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North-West Pipeline Company
MunaiTas JSC

Financial Statements
for the year ended
31 December 2015

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 2015

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 2015, 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 is insufficient to enable users to understand the impact of particular transactions, other events and conditions impacting 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 reasonably available steps to safeguard the assets of the Company; and
- preventing and detecting fraud and other irregularities.

Management on 29 January 2016 approved these financial statements of the Company for the year ended 31 December 2015.

Signed on behalf of the management:

Soltanbayev Kh. Zh.	**Koshkarova A.A.**
General Director	**Chief Accountant**
29 January 2016	29 January 2016
Almaty, Republic of Kazakhstan	Almaty, Republic of Kazakhstan

«МунайТас»

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors 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 2015 and the statements of profit and loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising 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.

Auditor's 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 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 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.

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2015, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

29 January 2016
Almaty, Kazakhstan

Approved by:

Dana Inkarbekova
Managing Director of PricewaterhouseCoopers LLP
(General State License of the Ministry of Finance of the Republic of Kazakhstan №0000005 dated 21 October 1999)

Signed by:

Baurzhan Burkhanbekov
Auditor in charge
(Qualified Auditor's Certificate of the Republic of Kazakhstan №00000586 dated 30 October 2006)

NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2015

(in thousands of Kazakhstani Tenge)

	Notes	31 December 2015	31 December 2014
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	6	25,156,904	26,846,409
Intangible assets		26,980	26,860
Other non-current assets	7	277,293	267,107
Total non-current assets		**25,461,177**	**27,140,376**
CURRENT ASSETS			
Inventories	7	42,409	36,553
Trade receivables		28,955	3,935
Income tax prepaid		-	3,835
Short-term financial investments	9	7,447,152	1,890,254
Other current assets		103,395	37,798
Cash and cash equivalents	8	1,033,542	3,415,936
Total current assets		**8,655,453**	**5,388,311**
TOTAL ASSETS		**34,116,630**	**32,528,687**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	10	48,600	48,600
Retained earnings		18,685,021	16,281,607
Revaluation reserve	11	8,556,588	8,887,840
Total equity		**27,290,209**	**25,218,047**
NON-CURRENT LIABILITIES			
Asset retirement obligation	13	1,092,018	1,150,607
Deferred tax liability	19	4,479,853	4,834,879
Total non-current liabilities		**5,571,871**	**5,985,486**
CURRENT LIABILITIES			
Corporate income tax payable		70,716	-
Value added tax payable		154,975	229,607
Trade payables		139,745	152,184
Advances received	14	760,924	792,149
Other current liabilities		128,190	151,214
Total current liabilities		**1,254,550**	**1,325,154**
TOTAL EQUITY AND LIABILITIES		**34,116,630**	**32,528,687**

Signed on behalf of the management:

Soltanbayev Kh.Zh.
General Director

29 January 2016
Almaty, Republic of Kazakhstan

Koshkarova A.A.
Chief Accountant

29 January 2016
Almaty, Republic of Kazakhstan

The notes set out on pages 8-32 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 2015

(in thousands of Kazakhstani Tenge)

	Notes	2015	2014
REVENUE	15	8,680,832	6,861,327
COST OF SERVICES	16	(4,477,040)	(4,213,778)
GROSS PROFIT		**4,203,792**	**2,647,549**
General and administrative expenses	17	(795,504)	(812,251)
Other expenses, net		1,212	(9,591)
OPERATING PROFIT		**3,409,500**	**1,825,707**
Finance costs		(78,012)	(74,295)
Finance income		159,539	25,812
Foreign exchange gain	18	3,227,539	30,821
PROFIT BEFORE TAX		**6,718,566**	**1,808,045**
Income tax expense	19	(1,353,685)	(365,520)
PROFIT FOR THE YEAR		**5,364,881**	**1,442,525**
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit or loss:			
Net gain from change in estimates for asset retirement obligations	13	136,601	215,776
Income tax expense	19	(27,320)	(43,155)
OTHER COMPREHENSIVE INCOME AFTER TAX		109,281	172,621
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**5,474,162**	**1,615,146**

