KazTransOil JSC

Consolidated financial statements

For the year ended 31 December 2013
with independent auditors' report

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Building a better working world

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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 2013, 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KazTransOil JSC and its subsidiaries as at 31 December 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Aisulu Narbayeva
Auditor

Evgeny Zhemaletdinov
General Director
Ernst & Young LLP

Auditor Qualification Certificate
No. 0000137 dated 21 October 1994

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

25 February 2014

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of Tenge	Note	31 December 2013	31 December 2012
Assets			
Non-current assets			
Property, plant and equipment	7	**401,108,901**	362,869,105
Intangible assets	8	**5,701,002**	6,233,226
Investments in joint ventures	10	**53,554,027**	40,815,549
Advances to suppliers for property, plant and equipment	11	**5,835,651**	524,274
Bank deposits	17	**576,541**	–
Other non-current assets		**123,904**	130,805
		466,900,026	410,572,959
Current assets			
Inventories	12	**2,346,043**	2,599,941
Trade and other accounts receivable	13	**4,548,932**	2,527,881
Advances to suppliers	14	**842,702**	603,109
Prepayment for corporate income tax		**3,994**	1,580,756
VAT recoverable and other prepaid taxes	15	**3,144,714**	2,092,013
Other current assets	16	**3,946,793**	4,405,862
Bank deposits	17	**83,116,538**	53,084,676
Cash and cash equivalents	18	**25,645,348**	18,954,044
		123,595,064	85,848,282
Assets classified as held for sale		**32,138**	29,299
		123,627,202	85,877,581
TOTAL ASSETS		**590,527,228**	496,450,540

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of Tenge	Note	31 December 2013	31 December 2012
Equity and liabilities			
Equity			
Share capital	19	**61,937,567**	61,937,567
Asset revaluation reserve	19	**171,902,104**	144,421,031
Other capital reserves		**(1,016,496)**	17,104
Foreign currency translation reserve		**10,069,002**	9,875,876
Retained earnings		**224,377,740**	176,062,485
Total equity		**467,269,917**	392,314,063
Non-current liabilities			
Financial guarantee issued on behalf of related party	36	**–**	199,654
Employee benefits liability	20	**9,333,180**	6,562,263
Deferred tax liabilities	34	**43,537,849**	39,406,770
Provision on asset retirement obligation and land recultivation obligation	25	**16,677,538**	15,531,037
Deferred income	21	**4,079,971**	4,412,922
		73,628,538	66,112,646
Current liabilities			
Employee benefits liability	20	**322,000**	238,000
Income tax payable		**1,467,675**	919,213
Trade and other accounts payable	22	**11,096,007**	6,771,926
Advances received	23	**17,181,723**	15,970,695
Other taxes payable	24	**2,587,351**	1,639,801
Provisions	25	**228,125**	353,697
Other current liabilities	26	**16,745,892**	12,130,499
		49,628,773	38,023,831
Total liabilities		**123,257,311**	104,136,477
TOTAL EQUITY AND LIABILITIES		**590,527,228**	496,450,540
Book value of ordinary shares *(in Tenge)*	6	**1,200**	1,004

General Director ______ *Kabyldin K.M.*

KazTransOil

Chief Accountant ______ *Akhmedina A.S.*

he accounting policy and explanatory notes on pages 8 through 53 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of Tenge	Note	2013	2012
Revenue	27	**190,021,672**	143,061,325
Cost of sales	28	**(110,968,699)**	(99,603,631)
Gross profit		**79,052,973**	43,457,694
General and administrative expenses	29	**(11,027,504)**	(10,977,575)
Other operating income	30	**7,937,123**	1,658,170
Other operating expenses	31	**(681,742)**	(620,970)
Impairment of property, plant and equipment and intangible assets	7	**(12,663,453)**	(766,227)
Gain on disposal of subsidiary	9	**–**	309,675
Operating profit		**62,617,397**	33,060,767
Net foreign exchange gain/(loss)		**103,799**	(220,281)
Finance income	32	**4,197,234**	1,950,357
Finance costs	33	**(1,374,236)**	(847,531)
Share in income of joint ventures	10	**11,846,567**	8,107,979
Profit before tax		**77,390,761**	42,051,291
Income tax expense	34	**(13,847,161)**	(8,550,163)
Profit for the year		**63,543,600**	33,501,128
Earnings per share *(in Tenge)*	6	**165**	96

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

In thousands of Tenge	Note	2013	2012
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Foreign currency translation		**193,126**	541,747
Total other comprehensive income to be reclassified to profit or loss in subsequent periods		**193,126**	541,747
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation of property, plant and equipment	7	**71,093,853**	23,982,196
Income tax effect	34	**(13,801,721)**	(4,796,439)
		57,292,132	19,185,757
Impairment of property, plant and equipment	7	**(21,837,763)**	(19,713)
Income tax effect	34	**4,305,422**	3,943
		(17,532,341)	(15,770)
Actuarial re-measurement losses on defined benefit plans	20	**(1,292,000)**	–
Income tax effect		**258,400**	–
		(1,033,600)	–
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods		**38,919,317**	19,711,734
Other comprehensive income not to be reclassified to profit or loss in subsequent periods of joint ventures			
Revaluation of property, plant and equipment		**1,629,376**	–
Income taxe effect		**(325,874)**	–
		1,303,502	–
Provision on asset retirement obligation and land recultivation		**126,425**	312,361
Income tax effect		**(87,757)**	–
		38,668	312,361
Impairment of property, plant and equipment		**(1,954)**	(34,511)
Income tax effect		**391**	6,902
		(1,563)	(27,609)
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods of joint ventures	10	**1,340,607**	284,752
Total other comprehensive income for the year, net of tax		**40,259,924**	19,996,486
Total comprehensive income for the year, net of tax		**103,803,524**	53,497,614

General Director — *Kabyldin K.M.*

KazTransOil

Chief Accountant — *Akhmedina A.S.*

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of Tenge	Note	For the years ended 31 December 2013	2012
Cash flows from operating activities:			
Profit before tax		**77,390,761**	42,051,291
Non-cash adjustment to reconcile profit before tax to net cash flows:			
Depreciation and amortization	28,29	**30,202,852**	27,663,345
Gain on disposal of subsidiary	9	**–**	(309,675)
Allowance on doubtful debts	29	**56,405**	119,756
Share in income of joint ventures	10	**(11,846,567)**	(8,107,979)
Finance costs	33	**1,374,236**	847,531
Finance income	32	**(4,197,234)**	(1,950,357)
Actuarial losses	31	**–**	153,000
Employee benefits for past service cost	20	**1,008,000**	–
Employee benefits for current service cost	20	**495,000**	460,000
Charge of provisions	25	**9,188**	305,542
Loss on disposal of property, plant and equipment and intangible assets	30,31	**203,372**	46,050
Loss on impairment of intangible assets	8	**165,670**	–
Impairment of property plant and equipment	7	**12,663,453**	766,227
Income from write-off of payables	30	**(23,853)**	(11,222)
Amortization of deferred income	30	**(312,366)**	(312,365)
Write-off of VAT recoverable	29	**194,727**	309,957
Amortization of financial guarantee issued on behalf of related party	30	**(26,463)**	(138,570)
Amortization of financial guarantee issued on behalf of related party		**(177,743)**	–
Unrealized foreign exchange gain		**(42,484)**	(94,322)
Provision for slow-moving and obsolete inventory	29	**2,520**	12,973
Operating cash flows before working capital changes:		**107,139,474**	61,811,182
Changes in inventories		**400,408**	191,142
Changes in trade and other accounts receivable		**(2,076,956)**	311,800
Changes in advances to suppliers		**(240,093)**	52,754
Changes in taxes recoverable		**(1,616,877)**	399,608
Changes in other current assets		**501,507**	518,138
Changes in trade and other accounts payable		**(545,491)**	(32,026)
Changes in advances received		**1,211,028**	4,765,455
Changes in taxes payable		**947,550**	381,972
Changes in other current and non-current liabilities and employee benefits liability		**4,132,765**	(714,433)
Cash generated from operations:		**109,853,315**	67,685,592
Income taxes paid		**(16,350,776)**	(7,488,276)
Interest received		**2,356,479**	2,738,100
Interest paid		**–**	(27,960)
Net cash flow from operating activities		**95,859,018**	62,907,456

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

		For the years ended 31 December	
In thousands of Tenge	Note	2013	2012
Cash flows from investing activities:			
Withdrawal of bank deposits		**56,047,879**	49,811,934
Placement of bank deposits		**(85,128,680)**	(62,600,000)
Purchase of property, plant and equipment		**(32,801,915)**	(26,010,001)
Purchase of intangible assets		**(203,738)**	(287,119)
Proceeds from disposal of property, plant and equipment and intangible assets		**1,118,641**	317,409
Net proceeds from sale of subsidiary	9	**–**	5,671,856
Dividends received		**647,769**	–
Net cash flow used in investing activities		**(60,320,044)**	(33,095,921)
Cash flows from financing activities:			
Proceeds from share issue	19	**–**	27,886,080
Payments for consulting serviced related to the issuance of shares	19	**–**	(289,774)
Proceeds from loans and borrowings		**–**	690,000
Repayment of loans and borrowings		**–**	(994,184)
Dividends paid	19	**(28,847,670)**	(60,002,000)
Net cash flow used in financing activities		**(28,847,670)**	(32,709,878)
Net change in cash and cash equivalents		**6,691,304**	(2,898,343)
Cash and cash equivalents at the beginning of the year		**18,954,044**	21,852,387
Cash and cash equivalents at the end of the year	18	**25,645,348**	18,954,044

General Director _______________ *Kabyldin K.M.*

Chief Accountant _______________ *Akhmedina A.S.*

KazTransOil

The accounting policy and explanatory notes on pages 8 through 53 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of Tenge	Note	Share capital	Asset revaluation reserve	Foreign currency translation reserve	Other capital reserves	Retained earnings	Total
As at 1 January 2012		**34,617,204**	**138,056,828**	**9,334,129**	**17,104**	**189,472,821**	**371,498,086**
Profit for the year		–	–	–	–	33,501,128	**33,501,128**
Other comprehensive income		–	19,454,739	541,747	–	–	**19,996,486**
Total other comprehensive income for the year		**–**	**19,454,739**	**541,747**	**–**	**33,501,128**	**53,497,614**
Depreciation transfer of revalued property, plant and equipment		–	(13,090,536)	–	–	13,090,536	**–**
Shares issuance	19	27,886,080	–	–	–	–	**27,886,080**
Consulting services expense related to the issuance of shares	19	(565,717)	–	–	–	–	**(565,717)**
Dividends	19	–	–	–	–	(60,002,000)	**(60,002,000)**
As at 31 December 2012		**61,937,567**	**144,421,031**	**9,875,876**	**17,104**	**176,062,485**	**392,314,063**
Profit for the year		–	–	–	–	63,543,600	**63,543,600**
Other comprehensive income		–	41,100,398	193,126	(1,033,600)	–	**40,259,924**
Total other comprehensive income for the year		**–**	**41,100,398**	**193,126**	**(1,033,600)**	**63,543,600**	**103,803,524**
Depreciation transfer of revalued property, plant and equipment		–	(13,619,325)	–	–	13,619,325	**–**
Dividends	19	–	–	–	–	(28,847,670)	**(28,847,670)**
As at 31 December 2013		**61,937,567**	**171,902,104**	**10,069,002**	**(1,016,496)**	**224,377,740**	**467,269,917**

General Director

Kabyldin K.M.

