# AYT - HOTEL KTJV JSC

Consolidated financial statements

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

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Building a better working world

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## Independent auditors' report

To the Shareholders of Ayt Hotel KTJV JSC:

We have audited the accompanying consolidated financial statements of Ayt Hotel KTJV Joint Stock Company and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and consolidated statement of comprehensive loss, 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 presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 qualified audit opinion.

### *Basis for qualified opinion*

As discussed in *Note 3* to the consolidated financial statements, the Group's accounting policy is to carry its property, plant and equipment at revalued amounts. IAS 16 Property, Plant and Equipment requires revaluation to be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The last revaluation of the Group's property, plant and equipment was performed as at 31 December 2006, and no subsequent revaluations were made. In our opinion, there are a number of factors that indicate that the fair value of property, plant and equipment has significantly changed since the date of the last revaluation and as such a revaluation should have been made during the year. The effect of this departure from IFRS has not been quantified.

**Qualified Opinion**

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Paul Cohn
Audit Partner

Evgeny Zhemaletdinov
Auditor / General Director
Ernst & Young LLP

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

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

29 August 2014

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2013

| *In thousands of Tenge* | Notes | 2013 | 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | | 3,726 | 2,437 |
| Property, plant and equipment | 5 | 9,367,128 | 9,561,163 |
| Non-current financial assets | 6 | – | 218,031 |
| Non-current prepaid expenses | | 42,334 | 41,664 |
| | | 9,413,188 | 9,823,295 |
| **Current assets** | | | |
| Inventories | 7 | 288,145 | 290,693 |
| Trade accounts receivable | 8 | 847,636 | 699,157 |
| Prepaid income tax | | 36,943 | 8,735 |
| Prepayments and other current assets | 9 | 76,866 | 93,456 |
| Current financial assets | 6 | 2,142,073 | 2,046,719 |
| Cash and cash equivalents | 10 | 35,044 | 71,997 |
| | | 3,426,707 | 3,210,757 |
| **TOTAL ASSETS** | | 12,839,895 | 13,034,052 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Share capital | 11 | 2,272,713 | 2,272,713 |
| Additional paid-in capital | | 600 | 600 |
| Revaluation reserve | 12 | 5,989,251 | 5,989,251 |
| Accumulated deficit | | (7,636,877) | (7,165,921) |
| | | 625,687 | 1,096,643 |
| Non-controlling interest | | 106 | 122 |
| **Total equity** | | 625,793 | 1,096,765 |
| **Non-current liabilities** | | | |
| Borrowings | 13 | 8,552,717 | 8,776,188 |
| Long-term payable | 14 | 115,775 | 106,366 |
| Liabilities under financial lease | 15 | – | 227,509 |
| Deferred income tax liability | 23 | 874,407 | 654,602 |
| | | 9,542,899 | 9,764,665 |
| **Current liabilities** | | | |
| Borrowings | 13 | 1,360,535 | 948,553 |
| Liabilities under financial lease | 15 | 261,936 | 505,472 |
| Trade accounts payable | 16 | 333,690 | 275,050 |
| Accruals and other current liabilities | 17 | 715,042 | 443,547 |
| | | 2,671,203 | 2,172,622 |
| **Total liabilities** | | 12,214,102 | 11,937,287 |
| **TOTAL EQUITY AND LIABILITIES** | | 12,839,895 | 13,034,052 |

General Director AYT - HOTEL KTJV JSC

*Veli Hakan Demirceken*

Finance Director AYT - HOTEL KTJV JSC

*Devrim Boyali*

Accounting Manager AYT - HOTEL KTJV JSC

*Timur Mustafin*

*The accompanying notes on pages 5 to 36 are an integral part of these consolidated financial statements.*

# CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS
**For the year ended 31 December 2013**

| *In thousands of Tenge* | Notes | 2013 | 2012 |
|---|---|---|---|
| **Revenue** | **18** | **3,546,424** | 3,450,213 |
| **Operating expenses:** | | | |
| Salaries and wages | **19** | **(1,063,497)** | (1,035,558) |
| Food and beverages | | **(422,525)** | (396,564) |
| Energy | | **(219,149)** | (200,232) |
| Depreciation and amortization | | **(217,093)** | (219,182) |
| Taxes other than income tax | | **(210,164)** | (91,231) |
| Guest supplies | | **(164,051)** | (137,465) |
| Foreign exchange loss | | **(147,139)** | (112,527) |
| Management and operations fee | **24** | **(142,134)** | (139,560) |
| Royalty and marketing fee | **24** | **(102,763)** | (97,763) |
| Bank charges | | **(48,193)** | (50,124) |
| Repair and maintenance | **20** | **(45,462)** | (742,362) |
| Complimentary services and gifts | | **(41,731)** | (42,536) |
| Advertising fees | | **(31,562)** | (36,503) |
| Telecommunication and IT expenses | | **(25,519)** | (30,294) |
| Insurance | | **(23,842)** | (16,729) |
| Reservation fee | | **(20,553)** | (21,005) |
| Consulting service | | **(9,627)** | (9,744) |
| Telephone costs | | **(7,745)** | (10,718) |
| TV expenses | | **(5,328)** | (7,553) |
| Laundry | | **(3,361)** | (7,643) |
| Provision for obsolete and slow-moving inventories | **7** | **(3,037)** | (1,694) |
| (Loss) / gain on disposal of property, plant and equipment | | **(2,987)** | 1,606 |
| Bad debt expense | **8** | **(6,036)** | (4,942) |
| Other | | **(145,525)** | (182,687) |
| **Total operating costs** | | **(3,109,023)** | (3,593,010) |
| **Operating profit / (loss)** | | **437,401** | (142,797) |
| Finance costs | **21** | **(870,613)** | (731,884) |
| Finance income | **22** | **220,876** | 380,110 |
| Other income | | **9,148** | 69,423 |
| **Loss before Income tax expense** | | **(203,188)** | (425,148) |
| Income tax (expense) / benefit | **23** | **(219,805)** | 92,384 |
| **Loss for the year** | | **(422,993)** | (332,764) |
| Attributable to: | | | |
| Equity holders of the parent | | **(422,977)** | (332,736) |
| Non-controlling interest | | **(16)** | (28) |
| **Total comprehensive loss for the year** | | **(422,993)** | (332,764) |

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*Timur Mustafin*

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# CONSOLIDATED STATEMENT OF CASH FLOWS

**For the year ended 31 December 2013**

| *In thousands of Tenge* | 2013 | 2012 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Loss before income tax | **(203,188)** | (425,148) |
| *Adjustments for:* | | |
| Finance costs | **870,613** | 731,884 |
| Finance income | **(220,876)** | (380,110) |
| Depreciation and amortization | **217,093** | 219,182 |
| Unrealized foreign exchange loss related to financing activities | **156,448** | 122,180 |
| Loss / (gain) on disposal of property, plant and equipment | **2,987** | (1,606) |
| Provision for obsolete inventories | **3,037** | 1,694 |
| Bad debt expense | **6,036** | 4,942 |
| **Working capital adjustments:** | | |
| (Increase) / decrease in operating assets: | | |
| Inventories | **(489)** | (285,225) |
| Trade accounts receivable | **(154,515)** | (41,664) |
| Other current assets | **80,517** | 1,217,205 |
| Increase / (decrease) in operating liabilities: | | |
| Trade accounts payable | **58,640** | (297,643) |
| Accruals and other current liabilities | **271,495** | 8,171 |
| **Cash generated from operations** | **1,087,798** | 873,862 |
| Interest paid | **(571,446)** | (280,030) |
| Income tax paid | **(28,208)** | (6,528) |
| **Net cash flows from operating activities** | **488,144** | 587,304 |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | **(25,157)** | (320,023) |
| Proceeds from sale of property, plant and equipment | **–** | 9,000 |
| Purchase of intangible assets | **(2,177)** | (1,213) |
| Loans given to related parties and employee | **(531,595)** | (1,001,516) |
| Proceeds from repayment of loans given | **112,355** | 161,270 |
| **Net cash used in investment activities** | **(446,574)** | (1,152,482) |
| **Cash flows from financing activities** | | |
| Proceeds from borrowings | **307,540** | 3,320,473 |
| Repayment of borrowings | **(386,063)** | (2,716,968) |
| **Net cash (used in) / from financing activities** | **(78,523)** | 603,505 |
| **Net (decrease) / increase in cash and cash equivalents** | **(36,953)** | 38,327 |
| Cash and cash equivalents at the beginning of the year | **71,997** | 33,670 |
| **Cash and cash equivalents at 31 December** (*Note 10*) | **35,044** | 71,997 |

## NON-CASH TRANSACTIONS – SUPPLEMENT DISCLOSURE

Non-cash transactions, constituting the following, have been excluded from the consolidated statement of cash flows:

On 17 September 2010 the Group entered into a finance lease with the related party, Ayt Housing Complex LLP. In the same time the Group had receivables from Ayt Housing Complex LLP. In 2013 the Group and Ayt Housing Complex LLP performed mutual settlement of receivables and payables in the amount of 602,308 thousand Tenge (including VAT in the amount 64,597 thousand Tenge) which resulted in cross-cancellation of finance lease liability of the Group and receivables from Ayt Housing Complex LLP.

