



ANNUAL REPORT

ANNUAL REPORT  
KazTransOil JSC  
for 2015



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## About the Report

Every year KazTransOil JSC (hereinafter – the Company) publishes its annual reports publicly available on the Company's website, and since 2013 the Company has started publishing the integrated annual reports, where one of the main sections is the Report on Sustainable Development. This report is the third Integrated Annual Report of the Company, which covers data for the reporting period from January 1 to December 31, 2015. A previous Integrated Annual Report for 2014 was published in May 2015.

The Integrated Annual Report for 2015 (hereinafter – the "Report") has been prepared in accordance with the international standards such as the Sustainable Development Reporting Guidelines G4 (hereinafter – GRI G4 Guidelines) and GRI Sector Supplement for oil and gas companies. In preparing the Report, the Company also complied with the principles of the International Integrated Reporting Standard developed by the International Council for Integrated Reporting, requirements of Kazakhstan Stock Exchange for disclosure of information in the annual report of a listed company, and the Company's internal documents. Financial and economic performance indicators of the Company have been prepared in accordance with the recommendations of the IFRS Practice Statement "Management Commentary".

When preparing the Report we focused on disclosure of information in accordance with the "Core" disclosure option, while in some aspects we strived for more complete disclosure than required.

The table containing a complete list of standard reporting elements and their location in the Report is provided in Appendix "Table of the Report Compliance with GRI G4 Guidelines and GRI Sector Supplement".

### Report preparation process and determination of material aspects

The Company's approach used to define the Report content is based on monitoring and determining the material aspects in the interaction with stakeholders, as well as the key events during the reporting period.

While preparing the Report we assessed the materiality of the aspects disclosed. A list of the aspects material for the Company and their priorities were determined on the basis of survey and consultations with top managers of the Company's business units. In addition, we have considered analysis of the best practices of domestic and Russian companies related to defining the information content and disclosure.

A preliminary list of issues and topics, which are of important for the stakeholders, was generated based on the results of discussions. A final list of material aspects was approved by the Company's top management given a strategic vision of the Company development.

Information required for the Report generation was prepared and collected with the assistance of the Company's business units. Afterwards, a department responsible for the Report preparation consolidated and verified the information obtained.

Appendix "Material Aspects of the Company's Activities" provides a list of material aspects disclosed in the Report.

Data on the management approach to material aspects of the Company's activities is disclosed throughout the Report.

### Scope of the Report

The Report comprises information on the operations of the Company and its subsidiaries and jointly controlled entities. The Report provides production and financial performance indicators of the Company, important aspects of corporate governance and risk management, and what is more a major focus is placed on the Company sustainable development.

In this regard, production and financial performance indicators in "Key Operating and Financial Indicators" and "Management Report on Financial and Economic Performance" sections are provided on a consolidated basis and include financial and economic performance results of subsidiaries and jointly controlled entities (hereinafter – SJCE). In other sections of the Report information is provided separately for KazTransOil JSC, unless otherwise stated.

Information and quantitative data are presented for 2015. The 2014 indicators were presented for the purpose of comparison and analysis of information. In the future, when preparing Reports for the next years we are planning to include information covering a 3-years period

### Differences from the Integrated Annual Report for 2014

When preparing the Report for 2015 we strived to ensure the comparability of the presented information with that in the 2014 Report. In this Report, we tried to focus more on the issues being of great significance for stakeholders, such as an occupational health and safety, practice of procurement of goods, works and services, and also the environmental issues.

As compared to the Company's Integrated Annual Report for 2014, the

2015 Report has been changed in terms of certain indicators. Detailed explanations are given in the text of the Report.

### Representation

To increase the level of confidence for non-financial information and improve the Company's information transparency, the Report has been certified in relation to sustainable development indicators by an independent auditor – KPMG Tax and Advisory LLP, whose opinion is presented in Appendix "Independent Assurance Report of KPMG Tax and Advisory LLP on the Sustainable Development Indicators".

Indicators of the financial statements are presented in accordance with the audited consolidated financial statements of the Company for 2015 contained in Appendix "Independent Auditors' Report of Ernst & Young LLP and Audited Consolidated Financial Statements".

If you have any questions regarding the Report, please, contact the Strategic Planning Department of the Company:

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See the Report online  
[www.kaztransoil.kz](http://www.kaztransoil.kz)



## Message

### MOVING SMOOTHLY TOWARDS THE GOAL!



D. Berlibayev

Chairman of the Board of Directors of KazTransOil JSC



N. Shmanov

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

Dear readers,

We are glad to welcome you on pages of the Integrated Annual Report of KazTransOil JSC for 2015. Last year we celebrated the 80th anniversary of the oil transportation industry in the Republic of Kazakhstan, the foundation of which was laid by construction of one of the longest and most high-capacity pipelines in the territory of the former Soviet Union, which was designed for transportation of oil produced in Baku and Emba to a refinery in Orsk. In addition to the Company's operating results for 2015, the Report covers the milestones of the oil transportation industry formation in the Republic of Kazakhstan.

The 2015 results have once again demonstrated the stability and effectiveness of the Company's business model and ability of its top management to achieve success even in the most difficult economic conditions.

From year to year the Company demonstrates stability in dividend payment to its shareholders. Following the results of 2014, the dividend paid in 2015 per one ordinary share of the Company amounted to 120.71 tenge, which provided a dividend yield of 16.65% to the offering price.

During the reporting year, the Company achieved positive operating and financial results. The Company is still a market leader and has transported approximately 51% of the total volume of oil produced in the country. According to the results of the last year, the consolidated volume of oil transportation

amounted to 61 million tons, i.e. 3% higher than the planned figure, while the consolidated freight turnover equalled to 45.4 billion ton-km, or 4% above the planned figure. In 2015, the volume of delivery of the Volga River water through Astrakhan-Mangyshlak water pipeline amounted to 25 million cubic meters, which exceeded the planned indicator by 8%.

By the end of 2015, KazTransOil JSC (separately) earned a record net profit of 79.6 bln. tenge, which was 17% higher than the planned figure and 38% higher than the net profit in 2014.

The Company's consolidated profit amounted to 44.7 bln. tenge, which was 3% higher than the planned indicator. At the same time, the Company's consolidated profit decreased. The main factor of the decrease was a foreign exchange loss on the USD denominated loans

of the Company's jointly controlled entity following the national currency devaluation.

Pursuant to amendments to the Law of the Republic of Kazakhstan "On Natural Monopolies and Regulated Markets" adopted in May 2015, oil transportation services performed for the purpose of oil transit through the territory of the Republic of Kazakhstan and for export outside the Republic of Kazakhstan have been excluded from the scope of natural monopolies, which allows the Company to pursue the flexible tariff policy.

As part of the transformation programme of "Samruk-Kazyna" JSC and NC KazMunayGas JSC the Company is actively involved in measures for improvement of business processes. Moreover, the measures for enhancement of operating efficiency and cost optimisation developed by the Company for 5-year period will be incorporated in the transformation program, thus enabling to multiply the value of the Company and investments of our shareholders.

The Company pays much attention to the measures aimed at sustainable development, in the course of which the Company has implemented a number of measures aimed at ensuring safety of employees' lives and health, environmental protection and creation of necessary working conditions.

In conclusion, we would like to note that the Board of Directors and the Management Board of the Company will follow the chosen Development Strategy which is aimed at improving the efficiency of the Company's operations, cost optimisation and further growth of the Company capitalisation with due account for protection of the rights and interests of all stakeholders.

# 51%

The Company has transported of the total volume of oil produced in the Republic of Kazakhstan

# 45.4

bln. ton-km

The Company's consolidated freight turnover

# 44.7

bln. tenge

The Company's consolidated profit



Key Operating and Financial Indicators

61,001

thousand tons

Transportation volume

110,234

mln. tenge

EBITDA\*

8,129

people

Headcount

Oil transportation and water supply

Consolidated indicators	2015 plan	2015 fact	2014 fact	Change, %
Transportation volume, thousand tons	59,195	61,001	64,005	-4.7
Freight turnover, mln. ton-km	43,737	45,446	44,206	2.8
Water supply volume, thousand m³	23,190	24,998	24,815	0.7

Financial indicators

Consolidated indicators	2015 plan	2015 fact	2014 fact	Change, %
Revenue, mln. tenge	203,635	213,162	206,637	3.2
EBITDA*, mln. tenge	98,643	110,234	105,431	4.6
Cost of sales, mln. tenge	126,316	124,064	121,309	2.3
Total profit for the reporting year, mln. tenge	43,256	44,713	46,431	-3.7
Cash and cash equivalents as of the end of the year, mln. tenge	15,818	50,420	42,175	19.5

\* Indicator is calculated in accordance with the Rules for Development, Coordination, Approval, Adjustment, Execution and Monitoring of the Plans for Development of Subsidiaries of National Welfare Fund "Samruk-Kazyna" JSC.

Non-financial indicators

Company's Indicators	2015 plan	2015 fact	2014 fact	Change, %
Headcount	8,059	8,129	8,183	-0.7
Occupational accident rate, total	0	5	0	-
Emissions, tons	-	25,403	25,687	-1.1
Environmental payments, thousand tenge	-	70,782	63,406	11.6
Share of local content in the total procurements of goods, works and services, %	70	60	69	-12.1

Scheme of main pipelines of KazTransOil JSC





## The Company milestones

1997

To safeguard the interests of the Republic of Kazakhstan in the area of oil transportation, export and import of oil and oil products, KazTransOil National Oil Transportation Company CJSC (hereinafter – KazTransOil NOTC CJSC) with the 100% state participation in its authorised capital was established on the basis of the Decree of the Government of the Republic of Kazakhstan No. 461 dated April 2, 1997. At the time of its establishment KazTransOil NOTC CJSC possessed and operated more than 6,400 km of oil pipelines and more than 2,000 km of water pipelines.



2001

- The Company placed the first issue of Eurobonds on international stock markets, which have also appeared to be the first issue of corporate Eurobonds by Kazakhstani companies, totalling to 150 mln. US dollars with a 8.5% coupon. The Company fully repaid Eurobonds in 2006.
- In May, the state-owned stake in KazTransOil NOTC CJSC (renamed into KazTransOil JSC) was transferred in the authorised capital of Oil and Gas Transportation National Company Closed Joint Stock Company established pursuant to the Decree of the Government of the Republic of Kazakhstan No. 591 dated May 2, 2001. Later on, following the merger of the closed joint-stock companies Kazakhoil National Oil and Gas Company and Oil and Gas Transportation National Company, a newly established National

Company “KazMunayGas” CJSC became the sole shareholder of KazTransOil CJSC.

- In October, the Company put into operation Tengiz-Novorossiysk oil pipeline of the Caspian Pipeline Consortium (hereinafter – CPC). To provide the freight shippers with access to the CPC pipeline, KazTransOil CJSC commissioned certain facilities at its Atyrau oil pump station to transship oil coming from Uzen – Atyrau, Kenkiyak – Atyrau, Martyshi – Atyrau pipelines and by rail into the CPC system.

2009–2011

- In October 2009, KCP LLP put into operation Kenkiyak – Kumkol main pipeline.
- In June 2011, the Company received the Kazakh section of Tuimazy – Omsk – Novosibirsk-2 (TON-2) oil pipeline from KazMunayGas NC JSC as payment for the Company's shares placed in the total amount of 1,700 mln. tenge.



2012

- In June, the Company completed splitting and increased the number of authorised ordinary shares of the Company, the total amount of which as of June 30, 2012 amounted to 384,635,600 shares.
- In September, pursuant to the purchase and sale contract, the Company sold 100% of shares in KazTransOil – Service JSC to KazMunaiGas – Service LLP.
- In accordance with the Decree of the Government of the Republic of Kazakhstan No. 1273 dated October 8, 2012, the Company was appointed as the national main oil pipeline operator.

- On December 25, 2012, Kazakhstan Stock Exchange started trading the Company's ordinary shares in the secondary market, and the Company became the first company in the Republic of Kazakhstan to place its shares under the “People's IPO” Programme. In the course of subscription the Company's ordinary shares were acquired by 10 accumulative pension funds and 33,989 citizens of the Republic of Kazakhstan. The volume of orders exceeded the amount of placement by 2.1 times.

2014

In January 2014, pursuant to the Agreement signed between the Government of the Republic of Kazakhstan and the Government of the Russian Federation for cooperation in the field of the Russian oil transportation through the territory of the Republic of Kazakhstan to the People's Republic of China dated December 24, 2013, the Company started transportation of the Russian oil to the People's Republic of China through the territory of the Republic of Kazakhstan in the volume of 7 mln. tons per year.

In August 2014, as a part of measures aimed at restructuring non-core assets the Company sold 0.88% shares of Accumulative Pension Fund of Halyk Bank of Kazakhstan JSC.

1997

1998

1998

In December, the Company was included in the Republican section of the State Register of Natural Monopoly Entities in respect of a number of services the Company rendered which were classified as natural monopolies, including oil transportation through pipelines and water supply through the water pipeline system.

2001

2004

- In May, KazTransOil CJSC was renamed into KazTransOil JSC.
- NC KazMunayGas JSC granted the Company a stake of 51% of shares in NWPC MunaiTas JSC.
- The Company and CNODC established Kazakhstan–China Pipeline LLP (hereinafter – KCP LLP) on a parity basis.



2003

2004

2006

- In July, KCP LLP put into operation Atasu-Alashankou main pipeline.
- In July, the Company put into operation North Buzachi – Karazhanbas oil pipeline with a length of 25 km and design throughput of 3.5 mln. tons of oil per year.

2005

2006

2007–2008

In January 2007, the Company acquired 50% of shares of Batumi Capital Partners Limited Company. In February 2008, the Company received a certificate for 100% stock of shares of Batumi Industrial Holdings Limited Company. As a result of the transaction, the Company acquired the assets of Batumi Oil Terminal LLC and exclusive rights to manage Batumi Sea Port for a period of 49 years.

2007

2008

2009

2010

2011

2013

- Starting from February 1, 2013 the Company's ordinary shares have been included in the representative list of shares used to calculate the KASE index.
- In December, Batumi Industrial Holdings Limited, Batumi Capital Partners Limited and Batumi Services Limited companies were reorganised through their accession to Batumi Terminals Limited Company (hereinafter – BTL). As a result of the reorganisation the Company has become

an owner of 100% of shares of Batumi Terminals Limited Company (Cyprus), through which it exercises direct ownership and control over production assets located in Georgia – Batumi Oil Terminal and Batumi Sea Port.

- On December 25, 2013, the process of accession of Batumi Oil Base LLC to Batumi Oil Terminal LLC has been completed.



2014



# 1935

Construction of Kazakhstan's first trunk pipeline "Caspian – Orsk" was completed in December 1935 and oil from Emba oil fields started to be transported through the pipeline to the refinery in Orsk.



Prior to construction of the oil pipelines, oil was transported to the refineries in wooden barrels. In 1872, the US Association of Petroleum Producers officially approved a wooden 42-gallon (159 liters) barrel as an oil standard. In remembrance of those times we have got a measuring unit for oil production volume, which is widely spread in today's world practice - oil barrel

## 1. ABOUT THE COMPANY

- 1.1. Key events during 2015
- 1.2. Business model
- 1.3. Organisational structure
- 1.4. State regulation of the industry and tariffs
- 1.5. Market review
- 1.6. Development strategy and mid-term plans



## 1.1. Key events during 2015

### February

#### Energy saving and energy efficiency

The Company was among the first enterprises in Kazakhstan that completed energy audit at its facilities. Based on the energy audit findings, the Company has developed the Action Plan for energy saving and energy efficiency enhancement for 2015–2019, which was delivered to the State Energy Register operator together with the report.

The energy audit was conducted pursuant to the requirements of the Law of the Republic of Kazakhstan “On Energy Saving and Energy Efficiency Enhancement” aimed at establishing a comprehensive legal framework in energy saving and forming the national infrastructure in energy saving to ensure transition of the economy of Kazakhstan to energy-efficient development.

#### Credit rating

Standard & Poor’s international rating agency downgraded the Company’s credit rating from “BBB–” to “BB+”, the outlook – “Negative”.

Downgrade of the Company’s credit rating was caused by the downgrading of the Republic of Kazakhstan and NC KazMunayGas JSC. The rating level is determined on the Company’s status as a strategically important subsidiary of NC KazMunayGas JSC and a high probability that the Company will receive the timely and sufficiently urgent aid from the state, if necessary.

### April

#### Credit rating



Moody’s rating agency confirmed the Company’s credit rating at the level of “Baa3” and changed the outlook to “Stable”. The change in the Company’s outlook has been due to change in the outlook of the sovereign credit rating of the Republic of Kazakhstan. The “Stable” outlook reflects the agency’s opinion that the Company retains strong relations with the Government of the Republic of Kazakhstan, which will provide aid to the Company in case of financial difficulties.

### May

#### Annual meeting of shareholders



An Annual General Meeting of the Company’s shareholders devoted to the results of 2014 was held in Astana.

During the meeting, the shareholders approved the annual financial statements, consolidated annual financial statements, the Company’s annual report for 2014 and annual report of the Company’s Board of Directors on its activities during 2014.

In addition, the Company’s shareholders approved the procedure of allocation of net profit for 2014, adopted a resolution to pay dividends on ordinary shares on a year-to-year basis in the amount of 46.4 bln. tenge and approved the amount of dividend for 2014 at the rate of 120.71 tenge per one ordinary share of the Company.

#### Tariff regulation



In May 2015, amendments were made to the Law of the Republic of Kazakhstan “On Natural Monopolies and Regulated Markets”, according to which an oil transportation services performed for the purpose of oil transit through the territory of the Republic of Kazakhstan and export outside the Republic of Kazakhstan were excluded from the scope of natural monopolies.

### July

#### Kazakhstan-China oil pipeline



The Company completed reconstruction of Barsengir – Atasu section of Pavlodar – Shymkent main oil pipeline. The project was implemented to ensure throughput capacity of the stated oil pipeline up to 20 mln. tons per year in the reverse direction throughout the section of HOPS named after B. Dzhumagaliyev – Barsengir OPS – HOPS Atasu. The works were performed as part of the project “The second stage of the second phase of Kazakhstan–China oil pipeline construction. Increase in productivity up to 20 mln. tons per year.”

### August

#### Tariff regulation

The Committee on Regulation of Natural Monopolies and Protection of Competition of the Ministry of National Economy of the Republic of Kazakhstan (hereinafter – CRNM) approved the limit tariffs and tariff estimates for the regulated service for oil pumping to the domestic market of the Republic of Kazakhstan through the main pipeline system of the Company for 2015–2019.

### September

#### Credit rating

Fitch Ratings international rating agency confirmed the Company’s credit rating at the level of “BBB”; the outlook – “Stable”. The Company’s ratings reflect the strong operating performance and creditworthiness indicators, which in the opinion of Fitch Ratings would remain unchanged at least in the medium term, and take into account the strategic importance of the Company for the economy of Kazakhstan.

#### International cooperation



The Company became a member of the International Association of Oil Transporters. The Association was established to render assistance in coordination of efforts for efficient development of oil transportation systems owned by the member companies and enhancement of stability of the international oil transportation. The following companies are also the members of the Association: Transneft OJSC (Russia), Transpetrol JSC (Slovakia), Gomeltransneft Druzhba OJSC (Belarus), MERO ČR JSC (Czech Republic) and MOL Hungarian Oil&Gas (Hungary).

### December

#### Delivery of a certificate



A ceremony was held to deliver certificates of compliance of the Company’s integrated management system (hereinafter – IMS) with an international standards ISO 9001:2008, ISO 14001:2004, OHSAS 18001:2007, ISO 50001:2011 in the international system of management systems certification. It should be noted that it was the first time when the Company received the energy management system certificate corresponding to the international standard ISO 50001:2011.

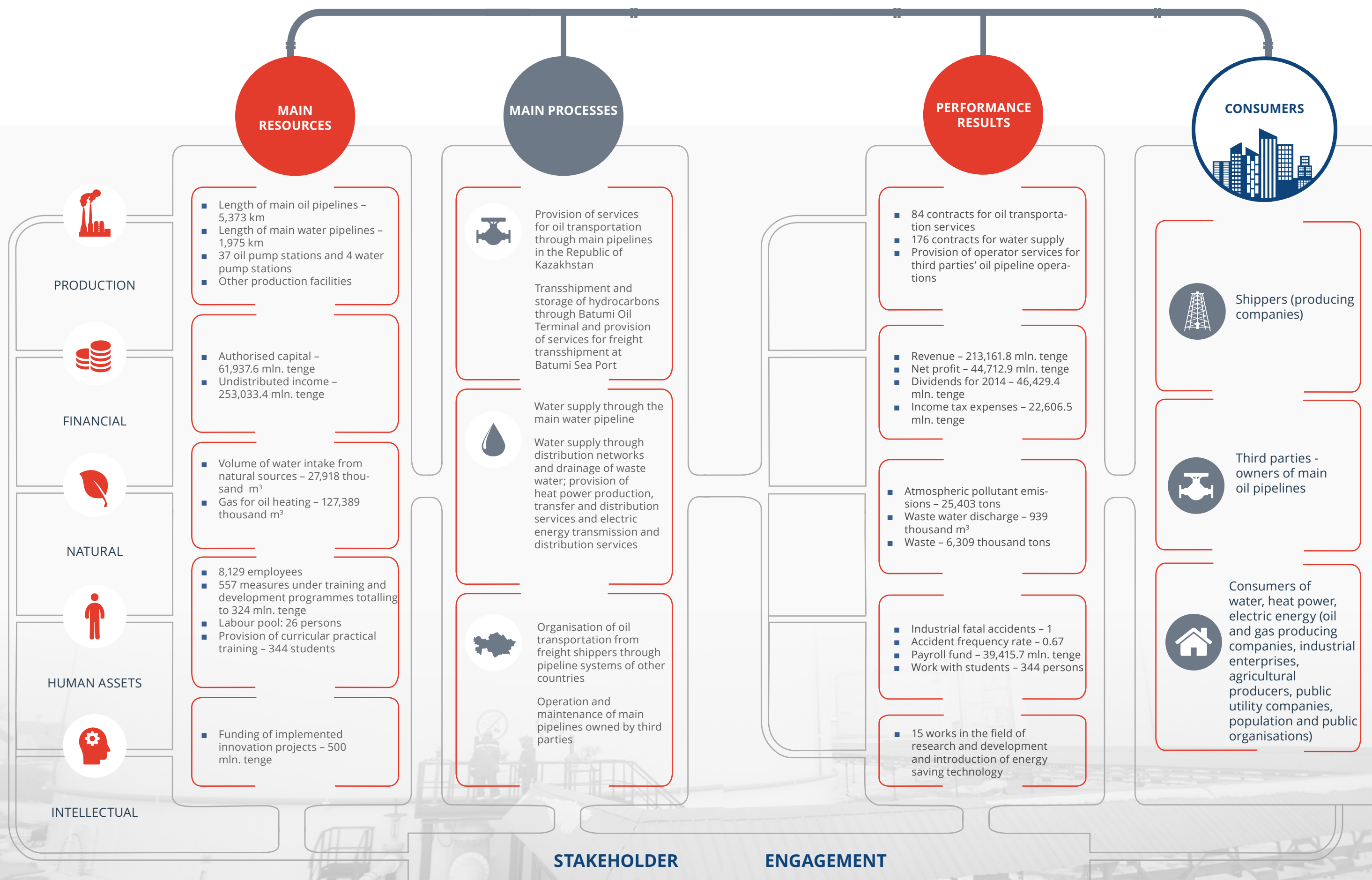
#### Personnel changes

On December 15, 2015, according to the resolution of the Board of Directors of the Company, the powers of the General Director (Chairman of the Management Board) of the Company Kairgeldy Kabyldin were terminated ahead of time in accordance with his application.

On December 16, 2015, Nurtas Shmanov was elected as the General Director (Chairman of the Management Board) of the Company.

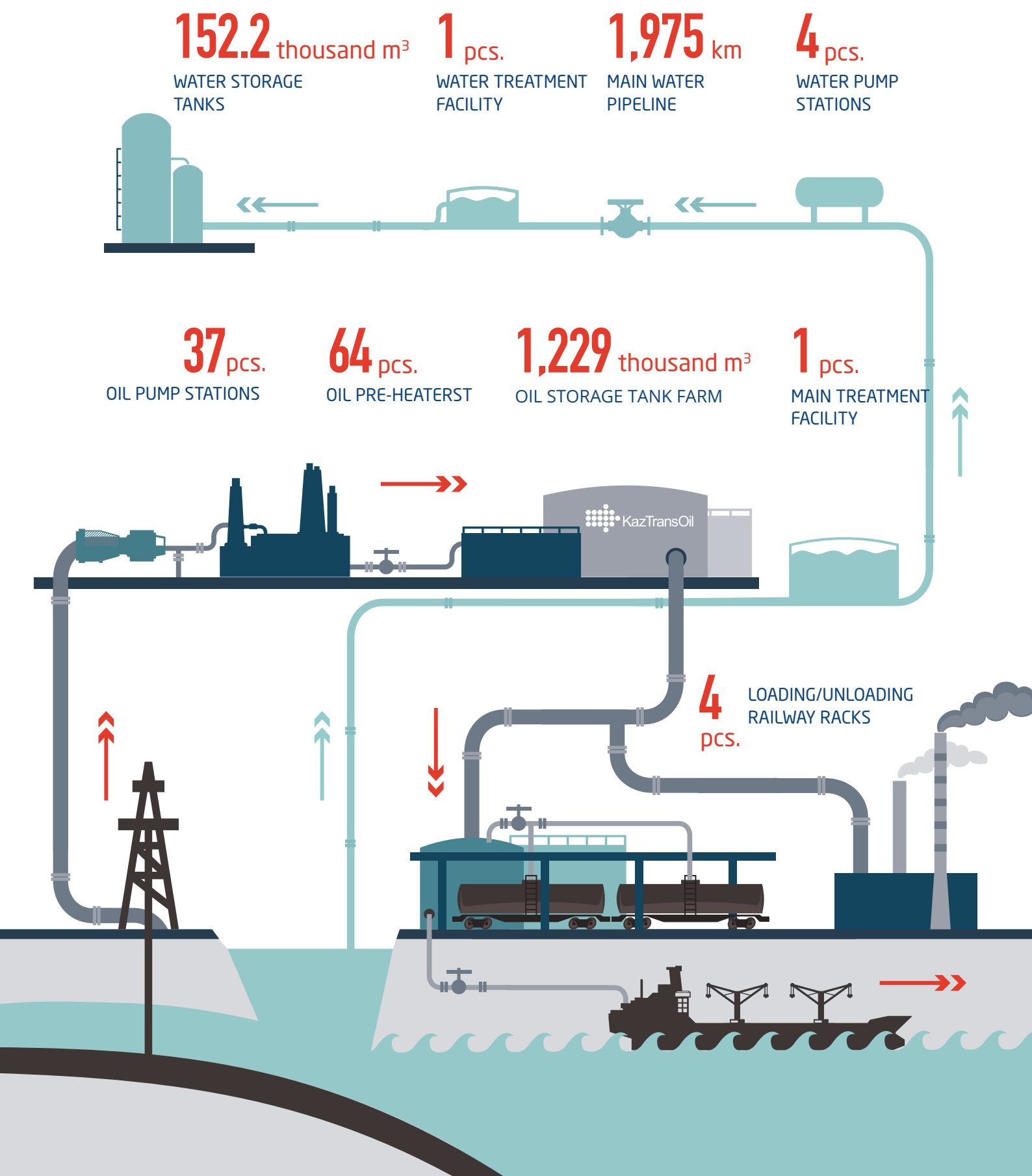
On December 18, 2015, the composition of the Board of Directors of the Company changed due to the fact that Moustafa Habib, a member of the Company’s Board of Directors, submitted a written notice of early termination of his powers as a member of the Board of Directors of the Company.

## 1.2. Business model





## Production facilities



Consumers of the Company's oil transportation services are the oil producing companies of the Republic of Kazakhstan and the Russian Federation, with which the Company has signed 84 contracts for oil transportation services.

Oil transportation and transshipment through main pipelines are provided by 37 oil pumping stations, 64 oil pre-heaters and oil storage tank farm of total capacity of 1,229 thousand m<sup>3</sup>. Oil transshipment into other types of transportation vehicles is provided by 4 loading/unloading railway racks, appropriate oil loading equipment installed on berths of the onshore oil loading terminal at Aktau Sea Port.

The Company additionally provides water supply services to oil and gas producing companies, industrial and public utility enterprises and agricultural producers of Atyrau and Mangistau regions, with which the Company has signed 176 contracts.

Water supply is provided by the 1st and 2nd water lift pump stations at Kigach operating-dispatching station, 8 water pumping stations (Kulsary), WPS Karazhanbas water pumping stations and Kulsary water treatment plants, and by water storage tanks of total capacity of 152.2 thousand m<sup>3</sup>.

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

# 5,373

km

The length of main oil pipelines

At the beginning of 2015, the total length of the Company's main oil pipelines amounted to 5,699 km. As of the end of 2015, the length of main oil pipelines was 5,373 km. Decrease in the length was caused by disposition of sections of Kenkiyak – Orsk (2-line), Shymkent – Chardzhou main oil pipelines and Dossor – Makat oil pipeline, wherein a newly constructed Uzen – Zhetybai – Aktau main oil pipeline has been put into operation.

## 1.3. Organisational structure

The Company's business structure allows monitoring the processes along the entire chain of oil transportation through the main pipelines.

The Company has four branches: the Western and Eastern Branches, the Main Information and Computing Centre and the Scientific-Techni-

cal Centre. In addition, the Company has three representative offices in the Russian Federation in the cities of Moscow (on March 14, 2016, the

Board of Directors of the Company adopted a resolution to close Moscow representative office), Samara and Omsk.

### Western Branch

The Western Branch is a business unit of the Company established in 1997 on the basis of Yuzhnefteprovod Production Association. The administrative office of the Western Branch is located in Atyrau.

Currently the Western Branch has:

- 4,959 employees;
- 2,626 km of main oil pipeline system;
- 1,975 km of water pipeline system;

- oil pipeline departments in Mangistau, Atyrau, Kulsary, Uralsk and Aktobe, Kigach linear operating-dispatching station and the Operator Service Administration of the Western Branch;
- production and technical support and equipment configuration base.

# 2,626

km

Main oil pipeline system of the Western Branch

# 1,975

km

Water pipeline system of the Western Branch

## Eastern Branch

The Eastern Branch is a business unit of the Company established in 1997 on the basis of the Main Pipelines of Kazakhstan and Central Asia Production Association. The administrative office of the Eastern Branch is located in Pavlodar.

Currently the Eastern Branch has:

- 2,710 employees;

- 2,711 km of main oil pipeline system;
- oil pipeline departments in Pavlodar, Karaganda, Zhezkazgan and Shymkent, Peterfeld linear operating-dispatching station and the Operator Service Administration of the Eastern Branch;
- production and technical support and equipment configuration base.

# 2,711

km

Main oil pipeline system of the Eastern Branch

## Main Information and Computing Centre

The Main Information and Computing Centre (hereinafter – MICC) is a business unit of the Company, whose main objective is to ensure a reliable and efficient operation of the information systems, automated process control systems and production-technological

communication system associated with oil transportation through the Company's main pipelines. The MICC is located in Astana.

Currently, the MICC has:

- 87 employees;

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

## Scientific-Technical Centre

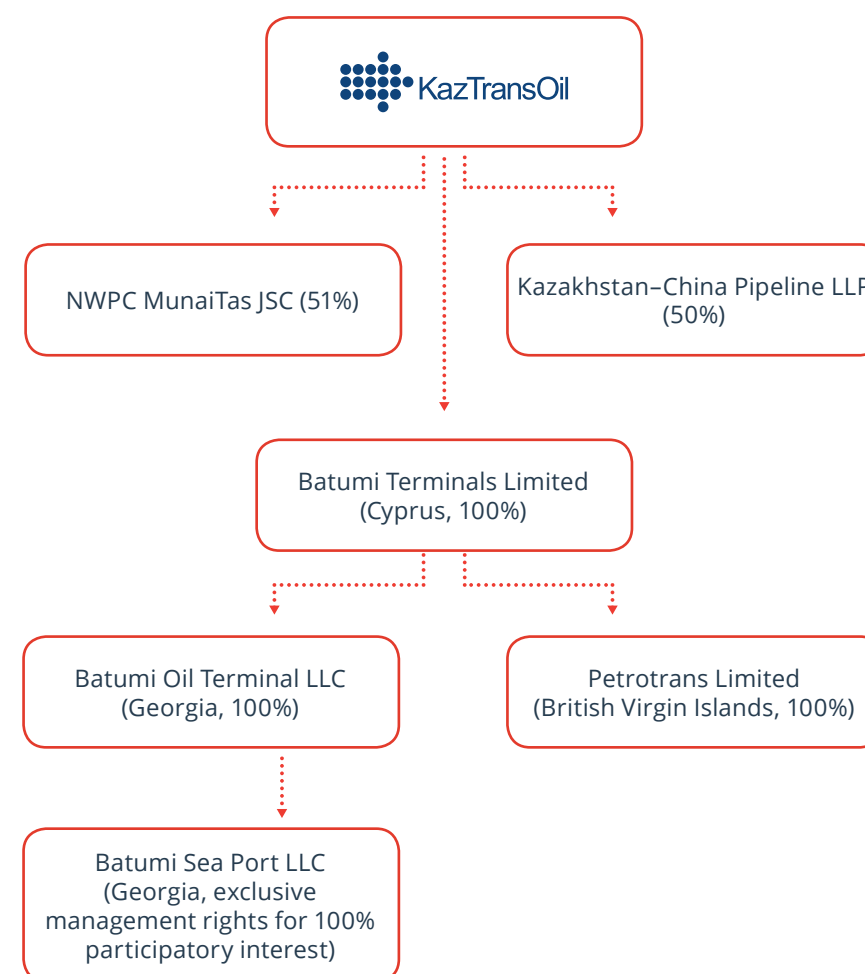
The Scientific-Technical Centre (hereinafter – the STC) is a business unit of the Company, whose main purpose is to carry out research and development, design and survey and engineering works aimed at improving the efficiency of the Company's operations through the formation of scientifically grounded development directions as well as through the search and development of new technologies and technical solutions with their subsequent implementation in the main oil pipeline system of the Company.

Currently, the STC has:

- 88 employees;
- central laboratory consisting of three laboratory groups: pipeline transportation problems, physical-chemical analysis and ecology, and corrosion protection;
- group of the chief project engineers, group responsible for preparation, compilation and issue of design and estimate documentation, topographic survey group;
- comprehensive planning department consisting of 9 groups;

- departments of normative and production documentation, innovation process development and environmental safety;
- metrology service.

## Information on subsidiaries and jointly controlled entities of the Company



## Restructuring of the Company's assets:

In 2015, KCP Finance B.V. (the Netherlands), a wholly-owned subsidiary of KCP LLP, was dissolved as the loans, for raising of which it had been established, were repaid

In November 2015, the Company in its capacity of a sole shareholder adopted a decision on voluntary dissolution of BTL Company, following which the Company will become a direct owner of Batumi Oil Terminal and Petrotrans Limited Company.

In addition, in 2015, as a part of execution of assignments given at the enlarged meeting of the Government of the Republic of Kazakhstan held under the chairmanship of the Head of State on November 18, 2015 concerning the closure of representative offices in foreign states, the Company started optimizing the number of its foreign representative offices.



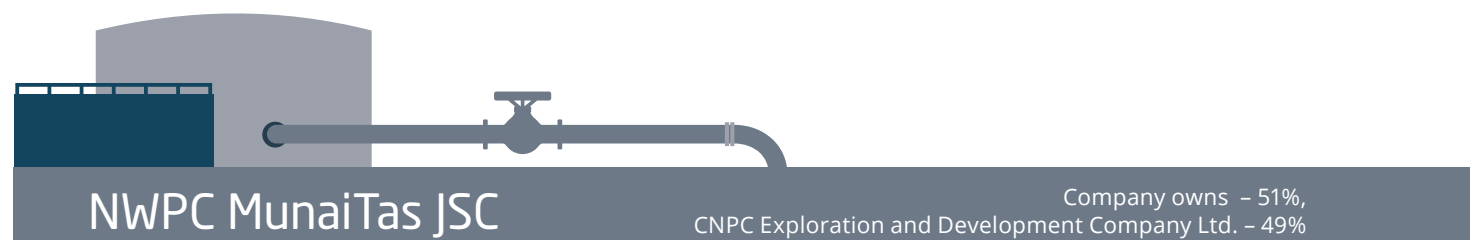


## Activities of subsidiaries and jointly controlled entities of the Company

**40** thousand m<sup>3</sup>  
TANK FARMS

**448.9** km  
KENKIYAK – ATYRAU  
MAIN OIL PIPELINE

	2015	2014
Transportation volume, thousand tons	<b>3,744</b>	<b>3,026</b>
Freight turnover, mln. ton - km	<b>1,467</b>	<b>1,159</b>
Net profit, mln. tenge	<b>5,364.9</b>	<b>1,442.5</b>



**794.1** km  
KENKIYAK – KUMKOL  
MAIN OIL PIPELINE

**965.1** km  
ATASU – ALASHANKOU  
MAIN OIL PIPELINE

	2015	2014
Transportation volume Kenkiyak – Kumkol, thousand tons	<b>6,232</b>	<b>6,112</b>
Transportation volume Atasu – Alashankou, thousand tons	<b>11,782</b>	<b>11,812</b>
Freight turnover Kenkiyak – Kumkol, mln. ton - km	<b>4,293</b>	<b>4,165</b>
Freight turnover Atasu – Alashankou, mln. tons-km	<b>11,731</b>	<b>11,400</b>
Net loss, mln. tenge	<b>89,143</b>	<b>13,972</b>

**4** units  
OIL PUMP STATIONS

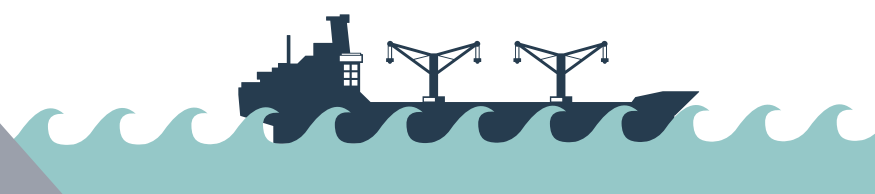


 **BATUMI SEA PORT**

**BATUMI OIL TERMINAL**

	2015	2014
Transshipment volume, thousand tons	<b>6,799</b>	<b>7,657</b>
Net profit, mln. tenge	<b>2,698</b>	<b>5,916</b>

**BTL**  
Company owns 100%



## 1.4. State regulation of the industry and tariffs

The basic principle of tariffs setting is as follows: tariffs and their frontiers shall not be lower than the costs required to provide regulated services, and shall consider a possibility of profit generation to ensure effective operations of a natural monopoly entity.

In accordance with the legislation of the Republic of Kazakhstan, the Company is a natural monopoly in the following areas:

- services of oil and/or oil products transportation through main

pipelines except for their transportation for the purpose of transit through the territory of the Republic of Kazakhstan and export outside the Republic of Kazakhstan;

- services of electric power transfer and/or distribution;
- services for heat power production, transfer, distribution and/or supply;
- services of water supply and/or sewerage systems.

### Tariffs for services for oil pumping through the main oil pipeline system

Period of validity	Tariff per 1 ton/1,000 km excluding VAT, tenge	
	for export	to domestic market
from January 1, 2015	5,817.20	2,931.80
from July 1 till July 7	5,817.20	2,921.94
from July 8, 2015	5,817.20	2,931.80
from October 1, 2015	5,817.20	3,225.04

### Tariffs for services for water supply through the main water pipelines

Consumer groups	Tariff, tenge/m³ excluding VAT			
	process water		drinking water	
	by sections			
	0–449 km	449 km-end consumers	Kulsary-Sargamys	Kigach LODS
Population, state-financed and non-commercial organisations	18.72	20.92	39.08	39.08
Agricultural producers	67.38	151.49	95.56	
Industrial enterprises	247.12	386.5	353.89	
Oil and gas producing companies	338.54	522.85	495.15	

### Basic changes in tariff setting:

- In May 2015, the concept of the regulated low-yield services was introduced, the proceeds from such services do not exceed 5% of all regulated services (all services provided by the Company, except for oil pumping to the domestic market, water supply through the main water pipeline and oil transshipment at HOPS Atasu). The Company has the right to index independently its tariffs on low-yield services on the annual basis within the inflation rate.

- Pursuant to amendments to the Law of the Republic of Kazakhstan "On Natural Monopolies and Regulated Markets" adopted in May 2015, oil transportation services performed for the purpose of transit through the territory of the Republic of Kazakhstan and for export outside the Republic of Kazakhstan have been excluded from the scope of natural monopolies.
- In June 2015, according to the order of the General Director (Chairman of the Management Board) of the Company the following tariffs for oil pumping through

the Company's main pipelines were approved:

- for export outside the Republic of Kazakhstan – 5,817.2 tenge per 1 ton/1000 km, excluding VAT, effective from July 1, 2015 (remained at the previous level);
- for transit through the Republic of Kazakhstan via the Kazakh section of TON-2 main pipeline – 1,727.1 tenge per 1 ton/1000 km, excluding VAT, effective from June 26, 2015 (remained at the previous level);

- A temporary compensating tariff for the regulated service of oil pumping to the domestic market in the amount of 2,921.94 tenge per 1 ton/1000 km, excluding VAT, was in effect from July 1 to July 7, 2015. The tariff was approved by the order of Chairman of the CRNM dated June 19, 2015, and was suspended by a similar order dated July 8, 2015.
- In August 2015, Chairman of the CRNM issued an order to approve frontier tariffs and tariff estimates for the regulated service of oil pumping to the domestic market of the Republic of Kazakhstan through the Company's main pipeline system for 2015–2019 effective from October 1, 2015 (subject to annual growth rate by 10%).
- In October 2015, acting Chairman of CRNM issued an order to approve tariffs for water supply through the Company's main pipelines for 2015–2019 effective

from December 1, 2015 (the tariff increased by 10%).

- In October 2015, the General Director (Chairman of the Management Board) of the Company issued the orders to approve tariffs for additional oil transportation services (unloading, loading, transshipment, storage, operator activities in the field of single oil routing) effective from December 1, 2015.

## 1.5. Market review

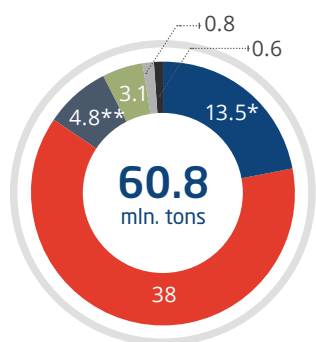
At the end of 2015, the Republic of Kazakhstan produced 79.5 mln. tons of oil and gas condensate, of which 60.8 mln. tons were exported.

The main export routes for oil transportation from the Republic of Kazakhstan are CPC pipeline, Atyrau –

Samara and Atasu – Alashankou oil pipelines. The European markets account for about 90% of the total

export volume in the current structure of Kazakhstan oil export.