Signed on behalf of the management:

Soltanbayev Kh.Zh.
General Director

29 January 2016
Almaty, Republic of Kazakhstan

Koshkarova A.A.
Chief Accountant

29 January 2016
Almaty, Republic of Kazakhstan

The notes set out on pages 8-32 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 2015
(in thousands of Kazakhstani Tenge)

	Share capital	Revaluation reserve	Retained earnings	Total equity
At 1 January 2014	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
Total comprehensive income for the year	**-**	**172,621**	**1,442,525**	**1,615,146**
Revaluation provision utilised less tax	-	(473,688)	473,688	-
Dividends to shareholders	-	-	(1,250,235)	(1,250,235)
At 31 December 2014	**48,600**	**8,887,840**	**16,281,607**	**25,218,047**
Profit for the year	-	-	5,364,881	5,364,881
Other comprehensive income for the year	-	109,281	-	109,281
Total comprehensive income for the year	**-**	**109,281**	**5,364,881**	**5,474,162**
Revaluation provision utilised less tax	-	(440,533)	440,533	-
Dividends to shareholders	-	-	(3,402,000)	(3,402,000)
At 31 December 2015	**48,600**	**8,556,588**	**18,685,021**	**27,290,209**

Signed on behalf of the management:

Soltanbayev Kh.Zh.
General Director

29 January 2016
Almaty, Republic of Kazakhstan

Koshkarova A.A.
Chief Accountant

29 January 2016
Almaty, Republic of Kazakhstan

The notes set out on pages 8-32 form an integral part of these financial statements.

NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015
(in thousands of Kazakhstani Tenge)

	Notes	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit for the year before tax		6,718,566	1,808,045
Adjustments for:			
Depreciation and amortisation	16, 17	2,054,370	2,097,375
Accrued provisions for unused vacations		67,079	53,993
Finance costs		78,012	74,295
Loss from disposal of property, plant and equipment		-	182
Finance income		(159,539)	(25,496)
Foreign exchange gain		(3,188,649)	(15,093)
Operating cash flows before working capital changes		5,569,839	3,993,301
Change in trade receivables		(25,020)	28,006
Change in inventories		(33,391)	(3,828)
Change in other assets		(34,669)	10,763
Change in VAT payable		(74,632)	96,629
Change in trade payables		(12,395)	117,919
Change in advances received		(31,225)	444,518
Change in other current liabilities		(90,508)	30,329
Cash from operating activities		5,267,999	4,717,637
Income tax paid		(1,642,549)	(622,607)
Net cash generated from operating activities		3,625,450	4,095,030
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment and intangible assets		(337,450)	(5,140)
Placement of short-term bank deposits		(11,858,871)	(5,553,402)
Withdrawal of short-term bank deposits		9,479,297	5,785,342
Income from deposits		111,180	26,146
Net cash (used in)/generated from investing activities		(2,605,844)	252,946
CASH FLOWS FROM FINANCING ACTIVITIES:			
Paid dividends	12	(3,402,000)	(1,250,235)
Net cash used in financing activities		(3,402,000)	(1,250,235)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(2,382,394)**	**3,097,741**
CASH AND CASH EQUIVALENTS, at the beginning of the year		3,415,936	318,195
CASH AND CASH EQUIVALENTS, at the end of the year	**8**	**1,033,542**	**3,415,936**

Signed on behalf of the management:

Soltanbayev Kh.Zh.
General Director

29 January 2016
Almaty, Republic of Kazakhstan

Koshkarova A.A.
Chief Accountant

29 January 2016
Almaty, Republic of Kazakhstan

The notes set out on pages 8-32 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 Committee of the Republic of Kazakhstan on regulation of natural monopolies (the "Committee"). The Committee 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.

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 under the historical cost convention, as modified by the valuation of financial instruments and revaluation of property, plant and equipment. The principal accounting policies applied in the preparation of these financial statements are set out below in Note 4. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to new and revised standards adopted by the Company in Note 3.

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.

2. FINANCIAL STATEMENTS PRESENTATION (CONTINUED)

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 nature is Kazakhstani Tenge ("tenge").