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*Timur Mustafin*

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# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**For the year ended 31 December 2013**

| | Attributable to equity holders of the parent | | | | | | |
|---|---|---|---|---|---|---|---|
| *In thousands of Tenge* | Share Capital *(Note 11)* | Additional paid-in capital | Revaluation Reserve *(Note 12)* | Accumulated deficit | Total | Non-controlling Interest | Total equity |
| At 1 January 2012 | 2,272,713 | 600 | 5,989,251 | (6,672,231) | 1,590,333 | 150 | 1,590,483 |
| Loss for the year | – | – | – | (332,736) | (332,736) | (28) | (332,764) |
| Other comprehensive income | – | – | – | – | – | – | – |
| Total comprehensive loss | – | – | – | (332,736) | (332,736) | (28) | (332,764) |
| Discounting of loans, provided to related parties *(Note 6)* | – | – | – | (160,954) | (160,954) | – | (160,954) |
| **At 31 December 2012** | **2,272,713** | **600** | **5,989,251** | **(7,165,921)** | **1,096,643** | **122** | **1,096,765** |
| Loss for the year | – | – | – | (422,977) | (422,977) | (16) | (422,993) |
| Other comprehensive income | – | – | – | – | – | – | – |
| Total comprehensive loss | – | – | – | (422,977) | (422,977) | (16) | (422,993) |
| Discounting of loans, provided to related parties *(Note 6)* | – | – | – | (47,979) | (47,979) | – | (47,979) |
| **At 31 December 2013** | **2,272,713** | **600** | **5,989,251** | **(7,636,877)** | **625,687** | **106** | **625,793** |

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## 1. CORPORATE INFORMATION

AYT - Hotel KTJV Joint Stock Company (the "Company") was created in accordance with the laws of the Republic of Kazakhstan on 26 December 1995. The Company owns and operates a hotel located in Almaty, Kazakhstan.

As of 31 December 2013 the Company's shareholders were AYT Uluslararasi Turizm Isletmeleri Insaat ve Ticaret A.S. ("AYT") having 99.79% and individuals – 0.21%. The ultimate owner of AYT is Mr. Ayan Akhmet Hamdi, citizen of Turkey.

AYT provides the Company management services. On 4 August 2006, an International Franchise agreement was signed between the Company and Intercontinental Hotels Corporation (the "Licensor") according to which the Company may benefit from a number of services provided by the Licensor, including a reservation system. Consequently, the current name of the hotel is "Intercontinental Almaty – The Ankara in Kazakhstan".

On 14 September 1999, a subsidiary company providing currency exchange services, AYT Exchange LLP, was established in order to provide services to hotel clients. AYT Exchange LLP operates under license # 19041/9 dated October 4, 2001 granted by the National Bank of the Republic of Kazakhstan. The Company owns 99,07% of AYT Exchange LLP. On 20 January 2003 the Company registered its 100% subsidiary, AYT International Travel LLP. The main activity of the subsidiary is tourism.

The consolidated financial statements include the results of the Company and its subsidiaries' operations. The Company and its subsidiaries are hereinafter referred to as the "Group".

The registered office of the Company and its subsidiaries is located at 181 Zheltoksan Street, Almaty, Republic of Kazakhstan. The consolidated financial statements of the Group for the year ended 31 December 2013 were authorized for issue by the Group's management on 29 August 2014.

## 2. BASIS OF PRESENTATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these consolidated financial statements.

The consolidated financial statements are presented in Kazakhstan Tenge ("Tenge") and all values are rounded to the nearest thousands, except when otherwise indicated.

### Basis of consolidation

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

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it:

- Derecognises assets and liabilities of the subsidiary (including those related to goodwill);
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as of 1 January 2013:

### Changes to IFRS

The following new standards and amendments became effective as of 1 January 2013:

- *IFRS 1 First-time Adoption of International Financial Reporting Standards – Government Loans – Amendments to IFRS 1;*
- *IFRS 7 Financial Instruments: Disclosures Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7;*
- *IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements;*
- *IFRS 11 Joint Arrangements, IAS 28 Investments in Associates and Joint Ventures;*
- *IFRS 12 Disclosure of Interests in Other Entities;*
- *IFRS 13 Fair Value Measurement;*
- *IAS 19 Employee Benefits (Revised 2011);*
- *IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine.*

Improvements to IFRSs – 2009-2011 Cycle:

- *IFRS 1 – Repeat application of IFRS 1;*
- *IFRS 1 – Borrowing Costs;*
- *IAS 1 – Clarification of the requirement for comparative information;*
- *IAS 16 – Classification of servicing equipment;*
- *IAS 32 – Tax effects of distributions to holders of equity instruments;*
- *IAS 34 – Interim financial reporting and segment information for total assets and liabilities.*

### New and amended standards and interpretations

The Group applies, for the first time, certain new standards and amendments to existing standards and interpretations. They include IFRS 10 *Consolidated financial statements*, IFRS 11 *Joint Arrangements*, IAS 19 *Employees benefits*, IFRS 13 *Fair value measurement* and amendments to IAS 1 *Presentation of Financial Statements.*

Several other new standards and amendments apply for the first time in 2013. However, they do not impact the annual financial statements of the Group. The nature and the impact of each new standard and amendment is described below:

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

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. There were no significant set off arrangements as at 31 December 2013.

*IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements*

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities.* IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the Group.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**New and amended standards and interpretations (continued)**

*IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures*

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. IFRS 11 had no impact on the Group.

*IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for financial statements, unless significant events and transactions in the period require that they are provided. IFRS 12 had no impact on the Group.

*IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price.

Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in *Note 26*.

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

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income ("OCI"). Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g., net loss or gain on available-for-sale financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group's financial position or performance.

*IAS 1 Clarification of the requirement for comparative information (Amendment)*

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments affect presentation only and have no impact on the Group's financial position or performance.

*IAS 19 Employee Benefits (Revised 2011) (IAS 19R)*

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. The amendment did not have material impact on the Group's financial statements.

*IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)*

As a consequence of the new IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 *Investments in Associates*, has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard did not impact the financial position or performance of the Group.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**New and amended standards and interpretations (continued)**

*IAS 32 Tax Effects of Distributions to Holders of Equity Instruments (Amendment)*

The amendment to IAS 32 *Financial Instruments: Presentation* clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the consolidated financial statements of the Group, as there is no tax consequences attached to cash or non-cash distribution.

*IAS 34 Interim Financial Reporting and Segment Information for Total Assets and Liabilities (Amendment)*

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 *Operating Segments*. Total assets and liabilities for a reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker. The amendment does not affect the Group's annual consolidated financial statements.

*Annual improvements – 2009-2011 Cycle*

These improvements are effective for annual periods beginning on or after 1 January 2013. The improvements will not have an impact on the Group, but include:

*IAS 16 Property Plant and Equipment*

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

*IAS 32 Financial Instruments, Presentation*

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

**Standards issued but not yet effective**

These improvements will not have an impact on the Group, but include:

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

*Annual improvements – 2010 – 2012 Cycle*

These improvements will not have an impact on the Group, but include:

*IFRS 2 Share-based Payment*

The improvement amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'.

*IFRS 3 Business Combinations*

The improvement prescribes accounting for contingent consideration in a business combination. The amendment also clarifies that contingent consideration that is classified as an asset or a liability shall be measured at fair value at each reporting date.

*IFRS 8 Operating Segments*

The amendment requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments. Additional improvement also clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Standards issued but not yet effective (continued)**

*IFRS 13 Fair Value Measurement*

The amendment clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.

*IAS 16 Property, Plant and Equipment*

The amendment clarifies that when an item of property, plant and equipment is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

*IAS 24 Related Party Disclosures*

The improvement ensures that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

*IAS 38 Intangible Assets*

The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

The amendments are effective for annual periods beginning on or after 1 July 2014.

*Annual Improvements to IFRSs 2011–2013 Cycle*

Annual Improvements to IFRSs 2011–2013 Cycle is a collection of amendments to IFRSs in response to four issues addressed during the 2011–2013 cycle. It includes the following amendments:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards: Meaning of 'effective IFRSs'*;
- IFRS 3 *Business Combinations: Scope exceptions for joint ventures*;
- IFRS 13 *Fair Value Measurement: Scope of paragraph 52 (portfolio exception)*;
- IAS 40 *Investment Property:* clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

*IAS 19 Employee Benefits entitled Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)*

These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendments are effective from 1 July 2014 with earlier application permitted.

IFRS 9 *Financial Instruments*

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

*IFRS 14 Regulatory Deferral Accounts*

IFRS 14 *Regulatory Deferral Accounts*, describes regulatory deferral account balances as amounts of expense or income that would not be recognized as assets or liabilities in accordance with other Standards, but that qualify to be deferred in accordance with this Standard because the amount is included, or is expected to be included, by the rate regulator in establishing the price(s) that an entity can charge to customers for rate-regulated goods or services.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Standards issued but not yet effective (continued)**

*IFRS 14 Regulatory Deferral Accounts (continued)*

This Standard permits a first-time adopter within its scope to continue to account for regulatory deferral account balances in its first IFRS financial statements in accordance with its previous GAAP when it adopts IFRS. However, IFRS 14 introduces limited changes to some previous GAAP accounting practices for regulatory deferral account balances, which are primarily related to the presentation of these accounts. This Standard is effective for annual periods beginning on or after 1 January 2016. The Group does not expect that this Standard will have impact in future consolidated financial statements.

