



**Kazakhstan -
China Pipeline LLP**

Consolidated Financial Statements

for the year ended 31 December 2014

KAZAKHSTAN-CHINA PIPELINE LLP

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KAZAKHSTAN-CHINA PIPELINE LLP

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

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of Kazakhstan-China Pipeline LLP (the "Company") and its subsidiary (together "the Group") as at 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 consolidated financial statements, 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 Group's consolidated financial position and financial performance; and
- making an assessment of the Group'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 Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with legislation of Kazakhstan and IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2014 was approved by management on 30 January 2015.

On behalf of management of the Group:


D. Dossanov
General Director




Tang Jing
Deputy General Director / Chief Accountant

INDEPENDENT AUDITORS' REPORT

To Owners of Kazakhstan-China Pipeline Group

We have audited the accompanying consolidated financial statements of Kazakhstan-China Pipeline LLP and its subsidiary (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated 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 Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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



Deloitte, LLP

Deloitte, LLP
State license on auditing of the Republic of Kazakhstan
#0000015, type MFU-2, given by the Ministry of Finance
of the Republic of Kazakhstan dated 13 September 2006

30 January 2015
Almaty, Kazakhstan



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

H. Bekenov

Nurlan Bekenov
General Director
Deloitte, LLP

KAZAKHSTAN-CHINA PIPELINE, LLP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014


(in thousands of Kazakhstani Tenge)

	Note	31 December 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	7	244,333,414	248,110,133
Other non-current assets	8	7,900,630	9,217,028
Total non-current assets		252,234,044	257,327,161
Current assets			
Inventories		297,213	307,763
Other current assets	9	1,056,739	1,398,167
Income tax prepaid		31,378	-
Trade receivables from related parties	6	51	651,706
Trade receivables from main operations		358,403	12
Bank deposits	10	7,807,499	30,684,381
Cash and cash equivalents	11	10,926,550	11,883,737
Total current assets		20,477,833	44,925,766
Total assets		272,711,877	302,252,927
EQUITY AND LIABILITIES			
Charter capital	12	13,000,000	13,000,000
Foreign currency translation reserve		154,820	56,706
Property, plant and equipment revaluation reserve		35,889,771	32,644,241
Retained earnings		24,919,673	36,047,217
TOTAL EQUITY		73,964,264	81,748,164
LIABILITIES			
Non-current liabilities			
Loans and borrowings	13	139,812,594	155,658,092
Deferred tax liability	20	17,962,707	20,455,499
Provision for pipeline retirement and site restoration obligation	14	4,518,420	4,643,078
Other non-current liabilities		16,587	11,641
Total non-current liabilities		162,310,308	180,768,310
Current liabilities			
Loans and borrowings – current portion	13	28,828,421	25,275,928
Income tax payable		-	1,150,577
Trade payables from main operations	15	1,217,088	1,032,288
Accounts payable to related parties	6	1,401,178	3,286,600
Advances received from related parties	6	2,161,171	3,980,292
Other payables and accrued liabilities	16	2,829,447	5,010,768
Total current liabilities		36,437,305	39,736,453
TOTAL LIABILITIES		198,747,613	220,504,763
TOTAL EQUITY AND LIABILITIES		272,711,877	302,252,927

On behalf of management of the Group:


D. Dossanov
General Director




Fang Jing
Deputy General Director/ Chief
Accountant

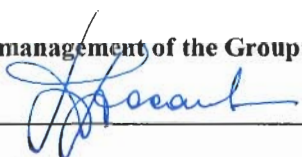
The notes on pages 8-33 form an integral part of these consolidated financial statements.

KAZAKHSTAN-CHINA PIPELINE, LLP

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

	Note	2014	2013
Revenue		48,168,484	67,696,667
Cost of sales	17	(28,221,129)	(24,917,068)
Gross profit		19,947,355	42,779,599
General and administrative expenses	18	(2,352,660)	(3,702,335)
Reversal of impairment loss on revaluation	7	881,746	-
Foreign exchange gain (net)		1,633,797	282,697
Other income (net)		141,892	168,403
Operating profit		20,252,130	39,528,364
Interest expense	19	(8,016,160)	(9,868,972)
Interest income		299,928	1,145,402
Gain on derecognition of long-term liability		-	1,381,151
Foreign exchange gain from financing activities		7,559,194	17,164,562
Foreign exchange loss from financing activities		(38,298,134)	(20,294,878)
(Loss)/profit before income tax		(18,203,042)	29,055,629
Income tax benefit/(expense)	20	4,231,262	(7,758,246)
(Loss)/profit for the year		(13,971,780)	21,297,383
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Change in estimate of provision for pipeline retirement and site restoration obligations, net of income tax of 91,651 thousand tenge	14	366,608	77,335
Gain on revaluation of property, plant and equipment, net of income tax of 1,430,790 thousand tenge	7	5,723,158	-
		6,089,766	77,335
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation		98,114	9,775
Total other comprehensive income for the year		6,187,880	87,110
Total comprehensive (loss)/income for the year		(7,783,900)	21,384,493

On behalf of management of the Group:


D. Dossanov
General Director




Tang Jing
Deputy General Director/ Chief Accountant


The notes on pages 8-33 form an integral part of these consolidated financial statements.

KAZAKHSTAN-CHINA PIPELINE, LLP

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

	Charter capital	Foreign currency translation reserve	Property, plant and equipment revaluation reserve	Retained earnings	Total
Balance at 1 January 2013	13,000,000	46,931	35,542,149	11,777,716	60,366,796
Profit for the year	-	-	-	21,297,383	21,297,383
Other comprehensive income, net of taxes	-	9,775	77,335	-	87,110
Total comprehensive income for the year	-	9,775	77,335	21,297,383	21,384,493
Property, plant and equipment revaluation reserve utilised	-	-	(2,972,118)	2,972,118	-
Other	-	-	(3,125)	-	(3,125)
Balance at 31 December 2013	13,000,000	56,706	32,644,241	36,047,217	81,748,164
Loss for the year	-	-	-	(13,971,780)	(13,971,780)
Other comprehensive income, net of taxes	-	98,114	6,089,766	-	6,187,880
Total comprehensive loss for the year	-	98,114	6,089,766	(13,971,780)	(7,783,900)
Property, plant and equipment revaluation reserve utilised	-	-	(2,844,236)	2,844,236	-
Balance at 31 December 2014	13,000,000	154,820	35,889,771	24,919,673	73,964,264

On behalf of management of the Group:


D. Dossanov
General Director




Tang Jing
Deputy General Director/ Chief Accountant


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KAZAKHSTAN-CHINA PIPELINE, LLP

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

	Note	2014	2013
Cash flows from operating activities			
<i>Cash flows from operating activities:</i>			
Proceeds from services rendered and advances received		48,249,320	69,814,885
Interest received		810,280	871,888
Other proceeds		948,255	183,434
<i>Cash flows used in operating activities:</i>			
Payments to suppliers of goods and services		(10,737,429)	(11,592,515)
Other payments to budget		(4,292,493)	(3,512,808)
Salaries paid		(1,723,728)	(1,524,590)
Advances paid		(1,240,975)	(785,609)
Other payments		(1,313,303)	(722,287)
		30,699,927	52,732,398
Cash flows from operating activities			
Interest paid		(8,971,496)	(10,283,971)
Income tax paid		(846,745)	(2,783,393)
Net cash flows generated from operating activities		20,881,686	39,665,034
Cash flows from investing activities			
Purchase of property, plant and equipment		(4,600,471)	(24,520,716)
Placement of short - term bank deposits		(20,514,432)	(57,504,187)
Purchase of intangible assets		(20,199)	(123,270)
Withdrawal of short - term bank deposits		43,765,226	55,126,219
Proceeds from sale of property, plant and equipment		27,891	25,737
Net cash flows generated from/(used in) investing activities		18,658,015	(26,996,217)
Cash flows from financing activities			
Proceeds from borrowings		-	46,071,000
Repayment of borrowings	13	(41,400,419)	(63,996,208)
Net cash flows used in financing activities		(41,400,419)	(17,925,208)
Net changes in cash and cash equivalents			
		(1,860,718)	(5,256,391)
Effect of exchange rate changes on cash and cash equivalents		903,531	168,301
Cash and cash equivalents at the beginning of the year	11	11,883,737	16,971,827
Cash and cash equivalents at the end of the year	11	10,926,550	11,883,737

On behalf of management of the Group:


D. Dossanov
General Director




Tang Jing
Deputy General Director/ Chief Accountant

The notes on pages 8-33 form an integral part of these consolidated financial statements.