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

The following amendments to standards became effective for the Company from 1 January 2015, but did not have any material impact on the Company:

- Amendments to IAS 19 – Defined Benefit Plans: Employee contributions (issued in November 2013 and effective for annual periods beginning 1 July 2014).
- Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below)
- Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later, and which the Company has not early adopted. The Company is currently assessing the impact of the standards on its financial statements.

- IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018).
- IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018).
- IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019).

The following standards and interpretations are not expected to have any material impact on the Company's financial statements when adopted.

- IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative – Amendments to IAS 1 (issued in December 2014 and effective for annual periods beginning on or after 1 January 2016).
- Investment Entities: Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods beginning on or after 1 January 2016).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Company's financial statements.

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.

Subsequent costs on major repairs related to an asset, which has already been recognized, increase its carrying value when it is probable that future economic benefits associated with the item will flow to the Company 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

At the end of each reporting period 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 the statement of comprehensive income 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	5-50
Oil pipeline	15-30
Machinery and equipment	3-30
Other	2-12

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

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

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 best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

The Company's financial assets are represented by "loans and receivables" category and include restricted cash, trade and other financial receivables and cash and cash equivalents.

(ii) Classification of financial liabilities

Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost.

The Company's financial liabilities are represented by "other financial liabilities" category and include trade payables.

(iii) Initial recognition of financial liabilities

Trading investments, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments 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 in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Company commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial instruments included to "receivables" and "other financial liabilities" categories are subsequently carried at amortised cost using the effective interest rate method.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

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 less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 financial statements are approved before the submission date of corresponding tax returns, taxable income or losses are 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 the Republic of Kazakhstan ("Bank") at the reporting date. Foreign currency transactions are accounted for using the exchange rate of the Bank at the dates of transactions. Foreign exchange gains and losses arising as of the settlement date on these transactions, as well as resulting from the restatement of monetary assets and liabilities denominated in foreign currency are recorded within profit and loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

On 20 August 2015 the National Bank and the Government of the Republic of Kazakhstan made a resolution about discontinuation of supporting the exchange rate of Tenge and implement of new monetary policy, which is based on inflation targeting regime, cancellation of exchange rate trading band and start a free floating exchange rate. As the result, during the period of August-December 2015 the exchange rate of Tenge varied from 187 to 350 Tenge per 1 US Dollar. Therefore, uncertainty appears in relation to exchange rate of Tenge and future action of National Bank and the Government and the impact of these factors on the economy of the Republic of Kazakhstan..

As of 31 December 2015 the official exchange rate used for revaluating foreign currency balances was 339.47 tenge for USD 1 (31 December 2014: 182.35 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 oil transportation services is recognized, when oil is supplied through the oil pipeline. Revenue is shown net of VAT and is measured at fair value of the consideration received or receivable. Revenue is determined based on tariffs for the services of oil delivery through oil pipelines in the internal market approved by the Committee, and based on export tariffs approved by Company's shareholders.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 lives of property, plant and equipment is subject to judgement based on the management's experience of using similar assets. Future economic benefits from assets are mainly gained through their usage. Nevertheless other factors such as technical and commercial obsolescence and wear and tear often lead to decrease of economic benefits to be derived from the assets. Management assesses the remaining useful life of the assets based on their current technical conditions and expected period during which these assets will bring such benefits to the Company. The following key factors should be considered: (a) expected use of assets; (b) estimated wear and tear which depends on operational factors and operational programs; (c) technical and commercial obsolescnece as a result of changes in market conditions.

Revaluation of property, plant and equipment

The Company's property, plant and equipment are carried at fair value based valuation performed by an independent appraisal company as at 1 August 2013. Due to specifics 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 and pipeline assets. Market approach was used in the presence of information in the market with respect to property, plant and equipment belonging to the following groups: transfer equipment, machinery and equipment, other vehicles. With respect to positions on which there was no information on technical characteristics or the strengthened indicators on cost of construction, the basic cost indexation method was used. Income approach was used for identification and determination of economic depreciation of the evaluated property.

