117,534** | 8,764,571 |
| Advances from entities under common control of Samruk-Kazyna Group | | **497,617** | 1,941,567 |
| Advances from joint ventures | | **15** | 15 |
| **Total advances received from related parties** | 20 | **10,615,166** | 10,706,153 |

Other current liabilities to related parties are as follows:

| *In thousands of Tenge* | Note | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| **Accounts payable for oil transportation coordination for related parties** | | | |
| Accounts payable for oil transportation coordination for entities under common control of KMG | | **2,871,849** | 4,153,475 |
| | 23 | **2,871,849** | 4,153,475 |
| **Payables to related parties for agency agreement on oil transportation services** | | | |
| Payables to related parties for agency agreement on oil transportation services | | **–** | 651,706 |
| | 23 | **–** | 651,706 |
| **Employee benefits** | | | |
| Employee benefits of key management personnel | | **6,155** | 5,516 |
| | | **6,155** | 5,516 |
| **Current portion of deferred income from related parties** | | | |
| Current portion of deferred income from entities under common control of KMG | | **260,305** | 312,366 |
| | | **260,305** | 312,366 |
| **Total other current liabilities to related parties** | | **3,138,309** | 5,123,063 |

During years ended 31 December the Company had the following transactions with the related parties:

| *In thousands of Tenge* | 2014 | 2013 |
|---|---|---|
| **Sales to related parties** | | |
| Revenue from main activities with entities under common control of KMG | **104,948,037** | 94,445,886 |
| Revenue from main activities with joint ventures | **7,048,142** | 5,742,000 |
| Revenue from main activities with entities under common control of Samruk-Kazyna Group | **6,724,720** | 10,878,953 |
| Revenue from other activities with entities under common control of KMG | **19,852** | 14,609 |
| Revenue from other activities with entities under common control of Samruk-Kazyna Group | **8** | 103 |
| **Total** | **118,740,759** | 111,081,551 |
| **Purchases from related parties** | | |
| Purchases of services from entities under common control of KMG | **8,234,819** | 7,963,210 |
| Purchases of services from entities under common control of Samruk-Kazyna Group | **1,250,632** | 1,191,689 |
| Purchases of property, plant and equipment and inventory from entities under common control of Samruk-Kazyna Group | **1,107,080** | 148,401 |
| Purchases of property, plant and equipment and inventory from entities under common control of KMG | **174,016** | 9,226 |
| Purchases of services from joint ventures | **17,758** | – |
| **Total** | **10,784,305** | 9,312,526 |

## 32. RELATED PARTY TRANSACTIONS (continued)

| *In thousands of Tenge* | Note | 2014 | 2013 |
|---|---|---|---|
| **Other operating income from related parties** | | | |
| Derecognition of financial guarantee issued on behalf of related party | 27 | – | 177,743 |
| Amortization of deferred income from related parties | 27 | **312,366** | 312,366 |
| Amortization of financial guarantee issued to related party | 27 | – | 26,463 |
| **Total** | | **312,366** | 516,572 |

| *In thousands of Tenge* | 2014 | 2013 |
|---|---|---|
| **Dividend income** | | |
| Dividends income from subsidiaries | – | 261,137 |
| Other dividend income | **637,620** | 453,584 |
| **Total** | **637,620** | 714,721 |

The total remuneration of members of the key management personnel comprises of:

| *In thousands of Tenge* | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Salary | **146,847** | 121,691 |
| Other short-term benefits | **33,355** | 16,925 |
| Bonuses based on the results of the previous year | **219,238** | 183,989 |
| Post-employment benefits | **1,062** | 1,301 |
| | **400,502** | 323,906 |
| | | |
| **Number of persons** | **8** | 7 |

## 33. CONTINGENT LIABILITIES AND COMMITMENTS

### Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not usual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws is severe.

Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued as at 31 December 2014.

As at 31 December 2014 the 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.

*Transfer pricing control*

Transfer pricing control in Kazakhstan has a very wide scope and applies to many transactions that directly or indirectly relate to international business regardless of whether the transaction participants are related or not. The transfer pricing legislation requires that all taxes applicable to a transaction should be calculated based on market price determined in accordance with the "arm's length" principle.

The new law on transfer pricing came into effect in Kazakhstan from 1 January 2009. The new law is not explicit and there is little precedence with some of its provisions. Moreover, the law is not supported by detailed guidance, which is still under development. As a result, application of transfer pricing control to various types of transactions is not clearly regulated.

Because of the uncertainties associated with the Kazakhstan transfer pricing legislation, there is a risk that the tax authorities may take a position that differs from the Company's position, which could result in additional taxes, fines and interest as at 31 December 2014.

As at 31 December 2014 the Management believes that its interpretation of the transfer pricing legislation is appropriate and that it is probable that the Company's positions with regard to transfer pricing will be sustained.

## 33. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

### Environmental obligations

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Potential liabilities which may arise as a result of changes in legislation cannot be reasonably estimated. Under existing legislation management believes that there are no probable or possible liabilities which could have a material adverse effect on the Company's financial position or results of operations, except as provided for or otherwise disclosed in these separate financial statements *(Notes 4, 22)*.

### Insurance issues

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company has insurance coverage over property, third party liability in respect of property or environmental damage arising from accidents on Company's property or relating to the Company's operations.

### Contractual commitments

As at 31 December 2014, the Company had contractual obligations to acquire property, plant and equipment, and construction services for the amount of 29,152,744 thousand Tenge (as at 31 December 2013: 33,069,599 thousand Tenge).