KazTransOil

Chief Accountant

Akhmedina A.S.

The accounting policy and explanatory notes on pages 8 through 53 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. GENERAL

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

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

As at 31 December 2013 National Company KazMunayGas JSC ("KMG" or the "Parent Company") is a major shareholder of the Company (90 percent). KMG is owned by "Sovereign Wealth Fund Samruk-Kazyna" JSC ("Samruk-Kazyna"), which is controlled by the Government of the Republic of Kazakhstan.

In 2012 the Company performed a share split in proportion 1:10, as a result of which the number of authorized shares has increased from 34,617,204 to 346,172,040, however, share capital has not changed (34,617,204 thousand Tenge). Thereafter, the Company increased the number of authorized shares by 38,463,560 (10% of the total 384,635,600 shares), which were placed on the Kazakhstan Stock Exchange under the "People's IPO" program. Trades in the shares of JSC "KazTransOil" on the Kazakhstan Stock Exchange were opened on 25 December 2012. As a result, 38,463,559 common shares at 725 Tenge per share were sold for 27,886,080 thousand Tenge *(Note 19)*.

As at 31 December 2013 and 2012 the Company had interest ownership in the following companies:

	Place of incorporation	Principal activities	Ownership 31 December 2013	Ownership 31 December 2012
" SZTK MunaiTas" JSC ("MunaiTas")	Kazakhstan	Oil transportation	**51%**	51%
"Kazakhstan–China Pipeline" LLP ("KCP")	Kazakhstan	Oil transportation	**50%**	50%
"Batumi Terminals Limited" ("BTL")	Cyprus*	Forwarding, transshipment and storage of oil and oil products and operating of Batumi Sea Port and Oil Terminal	**100%***	–*
"Batumi Capital Partners Limited" ("BCPL")	Cyprus*	Forwarding, transshipment and storage of oil and oil products	**–***	50%*
"Batumi Industrial Holdings Limited" ("BIHL")	Cyprus*	Forwarding, transshipment and storage of oil and oil products and operating of Batumi Sea Port and Oil Terminal	**–***	100%*

* Prior to 11 December 2013 BIHL directly owned 50% of BCPL. Accordingly, the Company directly and indirectly through its subsidiary BIHL owned 100% of BCPL. On 11 December 2013 the reorganisation of group companies BCPL and BIHL was completed by merger into their own company BTL. The main activity of BTL is carried out by its subsidiaries located in Georgia.

The Company and its subsidiaries are hereafter 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 (Computing Centre), and representative offices in the Russian Federation (Moscow, Omsk and Samara) and Ukraine (Kiev).

The Group operates network of main oil pipelines of 5,503 km and water pipelines of 2,148 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. Group's subsidiary BTL owns Batumi Oil Terminal and has controlling interest of Batumi Sea Port, main activity of which is storage and transshipment of oil and dry cargoes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. GENERAL (continued)

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

On 1 December 2012 NMRA increased tariffs for oil transportation on domestic and export markets: the tariff for the domestic market for the transportation of one ton of oil per 1,000 km has been increased from 1,303 Tenge to 1,954.5 Tenge; tariff of oil transportation on export has been increased from 3,331 Tenge to 4,732.6 Tenge for 1 ton of oil per 1,000 km.

These consolidated financial statements were approved for issue by the General Director and the Chief Accountant of the Company on 25 February 2014.

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 and financial assets that have been measured at fair value. The consolidated financial statements are presented in Tenge and all values are rounded to the nearest thousand, except when otherwise indicated.

3. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2013. 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. BASIS OF CONSOLIDATION (continued)

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 assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interest;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss;
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, in accordance with the requirement of IFRS, as if the Group had direct disposal of the related assets or liabilities.

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 acquision 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 Group share of profit or loss of joint ventures is shown on the face of the statement of comprehensive income. This is the profit or loss after tax of joint ventures.

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 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 statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 is US Dollar.

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 are taken to the statement of comprehensive income.

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

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.

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 weigthed 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.

Exchange rates

Weighted average currency exchange rates established by the KASE are used as official currency exchange rates in the Republic of Kazakhstan.

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

Tenge	**2013**	2012
US Dollar	**153.61**	150.74
Russian ruble	**4.69**	4.96
Euro	**211.17**	199.22
Georgian Lari	**88.47**	90.99

4.3. Current versus non-current classification

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

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

All other assets are classified as non-current.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3. Current versus non-current classification (continued)

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.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

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, or
- 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 financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the 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.

On an interim basis, the Management of the Group and its external valuers present the valuation results to the audit committee and the Group's independent auditors. This includes a discussion of the major assumptions used in the valuations. 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 or distribution 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 distribution classification is regarded as met only when the distribution is highly probable and the asset or disposal group is available for immediate distribution in its present condition. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the distribution will be withdrawn. Management must be committed to the distribution expected within one year from the date of the classification. Similar considerations apply to assets or a disposal group held for sale. Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale or as held for distribution.

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

A disposal group qualifies as discontinued operation if it is:

- a component of the Group that is a cash-generating units (CGU) or a group of CGUs
- classified as held for sale or distribution or already disposed in such a way, or
- a major line of business or major geographical area.

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

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

4.6. Property, plant and equipment

Property, plant and equipment are measured at fair value less accumulated depreciation (except for land, technological oil and construction in process) and impairment losses recognised after the date of the revaluation. The Group periodically engages independent appraisers to revalue property, plant and equipment to their depreciated replacement cost. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

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

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

The cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the 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 *Notes 5, 7 and 25*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6. Property, plant and equipment (continued)

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

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

According to the 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 five years. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible assets.

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

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 ("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 cash-generating units 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8 Impairment of non-financial assets (continued)

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 cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor 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 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 (EIR), less impairment.

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to maturity when the 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 statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs. The Group had deposits held to maturity during the years ended 31 December 2013 and 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9. Financial assets (continued)

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.

4.10. Impairment of financial assets

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 profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement profit or loss. 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 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 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 profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) 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 profit or loss.

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 profit or loss.

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 ("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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recultivation obligation. Asset retirement and land recultivation obligation costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the provisions for asset retirement and land recultivation obligation. The unwinding of the discount is expensed as incurred and recognised in the statement of comprehensive income as a finance cost. The estimated future costs of asset retirement and land recultivation are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset *(Note 5)*.

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. The Collective agreement provides for one-off retirement payments, financial aid for employees' disability, anniversaries and funeral. The entitlement to benefits is usually conditional on the employee remaining in service up to retirement age.

The expected costs of the benefits associated with one-off retirement payments are accrued over the period of employment using the same accounting methodology as used for defined benefit post-employment plans with defined payments on the end of labor activity. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred. Other movements are recognised in the current period, including current service cost, any past service cost and the effect of any curtailments or settlements.

The most significant assumptions used in accounting for defined benefit obligations are discount rate and mortality rate. The discount rate is used to determine the net present value of future liabilities and each year the unwinding of the discount on those liabilities is charged to the consolidated 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 Group) and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI 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 Group recognises the following changes in the net defined benefit obligation under 'cost of sales', 'general and administrative expenses' and 'finance costs' in consolidated statement of 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.

In December 2013 Board of Directors decided to pay remuneration for the year ended. Payment of the remuneration is planned in the first quarter of 2014.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

Rendering of transportation services

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

Rendering of other services

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

Interest income

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

Dividends

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

Property, plant and equipment received from customers

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

4.18. Taxes

Current income tax

Current income tax assets and liabilities for the current period 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 profit or loss. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.18. Taxes (continued)

Deferred tax (continued)

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

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

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

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

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

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction 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 value added tax, except for instances, where amount of value added tax is recognized as a part of costs for asset acquisitions or as a part of expenses.

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

Due to specifics of tax legislation and the 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)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Dividends payable are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the 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 of 1 January 2013:

New and amended standards and interpretations applied by the Group for the first time

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

- IAS 1 *Presentation of Items of Other Comprehensive Income* – Amendments to IAS 1;
- IAS 19 *Employee Benefits* (revised 2011) – Amendments to IAS 19;
- IFRS 7 *Financial Instruments: Disclosures Offsetting Financial Assets and Financial Liabilities* – Amendments to IFRS 7;
- IFRS 10 *Consolidated Financial Statements* and IAS 27 *Separate Financial Statements*;
- IFRS 11 *Joint Arrangements* and IAS 28 *Investment in Associates and Joint Ventures*;
- IFRS 12 *Disclosure of Interests in Other Entities*;
- IFRS 13 *Fair Value Measurement.*

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

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., exchange differences on translation of financial statements of the foreign subsidiaries and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment had no impact on the Group's financial position or performance.

IAS 19 Employee Benefits (Revised 2011) (Amendment to IAS 19)

IAS 19 includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. Information on Employee benefits is disclosed in Note 19. Comparative information for 2012 in the statement of comprehensive income was not restated, as the actuarial losses for the year 2012 were not significant. The amendment did not affect significantly the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 Changes in Accounting Policies and disclosures (continued)

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

IFRS 7 Financial Instruments: Disclosures Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including structured entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it 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. To meet the definition of control in IFRS 10, all three criteria must be met, including:

(a) an investor has power over an investee;

(b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and

(c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

IFRS 10 and IAS 27 had no impact on the consolidated financial statements of the Group.

IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Ventures*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. IFRS 11 is effective for annual periods beginning on or after 1 January 2013. Application of this standard did not impact the financial position of the Group.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. Application of this standard did not impact the financial position of the Group.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. According to the instructions by IAS (IFRS) 13 Group re-examined its policy regarding fair value measurements. IAS (IFRS) 13 also requires additional disclosures.

The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group. In relation to the fair value measurement of property, plant and equipment more information is disclosed in Note 4.

In addition to the above-mentioned amendments and new standards, IFRS 1 *First-time Adoption of International Financial Reporting Standards* was amended with effect for reporting periods starting on or after 1 January 2013. The Group is not a first-time adopter of IFRS, therefore, this amendment is not relevant to the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 Changes in Accounting Policies and disclosures (continued)

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

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures* issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

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

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group.

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

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.

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

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Group has not novated its derivatives during the current period. These amendments are not expected to impact the Group's financial position or performance.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 Impairment of Assets

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted. The Group will estimate the impact of these amendments after publications of the final edition of the Standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 Changes in Accounting Policies and disclosures (continued)

Improvement to IFRS 2009-2011

IFRS (IAS) 32 Tax Consequences of Payments to Holders of Equity Instruments (Amendment)

Amendment to IFRS (IAS) 32 *Financial Instruments: Presentation* excludes existing requirements for income tax of IFRS (IAS) 32 and requires entities to comply with the requirements of IFRS (IAS) 12 in respect of any income tax benefit associated with the shareholders. The amendment has no impact on the consolidated financial statements of the Group.