Provisions

The Company's operating activities are subject to compliance with various environmental laws and regulations. The Company estimates the provision for decommissioning of the pipeline based on management's understanding of the various legislative requirements and internal engineering assessments. A provision is recorded using the net present value of liquidtaion costs for assets to be decommissioned at reporting date. Actual costs incurred in future periods may substantially differ from the amounts of provision recorded. In addition, future changes in environmental laws and regulations, actual date of decommissioning and discount rates may affect the carrying value of this provision.

5. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

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. The Company's contingent liabilities are disclosed in Note 21.

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

6. PROPERTY, PLANT AND EQUIPMENT

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

In thousands of Kazakhstani Tenge	**Buildings and constructions**	**Pipeline**	**Machinery and equipment**	**Other**	**Construction in progress**	**Total**
Revalued amount						
At 1 January 2014	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)
Transfers	-	-	125,358	-	-	125,358
At 31 December 2014	3,000,800	23,792,951	2,562,120	459,098	-	29,814,969
Acquisitions	34,181	-	269,459	26,742	31,504	361,886
Disposals	-	(286)	(11,229)	(2,819)	-	(14,334)
Transfers	-	-	-	9,004	(9,004)	-
At 31 December 2015	3,034,981	23,792,665	2,820,350	492,025	22,500	30,162,521
Accumulated depreciation						
At 1 January 2014	(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)
Charged for the year	(103,394)	(1,582,431)	(336,139)	(29,141)	-	(2,051,105)
Disposals	-	-	11,229	2,819	-	14,048
At 31 December 2015	(247,482)	(3,824,207)	(854,556)	(79,372)	-	(5,005,617)
Residual value						
At 31 December 2014	2,856,712	21,551,175	2,032,474	406,048	-	26,846,409
At 31 December 2015.	2,787,499	19,968,458	1,965,794	412,653	22,500	25,156,904

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation charge is allocated to the following items:

In thousands of Kazakhstani Tenge	2015	2014
Cost of services	2,030,993	2,071,062
General and administrative expenses	20,112	22,226
Total	2,051,105	2,093,288

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

In thousands of Kazakhstani Tenge	Buildings and constructions	Pipeline	Machinery and equipment	Other	Construction in progress	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)
Transfers	-	-	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
Acquisitions	34,181	-	269,275	26,742	31,504	361,702
Disposals	-	(102)	(244,858)	(2,820)	-	(247,780)
Transfers	-	-	-	9,004	(9,004)	-
Change in estimates for asset retirement obligations	-	(136,601)	-	-	-	(136,601)
At 31 December 2015	**2,487,483**	**23,033,602**	**5,284,424**	**327,996**	**22,500**	**31,156,005**
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)**
Charge for the year	(83,858)	(1,366,874)	(443,699)	(27,217)	-	(1,921,648)
Disposals	-	-	244,858	2,820	-	247,678
At 31 December 2015	**(1,143,042)**	**(12,117,199)**	**(4,017,676)**	**(244,837)**	-	**(17,522,754)**
Residual value						
At 31 December 2014	1,394,118	12,419,980	1,441,172	74,630	-	15,329,900
At 31 December 2015	1,344,441	10,916,403	1,266,748	83,159	22,500	13,633,251

As of 31 December 2015 the Company did not have any property, plant and equipment pledged as collateral for loan or lease agreements. As of 31 December 2015, the amount of fully amortised assets under the historical cost convention was Tenge 1,868,437 thousand. Most these assets are included in "Machinery and Equipment" group.

7. INVENTORY

In thousands of Kazakhstani Tenge	31 December 2015	31 December 2014
Current portion:		
Spare parts	31,052	24,281
Materials	10,933	9,816
Fuel	424	2,456
Total	42,409	36,553
Non-current portion:		
Spare parts	277,293	267,107

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

8. CASH AND CASH EQUIVALENTS

In thousands of Kazakhstani Tenge	31 December 2015	31 December 2014
Cash at bank accounts, in tenge	1,032,473	741,335
Special bank deposit, in tenge	573	515
Cash on hand, in tenge	496	334
Cash on bank deposits with maturity less than three months, in USD	-	2,373,752
Cash on bank deposits with maturity less than three months, in tenge	-	300,000
Total	1,033,542	3,415,936

As at 31 December 2015, 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 involve expatriate personnel in Kazakhstan.

