**North-West Pipeline Company MunaiTas JSC**

Financial Statements
for the year ended
31 December 2014

# NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

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# NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Management is responsible for preparation of the financial statements that present fairly the financial position of North-West Pipeline Company MunaiTas JSC (the "Company") as of 31 December 2014, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, the management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- making an assessment of the Company's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- maintaining statutory accounting records in compliance with Kazakhstani legislation and accounting standards;
- taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- preventing and detecting fraud and other irregularities.

These financial statements of the Company for the year ended 31 December 2014 were approved by management on 30 January 2015.

**On behalf of the Management:**

| | |
|---|---|
| **Soltanbayev Kh. Zh.** | **Koshkarova A.A.** |
| **General Director** | **Chief Accountant** |
| 30 January 2015 | 30 January 2015 |
| Almaty, Republic of Kazakhstan | Almaty, Republic of Kazakhstan |

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Almaty, 050059,
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# INDEPENDENT AUDITORS REPORT

**To the Shareholders of JSC North-West Pipeline Company MunaiTas:**

We have audited the accompanying financial statements of JSC North-West Pipeline Company MunaiTas (the "Company"), which comprise the statement of financial position as at 31 December 2014, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the financial statements

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

## Auditors' responsibility

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

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

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Company 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.

Daulet Kuatbekov
Engagement Partner
Qualified Auditor,
Republic of Kazakhstan
Qualification certificate No. 0000523
as of 15 February 2002

Deloitte, LLP

Deloitte, LLP
Governmental license on auditor activities on territory of Republic of Kazakhstan #0000015, type MFU-2, issued by the Ministry of Finance of the Republic of Kazakhstan dated 13 September 2006

Nurlan Bekenov
General Director
Deloitte, LLP

30 January 2015
Almaty, Republic of Kazakhstan

# NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

## STATEMENT OF FINANCIAL POSITION
## AS OF 31 DECEMBER 2014
*(in thousands of Kazakhstani Tenge)*

| | Notes | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 6 | 26,846,409 | 28,809,381 |
| Intangible assets | | 26,860 | 30,947 |
| Other non-current assets | 7 | 267,107 | 249,581 |
| Total non-current assets | | 27,140,376 | 29,089,909 |
| CURRENT ASSETS | | | |
| Inventories | 7 | 36,553 | 32,725 |
| Trade receivables | | 3,935 | 31,941 |
| Income tax prepaid | | 3,835 | 158,468 |
| Short-term financial investments | 9 | 1,890,254 | 2,107,750 |
| Other current assets | | 37,798 | 66,087 |
| Cash and cash equivalents | 8 | 3,415,936 | 318,195 |
| | | 5,388,311 | 2,715,166 |
| Non-current assets held for sale | 10 | - | 125,358 |
| Total current assets | | 5,388,311 | 2,840,524 |
| TOTAL ASSETS | | 32,528,687 | 31,930,433 |
| **EQUITY AND LIABILITIES** | | | |
| EQUITY | | | |
| Share capital | 11 | 48,600 | 48,600 |
| Retained earnings | | 16,281,607 | 15,615,629 |
| Revaluation reserve | 12 | 8,887,840 | 9,188,907 |
| Total equity | | 25,218,047 | 24,853,136 |
| NON-CURRENT LIABILITIES | | | |
| Asset retirement obligation | 15 | 1,150,607 | 1,292,088 |
| Deferred tax liability | 20 | 4,834,879 | 5,203,443 |
| Total non-current liabilities | | 5,985,486 | 6,495,531 |
| CURRENT LIABILITIES | | | |
| Value added tax payable | | 229,607 | 132,978 |
| Trade payables | | 152,184 | 34,265 |
| Advances received | 16 | 792,149 | 347,631 |
| Other current liabilities | | 151,214 | 66,892 |
| Total current liabilities | | 1,325,154 | 581,766 |
| TOTAL EQUITY AND LIABILITIES | | 32,528,687 | 31,930,433 |

**On behalf of the management:**

«МұнайТас»

**Soltanbayev Kh.Zh.**
**General Director**

30 January 2015
Almaty, Republic of Kazakhstan

**Koshkarova A.A.**
**Chief Accountant**

30 January 2015
Almaty, Republic of Kazakhstan

The notes set out on pages 9-35 form an integral part of these financial statements.

# NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2014
*(in thousands of Kazakhstani Tenge)*

| | Notes | 2014 | 2013 |
|---|---|---|---|
| REVENUE | 17 | 6,861,327 | 7,794,757 |
| COST OF SERVICES | 18 | (3,815,758) | (3,574,927) |
| GROSS PROFIT | | 3,045,569 | 4,219,830 |
| General and administrative expenses | 19 | (1,210,271) | (1,115,216) |
| Other expenses, net | | (9,591) | (120,189) |
| OPERATING PROFIT | | 1,825,707 | 2,984,425 |
| Finance costs | | (74,295) | (93,733) |
| Finance income | | 25,812 | 46,145 |
| Foreign exchange gain | | 30,821 | 5,527 |
| PROFIT BEFORE TAX | | 1,808,045 | 2,942,364 |
| Income tax expense | 20 | (365,520) | (593,586) |
| PROFIT FOR THE YEAR | | 1,442,525 | 2,348,778 |
| OTHER COMPREHENSIVE INCOME | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | |
| Net gain from fixed assets revaluation | 6, 12 | - | 3,070,583 |
| Net gain from change in estimates for asset retirement obligations | 15, 12 | 215,776 | 124,273 |
| Income tax expense | 20, 12 | (43,155) | (638,971) |
| OTHER COMPREHENSIVE INCOME AFTER TAX | | 172,621 | 2,555,885 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 1,615,146 | 4,904,663 |

**On behalf of the management:**

**Soltanbayev Kh.Zh**
**General Director**

30 January 2015
Almaty, Republic of Kazakhstan

**Koshkarova A.A.**
**Chief Accountant**

30 January 2015
Almaty, Republic of Kazakhstan

The notes set out on pages 9-35 form an integral part of these financial statements.

# NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

## STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2014
*(in thousands of Kazakhstani Tenge)*

| | Share capital | Revaluation provision | Retained earnings | Total equity |
|---|---|---|---|---|
| At 1 January 2013 | 48,600 | 7,098,480 | 13,690,773 | 20,837,853 |
| Profit for the year | - | - | 2,348,778 | 2,348,778 |
| Other comprehensive income for the year | - | 2,555,885 | - | 2,555,885 |
| Revaluation provision utilised less tax | - | (465,458) | 465,458 | - |
| Dividends to shareholders (Note 13) | - | - | (889,380) | (889,380) |
| At 31 December 2013 | 48,600 | 9,188,907 | 15,615,629 | 24,853,136 |
| Profit for the year | - | - | 1,442,525 | 1,442,525 |
| Other comprehensive income for the year | - | 172,621 | - | 172,621 |
| Revaluation provision utilised less tax | - | (473,688) | 473,688 | - |
| Dividends to shareholders (Note 13) | - | - | (1,250,235) | (1,250,235) |
| At 31 December 2014 | 48,600 | 8,887,840 | 16,281,607 | 25,218,047 |

**On behalf of the management:**

**Soltanbayev Kh.Zh.**
**General Director**

30 January 2015
Almaty, Republic of Kazakhstan

**Koshkarova A.A.**
**Chief Accountant**

30 January 2015
Almaty, Republic of Kazakhstan

The notes set out on pages 9-35 form an integral part of these financial statements.

# NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2014
*(in thousands of Kazakhstani Tenge)*

| | Notes | 2014 | 2013 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Profit for the year | | 1,442,525 | 2,348,778 |
| Adjustments for: | | | |
| Income tax expense | | 365,520 | 593,586 |
| Depreciation and amortisation | 18, 19 | 2,097,375 | 1,981,887 |
| Loss from disposal of property, plant and equipment | | 182 | 140,497 |
| Unrealised foreign exchange (gain)/loss | | (15,093) | 449 |
| Finance income | | (25,496) | (46,145) |
| Finance expense | | 74,295 | 93,733 |
| Income from changes in the fair value of fixed assets | 6 | - | (14,265) |
| Operating cash flows before working capital changes | | 3,939,308 | 5,098,520 |
| Change in trade receivables | | 28,006 | 324 |
| Change in inventories | | (3,828) | 44,916 |
| Change in other current assets | | 10,763 | (20,181) |
| Change in VAT payable | | 96,629 | (72,209) |
| Change in trade payables | | 117,919 | (71,484) |
| Change in advances received | | 444,518 | (194,531) |
| Change in current liabilities | | 84,322 | 281 |
| Cash from operating activities | | 4,717,637 | 4,785,636 |
| Interest paid | | - | (12,671) |
| Income tax paid | | (622,607) | (1,104,839) |
| Net cash generated from operating activities | | 4,095,030 | 3,668,126 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Acquisition of property, plant and equipment | | (5,140) | (235,558) |
| Acquisition of intangible assets | | - | (3,777) |
| Closing/(placement) of short-term bank deposits, net | | 231,940 | (2,107,750) |
| Income from deposits | | 26,146 | - |
| Net cash generated from/(used in) investing activities | | 252,946 | (2,347,085) |

## STATEMENT OF CASH FLOWS (CONTINUED)
## FOR THE YEAR ENDED 31 DECEMBER 2014
*(in thousands of Kazakhstani Tenge)*

| | Notes | 2014 | 2013 |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Repayment of borrowings | 14 | - | (1,656,590) |
| Paid dividends | 13 | (1,250,235) | (889,380) |
| Net cash used in financing activities | | (1,250,235) | (2,545,970) |
| INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS, NET | | 3,097,741 | (1,224,929) |
| CASH AND CASH EQUIVALENTS, at the beginning of the year | | 318,195 | 1,543,124 |
| CASH AND CASH EQUIVALENTS, at the end of the year | 8 | 3,415,936 | 318,195 |

**On behalf of the management:**

«МунайТас» Солтүстік-Батыс құбыр компаниясы» АҚ * Қазақстан Республикасы Алматы қ. * АО «Северо-Западная трубопроводная компания «МунайТас» * Республика Казахстан г. Алматы

| | |
|---|---|
| **Soltanbayev Kh.Zh.** | **Koshkarova A.A.** |
| **General Director** | **Chief Accountant** |
| 30 January 2015 | 30 January 2015 |
| Almaty, Republic of Kazakhstan | Almaty, Republic of Kazakhstan |

The notes set out on pages 9-35 form an integral part of these financial statements.

## 1. NATURE OF ACTIVITY

North-West Pipeline Company Munaitas JSC (the "Company") was incorporated on 11 December 2001 as a joint-stock company in accordance with the legislation of the Republic of Kazakhstan. The Company is a joint venture of KazTransOil JSC (the "KazTransOil"), a subsidiary of National Company KazMunaiGas JSC (the "KazMunaiGas") and CNPC Exploration and Development Company Ltd. (the "CNPC E&D"), a subsidiary of CNPC, owning 51% and 49% shares in the share capital, respectively. The Company is jointly controlled by KazTransOil and CNPC E&D on an equal basis in accordance with the constituent documents. KazTransOil is ultimately controlled by NWF Samruk – Kazyna JSC, which is owned by the Government of the Republic of Kazakhstan and the ultimate controlling party of CNPC E&D is CNPC, a state company of China.

The Company was founded to construct and operate the oil pipeline Kenkiyak (Aktobe oblast) – Atyrau (Atyrau oblast) located in the West Kazakhstan. On 18 June 2004 the Company put the pipeline into operation. The Company is considered as a monopolist and, accordingly, is subject to be governed by the Agency of the Republic of Kazakhstan on regulation of natural monopolies (the "Agency"). The Agency approves tariff rates which are based on return of capital for assets used.

The Company's registered address is: 29D Satpayev Street, 2nd floor, Almaty, Republic of Kazakhstan.

On 11 February 2014, the National Bank of the Republic of Kazakhstan took decision to temporarily reduce its intervention in setting the Kazakhstani tenge exchange rate. As a result, the official exchange rate of tenge to USD fell to 184.55 tenge per USD as at 12 February 2014, i.e. by approximately 19%. As of 31 December 2014 the official exchange rate of tenge to USD was 182.35 tenge.

## 2. FINANCIAL STATEMENTS PRESENTATION

### Compliance report

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Company's financial statements are prepared based on historical cost principle, except for valuation of financial instruments and revaluation of property, plant and equipment. The principal accounting policies are disclosed in Note 4.

### Use of estimates and assumptions

Preparation of the financial statements in accordance with IFRS assumes that the management makes the estimates and assumptions that affect the assets and liabilities recognised in the financial statements and income and expenses and disclosure of contingent assets and liabilities during the subsequent financial period. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also uses professional judgements and estimates in the process of applying the accounting policies. Due to uncertainty specific to such estimates, actual results reflected in future accounting periods may be based on amounts, which differ from these estimates. Important accounting estimates and professional judgements are presented in Note 5.

**Going concern**

These financial statements have been prepared in accordance with IFRS, on the basis that the Company will continue as a going concern. This assumes the realisation of assets and payment of liabilities within the normal course of business.

**Functional and presentation currency**

The functional and presentation currency of the Company which reflects the Company's operations economic essence is Kazakhstani Tenge ("tenge").

