

KazTransOil JSC

Consolidated financial statements

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

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Independent auditors' report

Consolidated financial statements

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Independent auditors' report

To the shareholders of KazTransOil JSC:

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

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.



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

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

Opinion



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

Ernst & Young LLP



Alexander Nazarkulov
Auditor

Auditor Qualification Certificate
No. 0000059 dated 6 January 2012



Evgeny Zhemaletdinov
General Director
Ernst & Young LLP

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

24 February 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>In thousands of Tenge</i>	Note	31 December 2014	31 December 2013
Assets			
Non-current assets			
Property, plant and equipment	6	415,390,661	401,108,901
Intangible assets	7	5,479,443	5,701,002
Investments in joint ventures	8	49,843,334	53,554,027
Advances to suppliers for property, plant and equipment	9	11,307,451	5,835,651
Bank deposits	15	3,729,880	576,541
Other non-current assets		16,723	123,904
		485,767,492	466,900,026
Current assets			
Inventories	10	3,044,558	2,346,043
Trade and other accounts receivable	11	5,803,874	4,548,932
Advances to suppliers	12	1,111,935	842,702
Prepayment for corporate income tax		5,814,807	3,994
VAT recoverable and other prepaid taxes	13	6,196,069	3,144,714
Other current assets	14	3,380,259	3,946,793
Bank deposits	15	32,112,242	83,116,538
Cash and cash equivalents	16	42,174,720	25,645,348
		99,638,464	123,595,064
Assets classified as held for sale		1,261	32,138
		99,639,725	123,627,202
TOTAL ASSETS		585,407,217	590,527,228

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

<i>In thousands of Tenge</i>	Note	31 December 2014	31 December 2013
Equity and liabilities			
Equity			
Share capital	17	61,937,567	61,937,567
Asset revaluation reserve	17	138,237,679	171,902,104
Other capital reserves	17	(1,810,575)	(1,016,496)
Foreign currency translation reserve		14,860,910	10,069,002
Retained earnings		244,418,740	224,377,740
Total equity		457,644,321	467,269,917
Non-current liabilities			
Employee benefits liability	18	11,204,603	9,333,180
Deferred tax liabilities	32	41,167,915	43,537,849
Provision on asset retirement obligation and land recultivation obligation	23	20,631,009	16,677,538
Deferred income	19	4,423,082	4,079,971
		77,426,609	73,628,538
Current liabilities			
Employee benefits liability	18	408,757	322,000
Income tax payable		910,109	1,467,675
Trade and other accounts payable	20	15,773,741	11,096,007
Advances received	21	16,746,436	17,181,723
Other taxes payable	22	3,226,928	2,587,351
Provisions	23	316,065	228,125
Other current liabilities	24	12,954,251	16,745,892
		50,336,287	49,628,773
Total liabilities		127,762,896	123,257,311
TOTAL EQUITY AND LIABILITIES		585,407,217	590,527,228
Book value of ordinary shares (in Tenge)	17	1,176	1,200

Signed and approved for issue on 24 February 2015.

General Director



[Signature]
Kabyldin K.M.

Chief Accountant

[Signature]
Sarmagambetova M.K.

The accounting policy and explanatory notes on pages 8 through 57 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>In thousands of Tenge</i>	Note	For the years ended 31 December	
		2014	2013
Revenue	25	206,637,113	196,366,805
Cost of sales	26	(121,309,073)	(110,968,699)
Gross profit		85,328,040	85,398,106
General and administrative expenses	27	(13,592,935)	(11,027,504)
Other operating income	28	1,461,472	1,591,990
Other operating expenses	29	(650,029)	(681,742)
Impairment of property, plant and equipment and intangible assets	6	(8,119,432)	(12,663,453)
Operating profit		64,427,116	62,617,397
Net foreign exchange gain		1,055,964	103,799
Finance income	30	4,517,047	4,197,234
Finance costs	31	(1,615,566)	(1,374,236)
Share in income of joint ventures	8	(6,255,050)	11,846,567
Profit before tax		62,129,511	77,390,761
Income tax expense	32	(15,698,946)	(13,847,161)
Profit for the year		46,430,565	63,543,600
Earnings per share (<i>in Tenge</i>)	17	121	165

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

<i>In thousands of Tenge</i>	<i>Note</i>	<i>For the years ended 31 December</i>	
		<i>2014</i>	<i>2013</i>
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Exchange difference from translation of foreign operations of the Group		4,742,851	188,238
Exchange difference from translation of foreign operations of the joint ventures		49,057	4,888
Total other comprehensive income to be reclassified to profit or loss in subsequent periods, net		4,791,908	193,126
Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods			
Revaluation and impairment of property, plant and equipment of the Group	6	(24,595,646)	49,256,090
Income tax effect	32	4,676,756	(9,496,299)
		(19,918,890)	39,759,791
Revaluation and impairment of property, plant and equipment of joint ventures		3,576,974	1,627,422
Income tax effect		(715,395)	(325,483)
		2,861,579	1,301,939
Provision on asset retirement obligation and land recultivation of the Group	23	(1,678,425)	—
Income tax effect	32	335,685	—
		(1,342,740)	—
Provision on asset retirement obligation and land recultivation of joint ventures		334,774	126,425
Income tax effect		(63,433)	(87,757)
		271,341	38,668
Actuarial losses from employee benefit liabilities of the Group	18	(992,599)	(1,292,000)
Income tax effect	32	198,520	258,400
		(794,079)	(1,033,600)
Total other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods		(18,922,789)	40,066,798
Total other comprehensive (loss)/income for the year, net of tax			
		(14,130,881)	40,259,924
Total comprehensive income for the year, net of tax		32,299,684	103,803,524

Signed and approved for issue on 24 February 2015.

General Director



K. Kab
Kabyldin K.M.

Chief Accountant

S. Magambetova
Sarmagambetova M.K.

The accounting policy and explanatory notes on pages 8 through 57 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

<i>In thousands of Tenge</i>	<i>Note</i>	For the years ended 31 December	
		2014	2013
Cash flows from operating activities:			
Profit before tax		62,129,511	77,390,761
Non-cash adjustment to reconcile profit before tax to net cash flows:			
Depreciation and amortization	26,27	33,696,049	30,202,852
Net charge of allowance for doubtful debts	27	18,661	56,405
Share in loss/(income) of joint ventures	8	6,255,050	(11,846,567)
Finance costs	31	1,615,566	1,374,236
Finance income	30	(4,517,047)	(4,197,234)
Employee benefits for past service cost	18	—	1,008,000
Employee benefits for current service cost	18	802,461	495,000
Net charge of provisions	23	53,560	9,188
Loss on disposal of property, plant and equipment and intangible assets	29	208,654	461,068
Net gain on disposal of inventory	28,29	(248,512)	(311,726)
Net gain from disposal of assets	28	(61,090)	(257,696)
Impairment of intangible assets	7	302,114	165,670
Impairment of property plant and equipment	6	8,119,432	12,663,453
Income from write-off of accounts payable	28	(75,689)	(23,853)
Amortization of deferred income		(428,123)	(410,642)
Amortization of financial guarantee issued on behalf of joint venture	28	—	(26,463)
Derecognition of financial guarantee issued on behalf of joint venture	28	—	(177,743)
Expenses from revision of estimates for provision on asset retirement obligation and land recultivation	29	275,965	—
Write off of idle oil pumping stations	29	89,126	21,212
Net (reversal)/charge of provision for obsolete and slow-moving inventory	27	(5,342)	2,524
Operating cash flows before working capital changes:		108,230,346	106,598,445
(Increase)/decrease in operating assets			
Inventories		3,537,525	690,918
Trade and other accounts receivable		(1,274,316)	(2,076,956)
Advances to suppliers		(268,324)	(240,093)
VAT recoverable and other prepaid taxes		(3,950,262)	(1,422,150)
Other current assets		603,319	501,507
Increase/(decrease) in operating liabilities			
Trade and other accounts payable		2,884,424	(545,491)
Advances received		(435,287)	1,211,028
Other taxes payable		639,577	947,550
Other current and non-current liabilities and employee benefit liabilities		(2,972,212)	4,231,041
Cash generated from operations:		106,994,790	109,895,799
Income taxes paid		(18,965,585)	(16,350,776)
Interest received		5,878,926	2,356,479
Net cash flow from operating activities		93,908,131	95,901,502

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of Tenge	Note	For the years ended 31 December	
		2014	2013
Cash flows from investing activities:			
Withdrawal of bank deposits		128,562,356	56,047,879
Placement of bank deposits		(81,978,050)	(85,128,680)
Purchase of property, plant and equipment		(82,725,157)	(32,801,915)
Purchase of intangible assets		(228,913)	(203,738)
Proceeds from disposal of property, plant and equipment, intangible assets and assets held for sale		309,264	1,118,641
Dividends received		717,898	647,769
Net cash flow used in investing activities		(35,342,602)	(60,320,044)
Cash flows from financing activities:			
Dividends paid	17	(41,925,280)	(28,847,670)
Net cash flow used in financing activities		(41,925,280)	(28,847,670)
The effects of changes in exchange rates		(110,877)	(42,484)
Net change in cash and cash equivalents		16,529,372	6,691,304
Cash and cash equivalents at the beginning of the year		25,645,348	18,954,044
Cash and cash equivalents at the end of the year	16	42,174,720	25,645,348

Signed and approved for issue on 24 February 2015.