Export volumes of Kazakhstan oil and gas condensate in 2015, mln. tons



Export direction:

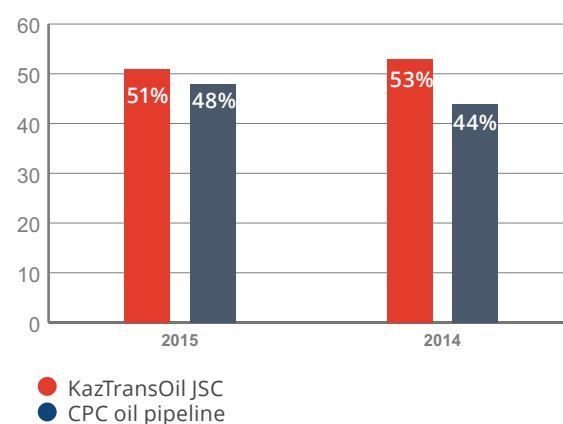
- Atyrau-Samara oil pipeline
- CPC oil pipeline
- Atasu-Alashankou oil pipeline
- Aktau Port
- Railroad
- Orenburg Gas Processing Plant

\* transportation volume amounted to 15.7 mln. tons, including counter-deliveries to the Russian Federation in the amount of 2.2 mln. tons and Pavlodar Petrochemical Plant in transit through the territory of the Russian Federation on the route: Samara – TON-2 – Priirtyshsk – Pavlodar Petrochemical Plant LLP (hereinafter – PPCP) in the amount of 0.05 mln. tons;

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

Source: Information and Analytical Oil and Gas Centre JSC

The Company's share in transportation of Kazakhstan oil, %



In 2015, the main oil pipeline system of KazTransOil JSC transported 47.5 mln. tons of oil, including 7.0 mln. tons of the transit Russian oil. The Company's share in transportation of Kazakhstan oil (excluding transit volumes of the Russian oil) is 51% of the total oil volume produced in the Republic of Kazakhstan (2014 – 53%). A share of Kazakhstan oil transported through the oil pipeline of CPC – major competitor of the Company – increased to 48% (2014 – 44%).

At the same time, certain trends have appeared (see below), which may cause changes in the Company's market share in the medium-term.

According to the predictive plan of the Ministry of Energy of the Republic of Kazakhstan, the oil production volume will increase to 92.0 mln. tons in 2020, mainly due to increase in oil output at Tengiz and Kashagan oil fields.

The volume of domestic consumption is predicted at the level of 18.5 mln. tons. Accordingly, the export volume will increase to 73.5 mln. tons per year.

Currently, the work is carried out to implement the project aimed at increasing a throughput capacity of the CPC pipeline to 67 mln. tons per year, including that for Kazakhstan oil up to 52.5 mln. tons per year (the project is expected to be completed in 2016).

In addition, the project of expansion of Kazakhstan–China oil pipeline is implemented on a phased basis, which will provide capacities for export of oil produced in Western Kazakhstan to the People's Republic of China (hereinafter – the “PRC”) and supply to Pavlodar and Shymkent refineries.

As a result, the total throughput capacity of export pipeline routes will reach 90 mln. tons per year.

Therefore, a surplus of export pipeline capacities will be observed during the next few years thus enabling the oil producing companies of Kazakhstan to select the direction of transportation. This, in its turn, will result in decrease of volumes of oil transported by rail roads and via the Caspian Sea and re-orientation at more favourable pipeline routes.

Given the fact that the main portion of additional volumes of oil from Tengiz and Kashagan oil fields is expected to be exported through the CPC oil pipeline, the Company's share in the volume of Kazakhstan oil transportation will reduce to less than 50% in the mid-term.

Under these circumstances, the Company's operations will be aimed at ensuring competitiveness of its oil transportation services, including through further enhancement of the production efficiency, introduction of a flexible tariff policy and improvement of service quality.

In addition to changes in the competitive environment, the oil transportation market has been significantly affected by changes in the external environment.

Thus, the key external factor that had significant impact on the Company's performance in 2015 was a sharp decline in global oil prices. The decline necessitated the revision of budgets of oil producing companies, including those, which are members of the group of companies of NC KazMunayGas JSC, and caused changes in oil production and delivery forecasts.

Change in the economic situation of the Republic of Kazakhstan resulted in devaluation of the national currency against the US dollar.

As the Company's tariffs for oil export deliveries are denominated in tenge, the attractiveness of export deliveries through Atyrau-Samara oil pipeline increased for a number of shippers as opposed to deliveries through the CPC oil pipeline, where the transportation tariff is denominated in US dollars.

At the same time, the national currency devaluation had a negative impact on the financial stability of companies that had debt obligations denominated in foreign currency. Thus, in 2015 KCP LLP incurred considerable foreign exchange loss.



## 1.6. Development strategy and mid-term plans

### Mission

The Company's mission is to provide maximum benefits to the Republic of Kazakhstan by rendering qualitative, timely, effective and competitive services of oil transportation through the main oil pipeline system, while providing the consumers with equal access to the regulated services rendered by the Company.

### Vision

KazTransOil JSC is a competitive and fast-growing company that provides a wide range of oil transportation services using a modern, diversified pipeline system and complies with the best practice of industrial safety and environmental protection.

### Goals and objectives:

The strategic goal of the Company is to increase its market value (capitalisation) and meet the strategic interests of the state in the area of oil

transportation through the main oil pipeline.

The Company has identified the following strategic directions in its development:

- Oil transportation;
- Water supply;
- Enhancement of the management efficiency.

To achieve the strategic goal, the Company exerts efforts to fulfil the targets:

- to increase the oil transportation volumes and oil freight turnover by rendering competitive, reliable and safe services;
- to enhance performance efficiency and cost optimisation of the Company and its subsidiaries and jointly controlled entities;
- to pursue an effective investment policy and participate in major transportation projects;
- to develop a thought-out financial strategy aimed at maintenance of stable cash flows;
- to establish an effective and transparent structure of assets;

- to develop innovations and technologies;
- to maintain the high standards of corporate governance and risk management;
- to focus on sustainable development, including effective management of human resources, further improvement of operations in the area of occupational health and safety, industrial and fire safety and environmental protection.

### Mid-term plans:

#### 1. To ensure technical ability for oil delivery from the western regions to PPCP (north-east of Kazakhstan) and PetroKazakhstan Oil Products LLP (hereinafter – PKOP) (south-east of Kazakhstan).

This issue relates to the need to implement the project for expansion of Kazakhstan–China oil pipeline; therefore, the Company will continue cooperation with Chinese partners for further development of this investment project;

- in 2016 the Company intends to complete construction and reconstruction of its facilities –

OPS 663 km and HOPS – Kenkiyak designed for reverse and expansion of Kenkiyak-Atyrau oil pipeline and increase in capacity of Kenkiyak-Kumkol oil pipeline;

- the Company will continue its efforts to raise the attractiveness of this route, in particular, export to the PRC for potential shippers from Western Kazakhstan.

#### 2. To strengthen the transit potential:

- in the 3rd quarter of 2016 the Kazakh and Russian parties will complete the reconstruction of TON-2 (Tuimazy-Omsk-Novosibirsk) oil pipeline, which will allow increasing the Russian oil transit volume and ensuring supply of Western-Kazakhstan oil to the refineries of the Republic of Kazakhstan through the territory of the Russian Federation.

#### 3. To optimise the activity and enhance efficiency:

- the Company is actively involved in elaboration of the issues related to improvement

of business functions as a part of the transformation programme implemented by NC KazMunayGas JSC. Based on results of completion of the diagnostics phase the Company is planning to take an active part in the design and implementation of new initiatives to modify business processes planned for 2016–2017;

- the Company is implementing measures to improve performance efficiency, including enhancement of control and optimisation of costs determined by the Cost Management Programme of KazTransOil JSC. Currently, the Company is in the process of implementation of the Cost Management Programme for 2016–2020, which aim is to optimize and reduce production costs by more than 23.5 bln. tenge during the specified five-year period due to decrease in specific consumption of resources at the place of production and decrease in unutilised assets as we as through cutting the costs not included in the tariff estimates;

- in 2016, the Company is planning to review the additional initiatives aimed at improving the operating efficiency of KazTransOil JSC and develop a medium-term action plan, which will allow significant improvement of the performance indicators as compared to foreign peers (Transneft OJSC and others).

#### 4. To increase operating efficiency in subsidiaries and jointly controlled entities of the Company.

In this regard, certain measures are to be implemented during the planned period to improve the level of corporate governance and analysis is to be made with respect to possible measures to reduce a negative impact of the national currency devaluation upon KCP LLP. Moreover, the voluntary dissolution of BTL company is planned to be completed in 2016, which will make possible further optimisation of operations and costs of BTL Group of companies.





## 1960–1990

*The milestones in the history of development of Kazakhstan pipeline transport happened during 1960–1990. At that time such pipelines as Uzen – Zhetybai – Aktau, Omsk – Pavlodar, Pavlodar – Shymkent, Shymkent – Chardzhou, Prorva – Kulsary, Kumkol – Karakoin, Tengiz – Atyrau – Astrakhan – Grozny and others were put into operation.*



*The US petroleum producers were the first who managed to implement the idea of oil transportation by pipelines; in the 1860s, they constructed the 8 km oil pipeline from an oil field in Pennsylvania to the nearest railway station.*

## 2. OPERATING ACTIVITIES

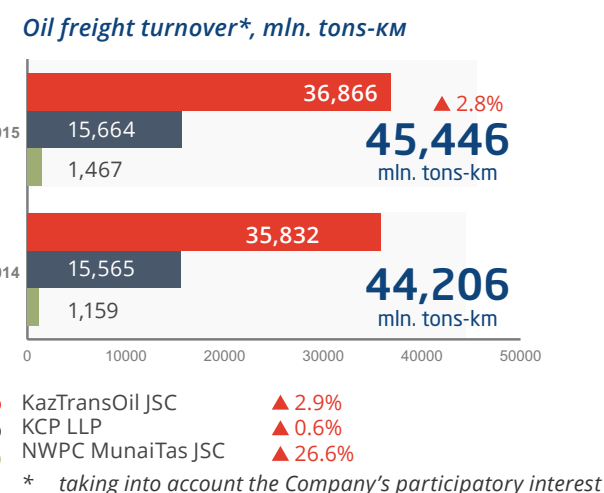
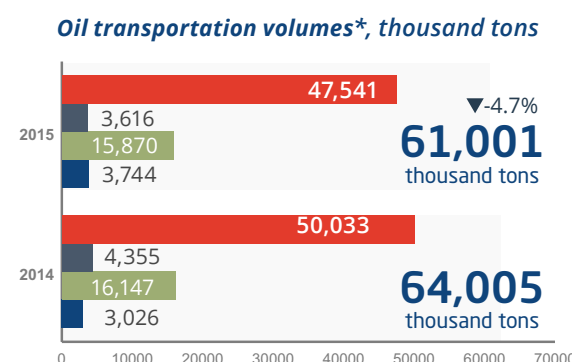
- 2.1. Oil transportation and water supply
- 2.2. Operation of the main oil pipelines owned by third parties
- 2.3. Investment activities
- 2.4. Innovation activities
- 2.5. Risk management
- 2.6. Assets security
- 2.7. Information security
- 2.8. Information on the Company' supply chain and local content in procurement of goods, works and services



## 2.1. Oil transportation and water supply

During 2015, the consolidated oil transportation volume amounted to 61,001 thousand tons. The transportation volume decreased by 4.7% as compared with the similar indicator of the previous year, which was 64,005 thousand tons as a result of reduction in oil custody transfer to the main oil pipeline system on the part of oil producing companies.

At the same time, during 2015 the consolidated oil turnover increased by 2.8% versus the previous year and amounted to 45,446 mln. ton-km



**Oil transportation volumes through the KazTransOil JSC system by directions and consumers, thousand tons**

Direction	2015	2014	Change, %
Atyrau Oil Refinery LLP	4,767	4,789	-0.50
PetroKazakhstan Oil Products LLP	4,449	4,790	-7.10
Pavlodar Petrochemical Plant LLP	4,805	4,861	-1.20
Atyrau-Samara oil pipeline	15,702	14,641	7.20
Loading into tankers at HOPS Aktau	2,881	5,195	-44.50
Transshipment into Atasu-Alashankou oil pipeline	11,794 (including transit – 6,992)	11,824 (including transit – 6,992)	-0.30
Transshipment into CPC	2,779	2,948	-5.73

Increase in oil deliveries through Atyrau-Samara oil pipeline by 7.2% was due to re-distribution of transportation volumes from other directions (such as CPC, Aktau Sea Port and others). Besides, the increase was affected also by commencement of Kazakhstan oil deliveries to PPCP in transit through the territory of the

Russian Federation along the route of Atyrau – Samara – TON-2 – PPCP.

Reduction in the volume of tanker loading at Aktau Sea Port by 44.5% was caused by decrease in oil delivery and re-distribution of volumes to other directions.

In 2015, the volume of water supply amounted to 24,998 thousand m³ and increased by 0.7% as compared to the last-year indicator – 24,815 thousand m³. The main factor of increase in the water supply volumes as compared to 2014 is increase in water intake by oil and gas producing companies.

## 2.2. Operation of the main oil pipelines owned by third parties

The Company, as a part of operation of the third party main oil pipelines, runs the oil pipelines of Kazakhstan–China Pipeline LLP, NWPC MunaiTas JSC, Karachaganak Petroleum Operating B.V. and Turgai-Petroleum JSC with total length of 2,857.6 km. In 2015, 951 employees of the Company were involved in this activity.

To comply with the legislative requirements of the Republic of Kazakhstan concerning separate cost accounting and to differentiate clearly the functions between the core activity and operator services, and to expand further the operator services in accordance with the strategic development plans, the Company made a decision to reorganise and improve the organisation structure of its business units involved in providing the operator services.

In December 2015, the Company established the Operator Service Department in the central office and the operator service units in the administrative offices of the Western and Eastern branches, on the basis of the existing business units.

The structure of the operator service has been reorganised to optimise the budgets for operation of the third party main oil pipelines, reduce the service costs, including overheads, improve quality of the service and ensure the centralised management

# 2,857.6

km

Operation of main oil pipelines owned by third parties

of operator's activities and clear differentiation between the core activity and operator services.



## 2.3. Investment activities

During 2015, the Company continued implementing the investment programme aimed at realisation of perspective investment projects and maintenance of the current production level.

All investment projects of the Company are developed in compliance with the corporate procedures and undergo expert examination as required by the current legislation, including in terms of compliance with the environmental and industrial safety requirements and the cost of construction.

The Company finances the investment projects at the expense of its own funds, without using the budget (state) funds.

### Expansion of Kazakhstan-China oil pipeline

One of the most important investment projects of the Company is the project "The second stage of the second phase of Kazakhstan-China pipeline construction. Increase in productivity up to 20 mln. tons/year". This project has been implemented to diversify the directions of export oil deliveries and create a possibility to provide the refineries of the Republic of Kazakhstan with the domestically produced oil as a part of the activity aimed at ensuring the national energy security.

The project participants are KazTransOil JSC, Kazakhstan-China Pipeline LLP and NWPC MunaiTas JSC, each of the participants owns a relevant section of the Kazakhstan-China oil pipeline.

In 2015, as a part of the project implementation, the Company completed reconstruction of the linear section of Pavlodar-Shymkent oil pipeline at Barsengir OPS – HOPS Atasu section (replacement of 19 km of the pipeline). In addition, the Company continued reconstruction and expansion of OPS 663 km and reconstruction of HOPS Kenkiyak.

In 2015, totally 16,948.2 mln. tenge were spent under the project, including 16,914.2 mln. tenge spent by entities of KazTransOil JSC, and 34 mln. tenge spent by Kazakhstan-China Pipeline LLP for allocation of land plots for facilities of Kazakhstan-China Pipeline LLP, and by NWPC MunaiTas JSC.

### Reconstruction of main oil pipelines including pipe replacement

During 2015, to ensure reliable and safe operation of production facilities the Company made the following arrangements:

- replacement of pipes at Karazhanbas-Aktau section of Kalamkas – Karazhanbas – Aktau oil pipeline with a total length of 129.5 km. In 2015, 13,404 mln. tenge, excluding VAT, were spent under the project and an oil pipeline section with a length of 54 km and worth of 9,948 mln. tenge was put into operation;

# 78,142.2

## mln. tenge

Total capital investments

- overhaul, including replacement of the linear section of TON-2 main oil pipeline with a total length of 145.6 km. In 2015, 26,649 mln. tenge was spent under the project and an oil pipeline section with a length of 102.6 km and totalling to 20,304 mln. tenge, excluding VAT, was put into operation. Implementation of the project for reconstruction of TON-2 oil pipeline will allow for oil delivery from Western Kazakhstan to the refineries of the Republic of Kazakhstan through the territory of the Russian Federation and increase the volume of transit of the Russian oil to the People's Republic of China.

### Development of the foreign assets

In 2012, the Company started implementing the project "Expansion of the throughput capacity of Batumi Sea Port LLC for dry freight transshipment up to 2.5 mln. tons per year".

To date, implementation of this project has significantly improved technical and operational capabilities for dry freight transshipment at the port, in particular:

- outdoor storage areas have been increased by 5 thousand sq. m. for transshipment of bulk and loose freight. To expand the storage area, the air field slabs were acquired; in addition it was required to demolish an old building constructed as early as in 1936 and build a new modern building;
- to ensure an uninterrupted power supply, an obsolete energy system built in 1974 was reconstructed into a modern energy system;
- time required for processing large capacity vessels with a dead-weight of 40 to 50 thousand tons was reduced from 8–9 days to 5–6 days due to the acquisition of new

portal cranes of 18–20–32(36) ton lifting capacity;

- efficiency of the dispatching service has been improved, namely: railway capacity increased by 40 carriages and speed of the rail transport processing increased due to the acquisition of rail scales and reconstruction of railway lines;
- speed of processing of the vessels increased by 20% (cleaning of holds) and that of freight handling operations in storage areas by 10% (bunching, etc.) due to the acquisition of two front loaders with increased lifting capacity.

The current throughput capacity of Batumi Sea Port is 1.8 mln. tons of dry freight per year\*. As a part of the project about 2.2 bln. tenge of own funds of Batumi Terminals Limited group of companies (14.3 mln.

US dollars excluding VAT) were spent under the project.

In addition, during 2015, the project "Reconstruction of racks for enhancement of efficiency of fuel oil discharging from railway tank-cars" was approved for implementation. The aim of the project is to increase the efficiency of using the rail racks of Batumi Oil Terminal due to modernisation of process equipment for discharge operations and provision of technical capabilities for transshipment of the planned volumes of dark oil products, especially during autumn and winter periods.

\* The Company's Integrated annual report for 2014 provides information about achieving throughput capacity of Batumi Sea Port for 2.3 mln. tons per year of dry freight transshipment. During 2015, the indicator was clarified and corrected.

### Total capital investments, mln. tenge

Indicator	2015	2014	Change, %
Capital investments of KazTransOil JSC, including	78,142.2	75,664.1	3.3
- new projects	17,986.6	23,809.9	-24.5
- maintenance of the current production level	60,117.0	51,796.1	16.1
- administration	38.6	58.1	-33.6





## 2.4. Innovation activities

The Company pays much attention to the innovative development and improvement of technology of production. This line of business, alongside with the introduction of energy management system, investments in reconstruction and improvement of reliability of fixed assets is one of the tools the Company uses to increase its operating efficiency.

The Company has established and is effectively operating a separate business unit – the Scientific-Technical Centre, which has its own base to carry out project design research and development works. The main objective of the Scientific-Technical Centre is to search for and implement (jointly with the Company's production branches) methods to enhance the Company's operating efficiency through introduction of state-of-the-art technique and technology aimed at modernisation, energy and resource saving, enhancement of reliability and safety of production processes in oil pumping and water supply.

**During 2015, the Company performed 11 research and development works and 4 analytical and informational works related to implementation of modern energy-saving technologies, including those under the following projects:**

- The use of self-supporting insulated wire SIP 3x70 mm<sup>2</sup> at the 1190–1235 km section of Uzen – Atyrau – Samara main oil pipeline;
- Solar cells at communication hubs of Priirtyshsk OPS and HOPS Pavlodar;
- STOPPLE technology for replacement of a defective section of the oil pipeline without suspension of oil pumping operations.

Implementation of the above-stated projects worth of more than 500 mln. tenge allowed:

# 11

Research and  
development projects

# 100

mln. tenge per  
annum

The total economic effect of  
those projects

- improving the safety of operations near the power transmission lines, preventing a probability of short circuits (increased fire safety of the line), failure of production equipment and stoppage of oil pumping.
- reducing a voltage loss on the line and ensuring stable uninterrupted power supply;
- preventing downtime of the oil pipeline during repair works;
- increasing energy saving through the use of renewable energy sources.

The total economic effect of those projects equalled to about 100 mln. tenge per annum.



## 2.5. Risk management

The Company has established a well-balanced corporate risk management system (hereinafter – CRMS) and internal control system (ICS), which are the important elements of the Company's corporate governance system and are improved on an ongoing basis.

The significance of the CRMS and ICS for the Company's effective performance has been due to a number of reasons:

- to safeguard the Company's assets and efficiency of economic activities;
- to provide reliable information to the top management and, as a result, making the well-informed and reasonable management decisions;
- to have necessary assurance that all internal policies and procedures, as well as regulations and legislative requirements are complied with in due order.

In accordance with the internal documents of the Company, issues relating to approval of risk management policies and internal procedures, compliance and efficiency analysis as well as improvement of such procedures fall within the exclusive competence of the Company's Board of Directors. Taking into account the significance of this aspect, the Company's Board of Directors makes quarterly analysis of the dynamics of key risks and progress in fulfilment of the Action Plan for management of the Company's key risks.

For the purpose of preliminary review of the issues related to risk management and preparation of appropriate recommendations, the Management Board of the Company has established a Risk Committee, which is an advisory and consultative body. Meetings of the Committee are held at least once a quarter.

Involvement of the rank and file employees of the Company in the risk management process is achieved through holding regular corporate seminars on risk management both with the involvement of third parties and the Company's risk managers. During 2015, a responsible department organised and held training seminars covering CRMS and ICS matters for employees of the Company's business units and administrative offices of jointly controlled entities.

In general, the CRMS is aimed at timely identification, assessment, monitoring and mitigation of potential risk events that may adversely affect the achievement of strategic and operational goals of the Company.

The Company has formed a unified methodological framework for risk management and approved the Classifier of Company Risks.

The Company updates annually the Risk Management Programme, which includes:

- a risk register and risk map of the Company;
- risk tolerance in financial and non-financial indicators;
- a statement of risk appetite;
- a tolerance level and key risk indicators;
- an action plan for risk management.

The Company has adopted the practice to limit the financial risks by establishing limits for on-balance sheet and off-balance sheet liabilities for counterparty banks.

The ICS is aimed at timely identification and analysis of process risks inherent in the Company's operations, as well as identification and analysis of the control risk management procedures in three key areas of the ICS: operating activities, preparation of financial statements and compliance with legal and regulatory requirements.

The following measures were implemented in 2015 for further improvement of ICS:

- amendments were made to the ICS Regulations, due to the need in further implementation of the ICS in the Company's branches;
- the Business Process Classifier of the Company's central office was developed and approved;
- flow charts and matrices of risks and controls for key business processes of the Company's central office were developed and approved;

- flow charts and matrices of risks and controls for key business processes of administrative offices of the Western and Eastern branches, Main Information and Computing Centre and Scientific-Technical Centre were developed and approved.

### Key risks of the Company and measures aimed at their minimisation

The Company's activities are of permanent and stable nature, therefore, the risks associated with its activities remain unchanged from year to year. However, under the influence of external and internal risk factors (causes of occurrence) the risk events may change the probability of their occurrence and the size of potential damage.

The Classifier of Company Risks provides for risks in the following areas:

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

The most significant risks of the Company are those that have a high probability score (4–5 scores on the probability scale) and/or a high score in terms of the extent of damage (2–5 scores on the impact scale) according to the parameters given in following table.

#### Rating scale of the Company's risk assessment

Score	Impact level	Loss as a result of risk occurrence	Frequency (probability)
1	Minor	Up to the working holding capacity	Very seldom (once every 7 and more years) or probability of occurrence of 5%
2	Significant	Up to the holding capacity	Very seldom (once every 5 years) or 25% probability of occurrence
3	Major	Minimum: up to 25% of liquidity loss or up to 50% of profitability loss	On occasion (once every 3 years) or 40% probability of occurrence
4	Critical	Minimum: up to complete profitability loss or up to 25% of equity capital loss	Frequently (once a year) or 80% probability of occurrence
5	Catastrophic	Starting from the minimum: complete profitability loss or 25% of equity capital loss	Very frequently (twice a year and more frequently) or probability of occurrence of more than 95%

#### Key risks of the Company

Risk description	Risk management measures
Loss of equipment or breakdown of equipment/facilities	Maintenance and repair; Equipment reconstruction and modernisation; Optimisation of equipment operation modes; Timely equipment troubleshooting; Advanced training of employees.
Man-made accidents	Conduct of fire drills and tactical exercises; Conduct of trainings in fire safety measures; Procurement of services for provision of fire security of production facilities; Enhancement of knowledge among the operating personnel; Voluntary property damage insurance

Risk description	Risk management measures
Occupational accidents resulted in disability or death	Organisational and technical measures for provision of safe work practices; Internal control in the field of occupational safety and health; Implementation of the plan for organisational-technical, sanitary-hygienic and health promoting measures to improve the working conditions and prevent workplace injuries and occupational diseases; Conduct of training and knowledge assessment in the field of occupational safety and health
Environmental risks (claims and administrative penalties)	Procurement of permits for emissions in the full requested volume; Observance of environmental emission limits; Observance of the rules for equipment operation; Elaboration of process conditions for operation of equipment and facilities; Environmental insurance.
Decline or termination of oil deliveries	Entry into long-term contracts with oil freight shippers; Attraction of new oil freight shippers.
Partnership relations with foreign oil transportation companies	Conclusion of freight forwarding contracts as part of arrangement of the Kazakhstan oil transportation and transit through the pipeline systems of other countries

Overall, in 2015, the planned work related to the Company's key risks management was performed in full scope. The Company took the appropriate measures to respond to key risks in order to reduce the probability of their occurrence and minimise/prevent possible financial losses.

As a part of further improvement of the CRMS, in 2016 the Company

will consider a possibility to develop the methodological tools to manage operating risks through introduction of the production assets management system in accordance with the requirements of international standards of ISO 55000 series. The standards are in-demand in the companies operating the expensive and business-critical assets. It relates mostly to physical assets (process systems and equipment,

construction), whose operating capacity is a determining factor for achievement of business goals. The standards are aimed at improvement of financial results, optimization the decision-making process in investments, risk manageability and sustainability of development, and enhancement of the Company's performance efficiency.

## 2.6. Assets security

In 2015, the Company kept working on prevention of oil stealing from main oil pipelines.

In 2015, there were 14 illegal taps into the Company's main oil pipelines, which resulted in total of 30.1 mln. tenge. For comparison – in 2014 the Company reported 12 illegal taps into its main oil pipelines and total damage of 21.8 mln. tenge.

It should be noted that according to the contract signed by the Company with KMG-Security LLP, a security organisation shall compensate for damage caused by unauthorised tapping of the pipeline, attempted

tapping and any other illegal connections to the pipeline in the amount of actual costs of repairs related to elimination thereof. In addition, KMG-Security LLP shall reimburse the costs associated with payment of an administrative fine in the amount imposed by an environmental authority against the Company. In this regard, in 2015 KMG-Security LLP reimbursed the Company 20.2 mln. tenge; in 2014 – 7.5 mln. tenge.

Therefore, to ensure safety of the linear section of the main oil pipelines the Company continues introducing and operating new and advanced technical security systems such as the oil pipeline protection system, leakage detection system and perimeter alarm and CCTV system.

**Currently, the oil pipeline protection system and leakage detection system cover more than 50% of all main oil pipelines of the Company.**



For the purpose of prompt detection of unauthorised actions and penetration into the protected pipeline zone, a centralised round-the-clock monitoring is carried out through the leakage detection and pipeline protection systems at the level of the Company's head office (Astana).

To coordinate operations of all protection systems and resources involved and to prevent the illegal infringement with respect to the oil pipeline integrity, the Company has organised the interaction of the oil pipeline monitoring service, the main dispatching office, central dispatching offices of the Company's branches and a duty operator of KMG-Security LLP. At the local level, this scheme covers regional law enforcement and security agencies, mobile security groups and emergency services of the Company.

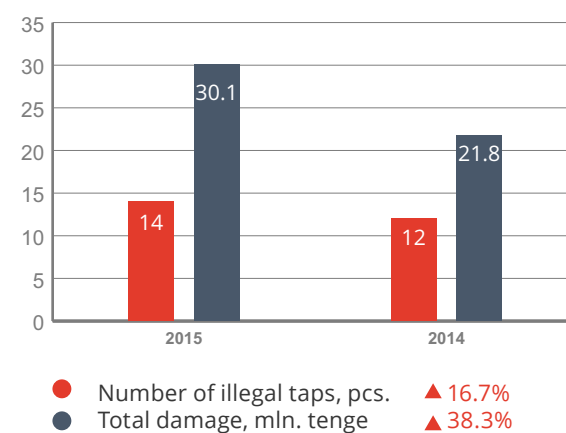
The Company focuses on further enhancement of oil pipeline protection measures.

In 2016, the Company will continue working on security strengthening

using its own forces and means to increase the level of protection of the linear part of its oil pipelines. Thus, the Company's draft business plan for 2016–2020 provides for projects for installation of the perimeter alarm and CCTV system at 25 facilities. In addition, in 2016 the Company intends to increase the number of mobile teams at main pipeline sections, which are mostly exposed to unauthorised tapping, up to 5 (2

mobile teams in the Western Branch and 3 – in the Eastern Branch). To control movements of mobile teams for oil pipeline protection, the Motion-Test and GPS systems have been installed and are operated on the linear part of main oil pipelines of the Western and Eastern Branches of the Company.

**Number of illegal taps and amount of damage**



## 2.7. Information security

The Company imposes high requirements for information protection. To maintain a proper level of information protection, the Company is guided by the legislative requirements of the Republic of Kazakhstan in the area of information security and international standard ISO/IEC 27001.

**In August 2015, the Company successfully underwent the compliance audit conducted by the international certification body – the British Standards Institution (BSI Management Systems), as a part**

**of which the Company moved from ISO/IEC 27001:2005 to ISO/IEC 27001:2013.**

Further increase of the level of the Company equipment with informa-

tion technology and enhancement of information protection ensure stable operating activities, therefore, the Company intends to continue maintaining a necessary level of protection of its information resources.

## 2.8. Information on the Company's supply chain and local content in procurement of goods, works and services

Given the scope of the Company's activities and the need for timely and qualitative provision of necessary goods, works and services, a well-balanced supply chain is essential for sustainable development. When selecting suppliers, the Company is governed by the Rules for procurement of goods, works and services by Samruk-Kazyna National Welfare Fund JSC and organisations, fifty and more percent of voting shares (participatory interest) of which are owned directly or indirectly by Samruk-Kazyna JSC on the basis of the right of ownership or trust management (hereinafter – the "Procurement Rules").

The procurement process applicable in the Company includes:

- development and approval of procurement plans;
- selection of suppliers;
- conclusion and execution of a procurement contract.

In this regard, suppliers of the Company are selected as follows:

- holding an open tender;
- request for quotations;
- from a single source.

Procurements performed by way of holding an open tender and request for quotations are carried out through the electronic procurement process, including with the use of reverse auction on the basis of the Procurement Rules and in accordance with the Instruction for holding electronic procurements.

Procurements performed by way of request for quotations (with the use

of reverse auction) are allowed in case of procurement of goods, works or services, if the amount specified in the Company's procurement plan for the relevant fiscal year does not exceed 4,000-fold monthly calculation index (MCI) established by the Law on the Republican Budget for the relevant fiscal year.

Single source procurements, including those carried out through the direct conclusion of a contract, are allowed in cases stipulated by the Procurement Rules; otherwise procurements are made through an open tendering process.

In 2015, the Company signed contracts totally for 68,233 mln. tenge, including:

- Central office – 47,634 mln. tenge (without regard to long-term contracts);
- Western Branch – 12,625 mln. tenge;

- Eastern Branch – 6,815 mln. tenge;
- STC Branch – 198 mln. tenge;
- MICC Branch – 951 mln. tenge.

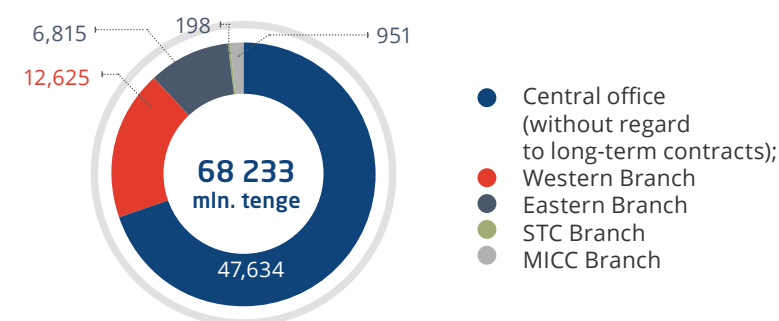
For more information on the procurement held in 2015, please, see Appendix "Report on Procurements for 2015".

As a part of implementation of the uniform state policy for support of domestic producers, following the results of 2015, the Company signed contracts with domestic commodity producers for 3.4 bln. tenge. In 2015, a share of local content under the contracts amounted to 60.03%.

# 60.03%

Share of local content under the contracts

**Procurement structure at the branches, mln. tenge**



# 3.4

bln. tenge

Amount of signed contracts with domestic commodity producers



# 1970

*In 1970 the world's first and unique "hot" oil pipeline "Uzen – Atyrau – Samara" was constructed, which allowed transporting Mangyshlak high-viscosity paraffin oil freezing at the temperature above 30°C over long distances. Special preheaters were installed every 80–100 km, which made possible oil transportation even during the cold season.*



*The Eastern Siberia - Pacific Ocean pipeline system (ESPO) is the longest main pipeline in the world, which is used to export oil from the oil fields in Western and Eastern Siberia to the Asia-Pacific markets. The length of the pipeline is over 4.7 thousand km.*

## 3.

## SUSTAINABLE DEVELOPMENT

- 3.1. Stakeholder engagement
- 3.2. Information on the Company's membership in associations (industrial and international) and other unions
- 3.3. Environmental protection
- 3.4. Occupational safety and health
- 3.5. Personnel
- 3.6. Integrated management system
- 3.7. Mid-term plans for the Company's sustainable development



Sustainable development is a priority in the Company's activities. The Company objective in the area of sustainable development is the business development along with the environmental preservation and protection, creation of favourable labour conditions, ensuring occupational safety and contribution to the development of local communities in which the Company is operating.

The Company pays specific attention to serving stakeholders' interests and rights and strives to take into account their views and expectations to the maximum extent and on a systematic basis.

In its sustainable development activities the Company is guided by the principles and regulations stated in the United Nations Global Compact, AA1000-series standards in terms of identification of the most significant issues of sustainable development and stakeholder engagement, and a number of internal documents that are publicly available on the Company's corporate website.

The Company's management bodies regularly review and analyse the Company's key performance results of sustainable development, including those related to the human resource management, environmental protection activities, operation of the integrated management system, and also approve the internal documents governing the Company's activities in specific areas of sustainable development.

In addition, the following business units of the Company are involved in management of the sustainable development issues:

- department of industrial safety and labour protection which is responsible for industrial and fire safety, occupational safety and environmental protection;
- departments of risk management, energy management and IMS, which is responsible for the matter related to energy consumption and energy saving;
- department of HR management and benefits and compensation, which is responsible for personnel records, labour organisation and wages and salaries as well as for personnel development and social support.

Functions and departments responsible for specific areas of field of sustainable development are operating at the level of the Company's production branches and oil pipeline management offices. Their operations are coordinated and supervised at the level of the Company's head office.

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

- unconditional compliance with legislative requirements;
- effective investment in development of production with the aim to improve the Company's competitiveness to the benefit of the Company and general public;
- consideration of stakeholders' expectations and opinions and application of a systematic approach to creation of fair and mutually beneficial relations with the stakeholders;
- ensuring of occupational safety and health, environmental protection;
- creation of the conditions required to meet the personnel needs;
- creation of the conditions to preserve and improve the health of employees;
- development of human resources.

In April 2015, the Company's Board of Directors approved by its resolution the Corporate Social Responsibility Strategy, the purpose of which was to define a common framework, principles and directions in development of corporate social responsibility. This strategy is aimed at ensuring the Company's maximum compliance with the principles set forth in the United Nations Global Compact through the interaction with society, respect for human rights, provision of social support, recognition of responsibility to the state, stakeholder engagement, regulation of labour relations and environmental management.



### 3.1. Stakeholder engagement

Interested parties (stakeholders) engagement is one of the fundamental principles in the field of sustainable development and a key factor for formation of the corporate social responsibility system.

The Company is fully aware of a degree of impact that its activities have on stakeholders and its responsibility to them. The Company is striving to establish the partnership, confidential and mutually beneficial relations with stakeholders, which are based on continuous and constructive dialogue.

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

The basic principles and priorities of interaction with stakeholders are specified in the Company's corporate documents such as the Development

Strategy, Corporate Governance Code, Corporate Social Responsibility Strategy and Code of Corporate Ethics of the Company.

To identify and select the stakeholders, the Company's environment has been analysed through the review of the Company's relationship with persons (groups of persons), whose interests are affected by the Company's activities and who have or think they have legitimate claims in relation to certain aspects of the Company's activities. Based on the analysis results the Company has formed the basic groups of its stakeholders, that are homogeneous in terms of certain feature or attribute.



### Stakeholder engagement

Stakeholders	Significance of each group of stakeholders	Basic forms of stakeholder engagement	Issues addressed within the framework of stakeholder engagement in 2015
<b>Shareholders and impact organisations</b>	KazTransOil JSC realises that an effective system of interaction between the shareholders, impact organisations and the Company is an essential element that ensures increase of the Company's value and guarantees efficient application of investors' funds.	<ul style="list-style-type: none"> <li>To hold the General Meeting of Shareholders;</li> <li>To publish the annual report;</li> <li>To disclose information on the Company's performance on web-sites of the Company, Kazakhstan Stock Exchange and financial statements depository;</li> <li>To provide "Hot-line" services to receive shareholders' applications.</li> </ul>	<ul style="list-style-type: none"> <li>Request for information on the Company's production and financial performance indicators;</li> <li>Information on the terms of making decisions on payment, procedure and amount of dividends.</li> </ul> <p>All information was provided in time and in full scope.</p>
<b>State authorities</b>	KazTransOil JSC being the largest oil pipeline company of the Republic of Kazakhstan and the main national oil pipeline operator is aware of its responsibility to the state and strives to fulfil its legal and ethical obligations and comply with the legislative requirements.	<ul style="list-style-type: none"> <li>To submit the reports and information to the state authorities and legal entities that have influence on the Company's operations;</li> <li>To maintain correspondence and respond to inquiries of the state authorities.</li> </ul>	<ul style="list-style-type: none"> <li>Ensuring compliance with the legislative requirements of the Republic of Kazakhstan;</li> <li>Participation in drafting of regulatory legal acts that impact the Company's interests;</li> <li>Maintenance of correspondence with the state authorities concerning oil transportation.</li> </ul> <p>The Company provides information in a timely manner, its representatives participate in various working groups and take part in the meetings organised by state authorities.</p>
<b>Personnel (managers, employees and trade unions)</b>	Employees are the main value of the Company and a key factor of its successful development. Corporate values of the Company's Personnel Policy are fairness and objectiveness in assessment of contribution and achievements of each employee; honesty and openness within the Company and in its relations with employees; high ethical values, commitment to the culture of mutual aid and confidence and collaboration aimed to fulfilling the stated goals and objectives.	<ul style="list-style-type: none"> <li>To conduct questionnaire survey and interviews with the staff;</li> <li>To conclude the collective agreements to provide social support to the employees and their families;</li> <li>"Hot-line" services i to receive personnel's applications;</li> <li>To arrange training and advanced training;</li> <li>To hold meetings of managers and employees of the Company;</li> <li>To publish materials in mass media;</li> <li>To hold meetings of the Company's Management Board.</li> </ul>	<ul style="list-style-type: none"> <li>Requests for personnel training, business trips, vacations, internal transfers within the Company and inclusion in personnel reserve;</li> <li>Applications from employees with respect to social and labour disputes and conflicts.</li> </ul> <p>Conduct of annual personnel interviewing on various issues, including personnel satisfaction in terms of administrative and economic issues, calculation of the personnel involvement index, etc.</p> <p>Appropriate measures have been taken to address the personnel issues; specific measures have been taken based on the outcome of interviews. Disputable issues were checked and official responses were provided.</p>

Stakeholders	Significance of each group of stakeholders	Basic forms of stakeholder engagement	Issues addressed within the framework of stakeholder engagement in 2015
<b>Service consumers, partners, subsidiaries and jointly controlled entities</b>	<p>The Company aspires to meet the customers' demands and expectations to the fullest extent through continuous improvement of quality of its services.</p> <p>The Company cooperates with business partners on the principles of mutual benefit, transparency and full responsibility for its assumed obligations in accordance with contractual terms.</p> <p>The Company is also striving for balanced development of its subsidiaries and jointly controlled entities.</p>	<ul style="list-style-type: none"> <li>To maintain correspondence with legal entities concerning the Company's activities;</li> <li>To hold questionnaire survey and interviews with the consumers;</li> <li>To hold meetings, public hearings and other forms of interaction with third parties;</li> <li>To participation in management bodies; to inspect activities, to arrange meetings and consultations with representatives of subsidiaries and jointly controlled entities;</li> <li>To publish the Company's non-financial reports and materials in mass media and on the Company's corporate website.</li> </ul>	<ul style="list-style-type: none"> <li>Issues relating to oil transportation and tariffs setting;</li> <li>Issues relating to implementation of investment projects;</li> <li>Issues relating to the Company's participation in management bodies of subsidiaries and jointly controlled entities.</li> </ul> <p>In 2015, a degree of consumer satisfaction with the quality of services rendered exceeded 99% (including: oil transportation services – 100%; operator services – 99.3%; water supply services – 99%), which is an evidence of the Company's commitment to satisfy the of consumers' demands and expectations to the fullest extent</p>
<b>Public and mass media (local population, public organisations and mass media)</b>	<p>The Company recognises its corporate social responsibility and assumes voluntary obligations for socially responsible participation in lives of its employees, the population in the region of its operations and the society as a whole.</p> <p>In addition, the Company ensures formation, maintenance and protection of positive corporate image through regular disclosure of reliable information on its performance</p>	<ul style="list-style-type: none"> <li>To disclose information on the Company's performance on web-sites of the Company and Kazakhstan Stock Exchange;</li> <li>To publish materials in mass media, distribute press releases, and hold press conferences and briefings;</li> <li>To hold meetings, consultations and negotiations with representatives of general public</li> <li>To participate in the work of industry-specific commissions and associations;</li> <li>To organize public events and take part therein.</li> </ul>	<ul style="list-style-type: none"> <li>Issues relating to the Company's activities, development plans and problematic issues;</li> <li>Issues relating to the Company's participation in major investment projects, etc.</li> </ul> <p>In 2015, to provide information and create a positive image the Company published 130 information and image-related materials in the Russian, foreign, national and regional oriented publications. The publications covered the Company's performance results, ongoing and planned projects, long-term plans, etc.</p> <p>The Company participated actively in the international conferences and exhibitions KAZENERGY, KIOGE-2015.</p>
<b>Competitors</b>	KazTransOil JSC is aware of the degree of competitors' influence on the Company's value, growth of financial and operating results and changes in the resource base.	<ul style="list-style-type: none"> <li>To interact through industry-specific organisations;</li> <li>To participate jointly in conferences and forums;</li> <li>To participate in the work of industry-specific commissions and associations;</li> </ul>	<ul style="list-style-type: none"> <li>Issues relating to the core activities of the Company.</li> </ul> <p>The Company is a natural monopoly entity. Competitors of the Company in the area of pipeline transportation are as follows: CPC and jointly controlled entities of the Company – KCP LLP and NWPC MunaiTas JSC.</p>



Stakeholders	Significance of each group of stakeholders	Basic forms of stakeholder engagement	Issues addressed within the framework of stakeholder engagement in 2015
<b>Financial organisations</b>	The Company fulfils its financial obligations in due time and in full and prepares its financial statements in compliance with the IFRS. The Company has been assigned with credit ratings by leading rating agencies.	<ul style="list-style-type: none"> <li>To publish the financial statements;</li> <li>To respond to requests;</li> <li>To place publications on the Company's corporate website;</li> <li>To hold meetings and presentations with the representatives of rating agencies.</li> </ul>	<ul style="list-style-type: none"> <li>Preparation of mandatory reports to be submitted to the financial organisations;</li> <li>Negotiations with second-tier banks with regard to back charges and interest rates;</li> <li>Opening of the Company's current accounts with the second-tier banks.</li> </ul> <p>In 2015, meetings were held with all three rating agencies (meeting with Fitch rating agency was held through the conference call).</p> <p>Financial statements of the Company were prepared and published in due time; interaction with financial organisations is carried out on an ongoing basis.</p>
<b>Suppliers</b>	During the procurement of goods, works and services, the Company is guided by the following principles: 1) acquisition of high-quality goods, works and services; 2) assurance of a share of local content in goods, works and services procured by the Company; 3) optimal and effective spending of money used for procurement; 4) minimisation of participation of intermediaries in the procurement process.	<ul style="list-style-type: none"> <li>To hold procurements and sign the contracts;</li> <li>To monitor the contract execution and other forms of interaction.</li> </ul>	<ul style="list-style-type: none"> <li>Commercial proposals from potential suppliers and contractors;</li> <li>Inquiries relating to upcoming Company's tenders;</li> <li>Applications of participants of procurement procedures;</li> <li>Conclusion of memoranda of cooperation with suppliers.</li> </ul>

The Company has established a "hot-line" service to receive applications from the officers, employees and other stakeholders of the Company. In 2015, no stakeholders applied to the Company's bodies for protection of their rights and legitimate interests.