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

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

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

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

*IFRIC Interpretation 21 Levies (IFRIC 21)*

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

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

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

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

These amendments remove unintended consequences for disclosures in accordance with IAS 36, associated with IFRS 13 coming into effect. Besides, these amendments require disclosing the recoverable value of assets or CGU on which the impairment loss was recognized or recovered during the reporting period. Amendments require that the recoverable value of impaired non-financial assets should be disclosed if such value is based on the fair and should be applied retrospectively with respect to annual reporting periods beginning on or before 1 January 2014, whereby early application is permitted subject to application of IFRS 13. As at 31 December 2013 the Group had no such assets. Therefore, these amendments are not expected to have any impact on the financial position or performance of the Group.

In May 2014, the IASB issued IFRS 15 *Revenue From Contracts with Customers*. IFRS 15 establishes a single framework for revenue recognition and contains requirements for related disclosures. New standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and the related interpretations on Revenue recognition. The standard is effective for annual periods beginning on or after 1 January 2017, with earlier application permitted. The Group is currently assessing the impact of the standard on the consolidated financial statements.

In May 2014, the IASB issued amendment to IFRS 11 *Joint Arrangements*, entitled *Accounting for Acquisitions of Interests in Joint Operations*. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business and requires application of IFRS 3, *Business combinations*, for such acquisitions. The amendment is effective for annual periods beginning on or after 1 January 2016, with earlier application permitted. This amendment is not expected to be relevant to the Group.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Standards issued but not yet effective (continued)

*Amendments to IAS 36 Assets Impairment – Disclosures on Recoverable Amount for Non-Financial Assets (continued)*

In May 2014, the IASB issued amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* entitled *Clarification of Acceptable Methods of Depreciation and Amortization.* Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate, because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted. The Group does not expect the amendment to have a material impact on the consolidated financial statements.

In November 2013, the IASB issued amendments to IAS 19 *Employee Benefits,* entitled *Defined Benefit Plans: Employee Contributions.* The narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendments are effective for annual periods beginning on or after 1 July 2014 with earlier application permitted. The Group does not expect the amendment to have a material impact on the consolidated financial statements.

### Foreign currency translation

The Group's consolidated financial statements are presented in Tenge, which is the parent the Group's and all its subsidiaries' functional currency, and presentation currency as well.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date.

All differences arising on settlement or translation of monetary items are taken to the statement of comprehensive loss.

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

Tenge is not convertible currency outside Kazakhstan. Weighted average currency exchange rates established by the Kazakhstan Stock Exchange ("KASE") are used as official currency exchange rates in the Republic of Kazakhstan.

The following foreign exchange rates against the Kazakhstan Tenge have been used in the preparation of these consolidated financial statements:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| US dollar | **154.06** | 150.74 |

### Property, plant and equipment

Property, plant and equipment are measured at fair value less accumulated depreciation and impairment losses recognised after the date of the revaluation. The Group periodically hires independent industry specialists for performing valuation of the property, plant and equipment to its residual value. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. A revaluation reserve is not transferred to retained earnings in relation to the depreciation of revalued property, plant and equipment.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Property, plant and equipment (continued)**

*Subsequent expenditure*

Any subsequent expenditure on an item of property, plant and equipment that improves the condition of the asset beyond its originally assessed standard of performance is capitalized. All other subsequent expenditure, such as repair and maintenance expenditure, is charged to expenses.

*Depreciation*

Depreciation is calculated on a straight-line basis over the estimated useful lives. To ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment, the useful life and depreciation method are reviewed periodically. The estimated useful lives of property, plant and equipment are as follows:

| | Useful life (years) |
|---|---|
| Buildings | 50-51 |
| Furniture, machinery and equipment | 5-8 |
| Vehicles | 10 |
| Other | 2-13 |

Land is not depreciated.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

**Intangible assets**

Intangible assets, which primarily represent by the cost of software are recorded at historical cost less accumulated amortization and any accumulated impairment losses. Amortization is provided on a straight-line basis over the estimated useful economic life of the assets. Software program has useful life of 3-5 years. The Group has no other intangible assets with indefinite useful life. Residual value and terms of assets useful life are analyzed and corrected upon the necessity at the end of each reporting period.

**Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment of non-financial assets (continued)**

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

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

**Leases**

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

*Group as a lessee*

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised within finance costs in the consolidated statement of comprehensive income.

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

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

*Group as a lessor*

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

**Financial assets**

***Initial recognition and measurement***

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and cash equivalents, trade and other accounts receivables, loans and other receivables.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial assets (continued)**

***Subsequent measurement***

The subsequent measurement of financial assets depends on their classification as described below:

*Trade and other accounts receivable*

Trade and other accounts receivable are carried at original invoice amount less allowance made for impairment of these receivables. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited to the statement of comprehensive income.

*Cash and short-term deposits*

Cash and short-term deposits in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

*Interest free loans or loans provided to related parties below market rates.*

Interest-free given to the parent or an entity under the parent's control are initially recognized at fair value of amounts given and subsequently measured at amortized cost using the effective interest rate method (EIR). On initial recognition, the difference between the amount issued and the fair value is recognized in the consolidated statement of changes in equity.

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

*Cash, restricted in use*

Cash, restricted in use, include bank deposits which represent guarantee deposits for the expatriate employees and bank deposit held as security against guarantee issued under franchise agreement of trademark. These deposits are not included in cash and cash equivalents.

***Derecognition of financial assets***

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment of financial assets**

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortised cost*

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a previous write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

**Financial liabilities**

***Initial recognition and measurement***

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include trade and other payables, borrowings and finance lease liabilities.

***Subsequent measurement***

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

*Borrowings*

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial liabilities (continued)**

*Subsequent measurement (continued)*

*Borrowings (continued)*

Borrowings are classified as short-term liabilities provided that the Group does not have unconditional right for delay of repayment for, at least, twelve months after the reporting date.

*Trade and other payables*

Liabilities for trade and other amounts payable are recognized at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

***Derecognition of financial liabilities***

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

**Fair value of financial instruments**

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions;
- Reference to the current fair value of another instrument that is substantially the same;
- A discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in *Note 26*.

**Inventories**

Inventories are valued at the lower of cost and net realisable value. Cost of inventories is accounted based on weighted average cost. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

**Equity**

Share capital contributions made in the form of assets other than cash are stated at the fair value of the assets at the date of contribution. Preferred shares that are non-redeemable or redeemable only upon the occurrence of an event that is not likely to occur are classified as equity.

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

*Rendering of services*

Revenue from hotel services is recognised when the services are provided.

*Sale of goods*

Revenue is recognised when the significant risks and rewards of the ownership of goods have passed to the buyer and the amount of revenue can be measured reliably.

*Interest income*

Revenue is recognised as interest accrues (using the effective interest method). Interest income is included in finance revenue in the statement of comprehensive income.

**Expense recognition**

Expenses are accounted for at the time the actual flow of the related goods or services occurs, regardless of when cash or its equivalent is paid, and are reported in the consolidated financial statements in the period to which they relate.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**Taxes**

*Current income tax (CIT)*

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the Republic of Kazakhstan.

Current income tax relating to items recognised directly in equity is recognised in equity and not in profit and loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

*Deferred income tax*

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Taxes (continued)

*Deferred income tax (continued)*

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

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

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

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

*Value Added Tax (VAT)*

Revenues, expenses and assets are recognised net of the amount of VAT, except:

- When the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable;
- Receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. VAT recoverable relates to purchases, which have not been settled at the reporting date. VAT recoverable is reclaimable against VAT related to sales upon payment for the purchases, as well as VAT recoverable is recoupable by claiming of cash refund from tax authorities of the country. In case if norms of current tax legislation postpone a refund or offset of VAT recoverable within the next twelve months after reporting date, then such VAT recoverable is transferred into long-term assets. In the case of non-recoverability, VAT recoverable amount is expensed in the statement of comprehensive income.

### Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset. When the Group receives non-monetary grants, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset by equal annual instalments. When loans or similar assistance are provided by governments or related institutions, with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as a government grant.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Contingent liabilities and contingent assets**

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the consolidated financial statements. Where an inflow of economic benefits is probable, they are disclosed.

**Provisions**

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

## 4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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

***Impairment of property, plant and equipment***

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the assets' recoverable amount. An asset's recoverable amount is higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets.

The determination of impairment of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, changes in the future availability of financing, discontinuance of service and other changes in circumstances that indicate impairment exists.

The recoverable amount and the fair values are typically determined using a discounted cash flow method which incorporates reasonable market participant assumptions. The identification of impairment indicators, the estimation of future cash flows and the determination of fair values for assets (or group of assets) requires management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values.

**Revaluation of property, plant and equipment**

The Group uses the revaluation model allowed under IAS 16 *"Property, Plant and Equipment"*. The Group applied the income approach involving the exercise of significant assumptions and judgments in determining the fair values of property, plant and equipment. The key assumptions used in deriving the valuation using the income approach are the discount rate and the projection of future cash flows.

### *4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)*

*Allowances for doubtful accounts*

Management maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the aging of accounts receivable balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As at 31 December 2013 allowances for doubtful accounts have been created in the amount of 36,579 thousand Tenge (as at 31 December 2012: 30,543 thousand Tenge) (*Note 8*).

**Deferred tax assets**

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The Government of the Republic of Kazakhstan has introduced significant changes into existing Tax code, including a change in carry forward tax period of tax losses from 3 years to 10 years. The Group believes that it will have taxable profits against which tax loss could be recovered. Therefore, the Group does not have unrecognised deferred tax assets as of 31 December 2013. More detailed information presented in *Note 23*.