KAZAKHSTAN-CHINA PIPELINE, LLP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

(in thousands of Kazakhstani Tenge)

1 GENERAL INFORMATION

Kazakhstan - China Pipeline LLP (the "Company") was incorporated as a limited liability partnership on 6 July 2004 under the legislation of the Republic of Kazakhstan. The Company is owned by two participants: China National Operating and Development Corporation ("CNODC"), a subsidiary of China National Petroleum Corporation ("CNPC"), and JSC KazTransOil ("KazTransOil"), a subsidiary of KazMunaiGas National Company JCS ("KazMunaGas"), each owning 50 percent interest in the Company's charter capital. The Company is jointly controlled by KazTransOil and CNODC on an equal basis. KazTransOil is ultimately controlled by the Kazakh Government through JSC National Welfare Fund Samruk-Kazyna, a holding company, and CNODC is ultimately controlled by the Chinese Government through CNPC, a state owned company.

On 17 May 2004 the Government of the People Republic of China and the Government of the Republic of Kazakhstan signed the Framework Agreement concerning Development of all-around cooperation in oil and gas sphere. On 17 May 2004 CNPC and KazMunaiGas signed the Agreement Concerning Main Principles for Construction of Atasu – Alashankou oil pipeline, with length of 965.1 km. Also on 20 December 2006, CNPC and KazMunaiGas signed Agreement Concerning Main Principals for Construction of the Second Stage of Kazakhstan – China Oil Pipeline and on 18 August 2007 additional agreement No. 1 thereto.

The Company is considered to be a monopolist and, accordingly is subject for regulation by the Natural Monopolies Regulation Agency of the Republic of Kazakhstan (the "Agency"). The Agency approves the tariff rates for oil transportation based on the reimbursement of cost.

The Company has a 100% owned subsidiary, KCP Finance B.V., incorporated in the Netherlands. KCP Finance B.V. was incorporated solely for the purpose of issuing the bonds to finance construction of Atasu – Alashankou oil pipeline of China. For the purpose of these consolidated financial statements the Company and its subsidiary are together referred to as the "Group". On 17 September 2013, the company repaid its bonds in advance of maturity. The liquidation of the subsidiary is planned for 2015 after completion of the corporate procedures.

On 17 November 2005 the Company obtained a license to invest, construct, operate and repair the Atasu-Alashankou oil pipeline in China valid until 16 November 2025. In this connection, the branch of the Company was registered in China.

The Group constructed and, on 28 July 2006, put into operation the Atasu-Alashankou pipeline with the capacity of 7 million tons per year. In 2008, the Group put into operation the additional facilities to increase the Atasu-Alashankou pipeline's capacity up to 10 million tons per year.

The technological oil for the oil pipeline filling of 401,449 metric tons has been provided by PetroChina International Kazakhstan LLP ("PetroChina"). Technological oil belongs to PetroChina.

On 8 May 2008, the Company obtained an approval from the Committee for Construction and housing and communal services under the Ministry of Industry and Trade of the Republic of Kazakhstan to carry out construction and assembly operations for the Kenkiyak–Kumkol oil pipeline, and signed contracts with KazStroiServices NSCC and China Petroleum Pipeline Engineering Kazakhstan LLP for project development, supply of materials and construction of 794.1 km long Kenkiyak–Kumkol oil pipeline with the annual throughput capacity of the second stage's first phase of 10 million tons.

On 1 July 2009, the construction of linear part of Kenkiyak–Kumkol oil pipeline (the "Kenkiyak–Kumkol") was completed. On 27 June 2009, the Group filled Kenkiyak–Kumkol with technological oil of 411,915 metric tons, provided by CNPC-Aktobemunaigas JSC in accordance with the contract #02-2009 dated 12 February 2009. Technological oil belongs to JSC CNPC-Aktobemunaigas. The return period of the technological oil to CNPC-JSC Aktobemunaigas is upon termination of the Kenkiyak–Kumkol pipeline operation.

On 7 October 2009 the Group launched the first starting complex of the Kenkiyak–Kumkol pipeline with the first phase project capacity of 10 million tons per year.

On 10 December 2010, the Group completed the commissioning of the second stage's first phase facilities of the Kenkiyak–Kumkol pipeline construction.

KAZAKHSTAN-CHINA PIPELINE, LLP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

(in thousands of Kazakhstani Tenge)

In 2011 and 2013, the Group commissioned the additional facilities to increase the throughout capacity of the Atasu-Alashankou pipeline up to 20 million tons per year.

In 2014, the Group completed the works on the connection of a new pumping station to the pipeline system (NPS-8 to the ORU-35kV PS 500kV Agadyr) (Note 7).

During 2014, the Group transported 4,832 thousand tons of oil by pipeline Atasu-Alashankou. Also 6,985 thousand tons of oil were transported under the agreement between the Governments of the Republic of Kazakhstan and Russian Federation on cooperation in the field of Russian oil transportation through the territory of the Republic of Kazakhstan to China, which came into force on 1 January 2014. During 2014 through the oil pipeline "Kenkiyak-Kumkol" 6,115 thousand tons of oil were transported.

The Company's registered address is: 109B Abay Avenue, Almaty 050008, Republic of Kazakhstan.

2 BASIS OF PREPARATION

Statement of compliance

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

Basis of preparation

The consolidated financial statements are prepared on the historical cost basis except for the revaluation of property, plant and equipment and certain financial instruments. The principal accounting policies are set out in Note 3 below.

Functional and presentation currency

All amounts in these consolidated financial statements are presented in thousands of Kazakhstani Tenge ("Tenge"), unless otherwise stated. Kazakhstani Tenge is a Group's functional and presentation currency.

Going concern

The consolidated financial statements have been prepared in accordance with IFRS, based on the assumption that the Group will continue as a going concern. This assumes the realisation of assets and settlement of liabilities in the normal course of business for the foreseeable future. In December 2014, as a result of the devaluation of the national currency against the US dollar on average by 19%, which occurred in February 2014 (Note 13), in December 2014 the Group applied to the Agency for an increase of tariffs for transportation of oil. The Group also plans to:

- a) carrying out measures to optimize cash flow, including the partial early repayment of the principal on loans;
- b) revision of the program of capital investments that do not lead to an increase in oil production by redistributing it over the next few years.

The Group believes in the beneficial effect of these activities on the Group's ability to continue as a going concern. Management believes that the cash flows generated from operations will be sufficient to meet its liabilities when due.

KAZAKHSTAN-CHINA PIPELINE, LLP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

(in thousands of Kazakhstani Tenge)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation principles

Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date when control ceases.

The intra-group transactions, the balances of the corresponding accounts, as well as unrealised gains on the operations between the companies of the Group are mutually eliminated. Unrealised losses are also mutually eliminated, except when costs cannot be compensated.

Financial instruments and key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below. Below is a description of these methods of assessment.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety

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 assets and liabilities.

Effective interest method - is a method of allocating interest income or interest expense during 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 repricing 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.

KAZAKHSTAN-CHINA PIPELINE, LLP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

(in thousands of Kazakhstani Tenge)

Classification of financial assets

The management of the Group classifies its financial assets upon initial recognition. Financial assets of the Group are represented by 'Loans and Receivables' category and include cash and cash equivalents, term deposits, trade receivables. Loans and receivables are recorded at amortised cost.