## 3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Company has adopted the following new or revised standards and interpretations issued by International Accounting Standards Board and the International Financial Reporting Interpretations Committee (the "IFRIC"), which became effective for the Company's annual financial statements for the year ended 31 December 2014:

- IFRS 10 *Consolidated Financial Statements*;
- IFRS 12 *Disclosure of Interests in Other Entities*;
- IAS 27 *Separate Financial Statements* (as revised in 2011);
- amendments to IAS 32 - *Offsetting Financial Assets and Financial Liabilities;*
- amendments to IAS 36 - *Recoverable Amount Disclosures for Non-Financial Assets;*
- amendments to IAS 39 – *Novation of Derivatives and Continuation of Hedge Accounting;*
- IFRIC 21 *Levies.*

The adoption of new or revised Standards did not have a material impact on the financial position and financial results of the Company. New and revised Standards have been applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

*New and revised IFRS – in issue but not yet effective*

Below is a list of new and revised Standards and interpretations that was issued but is not mandatorily effective, yet and was not applied early by the Company as at the date of the issuance of financial statement:

- Amendments to IAS 19 - *Defined Benefit Plans: Employee contributions*[1];
- Annual Improvements to IFRSs 2010-2012 Cycle[1];
- Annual Improvements to IFRSs 2011-2013 Cycle[1];
- Annual Improvements to IFRSs 2012-2014 Cycle[2];
- IFRS 14 *Regulatory Deferral Accounts*[2];
- Amendments to IAS 16 and IAS 38 - *Clarification of Acceptable Methods of Depreciation and Amortisation*[2];
- Amendments to IAS 27 - *Equity Method in Separate Financial Statements*[2];
- Amendments to IAS 16 and IAS 41 - *Agriculture: Bearer Plants*[2];
- Amendments to IFRS 11 - *Accounting for Acquisition of Interests in Joint Operations*[2];
- Amendments to IFRS 10 and IAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2];
- IFRS 15 *Revenue from Contracts with Customers*[3];
- IFRS 9 *Financial Instruments*[4].

[1] Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
[4] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

Company will adopt new and revised standards and new interpretations from the effective dates. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires retrospective adoption of new and revised standards, unless otherwise stated in notes below.

Company will adopt all new, revised and amended Standards and Interpretations from the effective dates. Management of the Company anticipates that adoption of those Standards and Interpretations will have no material impact in financial position of the Company, statement of comprehensive income and cash flow statement.

## 4. SIGNIFICANT ACCOUNTING POLICIES

### Property, plant and equipment

Property, plant and equipment are carried at fair value less accumulated depreciation and provision for impairment, where required.

Property, plant and equipment are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve directly in equity; all other decreases are charged to the statement of comprehensive income. The revaluation reserve in equity is transferred directly to retained earnings when the surplus is realised either on the retirement or disposal of the asset or as the asset is used by the Company; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Property, plant and equipment are revalued on the basis of independent appraisers' report and with the consent of the authorised bodies for the purposes of setting oil transportation tariffs.

Subsequent expenses on major repairs related to an asset, which has already been recognized, increase its carrying value, if the company is more likely to receive future economic benefits and if those costs meet the requirements of recognition. If the recognition criteria for property, plant and equipment are satisfied, the costs incurred in replacing or upgrading an asset are recognized as a purchase of a new separate asset and the carrying amount (net book value) of the replaced asset is written off.

Calculation of the replacement cost of property, plant and equipment is based on the proportional method. If significant parts of the property, plant and equipment with different useful lives were not identified in the individual objects during the initial recognition of the asset, then during the major repairs, which require separation from indivisible object of property, plant and equipment any component or part, a working group and experts of relevant business units shall conduct a one-time downsizing of the object under repair and evaluate each of the selected part according to normative and technical documentation.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of: an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the statement of comprehensive income to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

**Depreciation**

Land is not depreciated. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their revalued amounts to their residual values over their estimated useful lives:

| | Useful lives (in years) |
|---|---|
| Buildings and constructions | 6-41 |
| Oil pipeline | 15-25 |
| Machinery and equipment | 1-20 |
| Other | 1-16 |

Depreciation expense is included in the statement of comprehensive income. The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Company expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

**Intangible assets**

Intangible assets include computer software and licenses. Intangible assets are recorded at purchase cost and amortised using the straight-line method over their estimated economic useful lives of six years. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

**Inventories**

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is assigned on FIFO basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

**Financial instruments**

Key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

*Fair value* is a market-based measurement the objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the financial asset or to transfer the financial liability would take place between market participants at the measurement date under current market conditions.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis. Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

*Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

*Amortised cost* is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest re-pricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

**Financial assets and liabilities**

*(i) Classification of financial assets*

The management of the Company classifies its financial assets upon initial recognition. Financial assets of the Company include trade receivables and deposits.

*(ii) Classification of financial liabilities*

Financial liabilities of the Company include financial liabilities carried at amortised cost. Financial liabilities in the statement of financial position comprise borrowings received and trade payables.

*(iii) Initial recognition of financial instruments*

Financial assets and financial liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions on the same instrument or by a valuation technique whose inputs include only data from observable markets.

*(iv) Derecognition of financial assets*

The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control over such financial assets. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

**Offsetting**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

**Trade receivables**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the statement of comprehensive income.

**Cash and cash equivalents**

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash at bank and in hand as well as short-term deposits with original maturities of three months or less. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents.

**Non-current assets held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount at the date of reclassification and fair value less costs to sell.

**Value added tax**

Value added tax ("VAT") related to sales is payable to tax authorities when goods are shipped or services are rendered. Input VAT is reclaimable against output VAT upon receipt of a tax invoice from a supplier. The tax legislation permits the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases, which have not been settled at the statement of financial position date is recognised in the statement of financial position on a net basis.

**Trade payables**

Trade payables are accrued when the counterparty has performed its obligations under the contract. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Advances received are stated at actual amounts received from third parties.

**Borrowings**

Borrowings are carried at amortised cost using the effective interest method.

**Capitalisation of borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that are not carried at fair value and that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognized as expenses using the effective interest method. The Company capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Company's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

The commencement date for capitalisation is when (a) the Company incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

**Provisions for liabilities and charges**

Provisions for liabilities and charges are recognised when the Company has a present obligation (legal or constructive) as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be insignificant.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

**Income tax**

Income taxes have been provided for in the financial statements in accordance with Kazakhstani legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the statement of comprehensive income unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than income tax are recorded within operating expenses.

In case if financial statements are approved before the submission date of corresponding tax returns, taxable income or losses based on estimated data. Deferred income tax is provided using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

**Uncertain tax positions**

The Company's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than income tax are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

**Foreign currency transactions**

The Company's monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into tenge at the official exchange rate of the National bank of Republic of Kazakhstan ("Bank") at the reporting date. Foreign currency transactions are accounted for using the exchange rate of Bank at the dates of transactions. Foreign exchange gains and losses related to borrowings and cash and cash equivalents are classified as finance income/finance expense in the statement of comprehensive income. All other foreign exchange gains and losses are recognised in operating profit or loss in the statement of comprehensive income.

As of 31 December 2014 the official exchange rate used for revaluating foreign currency balances was 182.35 tenge for USD 1 (2013: 153.61 tenge for USD 1). Exchange restrictions and currency controls exist relating to converting tenge into other currencies. Currently, tenge is not freely convertible in most countries outside of the Republic of Kazakhstan.

**Share capital**

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

**Dividends**

Dividends are recorded as a liability and deducted from equity at the end of reporting period only if they are declared before or on the end of reporting period. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

**Revenue recognition**

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue can be measured reliably. Revenue from transportation services is recognised based on actual volumes of crude oil transported during the reporting period. Revenues are shown net of VAT. Revenues are measured at fair value of the consideration received or receivable. Revenue is based on the application of authorised tariffs for corresponding services as approved by the Agency.