General Director



Kabyldin K.M.

Sarmagambetova M.K.

Chief Accountant

*The accounting policy and explanatory notes on pages 8 through 57 form
an integral part of these consolidated financial statements.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>In thousands of Tenge</i>	Share capital	Asset revaluation reserve	Foreign currency translation reserve	Other capital reserves	Retained earnings	Total
As at 31 December 2013	61,937,567	171,902,104	10,069,002	(1,016,496)	224,377,740	467,269,917
Profit for the year	–	–	–	–	46,430,565	46,430,565
Other comprehensive (loss)/income	–	(18,128,710)	4,791,908	(794,079)	–	(14,130,881)
Total comprehensive income for the year	–	(18,128,710)	4,791,908	(794,079)	46,430,565	32,299,684
Depreciation transfer of revalued property, plant and equipment	–	(15,535,715)	–	–	15,535,715	–
Dividends (Note 17)	–	–	–	–	(41,925,280)	(41,925,280)
As at 31 December 2014	61,937,567	138,237,679	14,860,910	(1,810,575)	244,418,740	457,644,321
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 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 (Note 17)	–	–	–	–	(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

Signed and approved for issue on 24 February 2015.

General Director

Chief Accountant



Kabyldin K.M.

Sarmagambelova M.K.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**For the year ended 31 December 2014****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 (hereinafter "Company").

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

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

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

The Company and its subsidiary are hereinafter referred to as the "Group".

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

The Group operates network of main oil pipelines of 5,700 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 Atasulashankou 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.

The Company is a natural monopolist and, respectively, is subject to regulation of the Committee on Regulation of Natural Monopolies and Protection of Competition of the Ministry of National Economy of the Republic of Kazakhstan (hereinafter - "CRNMandPC"). CRNMandPC (before - "Agency of the Republic of Kazakhstan on Regulation of Natural Monopolies") is responsible for approving the methodology for calculating the tariff and tariff rates, which serves as a base for receiving major part of the Group's revenue in the Republic of Kazakhstan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**1. GENERAL (continued)**

In general, tariff rates are based on the cost of capital return on operating assets. In accordance with the legislation in the Republic of Kazakhstan on regulation of natural monopolies, tariff rates cannot be lower than the cost of the expenditure required to provide services, and consider the possibility of making a profit, providing the effective functioning of a natural monopoly.

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

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

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

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

2. BASIS OF PREPARATION

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.

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

3. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at 31 December 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements;
- the Group’s voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. BASIS OF CONSOLIDATION (continued)

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**4.1 Interest in a joint venture**

The Group has interests in joint operations in the form of joint ventures.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Factors considered in determining joint control are similar to the factors considered in determining the existence of control of subsidiaries.

The Group's investment in its joint ventures is accounted for using the equity method. Under the equity method, the investments in joint ventures are carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the joint ventures, that arise after the acquisition date. Goodwill relating to joint ventures is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the Group share of the results of operations of joint ventures. Where there has been a change recognised directly in the equity of the joint ventures, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and joint ventures are eliminated to the extent of the interest in the joint ventures.

The aggregate of the Group's share of profit or loss of joint venture is shown on the face of the statement of comprehensive income outside operating profit and represents profit or loss after tax of the joint venture.

The financial statements of joint ventures are prepared for the same reporting period as for the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on own investments in its joint ventures. The Group determines at each reporting date whether there is any objective evidence that the investment in a joint venture is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount in statement of comprehensive income under "Share of profit or loss of joint ventures".

Upon loss of joint control over joint ventures and provided the former jointly controlled entity does not become a subsidiary or associate, the Group measures and recognises its remaining investment at its fair value. Any differences between the carrying amount of the former jointly controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in the profit or loss.

4.2 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****4.2 Foreign currency translation (continued)***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).

Group companies

On consolidation the assets and liabilities of foreign operations are translated into Tenge at the rate of exchange prevailing at the reporting date and their income statements are translated at weighed average currency exchange rates. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

Exchange rates

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

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

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

<i>Tenge</i>	2014	2013
US Dollar	182,35	153,61
Russian Ruble	3,17	4,69
Euro	221,97	211,17
Georgian Lari	99,79	88,47

4.3 Current versus non-current classification

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

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

All other assets are classified as non-current.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**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.

The Group classifies all other liabilities as non-current.

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,
- 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.

Management of the Group presents the valuation results of its external valuers to the audit committee and the Group's independent auditors, which assume 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.

Analysis of the fair value of property, plant and equipment and additional information about the methods of its determination is disclosed in *Note 5*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**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 rather than through continuing use. Such non-current assets and disposal groups classified as held for sale or as held for distribution are measured at the lower of their carrying amount and fair value less costs to sell or to distribute. Costs to distribute are the incremental costs directly attributable to the distribution, excluding the finance costs and income tax expense.

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

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

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

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

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

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the 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. According to Accounting Policy property, plant and equipment is revalued each 3 years (except for technological oil, which is revalued annually) in order to ensure that fair value of the revalued asset does not significantly differ from its book value.

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

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

The cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the 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 and 23).

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 Leases

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

Group as a lessee

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

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

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

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

Group as a lessor

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

4.8 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****4.8 Intangible assets (continued)**

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

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

4.9 Research and development costs

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

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

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

4.10 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (hereinafter - "CGU") fair value less costs to sell and its value in use and is determined for an individual asset.

Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****4.10 Impairment of non-financial assets (continued)**

At each reporting date the Group makes an assessment as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised through profit in the statement of comprehensive income, unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

4.11 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 (hereinafter - "EIR"), less impairment.

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the 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 2014 and 2013.

Derecognition

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****4.11 Financial assets (continued)***Derecognition (continued)*

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.

4.12 Impairment of financial assets

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

- Disclosures for significant assumptions (*Note 5*);
- Advances to suppliers for property, plant and equipment (*Note 9*);
- Trade receivables (*Note 11*);
- Advances to suppliers (*Note 12*);
- Other current assets (*Note 14*).

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

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

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate.

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

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs and general and administrative expenses in the statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**4.13 Financial liabilities***Initial recognition and measurement*

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

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

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

Subsequent measurement

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

Loans and borrowings

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

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

Financial guarantee contracts

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

Derecognition

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

4.14 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.

4.15 Inventories

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

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

4.16 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)****4.17 Provisions**

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

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

4.18 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 other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The 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 comprehensive income (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**4.19 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).

Fees for undelivered oil volumes

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

Property, plant and equipment received from customers

The 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.

4.20 Taxes*Corporate income tax*

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities.

The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised in other comprehensive income is recognised in equity and not in the statement of comprehensive income. The Group Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****4.20 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 VAT, except for instances, where amount of VAT is recognized as a part of costs for asset acquisitions or as a part of expenses.

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

Due to specifics of tax legislation and the 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)**4.21 Equity***Share capital*

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

Dividends

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

At the moment of distribution of non-monetary assets the difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognized in statement of comprehensive income.

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

4.22 Changes in Accounting policies and disclosures

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

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

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

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

The nature and the impact of each new standard and amendment is described below:

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

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

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****4.22 Changes in Accounting policies and disclosures (continued)***New and amended standards and interpretations applied by the Group for the first time (continued)**IFRIC 21 Levies*

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

Interpretation to IFRIC 21 Levies

IFRIC 21 is effective for annual periods beginning on or after 1 January 2014 and is applied retrospectively. It is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 *Income Taxes*) and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognises a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognised before the specified minimum threshold is reached. IFRIC Interpretation 21 *Levies* requires the use of the same principles for interim financial statements. This amendment has no impact on the consolidated financial position and financial results of the Group.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

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

IFRS 14 Regulatory Deferral Accounts

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

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****4.22 Changes in Accounting policies and disclosures (continued)****Annual improvements 2010-2012 Cycle**

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

IFRS 2 Share-based Payment (Amendment)

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

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

IFRS 3 Business Combinations (Amendment)

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

IFRS 8 Operating Segments (Amendment)

The amendment is applied retrospectively and clarifies that:

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

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

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

IAS 24 Related Party Disclosures (Amendment)

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

Annual improvements 2011-2013 Cycle

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

IFRS 3 Business Combinations (Amendment)

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.22 Changes in Accounting policies and disclosures (continued)

Annual improvements 2011-2013 Cycle (continued)

IFRS 13 Fair Value Measurement (Amendment)

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

IAS 40 Investment Property (Amendment)

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

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

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

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

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

Amendments to IAS 27: Equity Method in Separate Financial Statements

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

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

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

- financial risk management and policies (*Note 36*)
- sensitivity analyses disclosures (*Note 18, 36*)

Estimates and assumptions

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

Revaluation of property, plant and equipment

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

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

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

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

	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%
Remaining 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.