Classification of financial liabilities

Financial liabilities of the Group include financial liabilities that are carried at amortised cost. Financial liabilities on the Group's statement of financial position include borrowings (Note 13), trade payables (Note 15) and accounts payable to related parties (Note 6).

Initial recognition of financial instruments

Financial assets and liabilities are initially recorded at fair value subject to 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. Gain or loss upon initial recognition of the borrowings, which are received from the owners and/or the ultimate owners of the Group, is reflected on the statement of changes in equity. Subsequently, the carrying amount of the loans is adjusted for amortisation of the gains/losses on origination and the amortisation is recorded as interest income/interest expense using the effective yield method on the asset/ liability.

Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group 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. 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.

Derecognition of financial liabilities

The Group derecognises financial liabilities when they have been fulfilled, cancelled or expired. The difference between the carrying amount of a financial liability and interest paid or received is recognised in profit or loss.

Impairment of financial assets carried at amortised cost

Receivables impairment losses are recognised when objective evidence exists that the Group will not be able to recover the amount due in initially stated period. The amount for the provision is the difference between the carrying value of the asset and the present value of expected cash flows discounted at the original effective interest rate of the asset. The provision is recognised as part of general and administrative expenses in profit or loss. Uncollectible trade receivables are written off against the trade receivables' impairment provision. Subsequent recoveries of amounts previously written off are accounted as part of general and administrative expense on profit or loss.

The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

KAZAKHSTAN-CHINA PIPELINE, LLP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

(in thousands of Kazakhstani Tenge)

Property, plant and equipment

On 1 January 2011, the Group amended its Accounting Policies with regard to the accounting for property, plant and equipment and selected the revaluation model. Therefore, the Group, through an independent appraiser, revaluated its property, plant and equipment as at 31 August 2011 for the first time and subsequently on 31 August 2014.

Upon recognition as an asset, property, plant and equipment items are stated at revaluation cost less accumulated depreciation and provision for impairment, if any.

Property, plant and equipment, are subject to revaluation regularly performed to ensure that the carrying amount does not substantially change from the amount determined at fair value as at the end of the reporting period. Property, plant and equipment are revaluated on approval of an authorised agency regulating natural monopolies. Once every three years the Group engages independent appraisers for revaluation of its property, plant and equipment.

An increase in the carrying amount resulting from revaluation is recorded within other comprehensive income and increases revaluation reserve within the equity; decrease in the value of an item within the amount of previous cost increases is recorded directly in other comprehensive income and reduces the revaluation reserve previously recognised within the equity; when decrease in the value exceeds such amount, it is recorded in profit or loss for the year. The provision for revaluation of property, plant and equipment, within the equity is directly included into retained earnings when capital gain is realised with use of such asset by the Group; in the last event, the capital gain write-off amount is determined as the difference between the depreciation measured at carrying value, taking into account revaluation, and the depreciation determined at the initial cost.

When property, plant and equipment are disposed, the remaining surplus of the provision for revaluation of property, plant and equipment is directly transferred to retained earnings. This movement is presented in the statement of changes in equity.

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.

Costs of complex regular inspections of property, plant and equipment objects having periodicity of not more than once a year amounting to not less than 10 percent of cost of property, plant and equipment object, are subject to capitalisation as separate component of property, plant and equipment. If the amount of costs of complex regular inspections of selected property, plant, and equipment object is less than 10 percent of its cost, the amount is recognised as operating expense.

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 profit or loss within the amount of excess over the value of increase in value, recorded within equity in previous revaluation. 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.

Depreciation

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

	<u>Useful life in years</u>
Buildings and constructions	5-50
Machinery and equipment	2-30
Pipeline and other vehicles	8-30
Other	2-12

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

(in thousands of Kazakhstani Tenge)

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were 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 Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted, if necessary, at the end of each reporting period.

Intangible assets

Intangible assets are recorded at purchased cost and amortised on a straight-line basis over their estimated useful lives of one to three years.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, deposits held at call or with original maturities of three months or less, as well as other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Cash and cash equivalents also include cash placed with banks for the period of more than three months if there are no restrictions, and the Group has an ability and intention of their early withdrawal.

Cash restricted for more than three months is included in other current and non-current assets depending on terms of restriction.

Term deposits

Term deposits represent cash placed with banks for the period of over three months for investment income purposes. Such deposits are classified as other current or non-current assets depending on maturity terms, if the Group's management has an intention to hold the deposits until their maturity dates rather than to use them to settle the short-term cash needs. Term deposits are carried at amortised cost using the effective interest method.

Inventories

Inventories are recorded at the lower of cost and net realisable value. The cost of inventories is determined using the first-in, first-out ("FIFO") method. Cost includes purchase price, import duties, transport-procurement works, and commission fees paid to supply and mediator organisations, and other expenses directly attributable to inventories purchase. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Trade and other receivables

Receivables, with the exception of prepaid taxes and advances given to the suppliers, are accounted for at the amortised cost using effective interest rate method. Prepaid taxes and advances given to the suppliers are stated at actual costs paid.

Borrowings

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

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of the asset that require substantial time to prepare for its intended use or sale (qualifying asset) are capitalised as part of the cost of such asset.

The commencement date for capitalisation is when (a) the Group 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 use or sale.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

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The Group capitalises the borrowing costs that would have been avoided if it had not made capital expenditure on qualifying assets. The capitalised borrowing costs are calculated using the Group's average financing cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), **except when funds** are borrowed specifically for the purpose of purchasing the qualifying asset. Where this occurs, the actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Interest income and interest expense

Interest income/expense is recognized using the effective income on assets/liabilities method.

Foreign currency transactions and translation

The Group's foreign currency monetary assets and liabilities are translated into Tenge using exchange rate of the Kazakhstani Stock Exchange (KASE) established at the reporting period date. Transactions in foreign currencies are recorded at the exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions or from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

The foreign subsidiaries of the Group represent the foreign operations which form an integral part of the Group's operations. The financial statements of the foreign subsidiaries are translated as if the transactions of the foreign subsidiaries are the Group's activities.

As at 31 December 2014 the official rate of exchange applied to translate balances denominated in USD, was 182.35 Tenge for 1 US dollar (31 December 2013: 153.61 Tenge for 1 US dollar).

Tenge is not convertible in most countries outside of the Republic of Kazakhstan.

Trade and other payables

Trade payables are accrued when the counterparty performed its obligations under the contract. The Group accounts trade payables initially at fair value. Subsequently trade payables are carried at amortised cost using the effective interest method.

Employee benefits

Salaries, pension fund contributions, 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 Group.

The Group does not incur any expenses in relation to pensions for its employees. However, in accordance with the legal requirements of the Republic of Kazakhstan, the Group withholds pension contributions from employee salaries and transfers them into state or private pension funds upon the employee decision. Upon retirement of employees, all pension payments are administered by such pension funds.

Long term employee benefits

The Group provides long-term employee benefits to employees before, on and after retirement, in accordance with the Policy on employee remuneration. This policy provides for one-off retirement payments, financial aid for employees' disability, anniversaries and funeral. The entitlement to benefits is usually conditional on the employee remaining in service up to retirement age.

The expected costs of the benefits associated with one-off retirement payments are accrued over the period of employment using the same accounting methodology as used for defined benefit post-employment plans with defined payments on the end of labour activity. Actuarial gains and losses arising in the year are taken to other comprehensive income and losses. For this purpose, actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred. Other movements are recognised in the current period, including current service cost, any past service cost and the effect of any curtailments or settlements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

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The most significant assumptions used in accounting for defined benefit obligations are discount rate and mortality assumptions. The discount rate is used to determine the net present value of future liabilities and each year the unwinding of the discount on those liabilities is charged to the consolidated statement of profit or loss and other comprehensive income as interest rate. The mortality assumption is used to project the future stream of benefit payments, which is then discounted to arrive at a net present value of liabilities.