**Taxation**

In assessing tax and legal risks, management considers to be probable obligations the known areas of tax or legal positions which the Group would not appeal or does not believe it could successfully appeal, if assessed by tax or legal authorities. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, the determination of expected outcomes from pending tax or legal proceedings and the outcome of ongoing compliance audits by tax authorities. The Group's tax and legal contingencies are disclosed in *Note 24*.

**Fair value of borrowings given to related parties**

Borrowings provided to related parties has been valued based on the expected cash flows discounted at market rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows and discount rates, and hence they are subject to uncertainty. The estimated fair value of the Group's financial instruments as of 31 December 2013 and 31 December 2012 is disclosed in *Note 26*.

## 5. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the year ended 31 December 2013 is as follows:

| *In thousands of Tenge* | Land | Buildings | Machinery and equipment | Vehicles | Other | Total |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| At 1 January 2012 | 4,488,081 | 7,975,589 | 383,490 | 50,288 | 1,253,624 | 14,151,072 |
| Additions | – | – | 98,262 | 3,587 | 218,174 | 320,023 |
| Disposals | – | – | (226) | – | (17,264) | (17,490) |
| **At 31 December 2012** | **4,488,081** | **7,975,589** | **481,526** | **53,875** | **1,454,534** | **14,453,605** |
| Additions | – | – | **2,603** | **1,599** | **20,955** | **25,157** |
| Disposals | – | – | **(336)** | **(7,191)** | **(3,014)** | **(10,541)** |
| **At 31 December 2013** | **4,488,081** | **7,975,589** | **483,793** | **48,283** | **1,472,475** | **14,468,221** |
| **Accumulated depreciation:** | | | | | | |
| At 1 January 2012 | – | (3,209,942) | (354,534) | (27,567) | (1,098,984) | (4,691,027) |
| Depreciation charge | – | (102,367) | (15,602) | (3,544) | (97,127) | (218,640) |
| Disposals | – | – | 226 | – | 16,999 | 17,225 |
| **At 31 December 2012** | **–** | **(3,312,309)** | **(369,910)** | **(31,111)** | **(1,179,112)** | **(4,892,442)** |
| Depreciation charge | – | **(102,366)** | **(28,208)** | **(4,981)** | **(80,650)** | **(216,205)** |
| Disposals | – | **–** | **336** | **4,654** | **2,564** | **7,554** |
| **At 31 December 2013** | – | **(3,414,675)** | **(397,782)** | **(31,438)** | **(1,257,198)** | **(5,101,093)** |
| **Net book value:** | | | | | | |
| At 31 December 2012 | 4,488,081 | 4,663,280 | 111,616 | 22,764 | 275,422 | 9,561,163 |
| **At 31 December 2013** | **4,488,081** | **4,560,914** | **86,011** | **16,845** | **215,277** | **9,367,128** |

As at 31 December 2013 the hotel complex and other property, plant and equipment with a carrying amount of 9,048,995 thousand Tenge (31 December 2012: 9,151,362 thousand Tenge) had been pledged as security for some of the Group's borrowings (*Note 13*).

In 2010 the Group entered into a finance lease contract as a lessee with Ayt Housing Complex LLP (the "Lessor" or "Ayt Housing") to lease Edelweiss real estate complex in Almaty city *(Note 15)*. As at 31 December 2013 the carrying value of the leased assets amounted to 1,282,006 thousand Tenge (31 December 2012: 1,361,054 thousand Tenge).

In 2013 and 2012 the Group did not capitalise any borrowing costs.

The revaluation of the Group's property, plant and equipment was performed as at 31 December 2006 by an independent qualified appraiser. The fair value of the hotel building was calculated as the difference between the value of the hotel determined by the income approach, and the value of the land, movable and other property determined according to the market approach.

The carrying amount of each class of property, plant and equipment that would have been included in the financial statements had the assets been carried at cost less any accumulated depreciation and impairment losses was as follows:

| *In thousands of Tenge* | Land | Buildings | Machinery and equipment | Vehicles | Other | Total |
|---|---|---|---|---|---|---|
| **Carrying amount:** | | | | | | |
| At 31 December 2012 | 371,278 | 2,940,577 | 111,616 | 22,764 | 275,422 | 3,721,657 |
| **At 31 December 2013** | **371,278** | **2,876,452** | **86,011** | **16,845** | **215,277** | **3,565,863** |

## 6. FINANCIAL ASSETS

| *In thousands of Tenge* | 2013 | 2012 |
|---|---|---|
| Loan given to Ahsel Inshaat T.S. | **903,448** | 909,726 |
| Loan given to A Development Company | **329,670** | – |
| Loan given to Ayt Housing | **293,032** | 820,939 |
| Loan given to an employee | **247,330** | 188,314 |
| Loan given to SBA Medical | **139,636** | 139,363 |
| Loan given to Ayt Trade & Business Center | **124,760** | - |
| Loan given to ABS Center | **88,441** | 190,702 |
| Restricted cash | **15,756** | 15,706 |
| | **2,142,073** | 2,264,750 |
| Long-term portion of the loan given to Ayt Housing | – | (218,031) |
| | **2,142,073** | 2,046,719 |

**6. FINANCIAL ASSETS (continued)**

*Ahsel Inshaat T.S.*

In 2012 the Group provided a loan to Ahsel Inshaat T.S., the related party, at interest rate of 0.10% per annum, with maturity on 1 November 2013. The Group recognized the loan at fair value at the date of issuance. The fair value was determined by discounting of future cash flows at market rate of 10% until the period, when the Group expects the loan to be repaid. As a result, a discount in the amount of 109,212 thousand Tenge was recognized in the consolidated statement of changes in equity for the year ended 31 December 2012, since the loan was given upon instructions of the parent company.

In 2013 the loan given to Ahsel Inshaat T.S. was extended up to 31 December 2014. The revised estimate in the future cash flows resulted in the additional discount in the amount of 89,339 thousand Tenge that was recognized in the consolidated statement of comprehensive loss for the year ended 31 December 2013.

*A Development Company*

In 2013 the Group provided a loan to A Development Company, the related party, in the amount of 357,050 thousand Tenge at interest rate of 0.10% per annum and with maturity on 12 October 2015. The Group recognized the loan at fair value at the date of issuance, which was determined by discounting future cash flows at market rate of 10.7% until the period when the Group expects the loan to be repaid. The discount in the amount of 34,189 thousand Tenge was recognized in the consolidated statement of changes in equity for the year ended 31 December 2013, since the loan was issued under instructions of the parent company.

*Ayt Housing*

According to the instruction of the parent company on 12 March 2009 the Group entered into agreement with Kazkomertsbank JSC (the "Bank") and assumed obligations of Ayt Housing, the related party under the loan agreement dated 20 September 2005 concluded between the Bank and Ayt Housing. The amount of assumed liability including accrued interest was 2,430,587 thousand Tenge. Accordingly, the Group recognised the amount of assumed borrowing due to the Bank and the receivable from Ayt Housing. The borrowing due to the Bank was fully repaid in 2011. The maturity date of the receivable is 17 September 2014 and interest rate is not stipulated.

In 2011 the Group concluded an additional agreement with Ayt Housing, according to which the maturity date and the repayment schedule were reconsidered. As given changes in initial agreement conditions brings to substantial changes, in accordance with IAS 39 "*Financial Instruments: Recognition and Valuation*" the Group derecognized the carrying value of existing receivables and recognized new receivables, the difference in the amount of 435,614 thousand Tenge was recorded through equity. As of 31 December 2013 the unamortized discount on the receivable from Ayt Housing amounted to 8,422 thousand Tenge (31 December 2012: 83,423 thousand Tenge).

*Loan given to an employee*

In 2010 the Group provided an interest-free loan to an employee with maturity on 25 January 2012. The loan was measured at fair value at the date of issuance. The fair value was determined by discounting future cash flows at market rate of 21% per annum. In September 2012 the Group and the employee concluded an addendum to the loan agreement for prolongation of the maturity until 31 December 2013. As given changes in initial agreement conditions brings to substantial changes, in accordance with IAS 39 "*Financial Instruments: Recognition and Valuation*" the Group derecognized the existing loan and recognized new loan at fair value by discounting future cash flows at interest rate of 10%.

In 2013 the Group provided additional interest-free short-term loan to the employee in the amount of 40,185 thousand Tenge. As at 31 December 2013, the loan to the employee was recognized at undiscounted amount since the Group expected full repayment of the loan in a short period after the reporting date.

In May 2014, the employee fully repaid its outstanding liabilities to the Group.

### 6. FINANCIAL ASSETS (continued)

*SBA Medical*

In 2011 the Group provided a loan to SBA Medical, the related party, at 10% per annum, with maturity on 6 October 2011. In January 2011 the Group and SBA Medical made amendments to the loan agreement and prolonged maturity of the loan until October 2012, and changed the interest rate to 0.10% per annum.

In 2012 the Group and SBA Medical made amendments to the loan agreement and prolonged loan maturity until 31 December 2013. As given changes in initial agreement conditions brings to substantial changes, in accordance with IAS 39 *"Financial Instruments: Recognition and Valuation"* the Group derecognized the existing loan and recognized new loan at fair value by discounting future cash flows at market rate of 10%. The difference in the amount of 17,214 thousand Tenge was recognized in the consolidated statement of changes in equity for the year ended 31 December 2012.

In 2013 the loan given to SBA Medical was extended up to 31 December 2014. The revised estimate in the future cash flows resulted in the additional discount in the amount of 13,725 thousand Tenge that was recognized in the consolidated statement of comprehensive loss for the year ended 31 December 2013.