IFRS (IAS) 34 Interim Financial Reporting and Segment Information in Respect of the Total Assets and Liabilities (Amendment)

The amendment clarifies the requirements of IFRS (IAS) 34, relating to the segment information in respect of total assets and liabilities for each reportable segment to improve consistency with IFRS (IAS) 8 *Operating Segments*. Information about the total assets and liabilities by reportable segment should be disclosed only if the amounts are regularly provided to the chief operating decision maker, and the total amount disclosed in the last annual financial statements for the specified reportable segment has been significantly changed. The amendment has no impact on the annual consolidated financial statements of the Group.

5. SIGNIFICANT ACCOUNTINTING 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.

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). The previous revaluation was performed as at 30 June 2010. 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.

5. SIGNIFICANT ACCOUNTINTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Revaluation of property, plant and equipment (continued)

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:

	Cash generating unit		
	Oil transportation	Oil transshipment	Sea port
Discount rate	12.7%	14.7%	14.5%
Long-term growth rate	5.16%	2.2%	2.2%
Remaiming useful life of the primary asset	13.6 years	10 years	10 years

The assessment of value in use is sensitive to the planned volumes of services rendered, tariffs for the services rendered, the amount of capital repair and operating costs. As a result of test of return of Groups' property, plant and equipment, the value in use was determined as 414,201,492 thousand Tenge.

Impairment of the right for land use in amount of 165,670 thousand Tenge or 1,089 thousand US Dollars is the result of the test on the adequate profitability of the BTL assets in the frame of the revaluation of the property, plant and equipment implemented as of 31 July 2013.

The Company assesses at each reporting date whether the carrying amount of its property, plant and equipment does not differ materially from that, which would be determined using estimated fair value at the balance sheet date. On 31 December 2013 the management of the Company revised its assessments with respect to the fair value of its property, plant and equipment. As a result, management concluded that there were no significant changes in the fair value of the Company's property, plant and equipment as of 31 December 2013 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 as of 30 September, due to the fact that fluctuations are quite frequent and significant. Technological oil was revalued on 30 September 2013.

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 NMRA;
- tariffs are being closely monitored by NMRA and Government to ensure they will not adversely affect general price index in the country, and thus may be set at the level which will not allow to recover cost of oil, if it was valued at international market price;
- the Group is affected by regulations set by KMG and, should there be a decision to sell some part of oil, subject for approval of NMRA, 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 KMG-group entities at the same internal price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SIGNIFICANT ACCOUNTINTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Revaluation of technological oil (continued)

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 would be 264,7 US Dollars per tonne as of 30 September 2013 (40,663 Tenge) (30 September 2012: 252 US Dollars (38,000 Tenge) per tonne). As a result of test on adequate profitability in terms of revaluation of technological oil by using income approach no economical depreciation was revealed.

As of 30 September 2013, the amount of oil in the pipeline included as part of property, plant and equipment was 2,176,933 tonne (2012: 2,151,546 tonne). According to the results of inventory stock count held on 31 December 2013 the oil surplus in the amount of 24,434 tonne (2012: 29,951 tonne) was identified. The volume of oil in the pipeline as of 31 December 2013 amounted to 2,193,351 tonne (31 December 2012: 2,181,377 tonne). The Group recognizes the excess oil as an asset (property, plant and equipment) by changing a revaluation of assets in equity.

Impairment of property, plant and equipment

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, 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.*

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 2,891 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 allowance was determined at the end of the reporting period using the projected inflation rate for the expected period of fulfillment of obligations (17 years), and the discount rate at the end of the reporting period which are presented below:

In percent	**2013**	2012
Discount rate as of 31 December	**6.0%**	6.0%
Inflation rate as of 31 December	**5.6%**	5.6%

The discount rate is based on the risk-free government bonds of the Republic of Kazakhstan.

As at 31 December 2013 the carrying amount of the asset retirement and land recultivation obligation was 16,677,538 thousand Tenge (31 December 2012: 15,531,037 Tenge) *(Note 25).*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SIGNIFICANT ACCOUNTINTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Asset retirement and land recultivation obligation (continued)

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

If the estimated discount rate before tax used in the calculation was 1% higher than management's estimates, the carrying amount of the provision would have been by 2,354,717 thousand Tenge less than recognized amount.

Allowances for doubdful 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 2013 and 2012 allowances for doubtful accounts have been created for the amount of 737,000 thousand Tenge and 681,617 thousand Tenge, respectively (*Notes 11, 13, 14 and 16*).

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. 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 of 31 December 2013 was 6,935,332 thousand Tenge (2012: 5,021,726 thousand Tenge) (*Note 34*). As at 31 December 2013 and 2012 the Group did not have unrecognized deferred tax assets.

Employee benefits

The cost of defined long-term employee benefits to employees before, 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 (MEOKAM) 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. Future salary increases and pension increases are based on expected future inflation rates.

On 20 May 2011 the Company adopted the Collective agreement with the employees of the Company. During 2013 Agreement was amended, which caused increase in post-employment benefits, and set the amount of benefits after retirement based on monthly calculation index, established with legislation of the Republic of Kazakhstan. Accordingly, change in monthly calculation index will have an effect on the amount of benefits.

Change in benefits costs is also caused by change in number of the pensioners on the reporting date.

Further details about the assumptions used are given in *Note 20*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. EARNINGS PER SHARE AND BOOK VALUE PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. Increase in the number of share as a result of share split is applied retrospectively for previous periods.

As the parent Company 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 income and share data used in the basic earnings per share computations:

In thousands of Tenge	**2013**	2012
Net profit attributable to ordinary equity holders of the parent for basic earnings	**63,543,600**	33,501,128
Weighted average number of ordinary shares for basic earnings per share	**384,635,599**	349,130,775
Basic earnings per share,in relation to profit for the year attributable to ordinary equity holders of the company, as a parent company of the Group *(in Tenge)*	**165**	96

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

In thousands of Tenge	**31 December 2013**	31 December 2012
Total Assets	**590,527,228**	496,450,540
Less: Intangible assets	**(5,701,002)**	(6,233,226)
Less: Total Liabilities	**(123,257,311)**	(104,136,477)
Net assets for calculation of book value of ordinary shares	**461,568,915**	386,080,837
Number of ordinary shares	**384,635,599**	384,635,599
Book value per ordinary share *(in Tenge)*	**1,200**	1,004

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT

In thousands of Tenge	Land	Pipelines	Transportation assets	Buildings	Machinery and equipment	Technological oil	Other	Construction in progress	Total
At cost as at 1 January 2012	**16,249,861**	**100,068,206**	**8,277,842**	**87,533,300**	**81,176,560**	**59,184,177**	**12,331,948**	**21,914,221**	**386,736,115**
Foreign currency translation	198,072	–	43,564	269,276	124,099	–	38,375	50,645	**724,031**
Additions	36,444	1,339	426,863	184,318	1,547,242	2,622	774,205	23,332,528	**26,305,561**
Disposals	(51,492)	(26,078)	(7,321)	(231,653)	(117,953)	(89,182)	(195,720)	(128,190)	**(847,589)**
Disposal of a subsidiary *(Note 9)*	(423,021)	–	(15,099)	(3,813,876)	(773,623)	–	(246,353)	(325,360)	**(5,597,332)**
Provision on asset retirement and land recultivation obligation *(Note 25)*	–	15,084,384	–	–	–	–	–	–	**15,084,384**
Revaluation (revaluation reserve)	–	–	–	–	–	23,982,196	–	–	**23,982,196**
Revaluation (included in net profit)	–	–	–	–	–	142,717	–	–	**142,717**
Transfer from construction-in-progress	22,597	3,107,388	75,255	5,416,807	7,806,958	–	2,165,244	(18,594,249)	**–**
Transfer to Intangible assets *(Note 8)*	–	–	–	–	(46,079)	–	(18,360)	(212,467)	**(276,906)**
Transfers and reclassifications	(1,404)	387,411	(125,908)	(471,318)	132,307	–	59,458	9,200	**(10,254)**
At cost as at 31 December 2012	**16,031,057**	**118,622,650**	**8,675,196**	**88,886,854**	**89,849,511**	**83,222,530**	**14,908,797**	**26,046,328**	**446,242,923**
Depreciation and impairment as at 1 January 2012	**(5,523,893)**	**(15,145,640)**	**(1,875,142)**	**(15,958,849)**	**(14,621,228)**	**(330,205)**	**(2,691,454)**	**(75,226)**	**(56,221,637)**
Foreign currency translation	(70,397)	–	(4,851)	(89,923)	(51,309)	–	(13,447)	–	**(229,927)**
Depreciation charge	–	(9,254,120)	(1,020,554)	(5,972,179)	(8,617,312)	–	(2,262,125)	–	**(27,126,290)**
Disposals	25,050	9,729	5,134	167,919	80,614	–	181,315	–	**469,761**
Disposal of a subsidiary *(Note 9)*	–	–	2,468	383,117	200,676	–	58,714	–	**644,975**
Impairment (asset revaluation reserve)	–	(1,510)	(24)	(3,831)	(1,565)	–	(96)	(12,687)	**(19,713)**
Impairment (through profit and loss)	–	(244)	(1,388)	(683,880)	(88,757)	–	(36,387)	(98,288)	**(908,944)**
Transfer to Intangible assets *(Note 8)*	–	–	–	–	6,285	–	1,418	–	**7,703**
Transfers and reclassifications	–	(43,148)	4,893	37,203	(85,179)	–	96,485	–	**10,254**
Depreciation and impairment as at 31 December 2012	**(5,569,240)**	**(24,434,933)**	**(2,889,464)**	**(22,120,423)**	**(23,177,775)**	**(330,205)**	**(4,665,577)**	**(186,201)**	**(83,373,818)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