Employee benefits other than one-off retirement payments are considered as other long-term employee benefits. The expected cost of these benefits is accrued over the period of employment using the same accounting methodology as used for defined benefit plan.

These obligations are valued by independent qualified actuaries on an annual basis.

Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with Kazakhstani legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss 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 tax authorities in respect of taxable profits or losses for the current and prior periods.

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 consolidated 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.

Value-added taxes (the "VAT")

VAT related to sales is payable to the tax authorities when goods are shipped or services are rendered. Input VAT is reclaimable against output VAT upon the receipt of a tax invoice from a supplier. The tax legislation permits the settlement of VAT on a net basis. Accordingly, VAT related to sale and purchase transactions, which has not been settled at the balance sheet date, is recognised in the consolidated statement of financial position on a net basis. At each reporting date VAT receivable is assessed for impairment by means of using estimates as to the probability of a refund and/or offset against future VAT payments. Impairment loss determined as a difference between the carrying and recoverable value of VAT is recognised in profit and loss.

Provisions for liabilities and charges

Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation 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 small.

Provision for asset retirement obligations

Assets retirement obligations are recognised where there is a probability of their occurrence and their amounts can be reasonably measured.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

(in thousands of Kazakhstani Tenge)

Assets retirement costs include costs for dismantling of pipelines and equipment, removal of residual materials and restoration of disturbed lands.

Estimated landfill site restoration and remediation costs are provided for and incurred in the cost of property, plant and equipment in the reporting period, in which the obligation arising from the related land disturbance fact occurs, based on the discounted value of estimated future costs. These costs are subsequently depreciated over the useful lives of the assets to which they relate using the depreciation method applied to those assets.

Provisions for asset retirement obligations do not include any additional obligations which are expected to arise from current or future disturbance. The cost estimates are calculated annually during the life of the operation to reflect known developments, e.g. updated cost estimates and revised useful lives of pipelines.

Although the ultimate cost to be incurred is uncertain, the Group estimates its costs based on feasibility and engineering studies pursuant to the current restoration standards and techniques for conducting restoration and remediation works.

The amortization or “unwinding” of the discount applied in establishing the discounted value of provisions is charged to performance results for each reporting period. The amortisation of discount is recorded as finance expense.

Other movements in the provisions for asset retirement obligations, resulting from updated accounting estimates, changes in the estimated lives of operation and revision of discount rates, adjust the revaluation reserve for property, plant and equipment.

Revenue recognition

Revenue is recognised when there is a likelihood that the Group obtains the transaction related economic benefits, and when the amount of revenue can be reliably estimated. Revenue from oil transportation services is recognised upon delivery of oil through the pipelines. Revenue is shown net of VAT and measured at the fair value of interest received or receivable. Revenue is based on the application of tariffs for transportation of oil through the pipelines authorised by the Agency.

Reclassifications

Certain reclassifications have been made in the consolidated statement of financial position as at 31 December 2013 to bring it in line with the format of presentation of the consolidated statement of financial position at 31 December 2014. These reclassifications did not change the main lines of the consolidated statement of financial position and had no impact on the financial result.

4 CRITICAL ACCOUNTING ESTIMATES AND PROFESSIONAL JUDGEMENTS IN APPLYING POLICIES

The Group makes estimates and assumptions that affect the reported 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. Judgments that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Deferred income tax asset recognition

Deferred income tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future management makes judgements and applies estimates that are believed to be reasonable under the circumstances taking into account taxable profit for the previous years and expectations of future revenue (Note 20).

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Fair value of property, plant and equipment

The Group engages an independent appraiser to determine the fair value of property, plant and equipment. An independent evaluation of the assets held on a regular basis. The last independent valuation of property, plant and equipment of the Company was held on 31 August 2014 the following grounds:

- the fair value of the Group's vehicles are valued at market value, based on an analysis of comparable sales.
- other fixed assets were valued using the cost approach.
- the validity of the measurement at fair value, as described above, was determined by the appraiser analysis of discounted future cash flows, which was prepared on the following basis:
 - the forecast period - up to 2036, based on the useful life of the pipeline and the expected forecast production volumes at the respective oil fields;
 - cash flow projections were made in tenge;
 - discount rate applied is 14.62%.

As a result of this analysis, economic impairment was found related to specialized assets of the Group.

Tax legislation

Tax, currency and customs legislation of the Republic of Kazakhstan is subject to varying interpretations (Note 21).

VAT receivable recoverability

The Group is entitled to claiming VAT receivable for reimbursement if it meets certain requirements under the Tax code of the Republic of Kazakhstan, and the VAT is subject to reimbursement upon successful completion of according tax audits. In 2014 the tax authorities completed audit of VAT refunds for a certain period of 2008 and for the years 2009-2013. Based on results, VAT of 820,337 thousand tenge was returned to the Company. Non-refunded amount of VAT receivable to be used in the future to offset VAT payable. Based on management's expectation, the Group's future income from transportation services subject to VAT, would be sufficient to offset the VAT return in the future payments of VAT.

Initial recognition of related party transactions

In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses. The terms and conditions with regard to related party transactions are exposed in Note 6.

Useful lives and residual values of property, plant and equipment

Management estimates economic useful lives of property, plant and equipment as the period over which the Group expects to consume economic benefits from the assets. Also management estimates that the residual value of the asset is nil as the Group expects to use the asset until the end of its physical life. The useful lives and residual values of the assets are reviewed at least at each year-end.

Provision for pipeline retirement an site restoration obligations

In accordance with the Law of Republic of Kazakhstan Concerning Main Pipeline effective 4 July 2012, the Group has a legal obligation to remediate damage caused to the environment from its operations and to dismantle the "Atasu-Alashankou" and "Kenkiyak-Kumkol" pipelines upon completion of their operation.

Provision is made, based on net present values, for site restoration and rehabilitation costs as soon as the obligation arises from past operations. Provision for asset retirement obligations is measured based on the value of decommissioning and restoration works calculated by the Group in accordance with the technical regulations effective in the Republic of Kazakhstan.

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Estimates for remediation costs are subject to potential changes in environmental regulatory requirements and the interpretation of the legislation.

Asset retirement obligation is recognised when there is a probable certainty of incurring the costs and those costs can be measured reliably.

The amount of the provisions is determined using the nominal prices effective at the reporting dates by applying the average of forecasted inflation rate for the period 2014-2018 and discount rate as at reporting date.

Uncertainties in the estimates of such costs include potential changes in the regulatory requirements, alternatives to closure and reclamation of disturbed lands, discount and inflation rates.

Principal assumptions made in calculations of asset retirement obligations are presented below:

<i>In percentage</i>	<u>2014</u>	<u>2013</u>
Discount rate at 31 December	7.30	7.30
Inflation rate at 31 December	6.70	6.70

The estimate of discount rate is based on state bonds rates. The estimated time of liquidation of "Atasu-Alashankou" and "Kenkiyak-Kumkol" pipelines is planned for 2036 and 2039, respectively.

As at 31 December 2014 carrying amount of provision for pipeline retirement and site restoration obligations was 4,518,420 thousand tenge (31 December 2013: 4,643,078 thousand tenge).

5 NEW STANDARDS AND INTERPRETATIONS

Application of new and revised International Financial Reporting Standards (IFRSs)

The Group adopted the following new or revised standards and interpretations issued by the International Financial Reporting Standards Board and International Financial Reporting Standards Interpretations Committee (the "IFRIC"), which came into effect on the consolidated financial statements of the Group for the year ended 31 December 2014:

- Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting
- Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities
- IFRIC 21 Levies

The adoption of these Standards and Interpretations will have no material impact on consolidated statement of financial position and financial results of the Group. New and revised standards were applied retrospectively in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", unless otherwise noted below.