*ABS Center*

In 2008 the Group provided a loan to ABS Center, the related party, at 10% per annum, with maturity on 28 August 2012. In January 2011 the Group and ABS Center made amendments to the agreement and prolonged maturity of the loan to 6 February 2012, and changed the interest rate to 0.10% per annum. In February 2012 ABS Center repaid part of the loan in the amount of 155,764 thousand Tenge.

In 2012 the Group and ABS Center made amendments to the agreement and prolonged maturity of the loan to 31 December 2013. As given changes in initial agreement conditions brings to substantial changes, in accordance with IAS 39 *"Financial Instruments: Recognition and Valuation"* the Group derecognized existing loan and recognized new loan at fair value by discounting future cash flows at market rate of 10%. The difference in the amount of 34,528 thousand Tenge was recognized in the consolidated statement of changes in equity for the year ended 31 December 2012.

In 2013 the loan given to ABS Center was extended up to 31 December 2014. The revised estimate in the future cash flows resulted in the additional discount in the amount of 8,844 thousand Tenge that was recognized in the consolidated statement of comprehensive loss for the year ended 31 December 2013.

*Ayt Trade & Business Center*

In 2013 the Group provided a loan to Ayt Trade & Business Center, the related party, in the amount of 134,200 thousand Tenge at interest rate of 0.10% per annum and with maturity on 27 September 2014. The Group recognized the loan at fair value at the date of issue. The fair value was determined by discounting future cash flows at market rate of 10.7% until the period when the Group expects the loan to be repaid. The discount in the amount of 12,850 thousand Tenge was recognized in the consolidated statement of changes in equity for the year ended 31 December 2013, since the loan was given under instructions of the parent company.

*Restricted cash*

Restricted cash represents guarantee deposit of 15,756 thousand Tenge (2012: 15,706 thousand Tenge) held on bank accounts under the International Franchise Agreement with Intercontinental Hotels Corporation.

As of 31 December 2013 and 31 December 2012 non-current and current financial assets were denominated in the following currencies:

| *In thousands of Tenge* | 2013 | 2012 |
|---|---|---|
| Tenge | **2,126,317** | 2,249,044 |
| US dollars | **15,756** | 15,706 |
| | **2,142,073** | 2,264,750 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 7. INVENTORIES

Inventories consisted of the following as at 31 December 2013 and 31 December 2012:

| *In thousands of Tenge* | 2013 | 2012 |
|---|---|---|
| Materials and spare parts | **233,203** | 238,462 |
| Food and beverages | **70,068** | 64,320 |
| | **303,271** | 302,782 |
| Allowance for obsolete inventories | **(15,126)** | (12,089) |
| | **288,145** | 290,693 |

The movements in the allowance for obsolete inventories were as follows for the years ended 31 December 2013 and 31 December 2012:

| *In thousands of Tenge* | 2013 | 2012 |
|---|---|---|
| Allowance for obsolete inventories at the beginning of the year | **(12,089)** | (10,395) |
| Charge for the year | **(3,037)** | (1,694) |
| Allowance for obsolete inventories at the end of the year | **(15,126)** | (12,089) |

### 8. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable consisted of the following as at 31 December 2013 and 31 December 2012:

| *In thousands of Tenge* | 2013 | 2012 |
|---|---|---|
| Trade accounts receivable due from related parties *(Note 25)* | **720,045** | 587,102 |
| Other trade receivables | **164,170** | 142,598 |
| | **884,215** | 729,700 |
| Allowance for doubtful debts | **(36,579)** | (30,543) |
| | **847,636** | 699,157 |

Receivables from related parties mainly represent receivables in respect of hotel facilities rented by Ahsel Inshaat T.S. and AYT (*Note 25)*. Other trade receivables represent receivables in respect of hotel facilities rented by corporate clients and are normally repayable within 45 days.

As at 31 December 2013 and 31 December 2012, trade accounts receivable were denominated in the following currencies:

| *In thousands of Tenge* | 2013 | 2012 |
|---|---|---|
| Tenge | **618,214** | 505,062 |
| US dollars | **224,688** | 188,471 |
| Euro | **1,445** | 3,064 |
| Russian rouble | **3,289** | 2,560 |
| | **847,636** | 699,157 |

The movements in allowances for doubtful debts were as follows for the years ended 31 December 2013 and 31 December 2012:

| *In thousands of Tenge* | 2013 | 2012 |
|---|---|---|
| Allowance for doubtful debts at the beginning of the year | **(30,543)** | (27,437) |
| Write-off | **-** | 1,836 |
| Charge for the year | **(6,036)** | (4,942) |
| Allowance for doubtful debts at the end of the year | **(36,579)** | (30,543) |

## 8. TRADE ACCOUNTS RECEIVABLE (continued)

At 31 December 2013 and 31 December 2012 the ageing analysis of trade accounts receivable is as follows:

| | | Past due but not impaired | | | | | |
|---|---|---|---|---|---|---|---|
| *In thousands of Tenge* | Total | 0-30 days | 30-90 days | 90-180 days | 180-270 Days | 270-360 days | >360 days |
| **2013** | **847,636** | **52,618** | **111,903** | **40,156** | **27,677** | **47,430** | **567,852** |
| 2012 | 699,157 | 65,781 | 39,614 | 10,361 | 3,608 | 5,125 | 574,668 |

All trade accounts receivable greater than 90 days are receivable from related parties. Receivables due from related parties are not impaired as at 31 December 2013 and 31 December 2012.

## 9. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets consisted of the following as at 31 December 2013 and 31 December 2012:

| *In thousands of Tenge* | 2013 | 2012 |
|---|---|---|
| Advances paid for services and goods | **23,068** | 45,937 |
| Due from employees | **33,129** | 28,465 |
| Prepaid insurance | **20,384** | 10,570 |
| Deferred expenses | **–** | 5,208 |
| Other | **285** | 3,276 |
| | **76,866** | 93,456 |

As at 31 December 2013 and 31 December 2012 prepayments and other current assets were denominated in Tenge

## 10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following as at 31 December 2013 and 31 December 2012:

| *In thousands of Tenge* | 2013 | 2012 |
|---|---|---|
| Cash on hand – Tenge accounts | **19,157** | 34,508 |
| Cash in banks – Tenge accounts | **13,770** | 30,781 |
| Cash in banks – foreign currency accounts | **1,144** | 6,232 |
| Cash in transit | **973** | 476 |
| | **35,044** | 71,997 |

## 11. SHARE CAPITAL

The share capital of the Group consisted of the following at 31 December 2013 and 31 December 2012:

| | Number of shares authorized, issued and paid | | | | |
|---|---|---|---|---|---|
| Shareholder | Ordinary shares | Preferred shares | Total shares | Amount, thousand Tenge | % of total shares |
| AYT | 29,220,603 | 3,177,839 | 32,398,442 | 2,267,891 | 99.79% |
| Individuals | – | 68,894 | 68,894 | 4,822 | 0.21% |
| | **29,220,603** | **3,246,733** | **32,467,336** | **2,272,713** | **100.00%** |

Par value of a common share and preferred share is 70 Tenge.

The preferred shares have no voting rights, but have a guaranteed minimal annual dividend of 0.05% of the nominal value. In 2013 and 2012, shareholders other than individuals waived their dividend rights on the preferred shares.

## 12. REVALUATION RESERVE

The Group performs revaluation of its property, plant and equipment on a regular basis. The increase in the value of property, plant and equipment resulted from revaluation credited to the revaluation reserve, according to accounting policy disclosed in *Note 3*.

The revaluation reserve is not distributable to shareholders.

## 13. BORROWINGS

Borrowings, including accrued interest, consisted of the following as at 31 December 2013 and 31 December 2012:

| *In thousands of Tenge* | Original currency | Maturity date | Interest rate | 2013 | 2012 |
|---|---|---|---|---|---|
| **Long-term borrowings:** | | | | | |
| Ministry of Finance | USD | 22 December 2025 | 4.55% | **6,458,155** | 6,488,400 |
| Asia Credit Bank JSC | KZT | 25 April 2019 | 12.5% | **2,313,671** | 2,258,882 |
| Kazakhstan Ziraat International Bank JSC | KZT | 11 October 2019 | 9% | **1,141,426** | 893,662 |
| Ayt Trade and Business Center | KZT | 31 December 2013 | 0.1% | **–** | 83,797 |
| | | | | **9,913,252** | 9,724,741 |
| Less: Current portion of long-term borrowings | | | | **(1,360,535)** | (948,553) |
| | | | | **8,552,717** | 8,776,188 |

*Ministry of Finance*

The loan is payable during the period between 22 June 2013 and 22 December 2025 in equal semi-annual instalments. The short-term part of borrowings as at 31 December 2013 amounted to 806,269 thousand Tenge (2012: 518,072 thousand Tenge). The obligation is secured by a letter of guarantee issued by Ahsel Inshaat T.S., the related party (*Note 25)* and by hotel complex with the carrying value of 7,766,989 thousand Tenge (31 December 2012: 7,849,375 thousand Tenge) (*Note 5*).