9. SHORT-TERM FINANCIAL INVESMENTS

In thousands of Kazakhstani Tenge	31 December 2015	31 December 2014
Short-term financial investments	7,447,152	1,890,254

	31 December 2015	31 December 2014
US Dollars	6,947,152	1,890,254
Kazakhstani Tenge	500,000	-
Total	7,447,152	1,890,254

As at 31 December 2015 the Company had short-term deposit, placed in Halyk Bank JSC in the amount of USD 11,756 thousand (2014: USD 4,408 thousand), with the interest rates of 1.2% to 1.5% per annum (2014: from 0.3% to 0.4%), and maturity more than three months and less than one year, and tenge deposit in the amount of Tenge 500,000 thousand with the interest rate of 8%. Also, as at 31 December 2015 the Company had short-term deposits, placed in Kazinvestbank JSC in amount of USD 8,708 thousand (2014: USD 5,598 thousand) with the interest rates of 2.2% to 2.5% per annum (2014: from 0.5% to 2.5%), and maturity more than three months and less than one year.

10. SHARE CAPITAL

At 31 December 2015 the total ordinary shares authorised was 243 thousand shares with the par value of Tenge 200 per share (2014: 243 thousand shares). All ordinary shares issued were fully paid. Each ordinary share equals one vote.

Presented below is the shareholding structure of the Company at 31 December 2015 and 2014:

In thousands of Kazakhstani Tenge	31 December 2015		31 December 2014	
	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

11. REVALUATION RESERVE

In thousands of Kazakhstani Tenge	**2015**	**2014**
Balance at beginning of year	8,887,840	9,188,907
Change in estimates for asset retirement obligations	136,601	215,776
Deferred tax liability arising on change in estimates	(27,320)	(43,155)
Transferred to retained earnings	(440,533)	(473,688)
At the end of year	8,556,588	8,887,840

12. DIVIDENDS

On 22 April 2015 the Company declared dividends of Tenge 3,402,000 thousand which were fully paid on 10 June 2015.

On 11 April 2014 the Company declared dividends of Tenge 1,250,235 thousand which were fully paid on 1 July 2014.

13. ASSET RETIREMENT OBLIGATION

In thousands of Kazakhstani Tenge	**31 December 2015**	**31 December 2014**
At 1 January	1,150,607	1,292,088
Change in estimate	(136,601)	(215,776)
Provision charge	78,012	74,295
At 31 December	1,092,018	1,150,607

In accordance with 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.

13. ASSET RETIREMENT OBLIGATION (CONTINUED)

On 31 December 2015 the Company re-assessed the nominal cost of the asset retirement obligation and estimated the related expenses of Tenge 1,724,117 thousand (31 December 2014: Tenge 1,660,665 thousand), which was adjusted for the discount rate of 8.35% (31 December 2014: 6.78%) and average inflation rate of 6% (31 December 2014: 4.94%).

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

14. ADVANCES RECEIVED

In thousands of Kazakhstani Tenge	**31 December 2015**	**31 December 2014**
Advances from related parties (Note 20)	678,981	651,906
Advances from third parties	81,943	140,243
Total	760,924	792,149

15. REVENUE

In thousands of Kazakhstani Tenge	**2015**	**2014**
Sales to related parties (Note 20)	6,828,840	5,557,500
Sales to third parties	1,851,992	1,303,827
Total	8,680,832	6,861,327

16. COST OF SALES

In thousands of Kazakhstani Tenge	**2015**	**2014**
Depreciation and amortisation	2,032,746	2,072,816
Pipeline maintenance	940,939	877,080
Property tax	370,735	398,020
Minor repairs of facilities	280,186	183,887
Security services	266,006	226,368
Payroll and related taxes	210,651	187,356
Maintenance of communication equipment	64,528	62,830
Air patrol of pipeline	48,231	32,414
Insurance of pipeline	46,391	50,049
Materials	20,500	19,677
Other	196,127	103,281
Total	4,477,040	4,213,778

17. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of Kazakhstani Tenge	2015	2014
Payroll and related taxes	490,073	526,240
Unused vacation reserve	67,079	53,993
Office rent	65,904	42,902
Consulting services expenses	34,679	29,914
Transport repair expenses	27,428	29,761
Business trip expenses	25,360	17,436
Depreciation and amortisation	21,624	24,559
Entertainment expense	8,107	21,337
Communication expenses	6,307	5,611
Taxes other than income tax	2,450	2,492
Bank charges	2,131	2,072
Other	44,362	55,934
Total	795,504	812,251

18. FOREIGN EXCHANGE GAIN

In thousands of Kazakhstani Tenge	2015	2014
Foreign exchange gain, net	3,227,539	30,821
Total	3,227,539	30,821

Foreign exchange gains from financial investments was Tenge 3,189,091 thousand (2014: Tenge 22,190 thousand).

19. INCOME TAX

Income tax expense includes following:

In thousands of Kazakhstani Tenge	2015	2014
Current income tax expense	1,736,031	777,239
Deferred income tax benefit	(382,346)	(411,719)
Income tax expense	1,353,685	365,520

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

In thousands of Kazakhstani Tenge	2015	2014
Profit before tax	6,718,566	1,808,045
Effective tax rate	20%	20%
Expected charge at rate of 20%	1,343,713	361,609
Non-deductible expenses	9,972	3,911
Income tax expense for the year	1,353,685	365,520

19. INCOME TAX (CONTINUED)

In thousands of Kazakhstani Tenge	1 января 2015	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2015
Tax effect of temporary differences:				
Asset retirement obligation	230,122	15,602	(27,320)	218,404
Provision for unused vacation	11,235	2,700	-	13,935
Other	3,449	(7,658)	-	(4,209)
Gross deferred tax asset	**244,806**	**10,644**	**(27,320)**	**228,130**
Deferred tax liability from:				
Property, plant and equipment and intangible assets	(5,079,685)	371,702	-	(4,707,983)
Gross deferred tax liability	(5,079,685)	371,702	-	(4,707,983)
Less: offset against deferred tax asset	244,806	10,644	(27,320)	228,130
Deferred tax liability, net	**(4,834,879)**	**382,346**	**(27,320)**	**(4,479,853)**

In thousands of Kazakhstani Tenge	1 January 2014	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2014
Tax effect of 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)
Less: offset against deferred tax asset	270,084	17,877	(43,155)	244,806
Deferred tax liability, net	**(5,203,443)**	**411,719**	**(43,155)**	**(4,834,879)**

20. 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 2015 and 2014 is presented below.

As of 31 December 2015 and 2014, accounts receivable from related parties were as follows:

In thousands of Kazakhstani Tenge	**Nature of relations**	**2015**	**2014**
Embamunaigas JSC	Company under control of Samruk-Kazyna	14,208	-
EurAsia Air JSC	Company under control of Samruk-Kazyna	5,600	-
KazTransOil JSC	Company under control of Samruk-Kazyna	7	15
Total		19,815	15

As of 31 December 2015 and 2014 trade accounts payable to related parties were as follows:

In thousands of Kazakhstani Tenge	**Nature of relations**	**2015**	**2014**
KazTransOil JSC	Company under control of Samruk-Kazyna	92,127	113,882
KMG Security LLP	Company under control of Samruk-Kazyna	19,873	16,897
SemserOrt Sondyrushy LLP	Company under control of Samruk-Kazyna	4,955	4,230
EuroAsia Air JSC	Company under control of Samruk-Kazyna	-	282
Total		116,955	135,291

As of 31 December 2015 and 2014 advances received from related parties were as follows:

In thousands of Kazakhstani Tenge	**Nature of relations**	**2015**	**2014**
CNPC Aktobemunaigas JSC	Company under control of CNPC	287,238	356,272
Mangistaumunaigas JSC	Jointly controlled company of Samruk-Kazyna	190,070	228,855
Kazakhoil Aktobe LLP	Jointly controlled company of Samruk-Kazyna	164,677	23,474
Kazakhturkmunai LLP	Company under control of Samruk-Kazyna	36,996	29,444
Embamunaigas JSC	Company under control of Samruk-Kazyna	-	12,600
Urihtau Operating LLP	Company under control of Samruk-Kazyna	-	1,180
KazTransOil JSC	Company under control of Samruk-Kazyna	-	81
Total		678,981	651,906

20. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

In 2015 and 2014 trade transactions with related parties were as follows:

In thousands of Kazakhstani Tenge	**Nature of relations**	**2015**	**2014**
CNPC Aktobemunaigas JSC	Company under control of CNPC	2,679,994	2,815,797
Mangistaumunaigas JSC	Jointly controlled company of Samruk-Kazyna	1,878,882	1,191,732
Kazakhoil Aktobe LLP	Jointly controlled company of Samruk-Kazyna	1,130,753	974,936
Embamunaigas JSC	Company under control of Samruk-Kazyna	774,450	167,334
Kazakhturkmunai LLP	Company under control of Samruk-Kazyna	364,761	371,939
KazTransOil JSC	Company under control of Samruk-Kazyna	-	17,758
KazMunaiGas-Refining and Marketing JSC	Company under control of Samruk-Kazyna	-	16,935
Urihtau Operating LLP	Company under control of Samruk-Kazyna	-	1,069
Total		6,828,840	5,557,500

In 2015 and 2014 purchase transaction with related parties were as follows:

In thousands of Kazakhstani Tenge	**Nature of relations**	**2015**	**2014**
Pipeline maintenance:			
KazTransOil JSC	Company under control of Samruk-Kazyna	940,939	891,168
Security services:	Company under control of Samruk-Kazyna		
KMG Security LLP	Company under control of Samruk-Kazyna	212,922	181,043
SemserOrt Sondyrushy LLP	Company under control of Samruk-Kazyna	53,084	45,325
Other services:			
EuroAsia Air JSC	Company under control of Samruk-Kazyna	48,231	32,414
KazTransOil JSC	Company under control of Samruk-Kazyna	5,854	5,871
Total		1,261,030	1,155,821

Terms and conditions of related party transactions

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.

20. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Key management personnel compensation

Key management personnel consist of the Company's management, which comprised 3 persons as of 31 December 2015 (2014: 3 persons). The total compensation to the key management personnel which is included in general and administrative expenses in the statement of comprehensive income for 2015 was Tenge 70,502 thousand (2014: Tenge 75,609 thousand). Compensation payable to the key management personnel for fulfilment of their executive management functions consists of contractual salary, bonuses, vacation payments and financial aid.

21. CONTINGENCIES AND COMMITMENTS

Operational environment

Emerging markets including Republic of Kazakhstan are subject to different risks such as economic, political and social, and legal and legislative risks more than developed markets. 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.

As 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 2015. Management is unable to reliably estimate the effects of any further fluctuations on the Company's financial position.

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 after the year 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 principal activities.

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.

21. CONTINGENCIES AND COMMITMENTS (CONTINUED)

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 oil for the pipeline filling required for its operation from the customers free of charge 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 did not record any assets or liabilities in respect to this oil filled at the reporting date. As of 31 December 2015, oil for the pipeline filling was 107 thousand tons (2014: 105 thousand tons).

Capital expenditure commitments

According to the investment plans of the Company, there is a development of project "The Second phase of the second stage of construction of Kazakhstan-China pipeline" for the increase of pipeline throughput capacity. The operator of the project for development of documentation is "Kazakstan-China Pipeline" LLP (KCP), which is developing the design and survey work to increase the volume of transportation on the site of the oil pipeline Atyrau-Alashankou.

At the moment the development of the project was suspended due to insufficient availability of future oil supplies to the Chinese side. Further continuation of the project is expected after negotiation of volumes and prices on transportation with the Ministry of Energy of Kazakhstan.

The management believes that in the future there might be a need for the acquisition of the project development documentation, related to the oil pipeline Kenkiyak-Atyrau, where the Company acts as operator. Currently, due to the stoppage of the project development the management of the Company can not reliably assess the approximate cost of the project documentation, as the cost of the project is not negotiated with the management of KCP

Sales agreements

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

	Oil per year (th. tons)
2016	1,038

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 commitments

As of 31 December 2015 the Company does not have capital construction commitments or commitments to purchase non-current assets.