The Company assesses at each reporting date whether the carrying amount of its property, plant and equipment does not differ materially from that, which would be determined using estimated fair value at the balance sheet date. On 31 December 2014 the management of the Company revised its assessments with respect to the fair value of its property, plant and equipment. As a result, management concluded that there were no significant changes in the fair value of the Company's property, plant and equipment (except for technological oil) as at 31 December 2014 from the date of last revaluation on 31 July 2013. As a result, the fair value of the Group's property, plant and equipment approximated their carrying amount. Information on change in fair value of property, plant and equipment of BTL, associated with the recoverable amount as at 31 December 2014 is presented in more detail in *Note 6*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)****Estimates and assumptions (continued)***Revaluation of technological oil*

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

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

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

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

Taking into account all these factors, the management concluded that the most appropriate price to reflect fair value for the technological oil in pipeline that would be determined by informed market participant as at 31 December 2014 in the amount 164.52 US Dollars (30,000 Tenge) per tonne (30 September 2013: 264,7 US Dollars (40,663 Tenge) per tonne). The effect of the change in oil price is equal to 19,736,819 thousand tenge.

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

Impairment of property, plant and equipment

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

Impairment of assets of the BTL Group

BTL Group includes following CGUs:

- Batumi Oil Terminal LLC (hereinafter "BOT");
- Batumi Sea Port LLC (hereinafter "BSP").

Total recoverable amount of the BTL Group has been determined based on the value in use calculation using cash flow forecast according to financial budget for 5-year period and planned volumes of transshipment till 2026 year. The projected period for CGUs was defined as following:

BOT CGU – till 2026 year. Further assumption was made that after this p eriod exploitation of operating assets will continue and cash flows will be stable;

BSP CGU – till 2055 year. An assumption was made that after this period operation of the port will be ceased due to the expiration of the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)****Estimates and assumptions (continued)***Impairment of assets of the BTL Group (continued)**Key assumptions used for BOT CGU*

<i>In percentage</i>	2014	2013
Discount rate as at 31 December	13.78%	14.7%
Long-term growth rate as at 31 December	1.9%	2.2%

Key assumptions used for BSP CGU

<i>In percentage</i>	2014	2013
Discount rate as at 31 December	14.02%	14.5%
Long-term growth rate as at 31 December	2.6%	2.2%

Key assumptions used in value-in-use calculations

The calculation of value-in-use for cash-generating unit is most sensitive to the following assumptions:

- Discount rates;
- Tariffs during the planned period; and
- Oil and cargo shipment volumes.

Discount rate. Discount rates reflect the current market assessment of the risks specific to each cash generating unit.

Tariffs during the budget period. BSP and BOT set tariffs for shipment of cargo and oil individually for each customer based on volumes of shipment, relationships history and market trends at the date of conclusion of shipment contract.

Oil and cargo shipment volumes. These assumptions are important because, as well as using industry data for growth rates management assesses how future changes of oil and cargo shipment volumes through Black Sea ports will affect BTL's operations.

Sensitivity of changes in assumptions

With regard to the assessment of value-in-use possible change in any of the above key assumptions would result in a further impairment loss. The implications of the key assumptions for the recoverable amount are stated below:

Discount rate. Management has considered the possibility of greater than determined weighted-average cost of capital. Any increase in discount rate would result in a further impairment.

Tariffs during the budget period. Increase of tariff projected by the management for the purposes of goodwill impairment testing are indexed to underlying costs. Should the Group be unable to keep tariffs at such a level that covers related costs, a further impairment may result.

Oil and cargo shipment volumes. Management takes into account the possibility that the actual volumes will be lower than planned. Any decrease in the volume of transshipment will lead to a further impairment.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)****Estimates and assumptions (continued)***Asset retirement and land recultivation obligation (continued)*

Asset retirement and land recultivation obligation is estimated based on the value of the work to decommission and rehabilitate calculated by the Group in accordance with the technical regulations of the Republic of Kazakhstan (pipeline decommission expense is equal to 3,581 thousand Tenge per km (as at 31 December 2013: 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 reserve was determined at the end of the reporting period using the projected inflation rate for the expected period of fulfillment of obligations (17 years), and the discount rate at the end of the reporting period which is presented below:

<i>In percent</i>	2014	2013
Discount rate as at 31 December	6.2%	6.0%
Inflation rate as at 31 December	6.0%	5.6%

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

As at 31 December 2014 the carrying amount of the asset retirement and land recultivation obligation was 20,631,009 thousand Tenge (as at 31 December 2013: 16,677,538 Tenge) (*Note 23*).

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

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

Allowances for doubtful debts

The 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 2014 and 2013 allowances for doubtful accounts have been created for the amount of 756,335 thousand Tenge and 737,000 thousand Tenge, respectively (*Notes 9, 11, 12 and 14*).

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries 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 at 31 December 2014 was 7,686,911 thousand Tenge (31 December 2013: 6,935,332 thousand Tenge) (*Note 32*). As at 31 December 2014 and 2013 the Group did not have unrecognized deferred tax assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)**Estimates and assumptions (continued)***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 (MEUKAM) with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying securities are further reviewed for quality on a timely basis.

The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROPERTY, PLANT AND EQUIPMENT

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

<i>In thousands of Tenge</i>	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
At revalued amount 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
Foreign currency translation	1,345,656	–	465,090	2,497,950	1,685,013	–	88,936	173,796	6,256,441
Additions	926	962,826	1,678,498	10,586	1,090,951	–	709,409	70,632,440	75,085,636
Disposals	(8,993)	(158,670)	(80,129)	(319,319)	(273,547)	(212,857)	(234,975)	(38,024)	(1,326,514)
Impairment (asset revaluation reserve)	–	–	–	–	–	(19,585,387)	–	–	(19,585,387)
Impairment (through profit and loss)	–	–	–	–	–	(151,432)	–	–	(151,432)
Transfer to assets held as for sale	–	–	(2,270)	–	–	–	–	(834)	(3,104)
Transfer from construction-in-progress	58,462	49,332,447	187,871	4,362,712	22,800,396	–	1,730,371	(78,472,259)	–
Transfer to Intangible assets (Note 7)	–	–	–	–	(123)	–	–	(360,575)	(360,698)
Transfers and reclassifications	–	3,786	(379,914)	7,856	189,728	–	178,544	–	–
At revalued amount as at 31 December 2014	12,483,895	147,474,455	9,979,926	78,466,503	114,120,834	69,568,777	14,949,765	28,895,431	475,939,586
Accumulated depreciation and impairment 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)
Foreign currency translation	–	–	(38,825)	(240,396)	(182,465)	–	(22,228)	–	(483,914)
Depreciation charge	–	(10,084,580)	(1,430,022)	(6,521,652)	(11,779,338)	–	(3,358,531)	–	(33,174,123)
Disposals	–	107,510	71,461	222,954	229,322	146,540	221,834	2,484	1,002,105
Impairment (asset revaluation reserve)	–	(44,865)	(137,260)	(2,936,314)	(1,783,089)	(101,186)	(3,583)	(3,962)	(5,010,259)
Impairment (through profit and loss)	–	(64,898)	(936,626)	(3,770,058)	(2,918,653)	(45,354)	(173,635)	(58,776)	(7,968,000)
Transfer to assets held as for sale	–	–	1,009	–	–	–	–	–	1,009
Transfers and reclassifications	–	161	16,837	(38)	(15,918)	–	(1,042)	–	–
Accumulated depreciation and impairment as at 31 December 2014	–	(14,327,030)	(3,092,269)	(16,566,241)	(21,244,909)	(330,205)	(4,658,747)	(329,524)	(60,548,925)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROPERTY, PLANT AND EQUIPMENT (continued)

<i>In thousands of Tenge</i>	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
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
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 through 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 through profit and loss	(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 7)	-	-	-	-	(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 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)
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 through 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 7)	-	-	-	-	-	-	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 2014									
At cost	12,483,895	147,474,455	9,979,926	78,466,503	114,120,834	69,568,777	14,949,765	28,895,431	475,939,586
Accumulated depreciation and impairment	-	(14,327,030)	(3,092,269)	(16,566,241)	(21,244,909)	(330,205)	(4,658,747)	(329,524)	(60,548,925)
Net book value	12,483,895	133,147,425	6,887,657	61,900,262	92,875,925	69,238,572	10,291,018	28,565,907	415,390,661
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**6. PROPERTY, PLANT AND EQUIPMENT (continued)**

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

As a result of the revaluation performed in 2013 it was revealed that fair value of certain objects of property, plant and equipment is lower than their carrying value, as a result of no overhaul and modernization on these objects over the past several years. Respectively, excess of the carrying amount over the fair value was accounted as decrease in respective revaluation reserve to the extent that revaluation surplus was previously recognized on these assets, while the remaining amount was recognized in the statement of comprehensive income as an impairment of property, plant and equipment for the total amount of 12,663,453 thousand Tenge.