**Employee benefits**

Wages, salaries, contributions to pension funds, paid annual leave and sick leave, bonuses, and other benefits are accrued in the year in which the associated services are rendered by the employees of the Company.

In accordance with the legal requirements of the Republic of Kazakhstan, the Company withholds pension contributions from employees' salaries and transfers them into state pension fund. As pension contributions transferred, the Company does not have further pension obligations. Upon retirement of employees, all pension payments are administered by such pension fund directly.

**Related parties**

Related parties include the Company's shareholders, key management personnel and entities wherein the shareholders or key management personnel of the Company have an interest that ensures significant influence on such entities.

## 5. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Company makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

**Useful life of property, plant and equipment**

Assessment of useful life of property, plant and equipment are subject to judgements based on the experience in reflecting similar assets. Future economic benefits on assets are mainly gained through usage. Nevertheless other factors such as technical and commercial impairment and depreciation often lead to minimization of economic benefits on assets. The management assesses the remaining periods in which assets potentially might bring such benefits to the Company. The following key factors should be considered: (a) assumed use of assets; (b) assumed depreciation which depends on operational factors and operational programs; (c) technical and commercial impairment arisen as a result of changes in market conditions.

**Revaluation of property, plant and equipment**

The property, plant and equipment owned by the Company are reflected at fair value based on statements prepared by independent appraisal company. Due to specifications of property, plant and equipment, their fair value is assessed based on different valuation approaches, which are most suitable in each case. Method of the strengthened indicators of recovery cost (SIRC) was used at determination of cost of buildings and constructions, pipeline assets. The method of market information – was used in the presence of information in the market, the method was applied to fixed assets of groups: transfer devices, machinery and equipment, other vehicles. On positions on which there was no information on technical characteristics or the integrated indicators on cost of construction, the basic cost method of indexation was used. Income approach was used for identification and determination of economic wear of estimated property. The main assumption in use of the income approach, related to information confirming that National Republic of China will purchase share in development of the Kashagan field that will result in the most effective use of a complex of assets, by change of the current direction of pumping of oil on a reverse - Atyrau-Kenkiyak.

**Provisions**

The Company's production activity should be in compliance with various environmental laws and regulations. The Company estimates the provision for decommissioning of the pipeline based on management's understanding of the current legal requirements in different jurisdictions and internal engineering valuations. A provision is raised on the basis of the net present value of costs for assets to be decommissioned at reporting date. Actual costs incurred in future periods may substantially differ from the amounts of provisions. In addition, future changes in environmental laws and regulations, estimates of date of decommissioning and discount rates may affect the carrying value of this provision.

**Contingent liabilities**

By their nature, contingent liabilities will be settled when one or several events in the future will or will not take place. The assessment of contingent liabilities involves a degree of judgement in regards of the results of future events.

**Transactions with related parties**

In the normal course of business, the Company enters into transactions with its related parties. The judgement is applied to determine whether the cost of transactions is market or non-market in the case when there is no active market for such transactions. The judgement is based on costs of similar transactions with non-related parties

*(in thousands of Kazakhstani Tenge)*

## 6. PROPERTY, PLANT AND EQUIPMENT

Below presented are movements in the carrying value of property, plant and equipment:

| | Buildings and constructions | Pipeline | Machinery and equipment | Other | Total |
|---|---|---|---|---|---|
| **Revalued amount** | | | | | |
| At 1 January 2013 | 2,774,293 | 25,541,472 | 3,484,596 | 562,195 | 32,362,556 |
| Acquisitions | 204,277 | - | 2,214 | 29,068 | 235,559 |
| Revaluation | 410,460 | 2,439,288 | 271,297 | (36,197) | 3,084,848 |
| Disposal of accumulated depreciation due to revaluation | (247,267) | (4,187,809) | (1,321,702) | (96,510) | (5,853,288) |
| Disposals | (140,963) | - | (146) | (2,032) | (143,141) |
| At 31 December 2013 | 3,000,800 | 23,792,951 | 2,436,259 | 456,524 | 29,686,534 |
| Acquisitions | - | - | 2,172 | 2,968 | 5,140 |
| Disposals | - | - | (1,669) | (394) | (2,063) |
| Disposal of accumulated depreciation due to revaluation (Note 10) | - | - | 125,358 | - | 125,358 |
| At 31 December 2014 | 3,000,800 | 23,792,951 | 2,562,120 | 459,098 | 29,814,969 |
| **Accumulated depreciation** | | | | | |
| At 1 January 2013 | (198,016) | (3,360,497) | (1,117,644) | (79,779) | (4,755,936) |
| Charged for the year | (90,912) | (1,486,658) | (361,298) | (38,279) | (1,977,147) |
| Disposal of accumulated depreciation due to revaluation | 247,267 | 4,187,809 | 1,321,702 | 96,510 | 5,853,288 |
| Disposals | 969 | - | 36 | 1,637 | 2,642 |
| At 31 December 2013 | (40,692) | (659,346) | (157,204) | (19,911) | (877,153) |
| Charged for the year | (103,396) | (1,582,430) | (374,111) | (33,351) | (2,093,288) |
| Disposals | - | - | 1,669 | 212 | 1,881 |
| At 31 December 2014 | (144,088) | (2,241,776) | (529,646) | (53,050) | (2,968,560) |
| **Net carrying value** | | | | | |
| At 31 December 2013 | 2,960,108 | 23,133,605 | 2,279,055 | 436,613 | 28,809,381 |
| At 31 December 2014 | 2,856,712 | 21,551,175 | 2,032,474 | 406,048 | 26,846,409 |

As of 31 July 2013 property, plant and equipment have been revalued at fair value. The revaluation was performed based on the report of the independent appraiser which has proved and relevant qualification and experience as an appraiser of similar assets. Due to specifications of property, plant and equipment, their fair value is assessed based on different valuation approaches, which are most suitable in each case. Method of the strengthened indicators of recovery cost (SIRC) was used in determination of cost of buildings and constructions, pipeline assets. The method of market information – was used in the presence of information in the market, the method was applied to fixed assets of groups: transfer devices, machinery and equipment, other vehicles. On positions on which there was no information on technical characteristics or the integrated indicators on cost of construction, the basic cost method of indexation was used. Income approach was used for identification and determination of economic wear of property appraised. The applicable rate of weighted average cost of capital was 16.09%.

*(in thousands of Kazakhstani Tenge)*

Accumulated depreciation was credited to carrying value of property, plant and equipment, and a net amount was increased to revalued cost of property, plant and equipment.