In December 2011 the Ministry of Finance and the Group signed additional agreement changing interest rate of the loan from fixed rate of 3.34% per annum to the average floating rate on borrowings given from the budget in foreign currency published at KASE at the interest rate of 4.55% per annum at the date of additional agreement. According to the additional agreement the given change of the interest rate should be applied retrospectively beginning from 2003. As the given change in the interest rate represents substantial change of initial terms of the loan, the Group derecognized carrying amount of the liability to the Ministry of Finance and recognized new liability to the Ministry of Finance. Whereby, new liability to the Ministry of Finance was recognized at fair value that was identified as present value of future payments of principal and interest discounted at the market rate of 5.3% at the date of the additional agreement. The difference in the amount of 5,076 thousand Tenge between previous carrying amount of the loan from the Ministry of Finance and fair value of new liability to the Ministry of Finance was recognized in the statement of comprehensive income for the year ended 31 December 2011. The unamortized discount as at 31 December 2013 amounted to 216,935 thousand Tenge (31 December 2012: 246,536 thousand Tenge).

*Ayt Trade & Business Center*

On 28 August 2008 the Group entered into a loan agreement with Ayt Trade & Business Center, the related party. The loan was not secured. The whole amount of principal equalled to 357,900 thousand Tenge was repaid on 10 May 2012. As at 31 December 2012 the outstanding debt is represented by accrued interest on the loan. In 2013 the Group fully repaid its outstanding debt to Ayt Trade & Business Center.

*Kazakhstan Ziraat International Bank*

In September 2012 the Group entered into two credit line agreement with Kazakhstan Ziraat International Bank ("KZI") for the total amount of 881,400 thousand Tenge with the purpose of replenishment of working capital of the Group at interest rate of 9% per annum.

In October 2013 the Group obtained additional tranche in the amount of 307,540 thousand Tenge for the purpose of replenishment of working capital of the Group at interest rate of 9% per annum.

As at 31 December 2013 a land plot owned by the related party Ayt Trade & Business Center was pledged as collateral for the loan. In addition, the loan is secured by a guarantee from Ayan Akhmet Hamdi, the ultimate owner of the Group.

*Asia Credit Bank JSC*

On 25 April 2012 the Group entered into a credit line agreement with Asia Credit Bank JSC for the total amount of 2,368,000 thousand Tenge. The loan was provided by two tranches with purpose of refinancing the loan obtained from Temirbank JSC for the amount of 1,406,000 thousand Tenge and financing Group's operations for the amount of 962,000 thousand Tenge. The loan was obtained at interest rate of 12.5 % per annum.

## 13. BORROWINGS (continued)

*Asia Credit Bank JSC (continued)*

In June 2012 the Group entered into a grant agreement with Entrepreneurship Fund Damu JSC and with Asia Credit Bank JSC as a part of government program "Business roadmap 2020". The grant was provided within the loan agreement for obtaining the loan tranche in the amount of 962,000 thousand Tenge. According to gran agreement Entrepreneurship Fund Damu JSC will pay cash to Asia Credit Bank JSC for partial settlement of interest expense (7% per annum) paid by the Group as loans interest. Thus, the rate of interest accrued on the loan of Asia Credit Bank JSC paid by the Group was 5.5% per annum. The Group believes that this change in loans interest rate is a significant change in loans terms and, respectively, such changes should be recorded as derecognition of initial liability and recognition of new financial liability at its fair value. The Group recognized loans at fair value equal to future cash payments on loans discounted at market rate of 12.5% per annum and recognized income from loans discounting in the amount of 124,850 thousand Tenge in the consolidated statement of comprehensive loss for the year ended 31 December 2012 *(Note 22)*. Amortization of discount for the year ended 31 December 2013 amounted to 11,035 thousand Tenge (2012: 18,033 thousand Tenge). The unamortized discount as at 31 December 2013 amounted to 95,782 thousand Tenge (31 December 2012: 106,817 thousand Tenge).

On 5 December 2013, the Group and Asia Credit Bank JSC signed additional agreement, changing repayment schedule of borrowings. According to the additional agreement, the principal and interest on borrowings in the amount of 240,770 thousand Tenge were postponed to 2014 and payment of the principal and interest accruals starts from February 2014. The given amendment to the agreement did not result in extinguishment of the previous financial liability due to absence of substantial change.

As at 31 December 2013 the commercial complex Edelweiss with carrying amount of 1,282,006 thousand Tenge (31 December 2012: 1,361,054 thousand Tenge) (*Note 5*) was pledged as the collateral for the loan agreement.

## 14. LONG-TERM PAYABLE

| *In thousands Tenge* | **2013** | 2012 |
|---|---|---|
| Debts to Kazakhstan Sauda JSC | **246,496** | 241,184 |
| Less - unamortized discount | **(130,721)** | (134,818) |
| | **115,775** | 106,366 |

Long-term payable of USD 1,600,000 (equivalent to 246,496 thousand Tenge and 241,184 thousand Tenge respectively as at 31 December 2013 and 31 December 2012) relates to an interest free debt due to Kazakhstan Sauda JSC, the hotel's former owner, which resulted from the purchase of the hotel. The Group has agreed to settle the payable once the principal and interest of the Rehabilitation fund and Ministry of Finance loans are repaid.

The payable was discounted at 6.5% per annum for a period of 28 years until 2025, the year of full repayment of the loans from the Rehabilitation fund and the Ministry of Finance. The movement in the amortization of the above-mentioned discount was as follows for the year ended 31 December 2013 and 31 December 2012:

| *In thousands Tenge* | |
|---|---|
| Unamortized discount as at 1 January 2012 | 139,116 |
| Foreign exchange loss | 2,194 |
| Amortization for the year (*Note 21*) | (6,492) |
| Unamortized discount as at 31 December 2012 | 134,818 |
| Amortization for the year (*Note 21*) | **(4,097)** |
| **Unamortized discount as at 31 December 2013** | **130,721** |

## 15. LIABILITIES UNDER FINANCE LEASE

| | Issue | Maturity | Interest rate | Original currency | 2013 | 2012 |
|---|---|---|---|---|---|---|
| Ayt Housing | 17 September 2010 | 12 March 2014 | 15% | **US dollar** | **261,936** | 732,981 |

On 17 September 2010, the Group entered into a finance lease agreement with the related party, Ayt Housing *(Note 5)*.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 16. LIABILITIES UNDER FINANCE LEASE (continued)

Future minimum lease payments under the sub-lease agreement together with the present value of the net minimum lease payments are as follows:

| *In thousands Tenge* | 2013 Minimum payments | 2013 Present value of payments | 2012 Minimum payments | 2012 Present value of payments |
|---|---|---|---|---|
| Within one year | **269,155** | **261,936** | 538,311 | 505,472 |
| After one year but not more than five years | **–** | **–** | 269,155 | 227,509 |
| After five years | **–** | **–** | – | – |
| Total minimum lease payments | **269,155** | **261,936** | 807,466 | 732,981 |
| Less: amounts representing finance charges | **(7,219)** | **–** | (74,485) | – |
| **Present value of minimum lease payments** | **261,936** | **261,936** | 732,981 | 732,981 |

## 17. TRADE ACCOUNTS PAYABLE

Trade accounts payable consisted of the following as at 31 December 2013 and 31 December 2012:

| *In thousands Tenge* | 2013 | 2012 |
|---|---|---|
| Payables to third party for goods and services | **216,119** | 205,418 |
| Management and operations fees payable to related party *(Notes 24, 25)* | **84,516** | 33,301 |
| Royalty and marketing fees payable *(Notes 24)* | **20,450** | 24,136 |
| Payables to related party for goods *(Note 25)* | **12,605** | 12,195 |
| | **333,690** | 275,050 |

Trade accounts payable are non-interest bearing and are normally settled in 60-day terms.

As of 31 December 2013 and 31 December 2012 trade accounts payable were denominated in the following currencies:

| *In thousands Tenge* | 2013 | 2012 |
|---|---|---|
| Tenge | 192,238 | 161,750 |
| US dollars | 139,857 | 112,425 |
| Euro | 1,595 | 832 |
| Pounds sterling | – | 43 |
| | 333,690 | 275,050 |

## 18. ACCRUALS AND OTHER CURRENT LIABILITIES

Accruals and other current liabilities consisted of the following at 31 December 2013 and 31 December 2012:

| *In thousands Tenge* | 2013 | 2012 |
|---|---|---|
| Taxes other than income tax | **577,508** | 294,219 |
| Salaries payable | **76,489** | 77,193 |
| Advances received | **42,946** | 46,343 |
| Deferred revenue | **7,049** | 7,366 |
| Other | **11,050** | 18,426 |
| | **715,042** | 443,547 |

Deferred revenue represents unearned health club and SPA center revenue.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 19. REVENUE

Revenue consisted of the following for the years ended 31 December 2013 and 31 December 2012:

| *In thousands Tenge* | 2013 | 2012 |
|---|---|---|
| Rooms | **1,937,559** | 1,866,639 |
| Food and beverage | **1,320,512** | 1,270,319 |
| Lease and rent | **152,390** | 136,037 |
| Telephone | **13,015** | 24,150 |
| Health club | **35,023** | 44,409 |
| Laundry | **27,027** | 25,753 |
| Other | **60,898** | 82,906 |
| | **3,546,424** | 3,450,213 |

## 20. SALARIES AND WAGES

Salaries and wages consisted of the following for the years ended 31 December 2013 and 31 December 2012:

| *In thousands Tenge* | 2013 | 2012 |
|---|---|---|
| Payroll and related taxes | **894,588** | 842,375 |
| Employee transportation | **18,965** | 69,463 |
| Bonuses to employees | **24,199** | 29,598 |
| Employee meals | **65,221** | 45,105 |
| Employee housing | **32,554** | 17,098 |
| Other | **27,970** | 31,919 |
| | **1,063,497** | 1,035,558 |

## 21. REPAIR AND MAINTENANCE

In 2012 repair and maintenance expenses comprised mainly repair works on renewal of the hotel complex interior in the amount of 713,634 thousand Tenge. Repair works were performed by Ahsel Inshaat T.S., the related party.