## 3.2. Information on the Company's membership in associations (industrial and international) and other unions

To protect interests and promote its own initiatives at the industry-specific, national and international level, the Company:

- is a member of KAZENERGY – Kazakhstan association of organisations of the oil and gas and energy sectors, in which the Company is represented as a national operator of the main oil pipeline. Representatives of the Company are members of the Coordination Council of the Association for the Development of Oil and Gas Industry of the Republic of Kazakhstan;
- is a member of the Association of Taxpayers of Kazakhstan, the main objective of which is to promote protection of legitimate rights and interests of taxpayers and timely provision of information on amendments to the tax legislation. Representatives of the Company participate in working groups of the association and ensure the Company's participation in

drafting of the above-mentioned to the tax legislation;

- since September 4, 2015 the Company has been a member of the International Association of Oil Transporters established to coordinate the efforts for efficient development of oil transportation systems owned by the member companies and strengthen stability of the international oil transportation. The Company participates in the Meeting of Members of the Association, which is its supreme governing body. In addition, a working energy efficiency group has been established from among the representatives of the Association with the aim to exchange information on benchmarking in the field of energy efficiency and accident rates;
- since 2014 the Company has been a member of Atameken National Chamber of Entrepreneurs of the Republic of Kazakhstan established to improve a

business and investment climate, stability and development of the business environment in the country both for domestic and foreign investors. Participation in this organisation ensures protection of the business rights and interests and provides wide coverage and involvement of all entrepreneurs in the process of formation of legislative and other normative rules for business operation.

In addition, the Company carries out its activity in accordance with the principles of the UN Global Compact in area of human rights, labour relations, environmental protection and corruption control.

Appendix "Principles of the United Nations Global Compact" provides information on the implementation of the principles of the UN Global Compact in the Company's operations.

## 3.3. Environmental protection

Given the specific nature and scale of operations, the Company recognises that its production activity has a significant impact on the environment. In this regard, the Company takes necessary measures to minimise possible negative impact on the environment and has introduced the principles of rational use of natural resources in its operations.

The Company's activities in the environmental protection are carried out in accordance with the requirements of the Environmental Code of the Republic of Kazakhstan, advanced international standards of environmental protection and internal documents and plans of the Company.

Since 2004, the Company has been carrying out the nature protection activities in accordance with the requirements of the international

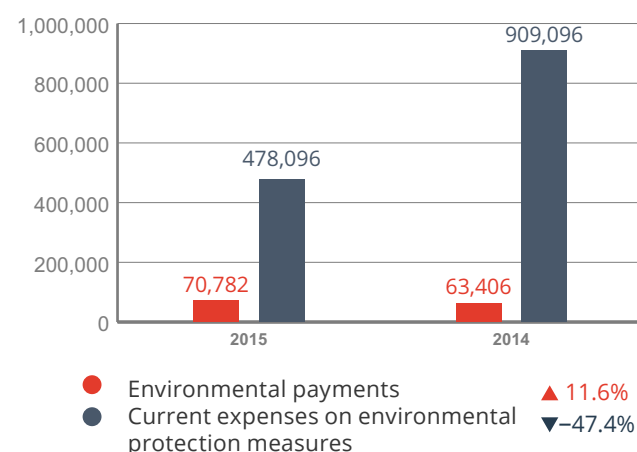
standard ISO 14001. In 2015, the Company confirmed the compliance of its activities with the specified standard.

As required by the above-mentioned standard, assessment of environmental aspects was held in the Company's business unit, which included procedures for identification of environmental aspects, determination of their significance, generation of a register of significant environmental aspects and elaboration of

measures aimed at reducing their materiality.

**In addition, in 2015 the Company approved the Comprehensive Environmental Programme for 2015–2019, the main aim of which was to improve the quality of the environment and ensure environmental safety for sustainable development of the Company.**

### Environmental protection costs, thousand tenge



As part of the Programme and based on the results of implemented measures the Company has developed its mid-term goals and objectives in of the environmental management.

Increase in the amount of environmental payments is due to increase in environmental payment rates by local maslikhats, and increase of the MCI value.

In 2015, the Company invested 478.1 mln. tenge in the environmental protection and made environmental payments to the budget in the amount of 70.8 mln. tenge.

In 2015, as a part of the environmental protection spendings, the Company entered into contracts for such works and services such as environmental monitoring at its facilities

### 3.3.1. Ambient impact on air pollution

The main Company's sources of atmospheric air pollution are oil pre-heaters, boiler plants and oil storage tanks.

In order to reduce a negative environmental impact, the Company has implemented measures for optimisation of the burning processes in oil pre-heaters and water-heating

(monitoring of air, water and soil), removal and disposal of production and consumption waste, waste water pumping and treatment, emission rationing, elimination of historical contamination, etc. Significant cost reduction in 2015 as compared to 2014 is due to implementation of the cost optimisation measures as part of the budget formation for 2015.

In addition, during 2015 the Company paid 2 fines for soil pollution as a result of unauthorised tapping of the main oil pipelines in the amount of 2.0 mln. tenge and also paid compensation for environmental damage in the amount of 1.2 mln. tenge.

At the same time, during 2015 there were no reported emergency situations that would result in suspension of production or environmental damage during oil transportation operations.

boilers. In particular, in 2015, the Company introduced the interface of the boiler automation systems with SCADA control system.

All above-listed works were aimed at reducing fuel consumption at boiler plants. In addition the boilers were operated in the optimal mode in accordance with the process flow diagrams and in compliance with the temperature graph in the course of heat power generation. Moreover, it should be noted that during 2015 the

### Atmospheric emissions, tons

Indicators	2015	2014	Change, %
Volume of significant atmospheric pollutant emissions, including:	25,403	25,687	-1.1
NOx	709	682	4.0
SOx	452	488	-7.4
volatile organic compounds (VOC)	23,217	23,469	-1.1
other categories of atmospheric emissions	1,025	1,048	-2.2

At the level of branches, the Western Branch accounted for the vast majority of emissions (19,073 tons or 75.1%), the emissions in the Eastern Branch were 6,330 tons or 24.9%.

The atmospheric pollutant emissions were reduced due to the following arrangements:

- in 2014, the Company performed the operational and adjustment works at 38 water-heating and steam boilers;
- in 2015, the Company performed the adjustment works at 24 water-heating and steam boilers in and introduced the interface of the boiler automation systems with SCADA control system.

### Greenhouse gas emissions, tons

Indicators	2015	2014	Change, %
Volume of direct greenhouse gas emissions in metric tons of CO <sub>2</sub> equivalent, including:	228,464	239,669	-4.7
CO <sub>2</sub>	226,866	236,711	-4.2
CH <sub>4</sub>	157	175	-10.3
N <sub>2</sub> O	1,441	2,783	-48.2

# 1%

Reduction of emissions

outside air temperature was higher than in the same period of 2014.

Thus, in 2015 the Company's gross atmospheric pollutant emissions were reduced by 1% as compared to the previous period.

The Company complies with the greenhouse gas emission regulations adopted in the Republic of Kazakh-

stan. In 2015, the Company took an inventory of its greenhouse gas emission sources. On the basis of the inventory results the Company prepared a report on the inventory of greenhouse gas emissions and obtained positive opinions from the verification agencies (independent accredited organisations); the report was approved by the Ministry of Energy of the Republic of Kazakhstan.

At the level of branches, the Western Branch accounted for the vast majority of greenhouse gas emissions (207,733 tons or 90.9%), the volume of emissions in the Eastern branch was 20,472 tons or 9.0%. The total volume of emissions in the MICC and STC amounted to 0.1% of emissions.

### 3.3.2. Water resources

The Company pays special attention to conservation and rational use of water resources.

Water intake is carried out by the Company mainly from the Kigach River located in the delta of the Volga River for further supply through Astrakhan-Mangyshlak water main

pipeline. Other sources account for a minor share of water intake and are used by the Company's business units for their own needs.

### Total amount of water intake by sources, thousand m<sup>3</sup>

Indicator	2015	2014	Change, %
Water intake volumes, including:	28,023	28,183	-0.6
surface water (Kigach River)	27,695	27,849	-0.6
subsurface water (artesian wells)	223	215	3.7
municipal and other water supply systems (procurement from third parties)	105	119	-11.8

### Characteristics of the Kigach River as the main water intake source of the Company

Source name	Source size	Is the source a part of protected areas (at the national or international level)	Value or significance of the water source for local communities and indigenous people	Applicable standards, methods and assumptions
Kigach River, Volga River feeder	Depth of 4.3–8.4 m depending on the river mouth and season	Transboundary waters between the Republic of Kazakhstan and the Russian Federation	Water supply to the population, industrial enterprises and agricultural producers along the water pipeline in Atyrau and Mangistau region	Water Code of the Republic of Kazakhstan, internal regulations and standards

The Company discharges waste water into evaporation ponds and filtration fields. The Company carries out the ongoing monitoring of subsurface,

surface and waste water, including laboratory water research studies, and monitors the waste water purification level.

In 2015, volumes of waste water discharge did not exceed the permitted limit established for the Company.



### Volumes of waste water discharge, thousand m<sup>3</sup>

Indicator description	2015	2014	Change, %
Volumes of waste water discharge	939	944	0.5

At the same time, in 2015 the volume of waste water discharge in the Western Branch was 780 thousand

m<sup>3</sup> (83.1% of the total discharge volume) and the volume of discharge in the Eastern Branch amounted

to 159 thousand m<sup>3</sup> or 16.9% of the total discharge volume. Reduction in waste water discharge in 2015 was due to performance of works related to cleaning of accumulation tanks at Kigach LODS.

### 3.3.3. Waste generation

The Company complies with the established environmental and sanitary-epidemiological requirements in terms of waste disposal and safe management.

Production and consumption wastes are removed by specialised contracting organisations for further disposal as necessary.

#### Total volume of waste generation, thousand tons

Indicator description	2015	2014	Change, %
Waste generation	6,309	10,422	39.5

At the level of branches, the waste volume in the Western Branch amounted to 68.1% (4,299 thousand tons), and the volume of waste in the Eastern Branch was equal to 31.9% (2,010 thousand tons).

Decrease of the waste indicator for 2015 as compared to 2014 is due to reduction in oil sludge generation as a result of receipt of pigs (scrapers) and cleaning-out of sediments in the Company's tanks.

### 3.3.4. Land resources and remediation

The Company acknowledges its responsibility for preservation of land resources in their original state and carries out monitoring of contaminated soil though engagement of independent accredited organisations.

The Company uses land resources in strict compliance with the legislation of the Republic of Kazakhstan.

Since 2010, the Company has been performing works for elimination of historical land contamination along Uzen-Atyrau-Samara oil pipeline. More than 13 ha of land were reclaimed over a period from 2010

to 2014. During 2015, the Company reclaimed 1.2 ha of land and utilised 3,750 m<sup>3</sup> of oil-contaminated soil.

At the same time, the production activities of the Company were followed by oil spills occurred as a result of illegal tapping of the main oil pipelines. The Company takes appropriate measures to prevent such incidents and recognises its responsibility for the incidents occurred.

During the reporting period, as a result of illegal tapping of the pipeline oil the spills occurred at the following facilities of the Company:

- at 81.6 km section of Martyshi-Atyrau main oil pipeline. The area of contamination was 0.1 ha;
- at 1,590.0 km section of Pavlodar-Shymkent main oil pipeline. The area of contamination was 0.0272 ha;
- at 1,575.2 km section of Pavlodar-Shymkent main oil pipeline. The area of contamination was 0.010 ha.

The respective local authorities held inspections for all above facts. As a result of inspections the Company paid compensation for environmental damage in the amount of 1.2 mln. tenge and two administrative fine in the amount of 2.0 mln. tenge.

### 3.3.5. Energy consumption and energy saving

KazTransOil JSC is actively working over improving the energy efficiency and optimising the use of energy resources, the Company develops and implements a systematic approach in this area

In 2015, the Company continued working over introduction of the energy management system at its facilities to reduce energy consumption in the Company. Certification of the Company's energy management system for compliance with the international standard ISO 50001 was a final phase of the work. Currently, the Company's

energy management system includes energy analysis and energy planning activities. Certification of the system provides additional assurance that the Company manages effectively the planning and consumption of energy resources.

In addition, in 2015, in the course of implementation of the energy management system the Company developed and approved internal guidelines and methodological documents for the energy management system.

As a result of the energy audit carried out at the Company's facilities in 2014, the Company elaborated energy-saving measures, which were included in the Action Plan for energy saving and energy efficiency of KazTransOil JSC for 2015–2019.

In accordance with the said documents, the Company has developed and approved its registries of energy efficiency indicators, energy goals and objectives for 2015–2016 and determined the scope and frame-

work of the energy management system from the level of the Company's head office to the level of its business units – oil pipeline administrations and oil pump stations. Implementation of energy goals and objectives monitored at all levels on a quarterly basis.

In addition, the following measures were implemented during 2015:

- implementation of automatic devices for reactive power compensation;
- systematic replacement of incandescent lamps with energy-saving LED lamps;
- installation of thermostats at heating radiators in administrative buildings of the branches;
- delivery and installation of a photovoltaic power plants and

precision air conditioners with free-cooling in the MICC.

The Company carries out its production activities using various types of energy resources, the most important of which are natural gas and electric power.

**In 2015, a share of natural gas and electric power consumed by the Company amounted to 68.0% and 22.6% of the total energy consumption, respectively.**

A high share of gas and electric power consumption is due to the Company's commitment to use the most environmentally friendly forms of energy resources.

#### The Company's energy consumption for the types of primary sources, TFOE

	2015		2014	
Natural gas	154,591	68	163,775	69.5
Electricity	51,486	22.6	49,860	21.1
Diesel fuel	9,371	4.1	8,818	3.7
Crude oil	5,671	2.5	6,910	2.9
Heat power	3,982	1.8	4,204	1.8
Motor gasoline	2,268	1	2,247	1
<b>Total</b>	<b>227,369</b>	<b>100</b>	<b>235,814</b>	<b>100</b>

\* For reference: TFOE – tons of fuel oil equivalent

Reduction in energy consumption in 2015 by 3.6% or 8,445 TFOE was caused by decrease in consumption

of natural gas by 5.6% or 9,184 TFOE and crude oil by 17.9%, or 1,239 TFOE. Accordingly, decrease in energy con-

sumption resulted in the decreased energy capacity indicator of the Company:

#### The change of energy capacity indicator separately for the Company

	2015	2014	Change, %
Total volume of energy consumption for oil pumping, TFOE	210,707	219,394	–4.0
Total volume of energy consumption for water pumping, TFOE	16,661	16,420	1.5
Oil freight turnover, mln. tons – km	36,866	35,832	2.9
Water pumping volume, thousand m <sup>3</sup>	24,998	24,815	0.7

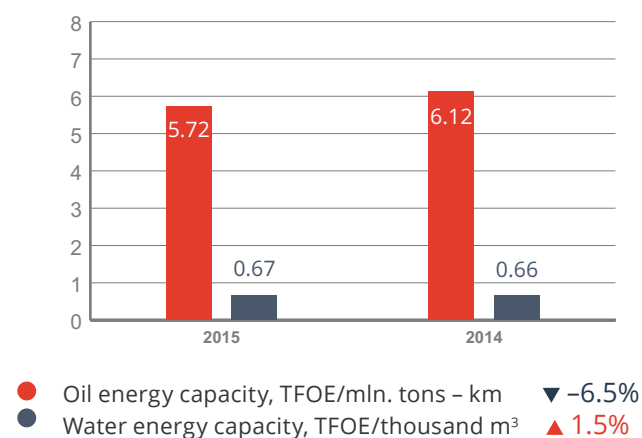
Oil turnover and water supply volume of KazTransOil JSC were taken as a benchmark for calculation of energy capacity. Calculation was made taking into account all types of energy consumed within the Company, including natural gas, electric power and others resources.

In addition, it should be noted that the system of the Company's motivational key performance indicators (KPI) established for top managers of relevant business units include an indicator called "Specific electricity consumption for oil pumping through main pipelines". By the end of 2015, the value of this indicator was equal to 4.65 kWh/thousand ton-km as

compared to 4.70 kWh/thousand ton – km in 2014.

▼ 3.6% **8,445**  
**TFOE**  
Reduction of energy consumption in 2015



**Water and Oil energy capacity**

### 3.4. Occupational safety and health

The Company's absolute priority in the area of occupational safety and health is to ensure an accident-free operation mode of production facilities and to increase the level of occupational safety among the Company's employees and reduce industrial injuries and occupational diseases

The Company takes a number of measures to ensure occupational safety and health in strict accordance with the legislative requirements of the Republic of Kazakhstan, international and national standards and relevant internal documents of the Company.

Since 2013, the Company has been carrying out its activity in compliance with the standard ST AO "Unified occupational safety and health management system in KazTransOil JSC" developed in accordance with the legislative requirements of the Republic of Kazakhstan legislation, international standards and the Uniform occupational safety and health management system of NC KazMunayGas JSC.

The Company also implements the HSE Policy of KazTransOil JSC.

In February 2015, the General Director (Chairman of the Management Board) of the Company approved a schedule of risk assessment related to occupational safety and health; according to this schedule comprehensive risk assessment in the field

of occupational safety and health was carried out in all the structural divisions of the Company during March-April of 2015. The procedure for carrying out a risk assessment is determined by the Rules for the HSE risk management of KazTransOil JSC. Based on the risk assessment results the Company has developed and approved a Programme aimed at mitigation of the Company's high HSE risks.

**The Company has in place the Unified HSE Management System, which includes 5 levels of control:**

- 1) first level of control is exercised by the foremen, mechanics, section foremen and other first-line work supervisors;
- 2) second level of control is exercised by heads at production facilities of the business units of branches jointly with the HSE specialists at a production facility;
- 3) third level of control is exercised by managers and experts of departments and services of business units of branches;

**Number of occupational accidents**

Indicators*	2015	2014
Total number of occupational accidents	5	0
Number of minor injuries	2	0
Number of severe injuries	2	0
Number of occupational fatal accidents	1	0
Lost time accident frequency rate per 1,000 persons	0.67	0

\* For reference only: one minor occupational injury involving a woman was reported.

- 4) fourth level of control is exercised by managers and specialists of departments and services of the administration and management staff of the Company's branches;
- 5) fifth level of control is exercised by managers and specialists of the business units of the Company's head office.

The results of the HSE internal control of the 3–5 levels are formalised in the appropriate acts, which serve as a basis to develop the plans of corrective and preventive measures, including specification of the causes and time limits for their elimination and responsible persons.

In 2015, as a result of successful certification audit of the IMS the international certification body SGS issued a certificate of compliance of the Company's IMS with the international standard OHSAS 18001.

In general, the Company regularly provides labour safety briefings, and the Company's employees are provided with necessary protective clothing and footwear and other personal protection equipment.

As part of the internal control system, the Company keeps records of all occupational accidents, carries out investigations of accidents and implements measures to reduce the causes for occurrence of such accidents.

**During 2015, the Company reported on 5 occupational accidents involving employees.**

In 2015, despite the measures taken by the Company to ensure safe work-

ing conditions, there was one fatal occupational accident.

Thus, on January 29, 2015 an accident occurred during the repair of a high-voltage power line resulting in death of an employee of the Company. In this regard, a special investigation was carried out to identify causes and circumstances of the accident. As far as this accident is concerned, an annuity insurance contract was concluded in favour of a legal representative of the victim entitled to receive compensation for harm caused by employee's death in accordance with the legislation of the Republic of Kazakhstan.

Based on the accident investigation materials, an informational message was sent to the Company's branches and brought to attention of all employees.

In 2015, an accident frequency rate per 1,000 persons was equal to 0.67. In addition, for the purpose of comparison with peer companies, a lost time injury frequency rate (LTIFR) has been calculated for the first time in the Company, which amounted to 0.06.

# 0.67

Accident frequency rate

# 0.06

LTIFR



In general, the main causes of accidents in the reporting year were as follows:

- lack of organisation of safe working practices and monitoring of works on the part of the responsible executives;
- personal negligence on the part of the injured persons.

To prevent the occupational accidents in future, the Company is implementing a complex of organisational and technical

measures to improve the labour security and safety system and performs analytical work for re-assessment of the existing operational risks, identification of new risks and elaboration of proactive risk mitigation activities.

To increase the responsibility of the top managers of relevant business units of the Company, the indicator called "Level of occupational injuries in KazTransOil JSC" was included in

the system of key motivational performance indicators.

In addition, during 2015, inspections were conducted in the business units of NC KazMunayGas JSC with the aim to check the implementation of the corporate KPI "Transparency of reporting in the field of occupational safety and health and environmental protection", the results of inspections demonstrated the proper execution of the KPI.

### 3.4.1. Industrial and fire safety

The Company performs its works in the field of industrial and fire safety in accordance with the legislative requirements of the Republic of Kazakhstan and normative technical documents that specify requirements to ensuring the industrial and fire safety at hazardous production facilities.

During 2015, there were no man-made accidents, incidents and fires occurred at main oil pipeline through the fault of the Company.

Accident-free operations have become possible due to a number of ongoing safety measures.

The Company implements measures aimed at ensuring accident-free production operations, including regular diagnostics of buildings, facilities and equipment, which result in repair and reconstruction works. A significant component of capital investment in maintaining the current level of production are investments in the improvement of fire alarm and fire-fighting equipment.

In accordance with the Rules introduced in 2015, which set out the criteria for classification of hazardous production facilities as declared ones, and the Rules for development of an industrial safety declaration of a hazardous production facility, the Company has developed a Safety Declaration for main oil pipelines of KazTransOil JSC, which has been registered with the Industrial Development and Industrial Safety Committee of the Ministry of Investment and Development of the Republic of Kazakhstan.

Employees involved in operation of hazardous production facilities undergo the required training, retraining and certification in accordance with the legislative requirements of the Republic of Kazakhstan.

**In 2015, in order to ensure fire safety, 3,771 employees of the Company were trained in basics of fire safety; 8,776 briefings on fire safety measures were held; 731 members of voluntary fire-fighting units were trained and 226 instructions on fire safety measures were revised.**

The Company carries out regular serviceability testing of stationary foam fire-extinguishing units and technical condition of fire alarm systems as well as testing of outdoor fire-fighting water supply systems, internal fire hydrants, fire shields, fire tools and fire-fighting equipment available at the facilities.

During 2015, the Company held 17 fire-tactical drills and 102 fire-tactical exercises with the aim to provide the employees with theoretical and practical skills in case of possible fires.

0

Manmade accidents, incidents and fires

## 3.5. Personnel

Employees are the main value of the Company and a key factor of its successful development. KazTransOil JSC provides its employees with a fair wage and social package, opportunities for professional and career growth and creates all conditions for safe work

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

The aim of the Company's Personnel Policy for 2015–2019 approved by the resolution of the Company's Board of Directors dated February 13, 2015 is to develop high-quality human resources, strengthen and develop the Company's human capital.

**The key priorities of the Personnel Policy are as follows:**

- attraction, development and retention of highly-qualified employees;
- introduction of advanced methods for personnel management in the Company;
- development of the personnel reserve from among the Company's employees;

creation and elaboration of common values, social standards and provisions that govern the behaviour of the Company's employees.

Every year the Company studies a degree of personnel involvement in order to determine personnel loyalty towards the Company, employees' awareness and understanding of corporate goals and objectives, personnel confidence in the Company's top management, and to identify material and psychological incentives that have the greatest impact on the personnel satisfaction.

In 2015, a personnel involvement index of the Company was 67%, which was 16% lower than in 2014. It should be noted that in 2015 the Company changed its approach to the study – employees were informed of the need to provide more reliable information during the questioning.

Thus, the Company has achieved a more complete and qualitative fill-

ing of questionnaires by employees, which explains mostly a significant change in the indicator.

According to the personnel involvement scale adopted by Samruk-Kazyna JSC, the result of the study is within the positive limits, which is an important indicator of the employees' understanding of the Company's development goals.

In addition, it is important to note that the Company has taken into account the reduction of all index components and intends to continue working in these directions.

67 %

Personnel involvement index of the Company in 2015

### 3.5.1. Headcount and personnel composition

The Company is among the largest employers the Republic of Kazakhstan.

As of December 31, 2015, the Company's headcount was equal to 8,129 people.

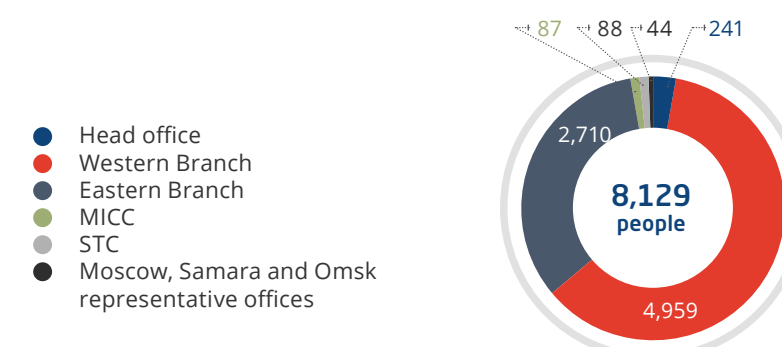
The Company signed the employment agreements with all employees. Full-time employees account for 98%, while part-time employees account for 2%.

Due to the specific nature of production operations, the Company's personnel is composed mostly of males – 75.4%. The majority

of the Company's personnel is under the age of 50 years old. In 2015, an average age of the Company's employees was 42 years old. Thus, the

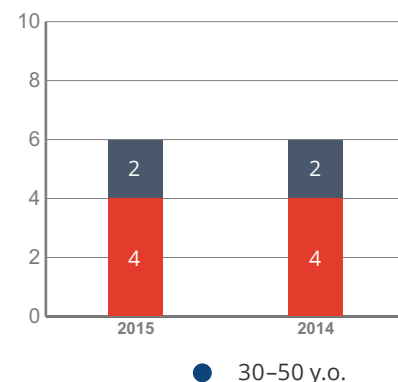
Company ensures an optimal balance of young, initiative employees and experienced highly qualified employees who ensure continuous

**Headcount by structural divisions, persons**

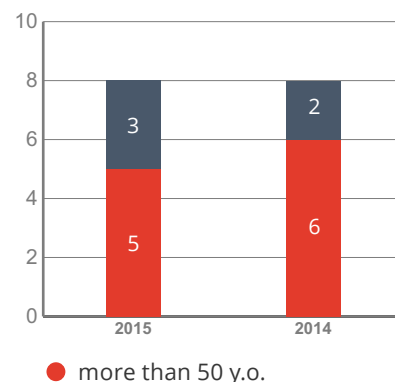


### Composition of management bodies of the Company, persons

Board of Directors



Management Board



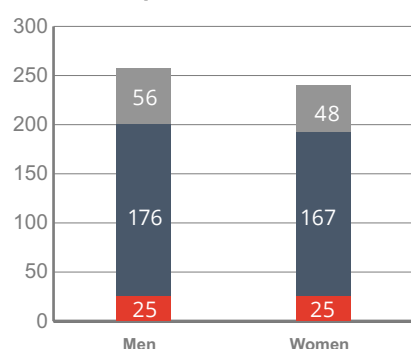
▲ 2.8%

# 1.81%

Turnover rate for the whole Company

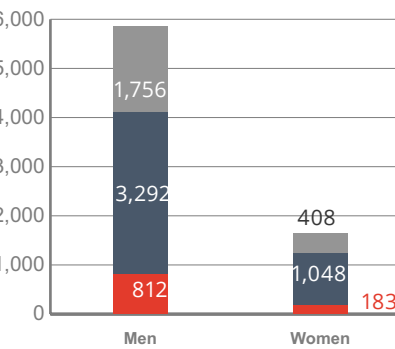
### Composition of basic categories of the Company's personnel, persons

Administrative and management personnel



● up to 30 y.o.

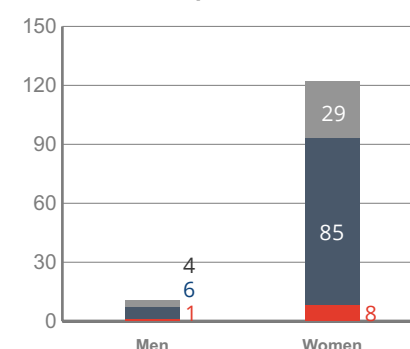
Production personnel



● 30–50 y.o.

● more than 50 y.o.

Personnel engaged in the social sphere

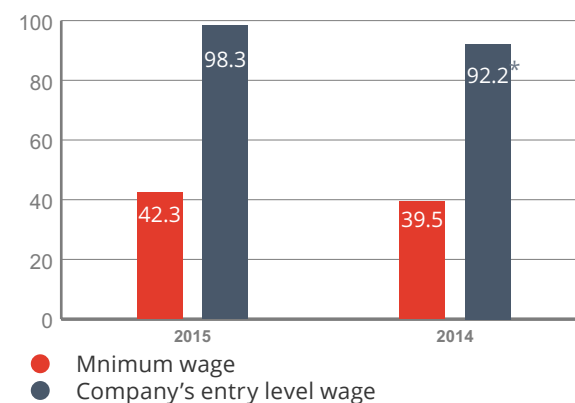


transfer of professional knowledge and skills.

During 2015, the personnel turnover was 1.81%, which was slightly higher than in 2014.

The recruitment procedure is carried out in compliance with the Rules for competitive selection of candidates to vacant positions of the Company. In order to ensure transparency of procedures, the Company searches for and selects qualified specialists, maintains the candidate database, introduces transparent competition procedures for recruitment for vacant positions, including the use of test elements to assess the level of knowledge of candidates. In 2015, the Company hired 488 employees.

### Ratio of a standard entry level wage by gender compared to local minimum wage at significant locations of operation, thousand tenge



● Minimum wage

● Company's entry level wage

▲ 7.1%

▲ 6.6%

\* This indicator is 43,1 thousand tenge and takes into account only the basic wage rate for entry level employee in Company's Integrated annual report of for 2014. The above indicators represent salary that include variable part, the regional rate and other charges employee's entry level.

## Remuneration system

The remuneration system of the Company is formed on the basis of its internal documents that regulate issues relating to labour organisation, remuneration and bonus payment to the Company's employees.

The level of wages payable to the Company's employees corresponds to the average level of a sectoral labour market in Kazakhstan. During the reporting period, the average monthly wage in the Company exceeded the average wage in the regions of its operations.

The Company has established a two-component remuneration system, which provides an optimal balance between the employees' security and motivation.

Remuneration of the Company's employees consists of fixed component (salary, regional coefficient, surcharges for harmful working conditions) and variable (bonus) component.

In order to retain qualified production personnel the Company annually indexes wages payable to personnel of production divisions with

due account of the inflation rate in Kazakhstan.

The Company provides equal social packages, wages and all benefits regardless of full-time or part-time employment conditions.

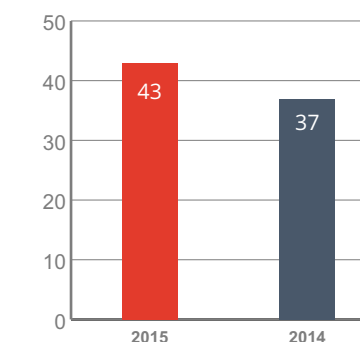
Once every three years the Company's employees undergo periodic certification to determine the adequacy for their positions, training needs and relevance of their wage level to their qualification level and further promotion to higher positions. The last certification of the Company's employees was carried out in 2013.

## 3.5.2. Education and training

The Company attaches great importance to training and re-training of its personnel as considers a high level of training as one of the main factors for reliability of its operations

The personnel training and development system of KazTransOil JSC is aimed at forming and maintaining the required level of personnel qualification taking into account the needs and prospects of the Company's strategic development.

### Average number of training hours per employee per year



▲ 16.2%

# 324

mln. tenge

Total cost of training

Professional training of employees ensures the personnel qualification level required for to address the industrial tasks, promotes the growth of personnel loyalty towards the Company and has a direct impact on development of the corporate culture.

### The main professional training activities provide by the Company are as follows:

- training to develop the professional skills and competencies;
- training in occupational safety, industrial and fire safety conducted in accordance with the legislative requirements of the Republic of Kazakhstan.

During 2015, 557 events were held under the personnel training and development programmes. The total

cost of training exceeded 324 mln. tenge.

4,785 employees (including 4,719 industrial workers) from among the production personnel had re-training directly in premises of the Training Centre of the Western Branch of the Company.

In 2015, the average training time per employee of the Company amounted to 43 hours, which was 16.2% higher as compared to 2014.

## Formation of the personnel reserve

The Company provides considerable opportunities to its employees in

terms of potential fulfilment and career growth.

To ensure succession and training of its own management staff and provide high rates of the Company's development, KazTransOil JSC has formed a personnel reserve, which is updated on an ongoing basis. The personnel reserve includes employees who have vast experience, a high qualification level and a number of personal qualities that ensure efficiency of their work.

**In 2015, as a result of competitive selection, 26 employees out of 83 candidates, who underwent successfully all evaluation phases, were enrolled in the personnel reserve of the Company.**



To provide the effective training and professional development of employees enrolled in the personnel reserve, the Company arranges and holds training sessions and meetings with the Chairman of the Management Board of KazTransOil JSC.

The Company implements a policy of internal rotation and successive appointment of employees to management positions. The Company strives to ensure a transparent mechanism for promotion of employees within the Company through providing equal conditions for all employees based on the evaluation of their performance, experience as well as on the basis of business and personal qualities. Employees included in the personnel reserve are considered on a priority basis in case of vacant management positions.

For effective training and professional development of employees included in the talent pool, the Company organises and conducts training sessions and meetings with the Chairman of the Management Board of KazTransOil JSC.

### 3.5.3. Social Policy

**The Company's Social Policy is aimed at ensuring safe and comfortable working conditions, support of healthy lifestyle, improving the housing and living conditions of employees and their families, as well as providing financial support to veterans and pensioners**

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

The Company implements a policy of the internal staff rotation and successive appointment of employees to manager positions. The Company strives to ensure a transparent mechanism for promotion of employees within the Company by establishing equal treatment of all staff members based on their performance reviews, experience and also taking into account their business and personal skills. The employee talent pool is considered on a priority basis in case the manager positions are available.

### Youth Policy of the Company

KazTransOil JSC applies an integrated approach to work with young employees and attraction of young professionals in the Company. The basic principles and areas of work are set forth in the Youth Policy of KazTransOil JSC.

The Company encourages education of the best students in the relevant universities of Kazakhstan. Students have the opportunity to be placed (paid internship) at the production facilities of structural divisions of the Company. During industry-focused

internships a student is provided with a workplace in his/her specialty, per diem allowance, the cost of travel to the practice placement site and back, and paid wage rates applied to workmen Grade-2. Each student is assigned with a supervisor from among the Company's experienced employees.

Within the scope of this programme the Company cooperates with the best universities of Kazakhstan such as the Kazakh-British Technical University, Kazakh National Technical University named after K.Satpayev and other. The main area of cooperation is to arrange practical training and pre-graduation internship for students. **During the reporting period, 344 students completed internships and field placements in divisions of the Company.**

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

In accordance with a collective agreement, employees are provided with social leave such as leave without pay, educational leave, child (children) birth/adoption leave and short-term paid leave, including marriage leave, paternity leave and bereavement leave in case of death of employee's close relatives (parents, spouse, children, employee's blood brothers and sisters as well as parents of employee's spouse). For employees, who are on leave to attend to a child up to the age of three years, the Company provides monthly payments of allowance.

**The Company pays the kindergarten fees for its employees' children in the amount not exceeding 30-fold MCI.**

### Share of employees who returned to work from leave to attend to a child up to the age of three years in 2015, persons

Structural division name	Total number of employees who took child-care leave		Total number of employees who returned to work from child-care leave		Share of employees who returned to work from child-care leave, %
	man	woman	man	woman	
Central office	1	14	0	3	20
Western Branch	2	87	1	27	31.5
Eastern Branch	1	55	0	7	12.5
Main Information and Computing Centre	0	4	0	2	50
Scientific and Technical Centre	0	4	0	0	0
Moscow, Samara and Omsk representative offices	0	0	0	0	0
<b>TOTAL</b>	<b>4</b>	<b>164</b>	<b>1</b>	<b>39</b>	
Total number	168		40		23.8

In order to solve the housing problems existing among the Company's employees, in February 2014 the Company approved the "Rules for Financing of Housing Acquisition or Construction by the Employees of KazTransOil JSC". The above-mentioned Rules allow the Company's employees, who have no their own housing and who want to build or improve housing conditions, to receive preferential housing loans by entering into the contract with a bank that allocates funds on the basis of the Cooperation Agreement signed between the bank and the Company. In 2015, preferential loans were granted to 172 employees of the Company.

Every year the Company arranges children's summer vacation programmes for children of its employees. In 2015, the Company arranged summer vacation for 1,500 children of its employees in the Republic of Turkey and paid all expenses for the acquisition of vacation packages.

In accordance with the Labour Code of the Republic of Kazakhstan, a minimum period for notification of employees of dismissal on the Company's initiative, including dismissal in case of winding-up or staff reduction, shall be not less than one month.

### Pension support

The Company cares about its employees, who have put a lot of effort and knowledge into the development and success of the Company's activity, and who now take their well-deserved rest. Pursuant to the "Rules for Rendering of Social Support to Non-working Pensioners and Disabled Persons in the Company", besides rendering compulsory financial assistance upon retirement, the Company supports also its former employees and provides them one-time cash payments or gifts on the occasion of national, state and professional holidays.



## Award Policy

For significant contribution to the development of pipeline transportation industry of the Republic of Kazakhstan the Company's employees are recommended for state awards, awards of the Ministry of Energy of the Republic of Kazakhstan, Samruk-Kazyna JSC, NC KazMunay-Gas JSC, KAZENERGY – Kazakhstan Association of Oil, Gas and Energy Sector Organisations and the Company.

In 2015, awards were given to 162 employees of the Company and its SJCE.

## Healthy lifestyle

Support of sports and healthy lifestyle among the Company's employees is an important component of our social policy.

Sports activities create favourable conditions for the maintenance and improvement of physical fitness, but also strengthen the Company's corporate culture, team cohesion and

contribute to acquisition of teamwork skills.

In June 2015, the Company held Spartakiada Games in the city of Karaganda devoted to the 80th anniversary of the pipeline transportation industry of the Republic of Kazakhstan. Teams of the Western and Eastern branches, Kazakhstan-China Pipeline LLP, NWPC MunaiTas JSC, Batumi Terminals Limited and a joint team of the central office and MICC took part in six sport competitions.

A football team of the Company participates regularly in competitions with teams of other entities of NC KazMunayGas JSC.

## Local communities in the regions where the Company operates

KazTransOil JSC cooperates actively with local communities in regions of its operations. In this regard, the Company exerts its efforts on creating a favourable social environment for efficient development of the

Company and maintain a status of a socially responsible corporate member of a society.

The Company is actively involved in economic and social development of the regions and contributes to development of infrastructure, education and sports.

In 2015, the Company acting jointly with Region akimats held ceremonial opening of a universal sports ground for children and adults in Kinash village (Kurmangazy district of Atyrau region), a new comprehensive secondary school No. 21 in the city of Kulsary (Zhylyoi district of Atyrau region) and a kindergarten in the city of Pavlodar, the construction of which was financed by the Company as part of rendering sponsor (charity) support to the regions of its operations.

# 162 employees

of the Company and its SJCE  
were awarded in 2015

## 3.6. Integrated management system

The integrated management system is an important part of the Company's corporate governance system that ensures sustainable development in the long term.

**In 2015, the Company underwent successfully certification audit for compliance of the Company's IMS with the international standards ISO 9001, ISO 14001, OHSAS 18001 and ISO 50001.**

Following the audit results, the international certification body SGS confirmed the compliance of the Company's IMS with requirements of the specified international standards and issued international certificates of compliance.