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

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

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

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

As at 31 December 2014 the initial cost and correspondingly accumulated depreciation of fully depreciated but still in use property, plant and equipment were 3,208,581 thousand Tenge (31 December 2013: 2,938,299 thousand Tenge).

The amount of depreciation for 2014 included in the cost of construction in progress was 13,675 thousand Tenge (31 December 2013: 11,639 thousand Tenge).

As at 31 December 2014 construction in progress included materials and spare parts in the amount of 2,957,610 thousand Tenge (31 December 2013: 13,613,707 thousand Tenge), which were acquired for construction works. This decrease between years is mainly due to usage of materials and spare parts in 2014 during construction of main oil pipeline Kumkol-Karakoin.

At 31 December 2014 certain items of property, plant and equipment of Batumi Oil Terminal with residual value of 50,000 thousand US Dollars (equivalent to 9,117,500 thousand Tenge) were pledged as guarantee in favor of TBC Bank, which acted as a guarantor to ensure obligations of Georgian Transit Ltd to Georgian railways according to transportation contracts. The maximum amount of the guarantee was equal to 500 thousand US Dollars (equivalent to 91,175 thousand Tenge).

Impairment of assets of the BTL Group

The Group reviews its CGUs for indicators of impairment on an annual basis and considers both internal and external sources of information for assessing if the CGUs are impaired. As a result of assessment made by independent appraiser as at 30 September 2014 Group identified indicators of impairment in CGU's of BTL Group, which was due to decrease in the planned volume of the transshipment of oil and oil products.

As at 31 December 2014 total recoverable amount of the BTL Group was equal to 31,914,291 thousand Tenge, including BSP CGU in the amount of 18,722,164 thousand Tenge and BOT CGU in the amount of 13,192,127 thousand Tenge.

As a result of the impairment test the management identified the total impairment loss as at 31 December 2014 amounting 12,934,472 thousand Tenge, including 8,087,024 thousand Tenge recognised in profit and loss and 4,847,448 thousand Tenge in other comprehensive income. Amount of impairment loss proportionally allocated to intangible assets (right for land use) was equal to 302,114 thousand Tenge (*Note 7*) and 12,632,358 thousand Tenge were allocated to property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**6. PROPERTY, PLANT AND EQUIPMENT (continued)****Impairment of assets of the BTL Group (continued)**

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	Transportation assets	Buildings	Machinery and equipment	Technological oil	Other	Construction in progress	Total
At 31 December 2014	9,328,530	97,829,484	7,155,556	37,154,711	72,623,710	1,168,388	7,462,862	27,019,861	259,743,102
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

7. INTANGIBLE ASSETS

<i>In thousands of Tenge</i>	Licenses	Software	Right for land use	Other	Total
Net book value at 31 December 2013	184,757	997,520	4,490,163	28,562	5,701,002
Additions	15,052	168,119	—	6,762	189,933
Disposals	(3,712)	(30,799)	—	(528)	(35,039)
Amortization charge	(79,417)	(326,044)	(125,433)	(4,708)	(535,602)
Accumulated amortization on disposals	3,712	30,799	—	528	35,039
Impairment through profit or loss	—	—	(302,114)	—	(302,114)
Transfers from property, plant and equipment (Note 6)	49,949	308,711	—	2,038	360,698
Foreign currency translation	7,187	221	58,118	—	65,526
Transfers and reclassifications	17,379	(17,379)	—	—	—
Net book value at 31 December 2014	194,907	1,131,148	4,120,734	32,654	5,479,443
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 (Note 6)	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 2014					
At cost	548,139	3,979,087	6,174,903	84,492	10,786,621
Accumulated amortization and impairment	(353,232)	(2,847,939)	(2,054,169)	(51,838)	(5,307,178)
Net book value	194,907	1,131,148	4,120,734	32,654	5,479,443
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**8. INVESTMENTS IN JOINT VENTURES**

Investments in joint ventures as at 31 December 2014 and 2013 are presented as follows:

<i>In thousands of Tenge</i>	KCP	MunaiTas	Total
As at 31 December 2013	40,878,930	12,675,097	53,554,027
Share in profit /(loss) of joint venture	(6,990,738)	735,688	(6,255,050)
Share in other comprehensive income of joint venture	3,093,940	88,037	3,181,977
Dividends	-	(637,620)	(637,620)
As at 31 December 2014	36,982,132	12,861,202	49,843,334

<i>In thousands of Tenge</i>	KCP			
	31 December 2014		31 December 2013	
	50%	100%	50%	100%
Assets and liabilities of joint ventures				
Current assets	10,238,917	20,477,834	22,462,883	44,925,766
Non-current assets	126,117,022	252,234,044	128,663,581	257,327,162
Current liabilities	(18,218,653)	(36,437,306)	(19,868,226)	(39,736,452)
Non-current liabilities	(81,155,154)	(162,310,308)	(90,379,308)	(180,758,616)
Net assets	36,982,132	73,964,264	40,878,930	81,757,860

Additional information:

cash and cash equivalents	5,463,275	10,926,550	5,941,869	11,883,738
short-term financial liabilities	(14,414,211)	(28,828,421)	(12,637,964)	(25,275,928)
long-term financial liabilities	(69,906,297)	(139,812,594)	(77,829,046)	(155,658,092)

<i>In thousands of Tenge</i>	MunaiTas			
	31 December 2014		31 December 2013	
	51%	100%	51%	100%
Assets and liabilities of joint ventures				
Current assets	2,748,039	5,388,312	1,448,667	2,840,524
Non-current assets	13,841,592	27,140,376	14,835,854	29,089,909
Current liabilities	(675,831)	(1,325,158)	(296,701)	(581,766)
Non-current liabilities	(3,052,598)	(5,985,486)	(3,312,723)	(6,495,535)
Net assets	12,861,202	25,218,044	12,675,097	24,853,132

Additional information:

cash and cash equivalents	1,742,127	3,415,936	162,279	318,194
short-term financial liabilities	-	-	-	-
long-term financial liabilities	-	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**8. INVESTMENTS IN JOINT VENTURES (continued)**

	KCP			
	For the year ended 31 December			
	2014		2013	
<i>In thousands of Tenge</i>	50%	100%	50%	100%
Information on profit or loss and other comprehensive income of joint ventures for the year				
Revenue	24,084,242	48,168,484	33,848,334	67,696,668
(Loss)/income from continuing operations for the year	(6,990,738)	(13,981,476)	10,648,691	21,297,382
Income/(loss) from discontinuing operations for the year	-	-	-	-
Other comprehensive income	3,093,940	6,187,880	41,993	83,986
Total comprehensive (loss)/income	(3,896,798)	(7,793,596)	10,690,684	21,381,368
Dividends	-	-	-	-
<i>Additional information:</i>				
Depreciation and amortization	(7,231,507)	(14,463,014)	(6,602,428)	(13,204,856)
Interest income	149,964	299,928	572,701	1,145,402
Interest expense	(4,008,080)	(8,016,160)	(4,916,832)	(9,833,664)
Income tax benefit/(expense)	2,115,631	4,231,262	(3,879,123)	(7,758,246)

Foreign exchange loss was recognized by KCP due to the translation of financial liabilities (loans) denominated in US dollars. Net loss of KCP from foreign currency translation related to loans for the year ended 31 December 2014 and 2013 was equal to 30,738,940 thousand Tenge and 3,130,316 thousand Tenge, respectively years.