## 22. FINANCE COSTS

Finance costs consisted of the following for the years ended 31 December 2013 and 31 December 2012:

| *In thousands Tenge* | 2013 | 2012 |
|---|---|---|
| Interest expense on borrowings | **607,974** | 509,643 |
| Recognition of discount on loans given | **111,908** | – |
| Finance lease expense | **67,265** | 128,848 |
| Penalties for late payment of interest | **38,733** | – |
| Amortization of discount on the loan of the Ministry of Finance | **29,601** | 34,265 |
| Amortization of discount on the loan of Asia Credit Bank JSC *(Note 13)* | **11,035** | 18,033 |
| Amortization of discount of the payable to Sauda *(Note 14)* | **4,097** | 6,492 |
| Discounting of loans given to employee *(Note 6)* | **–** | 34,603 |
| | **870,613** | 731,884 |

## 23. FINANCE INCOME

Finance income consisted of the following for the years ended 31 December 2013 and 31 December 2012:

| *In thousands Tenge* | 2013 | 2012 |
|---|---|---|
| Amortization of discount on loans given | **144,708** | 110,382 |
| Amortization of discount on the loan given to AYT Housing | **75,000** | 144,348 |
| Interest income on the loans given to ABS Center and SBA Medical | **1,168** | 530 |
| Recognition of discount on subsidized loans from Asia Credit Bank *(Note 13)* | **–** | 124,850 |
| | **220,876** | 380,110 |

## 24. INCOME TAX

Income tax expense comprised the following for the year ended 31 December 2013 and 31 December 2012:

| *In thousands Tenge* | 2013 | 2012 |
|---|---|---|
| **Current Income tax:** | | |
| Current income tax charge | **–** | 118 |
| Adjustment of current income tax expense with respect to prior year | **–** | – |
| **Deferred income tax:** | | |
| Deferred income tax benefit | **(4,496)** | (92,502) |
| Deferred income tax expense with respect to prior year | **224,301** | – |
| **Income tax expense / (benefit) reported In the statement of comprehensive loss** | **219,805** | (92,384) |

The reconciliation of the income tax expense applicable to profit before income tax at the statutory income tax rate and income tax expense recorded in the financial statements was as follows for the years ended 31 December 2013 and 31 December 2012:

| *In thousands Tenge* | 2013 | 2012 |
|---|---|---|
| Loss before income tax expense | **(203,188)** | (425,148) |
| Statutory tax rate | **20%** | 20% |
| Theoretical income tax expense at the statutory rate | **(40,638)** | (85,030) |
| Amortization of discount of the loan given to Ayt Housing | **(15,000)** | (28,870) |
| Deferred income tax expense with respect to prior year | **224,301** | - |
| Other non-deductible expenses | **51,142** | 21,516 |
| **Income tax expense / (benefit)** | **219,805** | (92,384) |

## 23. INCOME TAX (continued)

Deferred tax balances, calculated by applying the statutory tax rates in effect at the balance sheet date to the temporary differences between the basis of assets and liabilities and the amounts reported in the consolidated financial statements, were the following as at 31 December 2013 and 31 December 2012:

| *In thousands Tenge* | Balance sheet | | Profit and loss | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Deferred tax assets: | | | | |
| Accruals | **11,758** | 9,646 | **2,112** | 761 |
| Unamortized discount on the loans given | **29,769** | 23,261 | **6,508** | 19,460 |
| Allowances for doubtful debts | **7,316** | 6,109 | **1,207** | 622 |
| Deferred revenue | **–** | 1,473 | **(1,473)** | (480) |
| Loss carry forward | **75,905** | 83,849 | **(7,944)** | 83,849 |
| **Total deferred tax assets** | **124,748** | 124,338 | **410** | 104,212 |
| Deferred tax liabilities: | | | | |
| Unamortized discount on long-term payable to Sauda | **(26,144)** | (26,964) | **820** | 859 |
| Unamortized discount on loan obtained from the Ministry of Finance | **(43,387)** | (49,307) | **5,920** | 20,287 |
| Unamortized discount on loan obtained from Asia Credit Bank JSC | **(19,156)** | (21,364) | **2,208** | (21,364) |
| Property, plant and equipment | **(904,578)** | (650,913) | **(253,665)** | (20,314) |
| Liabilities under financial lease | **(1,444)** | (25,770) | **24,326** | 13,444 |
| Unamortized transaction costs | **(4,446)** | (4,622) | **176** | (4,622) |
| **Total deferred tax liabilities** | **(999,155)** | (778,940) | **(220,215)** | (11,710) |
| **Net deferred tax liability** | **(874,407)** | (654,602) | **(219,805)** | 92,502 |

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. As at 31 December 2013 and 31 December 2012 the Group has no any unrecognized tax assets.

## 24. COMMITMENTS AND CONTINGENT LIABILITIES

### Royalty, marketing and reservation fees

As discussed in *Note 1*, in August, 2006 the Group and Intercontinental Hotels Corporation signed an International Franchise agreement. The term of the agreement is until 2016. According to the agreement the Group is required to pay royalties and marketing fees of 6% of gross room revenue.

In addition, according to the Holidex Access and Systems agreement with Six Continents Hotels Inc. the Group has an obligation to pay a reservation fee of USD 6.75 per reserved guestroom on a monthly basis.

### Management and operations fees

According to the management contract with AYT, the related party (*Note 25*) dated January 2, 1997, the Group has an obligation to pay management and operations fees to AYT on hotel operations, calculated as 10% of gross operating profit less marketing, royalty and reservation fees and 4% of gross revenues, respectively.

### Taxation

The various legislative acts and regulations are not always clearly written and their interpretation is subject to the opinions of local tax inspectors and officials of the Ministry of Finance. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual.

The current regime of penalties and interest related to unreported and discovered violations of Kazakhstan law are severe. Fines are generally 50% of any taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, fines and interest can amount to multiples of any unreported taxes.

The Group believes that it has paid or accrued all taxes that are applicable. Where practice concerning tax application is unclear, the Group has accrued tax liabilities based on management's best estimate. The Group's policy is to accrue contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

## 24. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

**Taxation (continued)**

*Tax audit*

In May and June 2014 a complex tax audit for the years 2009-2013 was undertaken in the Company. The scope of the audit included corporate income tax ("CIT"), value added tax ("VAT"), corporate income tax on non-residents. The complex tax audit was completed in June 2014. There were following significant findings presented in the complex tax audit report:

- Additional CIT in the amount of 236,695 thousand Tenge plus fines and penalties in the amount of 249,476 thousand Tenge resulted from exclusion of foreign exchange difference related to revaluation of borrowings denominated in foreign currencies. Tax authorities stated that the Company has no right to use foreign exchange difference for CIT return due to absence of cash settlements within the tax reporting period. In particular the Company did not have proceeds or payments of borrowings in 2009 and 2010.

- Based on the result of in-house tax audit the Company prepared additional VAT return for the second quarter of 2012. The VAT return was submitted on 11 May 2014 and accepted by tax authorities on 12 May 2014. The complex tax audit started on 12 May 2014 consequently the additional VAT return that was appeared in the same day in the tax system was not considered by tax authorities. Therefore, as a result of the complex tax audit fines and penalties in the amount of 30, 377 thousand Tenge was imposed on the Company due to incorrect VAT return for the second quarter of 2012 as additional VAT return was not accepted by tax authorities.

The Company did not agree with tax authorities' position and filed an appeal to the Ministry of Finance of the Republic of Kazakhstan justifying its position as following:

- Based on the Tax Code of the Republic of Kazakhstan foreign exchange difference for tax return should be defined in accordance with IFRS. Borrowings are monetary liabilities that are subject to regular revaluation. Consequently, foreign exchange gains and losses were recognized in accordance with IFRS. Management of the Company strongly believes that the amount of exchange difference indicated in 2009 and 2010 CIT return are properly calculated in accordance with Tax Code requirements.

- According to the tax legislation of the Republic of Kazakhstan the Company has the right to clear the results of in-house tax audit within the 30 working days. However, the complex tax audit started within the indicated period. Consequently, the management of the Company strongly believes that the additional VAT return submitted at the inception of complex tax audit should be taken into consideration and no penalties and fines should be imposed by tax authorities.

In summary, management of the Company strongly believes that the appeal will be resolved in favour of the Company, and accordingly, for the abovementioned disputed amounts no provision was recognized in the consolidated financial statements as at 31 December 2013.

## 25. RELATED PARTY TRANSACTIONS

| | Sales to related parties | | Purchases from related parties | |
|---|---|---|---|---|
| **Related party** | **2013** | 2012 | **2013** | 2012 |
| Ahsel | **98,291** | 42,901 | **42,416** | 140,976 |
| AYT | **33,934** | 142,210 | **144,129** | 68,664 |
| Entities under common control of Ahsel | **9,390** | 5,256 | **602,908** | 1,100,755 |
| | **141,615** | 190,367 | **789,453** | 1,310,395 |

Transactions with Ahsel Holding include settlements with list of different entities ("Ahsel") inside the Ahsel group. Ahsel and AYT are companies registered in Turkey.