In thousands of Tenge	Land	Pipelines	Transportation assets	Buildings	Machinery and equipment	Technological oil	Other	Construction in progress	Total
At cost as at 1 January 2013	**16,031,057**	**118,622,650**	**8,675,196**	**88,886,854**	**89,849,511**	**83,222,530**	**14,908,797**	**26,046,328**	**446,242,923**
Foreign currency translation	181,390	-	(22,788)	70,193	65,634	-	2,655	3,789	**300,873**
Additions	76,084	2,904	145,778	452,532	1,500,542	2,348	796,058	29,743,876	**32,720,122**
Disposals	(88,275)	(176,228)	(113,259)	(1,177,346)	(537,836)	(444,756)	(247,646)	(199,971)	**(2,985,317)**
Revaluation (revaluation reserve)	525,965	9,292,586	1,634,581	8,122,706	19,261,449	6,738,331	2,573,664	1,651,182	**49,800,464**
Impairment (included in net profit)	(59,645)	(4,074,954)	(292,304)	(5,003,886)	(2,076,767)	-	(505,704)	-	**(12,013,260)**
Offsetting of accumulated depreciation and impairment with cost	(5,588,800)	(29,954,950)	(3,408,514)	(23,991,528)	(27,869,211)	-	(5,915,969)	-	**(96,728,972)**
Transfer to assets held for sale	(2,319)	-	-	(878,154)	(3,941)	-	-	-	**(884,414)**
Transfer from construction-in-progress	12,387	3,566,168	1,520,811	5,415,430	8,496,751	-	809,879	(19,821,426)	**-**
Transfer to Intangible assets *(Note 8)*	-	-	-	-	(477)	-	(224)	(131,136)	**(131,837)**
Transfers and reclassifications	-	55,890	(28,721)	9,917	(57,239)	-	55,970	(331,755)	**(295,938)**
At cost as at 31 December 2013	**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**
Depreciation and impairment as at 1 January 2013	**(5,569,240)**	**(24,434,933)**	**(2,889,464)**	**(22,120,423)**	**(23,177,775)**	**(330,205)**	**(4,665,577)**	**(186,201)**	**(83,373,818)**
Foreign currency translation	(51,507)	-	(3,731)	(63,903)	(43,646)	-	625	-	**(162,162)**
Depreciation charge	-	(9,856,859)	(1,209,427)	(5,992,207)	(9,796,510)	-	(2,809,254)	-	**(29,664,257)**
Disposals	31,947	136,193	100,345	955,285	440,982	306,798	233,415	172,084	**2,377,049**
Impairment (revaluation reserve)	-	(537)	(22,363)	(138,566)	(69,601)	(262,238)	(609)	(50,460)	**(544,374)**
Impairment (through profit and loss)	-	1,345	(22,667)	(25,159)	(14,189)	(44,560)	(2,226)	(542,737)	**(650,193)**
Offsetting of accumulated depreciation and impairment with cost	5,588,800	29,954,950	3,408,514	23,991,528	27,869,211	-	5,915,969	-	**96,728,972**
Transfer to assets held for sale	-	-	-	73,165	3,918	-	-	-	**77,083**
Transfer to Intangible assets *(Note 8)*	-	-	-	-	-	-	19	-	**19**
Transfers and reclassifications	-	(40,517)	(50)	(457)	(7,158)	-	6,076	338,044	**295,938**
Depreciation and impairment as at 31 December 2013	**-**	**(4,240,358)**	**(638,843)**	**(3,320,737)**	**(4,794,768)**	**(330,205)**	**(1,321,562)**	**(269,270)**	**(14,915,743)**
As at 31 December 2013									
At cost	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**
Accumulated depreciation and impairment	-	(4,240,358)	(638,843)	(3,320,737)	(4,794,768)	(330,205)	(1,321,562)	(269,270)	**(14,915,743)**
Net book value	**11,087,844**	**93,093,708**	**7,471,937**	**68,585,981**	**83,833,648**	**89,188,248**	**11,155,918**	**36,691,617**	**401,108,901**
As at 31 December 2012									
At cost	16,031,057	118,622,650	8,675,196	88,886,854	89,849,511	83,222,530	14,908,797	26,046,328	446,242,923
Accumulated depreciation and impairment	(5,569,240)	(24,434,933)	(2,889,464)	(22,120,423)	(23,177,775)	(330,205)	(4,665,577)	(186,201)	(83,373,818)
Net book value	**10,461,817**	**94,187,717**	**5,785,732**	**66,766,431**	**66,671,736**	**82,892,325**	**10,243,220**	**25,860,127**	**362,869,105**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment have been revalued to fair value at 31 July 2013, except for technological oil. Previous revaluation was made at 30 June 2010. Technological oil is revalued each year at 30 September due to the fact that its fair value fluctuations are significant and frequent. As result of revaluation accumulated depreciation has been eliminated against carrying value of property, plant and equipment and net amount has been reflected to revalued value of property, plant and equipment.

As a result of the revaluation it was revealed that fair value of certain objects of property, plant and equipment is lower than their carrying value, as a result of no overhaul and modernization on these objects over the past several years. Respectively, excess of the carrying amount over the fair value was accounted as decrease in respective revaluation reserve to the extent that revaluation surplus was previously recognized on these assets, while the remaining amount was recognized in the income statement as an impairment of property, plant and equipment for the total amount of 12,663,453 thousand Tenge.

2012 increase in pipelines property, plant and equipment mainly includes provisions related to the asset retirement and land recultivation obligation in the amount of 15,084,384 thousand Tenge *(Notes 5, 25).*

As at 31 December 2013 and 2012, construction in progress mainly includes following production projects: main oil pipelines under construction (including: construction of main oil pipeline Kumkol-Karakoin, realized as a part of interstate Kazakhstan-China oil pipeline construction project); reconstruction of main oil pipelines Kalamkas-Karazhanbas-Aktau and Uzen-Zhetybai-Aktau; reconstruction of oil pumping station "Kenkiyak"; and reconstruction of firefighting system, electricity supply systems and others.

As at 31 December 2013 the initial cost and correspondingly accumulated depreciation of fully depreciated but still in use property, plant and equipment were 2,938,299 thousand Tenge (2012:5,743,628 thousand Tenge).

The amount of depreciation for 2013 included in the cost of construction in progress was 11,639 thousand Tenge (2012: 22,996 thousand Tenge).

As at 31 December 2013 the volume of oil inside pipelines, included in fixed assets amounted to 2,193 thousand tonnes (2012: 2,181 thousand tonnes).

As at 31 December 2013 construction in progress included materials and spare parts in the amount of 13,613,707 thousand Tenge (2012: 12,838,006 thousand Tenge), which were acquired for construction works.

As at 31 December 2012 there was created a provision for impairment of the complex of kindergartens in Atasu village of Karaganda region amounted to 768,463 thousand Tenge and playground in Usharal city of Almaty region amounted to 37,800 thousand Tenge. A provision was created due to the fact these objects are for the social purpose and they will not bring economic benefits in the future. Also, in year 2012, impairment of other assets including project and development works, in the amount of 160,361 thousand Tenge was recognized through profit or loss.

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	Transpor-tation assets	Buildings	Machi-nery and equip-ment	Techno-logical oil	Other	Construc-tion in progress	Total
At 31 December 2013	**12,558,408**	**53,347,278**	**5,705,043**	**37,959,883**	**57,913,313**	**1,171,808**	**7,712,998**	**35,138,347**	**211,507,078**
At 31 December 2012	12,301,711	55,640,022	4,968,375	35,448,469	55,695,049	1,171,845	8,557,559	25,541,269	199,324,299

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. INTANGIBLE ASSETS

In thousands of Tenge	Licenses	Software	Right for land use	Other	Total
Net book value at 1 January 2012	**252,473**	**936,374**	**4,674,400**	**365,790**	**6,229,037**
Additions	42,734	201,780	–	4,363	248,877
Disposals	(2)	(8,887)	–	(471)	(9,360)
Amortization charge	(68,266)	(324,687)	(107,807)	(59,291)	(560,051)
Accumulated amortization on disposals	2	8,887	–	441	9,330
Disposal of subsidiary *(Note 9)*	(181)	(5,363)	–	(48,221)	(53,765)
Accumulated depreciation related to the disposal of subsidiary*(Note 9)*	–	2,842	–	19,866	22,708
Transfers from property, plant and equipment	23,008	245,726	–	469	269,203
Foreign currency translation	679	(120)	72,570	4,118	77,247
Transfers and reclassifications	4,473	3,824	–	(8,297)	–
Net book value at 31 December 2012	**254,920**	**1,060,376**	**4,639,163**	**278,767**	**6,233,226**
Additions	5,478	140,701	39,858	–	186,037
Disposals	–	(102,971)	–	(633,926)	(736,897)
Amortization charge	(79,164)	(332,677)	(109,229)	(29,163)	(550,233)
Accumulated amortization on disposals	–	102,971	–	410,599	513,570
Impairment through profit or loss	–	–	(165,670)	–	(165,670)
Transfers from property, plant and equipment	905	130,913	–	–	131,818
Foreign currency translation	798	27	86,041	2,285	89,151
Transfers and reclassifications	1,820	(1,820)	–	–	–
Net book value at 31 December 2013	**184,757**	**997,520**	**4,490,163**	**28,562**	**5,701,002**
As at 31 December 2013					
At cost	455,682	4,163,442	6,106,597	76,219	10,801,940
Accumulated amortization and impairment	(270,925)	(3,165,922)	(1,616,434)	(47,657)	(5,100,938)
Net book value	**184,757**	**997,520**	**4,490,163**	**28,562**	**5,701,002**
As at 31 December 2012					
At cost	447,373	3,996,520	5,953,009	704,353	11,101,255
Accumulated amortization and impairment	(192,453)	(2,936,144)	(1,313,846)	(425,586)	(4,868,029)
Net book value	**254,920**	**1,060,376**	**4,639,163**	**278,767**	**6,233,226**

9. DISPOSAL OF A SUBSIDIARY

On 18 September 2012 the Group entered into an agreement to sell 100% of the common shares of "KazTransOil-Service" ("KTO-Service") to "KazMunaiGas-Service". The amount of contract was equal to 11,647,889 thousand Tenge and was paid on 20 September 2012. According to the contract terms, ownership rights were transferred to "KazMunaiGas-Service" JSC on 21 September 2012.

The carrying value of identifiable assets, liabilities and contingent liabilities of "KTO-Service" sold to "KazMunaiGas-Service" at the date of disposal were as follows:

In thousands of Tenge	Carrying value at disposal date
Property, plant and equipment	4,952,357
Intangible assets	31,057
Bank deposits	531
Inventory	195,678
Trade and other accounts receivables	100,249
Advances to suppliers	86,818
Prepayment for corporate income tax	516
VAT recoverable and other prepaid taxes	53,340
Other current assets	36,543
Cash and cash equivalents	5,976,033
Total assets	**11,433,122**
Trade and other accounts payable	6,392
Advances received	21,556
Other tax payables	11,488
Other current liabilities	55,472
Total liabilities	**94,908**
Total net assets disposed	**11,338,214**
Consideration received in cash	**11,647,889**
Gain on disposal of subsidiary	**309,675**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. DISPOSAL OF A SUBSIDIARY (continued)

The amount of consideration received in the consolidated statement of cash flows is shown net of cash and cash equivalents of "KTO Service" JSC at the date of disposal for the amount of 5,671,856 thousand Tenge.

10. INVESTMENTS IN JOINT VENTURES

In thousands of Tenge	**31 December 2013**	31 December 2012
KCP	**40,878,930**	30,188,246
MunaiTas	**12,675,097**	10,627,303
	53,554,027	40,815,549

During 2013, the Group has recognized its share in income of KCP in the amount of 10,648,691 thousand Tenge (2012: 7,019,889 thousand Tenge), and share in other comprehensive income 41,993 thousand Tenge (2012: 288,666 thousand Tenge).

During 2013, the Group has recognized its share in income of MunaiTas in the amount of 1,197,876 thousand Tenge (2012: 1,088,090 thousand Tenge), and share in other comprehensive income 1,303,502 thousand Tenge (2012: nil). During 2013 MunaiTas paid dividends for 2013 in the amount of 453,584 thousand Tenge (2012: nil).