With the aim to maintain and improve the Company's IMS, the following

measures were implemented in the reporting period:

- conduct of an internal audits in the Company's divisions for compliance with the international standards ISO 9001, ISO 14001, OHSAS 18001, ISO 50001, the results of which have formed a basis for elaboration of corrective and preventive action plans as well as measures to improve the IMS;
- conduct of a scheduled questionnaire survey among consumers of the Company's services with the aim to define the level of satisfaction with the quality of services

provided in 2015. The questioning results showed that the level of satisfaction among the consumers was as follows: oil transportation services – 100%; water supply services – 99%, operator services – 99.3%.

- provision of training for the Company's employees in business process optimisation;
- 35 IMS documents were updated and developed to improve the regulation of the Company's processes.

Besides, the Company implements the following measures to improve the IMS in the medium term:

- adoption of a database at the Company's corporate portal to record all identified discrepancies, observations and incidents as well as relevant corrective and preventive actions;
- training of internal auditors involved in the IMS in new versions of the international standards ISO 9001:2015 and ISO 14001:2015;
- increasing awareness among the Company's employees about the IMS through briefings and internal training;

- conduct of internal audits for the IMS, development of corrective and preventive action plans;
- optimisation of the IMS documentation control process;
- consideration of a possibility to establish KPI with respect to the IMS improvement for senior managers of relevant departments of the central office, heads of branches and structural divisions of branches;
- regular re-assessment of risks the field of occupational safety and health;
- regular re-assessment of significant environmental aspects;

- review and approval of boundaries of the energy management system on the basis of the energy analysis results;
- inclusion of energy KPI in the efficiency coefficients established for senior managers of relevant departments of the central office, heads of branches and structural divisions of branches.

Thus, the Company's IMS covers the most important aspects of the sustainable development system and is aimed at its further improvement.

## 3.7. Mid-term plans for the Company's sustainable development

The Company recognises a significant impact of its activities on its stakeholders, including for the reason of being one of the largest employers in the Republic of Kazakhstan, a socially responsible organisation having a significant impact in the regions of its operations and an owner of the largest main oil pipeline network in the Republic of Kazakhstan having a significant potential impact on the environment, and intends to continue its activities in the field of sustainable development.

Besides the measures implemented as part of the IMS improvement, the main activities planned for 2016 and the medium term will be the following:

### In the field of reducing a negative environmental impact;

- making investments aimed at reducing a negative environmental impact of the Company's production facilities;
- continuing work for elimination of historical contamination along the main oil pipelines in the regions of the Company's operations.

### In the field of energy saving:

- implementation of the Action Plan for energy saving and efficiency of KazTransOil JSC for 2015–2019;

- updating internal documents that regulate the corporate energy management system.

### In the field of occupational safety and health, fire and industrial safety:

- further improvement of the Unified occupational safety and health management system in KazTransOil JSC;
- implementation of measures for training of personnel and voluntary fire-fighting units formed from among the Company's employees, inspection of fire-extinguishing systems and fire alarm systems;
- strengthening of monitoring of the labour protection system, including implementation of

inspection plans at production facilities of the Company;

- increase in significance of key performance indicators in the field of occupational, industrial and fire safety during the evaluation of performance efficiency of the Company's responsible officers.

### In the field of personnel management:

- implementation of Action Plans aimed at reducing staff turnover, training of the Company's employees and forming a personnel reserve;
- conduct of performance appraisal of the Company's employees in 2016.



# 2001

*Commissioning in 2001 of “Tengiz – Novorossiysk” pipeline of the Caspian Pipeline Consortium, which was designed to transport the Caspian light oil to the Black Sea market, became an important event in the history of Kazakhstan oil industry. The length of the pipeline is 1,511 km.*



*The major volume of international oil transportation is carried by tankers. The first tanker was built in 1878; it had deadweight of about 240 tons and carried kerosene from Baku to Volgograd and Astrakhan. Since then, the fleet of tankers and its deadweight tonnage have increased incredibly. Thus, the deadweight of the supertankers exceeds that of the first tanker by more than 2000 times.*

## 4.

## CORPORATE GOVERNANCE

- 4.1. General Meeting of Shareholders
- 4.2. Board of Directors
- 4.3. Internal Audit Service
- 4.4. Management Board
- 4.5. Corporate ethics, settlement of corporate conflicts and conflicts of interest



The corporate governance system of the Company is aimed at unconditional safeguarding of interests and protection of rights of its shareholders, provision of transparency of the Company's financial performance and increase in its value

KazTransOil JSC recognises an effective corporate governance system as a key factor for increase in value, raise of competitiveness and investment attractiveness of the Company. Improvement of the corporate governance system enables the Company to respect the interests of a wide range of stakeholders and increase investors' confidence in corporate securities.

Corporate governance is carried out in accordance with the laws of the Republic of Kazakhstan, the Charter and Corporate Governance Code of KazTransOil JSC.

**The fundamental principles of the Company's corporate governance are as follows:**

- Principle of protection of shareholders' rights and interests;
- Principle of effective management of the Company by the Board of

Directors and the Management Board;

- Principle of the Company's independent activity;
- Principles of transparent and objective disclosure of information on the Company's activities;
- Principle of legality and ethics;
- Principle of effective dividend policy;
- Principle of effective personnel and social policy;
- The principle of environment protection;
- Policy of settlement of corporate conflicts and conflicts of interests;
- Principle of responsibility.

The Report for 2015 on the Company's adherence to the principles set forth in the Corporate Governance Code is available on the Company's corporate website in the "Corporate Governance" section.

Documents that govern the activities of the corporate governance bodies and delimit their competences are available on the Company's corporate website in the "Corporate Governance" section.

#### Mid-term plans:

In 2013, the Company made diagnostics of its corporate governance system on the basis of three basic components: structure, processes and transparency. According to the diagnostics results, in 2013 the Company's corporate governance rating was equal to 63.7%.

**Based on the diagnostics results the Company developed the Corporate Governance Improvement Plan for 2013–2016. Currently, the Company has implemented more than 80% of measures stipu-**

**lated by the Plan, which indicates increase in the general level of compliance with the best international practice.**

In 2016, the Company intends to carry out repeated diagnostics of its corporate governance system.

In the second quarter of 2016, the Company also intends to approve a new Corporate Governance Code drawn up in accordance with the Cor-

porate Governance Code of National Welfare Fund "Samruk-Kazyna" Joint Stock Company, which is a mandatory corporate standard for legal entities, more than fifty percent of voting shares of which are owned directly or indirectly by Samruk-Kazyna JSC.

A key element of the new Corporate Governance Code is sustainable development aimed at long-term growth in value of the companies included in the group of Samruk-

Kazyna JSC. However, even now the Company's management bodies represented by members of the Board of Directors and the Management Board are actively involved in the Company's activities in the field of sustainable development.

# 63.7

The Company's corporate governance rating in 2013

## 4.1. General Meeting of Shareholders

The General Meeting of Shareholders is a supreme body of the Company, which exclusive competence includes the most critical issues relating to the Company's activity.

The General Meeting of Shareholders carries out its activity in accordance with the Law of the Republic of Kazakhstan "On Joint Stock

Companies", the Company's Charter and Regulations on the General Shareholders Meeting.

The exclusive competence of the General Meeting of Shareholders is defined by paragraph 1 of Article 10 of the Company's Charter.

### 4.1.1. Equity holding structure

As of December 31, 2015, the Company placed and paid for 384,635,599 (three hundred eighty four million six hundred thirty five thousand five hundred ninety nine) ordinary shares, of which:

- 346,172,040 (three hundred forty six million one hundred seventy

two thousand and forty) ordinary shares or 90% of the total issued and outstanding shares were owned by NC KazMunayGas JSC;

- 38,463,559 (thirty eight million four hundred sixty three thousand five hundred fifty nine) ordinary shares or 10% minus one

share were placed by subscribing method at Kazakhstan Stock Exchange.

1 (one) ordinary share of the Company remained unplaced.

### 4.1.2. Information on the General Meeting of Shareholders held in 2015

On May 20, 2015 the Company held the Annual General Meeting of Shareholders, at which the following issues were addressed:

- approval of the annual financial statements and consolidated annual financial statements of the Company for 2014;
- approval of the procedure for distribution of net income for 2014 and making a decision on payment of dividends on ordinary

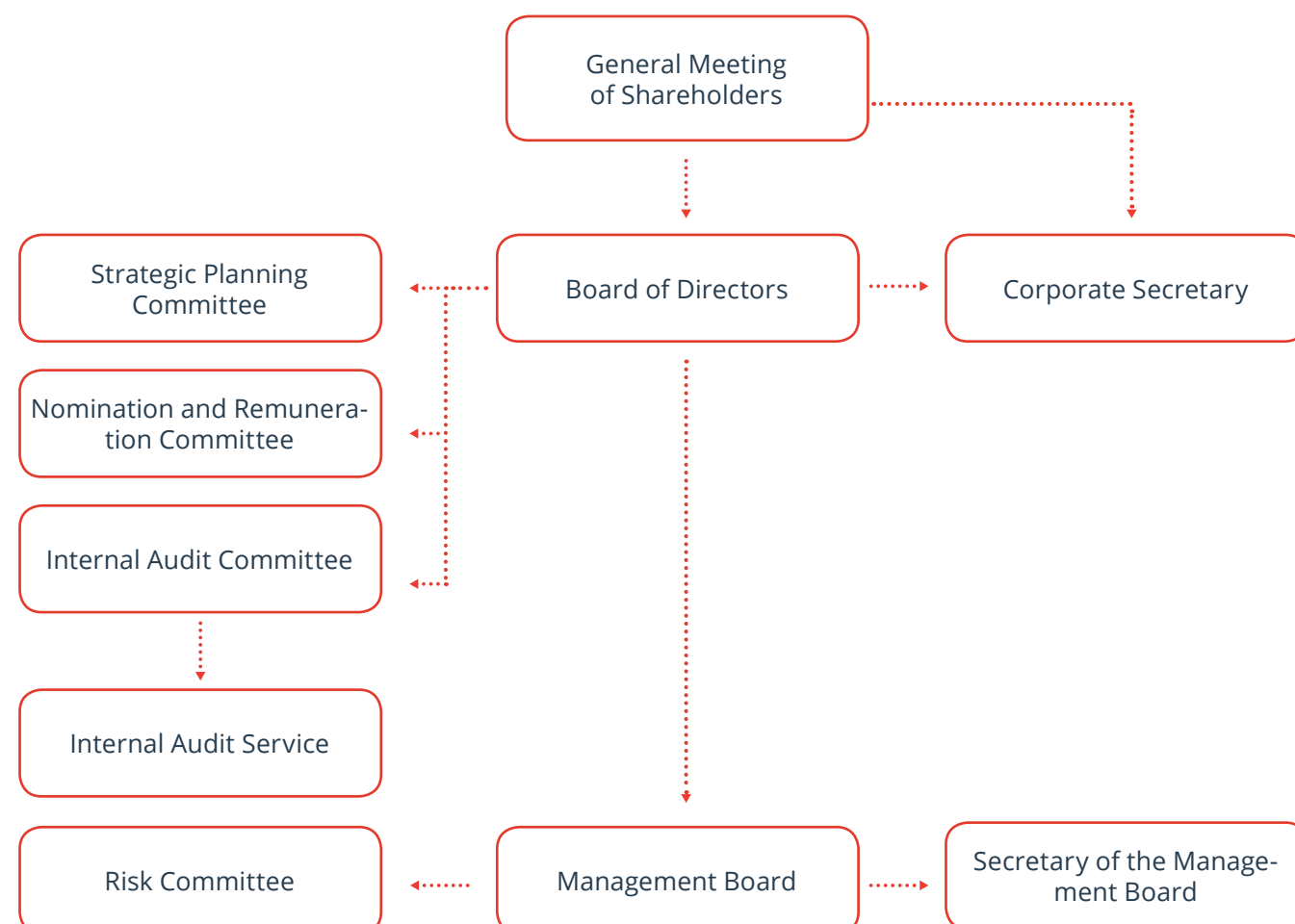
shares and approval of a dividend size per one ordinary share of the Company;

- approval of the Company's Annual Report for 2014;
- approval of the Annual Report on the work performed by the Company's Board of Directors for 2014;
- addressing shareholders' applications regarding the actions of the Company and its executive

officers for 2015 and the results of their addressing.

In addition, the quantitative composition and term of office of the Company's counting commission were determined and its members were elected.

Extraordinary General Meetings of Shareholders of the Company were not held in 2015.





### 4.1.3. Dividend policy

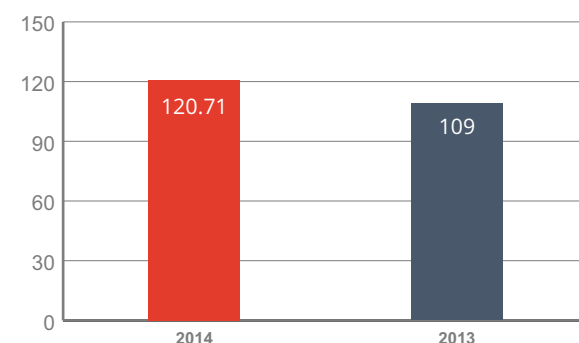
In July 2012, KazTransOil JSC approved the Dividend Policy, the aim of which was to maintain a balance of interests of the Company and its shareholders and to ensure a transparent approach to determining the amount of dividends payable to shareholders.

The Dividend Policy of the Company, including a procedure for determining a dividend amount and a dividend payment procedure, is available on the Company's corporate website in the "To shareholders and investors" section.

■ [http://kaztransoil.kz/en/to\\_shareholders\\_and\\_investors/information\\_for\\_shareholders\\_and\\_investors/dividend\\_policy/](http://kaztransoil.kz/en/to_shareholders_and_investors/information_for_shareholders_and_investors/dividend_policy/)

The amount of dividend paid for 2013 per one ordinary share of KazTransOil JSC was equal to 109 tenge, which provided a dividend yield of 15% to

*The amount of dividend paid for 2014 per one ordinary share, tenge*



the offering price. The total amount spent on dividend payment was equal to 41,925,280,291 (forty one billion nine hundred twenty five million two hundred eighty thousand two hundred ninety one) tenge, or 66% of the Company's consolidated net income for 2013. Payment of dividends was made during July of 2014.

The amount of dividend paid for 2014 per one ordinary share of the Com-

pany was equal to 120.71 tenge, which provided a dividend yield of 16.65% to the offering price. The total amount spent on dividend payment was equal to 46,429,363,155 (forty six billion four hundred twenty nine million three hundred sixty three thousand one hundred and fifty five) tenge, or 99.9% of the Company's consolidated net income for 2014. Payment of dividends was made on June 30, 2015.

## 4.2. Board of Directors

The management body of the Company that defines strategic goals and development priorities and sets basic guidelines of the Company's activity in the long term, ensures the availability of necessary financial and human resources for the achievement of the goals and addresses other significant issues.

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

According to the Company's Charter, the number of members of the Board of Directors shall be not less than three persons. At least thirty percent of members of the Board of Directors

of the Company shall be independent directors.

The Board of Directors of the Company is composed of six members. In accordance with the equity holding structure (90% of the total number of ordinary shares owned by NC KazMunayGas JSC), two members of the Board of Directors of the Company are representatives of the major shareholder – NC KazMunayGas JSC. Three members of the Company's Board of Directors

are independent directors, which ensures the protection of rights and interests of minority shareholders in accordance with the best international corporate governance practice. General Director (Chairman of the Management Board) of the Company is also a member of the Board of Directors.

All members of the Company's Board of Directors have high professional reputation and extensive experience in the industry.

### 4.2.1. Composition of the Board of Directors in 2015

Ardak Kassymbek, a representative of NC KazMunayGas JSC, is the Chairman of the Board of Directors of the Company. Besides, Ardak Mukushov is a representative of a major shareholder.

Kaigeldy Kabyldin had been a sole representative of the executive body of the Company in the Board of Directors till December 15, 2015.



**Ardak Kassymbek**

Chairman of the Board of Directors of KazTransOil JSC

Representative of NC KazMunayGas JSC

Born on September 29, 1977. In 1998 Ardak Kassymbek graduated from the al-Farabi Kazakh State National University (Bachelor and Master Degrees) with a major in International Economic Relations, assigned qualification – Economist. In 2001 he graduated from the Business School of City University of London (London, the United Kingdom) with a major in Banking and International Finance, assigned qualification – Financial Officer.

#### EMPLOYMENT HISTORY:

- **1998–2007** – Ardak Kassymbek started his career as a leading banker of the Structured Financing Department of Halyk Bank of Kazakhstan OJSC. Worked at NOGC Kazakhoil CJSC, KazMunayGas NC JSC, Atyrau Refinery LLP and Offshore Oil Company KazMunayTeniz JSC.
- **2007–2008** – Executive Director of NC KazMunayGas JSC.
- **2008–2009** – Managing Director of NC KazMunayGas JSC.
- **2009–2010** – General Manager for Corporate Finance and Assets Management in NC KazMunayGas JSC.
- **2010–2012** – General Manager for Corporate Finance and Assets Management in NC KazMunayGas JSC.
- **2012–2013** – Director for Corporate Finance and Assets Management in NC KazMunayGas JSC.
- **From November 2013** – Managing Director for Economics and Finance of NC KazMunayGas JSC
- **From October 19, 2012** – member of the Board of Directors of KazTransOil JSC, representative of NC KazMunayGas JSC.
- **From May 28, 2014 to January 29, 2016** – Chairman of the Board of Directors of KazTransOil JSC.

Citizen of the Republic of Kazakhstan.

Member of the Board of Directors of KazTransGas JSC, member of the Supervisory Board of KazRosGas LLP, member of the Board of Managing Directors of Cooperative KazMunayGas U.A., Mangistau Investment B.V., member of the Managing Committee of Kazakhstan Pipeline Ventures LLC, member of the Supervisory Board of the Scientific Research Institute for Production and Drilling Technology of KMG LLP (as of December 31, 2015).

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

Holding shares of the Company's suppliers and competitors: No



## Ardak Mukushov

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

Born on March 4, 1978. In 1998 Ardak Mukushov graduated from the Eurasian National University named after L.N. Gumilev with a major in Law and Law Education Methods, assigned qualification: Lawyer. In 2007 graduated from the Kazakh Economic University named after T. Ryskulov with a major in Economics, assigned qualification – Economist.

### EMPLOYMENT HISTORY:

- **2000–2003** – Started his career in the Main Department of Internal Affairs of Astana
- **2003–2010** – Held positions of Chief Specialist, Head of Department, Head of Administration, Deputy Director of the Legal Service of the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan.
- **2010–2013** – Director of the Legal Department of the Ministry of Oil and Gas of the Republic of Kazakhstan
- **2013–2014** – Advisor to the Chairman of the Management Board of NC KazMunayGas JSC
- **From August 12, 2014** – Director of the International Contracts Department of NC KazMunayGas JSC
- **From May 28, 2014 till the present day** – member of the Board of Directors of KazTransOil JSC, representative of NC KazMunayGas JSC.

Citizen of the Republic of Kazakhstan.

Membership in management bodies of other organisations: No.

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

Holding shares of the Company's suppliers and competitors: No



## Kaigeldy Kabyldin

Member of the Board of  
Directors of KazTransOil JSC

Born on January 1, 1953. In 1975 Kaigeldy Kabyldin graduated from the Kazakh Polytechnic Institute named after V.I. Lenin with a major in Electronic Computing Machines, assigned qualification – Electrical Engineer.

### EMPLOYMENT HISTORY:

- **1977–2002** – Kaigeldy Kabyldin started his career as a service engineer in the Ministry of Oil Industry of the USSR. He held senior positions in the Ministry of Energy and Fuel Resources, the Ministry of Oil and Gas Industry of the Republic of Kazakhstan, PA Main Pipelines of Kazakhstan and Central Asia, NOTC KazTransOil JSC, NC Oil and Gas Transportation CJSC.
- **2002–2007** – Managing Director of Transport Infrastructure and Service Projects, then Vice-President of NC KazMunayGas JSC
- **2007–2008** – Deputy Chairman of Samruk Kazakhstan Holding for State Assets Management JSC
- **2008–2011** – Chairman of the Management Board of NC KazMunayGas JSC
- **From October 2011 till December 15, 2015** – General Director (Chairman of the Management Board) of KazTransOil JSC, Deputy Chairman of the Management Board of NC KazMunayGas JSC for oil Transportation
- **From October 12, 2011 till January 12, 2016** – member of the Board of Directors of KazTransOil JSC.

Citizen of the Republic of Kazakhstan.

Membership in management bodies of other organisations: No.

Holding the Company's shares: 32,176 shares or 0.00837% of the total number of outstanding shares. Holding shares of SJCE: No.

Holding shares of the Company's suppliers and competitors: No



## Independent Directors

The reasoning behind a share of independent directors of 50% in the composition of the Company's Board of Directors is the best balance of experience, skills and qualification of the members of the Board of Directors.

Independent directors bring experience in the field of international management, strategic vision, knowledge of relevant industry-specific issues, corporate governance and risk man-

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

Selection criteria of members of the Board of Directors, including independent directors, are based on the Law of the Republic of Kazakhstan "On Joint Stock Companies", the Charter, the Corporate Governance Code and Regulations on the Board of Directors, which are available on the Company's corporate web-site in the "Corporate Governance" section.

In accordance with the Corporate Governance Code, the Board of Directors has established a fact of independence of directors Daniel Mihalik, Serik Primbetov and Moustafa Habib and defined that there are no any restrictions or circumstances that have or may have significant effects on making independent decisions by the said directors.

[http://kaztransoil.kz/en/to\\_shareholders\\_and\\_investors/corporate\\_governance/](http://kaztransoil.kz/en/to_shareholders_and_investors/corporate_governance/)



### Daniel Mihalik

Independent Director of KazTransOil JSC

Born on July 30, 1953. In 1976 Daniel Mihalik graduated from the University of Michigan – Master of Science of Petrochemical Technology. In 1982 he graduated from the University of Houston – Master Degree in Business Administration. In 1991 he graduated from the South Texas College of Law – Ph.D. in Legal Science.

#### EMPLOYMENT HISTORY:

- **1976–1997** – Daniel Mihalik started his career as a design engineer in biochemical industry, served as a design engineer in FLUOR Company (Houston, USA), senior research engineer in Getty and Texaco Research and Engineering companies (Houston, USA), manager in Gaviota Terminal Co. (Santa-Barbara, USA).
- **1982–2001** – Regional Vice-President of Texaco Pipeline International (London, the UK).
- **2001–2006** – Advisor in Kazakhstan North Caspian Partners (London, the UK).
- **2006–2008** – General Advisor in the Oil Pipeline Association (Washington, the USA).
- **From 2008** Independent consultant in the oil and gas sector
- **From August 19, 2008 till January 28, 2016** – Independent Director of KazTransOil JSC.

Citizen of the USA.

Membership in management bodies of other organisations: No.

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

Holding shares of the Company's suppliers and competitors: No



### Moustafa Habib

Independent Director of KazTransOil JSC

(on December 18, 2015 his powers of a member of the Board of Directors of KazTransOil JSC were terminated ahead of time on the basis of his written notice)

Born on December 10, 1944. In 1966 Moustafa Habib graduated from the University of Caen (France) with a major in Electrical Engineer and Petrochemist; he also has a degree of Master of Physics.

#### EMPLOYMENT HISTORY:

- **1970–1983** – Moustafa Habib started his career in Shell Manufacturing. He held various positions in departments in charge of development and research, procurement and acquisition of new oil fields.
- **1983–2002** – He worked for Chevron and held various positions in divisions located in Africa, Europe, the USA and Kazakhstan, where he participated in the design and construction of the demercaptanisation plant on Tengiz oil-field, marketing and development of alternative oil transportation route by railroad. He served as General Manager of the Eurasian Division in London and was responsible for oil transportation.
- **2002–2005** – Advisor in Nelson Resources (Kazakhstan).
- **2005–2007** – Advisor in Nobel Oil Azerbaijan
- **2007–2008** – Advisor of Kashagan Project in AGIP KCO
- **From November 24, 2008 till December 18, 2015** – Independent Director of KazTransOil JSC.

Citizen of France.

Membership in management bodies of other organisations: No.

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

Holding shares of the Company's suppliers and competitors: No



**Serik Primbetov**

Independent Director of  
KazTransOil JSC

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

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

#### EMPLOYMENT HISTORY:

- **1992–1994** – Deputy Head of the CIS Affairs Department of the Presidential Administration and the Cabinet of Ministers of the Republic of Kazakhstan
- **1994–1997** – Chairman (in the rank of Minister) of the Executive Committee of the Interstate Council of Kazakhstan, Kyrgyzstan and Uzbekistan.
- **1997–2002** – Deputy Chairman (in the rank of the First Vice-Minister) of the Executive Committee of the Interstate Council of the Central Asian Economic Community (CAEC).
- **February – September 2002** – Advisor to the President of the Republic of Kazakhstan, National Coordinator of the Central Asian Cooperation Organisation
- **2002–2008** – Deputy General Secretary of the EEC
- **2008–2013** – Extraordinary and Plenipotentiary Ambassador of the Republic of Kazakhstan to the Republic of Azerbaijan
- **2013 – December 2015** – Advisor to the Chairman of the Management Board of the Eurasian Development Bank
- **From December 2015** – Director of the Representative Office of the Eurasian Development Bank in Bishkek (the Kyrgyz Republic)
- **From May 28, 2014 till the present day** – Independent Director of KazTransOil JSC.

Citizen of the Republic of Kazakhstan.

Membership in management bodies of other organisations: No.

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

Holding shares of the Company's suppliers and competitors: No

## 4.2.2. Changes in the composition of the Board of Directors



On December 18, 2015, Moustafa Habib withdrew from the Board of Directors based on a written notice of early termination of his powers as a member of the Board of Directors.

## 4.2.3. Information on meetings of the Board of Directors

In 2015, the Board of Directors held 12 meetings, including 1 meeting in absentia, where resolutions were passed in the following key areas:

- **Strategic development:** review of the Report for 2014 on implementing the Development Strategy for 2012–2022; review of the Report on implementing the Business Plan for 2014; transformation of the Company's business functions within the framework of the Road Map under the Transformation Programme of NC KazMunayGas JSC; approval of Business Plans for 2016–2020 for the re-evaluated and historical costs of fixed assets;
- **Corporate governance:** approval of the Company's corporate key performance indicators and their target values for 2016; approval of motivational key performance

indicators for executive officers, corporate secretary and Head of the Internal Audit Service and their target values for 2015; approval of the Corporate Social Responsibility Strategy of KazTransOil JSC, the Regulations on the Corporate Secretary of KazTransOil JSC and the Regulation on the Ombudsman of KazTransOil JSC; the Regulations on determining the quantitative composition, term of office of the Management Board of KazTransOil JSC and election of General Director (Chairman of the Management Board) and members of the Management Board;

- **Financial and economic activities:** preliminary approval of the annual financial statements and consolidated annual financial statements of the Company for 2014; proposal of the Board of

Directors to the General Meeting of Shareholders relating to the procedure distribution of the Company's net profit for 2014 and the amount of dividend for 2014 per one ordinary share of the Company; conclusion of interested-party transactions;

- **Issues attributed to the competence of general meetings of participants/shareholders of subsidiaries and jointly controlled entities of the Company;**
- **Issues in the field of sustainable development:** addressing and approval of the personnel policy of the Company;
- **Internal audit:** review of reports of the Internal Audit Service; appointments in the Internal Audit Service of the Company and setting the amount and condi-



tions of remuneration and bonus payment;

- **Risk management and internal control:** review of reports for 2014 on the implementation of plans for the corporate risk management system and internal control system improvement; approval of the Risk Management Programme of KazTransOil JSC for 2015–2017 and the Regulations on the internal control system of KazTransOil JSC;

- **Approval of internal regulations of the Company:** Policy for settlement of conflicts of interests of officers and employees of KazTransOil JSC; revised Accounting Policy of KazTransOil JSC; revised Rules for business planning of KazTransOil JSC; Rules for assessment of performance efficiency of executives, managers and corporate secretary of KazTransOil JSC and other regulations.

Additional information on resolutions made by the Board of Directors in 2015 is available on the Company's web-site in the "Corporate Governance" section.

■ [http://kaztransoil.kz/en/to\\_shareholders\\_and\\_investors/corporate\\_governance/the\\_board\\_of\\_directors/?913099016](http://kaztransoil.kz/en/to_shareholders_and_investors/corporate_governance/the_board_of_directors/?913099016)

#### Attendance at meetings of the Board of Directors

Director	Attendance at meetings (11 meetings in praesentia and 1 meeting in absentia)	%	Period of membership in the Board of Directors during the reporting period
Ardak Kassymbek	12 out of 12	100	01.01.2015 – 31.12.2015
Kaigeldy Kabyldin	12 out of 12	100	01.01.2015 – 31.12.2015
Daniel Mihalik	12 out of 12	100	01.01.2015 – 31.12.2015
Ardak Mukushov	12 out of 12	100	01.01.2015 – 31.12.2015
Moustafa Habib	12 out of 12	100	01.01.2015 – 18.12.2015
Serik Primbetov	12 out of 12	100	01.01.2015 – 31.12.2015



#### 4.2.4. Responsibility of the Board of Directors

Competence of the Board of Directors is defined in accordance with article 11 of the Company's Charter.

The Board of Directors is responsible to the General Meeting of Share-

holders for the effective management and proper control over the Company's activities in accordance with the current decision-making system.

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

#### 4.2.5. Remuneration of members of the Board of Directors

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

Representatives of NC KazMunayGas JSC and head of the Company's

executive body being members of the Board of Directors do not receive remuneration for their work in the Board.

Pursuant to the contracts, independent directors receive the following types of remuneration:

- fixed remuneration in the amount of 80,000 (eighty thousand) US dollars per year;
- additional remuneration for participation in meetings in

praesentia of the Board of Directors in the amount of 1,000 (one thousand) US dollars.

The total amount of remuneration accrued to independent directors of the Company based on their performance for 2015 was equal to 93,526 thousand tenge, including taxes.

#### Remuneration paid to independent directors of the Company, thousand tenge

Independent Director	Annual remuneration	For participation in Committees' meetings in praesentia	Total, excluding taxes	Total, including taxes
Moustafa Habib	21,031	5,235	26,266	29,185
Daniel Mihalik	24,608	5,235	29,843	33,159
Serik Primbetov	22,828	5,235	28,063	31,181
Total:	68,468	15,705	84,173	93,526

Additional information on conditions of remuneration payable to members of the Board of Directors is available on the Company's website in the "Corporate Governance" section.

■ [http://kaztransoil.kz/en/to\\_shareholders\\_and\\_investors/corporate\\_governance/the\\_board\\_of\\_directors/?913099016](http://kaztransoil.kz/en/to_shareholders_and_investors/corporate_governance/the_board_of_directors/?913099016)

#### 4.2.6. Information on activities of Committees of the Board of Directors

The Committees of the Board of Directors are advisory and consultative bodies of the Company's Board of Directors established for the purpose of rendering assistance in effective performance of functions

of the Board of Directors, addressing the most important issues and providing recommendations to the Board of Directors within their competence.

The Board of Directors includes the following three Committees:

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

### Committees of the Board of Directors

Strategic Planning Committee	Nomination and Remuneration Committee	Internal Audit Committee
The Committee has been established in order to improve the efficiency and quality of work of the Company's Board of Directors through the preliminary review and preparation of recommendations to the Board of Directors regarding the development strategy of the Company, including establishment of priority areas of its activities.	The main purpose of the Committee is to assist the Board of Directors in exercising its powers of selection, appointment (election), evaluation and remuneration of members of the Board of Directors, General Director (Chairman of the Management Board), members of the Management Board and the Corporate Secretary.	The function of the Internal Audit Committee is to assist the Board of Directors of the Company in internal and external audit, financial statements, internal control and risk management, assets evaluation, compliance with the laws of the Republic of Kazakhstan as well as any other issues as requested by Company's Board of Directors.
In 2015, the Committee was composed of the following members: Moustafa Habib (Chairman), Kaïrgeldy Kabyldin, Daniel Mihalik, Ardak Mukushov and Serik Primbetov.	In 2015, the Committee was composed of independent directors only, namely: Daniel Mihalik (Chairman), Serik Primbetov and Moustafa Habib.	In 2015, the Internal Audit Committee was composed of the following members: Serik Primbetov (chairman), Ardak Kassymbek, Daniel Mihalik and Moustafa Habib.
In the reporting period the Committee held 7 meetings in praesentia and made recommendations for the following key issues: <ul style="list-style-type: none"> <li>approval of adjusted Business Plans of the Company;</li> <li>proposal of the Board of Directors to the General Meeting of Shareholders of the Company for the procedure of distribution of the Company's net income for 2014 and amount of dividend for 2014 per one ordinary share of the Company;</li> <li>consideration of the Report for 2014 on implementing the Development Strategy of KazTransOil JSC;</li> <li>transformation of the Company's business functions within the framework of the Road Map under the Transformation Programme of NC KazMunayGas JSC;</li> <li>acquisition by the Company of 100% stake in the authorised capital of Batumi Oil Terminal LLC and 100% stake of shares in Petrotrans Limited as a result of voluntary dissolution of Batumi Terminals Limited, etc.</li> </ul>	In the reporting period, the Committee held 7 meetings in presentia and made recommendations for the following key issues: <ul style="list-style-type: none"> <li>determination of the quantitative composition, term of powers of the Management Board, election of the General Director (Chairman of the Management Board) and members of the Management Board as well as establishment of the amount of their wages, conditions of remuneration and bonus payment;</li> <li>approval of the Company's corporate and motivational key performance indicators and their target values for 2015;</li> <li>appointment of the Company's Ombudsman;</li> <li>payment of remuneration to executive employees of the Company on the basis of their performance for 2014, etc.</li> </ul>	In the reporting period the Internal Audit Committee held 8 meetings in presentia and 1 meeting by absentee voting, to which recommendations were made for the following key issues: <ul style="list-style-type: none"> <li>preliminary approval of the annual financial statements and consolidated annual financial statements of the Company for 2014;</li> <li>conclusion of the Company's interested-party transactions;</li> <li>consideration of reports of the Internal Audit Service;</li> <li>appointments in the Internal Audit Service of the Company and establishment of the amount and conditions of remuneration and bonus payment, etc.</li> </ul>

Additional information on the requirements to the composition of Committees of the Board of Directors and procedure for holding meetings of Committees is available on the Company's website in the "Corporate Governance" section.

[http://kaztransoil.kz/en/to\\_shareholders\\_and\\_investors/corporate\\_governance/committees\\_of\\_the\\_board\\_of\\_directors/](http://kaztransoil.kz/en/to_shareholders_and_investors/corporate_governance/committees_of_the_board_of_directors/)

### 4.2.7. Relationships with shareholders and investors

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

Fundamental rights of shareholders are exercised in accordance with the laws of the Republic of Kazakhstan and the Company's Charter.

On October 30, 2012, in connection with the initial public offering of the Company's shares at Kazakhstan stock exchange, the Company and its major shareholder – NC KazMunayGas JSC signed an Agreement on Relationship allowing for transparent market principles of cooperation between the Company

and its major shareholder and enabling the Company to act in the best interests of all its shareholders.

The Board of Directors ensures equal treatment of all shareholders and provides them with an opportunity to participate in the management of the Company through the General Meeting of Shareholders, obtain information about the Company's activity and receive dividends.

Information affecting the shareholders' interests is promptly posted on websites of the Company, Kazakhstan Stock Exchange JSC and the financial statements depository.

The Company has established the Investor Affairs Service, the main task of which is effective communication between the Company's management and the investment community (potential investors, minority shareholders and professional participants of the securities market) with the aim to maintain and strengthen the reputation of KazTransOil JSC as an investment-attractive company.

In 2015, there were no appeals of the Company's shareholders with respect to actions of the Company and its officers.

## 4.3. Internal Audit Service

An Internal Audit Service is a body of the Company directly subordinated and accountable to the Board of Directors. The Internal Audit Service supervises financial and economic activities of the Company, carries out evaluation in the field of internal control, risk management and execution of related to corporate governance and provides consultations for the purpose of improving the Company's operations. Activities of the Service are supervised by an Internal Audit Committee of the Board of Directors of the Company.

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

The Service carries out its activities in accordance with the Annual Audit Plan approved by the Board of Directors of the Company.

During the reporting period, pursuant to the Annual Audit Plan of the Service for 2015, 8 audits were carried out with respect to selected business processes of the Company, IT audit of the Company (in conjunction with the synergistic working group of Samruk-Kazyna JSC) and a separate audit of production, operational and financial processes of Batumi Oil Terminal LLC and Batumi Sea Port LLC.

**In 2015, in the course of audits the 76 findings and 122 recommendations have been made by the Service. On the basis of all recommendations of the Service in 2015, the auditees have developed and approved Plans of corrective actions for the revealed issues.**

The Annual Audit Plan of the Company's Internal Audit Service for 2016 was approved by the resolution of the Board of Directors dated November 16, 2015.

**Plans for 2016 are as follows:**

- evaluation of efficiency of business processes, policies and procedures in the core areas of the Company's activities;
- diagnostics of the corporate governance system according to the

corporate governance appraisal procedure;

- monitoring of execution of recommendations issued by the Internal Audit Service, NC KazMunayGas JSC and external auditor of the Company.



## 4.4. Management Board

The Management Board of KazTransOil JSC is a collegial executive body managing the daily operations of the Company. The Management Board fulfils its functions in accordance with the Charter of the Company, the Regulations on the Management Board and other internal regulations of the Company.

The main principles of the Management Board activities are honesty, fidelity, reasonableness, diligence, regularity as well as the maximum respect to the rights and interests of the Company's shareholders and accountability to the General Meeting of Shareholders and the of Board of Directors.

The quantitative composition, term of powers of the Management Board, election of General Director (Chairman of the Management Board) and members of the Management Board as well as early termination of their powers are in exclusive competence of the Board of Directors.

The Management Board of the Company is headed by the General Director (Chairman of the Management Board). Competence of the Management Board and powers of the General Director (Chairman of the Management Board) of the

Company are defined by Article 12 of the Charter.

The key issues in the competence of the Management Board include among other things:

- implementation of the Development Strategy and Business Plan of the Company, submission of an annual Report on implementation of the Development Strategy and Business Plan of the Company to the Board of Directors;
- approval of the staff schedule of the central office and the Company's structure subject to the regular number of employees and the structure of the central office of the Company and regular number of the Corporate Secretary service approved by the Board of Directors, as well as approval of the regular number of employees, staff schedule and structure of branches and representative offices of the Company;

- coordination and supervision of activities of branches, representative offices of the Company and its subsidiaries and jointly controlled entities.

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

Additional information on activities of the Management Board is available on the Company's website in the "Corporate Governance" section.

📄 [http://kaztransoil.kz/en/to\\_shareholders\\_and\\_investors/corporate\\_governance/management\\_board/](http://kaztransoil.kz/en/to_shareholders_and_investors/corporate_governance/management_board/)



**Nurtas Shmanov**

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

Born on December 24, 1956. In 1979 graduated from the Ufa Petroleum Institute with a major in design and operation of oil and gas pipelines, gas storages and petroleum Installations; assigned qualification - mechanical engineer. In 1994 obtained an MBA degree in Massachusetts University, Boston, the USA. In 1998 graduated from the Institute of Market under the Kazakh State Academy with specialisation in finance and credit.

### EMPLOYMENT HISTORY:

- **1979–1992** – Nurtas Shmanov started his carrier as a repairman of basic process equipment, afterwards he worked as Chief Dispatcher of the Operation and Dispatch Service, Head of the Oil Pipeline Operation Department, Chief Engineer of Atyrau and Aktope Oil Pipeline Administrations of the Company, Supervisor of the Tengiz-Grozny oil pipeline section under construction (CPC).
- **1992–1994** – Studied at Massachusetts University (Boston, USA), completed training job at Chevron Company.
- **1994–2006** – Held the following positions: Transportation and Logistics Manager, Technical Manager, Regional Transportation Manager, Commercial Manager at ChevronMunayGas and ChevronNefteGaz (Moscow).
- **2006–2007** – Deputy General Director for general affairs of CPC-R.
- **2007–2009** – General Director (Chairman of the Management Board) of the Company.
- **2009–2012** – Managing Director for oil transportation (member of the Management Board) of NC KazMunayGas JSC.
- **2012–2013** – Deputy Chairman of the Management Board for transport infrastructure (member of the Management Board) of NC KazMunayGas JSC.
- **2013–December 15, 2015** – Deputy Chairman of the Management Board for service projects (member of the Management Board) of NC KazMunayGas JSC.
- **From December 16, 2015 till the present day** – General Director (Chairman of the Management Board) of the Company
- Holds concurrently the office of Deputy Chairman of the Management Board of NC KazMunayGas JSC for oil transportation
- **From September 8, 2011 till February 17, 2014** – Chairman of the Board of Directors of KazTransOil JSC, representative of NC KazMunayGas JSC.
- Holds the office of Chairman of Supervisory Boards of National Maritime Shipping Company "Kazmortransflot" LLP and KMG Systems & Services LLP (as of December 31, 2015).

Citizen of the Republic of Kazakhstan.

Holding the Company's shares: 9,655 shares or 0.00251% of the total number of outstanding shares.

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

Holding shares of the Company's suppliers and competitors: No

### 4.4.1. Composition of the Management Board in 2015

In 2015, the Management Board consisted of eight members.

#### Composition of the Management Board of the Company

Name, Surname	Position
Kaigeldy Kabyldin till 15.12.2015 Nurtas Shmanov from 16.12.2015	General Director (Chairman of the Management Board)
Sissengali Utegaliyev	First Deputy General Director for Production
Assem Nussupova	Deputy General Director for Economy and Finance
Ruslan Mestoyev	Deputy General Director for Business Support
Bolat Otarov	Deputy General Director for Transportation
Bulat Zakirov	Deputy General Director for Development
Almas Ungarsynov	Chief of Staff
Zhaidarman Issakov	Managing Director for Legal Support



## Sissengali Utegaliyev

First Deputy General Director  
of KazTransOil JSC for  
Production

Born on June 9, 1950. In 1972 Sissengaly Utegaliyev graduated from the Exploration Faculty of Tyumen Industrial Institute with a major in Geology and Exploration of Oil and Gas Deposits, assigned qualification – Mining Engineer-Geologist.

### EMPLOYMENT HISTORY:

- **1972–1984** – Served as an operator on oil and gas production; held various senior engineering technical positions of Mangyshlak Gas Production Department of Mangyshlakneft PA
- **1984–1995** – Head of the oil field, Chief Engineer – First Deputy of Zhetybaineft OGPO, Mangyshlakneft PA
- **1995–1997** – Head of the Main Department for Production Development in the Ministry of Oil and Gas Industry of the Republic of Kazakhstan.
- **1997–2002** – Held various positions: from Chief Specialist of the Technical Policy Department to Director of the Project Management Department of NOC Kazakhoil CJSC
- **2002–2004** – Director of the Development and Production Department, Director of the Oil and Gas Production Department of NC KazMunayGas JSC.
- **2004–2007** – Deputy General Director for Production of Exploration Production KazMunayGas JSC
- **2007–2009** – Managing Director of NC KazMunayGas JSC.
- **2009–2012** – General Manager of Mining Projects of NC KazMunayGas JSC.
- **From March 2012** – First Deputy General Director of KazTransOil JSC for Production
- **From March 16, 2012 till January 14, 2016** – member of the Management Board of KazTransOil JSC.