Sales to related parties represent rental services and hotel services provided by the Group. Purchases from Ahsel represent purchases of goods for the hotel. Purchases from AYT represent management and operation services (*Note 25*).

## 25. RELATED PARTY TRANSACTIONS (continued)

The balances with related parties as at 31 December 2013 and 2012 were as follows:

| **Receivables from related parties** *(Note 8)* | **2013** | 2012 |
|---|---|---|
| Ahsel | **533,497** | 435,795 |
| AYT | **143,541** | 111,146 |
| Entities under common control of Ahsel | **43,007** | 40,161 |
| | **720,045** | 587,102 |

| **Payables to related parties** *(Note 16)* | **2013** | 2012 |
|---|---|---|
| AYT | **84,516** | 33,301 |
| Ahsel | **9,418** | 12,195 |
| Entities under common control of Ahsel | **3,187** | – |
| | **97,121** | 45,496 |

| **Advances paid for services and goods** | **2013** | 2012 |
|---|---|---|
| AYT | **5,076** | 21,100 |
| | **5,076** | 21,100 |

**Loans given and loans obtained**

The Group obtains and provides financing from / to entities under common control of Ahsel.

| | Loans given / (obtained) | | As of 31 December | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| A Development Company *(Note 6)* | **357,050** | – | **329,670** | – |
| Ahsel Insaat T.S. *(Note 6)* | – | 991,376 | **903,448** | 909,726 |
| Ayt Housing *(Note 6)* | – | – | **293,032** | 820,939 |
| SBA Medical *(Note 6)* | – | 2,650 | **139,636** | 139,363 |
| ABS Center *(Note 6)* | – | – | **88,441** | 190,702 |
| Ayt Trade & Business Center *(Note 6)* | **134,200** | – | **124,760** | (83,797) |
| | **491,250** | 994,026 | **1,878,987** | 1,976,933 |

| | Finance Income | | Finance costs | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Ahsel Insaat T.S. | **82,952** | 27,687 | **89,339** | – |
| Ayt Housing | **75,000** | 144,348 | **67,265** | 128,848 |
| ABS Center | **18,938** | 16,911 | **8,844** | – |
| SBA Medical | **13,997** | 13,819 | **13,725** | – |
| A Development Company | **7,391** | – | – | – |
| Ayt Trade & Business Center | **3,767** | – | – | – |
| | **202,045** | 202,765 | **179,173** | 128,848 |

Finance lease transactions under the lease agreement with the related party were disclosed in *Note 15*.

*Guarantee issued by shareholders*

Ahsel acts as a guarantor for the loan received from the Ministry of Finance *(Note 13)*.

*Compensation to key management personnel*

The Group's key management personnel consisted of 5 employees as at 31 December 2013 and 2012. Salaries and performance bonuses paid to key management personnel during the year ended 31 December 2013 were 107,508 thousand of Tenge (31 December 2012: 99,213 thousand Tenge).

*Terms and conditions of transactions with related parties*

The Group provides a 50% discount on hotel services to related parties. Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash. There was no allowance on related party receivables as at 31 December 2013. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

## 26. FINANCIAL INSTRUMENTS

The Group's principal financial liabilities comprise of borrowings, long-term payable, liabilities under financial lease, trade accounts payable and other payables. The main purpose of these financial liabilities is to finance and support the Group's operations. The Group's principal financial assets include trade accounts receivable, cash and cash equivalents, deposits and loans given that derive directly from its operations. During the years ended 31 December 2013 and 2012, the Group did not undertake trading in financial instruments.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's management oversees the management of these risks.

### Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: interest rate risk and currency risk. Financial instruments affected by market risk include loans and borrowings, trade and other payables.

### Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group's operations are carried out in the Republic of Kazakhstan and, as such, a significant portion of the Group's business is transacted in Tenge. However, a significant portion of the Group's borrowings are denominated in US dollars.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rates, with all the variables held constant, of the Group's profit before income tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Group's equity.

| | 2013 | | 2012 | |
|---|---|---|---|---|
| *In thousands Tenge* | **Increase/ decrease in exchange rate** | **Effect on profit before tax** | Increase/ decrease in exchange rate | Effect on profit before tax |
| US Dollar | **30%** | **(1,984,135)** | 1.57% | (101,964) |
| | **10%** | **(661,378)** | -1.57% | 101,964 |

### Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. Cash flow requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise. The management of the Group believes that any possible fluctuations of future cash flows associated with a monetary financial instrument will not have material impact on the Group's operations.

Main financial instruments of the Group comprise cash and cash equivalents, short-term deposits, trade receivable and payable, loan given, borrowings and long-term trade payable.

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The exposure to the risk of changes in market interest rates related primarily to long-term debt obligations with floating interest rates. As at 31 December 2013 and 31 December 2012 the Group does not have long-term debt obligations with floating interest rates.

### Credit risk

Financial instruments that potentially subject the Group to credit risk consist primarily of trade receivables, loans given, cash and cash equivalents and deposits. While the Group may be subject to losses in the event of non-performance by its counterparties, the Group's management does not expect such losses to occur.

Concentrations of credit risk with respect to accounts receivable are limited due to large number of customers and that significant balance of trade receivables represents related party receivables.

## 27. FINANCIAL INSTRUMENTS (continued)

### Credit risk (continued)

With respect to credit risk arising from cash and cash equivalents and deposits, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Group provided loans only to related parties and therefore assess credit risk as insignificant.

### Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. The Group also has committed lines of credit that it can assess to meet liquidity needs. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required. Management plans further increase of the volume and value of services being rendered.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2013 based on contractual undiscounted payments.

| | As at 31 December 2013 | | | | | |
|---|---|---|---|---|---|---|
| *In thousands Tenge* | **On demand** | **Less than 3 months** | **3 to 12 months** | **1 to 5 years** | **>5 years** | **Total** |
| Borrowings | – | **191,944** | **1,737,175** | **7,564,193** | **3,646,677** | **13,139,989** |
| Liabilities under financial lease | – | **269,155** | – | – | – | **269,155** |
| Trade accounts payable | – | **249,003** | **84,687** | – | – | **333,690** |
| Long-term payable | – | – | – | – | **246,496** | **246,496** |
| Other current liabilities | – | **11,050** | – | – | – | **11,050** |
| | – | **721,152** | **1,821,862** | **7,564,193** | **3,893,173** | **14,000,380** |

| | As at 31 December 2012 | | | | | |
|---|---|---|---|---|---|---|
| *In thousands Tenge* | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | >5 years | Total |
| Borrowings | – | 113,943 | 1,222,236 | 5,159,261 | 6,137,871 | 12,633,311 |
| Liabilities under financial lease | – | 269,155 | 269,155 | 269,156 | – | 807,466 |
| Trade accounts payable | – | 205,418 | 57,437 | 12,195 | – | 275,050 |
| Long-term payable | – | – | – | – | 241,184 | 241,184 |
| Other current liabilities | – | 18,426 | – | – | – | 18,426 |
| | – | 606,942 | 1,548,828 | 5,440,612 | 6,379,055 | 13,975,437 |

### Fair value of financial instruments

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments;
- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at 31 December 2013 and 31 December 2012 the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values;
- Fair value of quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

## 26. FINANCIAL INSTRUMENTS (continued)

**Fair value of financial instruments (continued)**

*Fair value hierarchy*

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2013 and 31 December 2012 the Group did not have financial instruments classified as financial instruments of 1 or 3 level.

During the years ended 31 December 2013 and 2012, there were no transfers between Level 1, Level 2 and Level 3 fair value instruments.

*Fair values*

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the consolidated financial statements:

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| *In thousands of Tenge* | **31 December 2013** | 31 December 2012 | **31 December 2013** | 31 December 2012 |
| **Financial assets** | | | | |
| Trade accounts receivable | **847,636** | 699,157 | **847,636** | 699,157 |
| Loans given | **2,142,073** | 2,046,719 | **2,142,073** | 2,046,719 |
| Cash and cash equivalents | **35,044** | 71,997 | **35,044** | 71,997 |
| | **3,024,753** | 2,817,873 | **3,024,753** | 2,817,873 |

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| *In thousands of Tenge* | **31 December 2013** | 31 December 2012 | **31 December 2013** | 31 December 2012 |
| **Financial liabilities** | | | | |
| Borrowings | **9,913,252** | 9,724,741 | **9,913,252** | 9,724,741 |
| Long-term payable | **115,775** | 106,366 | **115,775** | 106,366 |
| Liabilities under financial lease | **261,936** | 732,981 | **261,936** | 732,981 |
| Trade accounts payable | **333,690** | 275,050 | **333,690** | 275,050 |
| Other current liabilities | **11,050** | 18,426 | **11,050** | 18,426 |
| | **10,635,703** | 10,857,564 | **10,635,703** | 10,857,564 |

**Capital management**

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings, trade and other payables, less cash and cash equivalents, guarantee deposits and equity, comprising issued capital, revaluation reserve and accumulated deficit.

## 27. SUBSEQUENT EVENTS

In May 2014 the loan given to an employee was fully repaid in the amount of 247,330 thousand Tenge.

On 11 February 2014 Tenge was devalued to major currencies. At the date these financial statements have been authorized for issue, the official exchange rate of Tenge to US Dollar as set by the National Bank of Kazakhstan comprised 183.51 Tenge, which constitutes a 20% reduction in the value of the Kazakhstan tenge to the US Dollar since 31 December 2013.