## 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial liabilities comprise of trade and other payables. The main purpose of these financial liabilities is to raise funds for the Company's operations. The Company has trade receivables and cash and cash equivalents that arrive directly from its operations.

The Company is exposed to market risk that comprises of credit risk, currency risk and liquidity risk.

The Management of the Company reviews and agrees policies for managing each of these risks which are summarized below.

### Credit risk

The Company trades only with recognized, creditworthy parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. Maximum exposure is the carrying amount. There are no significant concentrations of credit risk within the Company.

The Company places deposits with Kazakhstani banks *(Notes 15 and 16)*. The Company's management reviews credit ratings of these banks periodically to eliminate extraordinary credit risk exposure. The Company's management believes that recent international credit crisis and subsequent changes in credit rating of local banks does not justify extraordinary credit risk. Accordingly, no impairment provision against bank deposits is required.

The table below shows the balances of bank accounts and deposits at the statement of financial position date using the "Moody's" and "Standard and Poor's" credit ratings.

| | | Rating | | | |
|---|---|---|---|---|---|
| **Bank** | **Location** | **2014** | 2013 | **2014** | 2013 |
| Halyk Bank JSC | Kazakhstan | **BB/Stable** | Ba2/Stable | **43,355,993** | 34,724,128 |
| KazKommerstBank | Kazakhstan | **B/Stable** | B2/Stable | **19,958,265** | 44,793,592 |
| CesnaBank JSC | Kazakhstan | **B+/Stable** | B/Positive | **8,787,871** | 10,040,000 |
| SberBank Russia | Kazakhstan | **BB+/Negative** | Ba2/Stable | **2,001,131** | 10,424,707 |
| Delta Bank | Kazakhstan | **–** | – | **985,401** | – |
| GasBank CJSC JSB | Russia | **–** | – | **167** | 490 |
| RBS Bank JSC | Kazakhstan | **A3/Negative** | A3/Negative | **12** | 41 |
| CITI Bank Kazakhstan JSC | Kazakhstan | **A2/Stable** | A2/Stable | **10** | 4 |
| CentrKredit Bank | Kazakhstan | **B2/Stable** | B2/Stable | **–** | 5,103,161 |
| Kaspi Bank JSC | Kazakhstan | **B1/Stable** | B1/Stable | **–** | 2,000,000 |
| Bank Kassa Nova JSC | Kazakhstan | **B/Stable** | B/Stable | **–** | 1,000,000 |
| ATF Bank JSC | Kazakhstan | **B-/Stable** | B-/Stable | **–** | 62 |
| HSBC Bank Kazakhstan JSC | Kazakhstan | **–** | – | **–** | 3 |
| **Total** | | | | **75,088,850** | 108,086,188 |

## 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Liquidity risks

The Company monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operations.

The table below summarizes the maturity profile of the Company's financial liabilities at 31 December 2013 and 2012 based on contractual undiscounted payments.

| *In thousands of Tenge* | On demand | <1 year | 1 to 2 years | 2 to 5 years | >5 years | Total |
|---|---|---|---|---|---|---|
| **As at 31 December 2014** | | | | | | |
| Trade and other payable | – | **15,073,298** | **47,929** | **172,569** | – | **15,293,796** |
| **Total** | – | **15,073,298** | **47,929** | **172,569** | – | **15,293,796** |
| **As at 31 December 2013** | | | | | | |
| Trade and other payable | – | 10,580,366 | 84,725 | 274,848 | – | 10,939,939 |
| **Total** | – | 10,580,366 | 84,725 | 274,848 | – | 10,939,939 |

### Currency risk

The table below shows the total amount of foreign currency denominated assets and liabilities that increase foreign exchange exposure.

| *In thousands of Tenge* | US dollar | Russian Ruble | Euro | Other currencies | Total |
|---|---|---|---|---|---|
| **As at 31 December 2014** | | | | | |
| Assets | **51,545,997** | **5,791** | – | – | **51,551,788** |
| Liabilities | **37,492** | **53,998** | **8,990** | – | **100,480** |
| **As at 31 December 2013** | | | | | |
| Assets | 292,065 | 14,593 | – | – | 306,658 |
| Liabilities | 332,416 | 100,888 | 6,414 | 5,955 | 445,673 |

The Company does not have formal arrangements to mitigate foreign exchange risks of the Company's operations.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar and Russian ruble exchange rate, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Company's equity.

| *In thousands of Tenge* | Increase/ decrease in exchange rate | Effect on profit before tax |
|---|---|---|
| **2014** | **+17.37%** | **8,947,416** |
| US Dollar | **-17.37%** | **(8,947,416)** |
| **2014** | **+33.54%** | **(16,168)** |
| Russian Ruble | **-33.54%** | **16,168** |
| **2013** | +30.00% | (12,105) |
| US Dollar | +10.00% | (4,035) |
| **2013** | +20.00% | (17,259) |
| Russian Ruble | -20.00% | 17,259 |

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

### 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**Capital management**

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. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2014 and 2013.

As at 31 December 2014 and 2013 the Company does not have significant debts. The Company has sufficient cash, exceeding its debt as of the reporting date.

**Fair value of financial instruments**

The carrying amount of cash, bank deposits, trade and other accounts receivable, loans to related parties, trade and other accounts payable and other financial liabilities approximates their fair value due to the short-term maturity of these financial instruments.