The following changes to the book value appeared as a result of revaluation performed on 31 July 2013:

| | Buildings and constructions | Pipeline | Machinery and equipment | Other | Total |
|---|---|---|---|---|---|
| Changes reflected in other comprehensive income | 393,790 | 2,439,288 | 272,016 | (34,511) | 3,070,583 |
| Restoration of impairment reflected in profit and losses of prior periods | 16,670 | - | 11,241 | 186 | 28,097 |
| Discount on account of profit and losses | - | - | (11,960) | (1,872) | (13,832) |
| Revaluation | 410,460 | 2,439,288 | 271,297 | (36,197) | 3,084,848 |

Depreciation charge is allocated to the following items:

| | 2014 | 2013 |
|---|---|---|
| Cost of services | 2,071,062 | 1,954,714 |
| General and administrative expenses | 22,226 | 22,433 |
| Total | 2,093,288 | 1,977,147 |

*(in thousands of Kazakhstani Tenge)*

Presented below are carrying amounts to be recognised if the Company's assets were accounted for under historical cost convention:

| | Buildings and constructions | Pipeline | Machinery and equipment | Other | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2014 | 2,453,302 | 23,510,354 | 5,089,743 | 300,935 | 31,354,334 |
| Acquisitions | - | - | 2,172 | 2,968 | 5,140 |
| Disposals | - | - | (1,669) | (8,833) | (10,502) |
| Transfer | - | - | 169,761 | - | 169,761 |
| Change in estimates for asset retirement obligations | - | (340,049) | - | - | (340,049) |
| At 31 December 2014 | 2,453,302 | 23,170,305 | 5,260,007 | 295,070 | 31,178,684 |
| **Accumulated depreciation** | | | | | |
| At 1 January 2014 | (975,326) | (9,360,782) | (2,812,711) | (195,536) | (13,344,355) |
| Charge for the year | (83,858) | (1,389,543) | (1,007,793) | (33,630) | (2,514,824) |
| Disposals | - | - | 1,669 | 8,726 | 10,395 |
| At 31 December 2014 | (1,059,184) | (10,750,325) | (3,818,835) | (220,440) | (15,848,784) |
| **Net book value** | | | | | |
| At 31 December 2013 | 1,477,976 | 14,149,572 | 2,277,032 | 105,399 | 18,009,979 |
| At 31 December 2014 | 1,394,118 | 12,419,980 | 1,441,172 | 74,630 | 15,329,900 |

As of 31 December 2014 the Company did not have any property, plant and equipment pledged as collateral for loan or lease agreements.

## 7. INVENTORY

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| **Current portion:** | | |
| Spare parts | 24,281 | 18,959 |
| Materials | 9,816 | 12,401 |
| Fuel | 2,456 | 1,365 |
| Total | 36,553 | 32,725 |
| **Non-current portion:** | | |
| Spare parts | 267,107 | 249,581 |

Non-current inventories are spare parts designated for current repair of the pipeline in subsequent periods.

*(in thousands of Kazakhstani Tenge)*

## 8. CASH AND CASH EQUIVALENTS

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Short-term bank deposits, maturity less than three months, in USD | 2,373,752 | - |
| Cash at bank accounts, in tenge | 741,335 | 316,849 |
| Short-term bank deposits, maturity less than three months, in USD | 300,000 | - |
| Special bank deposit, in tenge | 515 | 725 |
| Cash on hand, in tenge | 334 | 621 |
| Total | 3,415,936 | 318,195 |

As at 31 December 2014, cash at special bank account was denominated in tenge, and represented the amount that, according to the legislation of the Republic of Kazakhstan, shall be deposited in a special bank account in order to receive permission for expatriate personnel to work for the Company in Kazakhstan. That deposit will come available when the Company ceases to use expatriate personnel in Kazakhstan.

## 9. SHORT-TERM FINANCIAL INVESMENTS

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Short-term financial investments | 1,890,254 | 2,107,750 |

As at 31 December 2014 the Company had short-term deposit, placed in Halyk Bank in the amount of USD 4,408,301 (803,854 thousand tenge), with annual interest rate of 0.3% - 0.4%, and maturity more than three months and less than one year. Also, as at 31 December 2014 the Company had short-term deposit, placed in Kazinvestbank JSC in amount of USD 5,597,775 (1,086,400 thousand tenge) with annual interest rate of 0.5% - 2.5%, and maturity more than 3 months and less than one year. As at 31 December 2013 the Company had short-term deposit, placed in Halyk Bank in the amount of 1,500,000 thousand tenge, with annual interest rate of 2.95% - 5%, and maturity more than three months and less than one year. Also, as at 31 December 2013 the Company had short-term deposit, placed in Kazinvestbank JSC in amount of 607,750 thousand tenge with annual interest rate of 0.5% - 2.5%, and maturity more than 3 months and less than one year. As at 31 December 2013 short – term financial investments of the Company were denominated in tenge.

## 10. NON-CURRENT ASSETS HELD FOR SALE

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Fiber-optic cable | - | 125,358 |

On 2 September 2014, shareholders of the Company issued a decision on non-sale of fiber- optic cables and will use these assets during the reconstruction of the pipeline. In accordance with IFRS 5 *Non-current assets held for sale and discontinued operations* these assets were reclassified to property, plant and equipment at the lower cost of the carrying amount at the date of transfer to non-current assets held for sale, adjusted to depreciation for the period as if the assets were not classified as held for sale, and their recoverable amount at the subsequent date of the decision no to sell. As of 2 September 2014, the recoverable amount of the assets exceed its carrying amount, adjusted to depreciation.

*(in thousands of Kazakhstani Tenge)*

## 11. SHARE CAPITAL

As at 31 December 2014 the total ordinary shares authorised comprised 243 thousand shares with a par value of 200 tenge per share (2013: 243 thousand shares). All ordinary shares issued were fully paid. Each ordinary share equals one vote.

Presented below is the structure of the Company's shareholders as at 31 December 2014 and 2013:

| | 31 December 2014 | | 31 December 2013 | |
|---|---|---|---|---|
| | Ownership percentage | Amount | Ownership percentage | Amount |
| KazTransOil | 51% | 24,786 | 51% | 24,786 |
| CNPC E&D | 49% | 23,814 | 49% | 23,814 |
| Total | 100% | 48,600 | 100% | 48,600 |

## 12. REVALUATION RESERVE

| | 2014 | 2013 |
|---|---|---|
| Balance at beginning of year | 9,188,907 | 7,098,480 |
| Increase arising on revaluation of properties | - | 3,159,263 |
| Change in estimates for asset retirement obligations | 215,776 | 124,273 |
| Impairment losses | - | (88,680) |
| Deferred tax liability arising on revaluation | (43,155) | (638,971) |
| Transferred to retained earnings | (473,688) | (465,458) |
| Balance at end of year | 8,887,840 | 9,188,907 |

## 13. DIVIDENDS

On 11 April 2014 the Company has declared dividends in amount of 1,250,235 thousand tenge, which have been fully paid on 1 July 2014.

On 5 April 2013 the Company has declared dividends in amount of 889,380 thousand tenge, which have been fully paid on 25 June 2013.

## 14. BORROWINGS

On 12 March 2013 the Company has fully repaid principal amount of the borrowings from EBRD, amounting to 1,656,590 thousand tenge including foreign exchange, and accrued interest in the amount of 12,671 thoudand tenge; having fulfilled its obligations under the loan agreement.

*(in thousands of Kazakhstani Tenge)*

## 15. ASSET RETIREMENT OBLIGATION

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| At 1 January | 1,292,088 | 1,332,899 |
| Change in estimate | (215,776) | (124,273) |
| Unwinding discount | 74,295 | 83,462 |
| Provision charge | - | - |
| At 31 December | 1,150,607 | 1,292,088 |

In accordance with the Law of Republic of Kazakhstan On main Pipeline No.21-V dated 22 June 2012, the Company is under a legal obligation to dismantle and liquidate the pipeline, as well as to restore the land.

