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**INTANGIBLE ASSETS DISCLOSURE BY RUSSIAN AND
KAZAKHSTANI OIL COMPANIES**

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Abstract

The oil industry and oil companies, in particular, in the countries considered in the article directly affect the well-being of the nation. And the financial standing of the company affects the welfare of its employees and the social standard of living in the region. The importance of intangible assets is rapidly increasing due to the fast development of information technologies, scientific and technological progress. No company can do business without using the various intangible assets in its production activities today. The intensified market competition and advent of new information technologies have caused this situation. An important place in accounting is accounting for intangible assets, which is one of the most complex processes, both in the Russian and in foreign practice. The problem of accounting for IA is related to the specifics of the object's accounting and its properties.

Proper accounting for intangible assets is very important in today's information age. It allows to objectively assess a company's market value, make business decisions and attract new investors. However, in both Russia and Kazakhstan there is a lack of specific accounting standards and guidance on disclosing this information, so companies can selectively disclose information on intangible assets in their annual financial statements. This article measures the level of intangible assets disclosure for "Bashneft" and "Tengizchevroil" oil companies, that was calculated based on Ragini index methodology. Particular attention is paid to a separate block of this methodology "Human Resources".

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1. Introduction

Scientific literature does not provide a universal and consistent definition of "intangible assets". There are different opinions on whether "intangible assets" form part of the intellectual capital, or whether these two concepts are equivalent. For example, researchers H. Rus and P. Burgman emphasize the difference between the intellectual capital and intangible assets: "... These are not the same, although many people still use them as synonymous. We believe that tangible or intangible assets refer to whether the assets are identifiable or not, while the difference between traditional and intellectual assets is related to the form of asset's economic performance" (Podoprigora et al., 2016). According to B. Leva, these terms are interchangeable, since they are "widely used: the term "intangible assets" is used in the accounting literature, "intellectual capital" - in management and legal literature; but overall they all boil down to one thing: to describe assets without physical substance from which future economic benefits are expected". Upon considering and reviewing all the views, it can be concluded that these two terms should be treated as synonyms (Silifonova et al., 2016).

2. Problem Statement

Intangible asset (IA) - is an identifiable non-monetary asset without physical substance.

Accounting for intangible assets is one of the most complex processes in the Russian reporting system, as well as in foreign practice. The difficulty of accounting for IA mainly relates to the specifics of the asset and its properties, such as economic usefulness, its role in the production process, cost, presence of the owner, asset's transferability, and difficulty in determining the future economic benefits when justifying the recognition criteria, selection of asset's amortization policy and useful life.

Intangible assets accounting is very important for all companies, including the oil companies. Proper valuation of intangible assets is necessary for operating the business successfully, making sound management decisions, enhancing company's value and reputation, and increasing firm's attractiveness for business partners (Mursich, 2010).

3. Research Questions

The goal of this article is to review the level of disclosures on intangible assets for two oil companies, "Bashneft" and "Tengizchevroil".

The following research problems were formulated:

- to develop or to choose an appropriate method for assessing the level of IA disclosures by oil companies;
- to identify the documents for 2015 reporting period, that would support this method.

4. Purpose of the Study

We needed to make a decision on what documents should be used for this research. Company's financial statements provide information on both assets and intangible assets, but this data consists mostly of reporting metrics and lacks qualitative information. This problem can be solved by using the

company's financial statements. We've found that annual financial reports provide sufficient information on intangible assets, and they are publicly available.

The objective of general purpose financial statements is to provide information about the financial position, financial performance and operating results of the company that is useful to a wide range of users in making economic decisions. All primary forms of the financial statements provide this information with the same level of detail, determined by the minimum required disclosures, however, there is no special format for this disclosure and this increases the time to study each individual company.

5. Research Methods

Ragini methodology was chosen for addressing this research problem. Ragini has identified 180 types of intangible assets, he looked for them in the financial statements and assigned points for each asset that he found. There were 180 assets in total, which are grouped in the following categories (Ragini, 2012):

- research and development (20 items);
- strategy and competition (30 items);
- market and the consumer (36 items);
- human resources (26 items);
- rights relating to intellectual property, goodwill and other intangible assets (25 items);
- corporate information and information ownership (18 items);
- environmental and other immaterial factors (25 items).

The Ragini method can be expressed by the following formula:

$$Index\ Ragini = \frac{\text{Number of intangible asset items in the financial statements}}{\text{Maximum amount of non – material items (i. e., 180)}} * 100\%$$

6. Findings

We've selected two oil companies for analysis, "Bashneft" and "Tengizchevroil". "Bashneft" is a Russian vertically integrated oil company. Its full name is Public Joint Stock Company "Bashneft Oil Company" (Alenicheva et al., 2006).