The tables below present generalized financial information relating to joint ventures (the Group's proportional share):

	31 December 2013		31 December 2012	
In thousands of Tenge	**KCP**	**MunaiTas**	KCP	MunaiTas
Share in total assets and liabilities of joint ventures				
Current assets	**22,462,883**	**1,448,667**	22,990,588	927,921
including: cash and cash equivalents	**5,941,869**	**162,279**	8,485,914	786,993
Non-current assets	**128,663,581**	**14,835,854**	121,837,789	14,211,948
Current liabilities	**(19,868,226)**	**(296,701)**	(14,026,734)	(1,312,340)
including: short-term financial liabilities	**–**	**–**	–	844,636
Non-current liabilities	**(90,379,308)**	**(3,312,723)**	(100,613,397)	(3,200,226)
including: short-term financial liabilities	**77,829,046**	**–**	88,911,403	–
Share in net assets	**40,878,930**	**12,675,097**	30,188,246	10,627,303

	2013		2012	
In thousands of Tenge	**KCP**	**MunaiTas**	KCP	MunaiTas
Share in total revenue and net income of joint ventures for the year				
Revenue and other operating income	**33,848,334**	**3,975,326**	27,298,690	3,936,671
Depreciation and amortization	**6,602,428**	**1,010,762**	6,285,345	966,051
Interest income	**572,701**	**23,534**	263,598	7,761
Interest expense	**4,934,486**	**5,238**	5,636,631	53,362
Income tax	**3,879,123**	**302,729**	1,045,445	280,554
Net income	**10,648,691**	**1,197,876**	7,019,889	1,088,090
Other comprehensive income	**41,993**	**1,303,502**	288,666	–
Total comprehensive income	**10,690,684**	**2,501,378**	7,308,555	1,088,090

11. ADVANCES TO SUPPLIERS FOR PROPERTY, PLANT AND EQUIPMENT

In thousands of Tenge	**31 December 2013**	31 December 2012
Advances to third parties for property, plant and equipment	**5,934,981**	623,604
Less: allowance for doubtful debts	**(99,330)**	(99,330)
	5,835,651	524,274

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

In thousands of Tenge	**2013**	2012
As at 1 January	**99,330**	–
Reinstatement of advances with related provision	**–**	99,330
As at 31 December	**99,330**	99,330

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. INVENTORIES

In thousands of Tenge	**31 December 2013**	31 December 2012
Spare parts	**937,047**	962,951
Fuel	**698,546**	770,441
Construction materials	**138,466**	154,549
Goods	**76,520**	76,248
Chemical reagents	**33,496**	89,053
Other	**510,181**	612,112
Less: provision for slow-moving and obsolete inventory	**(48,213)**	(65,413)
	2,346,043	2,599,941

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

In thousands of Tenge	**2013**	2012
As at 1 January	**65,413**	54,278
Charge for the year	**7,672**	17,148
Write-off of inventories	**(20,034)**	(106)
Disposal of subsidiary	**–**	(1,648)
Reversal of provision	**(5,148)**	(4,175)
Currency translation difference	**310**	(84)
As at 31 December	**48,213**	65,413

13. TRADE AND OTHER ACCOUNTS RECEIVABLE

In thousands of Tenge	**31 December 2013**	**31 December 2012**
Trade accounts receivable from related parties (*Note 36*)	**1,416,969**	**1,031,480**
Trade accounts receivable from third parties	**1,203,023**	**1,049,790**
Other accounts receivable from third parties	**2,526,184**	**825,882**
Other accounts receivable from related parties (*Note 36*)	**35,828**	**198,918**
Less: allowance for doubtful debts	**(633,072)**	**(578,189)**
	4,548,932	**2,527,881**

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

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

In thousands of Tenge	**2013**	2012
As at 1 January	**578,189**	109,688
Reinstatement of accounts receivable with related provision	**–**	409,688
Charge for the year	**89,895**	136,104
Write-off of receivable	**(1,071)**	(42,266)
Reversal of allowance	**(33,990)**	(23,112)
Disposal of subsidiary	**–**	(11,961)
Currency translation	**49**	48
As at 31 December	**633,072**	578,189

Trade and other accounts receivable are denominated as follows:

In thousands of Tenge	**31 December 2013**	31 December 2012
Tenge	**4,128,283**	2,052,571
US Dollars	**357,911**	429,910
Russian rubles	**1,756**	780
Other currency	**60,982**	44,620
	4,548,932	2,527,881

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. TRADE AND OTHER ACCOUNTS RECEIVABLE (continued)

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

			Past due but not impaired				
In thousands of Tenge	Total	Neither past due nor impaired	<30 days	30-60 days	60-90 days	90-120 days	>120 days
2013	**4,548,932**	**3,956,772**	**396,736**	**107,489**	**32,584**	**18,673**	**36,678**
2012	2,527,881	1,984,584	405,000	53,068	1,725	32,516	50,988

14. ADVANCES TO SUPPLIERS

In thousands of Tenge	**31 December 2013**	31 December 2012
Advances to third parties	**587,519**	184,307
Advances to related parties (*Note 36*)	**257,165**	420,284
Less: allowance for doubtful debts	**(1,982)**	(1,482)
	842,702	603,109

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

In thousands of Tenge	**2013**	2012
As at 1 January	**1,482**	3,443
Charge for the year	**1,788**	11,249
Reinstatement of advances with related provision	**–**	847
Write-off of advances	**–**	(5,025)
Reversal of provision	**(1,288)**	(9,032)
As at 31 December	**1,982**	1,482

15. VAT RECOVERABLE AND OTHER PREPAID TAXES

In thousands of Tenge	**31 December 2013**	31 December 2012
VAT recoverable	**3,038,279**	1,974,968
Other taxes prepaid	**106,435**	117,045
	3,144,714	2,092,013

16. OTHER CURRENT ASSETS

In thousands of Tenge	**31 December 2013**	31 December 2012
Due for oil transportation coordination services	**3,770,279**	4,284,419
Due from employees	**93,731**	41,315
Prepaid insurance	**38,840**	34,635
Deferred expenses	**20,445**	7,409
Other	**26,114**	40,700
Less: allowance	**(2,616)**	(2,616)
	3,946,793	4,405,862

17. BANK DEPOSITS

In thousands of Tenge	**31 December 2013**	31 December 2012
Short-term bank deposits	**81,554,300**	53,000,000
Long-term bank deposits	**576,541**	–
Accrued interest on deposits	**1,562,238**	84,676
	83,693,079	53,084,676

17. BANK DEPOSITS (continued)

As at 31 December 2013 bank deposits comprised of the following:

- Tenge denominated bank deposits placed with Kazakhstani banks with maturity from 3 to 12 months, which interest from 3.7% to 7.2% per annum (2012: from 3.3% to 7.1% per annum), maturing in December 2014 (2012: December 2013);
- restricted long-term bank deposits with interest of 2% per annum maturing in the year 2028, which is the guarantee of real estate loan issued by Halyk Bank Kazakhstan JSC.

18. CASH AND CASH EQUIVALENTS

In thousands of Tenge	**31 December 2013**	31 December 2012
Time deposits with banks – Tenge	**22,980,000**	10,000,000
Current accounts with banks – Tenge	**1,374,515**	8,114,269
Current accounts with banks – US Dollars	**1,152,074**	332,576
Current accounts with banks – Lari	**67,742**	475,434
Current accounts with banks – Euro	**57,604**	11,908
Current accounts with banks – Russian Ruble	**5,194**	9,306
Current accounts with banks – Other currencies	**–**	152
Other current accounts with banks	**11,374**	12,365
Cash on hand	**1,547**	2,581
Less: allowance for impairment	**(4,702)**	(4,547)
	25,645,348	18,954,044

At 31 December 2013 most current accounts and time deposits placed with Kazakhstani banks carried interest ranging from 1.7% to 10.25% per annum (2012: from 1.65% to 4% per annum).

19. EQUITY

Share capital

On 26 June 2012 the Company increased the number of authorized shares (certificate of state registration of the securities, the issue number A2995 dated 26 May 2012), As a result of a share split at a ratio 1:10 shares, the number of authorized shares increased from 34,617,204 shares to 346,172,040 shares, with the share capital remaining unchanged (34,617,204 thousand Tenge), In addition the Company increased the number of authorized shares by 38,463,560 shares, dilution and increase of number of authorised shares is associated with the placement of the Company's shares at KASE within the People's IPO programme,

Trades in the shares of JSC "KazTransOil" on the Kazakhstan Stock Exchange were opened on 25 December 2012. As a result, 38,463,559 common shares at 725 Tenge per share were sold for 27,886,080 thousand Tenge. As at 31 December 2013 and 2012 the Company's share capital was comprised of 384,635,600 common 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 of 31 December 2013 and 2012 the share capital amounting to 61,937,567 thousand Tenge is net of consulting costs related to the issuance of shares in the amount of 565,717 thousand Tenge (of which 289,774 thousand Tenge was paid as of 31 December 2012).

Distributions to the shareholder

Dividends

During 2013 the Group declared and paid dividends for 2012, totaling 28,847,670 thousand Tenge based on the results of the year 2012 (2012: 60,002,000 thousand Tenge based on the results of the year 2011). The dividend amounted to 75 Tenge per common share according to the total number of shares equaling to 384,635,599 (2012: 173.33 Tenge according to the total number of shares equaling to 346,172,040).

Asset revaluation reserve

Revaluation reserve was formed based on a revaluation of property, plant and equipment which is performed every 3 years in accordance with the accounting policy of the Group (except for technological oil, which is revalued annually as of 30 September).

As at 31 December 2013 the revaluation reserve increased by 27,481,073 thousand Tenge due to the revaluation of property, plant and equipment performed as of 31 July 2013 (previous revaluation was made on 30 June 2010) in the amount of 41,100,398 thousand Tenge and depreciation transfer of revalued property plant and equipment in the amount of 13,619,325 thousamd Tenge (2012: 13,090,536 thousand Tenge).

19. EQUITY (continued)

Other capital reserves

As at 31 December 2013 reserve amounted to 1,016,496 thousand Tenge (as at December 31 2012: 17,104 thousand Tenge). Increase in reserve is due to accrual of actuarial re-measurement losses on defined benefit plans in amount of 1,292,000 thousand Tenge, income tax effect of which amounted to 258,400 thousand Tenge.

Foreign currency translation reserve

As at 31 December 2013 foreign currency translation reserve was equal to 10,069,002 thousand Tenge (as at December 31 2012: 9,875.876 thousand Tenge) Change in foreign currency translation reserve is due to the translation of the operations of the foreign subsidiary.

20. EMPLOYEE BENEFIT LIABILITY

Employee benefits payments are considered as other long–term employee benefits. The entitlement to these benefits is usually conditional on the completion of a minimum service period. The expected cost of these benefits is accrued over the service period, using methodology similar to that used for the defined benefit plan. The Group did not create any funds to cover these future benefit payments.

In 2013 amendments were made to the Collective agreement which increased the amount of actuarial payments and confined the amount of actuarial payments to the monthly consumer index defined by the Kazakhstani legislature.

Changes in defined benefit obligations are as follows:

In thousands of Tenge	**31 December 2013**	31 December 2012
Present value of defined benefits obligation at the beginning of the year	**6,800,263**	6,135,892
Past services cost	**1,008,000**	–
Current services cost	**495,000**	460,000
Unwinding of discount (*Note 33*)	**417,000**	372,000
Actuarial losses**	**1,292,000**	153,000
Benefits paid	**(357,083)**	(320,629)
Present value of defined benefit obligation at the end of the year	**9,655,180**	6,800,263
Less: current portion of present value of defined benefit obligation	**(322,000)**	(238,000)
Non-current portion of present value of defined benefit obligation	**9,333,180**	6,562,263

** Due to changes in IAS 19 (applicable from 1 January 2013), actuarial losses are recognized as part of the other comprehensive income. The Group did not apply this requirement retrospectively, due to the fact that the change would not have made a significant impact on the financial statements of the Group.