22. 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.

Main categories of financial instruments

In thousands of Kazakhstani Tenge	31 December 2015	31 December 2014
Trade receivables	28,955	3,935
Cash and cash equivalents	1,033,542	3,415,936
Short-term investments	7,447,152	1,890,254
Total financial assets	8,509,649	5,310,125
Other financial liabilities		
Trade payables	139,745	152,184
Total financial liabilities	139,745	152,184

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 assets and liabilities denominated in foreign currency as of 31 December was as follows:

In thousands of Kazakhstani Tenge	2015	2014
Financial assets		
USD	6,981,387	4,271,856
Total financial assets	6,981,387	4,271,856
Financial liabilities		
Total financial liabilities	-	-
Net financial assets	6,981,387	4,271,856

At 31 December 2015 if the USD had weakened/strengthened by 20% against Tenge with all other variables held constant, after-tax profit for the period would have decreased/increased by Tenge 1,117,022 thousand (2014: decreased/increased by Tenge 683,497 thousand), mainly as a result of foreign exchange losses/gains on translation of balances 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.

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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.

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 2013, 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.

In thousands of Kazakhstani Tenge **31 December 2015**	**Carrying value**	**Contractual cash flows**	**Less than 1 year**	**1-2 years**	**2-3 years**	**Over 3 years**
Financial payables	(139,745)	(139,745)	(139,745)	-	-	-
Total financial liabilities	**(139,745)**	**(139,745)**	**(139,745)**	**-**	**-**	**-**

In thousands of Kazakhstani Tenge **31 December 2014**	**Carrying value**	**Contractua l cash flows**	**Less than 1 year**	**1-2 years**	**2-3 years**	**Over 3 years**
Financial payables	(152,184)	(152,184)	(152,184)	-	-	-
Total financial liabilities	**(152,184)**	**(152,184)**	**(152,184) -**	**-**	**-**	**-**

Credit risk

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 Tenge 8,509,153 thousand and represents the maximum amount exposed to credit risk (2014: Tenge 5,309,791 thousand).

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

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Analysis of financial assets by credit quality based on S&P rating as of 31 December 2015 is as follows:

In thousands of Kazakhstani Tenge		31 December 2015	31 December 2014
Cash and cash equivalents			
BB+/negative/B, kzAA-	Halyk Bank of Kazakhstan JSC	1,032,911	2,355,916
A/stable/A1	Bank of China in Kazakhstan SB JSC*	94	-
B-/stable/, kzBB-	KazInvestBank JSC	36	1,059,686
B-/negative/C, kzBB-	Kazkommertsbank JSC	5	-
Total cash and cash equivalents		1,033,046	3,415,602
Short-term financial investments			
BB+/negative/B, kzAA-	Halyk Bank of Kazakhstan JSC	4,490,960	803,854
B-/stable/, kzBB-	KazInvestBank JSC	2,956,192	1,086,400
Total short-term investments		7,447,152	1,890,254
Trade payables	Unrated	28,955	3,935
Total financial assets		8,509,153	5,309,791

* Rating is given for the international bank. Rating for the Kazakhstani branch of the bank is unavailable.

Interest rate risk

As at 31 December 2015 the Company did not have outstanding borrowings or other interest bearing obligations. Accordingly, at 31 December 2015 the Company was not exposed 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 of the Company's property as a result of natural disasters or technological emergencies.

As of 31 December 2015 management believes that the Company has adequate insurance policy for civil liability and loss of assets.

23. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other partners and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The amount of capital that the Company managed as of 31 December 2015 was Tenge 27,290,209 thousand (2014: Tenge 25,218,047 thousand).

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price of a financial instrument.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs).

All financial instruments of the Company are carried at amortised cost. Their fair values were determined using level 3 measurements of the fair value hierarchy, based on the available market data or relevant valuation techniques.

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 STATEMENTS

These financial statements were approved and authorized for issue by the Company management on 29 January 2016.