New and revised IFRSs in issue but not yet effective

At the date of approval of the form of annual consolidated financial statements the following new standards and interpretations have been issued but are not yet effective. The Group has not applied its early application:

- Amendments to IAS 19 - Defined Benefit Plans: Employee contributions¹;
- Annual Improvements to IFRSs 2010-2012 Cycle¹;
- Annual Improvements to IFRSs 2011-2013 Cycle¹;
- Annual Improvements to IFRSs 2012-2014 Cycle²;
- IFRS 14 Regulatory Deferral Accounts²;
- Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation²;
- Amendments to IAS 27 - Equity Method in Separate Financial Statements²;
- Amendments to IAS 16 and IAS 41 - Agriculture: Bearer Plants²;

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

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- Amendments to IFRS 11 - Accounting for Acquisition of Interests in Joint Operations²;
- Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture²;
- IFRS 15 Revenue from Contracts with Customers;¹
- IFRS 9 Financial Instruments;²

The Group will apply the new and revised standards and interpretations from the date as they become effective. IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors requires retrospective application of new or revised standards, unless otherwise noted below.

Management of the Group believes that these amendments will not have a material impact on the financial position or results of its operations.

6 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Related parties are defined in IAS 24 *Related Party Disclosures*. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions or joint control over the other party. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Group's immediate parents and ultimate controlling parties are disclosed in Note 1.

For the purpose of these consolidated financial statements, related parties of the Group include its owners and their affiliated companies.

As at 31 December 2014, the outstanding balances with related parties were as follows:

	<u>Parent companies</u>	<u>Associates</u>	<u>Total</u>
Trade receivables from related parties	-	51	51
Advances received from related parties	-	2,161,171	2,161,171
Accounts payables to related parties	1,147,793	253,385	1,401,178

Income and expense from transactions with related parties for the year ended 31 December 2014 were as follows:

	<u>Parent companies</u>	<u>Associates</u>	<u>Total</u>
Revenue	-	37,369,003	37,369,003
Pipeline repairs and maintenance services	6,145,435	-	6,145,435
Capital expenditures	-	57,567	57,567
Security services	-	265,289	265,289
Other services	4,880	38,804	43,684

As at 31 December 2013, the outstanding balances with related parties were as follows:

	<u>Parent companies</u>	<u>Associates</u>	<u>Total</u>
Trade receivables from related parties	651,706	-	651,706
Advances received from related parties	-	3,980,292	3,980,292
Accounts payables to related parties	806,068	2,480,532	3,286,600

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED) (in thousands of Kazakhstani Tenge)

Income and expense from transactions with related parties for the year ended 31 December 2013 were as follows:

	<u>Parent companies</u>	<u>Associates</u>	<u>Total</u>
Revenue	-	66,068,956	66,068,956
Pipeline repairs and maintenance services	4,949,455	-	4,949,455
Capital expenditures	-	11,271,646	11,271,646
Security services	-	824,712	824,712
Other services	3,719	30,771	34,490

Terms of transactions with related parties

Services are rendered to related parties on the same terms as to the third companies. Outstanding balances as at the end of the year are not secured, and settlements are made in cash. Purchases from related parties are made on the terms to be determined in the open tender.

Directors' compensation

Compensation paid to 6 directors for their services in full time executive management positions consists of their contractual salary and bonuses. Total directors' compensation included in general and administrative expenses in the consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2014 and 2013 is 135,660 thousand tenge and 134,630 thousand tenge, respectively.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED) (in thousands of Kazakhstani Tenge)

7 PROPERTY, PLANT AND EQUIPMENT

	Land	Building and constructions	Machinery and equipment	Pipeline and other vehicles	Other	Construction in progress	Total
Carrying amount at 1 January 2013	5,361	21,251,832	54,226,400	152,749,560	243,346	7,091,264	235,567,763
Additions	-	-	50,509	209,335	36,751	25,506,214	25,802,809
Internal transfers	-	16,021,651	11,760,598	163,631	769,467	(28,715,347)	-
Disposals	-	-	(2,868)	(66,439)	(7,085)	(2,864)	(79,256)
Depreciation charge	-	(1,747,855)	(6,729,388)	(4,558,278)	(145,662)	-	(13,181,183)
Carrying amount at 31 December 2013	5,361	35,525,628	59,305,251	148,497,809	896,817	3,879,267	248,110,133
Revalued cost at 31 December 2013	5,361	39,293,213	74,743,270	158,679,650	1,051,785	3,879,267	277,652,546
Accumulated depreciation	-	(3,767,585)	(15,438,019)	(10,181,841)	(154,968)	-	(29,542,413)
Carrying amount at 31 December 2013	5,361	35,525,628	59,305,251	148,497,809	896,817	3,879,267	248,110,133
Additions	-	-	39,547	113,655	22,661	2,435,895	2,611,758
Internal transfers	-	1,379,436	770,047	(7,503)	1,294	(2,143,274)	-
Reclassifications to assets held for sale (or disposal groups)	-	-	-	(195)	-	-	(195)
Disposals	-	-	(18)	-	(3,136)	-	(3,154)
Depreciation charge	-	(2,463,828)	(6,807,202)	(5,005,144)	(144,650)	-	(14,420,824)
Impairment loss recognized in profit or loss	(2,183)	(41,855)	(793,890)	(212,811)	(27,980)	-	(1,078,718)
Recovery of impairment through profit or loss	-	1,611,033	329,935	19,498	-	-	1,960,466
Revaluation	57,554	5,747,864	7,045,745	(5,715,888)	18,673	-	7,153,948
Carrying amount at 31 December 2014	60,732	41,758,281	59,889,415	137,689,418	763,679	4,171,889	244,333,414
Revalued cost at 31 December 2014	60,732	42,458,704	62,016,184	139,654,995	821,484	4,171,889	249,183,988
Accumulated depreciation	-	(700,423)	(2,126,769)	(1,965,577)	(57,805)	-	(4,850,574)
Carrying amount at 31 December 2014	60,732	41,758,281	59,889,415	137,689,418	763,679	4,171,889	244,333,414

Revaluation of property, plant and equipment of the Group was carried out by an independent appraiser to determine the fair value of property, plant and equipment as at 31 August 2014. Increase in the carrying value of property, plant and equipment amounted to 8,035,693 thousand tenge and was recognized in other comprehensive income in the amount of 7,153,948 thousand tenge and reversal of impairment loss in the amount of 881,745 thousand tenge.

Main assumptions used in revaluation are disclosed in Note 4.

As at 31 December 2014, the connection of NPS-8 to the ORU-35kV PS 500kV Agadyr was completed including construction, installation and commissioning services of 40,000 kVA capacity equipment for 1,262,790 thousand tenge.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED) (in thousands of Kazakhstani Tenge)

As at 31 December 2014 net book value of property, plant and equipment, excluding land and construction in progress, would have amounted to 196,777,581 thousand tenge (31 December 2013: 207,491,695 thousand tenge) would property, plant and equipment be disclosed in the statement of financial position at historical cost less accumulated depreciation.

	Building and Construction	Machinery and equipment	Pipeline and other vehicles	Other	Total
As at 31 December 2013					
Cost	41,776,900	64,103,939	149,507,648	1,174,117	256,562,604
Accumulated depreciation	(5,698,517)	(18,705,645)	(24,315,267)	(351,480)	(49,070,909)
Net Book Value	36,078,383	45,398,294	125,192,381	822,637	207,491,695
As at 31 December 2014					
Cost	43,156,336	64,877,560	149,153,173	1,147,800	258,334,869
Accumulated depreciation	(8,116,439)	(24,095,220)	(28,883,159)	(462,470)	(61,557,288)
Net Book Value	35,039,897	40,782,340	120,270,014	685,330	196,777,581

8 OTHER NON-CURRENT ASSETS

Other non-current assets mainly consist of input VAT and long-term advances paid for supply of property, plant and equipment. As at 31 December 2014, the Group recognized VAT recoverable of 7,839,011 thousand tenge (31 December 2013: 9,169,593 thousand tenge). Management believes that VAT will be reimbursed or will be offset against future VAT payments.