As of 31 December 2014, the Company has performed assesment of liquidation cost of pipeline and assessed in the best way the obligation to liquidate its main pipeline in the amount of 1,660,665 thousand tenge (31 December 2013: 1,651,399 thousand tenge), adjusted for the discount rate of 6.78% (31 December 2013: 5.75%) and rate of inflation at 4.94% (31 December 2013: 4.62%).

The estimated maturity date of obligation is the end of the license period of subsoil use contract of the main customers – 2037.

## 16. ADVANCES RECEIVED

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Advances received from related parties (Note 21) | 651,906 | 216,136 |
| Advances received from third parties | 140,243 | 131,495 |
| Total | 792,149 | 347,631 |

## 17. REVENUE

| | 2014 | 2013 |
|---|---|---|
| CNPC – Aktobemunaigaz JSC | 2,815,797 | 2,143,921 |
| Mangistaumunaigas JSC | 1,191,732 | 680,004 |
| Kazakhoil Aktobe LLP | 974,936 | 2,956,215 |
| Sagiz Petroleum Company LLP | 390,697 | 215,741 |
| Kazakhturkmunai LLP | 371,939 | 365,473 |
| Alties Petroleum International B.V. | 298,352 | 591,942 |
| Embamunaigas JSC | 167,334 | 196,482 |
| Exploration and Production KazMunaiGas JSC | 16,935 | - |
| Sales to other parties | 633,605 | 644,979 |
| Total | 6,861,327 | 7,794,757 |

*(in thousands of Kazakhstani Tenge)*

## 18. COST OF SERVICES

| | 2014 | 2013 |
|---|---|---|
| Depreciation and amortisation | 2,072,816 | 1,956,468 |
| Pipeline maintenance | 877,080 | 793,964 |
| Security services | 226,368 | 192,664 |
| Payroll and related taxes | 187,356 | 145,644 |
| Communication equipment maintenance | 62,830 | 63,921 |
| Insurance of pipeline | 50,049 | 49,889 |
| Air patrol of pipeline | 32,414 | 52,664 |
| Materials | 19,677 | 53,701 |
| Other | 287,168 | 266,012 |
| Total | 3,815,758 | 3,574,927 |

## 19. GENERAL AND ADMINISTRATIVE EXPENSES

| | 2014 | 2013 |
|---|---|---|
| Payroll and related taxes | 526,240 | 435,378 |
| Taxes other than income tax | 400,512 | 402,043 |
| Office rent | 42,902 | 42,602 |
| Consulting services expenses | 29,914 | 30,758 |
| Transport repair expenses | 29,761 | 27,616 |
| Depreciation and amortisation | 24,559 | 25,419 |
| Entertainment expenses | 21,337 | 22,853 |
| Business trip expenses | 17,436 | 25,832 |
| Communication expenses | 5,611 | 5,963 |
| Bank charges | 2,072 | 5,713 |
| Other | 109,927 | 91,039 |
| Total | 1,210,271 | 1,115,216 |

## 20. INCOME TAX

Income tax expense includes following:

| | 2014 | 2013 |
|---|---|---|
| Current income tax expense | 777,239 | 971,163 |
| Deferred income tax benefit | (411,719) | (377,577) |
| Income tax expense for the year | 365,520 | 593,586 |

*(in thousands of Kazakhstani Tenge)*

Reconciliation between the expected and the actual taxation charge is provided below:

| | **2014** | **2013** |
|---|---|---|
| Profit before tax | 1,808,045 | 2,942,364 |
| Effective tax rate | 20% | 20% |
| Expected charge at rate of 20% | 361,609 | 588,473 |
| Non-deductible expenses | 3,911 | 5,113 |
| Income tax expense for the year | 365,520 | 593,586 |

| | **1 January 2014** | **Recognised in profit or loss** | **Recognised in other comprehensive income** | **31 December 2014** |
|---|---|---|---|---|
| **Tax effect of deductible temporary differences:** | | | | |
| Asset retirement obligation | 258,418 | 14,859 | (43,155) | 230,122 |
| Provision for unused vacation | 10,419 | 816 | - | 11,235 |
| Other | 1,247 | 2,202 | - | 3,449 |
| Gross deferred tax asset | 270,084 | 17,877 | (43,155) | 244,806 |
| Deferred tax liability from: | | | | |
| Property, plant and equipment and intangible assets | (5,439,860) | 360,175 | - | (5,079,685) |
| Other | (33,667) | 33,667 | - | - |
| Gross deferred tax liability | (5,473,527) | 393,842 | - | (5,079,685) |
| **Total deferred tax liability, net** | **(5,203,443)** | **411,719** | **(43,155)** | **(4,834,879)** |

*(in thousands of Kazakhstani Tenge)*

| | 1 January 2013 | Recognised in profit or loss | Recognised in other comprehensive income | 31 December 2013 |
|---|---|---|---|---|
| **Tax effect of deductible temporary differences:** | | | | |
| Asset retirement obligation | 266,580 | 16,693 | (24,855) | 258,418 |
| Provision for unused vacation | 9,591 | 828 | - | 10,419 |
| Other | 1,132 | 115 | - | 1,247 |
| Gross deferred tax asset | 277,303 | 17,636 | (24,855) | 270,084 |
| Property, plant and equipment and intangible assets | (5,217,081) | 391,337 | (614,116) | (5,439,860) |
| Other | (2,271) | (31,396) | | (33,667) |
| Gross deferred tax liability | (5,219,352) | 359,941 | (614,116) | (5,473,527) |
| **Total deferred tax liability, net** | **(4,942,049)** | **377,577** | **(638,971)** | **(5,203,443)** |

## 21. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

The related parties include Company's shareholders, affiliated companies or companies over which the Company or its shareholders have a significant influence, and key management personnel.

The nature of relations with those related parties with whom the Company entered into significant transactions or had significant balances outstanding at 31 December 2014 and 2013 is presented below.