"Tengizshevroyl" is a joint venture that develops, produces, and sells petroleum and related products. "Tengizchevroil" company is the largest oil producer in Kazakhstan. The company was founded on April 6, 1993 by the president of the Republic of Kazakhstan N. Nazarbayev and U.S. company "Chevron". The joint venture contract was signed for the period of 40 years.

The first category of intangible assets in Ragini methodology is called "Research and Development" and it is focused on companies' research and development activities.

"Bashneft". The company increased output of high-quality light oil due to the modernization of refinery complex. For example, the production of Euro-5 gasoline increased by 30.7%, production of diesel fuel Euro-5 - by 26.6% in 2015. Two new processing plants, hydro treating catalytic cracking gasoline and hydrogen production unit, were put into operation in 2015. The report also discloses detailed information about the heating system "skin-effect", which provides high accuracy in maintaining the

heating power. In general, it is mentioned in the report that the company uses innovation and new technologies for oil production and processing, but the report does not include details about company's expenditures and financing of these innovations. It does not specify whether the company has its own research department, patented technical know-haws, computer software, and its value.

"Tengizchevroil". The company contributed to the development of Kazakhstan national production of modular equipment by bringing major international companies for the transfer of skills and technology to local specialists, and by maximizing the amount of equipment produced locally in Kazakhstan. The report shows precisely the amount of expenditure on innovation (the production of modular equipment) and other developments.

The second category is called "Strategy and Competition", and information on these intangible assets is almost fully reflected in both "Bashneft" and "Tengizchevroil" annual reports. Information on relevant investment activities (expenses for 2012-2014) is disclosed in full. The reports disclose information about the business model and company's operations by geographical regions, show how business processes are monitored across the entire value chain: from gaining access to mineral resources to selling products within the country and abroad.

"Bashneft" is the leader among Russian oil companies in terms of production growth rates with 10.8% increase in oil production, and it ranks sixth in terms of total annual production volume. "Bashneft" has the following marketing and strategic priorities:

- to increase sales of high-margin products;
- to further expand direct access to consumers;
- to increase sales of niche products, such as jet fuel, bunker fuel, and bitumen.

"Tengizchevroil" ranks first among oil companies in Kazakhstan. It ranks second in terms of production growth rate with 41% annual growth. Its main strategies include:

- to be a leader in occupational health and safety and environmental protection;
- to invest in employee development in order to achieve company's mission and vision;
- to be the most respected company in Kazakhstan;
- to achieve the highest production performance indicators.

The companies' reports do not provide information about competitors, specific measures for overcoming global competition, or details on their R&D strategy.

The third category of Ragini's methodology includes information about "Market and Customer".

"Bashneft" is the sixth largest oil producer among Russian companies with 2015 annual output of 17.8 million tons. The company created "Bashneft" brand and it currently implements a rebranding program for gasoline filling stations. The report also discloses information about the company's trademarks. For example, 220 partners' gasoline filling stations operated under "Bashneft" trademark in 2015. The report also shows that company is working on managing various risks. For example, the company has a risk management system (RMS), which was developed and implemented with the participation of one of the "Big Four" consulting firms in 2010. This RMS is based on the generally accepted conceptual risk management models as developed by the Committee of Sponsoring Organizations of the Tread way Commission (COSO ERM "Risk management. Integrated model"). The report does not include information on marketing expenses, information on new customers, details of

customer relationships and customer service, information about customer satisfaction with the products (although it mentions the existence of a customer hotline), information on product design, suppliers and supplier relationships.

"Tengizchevroil" ranks 2nd in terms of oil production among Kazakhstan oil companies. The total volume of company's crude oil production was 26.7 million tons (213 million barrels) in 2015. "Tengizchevroil" procurement costs increased five times over the last three years, and the company continues to work on increasing its procurement volume and purchasing high-quality products that satisfy the requirements and demanding conditions of Tengiz field. 50% of all services and 5% of all purchased goods are provided by Kazakhstan suppliers today. Company's procurement costs account for only 16% of its total expenses. Tengizchevroil uses a variety of services and this trend is not expected to change. This industry will remain the most significant for further driving localization of production in Kazakhstan today and in the future. The report does not disclose business risks.