Citizen of the Republic of Kazakhstan.

Membership in management bodies of other organisations: No.

Holding the Company's shares: 4,650 shares or 0.0012% of the total number of outstanding shares.

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

Holding shares of the Company's suppliers and competitors: No



## Assem Nussupova

Deputy General Director of  
KazTransOil JSC for Economy  
and Finance

Born on May 1, 1975. In 1996 Assem Nussupova graduated from the al-Farabi Kazakh State National University with a major in Economics and Management, assigned qualification – Economist, specialist in the field of Management. In 1998, she completed the Master's Programme at the same university in Economics with a major in Economics and Management and was awarded the Degree of Master of Economics.

### EMPLOYMENT HISTORY:

- **1998–2008** – Served as a teacher of the Management Department at Kazakh State National University named after Al Farabi, an expert analyst in the NPV consulting firm, Chief Expert in the Security Council of the Republic of Kazakhstan, Head of sector of the Presidential Administration of the Republic of Kazakhstan, Advisor to the Minister of Finance of the Republic of Kazakhstan, Advisor to the Prime Minister, Head of the Consolidated Analytical Department of the Prime Minister's Office of the Republic of Kazakhstan, Vice-Minister of Health of the Republic of Kazakhstan
- **From December 2008** – Deputy General Director of KazTransOil JSC for Economy and Finance
- **From February 12, 2009 till the present day** – member of the Management Board of KazTransOil JSC.

Citizen of the Republic of Kazakhstan.

Member of the Board of Directors of NWPC MunaiTas JSC (as of December 31, 2015).

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

Holding shares of the Company's suppliers and competitors: No





## Ruslan Mestoyev

Deputy General Director of  
KazTransOil JSC for Business  
Support

Born on August 21, 1973. In 2002 Ruslan Mestoyev graduated from the Almaty State University named after Abay with a major in Information Technology and Manager on Computer Application.

### EMPLOYMENT HISTORY:

- **1990–2011** – R. Mestoyev started his career as a computer operator in Kazakhintorg State Foreign Trade Company under the Ministry of Foreign Economic Relations of the Republic of Kazakhstan.
- He held senior positions in Glencore International AG, Vneshinvest corporation, Ular Public Pension Fund JSC, served as an adviser to Mayor of Atyrau region, headed the Atyrau regional branch of Halyk Bank OJSC, headed the division of the transport service market and development of auto and electric transport of the Ministry of Transport and Communications of the Republic of Kazakhstan.
- He served also as an adviser to General Director in Oil and Gas Transport JSC, Director of the Contracts Department, headed the Moscow representative office of KazTransOil JSC, Managing Director of Public Procurement in NC Kazakhstan Temir Zholy JSC.
- He additionally worked in the North Caspian Operating Company and Shell Development Kashagan (the Netherlands).
- **2011–2012** – Held the following positions: Managing Director of KazTransOil JSC for Business Support, Chief of Staff of KazTransOil JSC, Deputy General Director of KazTransOil JSC for Transportation.
- **From September 20, 2012** – Deputy General Director of KazTransOil JSC for Business Support
- **From December 9, 2011 till February 5, 2016** – member of the Management Board of KazTransOil JSC.

Citizen of the Republic of Kazakhstan.

Membership in management bodies of other organisations: No.

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

Holding shares of the Company's suppliers and competitors: No



## Bolat Otarov

Deputy General Director  
of KazTransOil JSC for  
Transportation

Born on February 23, 1966. In 1988 he graduated from the Kazakh Polytechnic Institute named after V.I. Lenin with a major in Technology of Machine-Building, Metal-Cutting Machines and Tools; assigned qualification – Mechanic Engineer.

### EMPLOYMENT HISTORY:

- **1988–1998** – Worked in the experimental oil-and-gas production department of Karazhanbastermneft, Komsomolskneft oil-and-gas production department, KalamkasMunaiGas oil-and-gas production department and Yuzhnefteprovod PA.
- **1998–1999** – Deputy Director for Transportation, Head of the Commodity-Transportation Department of the Western Branch of KazTransOil JSC.
- **1999–2003** – Director of the Transportation Department of KazTransOil JSC
- **2003–2006** – Executive Director for Commodity-Transport Operations of KazTransOil JSC.
- **2006–2007** – Executive Director for Transportation of KazTransOil JSC.
- **From May 2007** – Deputy General Director of KazTransOil JSC for Transportation.
- **From February 20, 2008 till the present day** – member of the Management Board of KazTransOil JSC.

Citizen of the Republic of Kazakhstan.

Till April 2015 - Director of Batumi Terminals Limited (as of December 31, 2015).

Holding the Company's shares: 135 shares or 0,00004% of the total number of outstanding shares.

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

Holding shares of the Company's suppliers and competitors: No



## Bulat Zakirov

Deputy General Director of KazTransOil JSC for Development

Born on July 16, 1976. In 1997 he graduated from the Kazakh State Academy of Management with a major in International Economic Relations, assigned qualification – International Economist. He gained the Master of Science Degree in the field of energy sector (MSc in Energy Studies) in the University of Dundee (the UK) with a major in Economy of Oil and Gas.

### EMPLOYMENT HISTORY:

- **1999–2001** – Specialist of the Strategic Planning Department in KazTransOil JSC, Chief Specialist, Project Coordinator, Manager of the Project Management Department of KazTransOil JSC
- **2001–2006** – Chief Manager, Deputy Director, Director of the Transport Logistics Department of KazTransOil JSC.
- Director of the Perspective Development Department of KazTransOil JSC
- **2006–2009** – Deputy General Director of KazTransOil JSC for Development
- **2009–2011** – Deputy General Director, General Director of KMG-Transcaspiian LLP
- **January–April 2012** – Adviser to General Director of KazTransOil JSC, then Managing Director of KazTransOil JSC
- **From May 2012** – Deputy General Director of KazTransOil JSC for Development.
- **From March 16, 2012 till the present day** – member of the Management Board of KazTransOil JSC

Citizen of the Republic of Kazakhstan.

Member of the Board of Directors of CPC-R CJSC

Till November 2015 – Director of Batumi Terminals Limited.

From November till the present day – Chairman of the Supervisory Board of Batumi Oil Terminal LLC (as of December 31, 2015).

Holding the Company's shares: 1,520 shares or 0.00040% of the total number of outstanding shares.

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

Holding shares of the Company's suppliers and competitors: No



## Zhaidarman Issakov

Managing Director for Legal Support of KazTransOil JSC

Born on October 29, 1965. In 1989 he graduated from the Kazakh State University named after S.M. Kirov with a major in Jurisprudence, assigned qualification – Lawyer. In 2003 he completed training in the Academy of National Economy under the Government of the Russian Federation, specialisation – “Lawyer in Oil and Gas Sector”.

### EMPLOYMENT HISTORY:

- **1989–2000** – Zhaidarman Issakov started his career as a legal adviser at the trade and procurement base No. 456 of the Department of Commerce of the Ministry of Defence of USSR, and then worked in law firms, Bogas Corporation – Head of the Law Department; Moscow Branch of the Kazakh joint-stock bank Turanbank – leading adviser, chief specialist - legal adviser; he held various positions from chief specialist to Deputy Director of the Law Department in the Ministry of Finance of the Republic of Kazakhstan
- **2000–2001** – Deputy Director of the Law Department of KazTransGas CJSC
- **2001–2002** – Chief legal adviser of the Legal Department in NC Oil and Gas Transport JSC.
- **2002** – Chief lawyer of the Legal Support Department of NC KazMunayGas JSC
- **2002–2014** – Director of the Law Department of KazTransOil JSC.
- **From May 4, 2014** – Managing Director for Legal Support of KazTransOil JSC
- **From May 12, 2003 till the present day** – member of the Management Board of KazTransOil JSC

Citizen of the Republic of Kazakhstan.

Membership in management bodies of other organisations: No.

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

Holding shares of the Company's suppliers and competitors: No





**Almas Ungarsynov**  
Chief of Staff of KazTransOil JSC

Born on October 10, 1976. In 1998 he graduated from the Kazakh State Academy of Management with a major in Finance and Credit, assigned qualification – “Economist”. In 2005 he graduated from the Aktau State University named after Sh. Yessenov with a major in Oil and Gas Field Development, assigned qualification – “Mining Engineer”.

#### EMPLOYMENT HISTORY:

- **1998–1999** – Worked in the Tax Committee of Auezov district of Almaty, Almaty Head Office of the Tax Police Committee. Positions: Tax Inspector, Tax Police lieutenant
- **2000–2002** – Held the following positions in the NC Kazakhoil JSC: Chief Analyst of the Tengiz Project Department, Head of sector of the Service Project Department, Manager of the Service Project Department
- **2002** – Vice-President of UzenMunayGas OJSC
- **2002–2004** – Worked in the Agency on Regulation of Natural Monopolies and Protection of Competition of the Republic of Kazakhstan in the position of Director of the Department of Regulation of Natural Monopolies and Protection of Competition of Mangistau Region
- **2004** – Chief of Staff, Advisor to General Director of Exploration Production KazMunayGas JSC
- **2009–2011** – Advisor to General Director, Commercial Director, Deputy General Director of GosNPCZem Republican State Enterprise
- **from July 9, 2012** – Chief of Staff of KazTransOil JSC
- **From May 27, 2014 till January 12, 2016** – member of the Management Board of KazTransOil JSC

Citizen of the Republic of Kazakhstan.

Membership in management bodies of other organisations: No.

Holding the Company's shares: 5,338 shares or 0,00139% of the total number of outstanding shares.

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

Holding shares of the Company's suppliers and competitors: No

## 4.4.2. Information on meetings of the Management Board

During 2015, the Management Board held no meetings in absentia and held 29 meetings in praesentia, where, among other things, resolutions were made in the following key areas:

- **Strategic development:** approval of the report for 2014 on the implementation of the Development Strategy of the Company for 2012–2022; approval of the Action Plan for 2015 for implementation of the Development Strategy for 2012–2022;
- **Corporate governance:** approval of motivational key performance indicators for management employees of the Company and their target values for 2015; approval of the Corporate Social Responsibility Strategy of the Company;
- **Financial and economic activities:** approval of the annual financial statements and consolidated annual financial statements of the Company for 2014; approval of the annual financial statements of KCP LLP, NWPC MunaiTas JSC and BTL for 2014; approval of the Company's business plan for 2016–2020; conclusion of the interested-party transactions by organisations included in the group of companies of Samruk-Kazyna JSC;
- **Risk management and internal control:** approval of the Classifier of business processes of the head office of the Company, updated matrices of risks and controls, and flow charts on key business processes of the central office of the Company; consideration of the Report on activities of the Risk Committee for 2014; approval of the Report on the implementation of the Action Plan for the improvement of the internal control system for 2014 and the Report on the implementation of the Action Plan for the improvement of the corporate risk management system for 2013–2014; approval of the Risk Management Programme for 2015–2017 and quarterly Report on key risks dynamics and progress of execution of the

Action Plan for management of the Company's key risks.

- **Issues falling within the competence of general meetings of participants/shareholders of subsidiaries and jointly controlled entities of the Company;**
- **Approval of internal regulations of the Company:** Youth Policy; Rules for formation and organisation of work with personnel reserve; Rules of internal communications between the employer and employees of the Company; Rules for the IMS document management; IMS Regulations; Rules for preparation, conclusion and execution of contracts and agreements, etc.

In total, the Company's Management Board made decisions on 183 issues addressed. At the same time, 3 issues addressed by the Management Board were submitted for consideration to the General Meeting of Shareholders of the Company and 77 issues were submitted for consideration to the Board of Directors.

#### Attendance at meetings of the Management Board in 2015

Member of the Management Board	Meeting attendance rate	%	Period of membership in the Management Board during the reporting period
Kairgeldy Kabyldin	27 out of 27	100	01.01.2015 – 15.12.2015
Nurtas Shmanov	2 out of 2	100	16.12.2015 – 31.12.2015
Sissengali Utegaliyev	21 out of 29	72	01.01.2015 – 31.12.2015
Assem Nussupova	26 out of 29	90	01.01.2015 – 31.12.2015
Ruslan Mestoyev	19 out of 29	65	01.01.2015 – 31.12.2015
Bolat Otarov	26 out of 29	90	01.01.2015 – 31.12.2015
Bulat Zakirov	24 out of 29	83	01.01.2015 – 31.12.2015
Almas Ungarsynov	24 out of 29	83	01.01.2015 – 31.12.2015
Zhaidarman Issakov	26 out of 29	90	01.01.2015 – 31.12.2015

#### 4.4.3. Risk Committee

To address preliminary the issues related to risk management and preparation of relevant recommendations, the Management Board of the Company has established a Risk Committee.

The Committee is an advisory and consultative body, which carries out its activities in accordance with the Regulations on the Risk Committee of KazTransOil JSC and other internal documents of the Company in the field of risk management and internal control.

During the reporting period, the Risk Committee held 6 meetings, including 5 meetings in praesentia and 1 meeting in absentia, to address issues of further improvement of the corporate risk management and internal control systems of the Company.

In the reporting period, for the purpose of further improvement of the CRMS the Risk Committee addressed, agreed upon and approved the following documents:

- draft Risk Management Programmes of KazTransOil JSC for 2015–2017;
- draft amendments and additions to Regulations on the internal control system of KazTransOil JSC;
- draft Classifier of business processes of the Company for 2015;
- draft Calendar Schedule for the development/updating of risk matrices and controls the Company for 2015;
- draft risk matrices and controls as well as flow charts for 15 business processes of the central office of the Company;
- draft Programme of measures aimed to reduce high risks in the field of occupational safety and health of KazTransOil JSC;
- Report on the implementation of the Plan for improvement of the corporate risk management system of KazTransOil JSC for 2013–2014;
- Report on the implementation of the Plan for improvement of the internal control of KazTransOil JSC for 2014;
- quarterly Report on dynamics of the key risks and progress of exe-

cution of the Action Plan for key risk management.

In 2016, the Risk Committee is planning to consider:

- draft Classifier of business processes of KazTransOil JSC for 2016;
- quarterly Report on dynamics of risks and progress of execution of the Action Plan for risk management.
- draft Programme of measures aimed to reduce high risks in the field of occupational safety and health of the Company;
- updated risk matrices and controls as well as flow charts for the key business processes of the central office of the Company;
- draft Risk Management Programmes of KazTransOil JSC for 2016–2018.

## 4.5. Corporate ethics, settlement of corporate conflicts and conflicts of interest

The fundamental corporate values, which form a basis of the Company's activities, are as follows: honesty, reliability, professionalism of its employees, effectiveness of their performance, mutual assistance, mutual respect, respect for stakeholders and society as a whole.

The Company has implemented the Code of Corporate Ethics, which aims to develop corporate culture and promote effective stakeholder engagement through the application of the business conduct practice. Compliance with the Code of Corporate Ethics is mandatory for all officers and employees of the Company.

The procedures for prevention of conflicts of interests are regulated by the following documents: the Policy for breach risk management of KazTransOil JSC and the Policy of settlement of conflicts of interests of officers and employees of KazTransOil JSC. These documents are aimed to counter violations and control the risk of their occurrence in the Company, as well as to ensure a fair, impartial and independent decision-making process for the benefit of employees and officers of the Company. Employees of the Company carry out their activities in compliance with the principles and procedures set forth in the specified Policies.

An officer of the Company shall immediately inform, in writing, the Chairman of the Board of Directors through the Corporate Secretary of

the Company in case of presence or occurrence of a conflict of interest so that the Board of Directors could make a decision on the settlement of the conflict.

An employee of the Company shall immediately inform his/her line manager in case of presence or occurrence of a conflict of interest in order to resolve such a conflict.

The General Director (Chairman of the Management Board) acting on behalf of the Company shall resolve corporate conflicts relating to all issues not attributed to the competence of the Company's Board of Directors and determine independently the procedure for settlement of corporate conflicts.

The Board of Directors shall resolve corporate conflicts relating to all issues within its competence. Corporate Secretary shall ensure the highest possible level of awareness of the Board of Directors of the essence of a corporate conflict.

The Company has established a "hot-line" service to collect applications from officers, employees and other stakeholders of the Company.

In 2015, the Company introduced an ombudsman position and approved the Regulations on the Ombudsman of the Company. The main objectives of the ombudsman are to render assistance to officers and employees of the Company in preventing and resolving conflicts of interests, to stakeholders in resolving ethical issues arising during the interaction with the Company, as well as to ensure that employees of the Company adhere to the Code of Corporate Ethics and the Policy for breach risk management of the Company. On June 1, 2015, A.M. Shmanov was appointed as the Ombudsman of the Company.

The Company has also established the Compliance Control Service, whose objective is to exercise internal control over the Company's compliance with the laws of the Republic of Kazakhstan on the securities market and joint-stock companies and internal documents of Kazakhstan Stock Exchange JSC and the Company in order to identify potential threats of conducting activities in violation of the requirements applicable to the Company as a listed company.



# 2003

*In March 2003, the 448.8 km Kenkiyak – Atyrau pipeline was put into operation. Construction of such significant facility was completed just within seven months.*



*In July 2006, the 1,768 km Baku – Tbilisi – Ceyhan oil pipeline was commissioned, which connected Azerbaijan's Sangachal terminal on the Caspian Sea coast to the Turkish seaport Ceyhan on the Mediterranean coast. The pipeline crosses the Caucasus Mountains at the altitude of 2,800 meters above sea level.*

## 5.

MANAGEMENT  
REPORT ON  
FINANCIAL  
AND ECONOMIC  
PERFORMANCE



This section summarises the results of discussions and analysis carried out by the Company's management to disclose the financial position of the Company and reflects management assessment of the impact of the Company's operations and change in the business environment on the financial results of the Company.

This review is based on the audited consolidated annual financial statements of the Company prepared in accordance with the International Financial Reporting Standards and is to be read in conjunction with the consolidated annual financial statements and notes thereto and any other information provided in other sections of the Report.

The consolidated statement of profit or loss includes income and expenses of KazTransOil JSC and Batumi Terminals Limited. The financial results of the entities over joint control, KCP LLP and NWPC MunaiTas JSC, on an equity-accounted basis are included in the "Share of profit /losses of equity-accounted investees".

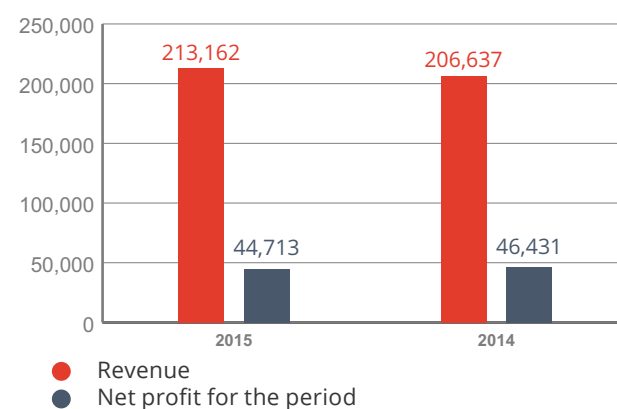
## Consolidated financial performance

In 2015, the Company maintained a stable financial position and despite the decline in oil production achieved a consolidated operating profit growth by 17%, earned a net income in the amount of 44,713 mln. tenge and paid dividends for 2014 in the amount of 46,429 mln. tenge.

### Consolidated financial results of the Company, mln. tenge

Consolidated indicators	Fact 2015	Fact 2014	Change, %
Revenue	213,162	206,637	3.2
Cost of sales	-124,064	-121,309	2.3
Gross profit	89,098	85,328	4.4
General and administrative expenses	-12,092	-13,593	-11.0
Other operating income	1,659	1,461	13.6
Other operating expenses	-1,734	-650	166.8
Loss from impairment of property, plant and equipment	-1,331	-8,119	-83.6
Operating profit	75,600	64,427	17.3
Net exchange gain	25,544	1,056	2318.9
Financial income	3,027	4,517	-33.0
Financial costs	-2,177	-1,616	34.7
Share of losses of equity-accounted investees	-34,674	-6,255	454.3
Income tax expenses	-22,607	-15,699	44.0
Net profit for the period	44,713	46,431	-3.7

### Consolidated financial results of the Company, mln. tenge



In 2015, the following factors had an impact on the consolidated financial results of the Company as compared to 2014:

- On 20 August 2015, the Republic of Kazakhstan introduced a freely floating exchange rate for Tenge against global currencies. As a result of a sharp growth of the US dollar exchange rate, KCP LLP suffered a considerable exchange loss on loans denominated in U.S. dollars. Share of losses of equity-accounted investees in the amount of 34,674 thousand tenge was significantly compensated by

exchange gains on deposits and current accounts of KazTransOil JSC;

- On 1 October 2015, a tariff of KazTransOil JSC for the service of oil pumping to the domestic market increased from 2,931.8 tenge to 3,225.0 tenge per 1 ton/1000 km, excluding VAT;

- Increase of export oil turnover. Increase of oil freight turnover as compared to 2014 was mainly attributable to re-distribution of oil volumes transported over other routes to the Atyrau-Samara route.

It is necessary to note that asset impairment losses decreased as in 2014 Batumi Terminals Limited group of companies recognised impairment on fixed and intangible assets in profit or losses totalling 8 bln. tenge as a result of reduction in forecasts of oil and oil products transshipment volumes for future periods.

## Revenue

Total consolidated revenues for the reporting period amounted to 243,392 mln. tenge, which was 14% higher than the total revenues for 2014 (213,672 mln. tenge).

In 2015, a share of revenues in the total income was equal to 87.6% or 213,162 mln. tenge.

### Income structure, %

Consolidated indicators	Fact 2015	Fact 2014
Proceeds	87.6	96.7
Financial income	1.2	2.1
Other income*	11.2	1.2

### Revenue structure, mln. tenge

Consolidated indicators	Fact 2015	Fact 2014	Change, %
Proceeds	213,162	206,637	3.2
Crude oil transportation*	176,037	164,394	7.1
Oil and oil products reloading and railway shipment	14,562	15,516	-6.1
Pipeline operation and maintenance services	8,919	8,231	8.4
Fees for undelivered oil volumes	1,295	6,715	-80.7
Water transportation	6,604	6,860	-3.7
Oil freight forwarding and sea port services	4,244	3,788	12.0
Other	1,502	1,133	32.6

\* "Crude oil transportation" section includes services for oil pumping, draining, loading and transshipment carried out through the main oil pipelines of KazTransOil JSC.

Consolidated revenues of the Company for 2015 exceeds the same indicator of 2014 by 3%. The growth of revenue from sales was affected mainly by increase in revenues from oil transportation operations by 11,643 mln. tenge.

The increase in revenue was also affected by the growth of income from operation of the main oil pipelines owned by third parties, which was mainly associated with increase in the cost of services as a result of wage indexation by the inflation factor.

In 2015, there was a decline in income from fees for undelivered oil volumes due to the fact that contract previously concluded by KazTransOil JSC for transportation of Kashagan oil upon "pump-or-pay" conditions had been in force till the end of 2014.

Consolidated financial income for 2015 amounted to 3,027 mln. tenge and decreased by 33% as compared to the same indicator of 2014. This decrease is explained by:

- decrease in the amount of bank deposits in connection with the payment of dividends for 2014

made by the Company in June 2015 as well as spending free funds on capital expenditures;

- a difference in interest rates on deposits denominated in US dollars and tenge.
- In 2015, principal deposits placed with banks were denominated in US dollars and interest rates on such deposits were much lower as compared to tenge denominated deposits. However, this decision allowed avoiding impairment of money savings as a result of tenge devaluation and also earning considerable foreign exchange gains.



## Costs

Total costs (excluding a share of losses of jointly controlled entities) for 2015 amounted to 141,398 mln. tenge, which was 2.7% lower as compared to 2014.

A major share in the total expenses of the Company accounts for the cost of sales. In 2015, a share of the cost was equal to 87.7% as compared to 83.5% in 2014. At the same time, it should be noted that in 2014 a significant share of expenses - 5.6% was accounted for the cost of impairment of fixed assets. In fact, in 2015 the cost increased by 2%.

In 2015, the cost of sales increased as compared to 2014 mainly due to the following factors:

- increase in expenses for the production personnel of KazTransOil JSC due to wage indexation by the inflation factor;
- increase in expenses for fuel and materials, which was caused, among other things, by additional use of materials for repair of defective sections of main oil pipelines through the installation of composite wraps;
- increased in electric power costs of KazTransOil JSC as a result of

increase in the electric power tariff as well as increase in oil freight turnover and water supply volumes.

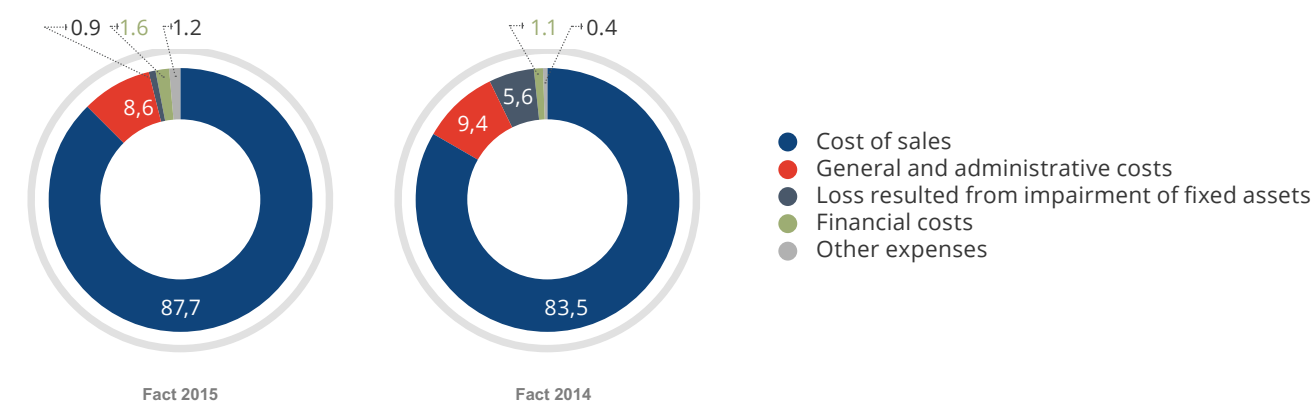
Consolidated general and administrative expenses in 2015 amounted to 12,092 mln. tenge, which was 11% lower than in 2014.

A share of general and administrative expenses in total expenditures for 2015 was equal to 8.6%.

### Costs of the Company, mln. tenge

Consolidated indicators	Fact 2015	Fact 2014	Change, %
Costs, total	141,398	145,287	-2.7
Cost of sales	124,064	121,309	2.3
General and administrative costs	12,092	13,593	-11.0
Loss resulted from impairment of fixed assets	1,331	8,119	-83.6
Financial costs	2,177	1,616	34.7
Other expenses	1,734	650	166.8

### Cost structure, %



### Cost of sales structure, %

Consolidated indicators	Fact 2015	Fact 2014
Personnel costs	35.2%	33.1%
Depreciation and amortisation	26.1%	27.1%
Railway services	6.5%	7.8%
Fuel and materials	6.2%	5.6%
Electric energy	5.6%	5.2%

Consolidated indicators	Fact 2015	Fact 2014
Taxes other than corporate income tax	4.4%	4.1%
Costs for repair and maintenance of fixed assets	3.8%	4.5%
Security services	3.4%	3.7%
Gas expense	2.1%	2.0%
Aerial surveillance services	1.3%	1.2%
Other	5.4%	5.7%

### Structure of general and administrative expenses, %

Consolidated indicators	Fact 2015	Fact 2014
Personnel costs	62.7	50.6
Depreciation and amortisation	7.0	6.0
Consulting services	5.3	4.5
Office maintenance	4.0	2.9
Travel expenses	2.3	2.1
VAT recoverable write-off expenses	2.0	2.5
Taxes other than corporate income tax and VAT	1.9	1.8
Repair and technical maintenance	1.6	1.1
Training	1.2	1.0
Charity expenses	0.1	14.9
Other	11.9	12.7

Decrease in consolidated general and administrative expenses in 2015 compared to the same indicator of 2014 was due to the fact that in 2014 the Company provided sponsor (charity) support of 2,021 mln. tenge for the construction of a secondary school in Atyrau Region and kindergartens in South-Kazakhstan and Pavlodar region. This decrease was partially

compensated by increase in costs for administrative employees of branches and representative offices of KazTransOil JSC by 701 mln. tenge (as compared to 2014) due to wage indexation by the inflation factor.

Consolidated financial expenses amounted to 2,177 mln. tenge, which was 35% or 561 mln. tenge higher

than in 2014 (1,616 mln. tenge). This growth was affected by increase in discount amortisation for long-term reserves (liabilities for assets decommissioning and liabilities for payment of employee benefits) as a result of increase in their cost at the end of 2014.

## Operating profit

Consolidated operating profit for 2015 amounted to 75,600 mln. tenge,

which was 17% higher as compared to 2014. Increase was due to the growth

of revenues and decrease in the fixed assets impairment loss.

## Share in income of jointly controlled organisations

In 2015, a recognized share of KazTransOil JSC in the profit (losses) of jointly controlled entities was equal to 34,674 mln. tenge, which was 5.5 times higher than the loss incurred in 2014. This change was due mostly by total loss of KCP LLP in the amount of 89,143 mln. tenge, caused mainly by a foreign exchange loss on loans denominated in U.S. dollars.

### Financial results of jointly controlled entities, mln. tenge

Indicators	Fact 2015	Fact 2014
KCP LLP	-37,410	-6,991
NWPC MunaiTas JSC	2,736	736
Loss from participatory interest	-34,674	-6,255

At the same time, a share of KazTransOil JSC in total losses of KCP LLP for 2015 was equal to 44.6 bln. tenge. Loss from the participatory interest in KCP LLP was recog-

nised in the consolidated statement of comprehensive income to the extent the book value of investment in the amount of 37.4 bln. tenge. The remaining difference of 7.2 bln. tenge

was recorded as off-balance loss and will be recognised in 2016 or future periods, if KCP LLP receives sufficient profit to cover such losses.

## Income tax

In 2015, income tax expenses amounted to 22,607 mln. tenge, which was 44% higher than in 2014 due to increase in taxable income.

### Corporate income tax expense, mln. tenge

Consolidated indicators	Fact 2015	Fact 2014
Current income tax expense	23,844	13,410
Deferred income tax benefit (-) / expense (+)	-1,237	2,289
Income tax	22,607	15,699

## Assets, capital and liabilities

In 2015, the Company's assets increased by 6% from 585 bln. tenge to 619 bln. tenge. This increase resulted from an increase in fixed assets by 63 bln. tenge as a result of implementation of investment projects, including construction of facilities under the project of Kazakhstan-China oil pipeline expansion and replacement of the linear section of TON-2 pipeline as well as effect of conversion of foreign companies' reporting currency.

In addition, in 2015 there was decrease in assets mainly as a result of reduction in the cost of investment in jointly controlled entities due to the fact that KazTransOil JSC had recognised a share in losses of KCP LLP within the book value of investments.

Consolidated equity increased from 458 bln. tenge to 473 bln. tenge mainly due to an increase in the reserve for translation of the financial statements of foreign operations.

### Assets, capital and liabilities, mln. tenge

Consolidated indicators	For the year ended on December 31		Change, %
	2015	2014	
Assets	619,263	585,407	5.8
Non-current assets	512,071	485,767	5.4
Current assets	107,192	99,638	7.6
Capital and liabilities	619,263	585,407	5.8
Capital	472,932	457,644	3.3
Non-current liabilities	85,863	77,427	10.9
Current liabilities	60,468	50,336	20.1

Increase in long-term liabilities was caused by the growth of:

- deferred income of BTL mainly due to changes in currency exchange rates against tenge as of the reporting date as compared to December 31, 2014;
- employee benefit liabilities as a result of change in the discount rate used for calculation;
- reserves for assets decommissioning liabilities due to revision

of deadline for the fulfilment of liabilities.

The level of current liabilities increased mainly due to the growth of the cost of services rendered under the freight forwarding contracts due to changes in the exchange rate of tenge against the Russian ruble and US dollar.

## Efficiency indicators

The following is a calculation of the Company's main efficiency indicators on a consolidated basis

### Main efficiency indicators of the Company

Indicators not provided for by IFRS	Fact 2015	Fact 2014
EBITDA (mln. tenge)	110,234	105,431
EBITDA margin (EBITDA to revenue ratio, %)	51.7	51.0
Gross profit rate (gross profit to revenue ratio, %)	41.8	41.3
Net profit margin (net profit to revenue ratio, %)	21	22.5
Cash and cash equivalents (mln. tenge)	50,420	42,175

Table below provides information on EBITDA components based on data on profit for the reporting period.

### EBITDA calculation, mln. tenge

Indicators	Fact 2015	Fact 2014
<b>Profit for the reporting year</b>	44,713	46,431
plus income tax expenses	22,607	15,699
<b>Profit before tax</b>	67,319	62,130
minus foreign exchange gain	-25,544	-1,056
plus finance costs	2,177	1,616
net of finance income	-3,027	-4,517
net of share of income / (loss) of jointly controlled entities	34,674	6,255
<b>Operating profit</b>	75,600	64,427
plus depreciation and amortisation	33,228	33,696
plus other operating expenses	1,734	650
net of other operating income	-1,659	-1,461
plus impairment of fixed assets and intangible assets	1,331	8,119
<b>EBITDA*</b>	110,234	105,431

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

### Profitability indicators, %

Description	2015	2014
ROA (net profit/annual average amount of assets)	7.4%	7.9%
ROE (net profit/annual average amount of equity)	9.6%	10.0%

Decline in ROE indicator (Return on assets) by 0.5 basis points resulted from decrease in net profit by 4% and increase in the average annual

amount of assets by 2%. The level of ROE (Return on Equity) decreased by 0.4 basis points also due to decline in

net profit and growth of the average annual amount of equity by 1%.



## Liquidity and financial stability ratios

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

A liquidity indicator characterises the Company's ability to fulfil its current liabilities on the basis of its current assets. The total (current) liquidity ratio characterises how the current

liabilities are covered by the current assets. According to Table 52, on the average, 1 tenge of current liabilities is covered by 1.77 tenge of current assets.

### Liquidity ratios

Consolidated indicators	Standard criteria	Fact 2015	Fact 2014
Current liquidity ratio (Current assets / Current liabilities)	1.5–2.5	1.77	1.98
Instant liquidity ratio ((Current assets - Inventory) / Current liabilities)	1.5–2.5	1.71	1.92

An instant liquidity ratio characterises a part of current liabilities, which can be repaid not only at the cost of the Company's available cash assets, but also at the cost of the expected cash inflows from the services rendered

(cash and cash equivalents and short-term receivables). Thus, in the reporting period the instant liquidity ratio indicates that 1 tenge of current liabilities is covered by 1.71 tenge of easily marketable assets.

Reduction in the liquidity indicator of 2015 as compared to the indicator of 2014 is associated mainly with increase in the current liabilities, the main reason for which is stated above.

## Cash and cash equivalents

As of December 31, 2015, cash and cash equivalents of the group of companies of KazTransOil JSC amounted to 50,420 mln. tenge.

### Cash turnover, mln. tenge

Consolidated indicators	For the year ended on December 31		Change, %
	2015	2014	
Net cash inflows obtained from operating activities	122,002	93,908	29.9%
Net cash outflows from investment operations	-58,586	-35,343	65.8%
Net cash outflows from financial operations	-46,429	-41,925	10.7%
Effect of exchange rate difference	-8,741	-111	7,774.8%
Net change in cash and cash equivalents	8,246	16,529	-50.1%
Cash and cash equivalents at the beginning of the period	42,175	25,645	64.5%
Cash and cash equivalents at the end of the period	50,420	42,175	19.5%

In 2015, net positive cash flows from operating activities amounted to 122,002 mln. tenge, which was 30% higher than the similar indicator of 2014. These changes were caused mainly by increase in revenue and a positive exchange rate difference on current and deposit accounts of KazTransOil JSC.

In 2015, net negative cash flows from investment activities amounted to 58,586 mln. tenge, which was 66% higher than the similar indicator of 2014. These changes are associated mainly with the provision of financial aid to KazMunayGas NC JSC.

In 2015, net cash outflows from financial activities were equal to 46,429 mln. tenge, which was 11% higher than the same indicator of 2014, which was equal to 41,925 mln. tenge. These changes are associated with increase in dividend paid in 2015 for 2014 as compared to the amount of dividend paid in 2014 for 2013.



## 2006–2013

*As part of establishment of Kazakhstan–China oil pipeline system, the first start-up complex of Atasu – Alashankou oil pipeline was put into operation in 2006; Kenkiyak – Kumkol oil pipeline – in 2009 and construction of the 3rd line of Kumkol – Karakoin oil pipeline was completed in 2013. These pipelines are the parts of a uniform Kazakhstan–China system of total length of 2,834 km (Atyrau – Kenkiyak – Kumkol – Karakoin – Atasu – Alashankou).*



*The 1,288 km Trans-Alaska oil pipeline commissioned in 1977 is considered a unique structure; it is designed to pump crude oil from Prudhoe Bay oil field in the north of Alaska to the ice-free port Valdez in the south of peninsula. The pipeline is considered to be one of the most protected pipelines in the world and is able to withstand a strong earthquake and severe Arctic climate.*

## 6.

### APPENDICES





## “Table of the Report Compliance with GRI G4 Guidelines and GRI Sector Supplement”

No.	Index	Indicator description	Comments	Section and page in the Report
<b>GENERAL STANDARD DISCLOSURES</b>				
<b>Strategy and analysis</b>				
1.	G4-1	Statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability		Message, p. 6
<b>Organisational profile</b>				
2.	G4-3	Name of the organisation		The Company milestones, p. 10–11
3.	G4-4	Primary brands, products and services		1.2 Business model, p. 16–17
4.	G4-5	Location of the organisation's central headquarters		1.3 Organisational structure, p. 19
5.	G4-6	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report		1.3 Organisational structure, p.19 Scheme of main pipelines, p.9
6.	G4-7	Nature of ownership and legal form		The Company milestones, p. 10–11
7.	G4-8	Markets served		1.5 Market review, p. 24–25
8.	G4-9	Scale of the reporting organisation		Key Operating and Financial Indicators, p.8
9.	G4-10	Total workforce by employment type, employment contract, and region, broken down by gender		3.5.1 Headcount and personnel composition, p. 55–56
10.	G4-11	Percentage of employees covered by collective bargaining agreements		3.5.3 Social policy, p. 58
11.	G4-12	The organisation's supply chain		2.8 Information on the Company's supply chain and local content in procurement of goods, works and services, p. 39
12.	G4-13	Significant changes during the reporting period regarding size, structure or ownership	There were no significant changes in the scale and structure of the Company during the reporting period	–
13.	G4-14	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	The Company adheres to the basic provisions of the precautionary principle (Principle 15 of the Rio de Janeiro Declaration on the Environmental Protection and the UN Development, 1992)	–
14.	G4-15	Externally developed economic, environmental and social charters, principles or other initiatives to which the organisation subscribes or endorses		3.2 Information on the Company's membership in associations (industrial and international) and other unions, p.47
15.	G4-16	Membership of associations (such as industry associations) and/or national/international advocacy organisations		3.2 Information on the Company's membership in associations (industrial and international) and other unions, p.47

No.	Index	Indicator description	Comments	Section and page in the Report
<b>Identified material aspects and boundaries</b>				
16.	G4-17	Entitles included in the organisation's consolidated financial statements or equivalent documents		About the Report, p. 4–5
17.	G4-18	The process for defining the report content and the Aspect Boundaries		About the Report, p. 4–5
18.	G4-19	Material Aspects identified in the process for defining report content		Appendix “Material Aspects of the Company's Activities”, p. 107
19.	G4-20	Materials Aspects' Boundary within the organisation		Appendix “Material Aspects of the Company's Activities”, p. 107
20.	G4-21	Materials Aspects' Boundary outside the organisation		Appendix “Material Aspects of the Company's Activities”, p. 107
21.	G4-22	The effect of any restatements of information provided in previous reports, and the reasons for such restatements		About the Report, p. 4–5
22.	G4-23	Significant changes from previous reporting periods in the Scope and Aspects Boundaries		About the Report, p. 4–5
<b>Stakeholder engagement</b>				
23.	G4-24	List of stakeholder groups engaged by the organisation		3.1 Stakeholder engagement, p. 44–46
24.	G4-25	The basis for identification and selection of stakeholders with whom to engage		3.1 Stakeholder engagement, p. 43
25.	G4-26	The organisation's approach to stakeholder engagement, including frequency of engagement by types and by stakeholder groups, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process		3.1 Stakeholder engagement, p. 43–46
26.	G4-27	Key topics and concerns that have been raised through stakeholder engagement and how the organisation has responded to those key topics and concerns, including through its reporting		3.1 Stakeholder engagement, p. 44–46
<b>Report profile</b>				
27.	G4-28	Reporting period for information provided		About the Report, p. 4–5
28.	G4-29	Date of most recent previous report		About the Report, p. 4–5
29.	G4-30	Reporting cycle		About the Report, p. 4–5
30.	G4-31	Contact point for questions regarding the report or its contents		About the Report, p. 4–5
31.	G4-32	The ‘in accordance’ option the organisation has chosen and the GRI Content Index for the chosen option		About the Report, p. 4–5
32.	G4-33	Policy and current practice with regard to seeking external assurance for the report		About the Report, p. 4–5
<b>Governance</b>				
33.	G4-34	The governance structure of the organisation, including committees of the highest governance body		4. Corporate Governance, p. 64
<b>Ethics and integrity</b>				
34.	G4-56	The organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics		4.5 Corporate ethics, settlement of corporate conflicts and conflicts of interest, p. 89
35.	G4-57	The internal and external mechanisms for seeking advice on ethical and lawful behaviour, and matters related to organisational integrity, such as helplines or advice lines.		3.1 Stakeholder engagement, p. 46

No.	Index	Indicator description	Comments	Section and page in the Report
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<b>Economic performance</b>				
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37.	G4-EC1	Direct economic value generated and distributed		5. Management Report on Financial and Economic Performance, p. 92–99 Appendix “Consolidated financial statements”, p. 118–186
<b>Market presence</b>				
38	G4-DMA			3.5.1 Headcount and personnel composition, p. 55–57
39.	G4-EC5	Ratio of a standard entry level wage by gender compared to local minimum wage at significant locations of operation		3.5.1 Headcount and personnel composition, p. 56
<b>Procurement practice</b>				
40	G4-DMA			2.8 Information on the Company's supply chain and local content in procurement of goods, works and services, p. 39
41	G4-EC9*	Proportion of spending on local suppliers at significant locations of operation		2.8 Information on the Company's supply chain and local content in procurement of goods, works and services, p. 39
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43	G4-EN3	Energy consumption within the organisation		3.3.5 Energy consumption and energy saving, p. 51
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45	G4-EN6	Reduction of energy consumption		3.3.5 Energy consumption and energy saving, p. 51
<b>Water</b>				
46	G4-DMA			3.3.2 Water resources, p. 49–50
47	G4-EN8	Total water withdrawal by sources		3.3.2 Water resources, p. 49
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<b>Emissions</b>				
49	G4-DMA			3.3.1 Ambient impact air on pollution, p. 48–49
50	G4-EN15	Direct greenhouse gas (GHG) emissions (scope 1)		3.3.1 Ambient impact air on pollution, p. 49
51	G4-EN20	Emissions of ozone-depleting substances (ODS)	Absent	–
52	G4-EN21*	NO <sub>x</sub> , SO <sub>x</sub> , and other significant air emissions		3.3.1 Ambient impact air on pollution, p. 48
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53	G4-DMA			3.3.2 Water resources, p. 49–50 3.3.3 Waste generation, p. 50