	MunaiTas			
	For the year ended 31 December			
	2014		2013	
<i>In thousands of Tenge</i>	51%	100%	51%	100%
Information on profit or loss and other comprehensive income of joint ventures for the year				
Revenue	3,499,277	6,861,645	3,975,326	7,794,757
Income from continuing operations for the year	735,688	1,442,525	1,197,876	2,348,777
Income/(loss) from discontinuing operations for the year	-	-	-	-
Other comprehensive income	88,037	172,621	1,303,502	2,555,886
Total comprehensive income	823,725	1,615,146	2,501,378	4,904,663
Dividends	(637,620)	(1,250,235)	(453,584)	(889,380)
<i>Additional information:</i>				
Depreciation and amortization	(1,069,661)	(2,097,375)	(1,010,762)	(1,981,887)
Interest income	13,164	25,812	23,534	46,145
Interest expense	(37,891)	(74,296)	(47,804)	(93,733)
Income tax expense	(186,415)	(365,520)	(302,729)	(593,586)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**9. ADVANCES TO SUPPLIERS FOR PROPERTY, PLANT AND EQUIPMENT**

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

<i>In thousands of Tenge</i>	31 December 2014	31 December 2013
Advances to third parties for property, plant and equipment	11,406,977	5,934,981
Less: allowance for doubtful debts	(99,526)	(99,330)
Total	11,307,451	5,835,651

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

<i>In thousands of Tenge</i>	2014	2013
As at 1 January	99,330	99,330
Charge for the year	196	–
As at 31 December	99,526	99,330

10. INVENTORIES

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

<i>In thousands of Tenge</i>	31 December 2014	31 December 2013
Spare parts	1,461,052	937,047
Fuel	763,929	698,546
Construction materials	157,584	138,466
Goods	93,138	76,520
Overalls	78,892	82,764
Chemical reagents	35,575	33,496
Other	488,241	427,417
	3,078,411	2,394,256
Less: provision for slow-moving and obsolete inventory	(33,853)	(48,213)
Total	3,044,558	2,346,043

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

<i>In thousands of Tenge</i>	2014	2013
As at 1 January	48,213	65,413
(Reverse)/charge for the year (Note 27)	(5,342)	2,524
Write-off of inventories	(11,554)	(20,034)
Currency translation difference	2,536	310
As at 31 December	33,853	48,213

11. TRADE AND OTHER ACCOUNTS RECEIVABLE

<i>In thousands of Tenge</i>	31 December 2014	31 December 2013
Trade accounts receivable from third parties	2,139,755	1,203,023
Trade accounts receivable from related parties (Note 34)	1,941,312	1,416,969
Other accounts receivable from third parties	2,273,771	2,526,184
Other accounts receivable from related parties (Note 34)	102,156	35,828
	6,456,994	5,182,004
Less: allowance for doubtful debts	(653,120)	(633,072)
Total	5,803,874	4,548,932

Other receivables mainly represent issued fees for undelivered and unreported crude oil volumes under oil transportation contracts on “ship or pay” terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**11. TRADE AND OTHER ACCOUNTS RECEIVABLE (continued)**

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

<i>In thousands of Tenge</i>	2014	2013
As at 1 January	633,072	578,189
Charge for the year	19,374	55,905
Write-off of receivable	–	(1,071)
Currency translation	674	49
As at 31 December	653,120	633,072

Trade and other receivables of the Group as at 31 December 2014 and 2013 are denominated in the following currencies:

<i>In thousands of Tenge</i>	31 December 2014	31 December 2013
Tenge	5,131,578	4,128,283
US Dollars	534,468	357,911
Russian Ruble	1,248	1,756
Other currency	136,580	60,982
Total	5,803,874	4,548,932

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

<i>In thousands of Tenge</i>	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-60 days	60-90 days	90-120 days	>120 days
2014	5,803,874	5,094,199	528,360	74,369	50,919	36,698	19,329
2013	4,548,932	3,956,772	396,736	107,489	32,584	18,673	36,678

12. ADVANCES TO SUPPLIERS

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

<i>In thousands of Tenge</i>	31 December 2014	31 December 2013
Advances to third parties	665,132	587,519
Advances to related parties (Note 34)	447,876	257,165
	1,113,008	844,684
Less: allowance for doubtful debts	(1,073)	(1,982)
Total	1,111,935	842,702

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

<i>In thousands of Tenge</i>	2014	2013
As at 1 January	1,982	1,482
(Reverse)/charge of provision for the year	(909)	500
As at 31 December	1,073	1,982

13. VAT RECOVERABLE AND OTHER PREPAID TAXES

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

<i>In thousands of Tenge</i>	31 December 2014	31 December 2013
VAT recoverable	6,016,776	3,038,279
Other taxes prepaid	179,293	106,435
Total	6,196,069	3,144,714

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**14. OTHER CURRENT ASSETS**

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

<i>In thousands of Tenge</i>	31 December 2014	31 December 2013
Due for oil transportation coordination services	3,245,840	3,770,279
Due from employees	43,707	93,731
Prepaid insurance	42,498	38,840
Deferred expenses from third parties	26,028	20,445
Other	24,802	26,114
	3,382,875	3,949,409
Less: allowance for doubtful debts	(2,616)	(2,616)
Total	3,380,259	3,946,793

15. BANK DEPOSITS

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

<i>In thousands of Tenge</i>	31 December 2014	31 December 2013
Short-term bank deposits	31,984,737	81,554,300
Long-term bank deposits	3,729,880	576,541
Accrued interest on deposits	127,505	1,562,238
Total	35,842,122	83,693,079

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

- US Dollar denominated bank deposits placed with Kazakhstani banks with maturity from 3 to 12 months, with interest from 0.6% to 3.5% per annum (as at 31 December 2013: nil), maturing in December 2015;
- restricted long-term bank deposits with interest from 2% to 3.5% per annum maturing in 2029 (as at 31 December 2013: 2% per annum maturing in 2028), which is the guarantee of mortgages issued by Halyk Bank Kazakhstan JSC to the employees of the Company;
- short-term bank deposits placed with foreign banks with maturity from 3 to 12 months in the amount of 547 thousand Tenge (as at 31 December 2013: 4,300 thousand Tenge) and with the interest rate from 0.65% to 3.0% per annum (as at 31 December 2013: nil), maturing in January 2015.

16. CASH AND CASH EQUIVALENTS

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

<i>In thousands of Tenge</i>	31 December 2014	31 December 2013
Time deposits with banks – US Dollars	19,451,877	–
Time deposits with banks – Tenge	19,311,501	22,980,000
Current accounts with banks – US Dollars	2,421,688	1,152,074
Current accounts with banks – Tenge	471,928	1,374,515
Current accounts with banks – Lari	316,560	67,742
Current accounts with banks – Euro	187,273	57,604
Current accounts with banks – Russian Ruble	347	492
Other current accounts with banks	11,724	11,374
Cash on hand	1,822	1,547
Total	42,174,720	25,645,348

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**17. EQUITY****Share capital**

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

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

Distributions to the shareholder*Dividends*

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

Earnings per share

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

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

<i>In thousands Tenge</i>	2014	2013
Net profit for the period attributable to ordinary equity holders of the Parent for basic earnings	46,430,565	63,543,600
Weighted average number of ordinary shares for the period for basic earnings per share	384,635,599	384,635,599
Basic earnings per share, in relation to profit for the period attributable to ordinary equity holders of the Company, as a Parent of the Group (in Tenge)	121	165

Book value per ordinary share

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

<i>In thousands Tenge</i>	31 December 2014	31 December 2013
Total assets	585,407,217	590,527,228
Less: intangible assets (Note7)	(5,479,443)	(5,701,002)
Less: total liabilities	(127,762,896)	(123,257,311)
Net assets for calculation of book value per ordinary share	452,164,878	461,568,915
Number of ordinary shares	384,635,599	384,635,599
Book value per ordinary share (in Tenge)	1,176	1,200

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**17. EQUITY (continued)****Book value per ordinary share (continued)***Asset revaluation reserve*

Revaluation reserve was formed based on a revaluation and impairment of property, plant and equipment of the Group and share in the asset revaluation reserve of the joint ventures.

<i>In thousands Tenge</i>	31 December 2014	31 December 2013
Asset revaluation reserve of the Group	113,678,936	148,766,734
Share in the asset revaluation reserve of the joint ventures	24,558,743	23,135,370
Total	138,237,679	171,902,104

Other capital reserves

As at 31 December 2014 other capital reserves amounted 1,810,575 thousand Tenge (as at 31 December 2013: 1,016,496 thousand Tenge). Increase in reserve is due to accrual of actuarial re-measurement of defined benefit plans in the amount of 992,599 thousand Tenge, income tax effect of which amounted 198,520 thousand Tenge.

Foreign currency translation reserve

As at 31 December 2014 foreign currency translation reserve was equal to 14,860,910 thousand Tenge (as at 31 December 2013: 10,069,002 thousand Tenge) Change in foreign currency translation reserve is due to the translation of the operations of the foreign subsidiary.