The following information is shown in the fourth category "Human Resources":

"Bashneft". "The number of company's employees amounted to more than 33 thousand people at the end of 2015. The majority is working in production, administrative staff accounts for about 4% of employees. The share of workers under the age of 30 years is 21%. The average age of employees was 39.2 years in 2014". There is no information about how many men and women are working at the company. The disclosure includes only the total number of employees without classification by regions and segments. The value of human resources was not estimated and disclosed, although the practice of underestimating and non-inclusion of human capital in the total assets significantly lowers the company's market value (value of shares). The average amount of training time per employee in the Group reached 38 hours in 2014. In addition to training, that is aimed at developing employees' core skills and competencies, the company also provides mandatory HSE training. Disclosure on employees' education was incomplete, and no information about the recruiting and selection methods was disclosed in the report. The report stated that "Bashneft" is obliged to make contributions to the Pension Fund of the Russian Federation at the statutory rate. Company's contributions to defined-contribution pension plans are made when salaries are paid.

"Tengizchevroil". The total number of workers amounted to 20 thousand people in 2015. The proportion of full-time local employees is 86.5% at "Tengizchevroil". The share of local Kazakhstan employees among middle management is 75%. As a result of an ongoing program of personnel training and development, more employees are promoted to positions of increasing responsibility. Over the past five years, the company's cost of personnel training programs amounted to 41 million USD. 129 employees have received higher education or post-graduate degrees (BA, MS, MBA) since 2010. Also, there is information about health insurance benefits, wellness and fitness programs, other company's initiatives, and company's sponsorship programs for education of employees.

Information about the fifth category "Rights relating to intellectual property, goodwill and other intangible assets" is reflected in less detail in companies' reports.

"Bashneft" report discloses the fact that company's intangible assets amounted to 2.982 million rubles as at December 31, 2015. Intangible assets are accounted at cost less accumulated amortization and impairment losses. Amortization is calculated on a straight-line basis during the expected period of asset's

useful life, amortization is recognized in profit or loss as "Depreciation and amortization" line item. The Group reviews the carrying value of intangible assets with finite useful lives for any signs of impairment at each reporting date. If any indication of impairment exists, the asset's recoverable amount is estimated in order to determine the amount of the impairment loss (if any). The annual financial statements indicated that "Bashneft" calculates the amount of goodwill when investing in subsidiaries. There is no information about the cost of acquired goodwill, and consequently no information about goodwill amortization.

"Tengizchevroil". The report does not reflect any information about patents, intellectual property, trade secrets, copyrights, as well as value of own trademarks. Neglecting these important assets reduces company's market value and its attractiveness to investors (Kovacs, 2015).

The sixth category "Corporate information and information ownership" is reflected almost completely in the reports. Corporate values, goals and objectives, vision, mission, and culture are clearly articulated in the reports.

Most of the principles of the Corporate Governance Code are observed in "Bashneft". "Bashneft" independently reviewed its corporate governance practices based on the Methodology for self-assessment of corporate governance in companies with state participation in 2015. Preliminary results of this review indicate sufficiently high level of corporate governance. According to their own estimates, the Company complies with over 84% of the requirements of this Methodology. The report does not disclose who is the largest shareholder in the Company.

The seventh category "Environmental and other immaterial factors" is fully disclosed.

The Company's environmental protection activities are carried out in areas of preventing pollution of air, water and land, energy efficiency and protection of biodiversity. "Bashneft" is guided by the following principles of environmental protection:

- recognition of an inalienable human right to a healthy environment;
- reducing the negative impact on the environment and establishing proper environmental controls in all operating activities;
- compliance with government regulations and international environmental standards;
- continuous improvement of the system of environmental protection;
- transparency and availability of relevant information.

The company spent a total of 9.3 billion rubles on activities related to environmental protection in 2015. Overall, "Bashneft" plans to allocate 46.7 billion rubles for these goals over the period of 2014-2018 years.

"Tengizchevroil". Company's environmental protection metrics reflect its commitment to the environment. The company has invested 3 billion USD in projects aimed at minimizing the impact of production on the environment since 2000. As a result of these investment, there was a significant increase in the level of "ecological purity" of the production. As part of the general environmental protection plan, the company initiated a number of major capital projects, which allowed, in the end, to cease routine gas flaring and reduce total gas flaring by 91%. The company continues to invest in numerous projects and programs aimed at improving the production process, reducing free emissions or

increasing energy efficiency. The company managed to improve its equipment reliability, significantly reduce emissions, flaring and spills because of such investments.

7. Conclusion

Ragini (2012) indices for "Bashneft" and "Tengizchevroil" are 53.3% and 44% respectively, and there are some difficulties in understanding certain categories of intangible assets for these companies. First of all, this figure reflects that Ragini's approach to assessing intangible asset disclosures is subjective. He offered categories and items, which he considered more appropriate for studying intangible asset disclosures.

The companies do not have full disclosures due to the fact that both Russia and Kazakhstan do not have a single disclosure format for reflecting information about intangible assets, even though intangible assets play an important part in the economy. Intangible assets are starting to take a more leading role compared to physical assets in the current information age.

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