\* This disclosure has passed the external assurance, p. 114–117

No.	Index	Indicator description	Comments	Section and page in the Report
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55	G4-EN23*	Total weight of waste by type and disposal method		3.3.3 Waste generation, p. 50
56	G4-EN24	Total number and volume of significant spills		3.3.4 Land resources and remediation, p. 50
57	G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental legislation and regulations		3.3 Environmental protection, p. 48
58	G4-EN31	Total environmental protection expenditures and investments by type		3.3 Environmental protection, p. 48
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<b>LABOUR PRACTICE AND DECENT WORK</b>				
<b>Employment</b>				
59	G4-DMA			3.5.1 Headcount and personnel composition, p. 55–57 3.5.3 Social policy, p. 58–60
60	G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	The employee turnover rate was 6.6% in accordance with the GRI method of calculation	3.5.1 Headcount and personnel composition, p. 55–56
61	G4-LA2	Benefits provided to full-time employees, which are not provided to temporary or part-time employees by significant locations of operation		3.5.1 Headcount and personnel composition, p. 57
62	G4-LA3	Return to work and retention rates after parental leave, by gender		3.5.3 Social policy, p. 59
63	G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements		3.5.3 Social policy, p. 59
<b>Occupational health and safety</b>				
64	G4-DMA			3.4 Occupational safety and health, p. 52–54
65	G4-LA6*	Type of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	Lost Time Accident Frequency Rate per 1000 persons = (number of industrial accidents) / (average number of production personnel) * 1000 LTIFR = (total Lost Time Injury Frequency Rate) * 200,000 / (total hours worked)	3.4 Occupational safety and health, p. 53
66	G4-OG13	Number of process safety events, by business activity		3.4.1 Industrial and fire safety, p. 54 2.3 Investment activities, p. 32
<b>Training and education</b>				
67	G4-DMA			3.5.2 Education and training, p. 57–58
68	G4-LA9	Average hours of training per year employee by gender and by employee category		3.5.2 Education and training, p. 57

\* This disclosure has passed the external assurance, p. 114–117



No.	Index	Indicator description	Comments	Section and page in the Report
69.	G4-LA10	Programmes for skills and lifelong learning that support the continued employability of employees and assist them in managing career endings.		3.5.2 Education and training, p. 58 3.5.3 Social policy, p. 59
<b>Diversity and equal opportunity</b>				
70	G4-DMA			3.5.1 Headcount and personnel composition, p. 55–57
71	G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	The predominance of men over women is traditionally conditioned upon industry-specific activities of the Company, which implies the need to work in difficult and dangerous conditions.	3.5.1 Headcount and personnel composition, p. 55–56
<b>HUMAN RIGHTS</b>				
<b>Non-discrimination</b>				
72	G4-DMA			3.5 Personnel, p. 55–60 Appendix “Principles of the United Nations Global Compact”, p. 108
73	G4-HR3	Total number of incidents of discrimination and corrective actions taken	Such incidents weren't identified in 2015	–
<b>Child labour</b>				
74	G4-DMA			3.5 Personnel, p. 55–60 Appendix “Principles of the United Nations Global Compact”, p. 108
75	G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor	Suppliers with significant risks weren't identified in 2015	–

## Appendix “Material Aspects of the Company's Activities”

Category	Page	Significant aspects	Coverage of internal stakeholders	Coverage of external stakeholders
Economic	94-101	Economic effectiveness	✓	✓
	24-25	Market presence	✓	✓
	39	Procurement practice	✓	✓
Environmental	51-52	Energy	✓	✓
	49-50	Water	✓	✓
	48-49	Emissions	✓	✓
	50	Waste	✓	✓
<b>Social</b>				
Labour practice and decent work	56-57	Employment	✓	✓
	53-54	Occupational health and safety	✓	–
	58-59	Training and education	✓	–
	56-57	Diversity and equal opportunities	✓	–
Human rights	56, 110	Non-discrimination	✓	✓
	56, 110	Child labour	✓	✓

## Appendix “Principles of the United Nations Global Compact”

Principles of the United Nations Global Compact	Compliance of KazTransOil JSC activities with the principles	Section and page in the Report
<b>Principles in the field of human rights</b>		
<b>Principle 1.</b> Business communities should support and respect the protection of internationally declared human rights.	In the course of its activity KazTransOil JSC ensures respect for human rights declared at the international level and stipulated by the Constitution of the Republic of Kazakhstan. According to the Code of Corporate Ethics adopted in the Company, any situation leading to violation of human rights shall be addressed in compliance with the laws of the Republic of Kazakhstan and internal documents of the Company.	4.5. Corporate ethics, settlement of corporate conflicts and conflicts of interest, p. 91
<b>Principle 2.</b> Business communities should not be involved in violations of human rights.		
<b>Principles in the field of labour relations</b>		
<b>Principle 3.</b> Business communities should support freedom of association and real recognition of the right to collective bargaining	KazTransOil JSC provides personnel the right to organise and participate in public associations at their choice and to enter into bargaining agreements. In the course of hiring, payment of remuneration, promotion and access to training the Company does not admit discrimination based on race, nationality, age, gender, social characteristics, citizenship, religious beliefs and participation in public associations, and any other circumstances not related to professional qualities of employees and their performance results.	3.5 Personnel, p. 56–61
<b>Principle 4.</b> Business communities shall support elimination of all forms of forced or compulsory labour.	The Company does not use forced and child labour in its activities.	
<b>Principle 5.</b> Business communities shall support complete abolition of child labour.		
<b>Principle 6.</b> Business communities shall support elimination of discrimination in the field of employment and occupation.		
<b>Principles in the field of environmental protection</b>		
<b>Principle 7.</b> Business communities shall support the approach to environmental issues based on the precautionary principle.	KazTransOil JSC shows respect and cares for the environment. In 2015, the Company developed the Comprehensive Environmental Programme for 2015-2019. The expected end result of the Environmental Programme is as follows: adherence to the principles of maximum careful and rational attitude to the environment, reduction in emissions and discharge of pollutants, production and consumption waste and greenhouse gas emissions.	3.3 Environmental protection, p. 47–52
<b>Principle 8.</b> Business communities shall undertake initiatives aimed at increasing environmental responsibility.	During the reporting year, the Company invested 478.1 mln. tenge in environmental protection. The funds were spent to conduct environmental monitoring (air, water and soil monitoring) at facilities, removal and disposal of production and consumption waste, waste water pumping and treatment, emission rationing, elimination of historical contamination and other activities.	
<b>Principle 9.</b> Business communities shall <b>promote</b> the development and expansion of environmentally friendly technologies.		
<b>Anti-corruption principles</b>		
<b>Principle 10.</b> Business communities shall fight against all forms of corruption, including extortion and bribery.	KazTransOil JSC carries out its activity fairly and in good faith and does not accept bribery and similar vicious business practices as well as giving and receiving gifts, except for those accepted in business practice. For the purpose of taking proper measures in case of corruption and other illegal actions, officials and employees of the Company may contact by phone 555-210 or electronic information system of the Company – <a href="mailto:doverie@kaztransoil.kz">doverie@kaztransoil.kz</a> . In 2015, there were no reported violations of anti-corruption legislation of the Republic of Kazakhstan in the Company	3.2 Information on the Company's membership in associations (industrial and international) and other unions, p. 47

## Appendix “Report on procurement for 2015”

Structural division	Open tender			Single source			Procurement through request for quotation			Total amount of contracts signed based on the procurement results		
	Quantity	Budget (mln. tenge)	Amount of contracts signed based on the procurement results (mln. tenge)	Quantity	Budget (mln. tenge)	Amount of contracts signed based on the procurement results (mln. tenge)	Quantity	Budget (mln. tenge)	Amount of contracts signed based on the procurement results (mln. tenge)	Total budget (mln. tenge)	Total amount of contracts signed based on the procurement results (mln. tenge)	Saving based on the procurement results (mln. tenge)
Central office of the Company	139 (1,365 lots)	17,911	15,646	1,789	32,187	31,958	13 (273 lots)	37	30	50,135	47,634	2,502
Western Branch of the Company	327 (995 lots)	3,593	3,085	44 (640 lots)	9,346	9,288	213 (926 lots)	396	252	13,335	12,625	710
Eastern Branch of the Company	233 (1,799 lots)	2,798	2,337	377	4,481	4,441	84 (916 lots)	45	37	7,324	6,815	509
Scientific and Technical Centre	21 (58 lots)	76	69	103	79	78	43 (53 lots)	60	50	216	198	18
Main Information and Computing Centre	20	339.16	330.16	49	620.94	613.63	148	9.09	7.76	969	951	17
TOTAL	4,237	24,717.16	21,467.16	2,958	46,713.94	46,378.63	2,316	547.09	376.76	71,979	68,223	3,756



## Appendix “List of interested-party transactions concluded by KazTransOil JSC in 2015”

No.	Transaction description	Decision of KazTransOil JSC body
<b>KMK M JSC</b>		
1.	Freight forwarding contract	Decision of the Board of Directors of KazTransOil JSC dated November 16, 2015 (Minutes No. 10/2015)
2.	Contract for provision of oil transportation services	Decision of the Board of Directors of KazTransOil JSC dated November 16, 2015 (Minutes No. 10/2015)
<b>Mangistaumunaigas JSC</b>		
3.	Supplementary agreement No. 1 to the freight forwarding contract dated December 15, 2014 No. EX 05/2015//No.1715-19	Decision of the Board of Directors of KazTransOil JSC dated November 16, 2015 (Minutes No. 10/2015)
4.	Contract for provision of oil transportation services	Decision of the Board of Directors of KazTransOil JSC dated November 16, 2015 (Minutes No. 10/2015)
5.	Freight forwarding contract	Decision of the Board of Directors of KazTransOil JSC dated November 16, 2015 (Minutes No. 10/2015)
6.	Contract for natural gas supply and acceptance for the needs of Karazhanbas OPS of Mangistau Pipeline Department of the Western Branch of KazTransOil JSC	Decision of the Board of Directors of KazTransOil JSC dated December 14, 2015 (Minutes No. 12/2015)
7.	Contract for supply (consumption) of heat energy in hot water for HOPS Kalamkas of Mangistau Pipeline Department of the Western Branch of KazTransOil JSC	Decision of the Board of Directors of KazTransOil JSC dated December 14, 2015 (Minutes No. 12/2015)
8.	Contract for water supply for the needs of HOPS Kalamkas and Karazhanbas OPS of Mangistau Pipeline Department of the Western Branch of KazTransOil JSC	Decision of the Board of Directors of KazTransOil JSC dated December 14, 2015 (Minutes No. 12/2015)
<b>CNPC-Ai Dan Munay JSC</b>		
9.	Contract for provision of oil transportation services	Decision of the Board of Directors of KazTransOil JSC dated November 16, 2015 (Minutes No. 10/2015)
<b>CNPC-Aktobemunaigas JSC</b>		
10.	Contract for provision of oil transportation services	Decision of the Board of Directors of KazTransOil JSC dated November 16, 2015 (Minutes No. 10/2015)
11.	Supplementary agreement No. 1 to the freight forwarding contract dated December 18, 2014 No. EX 09/2015	Decision of the Board of Directors of KazTransOil JSC dated November 16, 2015 (Minutes No. 10/2015)
<b>TURGAI PETROLEUM JSC</b>		
12.	Contract for provision of oil transportation services	Decision of the Board of Directors of KazTransOil JSC dated November 16, 2015 (Minutes No. 10/2015)
<b>Demeu Food LLP</b>		
13.	Contract for the provision of services for holding cultural and corporate events (organisation and holding of festive events for employees of the Company's central office and MICC)	Decision of the Board of Directors of KazTransOil JSC dated April 29, 2015 (Minutes No. 5/2015)
<b>Kazakhoil-Aktobe LLP</b>		
14.	Contract for provision of oil transportation services	Decision of the Board of Directors of KazTransOil JSC dated November 16, 2015 (Minutes No. 10/2015)
15.	Freight forwarding contract	Decision of the Board of Directors of KazTransOil JSC dated November 16, 2015 (Minutes No. 10/2015)

No.	Transaction description	Decision of KazTransOil JSC body
<b>Kazakhstan-China Pipeline LLP</b>		
16.	Contract for operation of Atasu-Alashankou main oil pipeline for 2015;	Decision of the Board of Directors of KazTransOil JSC dated February 26, 2015 (Minutes No. 5/2015)
17.	Contract for operation of Kenkiyak-Kumkol main oil pipeline for 2015;	Decision of the Board of Directors of KazTransOil JSC dated February 26, 2015 (Minutes No. 5/2015)
<b>KAMAZ-Engineering LLP</b>		
18.	Supply contract	Decision of the Board of Directors of KazTransOil JSC dated August 28, 2015 (Minutes No. 8/2015)
<b>KE Distribution LLP</b>		
19.	Supplementary agreement No. 1 to the supply contract dated December 30, 2014 No. DM 17/2015.	Decision of the Board of Directors of KazTransOil JSC dated June 24-25, 2015 (Minutes No. 7/2015)
<b>Petro Kazakhstan Kumkol Resources LLP</b>		
20.	Contract for supply of associated petroleum gas for the boiler room of HOPS Kumkol of Zhezkazgan Pipeline Department of the Eastern Branch of KazTransOil JSC	Decision of the Board of Directors of KazTransOil JSC dated May 19, 2015 (Minutes No. 6/2015)
21.	Contract for provision of oil transportation services	Decision of the Board of Directors of KazTransOil JSC dated November 16, 2015 (Minutes No. 10/2015)
22.	Contract for supply of associated petroleum gas for the boiler room of HOPS Kumkol of Zhezkazgan Pipeline Department of the Eastern Branch of KazTransOil JSC	Decision of the Board of Directors of KazTransOil JSC dated December 14, 2015 (Minutes No. 12/2015)
<b>Petro Kazakhstan Oil Products LLP</b>		
23.	Contract for provision of services for water supply and discharge of waste water (acceptance of waste water) at Shymkent acceptance station of Shymkent Pipeline Department of the Eastern Branch of KazTransOil JSC	Decision of the Board of Directors of KazTransOil JSC dated December 14, 2015 (Minutes No. 12/2015)
<b>KazTurboRemont Service Centre LLP</b>		
24.	Supplementary agreement No. 1 to the contract dated May 4, 2014 No. CC 284/2014	Decision of the Board of Directors of KazTransOil JSC dated April 29, 2015 (Minutes No. 5/2015)
<b>Kazgermunay JV LLP</b>		
25.	Contract for provision of oil transportation services	Decision of the Board of Directors of KazTransOil JSC dated November 16, 2015 (Minutes No. 10/2015)
<b>Tengizshevroil LLP</b>		
26.	Freight forwarding contract	Decision of the Board of Directors of KazTransOil JSC dated February 26, 2015 (Minutes No. 2/2015)
27.	Contract for provision of oil transportation services and supplementary agreement No.1 to the freight forwarding contract dated February 27, 2015 No. EX62/2015	Decision of the Board of Directors of KazTransOil JSC dated December 14, 2015 (Minutes No. 12/2015)
28.	Contract for purchase and sale of products (flammable natural gas) at OPS 663 km, T. Kassymov OPS, Inder OPS and Kigach LODS of the Western Branch of KazTransOil JSC	Decision of the Board of Directors of KazTransOil JSC dated December 14, 2015 (Minutes No. 12/2015)
<b>Samruk-Service Management Company LLP</b>		
29.	Supplementary agreement No. 1 to the contract dated April 30, 2015 No. US 191/2015	Decision of the Board of Directors of KazTransOil JSC dated December 14, 2015 (Minutes No. 12/2015)
<b>PetroKazakhstan Ventures Inc.</b>		
30.	Contract for provision of oil transportation services	Decision of the Board of Directors of KazTransOil JSC dated November 16, 2015 (Minutes No. 10/2015)

No.	Transaction description	Decision of KazTransOil JSC body
<b>CNPC Kazakhstan B.V.</b>		
31.	Contract for provision of oil transportation services	Decision of the Board of Directors of KazTransOil JSC dated December 14, 2015 (Minutes No. 12/2015)
32.	Freight forwarding contract	Decision of the Board of Directors of KazTransOil JSC dated December 14, 2015 (Minutes No. 12/2015)
<b>NWPC MunaiTas JSC</b>		
33.	Contract of purchase and sale of a part of a land plot with an area of 0.217245 ha intended for maintenance and operation of the oil pumping station named after T. Kassymov of Uzen-Atyrau-Samara main oil pipeline	Decision of the Management Board of KazTransOil JSC dated June 4, 2015 (Minutes No. 13)
34.	Contract of purchase and sale of a part of a land plot with an area of 0.04175 ha intended for placement of Makat oil pumping station of Dossor-Makat main oil pipeline	Decision of the Management Board of KazTransOil JSC dated June 4, 2015 (Minutes No. 13)
35.	Contract of purchase and sale of a part of a land plot with an area of 2.198 ha intended for placement of Kenkiyak linear-operating dispatching station of Kenkiyak-Orsk (2 line) main oil pipeline	Decision of the Management Board of KazTransOil JSC dated June 4, 2015 (Minutes No. 13)
<b>KMG-Security LLP</b>		
36.	Contract for provision of accommodation services	Decision of the Management Board of KazTransOil JSC dated June 17, 2015 (Minutes No. 14)
<b>Kazakh Institute of Oil and Gas JSC</b>		
37.	Agreement for termination of relationship in connection with expiration of the contract dated September 16, 2014 No. US503/2014//196-23/2014	Decision of the Management Board of KazTransOil JSC dated June 22, 2015 (Minutes No. 15)
<b>Semser-Ort Sondirushi LLP</b>		
38.	Service contract for provision of accommodation to employees of Semser-Ort Sondirushi LLP in hostels of the Eastern Branch of the Company	Decision of the Management Board of KazTransOil JSC dated August 27, 2015 (Minutes No. 18)
39.	Service contract for organization of three meals for duty shift personnel of fire stations of Semser-Ort Sondirushi LLP at facilities of the Eastern Branch of the Company	Decision of the Management Board of KazTransOil JSC dated August 27, 2015 (Minutes No. 18)
<b>KazMunayGas NC JSC</b>		
40.	Contract for rendering financial aid	Decision of the Management Board of KazTransOil JSC dated October 26, 2015 (Minutes No. 22)
<b>KMG-Security LLP</b>		
41.	Service contract for provision of accommodation in residential units (trailers) for rotational employees of KMG-Security LLP, who protect facilities of the Western Branch of the Company	Decision of the Management Board of KazTransOil JSC dated October 29, 2015 (Minutes No. 23)
42.	Service contract for provision of accommodation in residential units (trailers) for rotational employees of KMG-Security LLP, who protect facilities of the Eastern Branch of the Company	Decision of the Management Board of KazTransOil JSC dated October 29, 2015 (Minutes No. 23)
<b>Ozenmunaigas JSC</b>		
43.	Supplementary agreement No. 1 to the freight forwarding contract dated December 18, 2014 No. EX06/2015//2768-206	Decision of the Management Board of KazTransOil JSC dated October 29, 2015 (Minutes No. 23)
<b>Embamunaigas JSC</b>		
44.	Supplementary agreement No. 1 to the freight forwarding contract dated December 15, 2014 No. EX 07/2015//2029-117	Decision of the Management Board of KazTransOil JSC dated October 29, 2015 (Minutes No. 23)

No.	Transaction description	Decision of KazTransOil JSC body
<b>Ozenmunaigas JSC, Embamunaigas JSC, Maritime Oil Company KazMunayTeniz JSC, Urikhtau Operating LLP</b>		
45.	Contracts for provision of oil transportation services and freight forwarding contracts	Decision of the Management Board of KazTransOil JSC dated November 26, 2015 (Minutes No. 25)
<b>KAZAKHTURKMUNAI LLP</b>		
46.	Contract for provision of oil transportation services and supplementary agreement to the freight forwarding contract dated December 15, 2014 No. EX11/2015	Decision of the Management Board of KazTransOil JSC dated November 26, 2015 (Minutes No. 25)
<b>KMG Kashagan B.V. PLLC</b>		
47.	Supplementary agreement No. 1 to the freight forwarding contract dated December 30, 2014 No. EX EX 13/2015	Decision of the Management Board of KazTransOil JSC dated November 26, 2015 (Minutes No. 25)
<b>KazMunayGas Refinery and Marketing JSC</b>		
48.	Contract for provision of oil transportation services	Decision of the Management Board of KazTransOil JSC dated December 25, 2015 (Minutes No. 28)





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## Independent Limited Assurance Report on the sustainable development information included in Annual Report of KazTransOil JSC for 2015

To Management of  
KazTransOil JSC

### Introduction

We were engaged by the Management of KazTransOil JSC ("the Management") to undertake a limited assurance engagement over KazTransOil's ("the Company") sustainable development information included in Annual report of KazTransOil JSC for 2015 among other the following indicators as at 31 December 2015:

- share of local content under the contracts;
- volume of significant atmospheric pollutant emissions;
- volumes of waste water discharge;
- waste generation for the reporting period;
- total number of occupational accidents;
- lost time accident frequency rate per 1,000 persons.

Based on the procedures performed, described in this report, nothing has come to our attention that causes us to believe that Management's assertion that the sustainable development information is properly prepared in all material respects, in accordance with the recommendations of the Sustainable Development Reporting Guidance of Global Reporting Initiative G4 option "core" and contain no material misstatements, is not fairly stated.

### Management's responsibilities

Management is responsible for the preparation and presentation of the sustainable development information in accordance with the recommendations of the Sustainable Development Reporting Guidance of Global Reporting Initiative G4 option "core" as described in the section "About the Report" of the Annual report of the Company for the year 2015 (the "Annual Report"), as well as the information and allegations contained in the report.

«КПМГ Такс энд Эдвайзори» ЖШС, Қазақстанда тіркелген жауапкершілігі шектеулі серіктестік, Швейцария заңнамасы бойынша тіркелген KPMG International Cooperative ("KPMG International") құрылымдастығына кіретін KPMG тәуелсіз фирмалар желісінің мүшесі.

KPMG Tax and Advisory LLC, a company incorporated under the Laws of the Republic of Kazakhstan, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.  
Document classification: KPMG Public



### KazTransOil JSC

*Independent Limited Assurance Report on the sustainable development information included in Annual Report of KazTransOil JSC for 2015*

This responsibility includes establishing and maintaining such internal control as it determines necessary to enable the information in the field of sustainable development that is free from material misstatement whether due to fraud or error. It also includes selecting the goals in sustainable development and reporting, including identifying key stakeholder groups and significant issues for them; the application of the recommendations of the Sustainable Development Reporting Guidance of Global Reporting Initiative G4 option "core" for the purpose of the preparation of the information in the field of sustainable development; for preventing and detecting fraud; for identifying and ensuring that the Company complies with laws and regulations applicable to its activities; designing, implementing and effectively operating controls to achieve the stated control objectives; selecting and applying policies; making judgments and estimates that are reasonable in the circumstances; and maintaining adequate records in relation to the information in the field of sustainable development

### Our responsibilities and standards used

Our responsibility is to perform procedures to obtain evidence in respect of the sustainable development information prepared by Management and to report thereon in the form of an independent limited assurance conclusion based on the evidence obtained. We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Board. That standard requires that we comply with ethical requirements, including independence requirements, and plan and perform our procedures to obtain a meaningful level of assurance about whether Management's assertion that the information in the field of sustainable development is, in all material respects, fairly stated, in accordance with the recommendations of the Sustainable Development Reporting Guidance of Global Reporting Initiative G4 option "core".

We comply with the requirements regarding the independence and other requirements of professional ethics established by the Code of ethics for professional accountants (Code of Ethics for Professional Accountants) Council for International Ethics Standards for Accountants (IESBA), which are based on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

### Procedures

The procedures selected, and our determination of the nature, timing and extent of these procedures, depend on our judgment, including the assessment of risk of material misstatement, of the information in the field of sustainable development, whether due to fraud or error, our understanding of the Company's activity, as well as other engagement circumstances.

In making these risk assessments, we considered internal control relevant to the Company's preparation of the information in the field of sustainable development in order to design procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Company's internal control.

Our procedures are developed based on the risk assessment included, but were not limited to, the following:




**KazTransOil JSC**

Independent Limited Assurance Report on the sustainable development information included in Annual Report of KazTransOil JSC for 2015

- sending information requests to Management to get an overview of the process of identifying topics and issues of importance to key stakeholder groups of the Company;
- interviewing with Management representatives and Company officials to get understanding of the processes of the Company interaction with stakeholders, understanding the strategy of sustainable development and policies governing the key issues in this area, the degree of implementation of these policies in practice and procedures of collecting sustainable development information;
- comparison of information with data from other sources to verify completeness and absence of contradictions;
- assessment of the completeness of qualitative and quantitative sustainable development information in from the point of view of compliance with the recommendations of the Sustainable Development Reporting Guidance of Global Reporting Initiative G4 option "core";
- study and analysis of the information provided in the Annual Report to ascertain whether it meets our overall perception of and knowledge about the Company's activities in the area of sustainable development;
- analytical procedures on the basis of analysis of the correlation patterns based on our present information about the Company, including analysis of financial and other information against the comparable information for prior periods;
- restatement of quantitative indicators and inspection of the supporting primary documentation.

Limited assurance is less than reasonable assurance. Evidence-gathering procedures for a limited assurance engagement are more limited than for a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement.

**The criteria used**

The recommendations of the Sustainable Development Reporting Guidance of Global Reporting Initiative G4, available at the link: <https://www.globalreporting.org/reporting/g4/Pages/default.aspx> were used as criteria to evaluate the sustainable development information.

**Management's assertion**

Management asserts that the sustainable development information has been properly prepared in all material respects, in accordance with the recommendations of the Sustainable Development Reporting Guidance of Global Reporting Initiative G4 option "core" and contains no material misstatements.

**Conclusion**

Our conclusion has been formed on the basis of, and is subject to the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.


**KazTransOil JSC**

Independent Limited Assurance Report on the sustainable development information included in Annual Report of KazTransOil JSC for 2015

Based on the procedures performed, described in this report, nothing has come to our attention that causes us to believe that Management's assertion that the sustainable development information is properly prepared in all material respects, in accordance with the recommendations of the Sustainable Development Reporting Guidance of Global Reporting Initiative G4 option "core" and contain no material misstatements, is not fairly stated.

S.N. Zhumashev

Attorney, power of attorney dated 29.01.2016 No. T-125

KPMG Tax and Advisory LLC

May, 11 2016

Astana, The Republic of Kazakhstan





KazTransOil JSC

Consolidated financial statements

For the year ended 31 December 2015

with independent auditors’ report

Independent auditors’ report

Consolidated financial statements

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## Independent auditors' report

To the shareholders of KazTransOil JSC:

We have audited the accompanying consolidated financial statements of KazTransOil JSC and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

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

### Auditors' responsibility

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

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

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

## Opinion


In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KazTransOil JSC as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernst & Young LLP*

  
Gulmira Turmagambetova  
Auditor

Auditor Qualification Certificate  
No. 0000374 dated 21 February 1998

23 February 2016

  
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



Consolidated financial statements, for the year ended 31 December 2015 with independent auditors' report

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>In thousands of Tenge</i>	<b>Note</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	<b>478,504,930</b>	415,390,661
Intangible assets	7	<b>7,399,731</b>	5,479,443
Investments in joint ventures	8	<b>13,918,006</b>	49,843,334
Advances to suppliers for property, plant and equipment	9	<b>7,733,267</b>	11,307,451
Bank deposits	15	<b>4,487,436</b>	3,729,880
Other non-current assets		<b>27,156</b>	16,723
		<b>512,070,526</b>	485,767,492
<b>Current assets</b>			
Inventories	10	<b>3,599,697</b>	3,044,558
Interest free loan	17	<b>18,735,079</b>	–
Trade and other accounts receivable	11	<b>4,224,126</b>	5,803,874
Advances to suppliers	12	<b>3,062,072</b>	1,111,935
Prepayment for corporate income tax		<b>2,376</b>	5,814,807
VAT recoverable and other prepaid taxes	13	<b>8,639,068</b>	6,196,069
Other current assets	14	<b>6,062,455</b>	3,380,259
Bank deposits	15	<b>12,446,837</b>	32,112,242
Cash and cash equivalents	16	<b>50,420,288</b>	42,174,720
		<b>107,191,998</b>	99,638,464
Assets classified as held for sale		–	1,261
		<b>107,191,998</b>	99,639,725
<b>Total assets</b>		<b>619,262,524</b>	585,407,217

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

<i>In thousands of Tenge</i>	<b>Note</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	17	<b>61,937,567</b>	61,937,567
Asset revaluation reserve	17	<b>125,563,376</b>	138,237,679
Other capital reserves	17	<b>(3,813,701)</b>	(1,810,575)
Foreign currency translation reserve	17	<b>36,210,843</b>	14,860,910
Retained earnings		<b>253,033,425</b>	244,418,740
<b>Total equity</b>		<b>472,931,510</b>	457,644,321
<b>Non-current liabilities</b>			
Employee benefits liability	18	<b>15,098,686</b>	11,204,603
Deferred tax liabilities	32	<b>40,682,643</b>	41,167,915
Provision on asset retirement obligation and land recultivation obligation	23	<b>21,999,701</b>	20,631,009
Deferred income	19	<b>8,081,762</b>	4,423,082
		<b>85,862,792</b>	77,426,609
<b>Current liabilities</b>			
Employee benefits liability	18	<b>435,024</b>	408,757
Income tax payable		<b>2,112,015</b>	910,109
Trade and other accounts payable	20	<b>16,654,897</b>	15,773,741
Advances received	21	<b>17,825,174</b>	16,746,436
Other taxes payable	22	<b>4,558,010</b>	3,226,928
Provisions	23	<b>63,191</b>	316,065
Other current liabilities	24	<b>18,819,911</b>	12,954,251
		<b>60,468,222</b>	50,336,287
<b>Total liabilities</b>		<b>146,331,014</b>	127,762,896
<b>Total equity and liabilities</b>		<b>619,262,524</b>	585,407,217
<b>Book value of ordinary shares (in Tenge)</b>	17	<b>1,210</b>	1,176

Signed and approved for issue on 23 February 2016.

General director

Chief accountant



Shmanov N.N.



Sarmagambetova M.K.

The accounting policy and explanatory notes on pages 129 through 186 form an integral part of these consolidated financial statements.

Consolidated financial statements, for the year ended 31 December 2015 with independent auditors' report

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>In thousands of Tenge</i>	Note	For the years ended 31 December	
		2015	2014
Revenue	25	<b>213,161,762</b>	206,637,113
Cost of sales	26	<b>(124,063,989)</b>	(121,309,073)
<b>Gross profit</b>		<b>89,097,773</b>	85,328,040
General and administrative expenses	27	<b>(12,092,220)</b>	(13,592,935)
Other operating income	28	<b>1,659,141</b>	1,461,472
Other operating expenses	29	<b>(1,733,969)</b>	(650,029)
Loss on impairment of property, plant and equipment	6	<b>(1,330,882)</b>	(8,119,432)
<b>Operating profit</b>		<b>75,599,843</b>	64,427,116
Net foreign exchange gain	16	<b>25,544,225</b>	1,055,964
Finance income	30	<b>3,026,897</b>	4,517,047
Finance costs	31	<b>(2,177,430)</b>	(1,615,566)
Share in loss of joint ventures	8	<b>(34,674,141)</b>	(6,255,050)
<b>Profit before tax</b>		<b>67,319,394</b>	62,129,511
Income tax expense	32	<b>(22,606,458)</b>	(15,698,946)
<b>Profit for the year</b>		<b>44,712,936</b>	46,430,565
<b>Earnings per share (<i>in Tenge</i>)</b>	17	<b>116</b>	121
<b>Other comprehensive income</b>			
<b>Other comprehensive income to be reclassified to profit or loss in subsequent periods</b>			
Exchange difference from translation of foreign operations of the Group		<b>19,956,164</b>	4,742,851
Exchange difference from translation of foreign operations of the joint ventures	8	<b>(77,410)</b>	49,057
<b>Total other comprehensive income to be reclassified to profit or loss in subsequent periods, net</b>		<b>19,878,754</b>	4,791,908
<b>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods</b>			
Net revaluation and impairment of property, plant and equipment of the Group	6	<b>(893,921)</b>	(24,595,646)
Income tax effect	32	<b>178,784</b>	4,676,756
		<b>(715,137)</b>	(19,918,890)

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

<i>In thousands of Tenge</i>	Note	For the years ended 31 December	
		2015	2014
Revaluation and impairment of property, plant and equipment of joint ventures		<b>69,176</b>	3,576,974
Income tax effect		<b>(13,835)</b>	(715,395)
	8	<b>55,341</b>	2,861,579
Provision on asset retirement obligation and land recultivation of the Group	23	<b>1,157,829</b>	(1,678,425)
Income tax effect	32	<b>(231,565)</b>	335,685
		<b>926,264</b>	(1,342,740)
Provision on asset retirement obligation and land recultivation of joint ventures		<b>632,377</b>	334,774
Income tax effect		<b>(126,475)</b>	(63,433)
	8	<b>505,902</b>	271,341
Actuarial losses from employee benefit liabilities of the Group	18	<b>(2,503,907)</b>	(992,599)
Income tax effect	32	<b>500,781</b>	198,520
		<b>(2,003,126)</b>	(794,079)
<b>Total other comprehensive loss not to be reclassified to profit or loss in subsequent periods</b>		<b>(1,230,756)</b>	(18,922,789)
<b>Total other comprehensive income/(loss) for the year, net of tax</b>		<b>18,647,998</b>	(14,130,881)
<b>Total comprehensive income for the year, net of tax</b>		<b>63,360,934</b>	32,299,684

Signed and approved for issue on 23 February 2016.

General director

Chief accountant



Shmanov N.N.



Sarmagambetova M.K.

The accounting policy and explanatory notes on pages 129 through 186 form an integral part of these consolidated financial statements.



Consolidated financial statements, for the year ended 31 December 2015 with independent auditors' report

## CONSOLIDATED STATEMENT OF CASH FLOWS

<i>In thousands of Tenge</i>	For the years ended 31 December		
	Note	2015	2014
<b>Cash flows from operating activities</b>			
Profit before tax		<b>67,319,394</b>	62,129,511
<b>Non-cash adjustment to reconcile profit before tax to net cash flows</b>			
Depreciation and amortization	26, 27	<b>33,228,121</b>	33,696,049
Net charge of allowance for doubtful debts	27	<b>107,656</b>	18,661
Share in loss of joint ventures	8	<b>34,674,141</b>	6,255,050
Finance costs	31	<b>2,177,430</b>	1,615,566
Finance income	30	<b>(3,026,897)</b>	(4,517,047)
Employee benefits for current service cost	18	<b>1,070,515</b>	802,461
Net (reverse)/charge of provisions	23	<b>(243,689)</b>	53,560
Net loss on disposal of property, plant and equipment and intangible assets	29	<b>1,376,960</b>	208,654
Net gain on disposal of inventory	28, 29	<b>(44,193)</b>	(248,512)
Net loss/(gain) from disposal of assets held for sale	28, 29	<b>6,915</b>	(61,090)
Impairment of intangible assets	7	<b>–</b>	302,114
Impairment of property plant and equipment	6	<b>1,330,882</b>	8,119,432
Income from write-off of accounts payable	28	<b>(42,363)</b>	(75,689)
Amortization of deferred income		<b>(260,305)</b>	(428,123)
(Income)/expenses from revision of estimates on asset retirement obligation and land recultivation	28, 29	<b>(443,410)</b>	275,965
Write off of idle oil pumping stations	29	<b>26,538</b>	89,126
Net charge/(reversal) of provision for slow-moving inventory	27	<b>6,644</b>	(5,342)
<b>Operating cash flows before working capital changes</b>		<b>137,264,339</b>	108,230,346
<b>(Increase)/decrease in operating assets</b>			
Inventories		<b>(296,689)</b>	3,537,525
Trade and other accounts receivable		<b>2,103,548</b>	(1,274,316)
Advances to suppliers		<b>(1,483,881)</b>	(268,324)
VAT recoverable and other prepaid taxes		<b>(309,496)</b>	(3,950,262)
Other current assets		<b>(2,529,789)</b>	603,319
<b>Increase/(decrease) in operating liabilities</b>			
Trade and other accounts payable		<b>(3,311,765)</b>	2,884,424
Advances received		<b>792,292</b>	(435,287)
Other taxes payable		<b>(388,809)</b>	639,577
Other current and non-current liabilities and employee benefit liabilities		<b>4,260,012</b>	(2,972,212)
<b>Cash generated from operations</b>		<b>136,099,762</b>	106,994,790
Income taxes paid		<b>(16,850,829)</b>	(18,965,585)
Interest received		<b>2,753,028</b>	5,878,926
<b>Net cash flow from operating activities</b>		<b>122,001,961</b>	93,908,131

## CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

<i>In thousands of Tenge</i>	For the years ended 31 December		
	Note	2015	2014
<b>Cash flows from investing activities</b>			
Withdrawal of bank deposits		<b>71,739,062</b>	128,562,356
Placement of bank deposits		<b>(41,427,048)</b>	(81,978,050)
Purchase of property, plant and equipment		<b>(70,523,460)</b>	(82,725,157)
Purchase of intangible assets		<b>(154,116)</b>	(228,913)
Proceeds from disposal of property, plant and equipment, intangible assets and assets held for sale		<b>44,138</b>	309,264
Granting of interest free loan		<b>(20,000,000)</b>	–
Dividends received		<b>1,735,020</b>	717,898
<b>Net cash flow used in investing activities</b>		<b>(58,586,404)</b>	(35,342,602)
<b>Cash flows from financing activities</b>			
Dividends paid	17	<b>(46,429,363)</b>	(41,925,280)
<b>Net cash flow used in financing activities</b>		<b>(46,429,363)</b>	(41,925,280)
The effects of changes in exchange rates		<b>(8,740,626)</b>	(110,877)
<b>Net change in cash and cash equivalents</b>		<b>8,245,568</b>	16,529,372
Cash and cash equivalents at the beginning of the year		<b>42,174,720</b>	25,645,348
<b>Cash and cash equivalents at the end of the year</b>	16	<b>50,420,288</b>	42,174,720

Signed and approved for issue on 23 February 2016.

General director

Chief accountant



Shmanov N.N.



Sarmagambetova M.K.

The accounting policy and explanatory notes on pages 129 through 186 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>In thousands of Tenge</i>	Share capital	Asset revaluation reserve	Foreign currency translation reserve	Other capital reserves	Retained earnings	Total
<b>As at 31 December 2014</b>	61,937,567	138,237,679	14,860,910	(1,810,575)	244,418,740	457,644,321
Profit for the year	-	-	-	-	44,712,936	44,712,936
Other comprehensive income	-	<b>772,370</b>	<b>19,878,754</b>	<b>(2,003,126)</b>	-	<b>18,647,998</b>
<b>Total comprehensive income for the year</b>	-	<b>772,370</b>	<b>19,878,754</b>	<b>(2,003,126)</b>	<b>44,712,936</b>	<b>63,360,934</b>
Depreciation transfer of revalued property, plant and equipment	-	<b>(11,975,494)</b>	-	-	<b>11,975,494</b>	-
Dividends ( <i>Note 17</i> )	-	-	-	-	<b>(46,429,363)</b>	<b>(46,429,363)</b>
Reclassification	-	<b>(1,471,179)</b>	<b>1,471,179</b>	-	-	-
Other ( <i>Note 17</i> )	-	-	-	-	<b>(1,644,382)</b>	<b>(1,644,382)</b>
<b>As at 31 December 2015</b>	<b>61,937,567</b>	<b>125,563,376</b>	<b>36,210,843</b>	<b>(3,813,701)</b>	<b>253,033,425</b>	<b>472,931,510</b>
<b>As at 31 December 2013</b>	61,937,567	171,902,104	10,069,002	(1,016,496)	224,377,740	467,269,917
Profit for the year	-	-	-	-	46,430,565	46,430,565
Other comprehensive (loss)/income	-	(18,128,710)	4,791,908	(794,079)	-	(14,130,881)
<b>Total comprehensive income for the year</b>	-	(18,128,710)	4,791,908	(794,079)	46,430,565	32,299,684
Depreciation transfer of revalued property, plant and equipment	-	(15,535,715)	-	-	15,535,715	-
Dividends ( <i>Note 17</i> )	-	-	-	-	(41,925,280)	(41,925,280)
<b>As at 31 December 2014</b>	61,937,567	138,237,679	14,860,910	(1,810,575)	244,418,740	457,644,321

Signed and approved for issue on 23 February 2016.

General director

Chief accountant


  
 Shmanov N.N.
   

  
 Sarmagambetova M.K.

*The accounting policy and explanatory notes on pages 129 through 186 form an integral part of these consolidated 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" (hereinafter "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 reregistered and renamed "KazTransOil" Closed Joint Stock Company.

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

As at 31 December 2015 10% of shares of the Company are owned by minority shareholders who acquired them within the "People's IPO" program. The major shareholder of the Company, who owns the controlling interest of the Company (90%) is National Company "KazMunayGas" JSC (hereinafter "KMG" or "Parent Company"). 90% of KMG shares are owned by Sovereign Wealth Fund "Samruk-Kazyna" JSC (hereinafter "Samruk-Kazyna"), controlled by the Government of the Republic of Kazakhstan. 10% of KMG shares are owned by the National Bank of the Republic of Kazakhstan.

As at 31 December 2015 and 2014 the Company had interest ownership in the following companies:

	Place of incorporation	Principal activities	Ownership	
			31 December 2015	31 December 2014
NWPC "MunaiTas" JSC (hereinafter "MunaiTas")	Kazakhstan	Oil transportation	51%	51%
"Kazakhstan-China Pipeline" LLP (hereinafter "KCP")	Kazakhstan	Oil transportation	50%	50%
"Batumi Terminals Limited" (hereinafter "BTL")	Cyprus	Forwarding, transshipment and storage of oil and oil products and operating of Batumi Sea Port and Oil Terminal	100%	100%

The Company and its subsidiary are hereinafter referred to as the "Group".

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

The Group operates network of main oil pipelines of 5,373 km and water pipelines of 1,975 km within the Republic of Kazakhstan. Also the Group is engaged in storage, loading, transshipment and transfer of crude oil to other related pipeline systems. Group's joint ventures MunaiTas and KCP own Kenkiyak-Atyrau, Kenkiyak-Kumkol, and Atasu-Alashankou pipelines used for transportation of Kazakhstani crude oil to China.