9 OTHER CURRENT ASSETS

	31 December 2014	31 December 2013
VAT recoverable	837,917	1,169,920
Prepaid taxes	87,529	49,220
Prepaid expenses	41,883	40,626
Advances paid	33,216	22,724
Other	56,194	115,689
Total other current assets	1,056,739	1,398,167

10 DEPOSITS

	31 December 2014	31 December 2013
Term deposits with maturity less than 12 months	7,787,804	30,162,999
Short term interest receivable	19,695	521,382
Total deposits	7,807,499	30,684,381

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED) (in thousands of Kazakhstani Tenge)

11 CASH AND CASH EQUIVALENTS

	<u>31 December 2014</u>	<u>31 December 2013</u>
Cash at bank – foreign currency	9,005,530	8,045,287
Cash at bank – Tenge	1,916,642	3,832,205
Cash on corporate cards	4,216	5,925
Cash on hand	162	320
Total cash and cash equivalents	<u>10,926,550</u>	<u>11,883,737</u>

12 CHARTER CAPITAL

Authorized charter capital of the Partnership is 13,000,000 thousand tenge. The Company is owned by two participants: China National Operating and Development Company (hereinafter «CNODC») and Joint Stock Company KazTransOil (hereinafter “KazTransOil”). The share of each participant in the authorized capital of the Company is 50 percent. The Company is under common control by KazTransOil and CNODC on an equal basis. As at 31 December 2014, the charter capital was fully paid.

13 LOANS AND BORROWINGS

	<u>31 December 2014</u>	<u>31 December 2013</u>
<i>Long-term borrowings</i>		
Industrial and Commercial Bank of China Limited and ING Bank N.V.	118,572,361	135,049,355
Industrial and Commercial Bank of China Limited	50,068,654	45,884,665
Bonds issued in 2005		-
Total loans and borrowings	<u>168,641,015</u>	<u>180,934,020</u>
Long-term portion of loans and borrowings	139,812,594	155,658,092
Current portion repayable in one year and shown under current liabilities	<u>28,828,421</u>	<u>25,275,928</u>

Industrial and Commercial Bank of China Limited and ING Bank N.V.

On 12 August 2008, the Group signed a loan agreement with the Industrial and Commercial Bank of China Limited and ING Bank N.V. The credit line was USD 1,180 million for 10 years with the possibility for extension up to five years. The loan purpose was to finance the “Kenkiyak- Kumkol” oil pipeline construction. The loan was disbursed in tranches with cash calls.

By 31 December 2009, the Group received four tranches for the total amount of USD 950 million. The Group’s loan arrangement cost reached 3,003,382 thousand tenge (equivalent of USD 23.15 million).

The interest rate for each interest period is the annual rate which includes 6- month - LIBOR plus bank margin. The interest capitalisation period which was 36 months from the loan agreement execution date terminated in 2011. Since the interest capitalisation period ended, the loan agreement principal amount was fixed at 153,311,743 thousand tenge or USD 1,033,098 thousand.

During 2011-2012, the Group extended the grace period for the principal repayment up to 54 months. In 2013 upon expiry of 54 months period from the date of agreement, the lending bank margin has increased from 2% to 4%.

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(in thousands of Kazakhstani Tenge)

Under the loan agreement, the Group has accounts in Industrial and Commercial Bank of China in Almaty, to which funds received from oil transportation by pipeline “Kenkiyak-Kumkol” are accumulated. These funds, later, should be used either for the payment of interest and principal amount of the loan or for the operating costs associated with the pipeline “Kenkiyak-Kumkol”.

During 2013 the Group paid interest in the amount of 4,795,420 thousand tenge (USD 31,392 thousand) and made repayment of the principal of 17,227,093 thousand tenge (USD 113,079 thousand).

During 2014 the Group paid interest of 5,864,045 thousand tenge (USD 34,834 thousand) and made repayment of the principal in the amount of 36,844,669 thousand tenge (USD 217,033 thousand), including advance repayment in the amount of 16,951,000 thousand tenge (USD 100,000 thousand).

Industrial and Commercial Bank of China Limited

On 2 August 2013, the Group signed a loan agreement with the Industrial and Commercial Bank of China Limited jointly with JSC “Industrial and Commercial Bank of China in Almaty”, acting as an agent. The loan amount was USD 300 million for 6 years with the possibility of early repayment. The loan purpose was to refinance the obligations on bonds issued on 22 September 2005. The interest rate is the annual rate which includes 6- month - LIBOR plus bank margin of 3.75%. The Group’s loan arrangement cost reached 829,398 thousand Tenge (equivalent of USD 5.44 million).

According to collection account agreement relating to the loan agreement dated 2 August 2013, the Group has collection accounts in Industrial and Commercial Bank of China in Almaty, to which funds received from oil transportation by pipeline “Atasu-Alashankou” are accumulated. These funds, later, should be used for the payment of interest and principal amount of the loan.

During 2014 the Group paid interest in the amount of 2,230,288 thousand tenge (USD 12,239 thousand) and made repayment of the principal in the amount of 4,555,750 thousand tenge (USD 25,000 thousand).

Devaluation of the national currency

On 11 February 2014, the National Bank of the Republic of Kazakhstan decided to devalue the tenge exchange rate. As a result on 12 February 2014 the market exchange rate of KZT to 1 US dollar fell to 184.55, which is about 19%. In order to prevent the destabilization of the financial market and the economy as a whole, the National Bank plans to create a corridor of tenge exchange rate against the US dollar within 182-188 tenge per 1 US dollar. As of 31 December 2014 the official exchange rate of tenge to the US dollar was 182.35 tenge. However, there is uncertainty in the dynamics of the tenge exchange rate and future actions of the National Bank, as well as the influence of these factors on the economy of Kazakhstan. Net foreign exchange loss related to loans for 2014 amounted to 30,738,940 thousand tenge (2013: 3,130,316 thousand tenge).

14 PROVISION FOR PIPELINE RETIREMENT AND SITE RESTORATION OBLIGATION

	<u>2014</u>	<u>2013</u>
Carrying amount at 1 January	4,643,078	4,618,254
Changes in estimates for the year	(458,259)	(252,849)
Amortisation of discount for the year	333,602	277,673
Carrying value at 31 December	<u>4,518,420</u>	<u>4,643,078</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED) (in thousands of Kazakhstani Tenge)

15 TRADE PAYABLES FROM MAIN OPERATIONS

	31 December 2014	31 December 2013
Denominated in Tenge	1,117,560	951,248
Denominated in foreign currency	99,528	81,040
Total trade payables from main operations	1,217,088	1,032,288

16 OTHER PAYABLES AND ACCRUED LIABILITIES

	31 December 2014	31 December 2013
Fines and penalties based on results of tax audits (Note 21)	1,059,400	1,719,898
Accrued liabilities	926,781	1,614,155
Income tax payable for non-residents	414,418	427,669
Other payables	137,302	200,159
Advances received	107,004	841,386
Taxes and other payments to budget other than income tax	102,467	102,069
Reserves for unused vacations	82,075	105,432
Total other payables and accrued liabilities	2,829,447	5,010,768

17 COST OF SALES

	2014	2013
Depreciation of property, plant and equipment	14,273,096	12,992,813
Operational and technical maintenance of pipelines	6,658,792	5,464,136
Taxes other than income tax	3,121,030	2,822,236
Security services	978,524	814,109
Pipeline diagnostics	829,393	501,017
Electricity expenses	718,228	587,505
Payroll	289,067	265,383
Inspection services	90,962	72,189
Social tax	21,569	17,884
Connection systems maintenance	15,584	261,782
Other	1,224,884	1,118,014
Total cost of sales	28,221,129	24,917,068