Amounts recognized in the consolidated statement of financial position and consolidated statement of comprehensive income for the current year is as follows:

In thousands of Tenge	**31 December 2013**	31 December 2012
Present value of defined benefit obligation at end of the year	**9,655,180**	6,800,263
Net liability	**9,655,180**	6,800,263
Past service cost	**1,008,000**	–
Current service cost	**495,000**	460,000
Actuarial losses	**1,292,000**	153,000
Unwinding of discount (*Note 33*)	**417,000**	372,000
Expenses recognized in the current period	**3,212,000**	985,000

Current and past services costs and unwinding of discount are included in the statement of comprehensive income as part of cost of sales and general and administrative expenses and finance costs respectively *(Notes 28, 29, 33)*. Actuarial losses for 2013 were included in the other comprehensive income according to amendments IAS 19, effective from 1 January 2013 (actuarial losses for 2012 were recognized in profit and loss as part of other operating expenses *(Note 31)*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. EMPLOYEE BENEFIT LIABILITY (continued)

Increase in actuarial losses is due to the amendments made to Collective Agreement (described in *Note 5*), increase in number of pensioners and change in certain actuarial assumptions.

Principal actuarial assumptions used for valuation of employee benefit obligation at 31 December 2013 and 2012 were as follows:

	2013	2012
Discount rate	**6.0%**	6.0%
Rate of inflation	**5.6%**	4.0%
Future increase of non-current annual payment	**5.5%**	6.0%
Future salary increases	**6.0%**	6.0%
Mortality rate	**12.0%**	12.0%

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

Sensitivity analysis for significant assumptions as of 31 December 2013 is as follows:

In thousands of Tenge	**Decrease**	**Increase**
Discount rate	**-0.5%**	**+0.5%**
	778,000	**(693,000)**
Inflation rate	**-0.5%**	**+0.5%**
	(720,000)	**803,000**
	-0.5%	**+0.5%**
Future salary increase	**(79,200)**	**88,330**
	-0.5%	**+0.5%**
Increase in long-term payments	**(640,800)**	**714,670**
Life duration	**-1 year**	**+1 year**
	(395,000)	**400,000**

21. DEFERRED INCOME

In thousands of Tenge	**31 December 2013**	31 December 2012
Deferred income from third parties	**3,819,666**	3,840,252
Deferred income from related parties (*Note 36*)	**260,305**	572,670
	4,079,971	4,412,922

22. TRADE AND OTHER ACCOUNTS PAYABLE

In thousands of Tenge	**31 December 2013**	31 December 2012
Accounts payable to third parties for goods and services	**10,194,390**	5,905,433
Accounts payable to related parties for goods and services (*Note 36*)	**650,602**	596,783
Other payables to third parties	**249,065**	269,141
Other payables to related parties (*Note 36*)	**1,950**	569
	11,096,007	6,771,926

Trade and other accounts payables included payables to related and third parties, related to the construction-in-progress in the amount of 7,711,017 thousand Tenge.

Trade and other accounts payables are denominated as follows:

In thousands of Tenge	**31 December 2013**	31 December 2012
Tenge	**10,550,602**	6,274,570
US Dollars	**351,156**	223,020
Russian roubles	**48,590**	58,192
Euro	**13,480**	12,289
Other currency	**132,179**	203,855
	11,096,007	6,771,926

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. ADVANCES RECEIVED

In thousands of Tenge	**31 December 2013**	31 December 2012
Advances received from related parties *(Note 36)*	**10,706,153**	10,426,287
Advances received from third parties	**6,475,570**	5,544,408
	17,181,723	15,970,695

24. OTHER TAXES PAYABLE

In thousands of Tenge	**31 December 2013**	31 December 2012
Personal income tax	**998,348**	432,489
Social tax	**550,961**	309,878
Property tax	**355,611**	79,651
VAT payable	**564**	297,528
Other taxes	**681,867**	520,255
	2,587,351	1,639,801

25. PROVISIONS

Short-term provisions

In thousands of Tenge	Tax provisions (BTL)	Environmental provisions (Company)	Others (Company)	Total
As at 1 January 2012	227,646	48,267	11,814	287,727
Charged for the year	–	306,318	–	306,318
Use of provision	(56,214)	(186,332)	–	(242,546)
Reversal of provision	–	(776)	–	(776)
Foreign currency translation	2,974	–	–	2,974
As at 31 December 2012	174,406	167,477	11,814	353,697
Charged for the year	**8,671**	**517**	**–**	**9,188**
Use of provision	**–**	**(126,352)**	**(11,814)**	**(138,166)**
Foreign currency translation	**3,406**	**–**	**–**	**3,406**
As at 31 December 2013	**186,483**	**41,642**	**–**	**228,125**

BTL Tax provisions

As of 31 December 2011, the Group was involved in tax disputes with Georgian Tax Authorities in respect of additional accruals of withholding tax of 1,534 thousand US Dollars (equivalent of 227,646 thousand Tenge), and in consolidated financial statement provision an appropriate amount was reflected. During 2012 the Group has used provision in the amount of 377 thousand US Dollars (equivalent of 56,214 thousand Tenge).

Environmental provisions

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

Long-term provisions

In thousands of Tenge	**31 December 2013**	31 December 2012
As of 1 January	**15,531,037**	–
Provision for the year	**189,265**	15,084,384
Unwinding of discount on asset retirement and land recultivation obligation *(Note 33)*	**957,236**	446,653
As of 31 December	**16,677,538**	15,531,037

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. PROVISIONS (continued)

Long-term provisions (continued)

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. During 2012 the Group's Management has created provision on asset retirement and land recultivation obligation in the amount of 15,084,384 thousand Tenge.

Additionally provision on liquidation of the waste landfills is reflected as part of the asset retirement and land recultivation obligation. Provision was created in 2013 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. Landfill liquidation provision in the amount of 189,265 thousand Tenge is equal to the discounted amount of the future costs of liquidation, calculated based on remaining period before the date of liquidation. Discount rate applied represents risk-free rate of the government bonds of the Republic of Kazakhstan.

26. OTHER CURRENT LIABILITIES

In thousands of Tenge	**31 December 2013**	31 December 2012
Salaries and wages	**7,385,065**	2,941,700
Accounts payable for oil transportation coordination services for related parties (*Note 36*)	**4,153,476**	4,839,624
Accounts payable for oil transportation coordination services for third parties	**3,281,040**	3,190,974
Accounts payable under an agency agreement for the transportation of oil to related parties (*Note 36*)	**651,706**	–
Payable to pension fund	**593,575**	338,898
Current portion of deferred income from third parties	**324,578**	444,532
Current portion of deferred income from related parties (*Note 36*)	**312,366**	312,365
Other accruals	**44,086**	62,406
	16,745,892	12,130,499

In respect of short term employee remunerations the Board of Directors of the Company made a decision in December 2013 to pay the employees remunerations based on the year results in the amount of 4,424,784 thousand Tenge including social tax.

27. REVENUE

In thousands of Tenge	**2013**	2012
Crude oil transportation	**153,861,014**	110,260,550
Oil reloading and railway shipment	**17,810,315**	14,880,582
Pipeline operation services	**6,816,579**	5,968,264
Water transportation	**6,573,345**	6,431,874
Oil transportation coordination services and seaport	**3,995,350**	3,853,047
Oil storage services	**174,555**	235,996
Other	**790,514**	1,431,012
	190,021,672	143,061,325

Increase in revenues is due to the aforementioned increase in tariffs for oil transportation for domestic and export markets (*Note 1*). For the twelve months ended 31 December 2013 the revenue from the major customer amounted to 41,333,606 and 18,434,349 thousand Tenge respectively. For the twelve months ended 31 December 2012 revenue from two major customers: 36,137,646 thousand Tenge, 8,215,120 thousand Tenge respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. COST OF SALES

In thousands of Tenge	2013	2012
Personnel cost	**35,939,251**	29,063,058
Depreciation and amortization	**29,442,621**	26,976,466
Railway services	**10,298,681**	9,229,798
Materials and fuel	**6,112,086**	5,831,571
Electric energy	**6,065,868**	5,355,092
Taxes other than corporate income tax	**4,895,316**	4,324,473
Repair and maintenance costs	**4,670,474**	4,994,652
Security services	**3,466,756**	3,587,876
Gas expense	**2,211,319**	2,206,043
Post-employment benefits	**1,406,914**	431,867
Air services	**1,296,160**	1,931,505
Business trip expenses	**816,498**	706,013
Environmental protection	**612,422**	888,008
Insurance	**446,548**	476,373
Diagnostics of pipelines	**389,203**	194,260
Rent expenses	**295,453**	744,589
Communication services	**253,297**	214,538
Other	**2,349,832**	2,447,449
	110,968,699	99,603,631

Increase in production personnel costs is mainly due to the accrual of bonuses for the results of 2013.

29. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of Tenge	2013	2012
Personnel cost	**6,529,810**	5,447,561
Depreciation and amortization	**760,231**	686,879
Consulting	**413,088**	767,630
Office maintenance	**355,714**	121,661
Social sphere expenses	**274,705**	172,820
Taxes other than corporate income tax	**229,479**	361,723
Business trip expenses	**228,849**	215,928
Repair and technical maintenance	**223,186**	218,156
Insurance and security	**217,343**	232,607
Expenses on VAT	**194,727**	309,957
Materials and fuel	**182,300**	140,532
Charity expenses	**166,028**	1,079,886
Impairment of intangible assets	**165,670**	–
Operational lease expenses	**148,765**	149,098
Training	**112,962**	132,182
Communication services	**111,544**	124,219
Bank costs	**111,417**	102,622
Post-employment benefits	**96,086**	28,133
Information expenses	**71,653**	77,118
Provision for allowance for doubtful debts	**56,405**	119,756
Advertising expense	**41,972**	186,903
Transportation expenses	**12,018**	14,366
Allowance for obsolete and slow-moving inventories	**2,520**	12,973
Other	**321,032**	274,865
	11,027,504	10,977,575

Increase in administrative personnel costs in mainly due to the accrual of bonuses for the results of 2013.

In 2012 the Company has provided a financial aid in the amount of 1,000,000 thousand Tenge to the public association "Pavlodar-our common home" for the construction of multifunctional sport complex in Pavlodar city.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. OTHER OPERATING INCOME

In thousands of Tenge	**2013**	2012
Income from fines and penalties	**6,694,613**	928,945
Gain on disposal of inventory	**314,320**	–
Amortization of deferred income (Note 36)	**312,366**	312,365
Gain on disposal of property, plant and equipment and intangible assets	**257,696**	–
Derecognition of financial guarantee issued on behalf of related party *(Note 36)*	**177,743**	–
Amortization of financial guarantee issued on behalf of related party *(Note 36)*	**26,463**	138,570
Income from write-off of payables	**23,853**	11,222
Other income	**130,069**	267,068
	7,937,123	1,658,170

Income from fines and penalties are mainly presented by amounts for nominated and non-delivered crude oil volumes under oil transportation contracts on "ship or pay" terms. Increase in fines and penalties in 2013 is due to the postponement of the oil production in Kashagan oilfield.