BTL, subsidiary of the Company, provides services for transshipment and storage of crude oil, oil products and liquefied petroleum gas, as well as services for dry cargo transshipment through Batumi oil terminal and Batumi Sea Port in Georgia. BTL owns Batumi Oil Terminal LLC (hereinafter "BOT") and Petrotrans Limited Company. BOT has the exclusive right to operate 100% of the shares of Batumi Sea Port LLC (hereinafter "BSP").

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



1. GENERAL (*continued*)

On 18 May 2015 amendments to the Law of the Republic of Kazakhstan *On Natural Monopolies and Regulated Markets* came into force. According to the amendments transit of crude oil through the pipelines on the territory of the Republic of Kazakhstan and export from the Republic of Kazakhstan is excluded from the regulation of natural monopolies.

From 1 October 2015 order of CRNMandPC dated 21 August 2015 approved the maximum tariffs for pumping oil on the domestic market for 2015-2019 in the amount of:

- in 2015 – 3,225.04 Tenge per tonne for 1,000 km without VAT;
- in 2016 – 3,547.46 Tenge per tonne for 1,000 km without VAT;
- in 2017 – 3,902.13 Tenge per tonne for 1,000 km without VAT;
- in 2018 – 4,292.40 Tenge per tonne for 1,000 km without VAT;
- in 2019 – 4,721.72 Tenge per tonne for 1,000 km without VAT.

In general, tariff rates are based on the cost of return of capital on operating assets. In accordance with the legislation in the Republic of Kazakhstan on regulation of natural monopolies, tariff rates cannot be lower than the expenditure required to provide services, and should provide for entity's profitability at the level ensuring effective functioning of a natural monopoly.

These consolidated financial statements were approved for issue by the General director and the Chief accountant of the Company on 23 February 2016.

## 2. Basis of preparation

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

These consolidated financial statements have been prepared on a historical cost basis, except for property, plant and equipment which are stated at revalued amounts.

The consolidated financial statements are presented in Tenge and all values are rounded to the nearest thousand, except when otherwise indicated.

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

## 3. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at 31 December 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements;
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*continued*) for the year ended 31 December 2015

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

## 4. Summary of significant accounting policies

### 4.1. Interest in a joint venture

The Group has interests in joint operations in the form of joint ventures.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Factors considered in determining joint control are similar to the factors considered in determining the existence of control of subsidiaries.

The Group's investment in its joint ventures is accounted for using the equity method. Under the equity method, the investments in joint ventures are carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the joint ventures, that arise after the acquisition date. Goodwill relating to joint ventures is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the Group share of the results of operations of joint ventures. Where there has been a change recognised directly in the equity of the joint ventures, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and joint ventures are eliminated to the extent of the interest in the joint ventures.

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

The financial statements of joint ventures are prepared for the same reporting period as for the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on own investments in its joint ventures. The Group determines at each reporting date whether there is any objective evidence that the investment in a joint venture is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount in consolidated statement of comprehensive income under "Share of profit or loss of joint ventures".

Upon loss of joint control over joint ventures and provided the former jointly controlled entity does not become a subsidiary or associate, the Group measures and recognises its remaining investment at its fair value. Any differences between the carrying amount of the former jointly controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in the profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2. Foreign currency translation

The Group’s consolidated financial statements are presented in Tenge. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Functional currency of the Company and the joint ventures MunaiTas and KCP is Tenge. Functional currency of BTL Group is US Dollar, except for BSP, which functional currency is Georgian Lari.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates prevailing at the date of the transaction first qualified for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences, related to settlement and translation of monetary items, are taken to the consolidated statement of comprehensive income.

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

Group companies

On consolidation the assets and liabilities of foreign operations are translated into Tenge at the rate of exchange prevailing at the reporting date and their income statements are translated at weighed average currency exchange rates. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

Exchange rates

Weighted average currency exchange rates established by the Kazakhstan stock exchange (hereinafter “KASE”) are used as atficial currency exchange rates in the Republic of Kazakhstan.

The National Bank of the Republic of Kazakhstan starting from 20 August 2015 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 188.38 Tenge and 255.26 Tenge per 1 US Dollar, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2015

Weighted average currency exchange rates for the years ended 31 December 2015 and 2014 were as follows:

Tenge	For the year ended 31 December	
	2015	2014
US Dollars	222.68	179.12
Russian Rubles	3.62	4.74
Euro	246.89	237.99
Georgian Lari	98.38	101.69

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

Tenge	2015	2014
US Dollars	340.01	182.35
Russian Rubles	4.61	3.17
Euro	371.46	221.97
Georgian Lari	142.86	99.79

At date of the issuance of these consolidated financial statements the exchange rate of the Tenge against the US Dollar increased to 348.69 Tenge per 1 US Dollar.

4.3. Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is 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 Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.



#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

### 4.4. Fair value measurement

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated 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 consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*continued*) for the year ended 31 December 2015

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

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

Costs to distribute are the incremental costs directly attributable to the distribution, excluding the finance costs and income tax expense.

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

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

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

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

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

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

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

### 4.6. Property, plant and equipment

Property, plant and equipment initially are recognized at cost. Subsequent measurement is 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.

In identifying excess of technological oil the Group assesses whether the transferred item from customers meets the definition of an asset, and if it is so, recognises the transferred asset as property, plant and equipment at zero cost and revalued at each reporting date.

The Group periodically engages independent appraisers to revalue property, plant and equipment to their depreciated replacement cost. According to Accounting Policy property, plant and equipment is revalued each 3 years (except for technological oil, which is revalued annually) in order to ensure that fair value of the revalued asset does not significantly differ from its book value.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*  
4.6. Property, plant and equipment *(continued)*

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 Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to significant accounting judgments, estimates and assumptions and provisions for further information about the asset retirement and land recultivation obligation *(Note 5)*.

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

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

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

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

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

4.7. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets except for goodwill are assessed as finite.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*  
for the year ended 31 December 2015

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

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

4.8. Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s (hereinafter “CGU”) fair value less costs to sell and its value in use and is determined for an individual asset.

Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

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

At each reporting date the Group makes an assessment as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset’s or CGU’s recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised through profit in the statement of comprehensive income, unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

4.9. Financial assets

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss. Purchases or sales of financial assets that require delivery of assets within a



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*  
4.9. Financial assets *(continued)*

time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

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

*Subsequent measurement*

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

***Loans and receivables***

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

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

***Held-to-maturity investments***

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the EIR, less impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income in finance costs. The Group had deposits held to maturity during the years ended 31 December 2015 and 2014.

*Derecognition*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized (or excluded from Group consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*  
for the year ended 31 December 2015

4.10. Impairment of financial assets

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

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

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

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

***Financial assets carried at amortised cost***

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate.

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

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs and general and administrative expenses in the consolidated statement of comprehensive income.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.11. Financial liabilities

*Initial recognition and measurement*

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

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

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

*Subsequent measurement*

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

*Loans and borrowings*

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

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

*Financial guarantee contracts*

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

*Derecognition*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*  
for the year ended 31 December 2015

4.12. Offsetting of financial instruments

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

4.13. 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.

Cost of inventories is determined by using of FIFO basis.

4.14. Cash and cash equivalents

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

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

4.15. Provisions

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

The Group records a provision on asset retirement and land reclamation obligation. Asset retirement and land reclamation 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 reclamation obligation. The unwinding of the discount is expensed as incurred and recognised in the consolidated statement of comprehensive income as a finance cost. The estimated future costs of asset retirement and land reclamation are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset (*Note 5*).



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.16. Employment benefits

The Company provides long-term employee benefits to employees before, on and after retirement, in accordance with the Collective agreement between the Company and its employees and with the Rules on social support of not working pensioners and disabled people of the Company. The Collective agreement and above Rules provides for one-off retirement payments, monthly payments to for unemployed pensioners, payment for holidays, anniversaries and funeral. The entitlement to pension 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 consolidated 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.

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

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

4.17. Revenue and other income recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements, except for transportation expedition contract where the Group is acting as an agent. The following specific recognition criteria must also be met before revenue is recognised:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*  
for the year ended 31 December 2015

*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 consolidated statement of comprehensive income.

*Dividends*

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

*Fees for undelivered oil volumes*

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

4.18. Taxes

*Current income tax*

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities.

The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised in other comprehensive income is recognised in equity and not in the statement of comprehensive income. The Group Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

*Deferred tax*

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

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*  
4.18. Taxes (continued)

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

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

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

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

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

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

**Value Added Tax (VAT)**

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

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

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

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

**Receivables and payables are stated including VAT.**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*  
for the year ended 31 December 2015

4.19. Equity

**Share capital**

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

**Dividends**

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

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

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

4.20. 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 2015.

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

**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. This amendment is not relevant to the Group's consolidated financial statements, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

*Standards issued but not yet effective*

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

**IFRS 9 Financial Instruments**

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



#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

##### 4.20. Changes in accounting policies and disclosures *(continued)* Standards issued but not yet effective *(continued)*

###### **IFRS 14 Regulatory Deferral Accounts**

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

###### **IFRS 15 Revenue from Contracts with Customers**

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

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

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

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

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

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

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

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

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

#### **Annual improvements 2010–2012 cycle**

These improvements are effective from 1 July 2014 and did not have a material impact on the consolidated financial statements of the Group. They include:

###### **IFRS 2 Share-based Payment (amendment)**

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

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)* for the year ended 31 December 2015

- 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 39.

###### **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 by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. The Group did not record any revaluation adjustments during the current period.

###### **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. This amendment is not relevant for the consolidated financial statements of the Group as it does not receive any management services from other entities.

#### **Improvement to IFRS 2011–2013 cycle**

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

###### **IFRS 3 Business Combinations (amendment)**

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

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

###### **IFRS 13 Fair Value Measurement (amendment)**

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)4.20. Changes in accounting policies and disclosures (*continued*)  
Improvement to IFRS 2011-2013 cycle (*continued*)**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.

**Annual improvements 2012–2014 cycle**

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

**IFRS 5 Non-current Assets Held for Sale and Discontinued Operations**

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

**IFRS 7 Financial Instruments: Disclosures****(i) Servicing contracts**

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

**(ii) Applicability of the amendments to IFRS 7 to the interim condensed financial statements**

The amendment clarifies that the offsetting disclosure requirements do not apply to the interim condensed financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

**IAS 19 Employee Benefits**

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

**IAS 34 Interim Financial Reporting**

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments are not expected to have any impact on the Group.

**Amendments to IAS 1 Disclosure Initiative**

The amendments to IAS 1 **Presentation of Financial Statements** clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- the materiality requirements in IAS 1;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*continued*)

for the year ended 31 December 2015

- that specific line items in the statement of comprehensive income and the statement of financial position may be disaggregated;
- that Companies have flexibility as to the order in which they present the notes to financial statements;
- that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of comprehensive income. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

## 5. Significant accounting judgements, estimates and assumptions

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

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

- financial risk management and policies (**Note 36**);
- sensitivity analyses disclosures (**Note 36**).

### Estimates and assumptions

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

**Revaluation of property, plant and equipment**

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

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

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

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

- 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 Group assesses at each reporting date whether the



5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS *(continued)*  
Estimates and assumptions *(continued)*  
Revaluation of property, plant and equipment *(continued)*

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 2015 the management of the Group 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 Group's property, plant and equipment (except for technological oil) as at 31 December 2015 from the date of last revaluation on 31 July 2013. As a result, the fair value of the Group's property, plant and equipment approximated their carrying amount.

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 2015.

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

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

- technological oil is an integral part of the process of operating the pipeline without which the transportation is not possible;
- technological oil cannot be sold or otherwise disposed due to regulations imposed by CRNMandPC;
- tariffs are being closely monitored by CRNMandPC and the Government (except export tariffs) to ensure they will not adversely affect general price index in the country, and thus may be set at the level which will not allow to recover cost of oil, if it was valued at international market price;
- the Group is affected by regulations set by KMG and, should there be a decision to sell some part of oil, subject for approval of CRNMandPC, it would be sold only to the KMG-group's trading division at internal price;
- and should the Group need to buy additional oil to fill in new parts of pipeline, it would buy from the KMGgroup 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 2015 in the amount 84.71 US Dollars (28,802 Tenge) per tonne (31 December 2014 in the amount 164.52 US Dollars (30,000 Tenge) per tonne). The effect of the change in oil price is equal to 2,759,330 thousand tenge and revaluation of excess oil is equal to 2,921,212 thousand tenge *(Note 6)*.

The volume of oil in the pipeline as at 31 December 2015 amounted 2,397,778 tonne (31 December 2014: 2,307,952 tonne). According to the results of inventory stock count held on 31 December 2015 the oil surplus in the amount of 101,424 tonne (as at 31 December 2014: 119,041 tonne) was identified, and disposal of oil during the period was 11,598 tonnes.

Impairment of property, plant and equipment

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

Useful lives of items of property, plant and equipment

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*  
for the year ended 31 December 2015

Asset retirement and land recultivation obligation

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

Asset retirement and land recultivation obligation is estimated based on the value of the work to decommission and rehabilitate calculated by the Group in accordance with the technical regulations of the Republic of Kazakhstan (pipeline decommission expense is equal to 3,524 thousand Tenge per km (as at 31 December 2014: 3,581 thousand Tenge per km)).

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

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

	2015	2014
Discount rate	6.73%	6.2%
Inflation rate	6.0%	6.0%
Period of fulfillment of obligations	10 years	14 years

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

As at 31 December 2015 the carrying amount of the asset retirement and land recultivation obligation was 21,999,701 thousand Tenge (as at 31 December 2014: 20,631,009 Tenge) *(Note 23)*.

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

Sensitivity analysis of asset retirement and land recultivation obligation for the change insignificant assumptions as at 31 December 2015 is as follows:

<i>In thousands of Tenge</i>	Decrease	Increase
Discount rate	-0.5% 1,061,763	+0.5% (1,008,300)
Inflation rate	-0.5% (1,019,728)	+0.5% 1,064,091

Allowances for doubtful debts

The Group accrues allowances for doubtful accounts receivable, advances to suppliers and other assets. In estimating doubtful accounts historical and anticipated customer performance are considered.

Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As at 31 December 2015 and 2014 allowances for doubtful accounts have been created for the amount of 814,095 thousand Tenge and 756,335 thousand Tenge, respectively *(Notes 9, 11, 12 and 14)*.

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

Tax provision

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of tax inspection 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 inspections and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The amount of recognized deferred tax assets as at 31 December 2015 was 8,336,684 thousand Tenge (31 December 2014: 7,686,911 thousand Tenge) (Note 32). As at 31 December 2015 and 2014 the Group did not have unrecognized deferred tax assets.

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.

Principal actuarial assumptions used for valuation of employee benefit obligation as at 31 December 2015 and 2014 were as follows:

In percent	2015	2014
Discount rate	6.55%	7.3%
Rate of inflation	6.0%	6.04%
Future increase of non-current annual payment	6.0%	6.04%
Future salary increases	6.0%	6.04%
Mortality rate	12.0%	12.0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
for the year ended 31 December 2015

As of 31 December 2015 and 2014 the average duration of post-retirement benefit obligations was 16 years.

Sensitivity analysis of employee benefits obligation for the change in significant estimates as at 31 December 2015 is as follows:

In thousands of Tenge	Decrease	Increase
Discount rate	-0.5% 1,341,318	+0.5% (719,875)
Inflation rate	-0.5% (723,585)	+0.5% 1,337,029
Future salary increase	-0.5% (723,585)	+0.5% 1,337,029
Life duration	-1 year (341,930)	+1 year 344,034



## 6. Property, plant and equipment

Property, plant and equipment as at 31 December 2015 and 2014 were presented as follows:

<i>In thousands of Tenge</i>	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
<b>At revalued amount as at 31 December 2014</b>	12,483,895	147,474,455	9,979,926	78,466,503	114,120,834	69,568,777	14,949,767	28,895,431	475,939,588
Foreign currency translation	<b>7,391,985</b>	–	<b>3,131,381</b>	<b>13,054,705</b>	<b>10,623,628</b>	–	<b>445,984</b>	<b>719,849</b>	<b>35,367,532</b>
Additions	<b>26</b>	<b>3,131</b>	<b>1,938,243</b>	<b>52,332</b>	<b>1,503,954</b>	–	<b>1,010,513</b>	<b>73,923,923</b>	<b>78,432,122</b>
Recognition of asset retirement and land reclamation obligation ( <i>Note 23</i> )	–	<b>1,674,849</b>	–	–	–	–	–	–	<b>1,674,849</b>
Disposals	<b>(13,414)</b>	<b>(1,592,467)</b>	<b>(247,868)</b>	<b>(187,081)</b>	<b>(685,777)</b>	<b>(140,123)</b>	<b>(480,674)</b>	<b>(396,125)</b>	<b>(3,743,529)</b>
Devaluation (asset revaluation reserve)	–	–	–	–	–	<b>(2,759,330)</b>	–	–	<b>(2,759,330)</b>
Revaluation of excess oil (asset revaluation reserve)	–	–	–	–	–	<b>2,921,212</b>	–	–	<b>2,921,212</b>
Transfer to assets held for sale	<b>(2,443)</b>	–	–	<b>(27,573)</b>	–	–	–	–	<b>(30,016)</b>
Transfer from construction-in-progress	<b>46,497</b>	<b>30,335,502</b>	<b>159,867</b>	<b>6,190,525</b>	<b>11,712,551</b>	–	<b>301,071</b>	<b>(48,746,013)</b>	–
Transfer to Intangible assets ( <i>Note 7</i> )	–	–	–	–	–	–	–	<b>(448,716)</b>	<b>(448,716)</b>
Transfers and reclassifications	–	<b>3,329,020</b>	<b>75,651</b>	<b>(186,312)</b>	<b>(2,472,105)</b>	–	<b>159,814</b>	<b>(906,068)</b>	–
<b>At revalued amount as at 31 December 2015</b>	<b>19,906,546</b>	<b>181,224,490</b>	<b>15,037,200</b>	<b>97,363,099</b>	<b>134,803,085</b>	<b>69,590,536</b>	<b>16,386,475</b>	<b>53,042,281</b>	<b>587,353,712</b>
<b>Accumulated depreciation and impairment as at 31 December 2014</b>	–	(14,327,030)	(3,092,269)	(16,566,241)	(21,244,909)	(330,205)	(4,658,747)	(329,524)	(60,548,925)
Foreign currency translation	–	–	(1,293,722)	(7,712,232)	(5,768,319)	–	(329,841)	–	(15,104,114)
Depreciation charge	–	<b>(10,245,282)</b>	<b>(1,310,496)</b>	<b>(5,894,933)</b>	<b>(12,206,511)</b>	–	<b>(3,059,098)</b>	–	<b>(32,716,320)</b>
Disposals	–	<b>194,239</b>	<b>232,187</b>	<b>153,001</b>	<b>630,477</b>	<b>70,058</b>	<b>464,020</b>	<b>155,238</b>	<b>1,899,220</b>
Impairment (asset revaluation reserve)	–	<b>(697,404)</b>	–	<b>(74,850)</b>	<b>(60,242)</b>	<b>(195,867)</b>	<b>(346)</b>	<b>(27,094)</b>	<b>(1,055,803)</b>
Impairment (through profit and loss)	–	<b>(951,986)</b>	–	<b>(68,763)</b>	<b>(100,868)</b>	<b>(73,731)</b>	<b>(5,095)</b>	<b>(130,439)</b>	<b>(1,330,882)</b>
Transfer to assets held for sale	–	–	–	<b>8,042</b>	–	–	–	–	<b>8,042</b>
Transfers and reclassifications	–	<b>(16,469)</b>	–	<b>4,472</b>	<b>25,593</b>	–	<b>(13,596)</b>	–	–

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for the year ended 31 December 2015

<i>In thousands of Tenge</i>	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
<b>Accumulated depreciation and impairment as at 31 December 2015</b>	–	<b>(26,043,932)</b>	<b>(5,464,300)</b>	<b>(30,151,504)</b>	<b>(38,724,779)</b>	<b>(529,745)</b>	<b>(7,602,703)</b>	<b>(331,819)</b>	<b>(108,848,782)</b>
<b>At revalued amount as at 31 December 2013</b>	11,087,844	97,334,066	8,110,780	71,906,718	88,628,416	89,518,453	12,477,480	36,960,887	416,024,644
Foreign currency translation	1,345,656	–	465,090	2,497,950	1,685,013	–	88,936	173,796	6,256,441
Additions	926	–	1,678,498	10,586	1,090,951	–	709,409	70,632,440	74,122,810
Recognition of asset retirement and land reclamation obligation ( <i>Note 23</i> )	–	962,826	–	–	–	–	–	–	962,826
Disposals	(8,993)	(158,670)	(80,129)	(319,319)	(273,547)	(212,857)	(234,975)	(38,024)	(1,326,514)
Impairment (asset revaluation reserve)	–	–	–	–	–	(19,585,387)	–	–	(19,585,387)
Impairment (through loss)	–	–	–	–	–	(151,432)	–	–	(151,432)
Transfer to assets held as for sale	–	–	(2,270)	–	–	–	–	(834)	(3,104)
Transfer from construction-in-progress	58,462	49,332,447	187,871	4,362,712	22,800,396	–	1,730,371	(78,472,259)	–
Transfer to Intangible assets ( <i>Note 7</i> )	–	–	–	–	(123)	–	–	(360,575)	(360,698)
Transfers and reclassifications	–	3,786	(379,914)	7,856	189,728	–	178,544	–	–
<b>At revalued amount as at 31 December 2014</b>	<b>12,483,895</b>	<b>147,474,455</b>	<b>9,979,926</b>	<b>78,466,503</b>	<b>114,120,834</b>	<b>69,568,777</b>	<b>14,949,765</b>	<b>28,895,431</b>	<b>475,939,586</b>

6. PROPERTY, PLANT AND EQUIPMENT (*continued*)

<i>In thousands of Tenge</i>	Land	Pipelines	Transporta- tion assets	Buildings and con- structions	Machinery and equip- ment	Technologi- cal oil	Other	Construc- tion in progress	Total
<b>Accumulated depreciation and impairment as at 31 December 2013</b>	-	(4,240,358)	(638,843)	(3,320,737)	(4,794,768)	(330,205)	(1,321,562)	(269,270)	(14,915,743)
Foreign currency translation	-	-	(38,825)	(240,396)	(182,465)	-	(22,228)	-	(483,914)
Depreciation charge	-	(10,084,580)	(1,430,022)	(6,521,652)	(11,779,338)	-	(3,358,531)	-	(33,174,123)
Disposals	-	107,510	71,461	222,954	229,322	146,540	221,834	2,484	1,002,105
Impairment (asset revaluation reserve)	-	(44,865)	(137,260)	(2,936,314)	(1,783,089)	(101,186)	(3,583)	(3,962)	(5,010,259)
Impairment (through loss)	-	(64,898)	(936,626)	(3,770,058)	(2,918,653)	(45,354)	(173,635)	(58,776)	(7,968,000)
Transfer to assets held as for sale	-	-	1,009	-	-	-	-	-	1,009
Transfers and reclassifications	-	161	16,837	(38)	(15,918)	-	(1,042)	-	-
<b>Accumulated depreciation and impairment as at 31 December 2014</b>	-	(14,327,030)	(3,092,269)	(16,566,241)	(21,244,909)	(330,205)	(4,658,747)	(329,524)	(60,548,925)
<b>As at 31 December 2015</b>									
At cost	<b>19,906,546</b>	<b>181,224,490</b>	<b>15,037,200</b>	<b>97,363,099</b>	<b>134,803,085</b>	<b>69,590,536</b>	<b>16,386,475</b>	<b>53,042,281</b>	<b>587,353,712</b>
Accumulated depreciation and impairment	-	<b>(26,043,932)</b>	<b>(5,464,300)</b>	<b>(30,151,504)</b>	<b>(38,724,779)</b>	<b>(529,745)</b>	<b>(7,602,703)</b>	<b>(331,819)</b>	<b>(108,848,782)</b>
<b>Net book value</b>	<b>19,906,546</b>	<b>155,180,558</b>	<b>9,572,900</b>	<b>67,211,595</b>	<b>96,078,306</b>	<b>69,060,791</b>	<b>8,783,772</b>	<b>52,710,462</b>	<b>478,504,930</b>
<b>As at 31 December 2014</b>									
At cost	12,483,895	147,474,455	9,979,926	78,466,503	114,120,834	69,568,777	14,949,765	28,895,431	475,939,586
Accumulated depreciation and impairment	-	(14,327,030)	(3,092,269)	(16,566,241)	(21,244,909)	(330,205)	(4,658,747)	(329,524)	(60,548,925)
<b>Net book value</b>	<b>12,483,895</b>	<b>133,147,425</b>	<b>6,887,657</b>	<b>61,900,262</b>	<b>92,875,925</b>	<b>69,238,572</b>	<b>10,291,018</b>	<b>28,565,907</b>	<b>415,390,661</b>

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

	Land	Pipelines	Transporta- tion assets	Buildings	Machinery and equip- ment	Techno- logical oil	Other	Construction in progress	Total
At 31 December 2015	16,615,655	118,066,342	9,268,162	44,720,310	83,458,723	1,165,495	6,453,723	52,942,744	332,691,154
At 31 December 2014	9,328,530	97,829,484	7,155,556	37,154,711	72,623,710	1,168,388	7,462,862	27,019,861	259,743,102

As at 31 December 2015 construction in progress mainly includes the following production projects:

- construction, realized as a part of interstate “Kazakhstan-China” oil pipeline construction project;
- reconstruction of main oil pipelines “Kalamkas-Karazhanbas-Aktau” on the “Karazhanbas-Aktau” route, repair works including replacement of certain routes of the main oil pipelines “TON-2” and other oil pipelines;
- reconstruction of firefighting system and electricity supply systems, and construction of unattended automated communication centers, construction of acceptance points at 1,235 km of the pipeline “Uzen-Atyrau-Samara”, realization of the project to install a system of measuring the quantity and quality of oil to the bitumen plant and others.

As at 31 December 2014 construction in progress mainly included the 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 2015 cost and accumulated depreciation of fully depreciated property, plant and equipment still in use were 4,822,436 thousand Tenge (31 December 2014: 3,208,581 thousand Tenge).

The amount of depreciation for 2015 included in the cost of construction in progress was 17,419 thousand Tenge (31 December 2014: 13,675 thousand Tenge).

As at 31 December 2015 the volume of oil in pipelines and reservoirs, included in property, plant and equipment, amounted 2,398 thousand tons (31 December 2014: 2,308 thousand tons)

As at 31 December 2015 construction in progress included materials and spare parts in the amount of 1,012,567 thousand Tenge (31 December 2014: 2,957,610 thousand Tenge), which were acquired for construction works. This decrease is mainly due to usage of materials and spare parts in 2015 for reconstruction of production facilities in the frame of “Kazakhstan-China” transnational oil pipeline construction project.

At 31 December 2015 certain items of property, plant and equipment of BOT with the residual value of 47,047 thousand US Dollars (equivalent to 15,996,450 thousand Tenge) were pledged as guarantee in favor of TBC Bank, which acted as a guarantor to ensure obligations of Georgian Transit Ltd to Georgian railways according to transportation contracts (*Note 34*). The maximum amount of the guarantee was equal to 10,000 thousand US Dollars (equivalent to 3,400,100 thousand Tenge).

## Impairment of assets of the BTL Group

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

As at 31 December 2015 impairment analysis of the CGU's of the BTL group revealed no impairment indicators.



## 7. Intangible assets

Intangible assets as at 31 December 2015 and 2014 were presented as follows:

<i>In thousands of Tenge</i>	Licenses	Software	Right for land use	Other	Total
<b>Net book value at 31 December 2014</b>	194,907	1,131,148	4,120,734	32,654	5,479,443
Additions	<b>28,013</b>	<b>121,937</b>	–	<b>4,166</b>	<b>154,116</b>
Disposals	<b>(8,853)</b>	<b>(54,096)</b>	–	–	<b>(62,949)</b>
Amortization charge	<b>(105,266)</b>	<b>(317,229)</b>	<b>(101,552)</b>	<b>(5,173)</b>	<b>(529,220)</b>
Accumulated amortization on disposals	<b>8,853</b>	<b>53,431</b>	–	–	<b>62,284</b>
Transfer from construction-in-progress (Note 6)	<b>1,118</b>	<b>447,598</b>	–	–	<b>448,716</b>
Foreign currency translation	<b>44,427</b>	<b>196</b>	<b>1,802,718</b>	–	<b>1,847,341</b>
Transfers and reclassifications	<b>(1,830)</b>	<b>1,830</b>	–	–	–
<b>Net book value at 31 December 2015</b>	<b>161,369</b>	<b>1,384,815</b>	<b>5,821,900</b>	<b>31,647</b>	<b>7,399,731</b>
<b>Net book value at 31 December 2013</b>	184,757	997,520	4,490,163	28,562	5,701,002
Additions	15,052	168,119	–	6,762	189,933
Disposals	(3,712)	(30,799)	–	(528)	(35,039)
Amortization charge	(79,417)	(326,044)	(125,433)	(4,708)	(535,602)
Accumulated amortization on disposals	3,712	30,799	–	528	35,039
Impairment through profit or loss (Note 6)	–	–	(302,114)	–	(302,114)
Transfer from construction-in-progress (Note 6)	49,949	308,711	–	2,038	360,698
Foreign currency translation	7,187	221	58,118	–	65,526
Transfers and reclassifications	17,379	(17,379)	–	–	–
<b>Net book value at 31 December 2014</b>	194,907	1,131,148	4,120,734	32,654	5,479,443
<b>As at 31 December 2015</b>					
At cost	<b>638,737</b>	<b>4,497,457</b>	<b>8,945,020</b>	<b>88,657</b>	<b>14,169,871</b>
Accumulated amortization and impairment	<b>(477,368)</b>	<b>(3,112,642)</b>	<b>(3,123,120)</b>	<b>(57,010)</b>	<b>(6,770,140)</b>
<b>Net book value</b>	<b>161,369</b>	<b>1,384,815</b>	<b>5,821,900</b>	<b>31,647</b>	<b>7,399,731</b>
<b>As at 31 December 2014</b>					
At cost	548,139	3,979,087	6,174,903	84,492	10,786,621
Accumulated amortization and impairment	(353,232)	(2,847,939)	(2,054,169)	(51,838)	(5,307,178)
<b>Net book value</b>	194,907	1,131,148	4,120,734	32,654	5,479,443

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## 8. Investments in joint ventures

Investments in joint ventures as at 31 December 2015 and 2014 are presented as follows:

<i>In thousands of Tenge</i>	KCP	MunaiTas	Total
<b>As at 31 December 2014</b>	36,982,132	12,861,202	49,843,334
Share in profit/(loss) of joint venture	<b>(44,571,259)</b>	<b>2,736,090</b>	<b>(41,835,169)</b>
Unrecognised share in loss of joint venture	<b>7,161,028</b>	–	<b>7,161,028</b>
Share in other comprehensive income of joint venture	<b>428,099</b>	<b>55,734</b>	<b>483,833</b>
Dividends	–	<b>(1,735,020)</b>	<b>(1,735,020)</b>
<b>As at 31 December 2015</b>	–	<b>13,918,006</b>	<b>13,918,006</b>

The following tables below show summarized financial information about joint ventures, including the Group's proportionate share:

<i>In thousands of Tenge</i>	KCP			
	31 December 2015		31 December 2014	
	50%	100%	50%	100%
<b>Assets and liabilities of joint ventures</b>				
Current assets	<b>12,346,915</b>	<b>24,693,830</b>	10,238,917	20,477,834
Non-current assets	<b>118,246,077</b>	<b>236,492,154</b>	126,117,022	252,234,044
Current liabilities	<b>(32,875,443)</b>	<b>(65,750,886)</b>	(18,218,653)	(36,437,306)
Non-current liabilities	<b>(104,878,577)</b>	<b>(209,757,154)</b>	(81,155,154)	(162,310,308)
<b>Net assets</b>	<b>(7,161,028)</b>	<b>(14,322,056)</b>	36,982,132	73,964,264
Unrecognised loss	<b>7,161,028</b>	<b>14,322,056</b>	–	–
<b>Net book value of investment</b>	–	–	36,982,132	73,964,264
<b>Additional information</b>				
Cash and cash equivalents	<b>8,987,307</b>	<b>17,974,614</b>	5,463,275	10,926,550
Short-term financial liabilities	<b>(28,224,964)</b>	<b>(56,449,928)</b>	(14,414,211)	(28,828,422)
Long-term financial liabilities	<b>(103,096,811)</b>	<b>(206,193,622)</b>	(69,906,297)	(139,812,594)

<i>In thousands of Tenge</i>	MunaiTas			
	31 December 2015		31 December 2014	
	51%	100%	51%	100%
<b>Assets and liabilities of joint ventures</b>				
Current assets	<b>4,414,281</b>	<b>8,655,453</b>	2,748,039	5,388,312
Non-current assets	<b>12,985,200</b>	<b>25,461,177</b>	13,841,592	27,140,378
Current liabilities	<b>(639,821)</b>	<b>(1,254,551)</b>	(675,831)	(1,325,159)
Non-current liabilities	<b>(2,841,654)</b>	<b>(5,571,871)</b>	(3,052,598)	(5,985,487)
<b>Net assets</b>	<b>13,918,006</b>	<b>27,290,208</b>	12,861,202	25,218,044
<b>Additional information</b>				
Cash and cash equivalents	<b>527,106</b>	<b>1,033,542</b>	1,742,127	3,415,936
Short-term financial liabilities	–	–	–	–
Long-term financial liabilities	–	–	–	–

8. INVESTMENTS IN JOINT VENTURES *(continued)*

<i>In thousands of Tenge</i>	KCP			
	For the year ended 31 December			
	2015		2014	
	50%	100%	50%	100%
<b>Information on profit or loss and other comprehensive income of joint ventures for the year</b>				
Revenue	25,567,304	51,134,608	24,084,242	48,168,484
Loss from continuing operations for the year	(44,571,259)	(89,142,518)	(6,990,738)	(13,981,476)
Unrecognised loss	7,161,028	14,322,056	–	–
Income/(loss) from discontinuing operations for the year	–	–	–	–
Other comprehensive income	428,099	856,198	3,093,940	6,187,880
<b>Total comprehensive loss</b>	<b>(36,982,132)</b>	<b>(73,964,264)</b>	<b>(3,896,798)</b>	<b>(7,793,596)</b>
<b>Dividends</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Additional information</b>				
Depreciation and amortization	(7,228,928)	(14,457,856)	(7,231,507)	(14,463,014)
Interest income	90,888	181,776	149,964	299,928
Interest expense	(4,065,698)	(8,131,396)	(4,008,080)	(8,016,160)
Income tax benefit	8,989,252	17,978,504	2,115,631	4,231,262

Foreign exchange loss was recognized by KCP due to the translation of financial liabilities (loans) denominated in US Dollars. Net loss of KCP from foreign currency translation related to loans for the years ended 31 December 2015 and 2014 was equal to 122,093,675 thousand Tenge and 30,738,941 thousand Tenge, respectively.

<i>In thousands of Tenge</i>	MunaiTas			
	For the year ended 31 December			
	2015		2014	
	51%	100%	51%	100%
<b>Information on profit or loss and other comprehensive income of joint ventures for the year</b>				
Revenue	4,427,224	8,680,832	3,499,277	6,861,645
Income from continuing operations for the year	2,736,090	5,364,883	735,688	1,442,525
Income/(loss) from discontinuing operations for the year	–	–	–	–
Other comprehensive income	55,734	109,282	88,037	172,621
<b>Total comprehensive income</b>	<b>2,791,824</b>	<b>5,474,165</b>	<b>823,725</b>	<b>1,615,146</b>
<b>Dividends</b>	<b>(1,735,020)</b>	<b>(3,402,000)</b>	<b>(637,620)</b>	<b>(1,250,235)</b>
<b>Additional information</b>				
Depreciation and amortization	(1,047,729)	(2,054,371)	(1,069,661)	(2,097,375)
Interest income	81,365	159,539	13,164	25,812
Interest expense	(39,786)	(78,012)	(37,891)	(74,296)
Income tax expense	(690,379)	(1,353,684)	(186,415)	(365,520)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*  
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## 9. Advances to suppliers for property, plant and equipment

Advances to suppliers for property, plant and equipment as at 31 December 2015 and 2014 were presented as follows:

<i>In thousands of Tenge</i>	31 December 2015	31 December 2014
Advances to third parties for property, plant and equipment and construction	7,786,525	11,406,977
Less: allowance for doubtful debts	(53,258)	(99,526)
<b>Total</b>	<b>7,733,267</b>	<b>11,307,451</b>

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

<i>In thousands of Tenge</i>	2015	2014
<b>As at 1 January</b>	99,526	99,330
(Reverse)/charge for the year <i>(Note 27)</i>	(197)	196
Used in write-off of advances	(46,071)	–
<b>As at 31 December</b>	<b>53,258</b>	<b>99,526</b>

## 10. Inventories

Inventories as at 31 December 2015 and 2014 were presented as follows:

<i>In thousands of Tenge</i>	31 December 2015	31 December 2014
Spare parts	1,531,217	1,461,052
Fuel	823,855	763,929
Construction materials	185,387	157,584
Goods	140,887	93,138
Overalls	98,406	78,892
Chemical reagents	90,812	35,575
Others	766,685	488,241
	<b>3,637,249</b>	<b>3,078,411</b>
Less: provision for slow-moving and obsolete inventory	(37,552)	(33,853)
<b>Total</b>	<b>3,599,697</b>	<b>3,044,558</b>

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

<i>In thousands of Tenge</i>	2015	2014
<b>As at 1 January</b>	<b>33,853</b>	48,213
Charge/(reverse) for the year <i>(Note 27)</i>	6,644	(5,342)
Used in write-off of inventories	(12,058)	(11,554)
Currency translation difference	9,113	2,536
<b>As at 31 December</b>	<b>37,552</b>	<b>33,853</b>



## 11. Trade and other accounts receivable

Trade and other accounts receivable of the Group as at 31 December 2015 and 2014 was presented as follows:

<i>In thousands of Tenge</i>	31 December 2015	31 December 2014
Trade accounts receivable from related parties ( <i>Note 34</i> )	1,420,739	1,941,312
Trade accounts receivable from third parties	982,238	2,139,755
Other accounts receivable from third parties	2,544,880	2,273,771
Other accounts receivable from related parties ( <i>Note 34</i> )	36,122	102,156
	4,983,979	6,456,994
Less: allowance for doubtful debts	(759,853)	(653,120)
<b>Total</b>	<b>4,224,126</b>	<b>5,803,874</b>

Other receivables mainly represent issued fees for undelivered and unreported crude oil volumes under oil transportation contracts on “ship or pay” terms.

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

<i>In thousands of Tenge</i>	2015	2014
<b>As at 1 January</b>	<b>653,120</b>	<b>633,072</b>
Charge for the year ( <i>Note 27</i> )	107,934	19,374
Used in write-off of receivable	(11,385)	–
Currency translation	10,184	674
<b>As at 31 December</b>	<b>759,853</b>	<b>653,120</b>

Trade and other receivables of the Group as at 31 December 2015 and 2014 are denominated in the following currencies:

<i>In thousands of Tenge</i>	31 December 2015	31 December 2014
Tenge	2,676,647	5,131,578
US Dollars	1,273,385	534,468
Russian Ruble	1,160	1,248
Other currency	272,934	136,580
<b>Total</b>	<b>4,224,126</b>	<b>5,803,874</b>

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

<i>In thousands of Tenge</i>	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30–60 days	60–90 days	90–120 days	>120 days
<b>2015</b>	<b>4,224,126</b>	<b>2,843,181</b>	<b>1,163,079</b>	<b>64,333</b>	<b>31,472</b>	<b>25,652</b>	<b>96,409</b>
2014	5,803,874	5,094,199	528,360	74,369	50,919	36,698	19,329

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## 12. Advances to suppliers

Advances to suppliers as at 31 December 2015 and 2014 were presented as follows:

<i>In thousands of Tenge</i>	31 December 2015	31 December 2014
Advances to related parties ( <i>Note 34</i> )	1,841,099	447,876
Advances to third parties	1,221,957	665,132
	3,063,056	1,113,008
Less: allowance for doubtful debts	(984)	(1,073)
<b>Total</b>	<b>3,062,072</b>	<b>1,111,935</b>

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

<i>In thousands of Tenge</i>	2015	2014
<b>As at 1 January</b>	<b>1,073</b>	<b>1,982</b>
Reverse for the year ( <i>Note 27</i> )	(81)	(909)
Used in write-off of advances	(8)	–
<b>As at 31 December</b>	<b>984</b>	<b>1,073</b>

## 13. VAT recoverable and other prepaid Taxes

VAT recoverable and other prepaid taxes as at 31 December 2015 and 2014 were presented as follows:

<i>In thousands of Tenge</i>	31 December 2015	31 December 2014
VAT recoverable	8,359,409	6,016,776
Other taxes prepaid	279,659	179,293
<b>Total</b>	<b>8,639,068</b>	<b>6,196,069</b>

## 14. Other current assets

Other current assets as at 31 December 2015 and 2014 were presented as follows:

<i>In thousands of Tenge</i>	31 December 2015	31 December 2014
Due for oil transportation coordination services	5,767,898	3,245,840
Due from employees	39,460	43,707
Prepaid insurance	49,092	42,498
Deferred expenses	30,426	26,028
Other	175,579	24,802
	6,062,455	3,382,875
Less: allowance for doubtful debts	–	(2,616)
<b>Total</b>	<b>6,062,455</b>	<b>3,380,259</b>

14. OTHER CURRENT ASSETS (continued)

Movement in allowance for doubtful debts related to other current assets was as follows:

<i>In thousands of Tenge</i>	2015	2014
<b>As at 1 January</b>	<b>2,616</b>	2,616
Used in write-off	(2,616)	–
<b>As at 31 December</b>	<b>–</b>	2,616

15. Bank deposits

Bank deposits as at 31 December 2015 and 2014 were presented as follows:

<i>In thousands of Tenge</i>	31 December 2015	31 December 2014
Short-term bank deposits	12,322,761	31,984,737
Long-term bank deposits	4,487,436	3,729,880
Accrued interest on deposits	124,076	127,505
<b>Total</b>	<b>16,934,273</b>	35,842,122

As at 31 December 2015 short-term bank deposits comprised the following:

- US Dollars denominated deposits placed with Kazakhstani banks with maturity from 3 to 12 months, with interest from 1.4% to 2% per annum (as at 31 December 2014: from 0.6% to 3.5%), maturing in March and May 2016;
- restricted long-term bank deposits with interest from 2% to 3.5% per annum maturing in 2029 and in 2025, respectively (as at 31 December 2014: from 2% to 3.5% per annum maturing in 2029 and in 2024, respectively), arranged for the purpose of preferential lending rates the Company’s employees for the purchase of homes.

16. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2015 and 2014 were presented as follows:

<i>In thousands of Tenge</i>	31 December 2015	31 December 2014
Time deposits with banks – US Dollars	33,783,170	19,451,877
Time deposits with banks – Tenge	10,126,290	19,311,501
Current accounts with banks – US Dollars	6,058,205	2,421,688
Current accounts with banks – Lari	199,608	316,560
Current accounts with banks – Euro	150,385	187,273
Current accounts with banks – Tenge	86,613	471,928
Current accounts with banks – Russian Ruble	780	347
Other current accounts with banks	12,871	11,724
Cash in transit	27	–
Cash on hand	2,339	1,822
<b>Total</b>	<b>50,420,288</b>	42,174,720

As at 31 December 2015 current accounts and time deposits in Tenge to 3 months placed with Kazakhstani banks carried interest ranging from 0.47% to 32% per annum (as at 31 December 2014: from 0.49% to 17% per annum). Interest for current accounts and time deposits in USD dollars to 3 months carried interest ranging from 0.25% to 3% per annum (as at 31 December 2014: from 0.3% to 1.77% per annum).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)  
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Due to change of exchange rate of US dollar towards tenge (*Note 4.2*) the Company recognised forex exchange gain, related mainly to revaluation of cash and cash equivalents denominated in foreign currency (US dollars), current bank accounts, time deposits less than 3 months, short-term and long-term deposits in second-tier banks. Net foreign exchange gain for the year ended 31 December 2015 was 25,544,225 thousand tenge (for the year ended 31 December 2014: 1,055,964 thousand tenge).

17. Equity

Share capital

As at 31 December 2015 and 2014 the Company’s share capital 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 2015 and 2014 the share capital was equal to 61,937,567 thousand Tenge, net of consulting costs related to the issuance of shares in the amount of 565,717 thousand Tenge.

Distributions to the shareholder

Dividends

The Company paid dividends to the shareholders based on the decision of the shareholders meeting on 20 May 2015 in the amount of 46,429,363 thousand Tenge based on 120.71 Tenge per 1 share (2014: 41,925,280 thousand Tenge based on 109 Tenge per 1 share), including 41,786,427 thousand Tenge related to KMG (2014: 37,732,752 thousand Tenge) and 4,642,936 thousand Tenge related to minority shareholders (2014: 4,192,528 thousand Tenge).

Earnings per share

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

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

<i>In thousands Tenge</i>	2015	2014
Net profit for the period attributable to ordinary equity holders of the Parent for basic earnings	44,712,936	46,430,565
Weighted average number of ordinary shares for basic earnings per share	384,635,599	384,635,599
<b>Basic earnings per share, in relation to profit for the period attributable to ordinary equity holders of the Company, as a Parent of the Group (in Tenge)</b>	<b>116</b>	121

17. EQUITY (*continued*)

## Book value per ordinary share

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

<i>In thousands Tenge</i>	31 December 2015	31 December 2014
<b>Total assets</b>	<b>619,262,524</b>	585,407,217
Less: intangible assets ( <i>Note 7</i> )	<b>(7,399,731)</b>	(5,479,443)
Less: total liabilities	<b>(146,331,014)</b>	(127,762,896)
<b>Net assets for calculation of book value per ordinary share</b>	<b>465,531,779</b>	452,164,878
Number of ordinary shares	<b>384,635,599</b>	384,635,599
<b>Book value per ordinary share (in Tenge)</b>	<b>1,210</b>	1,176

## Asset revaluation reserve

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

<i>In thousands Tenge</i>	31 December 2015	31 December 2014
Asset revaluation reserve of the Group	<b>102,140,226</b>	113,678,936
Share in the asset revaluation reserve of the joint ventures	<b>23,423,150</b>	24,558,743
<b>Total</b>	<b>125,563,376</b>	138,237,679

## Other capital reserves

As at 31 December 2015 other capital reserves amounted 3,813,701 thousand Tenge (as at 31 December 2014: 1,810,575 thousand Tenge). Increase in reserve is due to accrual of actuarial re-measurement of defined benefit plans in the amount of 2,503,907 thousand Tenge (*Note 18*), income tax effect of which amounted to 500,781 thousand Tenge (*Note 32*).

## Foreign currency translation reserve

As at 31 December 2015 foreign currency translation reserve was equal to 36,210,843 thousand Tenge (as at 31 December 2014: 14,860,910 thousand Tenge) Change in foreign currency translation reserve is due to the translation of the operations of the foreign subsidiary. Significant increase is related to considerable changes in foreign exchange rates (*Note 4.2*).

## Other

On 5 November 2015 the Company provided to KMG interest-free loan based on the decision made on 14-15 October 2015 by the Board of Directors in the amount of 20 billion Tenge with the maturity until 30 June 2016. Discount on loans given in the amount of 1,644,382 thousand tenge was recognized by the Company through retained earnings and during 2015 year the amortization of the discount amounted to 379,461 thousand Tenge (*Note 34*).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*continued*) for the year ended 31 December 2015

## 18. Employee benefit liability

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

Employee benefit liabilities as at 31 December 2015 and 2014 were presented as follows:

<i>In thousands Tenge</i>	31 December 2015	31 December 2014
Current portion of employee benefit liabilities	<b>435,024</b>	408,757
Non-current portion of employee benefit liabilities	<b>15,098,686</b>	11,204,603
<b>Total</b>	<b>15,533,710</b>	11,613,360

Changes in the present value of employee benefit liabilities for the year ended 31 December 2015 and 2014 were as follows:

<i>In thousands Tenge</i>	For the year ended 31 December	
	2015	2014
Employee benefit liabilities at the beginning of the year	<b>11,613,360</b>	9,655,180
Interest cost ( <i>Note 31</i> )	<b>832,855</b>	579,311
Current services cost ( <i>Note 26, 27</i> )	<b>1,070,515</b>	802,461
Actuarial losses ( <i>Note 17</i> )	<b>2,503,907</b>	992,599
Benefits paid	<b>(486,927)</b>	(416,191)
<b>Employee benefit liabilities at the end of the year</b>	<b>15,533,710</b>	11,613,360

## 19. Deferred income

Deferred income as at 31 December 2015 and 2014 was presented as follows:

<i>In thousands of Tenge</i>	31 December 2015	31 December 2014
Deferred income	<b>8,081,762</b>	4,423,082
<b>Total</b>	<b>8,081,762</b>	4,423,082

Deferred income represents amounts received by a group of BTL in advance from Batumi International Container Terminal (hereinafter "BICT") based on agreement of operating lease of land. Increase in the amount as at 31 December 2015 is mainly due to change in the currency exchange rate at the reporting date.

## 20. Trade and other accounts payable

Trade and other accounts payable as at 31 December 2015 and 2014 were presented as follows:

<i>In thousands of Tenge</i>	31 December 2015	31 December 2014
Accounts payable to third parties for goods and services	<b>15,397,918</b>	14,907,024
Accounts payable to related parties for goods and services ( <i>Note 34</i> )	<b>814,409</b>	672,991
Other payables to third parties	<b>441,898</b>	193,726
Other payables to related parties ( <i>Note 34</i> )	<b>672</b>	–
<b>Total</b>	<b>16,654,897</b>	15,773,741



20. TRADE AND OTHER ACCOUNTS PAYABLE (*continued*)

Trade and other accounts payables included payables to related and third parties, related to the construction-in-progress in the amount of 13,578,970 thousand Tenge (as at 31 December 2014: 9,580,016 thousand Tenge).

Trade and other accounts payable as at 31 December 2015 and 2014 were denominated in the following currencies:

<i>In thousands of Tenge</i>	31 December 2015	31 December 2014
Tenge	<b>16,454,585</b>	15,258,129
US Dollars	<b>165,729</b>	105,615
Euro	<b>19,451</b>	12,455
Russian Roubles	<b>2,570</b>	6,219
Other currency	<b>12,562</b>	391,323
<b>Total</b>	<b>16,654,897</b>	15,773,741

## 21. Advances received

Advances received as at 31 December 2015 and 2014 were presented as follows:

<i>In thousands of Tenge</i>	31 December 2015	31 December 2014
Advances received from related parties ( <i>Note 34</i> )	<b>11,330,298</b>	10,615,166
Advances received from third parties	<b>6,494,876</b>	6,131,270
<b>Total</b>	<b>17,825,174</b>	16,746,436

## 22. Other taxes payable

Other taxes payable as at 31 December 2015 and 2014 were presented as follows:

<i>In thousands of Tenge</i>	31 December 2015	31 December 2014
Personal income tax	<b>2,488,472</b>	1,531,057
Withholding tax at the source of payment to non-residents	<b>1,044,519</b>	609,231
Social tax	<b>702,313</b>	504,779
Property tax	<b>23,773</b>	351,287
VAT payable	<b>20,045</b>	12,823
Other taxes	<b>278,888</b>	217,751
<b>Total</b>	<b>4,558,010</b>	3,226,928

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*continued*) for the year ended 31 December 2015

## 23. Provisions

Movements in provisions for the years ended 31 December 2015 and 2014 were presented as follows:

### Short-term provisions

<i>In thousands of Tenge</i>	Tax provisions (BTL)	Environmental provisions (Company)	Others (Company)	Total
<b>As at 31 December 2014</b>	221,373	41,125	53,567	316,065
Charged/(reversed) for the year	<b>(254,768)</b>	<b>11,079</b>	–	<b>(243,689)</b>
Use of provision	–	<b>(11,079)</b>	<b>(53,567)</b>	<b>(64,646)</b>
Foreign currency translation	<b>55,461</b>	–	–	<b>55,461</b>
<b>As at 31 December 2015</b>	<b>22,066</b>	<b>41,125</b>	–	<b>63,191</b>
<b>As at 31 December 2013</b>	186,483	41,642	–	228,125
Charged/(reversed) for the year	–	(7)	53,567	53,560
Use of provision	–	(510)	–	(510)
Foreign currency translation	34,890	–	–	34,890
<b>As at 31 December 2014</b>	221,373	41,125	53,567	316,065

Due to the expiration of the limitation period in 2015 BTL Group reversed the principal amount of the tax provision accrued based on the tax audit for 2008-2009.

### Long-term provisions

<i>In thousands of Tenge</i>	31 December 2015	31 December 2014
<b>As at 1 January</b>	<b>20,631,009</b>	16,677,538
Charge for the year through asset ( <i>Note 6</i> )	<b>1,674,849</b>	962,826
Revision of estimates through other comprehensive income	<b>(1,157,829)</b>	1,678,425
(Gain)/loss from revision of estimates through profit and loss and write-off of provision ( <i>Note 28, 29</i> )	<b>(443,410)</b>	275,965
Unwinding of discount on asset retirement and land recultivation obligation ( <i>Note 31</i> )	<b>1,295,082</b>	1,036,255
<b>As at 31 December</b>	<b>21,999,701</b>	20,631,009

### Asset retirement and land recultivation obligation

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

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

The Company revised the long-term provisions considering current best estimate. Assumptions used and the sensitivity to changes in the discount rate are reflected in *Note 5*.

## 24. Other current liabilities

Other current liabilities as at 31 December 2015 and 2014 were presented as follows:

<i>In thousands of Tenge</i>	31 December 2015	31 December 2014
Salaries and wages	<b>6,172,019</b>	5,738,615
Accounts payable for oil transportation coordination services to related parties ( <i>Note 34</i> )	<b>5,923,268</b>	2,871,849
Accounts payable for oil transportation coordination services to third parties	<b>4,035,988</b>	2,464,587
Current portion of deferred income from third parties	<b>1,086,643</b>	732,135
Payable to pension fund	<b>693,938</b>	659,667
Current portion of deferred income from related parties ( <i>Note 34</i> )	–	260,305
Other accruals	<b>908,055</b>	227,093
<b>Total</b>	<b>18,819,911</b>	12,954,251

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

## 25. Revenue

Revenue for the years ended 31 December 2015 and 2014 was presented as follows:

<i>In thousands of Tenge</i>	2015	2014
Crude oil transportation	<b>176,036,600</b>	164,393,577
Oil reloading and railway shipment	<b>14,562,118</b>	15,516,062
Pipeline operation services	<b>8,918,816</b>	8,230,639
Water transportation	<b>6,603,736</b>	6,860,568
Seaport services	<b>3,648,789</b>	3,148,189
Fees for undelivered oil volumes	<b>1,294,978</b>	6,714,971
Oil transportation coordination services	<b>594,761</b>	639,557
Oil storage services	<b>58,222</b>	91,553
Other	<b>1,443,742</b>	1,041,997
<b>Total</b>	<b>213,161,762</b>	206,637,113

For the year ended 31 December 2015 revenue from the three major customer amounted to 49,586,658 thousand Tenge, 24,980,450 thousand Tenge and 14,828,129 thousand Tenge, respectively (for the year ended 31 December 2014 revenue from the three major customers: 45,143,090 thousand Tenge, 23,386,961 thousand Tenge and 14,414,475 thousand Tenge, respectively).

Income from Fees for undelivered oil volumes is received by the Company under oil transportation contracts on “ship or pay” terms. Decrease in Fees for undelivered oil volumes for 2015 is due to the expiration of the main part of oil transportation contracts on the above-mentioned terms (in December 2014) with the customers (participants of the Kashagan project).

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## 26. Cost of sales

Cost of sales for the years ended 31 December 2015 and 2014 were presented as follows:

<i>In thousands of Tenge</i>	2015	2014
Personnel cost	<b>43,692,713</b>	40,101,012
Depreciation and amortization	<b>32,379,654</b>	32,876,926
Railway services	<b>8,050,129</b>	9,436,954
Materials and fuel	<b>7,708,753</b>	6,805,708
Electric energy	<b>6,968,369</b>	6,280,668
Taxes other than corporate income tax	<b>5,415,904</b>	4,978,621
Repair and maintenance	<b>4,721,519</b>	5,501,143
Security services	<b>4,231,976</b>	4,493,473
Gas expense	<b>2,559,678</b>	2,435,270
Air services	<b>1,608,525</b>	1,474,160
Post-employment benefits ( <i>Note 18</i> )	<b>1,004,841</b>	754,969
Business trip expenses	<b>874,997</b>	892,934
Diagnostics of pipelines	<b>843,692</b>	624,316
Insurance	<b>516,489</b>	507,481
Environmental protection	<b>473,387</b>	952,258
Rent expenses	<b>281,373</b>	248,969
Communication services	<b>267,810</b>	264,938
Other	<b>2,464,180</b>	2,679,273
<b>Total</b>	<b>124,063,989</b>	121,309,073

Increase in personnel costs is due to the indexation of wages of the production personnel made starting from 1 April 2014 and 1 January 2015.

## 27. General and administrative expenses

General and administrative expenses for the years ended 31 December 2015 and 2014 were presented as follows:

<i>In thousands of Tenge</i>	2015	2014
Personnel cost	7,576,892	6,875,924
Depreciation and amortization	848,467	819,123
Consulting	643,244	606,053
Office maintenance	483,416	390,499
Business trip expenses	282,936	280,022
Expenses on VAT	240,830	342,980
Taxes other than corporate income tax	225,816	240,182
Repair and maintenance	196,722	155,085
Social sphere expenses	185,200	193,888
Training	150,197	140,685
Materials and fuel	143,345	133,819
Bank costs	133,250	135,476
Insurance and security	124,056	104,163
Communication services	113,615	124,136
Net charge of allowance for doubtful debts, net ( <i>Notes 9,11 and 12</i> )	107,656	18,661
Post-employment benefits ( <i>Note 18</i> )	65,674	47,492
Charity expenses	13,526	2,020,737
Net charge/(reversal) of provision for obsolete and slow-moving inventory ( <i>Note 10</i> )	6,644	(5,342)
Impairment of intangible assets	–	302,114
Other	550,734	667,238
<b>Total</b>	<b>12,092,220</b>	<b>13,592,935</b>

In 2014 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.

## 28. Other operating income

Other operating income for the years ended 31 December 2015 and 2014 was presented as follows:

<i>In thousands of Tenge</i>	2015	2014
Income from fines and penalties	447,149	620,787
Gain from revision of estimates on provision on asset retirement obligation and land recultivation ( <i>Note 23</i> )	443,410	–
Amortization of deferred income ( <i>Note 34</i> )	260,305	312,366
Gain on disposal of inventory	60,500	263,499
Income from write-off of payables	42,363	75,689
Net gain on disposal of assets	–	61,090
Management services fees	3,039	13,688
Other income	402,375	114,353
<b>Total</b>	<b>1,659,141</b>	<b>1,461,472</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*continued*)  
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## 29. Other operating expenses

Other operating expenses for the years ended 31 December 2015 and 2014 were presented as follows:

<i>In thousands of Tenge</i>	2015	2014
Net loss from disposal of property, plant and equipment and intangible assets	1,376,960	208,654
Expenses on liquidation of idle production facilities	26,538	89,126
Expenses from disposal of inventory	16,307	14,987
Expense from write-off of assets held for sale, net	6,915	–
Expenses on revision of estimates on provision on asset retirement obligation and land recultivation ( <i>Note 23</i> )	–	275,965
Other expenses	307,249	61,297
<b>Total</b>	<b>1,733,969</b>	<b>650,029</b>

## 30. Finance income

Finance income for the years ended 31 December 2015 and 2014 was presented as follows:

<i>In thousands of Tenge</i>	2015	2014
Interest income on bank deposits and accounts	2,588,355	4,407,247
Discounting of interest free loan ( <i>Note 34</i> )	379,461	–
Dividends income	–	80,277
Employees loans: unwinding of discount	28,483	14,292
Other finance income from third parties	30,598	15,231
<b>Total</b>	<b>3,026,897</b>	<b>4,517,047</b>

## 31. Finance costs

Finance costs for the years ended 31 December 2015 and 2014 were presented as follows:

<i>In thousands of Tenge</i>	2015	2014
Unwinding of discount on asset retirement and land recultivation obligation ( <i>Note 23</i> )	1,295,082	1,036,255
Employee benefits: interest cost ( <i>Note 18</i> )	832,855	579,311
Other finance costs	49,493	–
<b>Total</b>	<b>2,177,430</b>	<b>1,615,566</b>



## 32. Income tax expense

Income tax expenses for the years ended 31 December 2015 and 2014 were presented as follows:

<i>In thousands of Tenge</i>	2015	2014
Current income tax expense	22,668,024	13,442,998
Expense/(benefit) for the past periods	1,175,541	(33,207)
Deferred income tax (benefit)/expense	(1,237,107)	2,289,155
<b>Income tax expense</b>	<b>22,606,458</b>	<b>15,698,946</b>

As tax rates applied for the calculation of current income tax, Group uses the rates adopted in accordance with the tax legislation of the countries in which the Group operates and generates taxable income. As of 31 December 2015 and 2014 the Company (Kazakhstan) applies a tax rate of 20%, and the Companies of BTL Group (Georgia) – 15%.

A reconciliation of income tax expense on accounting profit, multiplied by income tax rate for the years 2015 and 2014 is as follows:

<i>In thousands of Tenge</i>	2015	2014
<b>Profit before income tax</b>	<b>67,319,394</b>	62,129,511
Statutory rate	20%	20%
<b>Income tax expense on accounting profit</b>	<b>13,463,879</b>	12,425,902
Adjustment of the past periods	1,175,541	(33,207)
<b>Tax effect of permanent differences</b>		
Gain on surplus of technological oil	605,683	1,142,794
Other non-deductible expenses	583,262	351,955
<b>Tax effect of other adjustments</b>		
Loss of joint ventures recognized based on equity method	6,934,828	1,251,010
Effect of difference in tax rates	(156,735)	560,492
<b>Income tax expense reported in the consolidated statement of comprehensive income</b>	<b>22,606,458</b>	<b>15,698,946</b>

The Group has accrued additional CIT expense for the past periods as a result of change in estimates which should be treated prospectively.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*continued*) for the year ended 31 December 2015

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

<i>In thousands of Tenge</i>	31 Decem-ber 2015	Charged to profit and loss	Foreign currency transla-tion	Charged to other compre-hensive income	31 Decem-ber 2014	Charged to profit and loss	Foreign currency transla-tion	Charged to other compre-hensive income	1 January 2014
<b>Deferred tax assets</b>									
Employee benefits and other employee compensation and related costs	3,585,500	(32,913)	–	500,781	3,117,632	(105,027)	493	198,520	3,023,646
Allowance for doubtful debts	162,819	12,464	–	–	150,355	2,907	47	–	147,401
Provision for slow-moving and obsolete inventory	7,510	1,268	–	–	6,242	(3,429)	28	–	9,643
Provision on environmental protection and other provisions	60,370	11,693	–	–	48,677	(39,487)	–	–	88,164
Provision on asset retirement and land recultivation obligation	4,358,509	504,324	–	(231,565)	4,085,750	457,097	–	335,685	3,292,968
Taxes payable	124,305	26,943	–	–	97,362	(156,528)	–	–	253,890
Loans to employees	–	–	–	–	–	(5,086)	–	–	5,086
Deferred Income from related party	–	(52,061)	–	–	52,061	(62,473)	–	–	114,534
Financial liabilities on intercompany loans	37,671	(91,161)	–	–	128,832	128,510	322	–	–
	<b>8,336,684</b>	<b>380,557</b>	<b>–</b>	<b>269,216</b>	<b>7,686,911</b>	<b>216,484</b>	<b>890</b>	<b>534,205</b>	<b>6,935,332</b>
<b>Deferred tax liabilities</b>									
Property, plant and equipment	(49,019,327)	856,550	(1,199,835)	178,784	(48,854,826)	(2,505,639)	(552,762)	4,676,756	(50,473,181)
	<b>(49,019,327)</b>	<b>856,550</b>	<b>(1,199,835)</b>	<b>178,784</b>	<b>(48,854,826)</b>	<b>(2,505,639)</b>	<b>(552,762)</b>	<b>4,676,756</b>	<b>(50,473,181)</b>
<b>Net deferred income tax liabilities</b>	<b>(40,682,643)</b>	<b>1,237,107</b>	<b>(1,199,835)</b>	<b>448,000</b>	<b>(41,167,915)</b>	<b>(2,289,155)</b>	<b>(551,872)</b>	<b>5,210,961</b>	<b>(43,537,849)</b>

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

## 33. Segment information

For management purposes, the Group is organised into business units based on its services and has three reportable segments, as follows:

- oil transportation and related services;
- oil transshipment;
- other segments.

Segments that are identified, but do not separately exceed quantitative limits (amount of separate segment revenue composes less than 10% of combined revenue) are combined in “Other segments”. Such services include transshipment of dry cargo (sugar-airbrick, ammonium nitrate, cement, grain, sunflower and oil cake) in BSP with operation of dry-cargo, ferry and container terminal, and also passenger terminal services.

Oil transportation and related services provided by the Company, which do not exceed quantitative limits and are intimately connected with the Group’s main operating activities, or with main asset of the Group – pipelines, such as: water transportation, oil storage, expedition services, services on support and maintenance of pipelines, are included into service related to oil transportation. Separate management report is not provided to the Management of the Group on some types of these services and accordingly they cannot be identified as separate segments.

Services on transshipment of oil and oil-products through BSP with operation of BOT are included in “Oil transshipment” segment. Revenue from oil terminal is generated through storage, transshipment of oil and oil-products and expedition. Expedition services represent transshipment of oil and oil-products services through railway from Azerbaijanian-Georgian border to terminal in Batumi. This type of activity is directly related to oil transshipment, and therefore is not shown as a separate segment. Management analyses its operating segments by segment profit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*continued*)  
for the year ended 31 December 2015

<i>In thousands Tenge</i>	For the year ended 31 December 2015				For the year ended 31 December 2014			
	Oil transportation and related services (Kazakhstan)	Oil transshipment (Georgia)	Other	Total segments	Oil transportation and related services (Kazakhstan)	Oil transshipment (Georgia)	Other	Total segments
<b>Revenue</b>								
External customers	193,617,592	15,509,570	4,034,600	213,161,762	186,996,455	15,516,062	4,124,596	206,637,113
<b>Total revenue</b>	<b>193,617,592</b>	<b>15,509,570</b>	<b>4,034,600</b>	<b>213,161,762</b>	<b>186,996,455</b>	<b>15,516,062</b>	<b>4,124,596</b>	<b>206,637,113</b>
<b>Financial results</b>								
Impairment of property, plant and equipment through profit and loss	(1,330,882)	-	-	(1,330,882)	(294,384)	(7,619,876)	(205,172)	(8,119,432)
Impairment of intangible assets through profit and loss	-	-	-	-	-	-	(302,114)	(302,114)
Depreciation and amortization	(31,285,990)	(1,268,517)	(673,614)	(33,228,121)	(30,663,438)	(2,284,673)	(747,938)	(33,696,049)
Interest income	2,549,552	36,142	33,260	2,618,954	4,380,727	17,561	24,191	4,422,479
Share in loss of joint ventures	(34,674,141)	-	-	(34,674,141)	(6,255,050)	-	-	(6,255,050)
Income tax expense	(21,987,166)	(547,895)	(71,397)	(22,606,458)	(17,146,980)	1,441,763	6,271	(15,698,946)
<b>Segment profit for the period</b>	<b>42,157,275</b>	<b>2,241,690</b>	<b>313,971</b>	<b>44,712,936</b>	<b>52,568,722</b>	<b>(5,485,006)</b>	<b>(653,151)</b>	<b>46,430,565</b>
<b>Total assets</b>	<b>549,165,702</b>	<b>50,635,685</b>	<b>19,461,137</b>	<b>619,262,524</b>	<b>544,843,461</b>	<b>25,391,508</b>	<b>15,172,248</b>	<b>585,407,217</b>
<b>Total liabilities</b>	<b>130,656,666</b>	<b>5,406,399</b>	<b>10,267,949</b>	<b>146,331,014</b>	<b>118,386,824</b>	<b>3,515,708</b>	<b>5,860,364</b>	<b>127,762,896</b>
<b>Other disclosures</b>								
Investments in joint ventures ( <i>Note 8</i> )	13,918,006	-	-	13,918,006	49,843,334	-	-	49,843,334
Capital expenditures	75,641,329	1,332,376	826,830	77,800,535	69,871,111	1,126,388	415,184	71,412,683

## 34.Related party transactions

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

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

The following tables provide the total amount of transactions, which have been entered into with related parties during 2015 and 2014 and the related balances as at 31 December 2015 and 2014:

Trade and other accounts receivables from related parties were presented as follows:

<i>In thousands Tenge</i>	Notes	31 December 2015	31 December 2014
<b>Trade and other accounts receivable from related parties</b>			
Trade accounts receivable from joint ventures		<b>719,246</b>	1,261,676
Trade accounts receivable from entities under common control of KMG		<b>701,270</b>	679,430
Trade accounts receivable from entities under common control of Samruk-Kazyna Group		<b>223</b>	206
	11	<b>1,420,739</b>	1,941,312
Other accounts receivables from entities under common control of KMG and Samruk-Kazyna Group	11	<b>36,122</b>	102,156
<b>Total</b>		<b>1,456,861</b>	2,043,468

Interest free loans to related parties were presented as follows:

<i>In thousands Tenge</i>	Notes	31 December 2015	31 December 2014
<b>Interest free loans to related parties</b>			
Interest free loans to KMG	17	<b>18,735,079</b>	–
<b>Total</b>		<b>18,735,079</b>	–

Advances provided to related parties were presented as follows:

<i>In thousands Tenge</i>	Notes	31 December 2015	31 December 2014
<b>Advances paid to related parties</b>			
Advances paid to entities under common control of KMG		<b>1,684,777</b>	361,049
Advances paid to entities under common control of Samruk-Kazyna Group		<b>156,322</b>	86,746
Advances paid to joint ventures		–	81
<b>Total</b>	12	<b>1,841,099</b>	447,876

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Trade and other accounts payable to related parties were presented as follows:

<i>In thousands Tenge</i>	Notes	31 December 2015	31 December 2014
<b>Accounts payables to related parties for goods and services</b>			
Accounts payables to entities under common control of KMG		<b>559,353</b>	629,359
Accounts payables to entities under common control of Samruk-Kazyna Group		<b>255,056</b>	43,632
<b>Total accounts payable to related parties for goods and services</b>	20	<b>814,409</b>	672,991
<b>Other payables to related parties</b>			
Other payables to entities under common control of Samruk-Kazyna Group		<b>672</b>	–
<b>Total other accounts payable to related parties</b>		<b>672</b>	–
<b>Total</b>	20	<b>815,081</b>	672,991

Advances received from related parties were presented as follows:

<i>In thousands Tenge</i>	Notes	31 December 2015	31 December 2014
<b>Advances received from related parties</b>			
Advances from entities under common control of KMG		<b>10,845,082</b>	9,087,230
Advances from entities under common control of Samruk-Kazyna Group		<b>485,209</b>	1,527,936
Advances from joint ventures		<b>7</b>	–
<b>Total</b>	21	<b>11,330,298</b>	10,615,166

Other current liabilities to related parties were presented as follows:

<i>In thousands Tenge</i>	Notes	31 December 2015	31 December 2014
<b>Accounts payable for oil transportation expedition to related parties</b>			
Accounts payable for oil transportation expedition to entities under common control of KMG		<b>5,923,268</b>	2,871,849
	24	<b>5,923,268</b>	2,871,849
<b>Employee benefits of key management personnel</b>			
Employee benefits of key management personnel		<b>8,062</b>	6,155
		<b>8,062</b>	6,155
<b>Current portion of deferred income from related parties</b>			
Current portion of deferred income from entities under common control of KMG		–	260,305
	24	–	260,305
<b>Total other current liabilities to related parties</b>		<b>5,931,330</b>	3,138,309



### 34. RELATED PARTY TRANSACTIONS *(continued)*

The following tables provide the total amount of transactions, which have been entered into with related parties during the year ended 31 December:

<i>In thousands Tenge</i>	For the year ended 31 December	
	2015	2014
<b>Sales to related parties</b>		
Revenue from main activities with entities under common control of KMG	<b>111,861,543</b>	105,183,134
Revenue from main activities with joint ventures	<b>7,612,064</b>	7,048,142
Revenue from main activities with entities under common control of Samruk-Kazyna Group	<b>5,361,313</b>	6,724,720
Revenue from other activities with entities under common control of KMG	<b>28,096</b>	19,852
Revenue from other activities with entities under common control of Samruk-Kazyna Group	–	8
<b>Total</b>	<b>124,863,016</b>	118,975,856

Revenue from main activities with entities under common control of KMG is related to the services of oil and water transportation.

<i>In thousands Tenge</i>	For the year ended 31 December	
	2015	2014
<b>Purchases from related parties</b>		
Purchases of services from entities under common control of KMG	<b>9,167,825</b>	8,249,333
Purchases of services from entities under common control of Samruk-Kazyna Group	<b>2,691,546</b>	1,250,632
Purchases of services from joint ventures	–	17,758
Purchases of inventory from entities under common control of KMG	<b>262,611</b>	1,107,080
Purchases of inventory from entities under common control of Samruk-Kazyna Group	<b>14,741</b>	14,795
Purchases of intangible assets from entities under common control of Samruk-Kazyna Group	<b>15,737</b>	111,221
Purchases of property, plant and equipment from entities under common control of KMG	<b>214,713</b>	–
Purchases of property, plant and equipment from entities under common control of Samruk-Kazyna Group	<b>520,282</b>	48,000
<b>Total</b>	<b>12,877,455</b>	10,798,819

Other operating income of the Group from transactions with related parties was presented as follows:

<i>In thousands of Tenge</i>	Notes	For the year ended 31 December	
		2015	2014
<b>Other operating income from related parties</b>			
Amortization of deferred income from related parties	28	<b>260,305</b>	312,366
<b>Total</b>		<b>260,305</b>	312,366

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)* for the year ended 31 December 2015

Finance income of the Group from transactions with related parties was presented as follows:

<i>In thousands of Tenge</i>	Notes	For the year ended 31 December	
		2015	2014
<b>Finance income from related parties</b>			
Discounting of interest free loans provided to KMG	30	<b>379,461</b>	–
<b>Total</b>		<b>379,461</b>	–

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

<i>In thousands Tenge</i>	31 December 2015	31 December 2014
Bonuses based on the results of the previous year	<b>236,292</b>	219,238
Salary	<b>151,005</b>	146,847
Other short-term benefits	<b>40,915</b>	33,355
Post-employment benefits	<b>1,306</b>	1,062
<b>Total</b>	<b>429,518</b>	400,502
<b>Number of persons</b>	<b>8</b>	8

## 35. Contingent Liabilities and Commitments

### Operating environment

Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The National Bank of the Republic of Kazakhstan shifted to inflation targeting policy. Starting from 20th August 2015 it was decided to cease the support of Tenge exchange rate against US Dollar and other main currencies in order to decrease the volume of currency interventions and to reduce the influence on establishing the Tenge exchange rate. Official exchange rate before devaluation amounted to 188.38 Tenge per 1 US Dollar. As at 31 December 2015 the exchange rate amounted to 340.01 Tenge per 1 US Dollar.

In 2015, the Kazakhstan economy continued to be negatively impacted by a significant drop in crude oil prices and a significant devaluation of Kazakhstani Tenge. The combination of the above along with other factors resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

### Taxation

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

Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceeding the year of review. Under certain circumstances reviews may cover longer periods.

35. CONTINGENT LIABILITIES AND COMMITMENTS *(continued)*  
Taxation *(continued)*

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 2015.

As at 31 December 2015 Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Groups’s tax positions will be sustained, except as provided for or otherwise disclosed in these consolidated financial statements.

*Transfer pricing control*

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

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

Because of the uncertainties associated with the Kazakhstan transfer pricing legislation, there is a risk that the tax authorities may take a position that differs from the Group’s position, which could result in additional taxes, fines and interest as at 31 December 2015.

As at 31 December 2015 Management believes that its interpretation of the transfer pricing legislation is appropriate and that it is probable that the Group’s positions with regard to transfer pricing will be sustained.

*Tax commitments of Georgian entities*

According to the Tax Code of Georgia (“TCG”), tax administration is authorized to make motivated written decision on use of market prices for taxation purposes if transaction takes place between related parties. Although TCG contains certain guidance on the determination of market prices of goods and services, the mechanism is not sophisticated and there is no separate transfer pricing legislation in Georgia. Existence of such ambiguity creates uncertainties as related to the position that tax authorities might take when considering taxation of transactions between related parties.

The Georgian subsidiaries of the Group have significant transactions with off-shore subsidiaries of the Group as well as amongst each other. These transactions fall within the definition of transactions between related parties and may be challenged by tax authorities of Georgia. Management believes that it has sufficient arguments to assert that pricing of transactions between entities of the Group is at arm’s length, however due to absent legislative basis for determination of market prices tax authorities might take position different from that of the Group.

In 2015 Georgian Tax Authorities (“GTA”) additionally accrued taxes and fines in the amount of 9,486 thousand US Dollars (equivalent to 3,225,335 thousand Tenge) as a result of tax inspections of BOT and BSP for the period of 2009-2014. BOT and BSP did not agree with the decision of GTA and filed an appeal. Based on the analysis of local tax legislation and current practice related to similar tax cases in Georgia management of BTL Group believes that an appeal will be successful and assess probability of outflow of economic benefits as a remote. As a result, no additional liabilities were recognized by the Group as at 31 December 2015.

Environmental matters

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Potential liabilities which may arise as a result of changes in legislation cannot be reasonably estimated. Under existing legislation management believes that there are no probable or possible liabilities which could have a material adverse effect on the Group’s financial position or results of operations except fot those described in the present financial statements *(Note 5, 23)*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*  
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Insurance matters

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available.

The Group has insurance coverage over property, third party liability in respect of property and environmental damage arising from accidents on Group’s property or relating to Group’s operations.

Contractual commitments

As at 31 December 2015, the Group had contractual obligations to acquire property, plant and equipment, and construction services for the amount of 42,647,645 thousand Tenge (31 December 2014: 29,256,791 thousand Tenge).

Share of the Group as at 31 December 2015 in contractual obligations of joint ventures to acquire property, plant and equipment, and construction services for the amounted to 361,105 thousand Tenge (31 December 2014: 159,201 thousand Tenge).

Legal proceedings

*Legal proceedings with business counterparties of BTL Group*

During the year ended 31 December 2015 the companies of the Group have been involved in a number of disputes in Georgia. The total amount of claims against the Group is equal to 62 million US Dollars (equal to 21,080,620 thousand Tenge). Parties have signed the Conciliatory Act and legal proceedings were terminated. On 22 July 2015 the court has removed arrest from BTL’s shares in BOT, BOT’s property and exclusive rights to control 100% share in BSP. The management of the Group believes that an agreement will be reached at mutually beneficial terms and any outflow of economic resources related to the above matters is not probable.

*Legal proceedings with BICT*

BSP was sued by BICT (hereinafter “Parties”), a lessee of berths #4, #5 and #6, certain movable property and 13 hectares of land for a period of 48 years, for violating the lease agreement. The amount of compensation mostly for moral damages and lost profits requested by BICT LLC is 5,422 thousand US Dollars (equivalent to 1,843,534 thousands Tenge).

On 4 September 2015 settlement of dispute agreement was signed. According to this agreement Parties agreed to drop all the legal proceedings. Group’s Management assesses the maximum risks on this legal proceeding in the amount not higher than 500 thousand US Dollars (equivalent of 170,005 thousand Tenge).

Pledged assets of the BTL Group

At 31 December 2015 certain items of property, plant and equipment of BOT with residual value of 47,047 thousand US Dollars (equivalent to 15,996,450 thousand Tenge) were pledged as guarantee in favor of TBC Bank, which acted as a guarantor to ensure obligations of Georgian Transit Ltd to Georgian railways according to transportation contracts. The maximum amount of the guarantee was equal to 10,000 thousand US Dollars (equivalent to 3,400,100 thousand Tenge). Georgian Transit Ltd is obliged to provide minimal required annual volume of transshipment in amount of 4 million tons to Georgian railways, 2 of which should be transshipped by BTL Group. Management of BTL Group expects that transshipment of volumes will be completed and probability of outflow of cash is remote.

35. CONTINGENT LIABILITIES AND COMMITMENTS (*continued*)

## Expropriation of the BSP assets

In accordance with BSP Management Right agreement between BTL (before BIHL) and Georgia Government, Georgian Government has the right for expropriation of the BSP's assets, in case the BSP in the course of 2 years does not meet its obligations on minimum volume of transshipment, which is 4 million tons per year. As at 31 December 2015 the Group's management considers BSP was not exposed to risk of asset expropriation from the Government of Georgia, as actual volumes of transshipment were more than 6.5 million tons (31 December 2014: 7.8 million tons).

## 36. Financial risk management objectives and policies

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

The Group is exposed to market risk that comprises: credit risk, currency risk and liquidity risk.

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

### Credit risk

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

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

The table below shows the balances of bank accounts and cash and cash equivalents at the 31 December 2015 and 2014 using the "Moody's" "Fitch" and "Standard & Poor's" credit ratings.

In thousands of Tenge	Location	Rating		2015	2014
		2015	2014		
Bank					
“Halyk Bank of Kazakhstan” JSC	Kazakhstan	BB+/Negative	BB/Stable	47,532,496	43,979,994
“Sberbank Russia” SB JSC	Kazakhstan	BB+/Negative	BB+/Negative	6,897,362	2,001,131
Hellenic Bank	Georgia	B-/Stable	Caa3/Stable	4,943,702	92,269
“Tsesnabank” JSC	Kazakhstan	B+/Stable	B+/Stable	3,408,853	8,787,871
“Delta bank” JSC	Kazakhstan	B/Stable	–	3,104,623	985,401
Halyk Bank of Georgia	Georgia	BB-/Stable	–	1,257,397	–
Bank of Georgia	Georgia	B-/Stable	B1/Stable	102,180	28,264
TBC Bank	Georgia	BB-/Stable	B1/Stable	75,023	184,174
Basis Bank	Georgia	B-/Stable	BB/Stable	29,194	117,980
Cartu Bank	Georgia	B-/Stable	–	679	365
NBK Bank	Russia	BB+/Negative	–	495	–
“Sberbank Russia”	Russia	BB+/Negative	–	73	–
“RBS Kazakhstan” JSC	Kazakhstan	A3/Positive	A3/Negative	58	12

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*continued*) for the year ended 31 December 2015

<i>In thousands of Tenge</i>	Location	Rating		2015	2014
		2015	2014		
"Kazkommertsbank" JSC	Kazakhstan	<b>B-/Negative</b>	B/Stable	<b>30</b>	19,958,265
"GasBank CJSC" JSC	Russia	<b>B3/Stable</b>	–	<b>30</b>	167
BNP Paribas	Cyprus	–	A1/Negative	–	1,878,023
Bank of Cyprus	Georgia	–	Caa3/Stable	–	1,094
"Citibank Kazakhstan" JSC	Kazakhstan	–	A2/Stable	–	10
<b>Total</b>				<b>67,352,195</b>	78,015,020

### Liquidity risks

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

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2015 and 2014 based on contractual undiscounted payments.

<i>In thousands of Tenge</i>	On demand	<1 year	1 to 2 years	2 to 5 years	>5 years	Total
<b>As at 31 December 2015</b>						
Trade and other payables	–	<b>16,616,457</b>	<b>1,951</b>	<b>31,572</b>	<b>4,917</b>	<b>16,654,897</b>
	–	<b>16,616,457</b>	<b>1,951</b>	<b>31,572</b>	<b>4,917</b>	<b>16,654,897</b>
<b>As at 31 December 2014</b>						
Trade and other payables	–	15,553,243	47,929	172,569	–	15,773,741
	–	15,553,243	47,929	172,569	–	15,773,741

### Currency risk

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

<i>In thousands of Tenge</i>	US Dollar	Russian Ruble	Euro	Other currencies	Total
<b>At 31 December 2015</b>					
Assets	<b>53,522,360</b>	<b>6,655</b>	<b>172,111</b>	<b>474,580</b>	<b>54,175,706</b>
Liabilities	<b>1,957,107</b>	<b>49,778</b>	<b>31,332</b>	<b>302,809</b>	<b>2,341,026</b>
<b>At 31 December 2014</b>					
Assets	54,518,667	5,791	198,579	510,579	55,233,616
Liabilities	877,396	53,998	26,131	529,361	1,486,886

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations. The Group also has transactional currency exposures. Such exposure arises from revenues in US Dollars.



36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)  
Currency risk (continued)

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

<i>In thousands of Tenge</i>	<b>Increase/ decrease in exchange rate</b>	<b>Effect on profit before tax</b>
<b>2015</b>		
US Dollar	<b>60.00%</b>	<b>30,939,152</b>
	<b>-20.00%</b>	<b>(10,313,051)</b>
Russian Ruble	<b>40.00%</b>	<b>(17,249)</b>
	<b>-29.00%</b>	<b>12,506</b>
<b>2014</b>		
US Dollar	+17.37%	9,317,893
	-17.37%	(9,317,893)
Russian Ruble	+33.54%	(16,168)
	-33.54%	16,168

Capital management

The primary objective of the Group’s capital management is to ensure that it maintains a strong credit rating and healthy equity ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholder, return capital to shareholder or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 2014.

As at 31 December 2015 and 2014 the Group does not have significant debts. The Group has sufficient cash, exceeding its debt as at the reporting date.

Fair value of financial instruments

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



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