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED) (in thousands of Kazakhstani Tenge)

18 GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2014</u>	<u>2013</u>
Payroll	1,223,727	1,720,144
Taxes other than income tax	138,141	100,805
Business trip expenses	128,749	88,680
Depreciation of property, plant and equipment	125,454	156,699
Social tax	106,706	100,729
Consulting services	69,988	46,202
Rent expenses	56,717	26,392
Communication expenses	16,175	16,242
Withholding tax	16,012	-
Penalties and fines paid to third parties	14,892	700
Representative expenses	6,340	551
Fines and penalties per tax inspection	-	1,170,211
Other	449,759	274,980
Total general and administrative expenses	<u>2,352,660</u>	<u>3,702,335</u>

19 INTEREST EXPENSES

	<u>2014</u>	<u>2013</u>
Interest expense on loans	7,682,558	6,329,403
Interest expense on bonds	-	3,261,896
Unwinding of discount on provision for pipeline retirement and site restoration obligations	333,602	277,673
Total interest expenses	<u>8,016,160</u>	<u>9,868,972</u>

20 INCOME TAX

Income tax (benefit)/expense comprises the following:

	<u>2014</u>	<u>2013</u>
Current income tax expense	-	2,817,644
Adjustments recognised in the current year in relation to the current income tax of prior years	(216,029)	1,330,174
Deferred income tax (benefit)/expense	(4,015,233)	3,610,428
Income tax (benefit)/expense	<u>(4,231,262)</u>	<u>7,758,246</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED) (in thousands of Kazakhstani Tenge)

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

	2014	2013
(Loss)/income before tax	(18,203,042)	29,055,629
Theoretical tax amount at statutory rate of 20%	(3,640,608)	5,811,126
Tax effect of impairment loss reversal as a result of revaluation	(176,349)	-
(Non-taxable income)/non-deductible expenses	(198,276)	783,629
KCP Finance B.V. income	-	(940)
Change in estimates	-	(165,743)
	(4,015,233)	6,428,072
Adjustments recognised in the current year in relation to the current tax of prior years	(216,029)	1,330,174
Income tax (benefit)/expense	(4,231,262)	7,758,246

Differences between IFRS and Kazakhstani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below, and is recorded at the tax rate of 20% (2013: 20%) applicable to the period of assets realization or liabilities settlement.

	1 January 2014	Charged to profit or loss	Charged to other comp- rehensive income	31 December 2014
Tax effect of deductible temporary differences				
Loans and borrowings	1,358,822	(65,353)	-	1,293,469
Provision for pipeline retirement and site restoration obligation	928,616	66,719	(91,651)	903,684
Provision for unused vacation	19,156	(2,741)	-	16,415
Tax payables	3,783	8,084	-	11,867
Tax losses carried forward	-	4,452,116	-	4,452,116
Deferred tax asset	2,310,377	4,458,825	(91,651)	6,677,551
Tax effect of taxable temporary differences				
Property, plant and equipment and intangible assets	(22,765,876)	(443,592)	(1,430,790)	(24,640,258)
Deferred income tax liabilities	(22,765,876)	(443,592)	(1,430,790)	(24,640,258)
Total deferred income tax liabilities, net	(20,455,499)	4,015,233	(1,522,441)	(17,962,707)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED) (in thousands of Kazakhstani Tenge)

	1 January 2013	Charged to profit or loss	Charged to other comp- rehensive income	31 December 2013
Tax effect of deductible temporary differences				
Loans and borrowings	1,729,767	(370,945)	-	1,358,822
Provision for pipeline retirement and site restoration obligation	-	1,104,130	(175,514)	928,616
Provision for unused vacation	20,802	(1,646)	-	19,156
Taxes payable	6,283	(2,500)	-	3,783
Tax losses carried forward	2,285,334	(2,285,334)	-	-
Deferred tax asset	4,042,186	(1,556,295)	(175,514)	2,310,377
Tax effect of taxable temporary differences				
Property, plant and equipment and intangible assets	(20,711,743)	(2,054,133)	-	(22,765,876)
Deferred income tax liabilities	(20,711,743)	(2,054,133)	-	(22,765,876)
Deferred income tax liabilities, net	(16,669,557)	(3,610,428)	(175,514)	(20,455,499)

21 CONTINGENCIES AND COMMITMENTS

Operating environment

Emerging markets such as 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 Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction 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, economy of Kazakhstan is particularly sensitive to the price of oil and gas on the world market. During 2014 there was a significant decrease in energy prices. Management is unable to reliably estimate the effects of any further price fluctuations on the Company's financial position.

Taxation

Tax legislation and regulations of the Republic of Kazakhstan are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at 2.5 times the official National Bank of the Republic of Kazakhstan refinancing rate. As a result, penalties and interest can amount to multiples of any unreported taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued as at 31 December 2014.

Management of the Group believes that all tax liabilities were properly recorded and disclosed in these consolidated financial statements. However, there is a risk that tax authorities may take different interpretations of the Tax code provisions.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

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According to the results of the tax audit for 2008 and the first half of 2009, which ended in 2013, on the basis of notification № 3471 dated 24 December 2013 (hereinafter - the "Notice") additional corporate income tax was accrued, with appropriate penalties and fines in total amount of 3,049,788 thousand tenge. The Company recorded these amounts in the forms of the annual consolidated financial statements as at 31 December 2013. On 18 July 2014 the Company filed a lawsuit in the Specialized Interdistrict Economic Court of Almaty (the "SIEC") to invalidate and the abolition of the above notification. On 15 September 2014 during the trial, SIEC made a decision to cancel the alert in the calculation of the corporate income tax and the corresponding part of the penalty. However, the appellate panel of judges of the Almaty City Court on 15 January 2015 decided to cancel the decision of the trial court. During 2014 the Company paid the administrative fine which was accrued in 2013, but the debt of the corporate income tax in the amount of 1,330,174 thousand tenge and penalties in the amount of 1,059,400 thousand tenge will be paid only in 2015, after receiving the decision of the court of second instance. The Company intends to submit an appeal to the appropriate appeal judicial board of the Almaty City Court. Corporate income tax payable on 31 December 2014 in the amount of 1,330,174 thousand tenge, reduced by the advance payments for 2014 and overpayment for 2013 in the total amount of 1,361,552 thousand tenge.

Licensing

During tax audits in 2009-2010 the Company was raised with an issue of licensing for rendering oil transportation services. The Company management believes that in accordance with the Law of the Republic of Kazakhstan "Concerning Main Pipeline" the Company's operations are not subject to licensing as it relates solely to transportation, and not maintenance of pipelines, services on which are acquired by the Company from JSC "KazTransOil" which undertakes main pipeline maintenance activities under the state license. Management believes the Company is in compliance with all applicable laws and regulations of the Republic of Kazakhstan as at 31 December 2014.

Capital Commitments

As at 31 December 2014 the Group had capital commitments related to property, plant and equipment totalling 318,401 thousand tenge (at 31 December 2013: 2,496,072 thousand tenge).

Loan covenants

In accordance with the terms of loan agreements referred to in Note 13, the Group is required to comply with certain covenants, which are mainly administrative in nature. Management believes that the Group complies with all the terms of loan agreements as at 31 December 2014.

Oil for oil pipelines filling

The Group obtained technological oil for the oil pipelines required for its operation (Note 1). The Group is fully responsible for safety of this oil and will return it to PetroChina upon the expiration of rent contract. The term of return of technological oil to CNPC Aktobemunaigas is the termination of Kenkiyak-Kumkol pipeline operation.

Environmental and site restoration liabilities

In accordance with the Law of the Republic of Kazakhstan "Concerning Main Pipeline", enforced from 4 July 2012 the Group has the estimated legal liability on the elimination of environmental damage, caused as a result of its operating activity, and upon decommissioning of Alatau-Alashankou and Kenkiyak-Kumkol pipelines after termination of operation (Notes 4 and 14).