31. OTHER OPERATING EXPENSES

In thousands of Tenge	**2013**	2012
Loss on disposal of property, plant and equipment and intangible assets	**461,068**	46,050
Loss on disposal of inventory	**2,594**	–
Actuarial losses (*Note 20)*	**–**	153,000
Other expenses	**218,080**	421,920
	681,742	620,970

32. FINANCE INCOME

In thousands of Tenge	**2013**	2012
Interest income on bank deposits	**3,967,511**	1,851,365
Dividends income	**194,185**	–
Employees and related party loans: unwinding of discount	**23,672**	84,827
Other finance income from third parties	**7,758**	5,666
Other finance income from related parties *(Note 36)*	**4,108**	8,499
	4,197,234	1,950,357

33. FINANCE COSTS

In thousands of Tenge	**2013**	2012
Unwinding of discount on asset retirement and land recultivation obligation *(Note 25)*	**957,236**	446,653
Employee benefits: unwinding of discount *(Note 20)*	**417,000**	372,000
Interest on loans and borrowings	**–**	27,436
Other	**–**	1,442
	1,374,236	847,531

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. INCOME TAX EXPENSE

Income tax expenses for the years ended 31 December comprise:

In thousands of Tenge	**2013**	2012
Current income tax expense	**18,870,045**	8,172,066
Deferred income tax (benefit)/expense	**(5,022,884)**	378,097
Income tax expense	**13,847,161**	8,550,163

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

In thousands of Tenge	**2013**	2012
Profit before income tax	**77,390,761**	42,051,291
Statutory rate	**20%**	20%
Income tax expense on accounting profit	**15,478,152**	8,410,258
Tax effect of permanent differences		
Other non deductible expenses	**805,563**	612,375
Tax effect of other adjustments		
Derecognition of deferred taxes on income of foreign subsidiaries	**–**	1,110,119
Income from joint ventures recognized according to equity method	**(2,369,313)**	(1,621,596)
Effect of difference in tax rates	**(67,241)**	39,007
Corporate income tax expense reported in the statement of comprehensive income	**13,847,161**	8,550,163

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. INCOME TAX EXPENSE (continued)

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, are comprised of the following at 31 December:

In thousands of Tenge	31 December 2013	Charged to profit and loss	Foreign currency translation	Charged to other comprehensive income	31 December 2012	Charged to profit and loss	Foreign currency translation	Charged to other comprehensive income	1 January 2012
Deferred tax assets									
Employee benefits and other employee compensation and related costs	**3,023,646**	**1,199,277**	**–**	**258,409**	1,565,969	152,212	–	–	1,413,757
Financial guarantee issued on behalf of related party	**–**	**(39,931)**	**–**	**–**	39,931	(27,853)	–	–	67,784
Allowance for doubtful debts	**147,401**	**113,051**	**–**	**–**	34,350	18,506	–	–	15,844
Provision for slow-moving and obsolete inventory	**9,643**	**(3,440)**	**–**	**–**	13,083	2,943	–	–	10,140
Provision on environmental protection	**88,164**	**17,425**	**–**	**–**	70,739	70,739	–	–	–
Provision on asset retirement and land recultivation obligation	**3,292,968**	**186,761**	**–**	**–**	3,106,207	3,106,207	–	–	–
Taxes payable	**253,890**	**253,890**	**–**	**–**	–	(50,997)	–	–	50,997
Financial aid to related parties and loans to employees	**5,086**	**(9,354)**	**–**	**–**	14,440	8,787	–	–	5,653
Deferred Income from related party	**114,534**	**(62,473)**	**–**	**–**	177,007	(62,473)	–	–	239,480
Income of foreign subsidiaries	**–**	**–**	**–**	**–**	–	(1,110,118)	–	–	1,110,118
	6,935,332	**1,655,206**	**–**	**258,400**	5,021,726	2,107,953	–	–	2,913,773
Deferred tax liabilities									
Taxes payable	**–**	**33,759**	**–**	**–**	(33,759)	(33,759)	–	–	–
Property, plant and equipment	**(50,473,181)**	**3,333,919**	**83,936**	**(9,496,299)**	(44,394,737)	(2,452,291)	(34,466)	(4,792,496)	(37,115,484)
	(50,473,181)	**3,367,678**	**83,936**	**(9,496,299)**	(44,428,496)	(2,486,050)	(34,466)	(4,792,496)	(37,115,484)
Net deferred income tax liabilities	**(43,537,849)**	**5,022,884**	**83,936**	**(9,237,899)**	(39,406,770)	(378,097)	(34,466)	(4,792,496)	(34,201,711)

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.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

In 2012 the Group changed its assessment in regards to the recoverability of deferred tax asset on income from foreign subsidiaries, which were received in countries with preferential tax rules under the Tax code of the Republic of Kazakhstan. Accordingly, as of 31 December 2012 the Group has ceased the recognition of relevant deferred tax asset in the amount of 1,110,118 thousand Tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. 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 services provided by subsidiary KTO-Service, and also transshipment of dry cargo (sugar-airbrick, ammonium nitrate, cement, grain, sunflower and oil cake) in Batumi sea port 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 Batumi sea port with operation of Batumi oil terminal 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.

	For the year ended 31 December 2013						For the year ended 31 December 2012					
In thousands Tenge	Oil transportation and related services (Kazakhstan)	Oil transship-ment (Georgia)	Other	Total segments	Adjust-ments and eliminations	Consoli-dated	Oil transportation and related services (Kazakhstan)	Oil transship-ment (Georgia)	Other	Total segments	Adjust-ments and eliminations	Consoli-dated
Revenue												
External customers	168,214,901	17,810,315	3,996,456	190,021,672	–	190,021,672	123,931,842	14,880,582	4,248,901	143,061,325	–	143,061,325
Inter-segment	–	–	–	–	–	–	–	–	394,544	394,544	(394,544)	–
Total revenue	168,214,901	17,810,315	3,996,456	190,021,672	–	190,021,672	123,931,842	14,880,582	4,643,445	143,455,869	(394,544)	143,061,325
Results												
Impairment of property, plant and equipment (included in net profit)	(12,663,453)	–	–	(12,663,453)	–	(12,663,453)	(766,227)	–	–	(766,227)	–	(766,227)
Impairment of Intangible assets	–	–	(165,670)	(165,670)	–	(165,670)	–	–	–	–	–	–
Depreciation and amortization	(28,263,650)	(1,718,004)	(221,198)	(30,202,852)	–	(30,202,852)	(26,184,824)	(1,021,851)	(456,670)	(27,663,345)	–	(27,663,345)
Interest income	3,947,430	10,953	14,910	3,973,293	–	3,973,293	1,783,562	21,770	60,198	1,865,530	–	1,865,530
Interest expenses	–	–	–	–	–	–	–	(27,436)	–	(27,436)	–	(27,436)
CIT expense	(13,063,819)	(265,163)	65,264	(13,263,718)	(583,443)	(13,847,161)	(8,432,962)	53,680	(170,880)	(8,550,162)	–	(8,550,162)
Segment profit	52,016,546	748,936	229,716	52,995,198	10,548,402	63,543,600	24,164,234	1,472,012	(262,312)	25,373,934	8,127,194	33,501,128
Total assets	527,084,407	31,127,379	14,636,268	572,848,054	17,679,174	590,527,228	454,957,600	25,527,517	15,747,004	496,232,121	218,419	496,450,540
Total liabilities	111,328,479	5,905,229	4,706,610	121,940,318	1,316,993	123,257,311	94,526,397	3794,427	4,820,967	103,141,791	994,686	104,136,477
Other disclosures												
Investments in joint venture (Note 10)	53,554,027	–	–	–	–	53,554,027	40,815,549	–	–	–	–	40,815,549
Capital expenditure	24,900,504	3,066,226	2,268,820	30,235,550	–	30,235,550	16,375,470	2,910,329	1,186,157	20,471,956	–	20,471,956

Inter-segment revenues are eliminated upon consolidation and reflected in the adjustments and eliminations'column. All other adjustments and eliminations are part of detailed reconciliations presented further below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. SEGMENT INFORMATION (continued)

In thousands of Tenge	31 December 2013	31 December 2012
Reconciliation of profit		
Segment profit	**52,995,198**	25,373,934
Adjustments and eliminations	**(1,298,165)**	19,215
Recognition of share in income of joint ventures	**11,846,567**	8,107,979
Group profit	**63,543,600**	33,501,128

In thousands of Tenge	31 December 2013	31 December 2012
Reconciliation of assets		
Segment operating assets	**572,848,054**	496,232,121
Adjustments and eliminations	**17,679,174**	218,419
Total assets	**590,527,228**	496,450,540

In thousands of Tenge	31 December 2013	31 December 2012
Reconciliation of liabilities		
Segment operating liabilities	**121,940,318**	103,141,791
Adjustments and eliminations	**1,316,993**	994,686
Total liabilities	**123,257,311**	104,136,477

36. 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 provides the total amount of transactions, which have been entered into with related parties during 2013 and 2012 and the related balances as at 31 December 2013 and 2012:

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

In thousands of Tenge	31 December 2013	31 December 2012
Trade and other accounts receivable from related parties		
Trade accounts receivable from joint ventures	**806,094**	471,451
Trade accounts receivable from entities under common control of KMG	**609,882**	559,841
Trade accounts receivable from entities under common control of Samruk-Kazyna Group	**993**	188
	1,416,969	1,031,480
Other accounts receivables from entities under common control of KMG and Samruk-Kazyna Group	**35,828**	198,918
Total trade and other accounts receivable from related parties	**1,452,797**	1,230,398

Advances provided to related parties are as follows:

In thousands of Tenge	31 December 2013	31 December 2012
Advances given to related parties		
Advances given to entities under common control of KMG	**176,380**	219,298
Advances given to entities under common control of Samruk-Kazyna Group	**80,785**	2,612
Advances given to other related parties	**–**	198,374
Total advances paid to related parties	**257,165**	420,284

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. RELATED PARTY TRANSACTIONS (continued)

Financial guarantee issued on behalf of related parties:

In thousands of Tenge	**31 December 2013**	31 December 2012
Financial guarantee issued on behalf of related parties		
Financial guarantee issued on behalf of MunaiTas JSC	–	199,654
Total financial guarantee issued on behalf of related parties	**–**	199,654

Non-current deferred income to related parties are as follows:

In thousands of Tenge	**31 December 2013**	31 December 2012
Non-current deferred income from related parties		
Non-current deferred income from entities under common control of KMG	**260,305**	572,670
Total other non-current deffered income from related parties	**260,305**	572,670

Trade and other accounts payable to related parties are as follows:

In thousands of Tenge	**31 December 2013**	31 December 2012
Accounts payables to related parties for goods and services		
Accounts payables to entities under common control of KMG	**632,581**	567,859
Accounts payables to entities under common control of Samruk-Kazyna Group	**18,021**	28,924
	650,602	596,783
Other payables to related parties		
Other payables to entities under common control of Samruk-Kazyna Group	**1,950**	569
	1,950	569
Total trade and other accounts payable to related parties	**652,552**	597,352

Advances received from related parties are as follows:

In thousands of Tenge	**31 December 2013**	31 December 2012
Advances received from related parties		
Advances from entities under common control of KMG	**8,764,571**	9,143,441
Advances from entities under common control of Samruk-Kazyna Group	**1,941,567**	1,282,846
Advances received from joint ventures	**15**	
Total advances received from related parties	**10,706,153**	10,426,287

Other current liabilities to related parties are as follows:

In thousands of Tenge	**31 December 2013**	31 December 2012
Accounts payable for oil transportation expedition for related parties		
Accounts payable for oil transportation expedition for entities under common control of KMG	**4,153,476**	4,839,624
	4,153,476	4,839,624
Accounts payables under the agency agreement to the related parties		
Accounts payables under the agency agreement for the transportation of oil to the joint parties	**651,706**	–
	651,706	–
Employee benefits		
Employee benefits of key management personnel	**5,516**	17,577
	5,516	17,577
Current portion of deferred income from related parties		
Current portion of deferred income from entities under common control of KMG	**312,366**	312,365
	312,366	312,365
Total other current liabilities to related parties	**5,123,064**	5,169,566

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. RELATED PARTY TRANSACTIONS (continued)

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

In thousands of Tenge	2013	2012
Sales to related parties:		
Transportation services with entities under common control of KMG	**94,333,240**	68,484,274
Transportation services with entities under common control of Samruk-Kazyna Group	**10,878,953**	7,505,538
Transportation services with joint ventures	**5,742,000**	4,937,616
Income from other activities with entities under common control of KMG	**315,896**	209,442
Income from other activities with joint ventures	**–**	4,209
Income from other activities with entities under common control of Samruk-Kazyna Group	**103**	–
Income from sale of subsidiary	**–**	11,647,889
Income from services to other related parties	**4,108**	16,104
	111,274,300	92,805,072
Purchases from related parties:		
Purchases of services from entities under common control of KMG	**7,998,048**	7,222,887
Purchases of services from entities under common control of Samruk-Kazyna Group	**1,191,689**	932,503
Purchases of services from other related parties	**2,721,149**	9,015,787
Purchases of inventory from entities under common control of KMG	**1,997**	–
Purchases of inventory from entities under common control of Samruk-Kazyna Group	**9,226**	12,837
Purchases of property, plant and equipment from entities under common control of Samruk-Kazyna Group	**148,401**	–
	12,070,510	17,184,014
Other operating income from related parties		
Derecognition of financial guarantee issued on behalf of related party	**177,743**	–
Amortization of deferred income from related parties	**312,366**	312,365
Amortization of financial guarantee issued to related party	**26,463**	138,570
	516,572	450,935
Financial income from related parties		
Income on discounting of debts from related parties	**–**	65,199
Other financial income from related party	**4,108**	8,499
	4,108	73,698

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

In thousands of Tenge	31 December 2013	31 December 2012
Salary	**121,691**	137,033
Bonuses	**16,925**	24,113
Benefits based on the results of the year	**183,989**	82,175
Post-employment benefits	**1,301**	395
	323,906	243,716
Number of persons	**7**	7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. CONTINGENT LIABILITIES AND COMMITMENTS

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not usual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws 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 preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued as at 31 December 2013.

As at 31 December 2013 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 2013.

As at 31 December 2013 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.

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.

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 or environmental damage arising from accidents on Group's property or relating to Group's operations.

37. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Covenants

Guarantees

As at 31 December 2012, the Company has guaranteed to EBRD in respect of the obligations of MunaiTas under the loan agreement with EBRD. According to the Guarantee Agreement concluded between the Company and EBRD, the Company has to comply with the following covenants:

- Current ratio of not less than 1:1;
- Ratio of earnings before interest, income tax, depreciation and amortization to Interest of not less than 2:1; and
- Ratio of debt to equity of not more than 2:1.

The Guarantor shall not enter into any transactions that are not based on arm's-length arrangements unless transaction is approved by regulatory bodies. The Guarantor shall not sell, lease or dispose its assets in excess of 30% of total assets or undertake any merger or reorganization. As of 31 December 2012 the Company fully complied with covenants.

In March 2013 MunaiTas repaid all obligations to EBRD under the loan agreement and Company's obligations under the financial Guarantee Agreement were terminated.

Contractual commitments

As at 31 December 2013, the Group had contractual obligations to acquire property, plant and equipment, and construction services for the amount of 33,130,344 thousand Tenge (2012: 5,607,369 thousand Tenge). In addition, as at 31 December 2013, the Group has committed to purchase inventory (materials and spare parts) and services for the amount of 4,646,947 thousand Tenge (2012: 1,948,794 thousand Tenge).

Share of the Group as at 31 December 2013 in contractual obligations of joint ventures to acquire property, plant and equipment, and construction services for the amount of 1,248,036 thousand Tenge (2012: 11,623,922 thousand Tenge) and has commitments to purchase inventory (materials and spare parts) and services for the amount of 240,636 thousand Tenge (2012: 986,037 thousand Tenge).

Expropriation of the Batumi Sea Port (BSP) assets

In accordance with BSP Management Right agreement between BTL (former BIHL) and Georgia Government, Georgian Government has the right for expropriation of the BSP's assets, in case the BSP in the course of two years does not meet its obligations on minimum volume of transshipment, which is 4 mln tonne per year. As at 31 December 2013, BSP was not exposed to risk of asset expropriation from the Government of Georgia, as actual volumes of transshipment were 10,170 mln tonne.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise bank loans and borrowings and 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: interest rate risk, 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.

Interest rate risk

The Group is not exposed to risks associated with interest rates, because there are no loans with floating or fixed rate in the years 2013 and 2012.

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.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The Group places deposits with Kazakhstani banks *(Notes 17 and 18)*. 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 deposits at the balance sheet date using the "Moody's" "Fitch" and "Standard & Poors" credit ratings.

Bank	Location	Rating 2013	Rating 2012	2013	2012
KazKommertsBank JSC	Kazakhstan	Ba2/Stable	Ba2/Negative	**44,793,592**	28,543,632
Halyk Bank Kazakhstan JSC	Kazakhstan	Ba2/Stable	Ba2/Stable	**34,892,638**	34,783,201
SberBank of Russia JSC	Kazakhstan	Ba2/Stable	Ba2/Stable	**10,424,707**	4,690
JSC Cesna Bank	Kazakhstan	B/Positive	B/Stable	**10,040,000**	7,005,347
BankCentreCredit JSC	Kazakhstan	B2/Stable	–	**5,103,161**	–
KaspiBank	Kazakhstan	B1/Stable	–	**2,000,000**	–
JSC Bank Kassa Nova	Kazakhstan	B/Stable	B/Stable	**1,000,000**	1,000,542
Berenberg Bank	Cyprus	–	–	**701,690**	14,773
Hellenic Bank	Georgia	Caa3/Negative	–	**318,280**	–
TBC Bank	Georgia	B1/Stable	B1/Stable	**23,502**	258,519
Basis Bank	Georgia	B/Stable-	B-	**17,358**	55,171
Bank of Georgia	Georgia	B1/Stable	B1/Stable	**13,825**	106,573
Bank of Cyprus	Georgia	Ca/Negative	Caa2/Negative	**6,450**	74,164
BNP Paribas	Cyprus	A2/Stable	–	**922**	142,449
GazBank	Russia	–	–	**490**	–
Cartu Bank	Georgia	–	–	**154**	1,960
ATF Bank JSC	Kazakhstan	B-/Stable	B1/Stable	**62**	7
RBS Bank Kazakhstan JSC	Kazakhstan	A3/Negative	A3/Negative	**41**	350
CITI Bank Kazakhstan JSC	Kazakhstan	A2/Negative	A3/Negative	**5**	269
HSBC Bank Kazakhstan JSC	Kazakhstan	–	–	**3**	6
Republic Bank	Georgia	–	–	**–**	16,883
Other	Georgia	–	–	**–**	27,603
				109,336,880	72,036,139

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 2013 and 2012 based on contractual undiscounted payments.

In thousands of Tenge	On demand	<1 year	1 to 2 years	2 to 5 years	>5 years	Total
As at 31 December 2013						
Trade and other payable	–	10,736,434	84,725	274,848	–	**11,096,007**
Other liabilities	–	7,385,065	–	–	–	**7,385,065**
	–	**18,121,499**	**84,725**	**274,848**	**–**	**18,481,072**
As at 31 December 2012						
Trade and other payable	–	6,500,714	92,453	178,759	–	**6,771,926**
Other liabilities	–	2,941,700	–	–	–	**2,941,700**
	–	**9,442,414**	**92,453**	**178,759**	**–**	**9,713,626**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Currency risk

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

In thousands of Tenge	US Dollar	Russian Ruble	Euro	Other currencies	Total
At 31 December 2013					
Assets	**1,518,949**	**15,207**	**71,429**	**174,963**	**1,780,548**
Liabilities	**713,061**	**100,888**	**18,703**	**301,501**	**1,134,153**
At 31 December 2012					
Assets	762,486	10,086	11,908	520,206	1,304,686
Liabilities	948,682	77,546	30,076	227,458	1,283,762

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.

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 impact on the Group's equity.

In thousands of Tenge	Increase/decrease in US Dollar rate	Effect on profit before tax
2013	**+30.00%**	**241,766**
US Dollar	**+10.00%**	**80,589**
2013	**+20.00%**	**(17,136)**
Russian ruble	**-20.00%**	**17,136**
2012	+1.57%	(2,923)
US Dollar	-1.57%	2,923
2012	+10.74%	(7,245)
Russian ruble	-10.74%	7,245

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 2013 and 2012.

The Group monitors equity using a gearing ratio, which is net debt divided by total equity plus net debt. The Group's net debt includes interest bearing loans and borrowings and trade and other payables, less cash and cash equivalents.

As of 31 December 2013 and 2012 the Group does not have significant debts. The Group has sufficient cash, exceeding its debt as of the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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.

39. EVENTS AFTER THE REPORTING PERIOD

Starting from 1 January 2014 Order of NMRA dated as of 21 November 2013 increasing tariffs of the Company for oil pumping in domestic and export markets came into force. Accordingly, oil transportation tariff in domestic market for transportation of 1 ton oil increased from 1,945.5 Tenge till 2,931.8 Tenge (increase for 50%); oil transportation tariff in export market for transportation of 1 ton oil increased from 4,732.6 Tenge till 4,850.6 Tenge (increase for 2.5%).

National Bank of the Republic of Kazakhstan starting from 11 February 2014 made a decision to cease supporting exchange rate of Tenge against US Dollar and other major currencies on the same level, reduce volume of currency interventions and reduce interventions in process of exchange rate formation. Exchange rate before and after devaluation was 155.56 Tenge and 184.5 Tenge per 1 US Dollar respectively. As of 25 February 2014 exchange rate was equal to 184.51 Tenge per 1 US Dollar.