As of 31 December 2014 and 2013, accounts receivable from related parties were as follows:

| | Nature of relations | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| KazTransOil JSC | Company under control of Samruk-Kazyna | 15 | 15 |
| CNPC Aktobemunaigas JSC | Company under control of CNPC | - | 31,795 |
| Total | | 15 | 31,810 |

*(in thousands of Kazakhstani Tenge)*

As of 31 December 2014 and 2013 trade accounts payable to related parties were as follows:

| | Nature of relations | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| KazTransOil JSC | Company under control of Samruk-Kazyna | 113,882 | 26 |
| KMG Security LLP | Company under control of Samruk-Kazyna | 16,897 | 14,028 |
| Semser Ort Sondyrushy LLP | Company under control of Samruk-Kazyna | 4,230 | 3,954 |
| Euro-Asia Air JSC | Company under control of Samruk-Kazyna | 282 | - |
| Nursat JSC | Company under control of Samruk-Kazyna | - | 224 |
| Total | | 135,291 | 18,232 |

As of 31 December 2014 and 2013 advances received from related parties were as follows:

| | Nature of relations | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| CNPC Aktobemunaigas JSC | Company under control of CNPC | 356,272 | - |
| Mangistaumunaigas JSC | Company under control of Samruk-Kazyna | 228,855 | 18,318 |
| Kazakhturkmunai LLP | Company under control of Samruk-Kazyna | 29,444 | 45,638 |
| Kazakhoil Aktobe LLP | Company under control of Samruk-Kazyna | 23,474 | 130,623 |
| Embamunaigas JSC | Company under control of Samruk-Kazyna | 12,600 | 21,737 |
| Urihtau Operating LLP | Company under control of Samruk-Kazyna | 1,180 | - |
| KazTransOil JSC | Company under control of Samruk-Kazyna | 81 | - |
| Total | | 651,906 | 216,316 |

*(in thousands of Kazakhstani Tenge)*

During 2014 and 2013 trade transactions with related parties were as follows:

| | Nature of relations | 2014 | 2013 |
|---|---|---|---|
| CNPC Aktobemunaigas JSC | Company under control of CNPC | 2,815,797 | 2,143,921 |
| Mangistaumunaigas JSC | Company under control of Samruk-Kazyna | 1,191,732 | 680,004 |
| Kazakhoil Aktobe LLP | Company under control of Samruk-Kazyna | 974,936 | 2,956,215 |
| Kazakhturkmunai LLP | Company under control of Samruk-Kazyna | 371,939 | 365,473 |
| Embamunaigas JSC | Company under control of Samruk-Kazyna | 167,334 | 196,482 |
| KazTransOil JSC | Company under control of Samruk-Kazyna | 17,758 | - |
| KazMunaiGas Exploration Production JSC | Company under control of Samruk-Kazyna | 16,935 | - |
| Urikhtau Operating JSC | Company under control of Samruk-Kazyna | 1,069 | 8,762 |
| Total | | 5,557,500 | 6,350,857 |

During 2014 and 2013 purchase transaction with related parties were as follows:

| | Nature of relations | 2014 | 2013 |
|---|---|---|---|
| *Pipeline maintenance*: | | | |
| KazTransOil JSC | Company under control of Samruk-Kazyna | 891,168 | 782,431 |
| *Security services:* | | | |
| KMG Security LLP | Company under control of Samruk-Kazyna | 181,043 | 150,304 |
| Semser Ort Sondyrushy LLP | Company under control of Samruk-Kazyna | 45,325 | 42,360 |
| *Other services:* | | | |
| Euro- Asia Air JSC | Company under control of Samruk-Kazyna | 32,414 | 52,664 |
| KazTransOil JSC | Company under control of Samruk-Kazyna | 5,871 | 4,827 |
| Total | | 1,155,821 | 1,032,586 |

Deposit accounts placed to related parties were as follows:

| | Nature of relations | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| Halyk Bank of Kazakhstan JSC | Associated company of Samruk-Kazyna | 2,418,464 | 1,500,725 |
| Total | | 2,418,464 | 1,500,725 |

*(in thousands of Kazakhstani Tenge)*

Interest income on deposits placed to related parties were as follows:

| | Nature of relations | 2014 | 2013 |
|---|---|---|---|
| Halyk Bank of Kazakhstan JSC | Associated company of Samruk-Kazyna | 302 | 370 |
| Total | | 302 | 370 |

### Terms of transactions with related parties

The services are rendered to related parties on the same terms as those to third parties. The outstanding balances at the end of year are not provided for, and settlements are performed in cash. No warranties have been provided or received with regards to trade receivables from related parties. Purchases from related parties are made on the terms specified at open tender. The management is unable to predict the extent of changes or to assess the impact of such changes on these financial statements.

### Key management personnel compensation

Key management personnel consist of the Company's management, which comprised 3 persons as of 31 December 2014 (2013: 3 persons). The total compensation to the key management personnel which is included in general and administrative expenses in the statement of comprehensive income was 75,609 thousand tenge for 2014 (2013: 62,914 thousand tenge). Compensation payable to the key management personnel for fulfilment of their executive management functions consists of contractual salary, bonuses, vacation payments and financial aid.

## 22. CONTINGENCIES AND COMMITMENTS

### Operational environment

Emerging markets including Republic of Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Republic of Kazakhstan continue to change rapidly; tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Republic of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Kazakhstan produces and exports large volumes of oil and gas, Kazakhstan's economy is particularly sensitive to the price of oil and gas on the world market which decreased significantly during 2014. Management is unable to reliably estimate the effects on the Company's financial position of any further fluctuations. As of 31 December 2014 the market price for crude oil Brent was 53.61 USD/barrel.

**Tax legislation**

Kazakhstani tax legislation is subject to varying interpretations and frequent changes. Management's interpretation of such legislation as applied to the transactions of the Company may be challenged by the relevant authorities which have right to impose fines and penalties. From the recent events in the Republic of Kazakhstan it can be assumed that tax authorities take more aggressive approach in their interpretation of the legislation and estimates, and, as a result, may challenge the transactions which had not been challenged in the past. Tax periods remain open to review by the tax authorities for five years since the date when tax review was conducted. Under certain circumstances reviews may cover longer periods.

While the Company's management believes that it has created adequate reserves for tax liabilities as at the reporting date based on its interpretation of the tax legislation, the facts above might expose the Company to additional financial risks.

**Legal proceedings**

During the Company's normal business, it can be subject to the litigations and claims. Management believes that final liability, if any results from such litigations and claims, will not have a material adverse effect on the Company's financial position or operations.

**Environmental and site restoration obligations**

The Company believes it is currently in compliance with all existing Republic of Kazakhstan environmental laws and regulations. However, Kazakhstan environmental laws and regulations may change in the future. The Company is unable to predict the timing or extent to which these environmental laws and regulations may change. Such change, if it occurs, may require the Company to modernize technology to meet more stringent standards.

**Insurance**

The Company has insurance of civil liability of owners of vehicles. The Company also provides insurance against accidents and sudden diseases, third parties obligations (life, health and property) and has environmental insurance due to its main activities.

**Oil for pipeline filling**

The Company obtained free of charge oil for the pipeline filling required for its operation from the shippers under the oil transportation contracts. The Company is fully liable for such oil safety and shall return it to the owners in case of the pipeline decommissioning or upon expiration of the oil transportation contracts. The Company does not record any assets or liabilities in respect to this oil filled at the reporting date. As of 31 December 2014, oil for the pipeline filling was 105 thousand tons (2013: 102 thousand tons).

**Kazakhstan-China Pipeline**

The agreement between Republic of Kazakhstan and National Republic of China was signed on 8 December 2012, on cooperation of development of Kazakhstan-China oil pipeline. Kazakhstan-China pipeline is the project on cooperation between two countries on expansion operation of Kazakhstan-China oil pipeline, for ensuring stable supply of oil of the Kazakhstan origin via the pipeline on export. As of 31 December 2014 and 2013, Company did not conclude any agreements related to the project and there are no commitments related to this agreement.