Insurance

The Group has insurance coverage of civil responsibility of vehicles' owners. The Group also insured employees against damage connected with accidents and diseases, liabilities of third parties (life, health and property) and has ecological insurance in connection with main activity.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED) (in thousands of Kazakhstani Tenge)

“Kazakhstan-China” Pipeline

On 8 December 2012 the agreement between the Republic of Kazakhstan and National Republic of China on cooperation of development of oil pipeline “Kazakhstan-China” was signed. “Kazakhstan-China” pipeline is the project on cooperation between two countries on expansion operation of oil pipeline “Kazakhstan-China”, for the ensuring stable supply of oil of the Kazakhstan origin via the pipeline on export. As at 31 December 2014 and 2013, the Group had not concluded any agreements and there are no commitments regarding this project.

22 FINANCIAL RISK MANAGEMENT AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2013.

Financial risk management objectives

The Treasury department provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk, credit risk and liquidity risk.

Market risk

Market risk is the risk that the fair values of future cash flows of financial instruments will fluctuate because of changes in market prices. Market prices comprise different types of risk: interest rate risk and currency risk.

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk because it borrows funds at floating interest rates.

The sensitivity analysis below has been determined based on the exposure to interest rates for borrowings at floating interest rate at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 1% increase or decrease represents management's assessment of the reasonably possible change in interest rates.

	31 December 2014		31 December 2013	
	Interest rate	Interest rate	Interest rate	Interest rate
	1%	-1%	1%	-1%
Profit/(loss) before tax	602,712	(602,712)	651,062	(651,062)

Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a currency different from the Group's functional currency). The Group's operations are carried out primarily in Kazakhstan. Nevertheless, the Group has significant cash inflows and outflows denominated in US Dollars. Significant amounts of loans, cash and cash equivalents, and term deposits are denominated in US Dollars.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED) (in thousands of Kazakhstani Tenge)

At 31 December 2014 and 2013, the financial assets and liabilities of the Group were denominated in the following currencies:

At 31 December 2014

	Евро	CNY	USD	Total
Financial assets:				
Cash and cash equivalents	-	17,069	8,988,461	9,005,530
Short-term deposits and related short-term interest receivables	-	-	7,807,499	7,807,499
Trade receivables from related parties	-	-	-	-
Total financial assets	-	17,069	16,795,960	16,813,029
Financial liabilities:				
Loans and borrowings	-	-	168,641,015	168,641,015
Trade payables from main operations and payables to related parties	4,429	171,856	8,300	184,585
Total financial liabilities	4,429	171,856	168,649,315	168,825,600
Net position	(4,429)	(154,787)	(151,853,355)	(152,012,571)

At 31 December 2013

	Евро	CNY	USD	Total
Financial assets:				
Cash and cash equivalents	-	1,204	8,044,083	8,045,287
Short-term deposits and related short-term interest receivables	-	-	17,459,492	17,459,492
Total financial assets	-	1,204	25,503,575	25,504,779
Financial liabilities:				
Loans and borrowings	-	-	180,934,020	180,934,020
Trade payables from main operations and payables to related parties	-	-	-	5,941,817
Total financial liabilities	-	-	180,934,020	180,934,020
Net position	-	1,204	(155,430,445)	(155,429,241)

The table below shows the sensitivity of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) to a change in the exchange rate of the US dollar, the probability of which can reasonably be expected under conditions of constant all other variables. 20% - is the level of sensitivity used in the preparation of internal reports for the top management on currency risk exposure and represents management's view based on the devaluation of the tenge on 11 February 2014. The Company's management believes that given the current economic situation in the Republic of Kazakhstan, the weakening of the 20 % is a realistic rate fluctuations tenge against other foreign currencies.

	2014		2013	
	Increase / decrease in exchange rate	Effect on profit before tax	Increase / decrease in exchange rate	Effect on profit before tax
U.S. Dollar	+20.00%	(30,370,671)	+10.00%	(15,543,045)
U.S. Dollar	-20.00%	30,370,671	-10.00%	15,543,045

Credit risk

Financial instruments, which potentially subject the Group to credit risk, consist primarily of cash and cash equivalents and term deposits. The Group is not exposed to credit risk in relation to accounts receivable as revenues from oil transportation services are mainly settled on an advance payment basis.

Concerning banks and financial institutions, only independently rated parties with a stable financial position and support from the Government are accepted.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

(in thousands of Kazakhstani Tenge)

The table below shows bank ratings, which cash and cash equivalents are placed with as at 31 December:

	Rating agency	Rating	2014	2013
Industrial and Commercial Bank of China (Almaty)	Moody's	C-	7,670,204	11,232,919
Deutsche Bank	Moody's	C-	620,902	533,509
Halyk Bank of Kazakhstan	Moody's	D-	2,612,980	111,126
Kazkommertsbank	Moody's	E	69	3,516
Bank of China	Moody's	D	21,477	2,102
Bank of China in Alashankou	Moody's	D	756	245

The table below shows the rating and balances with the bank where deposits have original maturities of 3-12 months placed as at 31 December:

	Rating agency	Rating	2014	2013
Kazkommertsbank	Moody's	E	-	17,162,999
Halyk Bank of Kazakhstan	Moody's	D-	7,807,499	13,002,520

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at a price close to its fair value. The Group monitors its liquidity risk on a regular basis by considering the maturity of its financial instruments and projected cash flows from operating activities.

Approach of the Group's liquidity management is to provide as far as possible constant availability of liquid assets sufficient for extinction of obligations in time. The Group is not a subject to significant liquidity risk in connection with providing service to its' customers on the basis of advance payments.

Surplus of cash held by the Group required for working capital management are controlled by the treasury department. The treasury department invests money surplus to interest-bearing current bank accounts, choosing the instruments with relevant maturities for providing enough liquidity. At the reporting date the Group had on current accounts and deposits amounting to 18,112,985 thousand tenge (31 December 2013: 41,513,226 thousand tenge). The average credit period for accounts payable comprises 90 days.

The Group's objective is to maintain the balance between the continuous financing and flexibility using the bank deposits.

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2014 and 2013:

	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
At 31 December 2014:					
Loans and borrowings	32,953,979	33,563,669	115,955,975	-	182,473,623
Trade payables from main operations and payables to related parties	2,618,266	-	-	-	2,618,266
At 31 December 2013:					
Loans and borrowings	29,912,919	31,291,395	139,417,774	-	200,622,088
Trade payables from main operations and payables to related parties	5,941,817	-	-	-	5,941,817

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

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Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of gearing ratio. The Group's policy is to minimise the gearing ratio by retiring borrowings. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "trade and other payables" and "payable to related parties" except for advances received, as shown in the consolidated statement of financial position) less cash and cash equivalents and term deposits. Total capital is calculated as "equity" as shown in the consolidated statement of financial position plus net debt.

	<u>2014</u>	<u>2013</u>
Total loans and borrowings	171,259,281	191,394,482
Less: cash and cash equivalents and term deposits	(18,734,049)	(42,568,118)
Net debt	152,525,232	148,826,364
Total owners' equity	73,964,264	81,748,164
Total equity	226,489,496	230,574,529
Gearing ratio	67%	65%

Fair value

The fair value of financial instruments approximates their carrying values.

Valuation of fixed assets at fair value Level 3 is carried out mainly with the use of cost and income methods. Determining the fair value of fixed assets is based on a large number of factors, such as changes in market expectations, changes in the availability of financing in the future and other conditions change.

The Company has no other financial and non-financial instruments that are measured subsequent to initial recognition at fair value by level 1 and 2 determine the fair value hierarchy.

23 SUBSEQUENT EVENTS

Management of the Group believes that at the reporting date there have been no significant events which would require disclosure or recognition in these consolidated financial statements.

24 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the management and authorised for issue on 30 January 2015.