18. EMPLOYEE BENEFIT LIABILITY

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**18. EMPLOYEE BENEFIT LIABILITY (continued)**

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

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

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

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

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

19. DEFERRED INCOME

Deferred income as at 31 December 2014 and 2013 was presented as follows:

<i>In thousands of Tenge</i>	31 December 2014	31 December 2013
Deferred income from third parties	4,423,082	3,819,666
Deferred income from related parties (Note 34)	-	260,305
Total	4,423,082	4,079,971

20. TRADE AND OTHER ACCOUNTS PAYABLE

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

<i>In thousands of Tenge</i>	31 December 2014	31 December 2013
Accounts payable to third parties for goods and services	14,907,024	10,194,390
Accounts payable to related parties for goods and services (Note 34)	672,991	650,602
Other payables to third parties	193,726	249,065
Other payables to related parties (Note 34)	-	1,950
Total	15,773,741	11,096,007

Trade and other accounts payables included payables to related and third parties, related to the construction-in-progress in the amount of 9,580,016 thousand Tenge (as at 31 December 2013: 7,711,017 thousand Tenge).

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

<i>In thousands of Tenge</i>	31 December 2014	31 December 2013
Tenge	15,258,129	10,550,602
US Dollars	105,615	351,156
Euro	12,455	13,480
Russian Roubles	6,219	48,590
Other currency	391,323	132,179
Total	15,773,741	11,096,007

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**21. ADVANCES RECEIVED**

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

<i>In thousands of Tenge</i>	31 December 2014	31 December 2013
Advances received from related parties (Note 34)	10,615,166	10,706,153
Advances received from third parties	6,131,270	6,475,570
Total	16,746,436	17,181,723

22. OTHER TAXES PAYABLE

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

<i>In thousands of Tenge</i>	31 December 2014	31 December 2013
Personal income tax	1,531,057	998,348
Withholding tax at the source of payment to non-residents	609,231	507,988
Social tax	504,779	550,961
Property tax	351,287	355,611
VAT payable	12,823	564
Other taxes	217,751	173,879
Total	3,226,928	2,587,351

23. PROVISIONS

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

Short-term provisions

<i>In thousands of Tenge</i>	Tax provisions (BTL)	Environmental provisions (Company)	Others (Company)	Total
As at 31 December 2013	186,483	41,642	–	228,125
Charged / (reversed) for the year	–	(7)	53,567	53,560
Use of provision	–	(510)	–	(510)
Foreign currency translation	34,890	–	–	34,890
As at 31 December 2014	221,373	41,125	53,567	316,065
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

Long-term provisions

<i>In thousands of Tenge</i>	31 December 2014	31 December 2013
As at 1 January	16,677,538	15,531,037
Provision for the year	962,826	189,265
Revision of estimates through other comprehensive income	1,678,425	–
Revision of estimates through profit or loss (Note 29)	275,965	–
Unwinding of discount on asset retirement and land recultivation obligation (Note 31)	1,036,255	957,236
As at 31 December	20,631,009	16,677,538

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**23. 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.

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

Company revised the long-term provisions considering current best estimate. Assumptions used and the sensitivity to changes in the discount rate are reflected in *Note 5*.

24. OTHER CURRENT LIABILITIES

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

<i>In thousands of Tenge</i>	31 December 2014	31 December 2013
Salaries and wages	5,738,615	7,385,065
Accounts payable for oil transportation coordination services for related parties (<i>Note 34</i>)	2,871,849	4,153,476
Accounts payable for oil transportation coordination services for third parties	2,464,587	3,281,040
Current portion of deferred income from third parties	732,135	324,578
Payable to pension fund	659,667	593,575
Current portion of deferred income from related parties (<i>Note 34</i>)	260,305	312,366
Accounts payable under an agency agreement for the transportation of oil to related parties (<i>Note 34</i>)	—	651,706
Other accruals	227,093	44,086
Total	12,954,251	16,745,892

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

25. REVENUE

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

<i>In thousands of Tenge</i>	2014	2013
Crude oil transportation	164,393,577	153,861,014
Oil reloading and railway shipment	15,516,062	17,810,315
Pipeline operation services	8,230,639	6,816,579
Fees for undelivered oil volumes*	6,714,971	6,345,133*
Water transportation	6,860,568	6,573,345
Oil transportation coordination services and seaport	3,787,746	3,995,350
Oil storage services	91,553	174,555
Other	1,041,997	790,514
Total	206,637,113	196,366,805

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**26. COST OF SALES**

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

<i>In thousands of Tenge</i>	2014	2013
Personnel cost	40,101,012	35,939,251
Depreciation and amortization	32,876,926	29,442,621
Railway services	9,436,954	10,298,681
Materials and fuel	6,805,708	6,112,086
Electric energy	6,280,668	6,065,868
Repair and maintenance costs	5,501,143	4,670,474
Taxes other than corporate income tax	4,978,621	4,895,316
Security services	4,493,473	3,466,756
Gas expense	2,435,270	2,211,319
Air services	1,474,160	1,296,160
Environmental protection	952,258	612,422
Business trip expenses	892,934	816,498
Post-employment benefits	754,969	1,406,914
Diagnostics of pipelines	624,316	389,203
Insurance	507,481	446,548
Communication services	264,938	253,297
Rent expenses	248,969	295,453
Other	2,679,273	2,349,832
Total	121,309,073	110,968,699

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

27. GENERAL AND ADMINISTRATIVE EXPENSES

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

<i>In thousands of Tenge</i>	2014	2013
Personnel cost	6,875,924	6,529,810
Charity expenses	2,020,737	166,028
Depreciation and amortization	819,123	760,231
Consulting	606,053	413,088
Office maintenance	390,499	355,714
Expenses on VAT	342,980	194,727
Impairment of intangible assets	302,114	165,670
Business trip expenses	280,022	228,849
Taxes other than corporate income tax	240,182	229,479
Social sphere expenses	193,888	274,705
Repair and technical maintenance	155,085	223,186
Training	140,685	112,962
Bank costs	135,476	111,417
Materials and fuel	133,819	182,300
Communication services	124,136	111,544
Insurance and security	104,163	217,343
Post-employment benefits	47,492	96,086
Net charge of allowance for doubtful debts	18,661	56,405
Net (reversal)/charge of provision for obsolete and slow-moving inventory	(5,342)	2,524
Other	667,238	595,436
Total	13,592,935	11,027,504

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**28. OTHER OPERATING INCOME**

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

<i>In thousands of Tenge</i>	2014	2013
Income from fines and penalties	620,787	349,480
Amortization of deferred income (Note 34)	312,366	312,366
Gain on disposal of inventory	263,499	314,320
Income from write-off of payables	75,689	23,853
Gain on disposal of assets, net	61,090	257,696
Management services fees	13,688	5,505
Derecognition of financial guarantee issued on behalf of related party (Note 34)	–	177,743
Amortization of financial guarantee issued on behalf of related party (Note 34)	–	26,463
Other income	114,353	124,564
Total	1,461,472	1,591,990

29. OTHER OPERATING EXPENSES

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

<i>In thousands of Tenge</i>	2014	2013
Expenses from revision of estimates for provision on asset retirement obligation and land reclamation	275,965	–
Net loss on disposal of property, plant and equipment and intangible assets	208,654	461,068
Write off of idle oil pumping stations	89,126	21,212
Loss on disposal of inventory	14,987	2,594
Other expenses	61,297	196,868
Total	650,029	681,742

30. FINANCE INCOME

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

<i>In thousands of Tenge</i>	2014	2013
Interest income on bank deposits	4,407,247	3,967,511
Dividends income	80,277	194,185
Employees loans: unwinding of discount	14,292	23,672
Other finance income from third parties	15,231	7,758
Other finance income from related parties (Note 34)	–	4,108
Total	4,517,047	4,197,234

31. FINANCE COSTS

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

<i>In thousands of Tenge</i>	2014	2013
Unwinding of discount on asset retirement and land reclamation obligation (Note 23)	1,036,255	957,236
Employee benefits: unwinding of discount (Note 18)	579,311	417,000
Total	1,615,566	1,374,236

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**32. INCOME TAX EXPENSE**

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

<i>In thousands of Tenge</i>	2014	2013
Current income tax expense	13,409,791	18,870,045
Deferred income tax expense/(benefit)	2,289,155	(5,022,884)
Income tax expense	15,698,946	13,847,161

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:

<i>In thousands of Tenge</i>	2014	2013
Profit before income tax	62,129,511	77,390,761
Statutory rate	20%	20%
Income tax expense on accounting profit	12,425,902	15,478,152
Adjustment of the past periods	(33,207)	—
Tax effect of permanent differences		
Loss/(profit) of joint ventures recognized based on equity method	1,251,010	(2,369,313)
Gain on surplus of technological oil	1,142,794	198,393
Other non-deductible expenses	351,955	607,170
Effect of difference in tax rates	560,492	(67,241)
Corporate income tax expense reported in the consolidated statement of comprehensive income	15,698,946	13,847,161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**32. 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:

<i>In thousands of Tenge</i>	31 December 2014	Charged to profit and loss	Foreign currency translation	Charged to other comprehens ive income	31 December 2013	Charged to profit and loss	Foreign currency translation	Charged to other comprehens ive income	1 January 2013
Deferred tax assets									
Employee benefits and other employee compensation and related costs	3,117,632	(105,027)	493	198,520	3,023,646	1,199,277	–	258,400	1,565,969
Financial guarantee issued on behalf of related party	–	–	–	–	–	(39,931)	–	–	39,931
Allowance for doubtful debts	150,355	2,907	47	–	147,401	113,051	–	–	34,350
Provision for slow-moving and obsolete inventory	6,242	(3,429)	28	–	9,643	(3,440)	–	–	13,083
Provision on environmental protection and other provisions	48,677	(39,487)	–	–	88,164	17,425	–	–	70,739
Provision on asset retirement and land reclamation obligation	4,085,750	457,097	–	335,685	3,292,968	186,761	–	–	3,106,207
Taxes payable	97,362	(156,528)	–	–	253,890	253,890	–	–	–
Loans to employees	–	(5,086)	–	–	5,086	(9,354)	–	–	14,440
Deferred Income from related party	52,061	(62,473)	–	–	114,534	(62,473)	–	–	177,007
Financial liabilities on intercompany loans	128,832	128,510	322	–	–	–	–	–	–
	7,686,911	216,484	890	534,205	6,935,332	1,655,206	–	258,400	5,021,726
Deferred tax liabilities									
Taxes payable	–	–	–	–	–	33,759	–	–	(33,759)
Property, plant and equipment	(48,854,826)	(2,505,639)	(552,762)	4,676,756	(50,473,181)	3,333,919	83,936	(9,496,299)	(44,394,737)
	(48,854,826)	(2,505,639)	(552,762)	4,676,756	(50,473,181)	3,367,678	83,936	(9,496,299)	(44,428,496)
Net deferred income tax liabilities	(41,167,915)	(2,289,155)	(551,872)	5,210,961	(43,537,849)	5,022,884	83,936	(9,237,899)	(39,406,770)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on its services and has three reportable segments, as follows:

- Oil transportation and related services;
- Oil transshipment;
- Other segments.

Segments that are identified, but do not separately exceed quantitative limits (amount of separate segment revenue composes less than 10% of combined revenue) are combined in “Other segments”. Such services include transshipment of dry cargo (sugar-airbrick, ammonium nitrate, cement, grain, sunflower and oil cake) in 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 2014				For the year ended 31 December 2013			
	Oil Transportation and related services (Kazakhstan)	Oil transshipment (Georgia)	Other	Total segments	Oil Transportation and related services (Kazakhstan)	Oil transshipment (Georgia)	Other	Total segments
<i>In thousands Tenge</i>								
Revenue								
External customers	186,996,455	15,516,062	4,124,596	206,637,113	174,560,034	17,810,315	3,996,456	196,366,805
Total revenue	186,996,455	15,516,062	4,124,596	206,637,113	174,560,034	17,810,315	3,996,456	196,366,805
Financial results								
Impairment of property, plant and equipment through profit and loss	(294,384)	(7,619,876)	(205,172)	(8,119,432)	(12,663,453)	–	–	(12,663,453)
Impairment of intangible assets through profit and loss	–	–	(302,114)	(302,114)	–	–	(165,670)	(165,670)
Depreciation and amortization	(30,663,438)	(2,284,673)	(747,938)	(33,696,049)	(28,263,650)	(1,718,004)	(221,198)	(30,202,852)
Interest income	4,380,727	17,561	24,191	4,422,479	3,947,430	10,953	14,910	3,973,293
Share in (loss)/income of joint ventures	(6,255,050)	–	–	(6,255,050)	11,846,567	–	–	11,846,567
Income tax expense	(17,146,980)	1,441,763	6,271	(15,698,946)	(13,647,262)	(265,163)	65,264	(13,847,161)
Segment profit for the period	52,568,722	(5,485,006)	(653,151)	46,430,565	62,564,948	748,936	229,716	63,543,600
Total assets	544,843,461	25,391,508	15,172,248	585,407,217	544,763,581	31,127,379	14,636,268	590,527,228
Total liabilities	118,386,824	3,515,708	5,860,364	127,762,896	112,645,472	5,905,229	4,706,610	123,257,311
Other disclosures								
Investments in joint ventures (Note 8)	49,843,334	–	–	49,843,334	53,554,027	–	–	53,554,027
Capital expenditures	69,871,111	1,126,388	415,184	71,412,683	24,900,504	3,066,226	2,268,820	30,235,550

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**33. SEGMENT INFORMATION (continued)**

<i>In thousands of Tenge</i>	31 December 2014	31 December 2013
Reconciliation of profit		
Segment profit	51,560,015	52,995,198
Adjustments and eliminations	1,125,600	(1,298,165)
Recognition of share in (loss)/income of joint ventures	(6,255,050)	11,846,567
Group profit	46,430,565	63,543,600

<i>In thousands of Tenge</i>	31 December 2014	31 December 2013
Reconciliation of assets		
Segment operating assets	571,177,599	572,848,054
Adjustments and eliminations	14,229,618	17,679,174
Total assets	585,407,217	590,527,228

<i>In thousands of Tenge</i>	31 December 2014	31 December 2013
Reconciliation of liabilities		
Segment operating liabilities	127,951,554	121,940,318
Adjustments and eliminations	(188,658)	1,316,993
Total liabilities	127,762,896	123,257,311

34. RELATED PARTY TRANSACTIONS

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

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

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

Carrying amount of transactions with related parties

Trade and other accounts receivables from related parties were presented as follows:

<i>In thousands Tenge</i>	Notes	31 December 2014	31 December 2013
Trade and other accounts receivable from related parties			
Trade accounts receivable from joint ventures		1,261,676	806,094
Trade accounts receivable from entities under common control of KMG		679,430	609,882
Trade accounts receivable from entities under common control of Samruk-Kazyna Group		206	993
	11	1,941,312	1,416,969
Other accounts receivables from entities under common control of KMG and Samruk-Kazyna Group	11	102,156	35,828
Total		2,043,468	1,452,797

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**34. RELATED PARTY TRANSACTIONS (continued)****Carrying amount of transactions with related parties (continued)**

Advances provided to related parties were presented as follows:

<i>In thousands Tenge</i>	Notes	31 December 2014	31 December 2013
Advances paid to related parties			
Advances paid to entities under common control of KMG		361,049	176,380
Advances paid to entities under common control of Samruk-Kazyna Group		86,746	80,785
Advances paid to joint ventures		81	–
Total	12	447,876	257,165

Non-current portion of deferred income to related parties was presented as follows:

<i>In thousands Tenge</i>	Notes	31 December 2014	31 December 2013
Non-current portion of deferred income from related parties			
Non-current portion of deferred income from entities under common control of KMG		–	260,305
Total	19	–	260,305

Trade and other accounts payable to related parties were presented as follows:

<i>In thousands Tenge</i>	Notes	31 December 2014	31 December 2013
Accounts payables to related parties for goods and services			
Accounts payables to entities under common control of KMG		629,359	632,581
Accounts payables to entities under common control of Samruk-Kazyna Group		43,632	18,021
Total accounts payable to related parties for goods and services	20	672,991	650,602
Other payables to related parties			
Other payables to entities under common control of Samruk-Kazyna Group		–	1,950
Total other accounts payable to related parties		–	1,950
Total	20	672,991	652,552

Advances received from related parties were presented as follows:

<i>In thousands Tenge</i>	Notes	31 December 2014	31 December 2013
Advances received from related parties			
Advances from entities under common control of KMG		9,087,230	8,764,571
Advances from entities under common control of Samruk-Kazyna Group		1,527,936	1,941,567
Advances from joint ventures		–	15
Total	21	10,615,166	10,706,153

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**34. RELATED PARTY TRANSACTIONS (continued)**

Other current liabilities to related parties were presented as follows:

<i>In thousands Tenge</i>	Notes	31 December 2014	31 December 2013
Accounts payable for oil transportation expedition to related parties			
Accounts payable for oil transportation expedition to entities under common control of KMG		2,871,849	4,153,476
	24	2,871,849	4,153,476
Accounts payable under the agency agreement to the related parties			
Accounts payable under the agency agreement for the transportation of oil to the joint venture		–	651,706
	24	–	651,706
Employee benefits of key management personnel			
Employee benefits of key management personnel		6,155	5,516
		6,155	5,516
Current portion of deferred income from related parties			
Current portion of deferred income from entities under common control of KMG		260,305	312,366
	24	260,305	312,366
Total other current liabilities to related parties		3,138,309	5,123,064