*(in thousands of Kazakhstani Tenge)*

**Sales agreements**

For the next year the Company signed agreements on the following guaranteed minimum crude oil volume transported through the pipeline:

| | Crude oil per year (thousand tons) |
|---|---|
| 2015 | 1,616 |

If the Company is not able to transport such minimum oil volume, it may be imposed to penalties in the amount of non-rendered services.

**Contractual commitements**

As of 31 December 2014, the Company does not have any contractual commitements on capital contrsuction or purchase of fixed assets.

## 23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

In the normal course of business, the Company is subject to currency, credit and operational risks. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company does not use any derivative financial instruments to hedge risk exposures.

The Company's capital consists of cash and equity which comprises share capital and retained earnings.

**Main categories of financial instruments**

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| *Financial assets* | | |
| Trade receivables | 3,935 | 31,941 |
| Cash and cash equivalents | 3,415,936 | 318,195 |
| Short-term financial investments | 1,890,254 | 2,107,750 |
| *Total financial assets* | 5,310,125 | 2,457,886 |
| *Financial liabilities* | | |
| Trade payables | 152,184 | 34,265 |
| Salary payables | 50,416 | - |
| Liabilities on unused vacation | 56,174 | 52,094 |
| *Total financial obligations* | 258,774 | 86,359 |

Presented below is the analysis of cash and cash equivalents by their credit quality based on Fitch rating as of 31 December 2014 and 2013:

| | | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| - rating BB+ | Halyk Bank of Kazakhstan JSC | 3,159,770 | 1,817,486 |
| - rating B- | KazInvestBank JSC | 2,146,086 | 607,828 |
| - rating B | Kazkommertsbank JSC | - | 10 |
| Total cash and cash equivalents excluding cash on hand, and short-term financial investments | | 5,305,856 | 2,425,324 |

### Currency risk

The Company performs certain transactions denominated in foreign currencies. Thus, there are risks related to exchange rate fluctuations and resulted from short-term financial investments which are denominated in a currency other than tenge. The Company does not use any derivative financial instruments to hedge its currency risk.

The carrying value of the Company's monetary liabilities denominated in foreign currency as of 31 December was as follows:

| | In thousands tenge 2014 | In thousands tenge 2013 |
|---|---|---|
| ***Financial assets*** | | |
| USD | 1,898,103 | - |
| Total financial assets | 1,898,103 | - |
| ***Financial liabilities*** | | |
| Euro | - | (1,345) |
| Russian rouble | - | (1,728) |
| USD | - | (7,109) |
| Total financial liabilities | - | (10,182) |
| Net financial assets | 1,898,103 | (10,182) |

As of 31 December 2014 if the USD had weakened/strengthened by 20% against tenge with all other variables held constant, before-tax profit for the period would have increased/decreased by 379,621 thousand tenge (2013: decreased/increased by 711 thousand tenge if the USD had weakened/strengthened by 10% against tenge), mainly as a result of foreign exchange gains/losses on translation of USD denominated deposits. Since the Company does not hold any financial intruments revalued through equity, the effect of exchange rate change on equity would be the same as that on after-tax profit.

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial liabilities as they mature. The Company controls the risk of insufficient cash using the current liquidity planning instrument. This instrument is used for maturity analysis, as well as to forecast cash flows from operating activities. For these purposes, the Company has developed a range of internal regulations, aimed at establishing control procedures for appropriate placing of temporary excess cash, invoice processing and payments, as well as preparation of operational budgets.

*(in thousands of Kazakhstani Tenge)*

The table below provides analysis of the Company's financial liabilities by relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Fair value of financial instruments of the Company as of 31 December 2014, included in the Level 3 of financial instruments. The amounts disclosed in the maturity table are based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

| 31 December 2014 | Carrying value | Contractual cash flows | Less than 1 year | 1-2 years | 2-3 years | Over 3 years |
|---|---|---|---|---|---|---|
| Trade receivables | 3,935 | 3,935 | 3,935 | - | - | - |
| Short-term bank deposits | 1,890,254 | 1,890,254 | 1,890,254 | - | - | - |
| Total financial assets | 1,894,189 | 1,894,189 | 1,894,189 | - | - | - |
| Salary payables | (50,416) | (50,416) | (50,416) | - | - | - |
| Liabilities on unused vacation | (56,174) | (56,174) | (56,174) | - | - | - |
| Trade payables | (152,184) | (152,184) | (152,184) | - | - | - |
| Total financial liabilities | (258,774) | (258,774) | (258,774) | - | - | - |
| **Net position** | **1,635,415** | **1,635,415** | **1,635,415** | - | - | - |

| 31 December 2013 | Carrying value | Contractual cash flows | Less than 1 year | 1-2 years | 2-3 years | Over 3 years |
|---|---|---|---|---|---|---|
| Short-term bank deposits | 2,107,750 | 2,107,750 | 2,107,750 | | | |
| Trade receivables | 31,941 | 31,941 | 31,941 | - | - | - |
| Total financial assets | 2,139,691 | 2,139,691 | 22,139,691 | - | - | - |
| Liabilities on unused vacation | (52,094) | (52,094) | (52,094) | - | - | - |
| Trade payables | (34,265) | (34,265) | (34,265) | - | - | - |
| Total financial liabilities | (86,359) | (86,359) | (86,359) | - | - | - |
| **Net position** | **2,053,332** | **2,053,332** | **2,053,332** | - | - | - |

## Credit risk

Credit risk arises from cash and cash equivalents and bank deposits as well as credit exposures on customer represented by corporate clients. Financial assets which are potentially subject to credit risk mainly consist of cash, bank deposits and trade receivables. The total carrying value of cash, bank deposits and trade receivables is 5,310,124 thousand tenge and represents the maximum amount exposed to credit risk (2013: 2,457,886 thousand tenge).

Cash is placed with financial institutions which are considered to have minimal risk of default at the moment of placement.

**Interest rate risk**

As at 31 December 2014 the Company had no borrowings, or other obligations on which the interest expense can be charged. Respectively, as at 31 December 2014 the Company is not subject to interest rate risk.

**Operational risk**

Operational risk is the risk that the Company may incur financial loss caused by business interruption or potential damage to the Company's property as a result of natural disasters or technological emergencies.

As at 31 December 2014, management of the Company believes that it has adequate insurance policy for civil liability and loss of assets.

Exposure to credit, currency, liquidity and operational risks arises in the normal course of business of the Company. The Company does not use derivative financial instruments to minimise its exposure to risks.

## 24. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is a market-based measurement the objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the financial asset or to transfer the financial liability would take place between market participants at the measurement date under current market conditions.

The estimated fair values of financial instruments have been determined by the Company using available market information, where it exists, and appropriate valuation methodologies. However, judgement is required to interpret market data to determine the estimated fair value. The Republic of Kazakhstan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions, and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

***Financial assets carried at amortised cost***

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on the credit risk of the counterparty. Due to the short-term nature of trade receivables, their carrying amount approximates their fair value.

***Financial liabilities carried at amortised cost***

The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Due to the short-term nature of trade payables, their carrying amount approximates their fair value.

## 25. APPROVAL OF FINANCIAL STATEMENT

This financial statement was approved and authorized for issue by the management of the Company on 30 January 2015.