Transactions with related parties

The following tables provide the total amount of transactions, which have been entered into with related parties during the year ended 31 December:

<i>In thousands Tenge</i>	For the year ended 31 December	
	2014	2013
Sales to related parties		
Revenue from main activities with entities under common control of KMG	105,183,134	94,333,240
Revenue from main activities with joint ventures	7,048,142	5,742,000
Revenue from main activities with entities under common control of Samruk-Kazyna Group	6,724,720	10,878,953
Revenue from other activities with entities under common control of KMG	19,852	315,896
Revenue from other activities with entities under common control of Samruk-Kazyna Group	8	103
Revenue from main activities with other related parties	–	4,108
Total	118,975,856	111,274,300

Revenue from main activities with entities under common control of KMG are related to the services of oil and water transportation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**34. RELATED PARTY TRANSACTIONS (continued)****Transactions with related parties (continued)**

<i>In thousands Tenge</i>	For the year ended 31 December	
	2014	2013
Purchases from related parties		
Purchases of services from entities under common control of KMG	8,249,333	7,998,048
Purchases of services from entities under common control of Samruk-Kazyna Group	1,250,632	1,191,689
Purchases of inventory from entities under common control of KMG	1,107,080	1,997
Purchases of services from joint ventures	17,758	–
Purchases of services from other related parties	–	2,721,149
Purchases of inventory from entities under common control of Samruk-Kazyna Group	14,795	9,226
Purchases of intangible assets from entities under common control of Samruk-Kazyna Group	111,221	–
Purchases of property, plant and equipment from entities under common control of Samruk-Kazyna Group	48,000	–
Purchases of property, plant and equipment from entities under common control of KMG	–	148,401
Total	10,798,819	12,070,510

Other operating income of the Group from transactions with related parties was presented as follows:

<i>In thousands of Tenge</i>	Notes	For the year ended 31 December	
		2014	2013
Other operating income from related parties			
Derecognition of financial guarantee issued on behalf of joint venture	28	–	177,743
Amortization of deferred income from related parties	28	312,366	312,366
Amortization of financial guarantee issued on behalf of joint venture	28	–	26,463
Total		312,366	516,572

Finance income of the Group from transactions with related parties was presented as follows:

<i>In thousands Tenge</i>	Notes	For the year ended 31 December	
		2014	2013
Finance income from related parties			
Other finance income from related parties	30	–	4,108
Total		–	4,108

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**35. 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 preceeding the year of review. Under certain circumstances reviews may cover longer periods.

Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued as at 31 December 2014.

As at 31 December 2014 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 2014.

As at 31 December 2014 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 except for those described in the present financial statements (*Note 5, 23*).

Insurance matters

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available.

The Group has insurance coverage over property, third party liability in respect of property and environmental damage arising from accidents on Group's property or relating to Group's operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****Contractual commitments**

As at 31 December 2014, the Group had contractual obligations to acquire property, plant and equipment, and construction services for the amount of 29,256,791 thousand Tenge (31 December 2013: 33,130,344 thousand Tenge).

Share of the Group as at 31 December 2014 in contractual obligations of joint ventures to acquire property, plant and equipment, and construction services for the amount of 159,201 thousand Tenge (31 December 2013: 1,248,036 thousand Tenge).

Legal proceedings*Legal proceedings with Georgian Railway*

In December 2005 Georgian Railway appealed to the court with the claim against Batumi Oil Terminal, which is the part of BTL Group, requesting for debt collection in the amount of 13,942 thousand of Lari (equivalent to 1,391,272 thousands Tenge) as a result of the tank cars being idle from May 2003 till November 2005.

The Group's management considers the claim of Georgian Railway as groundless and estimates the risk of losses as possible and no provision for losses was recognized.

Legal proceedings with Batumi International Container Terminal LLC

BSP was sued by Batumi International Container Terminal LLC (hereinafter-"BICT"), a lessee of berths #4, #5 and #6, certain movable property and 13 hectares of land for a period of 48 years, for violating the lease agreement dated 20 September 2007. The amount of compensation mostly for moral compensation and the lost profits requested by BICT LLC is 5,422 thousands USD (equivalent to 988,702 thousands Tenge). Presently the Parties signed the Memorandum about suspension of dispute for the period of 6 (six) months for the further negotiations with purpose to conclude an agreement.

The Group's management considers the claim of BICT as possible and no provision for losses was recognized.

Expropriation of the Batumi Sea Port (hereinafter-"BSP") assets

In accordance with BSP Management Right agreement between BTL (before BIHL) and Georgia Government, Georgian Government has the right for expropriation of the BSP's assets, in case the BSP in the course of 2 years does not meet its obligations on minimum volume of transshipment, which is 4 million tons per year. As at 31 December 2014 the Group's management considers BSP was not exposed to risk of asset expropriation from the Government of Georgia, as actual volumes of transshipment were more than 7.8 million tons (31 December 2013: 10 million tons).

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The Group is exposed to market risk that comprises: credit risk, currency risk and liquidity risk.

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

Credit risk

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Credit risk (continued)**

The table below shows the balances of bank accounts and cash and cash equivalents at the 31 December 2014 and 2013 using the “Moody’s” “Fitch” and “Standard & Poors” credit ratings.

Bank	Location	Rating		2014	2013
		2014	2013		
Halyk Bank Kazakhstan JSC	Kazakhstan	BB/Stable	Ba2/Stable	43,979,994	34,892,638
KazKommertsBank JSC	Kazakhstan	B/Stable	B2/Stable	19,958,265	44,793,592
Cesna Bank JSC	Kazakhstan	B+/Stable	B/Positive	8,787,871	10,040,000
SberBank Russia JSC	Kazakhstan	BB+/Negative	Ba2/Stable	2,001,131	10,424,707
BNP Paribas	Cyprus	A1/Negative	A2/Stable	1,878,023	922
Delta Bank JSC	Kazakhstan	–	–	985,401	–
TBC Bank	Georgia	B1/Stable	B1/Stable	184,174	23,502
Basis Bank	Georgia	BB/Stable	B/Stable	117,980	17,358
Hellenic Bank	Georgia	Caa3/Stable	Caa3/Negative	92,269	318,280
Bank of Georgia	Georgia	B1/Stable	B1/Stable	28,264	13,825
Bank of Cyprus	Georgia	Caa3/Stable	Ca/Negative	1,094	6,450
Cartu Bank	Georgia	–	–	365	154
GazBank	Russia	–	–	167	490
RBS Bank Kazakhstan JSC	Kazakhstan	A3/Negative	A3/Negative	12	41
Citi Bank JSC	Kazakhstan	A2/ Stable	A2/ Stable	10	5
BankCentrCredit JSC	Kazakhstan	B2/ Stable	B2/ Stable	–	5,103,161
Kaspi Bank JSC	Kazakhstan	B1/Stable	B1/Stable	–	2,000,000
Bank Kassa Nova JSC	Kazakhstan	B/Stable	B/Stable	–	1,000,000
Berenberg Bank	Cyprus	–	–	–	701,690
ATF Bank JSC	Kazakhstan	B-/Stable	B-/Stable	–	62
HSBC Bank Kazakhstan JSC	Kazakhstan	–	–	–	3
Total				78,015,020	109,336,880

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 2014 and 2013 based on contractual undiscounted payments.

<i>In thousands of Tenge</i>	On demand	<1 year	1 to 2 years	2 to 5 years	>5 years	Total
As at 31 December 2014						
Trade and other payable	–	15,553,243	47,929	172,569	–	15,773,741
	–	15,553,243	47,929	172,569	–	15,773,741
As at 31 December 2013						
Trade and other payable	–	10,736,434	84,725	274,848	–	11,096,007
	–	10,736,434	84,725	274,848	–	11,096,007

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**36. 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.

<i>In thousands of Tenge</i>	US Dollar	Russian Ruble	Euro	Other currencies	Total
At 31 December 2014					
Assets	54,518,667	5,791	198,579	510,579	55,233,616
Liabilities	877,396	53,998	26,131	529,361	1,486,886
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

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 significant impact on the Group's equity.

<i>In thousands of Tenge</i>	Increase/decrease in US Dollar rate	Effect on profit before tax
2014	+17.37%	9,317,893
US Dollar	-17.37%	(9,317,893)
2014	+33.54%	(16,168)
Russian Ruble	-33.54%	16,168
2013	+30.00%	241,766
US Dollar	+10.00%	80,589
2013	+20.00%	(17,136)
Russian Ruble	-20.00%	17,136

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 2014 and 2013.

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

Fair value of financial instruments

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