

**KazTransOil JSC**

**Consolidated financial statements**

*For the year ended 31 December 2016,  
with independent auditor's report*

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**Consolidated financial statements**

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## Independent auditor's report

To the Shareholders of KazTransOil JSC

### Opinion

We have audited the consolidated financial statements of "KazTransOil" JSC and its subsidiary (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

### **Fair value of property, plant and equipment**

Property, plant and equipment makes up 81.1% of the total assets of the Group as at 31 December 2016. The Group uses revaluation model as its accounting policy in respect of measurement of property, plant and equipment. Due to high level of subjectivity in respect of assumptions underlying the assessment of the fair value of property, plant and equipment this matter was one of the most significance in our audit. The Group has a process of external valuations, with the value of property, plant and equipment being measured by independent external appraisers to ensure that the Group's property, plant and equipment is stated at fair value at each balance sheet date. Significant assumptions used in calculating the fair value included discount rates, transportation and transshipment forecasts.

We overviewed the Group's valuation process and assessed the independence and expertise of the external appraisers. We compared input data used by the independent external appraisers with the Group's business plans. We engaged our internal valuation specialists to assess underlying assumptions and valuation methods applied. Information about property, plant and equipment is disclosed in Note 6 to the consolidated financial statements; a description of the accounting policy and key judgements and estimates is included in Notes 4.5 and 5 to the consolidated financial statements.

### **Other Information included in the Group's 2016 Annual report**

Other information consists of the information included in the Group's 2016 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2016 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

### **Responsibilities of management and the committee on internal audit of the board of directors for the consolidated financial statements**

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations or has no realistic alternative but to do so.

The committee on internal audit of the board of directors is responsible for overseeing the Group's financial reporting process.



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### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the committee on internal audit of the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the committee on internal audit of the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the committee on internal audit of the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Gulmira Turmagambetova.

*Ernst & Young LLP*



Gulmira Turmagambetova  
Auditor / General Director  
Ernst & Young LLP



Auditor Qualification Certificate  
No. 0000374 dated 21 February 1998

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

050060, Almaty, Kazakhstan  
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27 February 2017

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

<i>In thousands of Tenge</i>	Notes	31 December 2016	31 December 2015
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	604,155,347	478,504,930
Intangible assets	7	6,260,601	7,399,731
Investments in joint ventures	8	15,728,257	13,918,006
Advances to suppliers for property, plant and equipment	9	1,678,603	7,733,267
Long-term accounts receivable		71,991	-
Bank deposits	15	4,182,770	4,487,436
Other non-current assets		15,065	27,156
		<b>632,092,634</b>	<b>512,070,526</b>
<b>Current assets</b>			
Inventories	10	4,399,035	3,599,697
Trade and other accounts receivable	11	6,476,952	4,224,126
Interest free loan	17	-	18,735,079
Advances to suppliers	12	375,382	3,062,072
Prepayment for income tax		4,488,440	2,376
VAT recoverable and other prepaid taxes	13	6,446,378	8,639,068
Other current assets	14	5,727,129	6,062,455
Bank deposits	15	15,675,618	12,446,837
Cash and cash equivalents	16	69,294,429	50,420,288
		<b>112,883,363</b>	<b>107,191,998</b>
<b>Total assets</b>		<b>744,975,997</b>	<b>619,262,524</b>

*The accounting policy and explanatory notes on pages 8 through 59 form an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)**

<i>In thousands of Tenge</i>	Notes	31 December 2016	31 December 2015
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	17	61,937,567	61,937,567
Treasury shares repurchased from shareholders	17	(9,549)	-
Asset revaluation reserve	17	230,346,658	125,563,376
Foreign currency translation reserve	17	32,918,111	36,210,843
Other capital reserves	17	(695,389)	(3,813,701)
Retained earnings		263,477,884	253,033,425
<b>Total equity</b>		<b>587,975,282</b>	<b>472,931,510</b>
<b>Non-current liabilities</b>			
Employee benefit liabilities	18	11,994,599	15,098,686
Deferred tax liabilities	32	60,856,513	40,682,643
Provision for asset retirement and land recultivation obligation	23	15,022,086	21,999,701
Deferred income	19	7,731,328	8,081,762
		<b>95,604,526</b>	<b>85,862,792</b>
<b>Current liabilities</b>			
Employee benefit liabilities	18	543,418	435,024
Income tax payable		1,246,171	2,112,015
Trade and other accounts payable	20	15,384,798	16,654,897
Advances received	21	16,444,432	17,825,174
Other taxes payable	22	5,055,666	4,558,010
Provisions	23	208,103	63,191
Other current liabilities	24	22,513,601	18,819,911
		<b>61,396,189</b>	<b>60,468,222</b>
<b>Total liabilities</b>		<b>157,000,715</b>	<b>146,331,014</b>
<b>Total equity and liabilities</b>		<b>744,975,997</b>	<b>619,262,524</b>
<b>Book value per ordinary share (in Tenge)</b>	17	<b>1,512</b>	<b>1,210</b>

Signed and approved for issue on 27 February 2017.

General Director



*Dossanov D.G.*

Chief Accountant



*Sarmagambetova M.K.*

*The accounting policy and explanatory notes on pages 8 through 59 form an integral part of these consolidated financial statements.*



**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

<i>In thousands of Tenge</i>	Notes	For the years ended 31 December	
		2016	2015
Revenue	25	207,107,815	213,161,762
Cost of sales	26	(129,861,783)	(124,063,989)
<b>Gross profit</b>		<b>77,246,032</b>	<b>89,097,773</b>
General and administrative expenses	27	(15,653,399)	(12,092,220)
Other operating income	28	3,939,775	1,659,141
Other operating expenses	29	(868,179)	(1,733,969)
Loss from impairment of property, plant and equipment, net	6	(14,212,545)	(1,330,882)
<b>Operating profit</b>		<b>50,451,684</b>	<b>75,599,843</b>
Net foreign exchange (loss)/gain	16	(1,611,563)	25,544,225
Finance income	30	6,190,905	3,026,897
Finance costs	31	(2,459,837)	(2,177,430)
Share in income/(loss) of joint ventures	8	2,336,465	(34,674,141)
<b>Profit before income tax</b>		<b>54,907,654</b>	<b>67,319,394</b>
Income tax expense	32	(10,379,736)	(22,606,458)
<b>Net profit for the year</b>		<b>44,527,918</b>	<b>44,712,936</b>
<b>Earnings per share (in Tenge)</b>	<b>17</b>	<b>116</b>	<b>116</b>
<b>Other comprehensive income</b>			
<b>Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods</b>			
Exchange difference from translation of foreign operations of the Group		(3,292,732)	19,956,164
Exchange difference from translation of foreign operations of the joint ventures	8	-	(77,410)
<b>Total other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods, net</b>		<b>(3,292,732)</b>	<b>19,878,754</b>

*The accounting policy and explanatory notes on pages 8 through 59 form an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)**

<i>In thousands of Tenge</i>	Notes	For the years ended 31 December	
		2016	2015
<b>Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods</b>			
Revaluation/(impairment) of property, plant and equipment of the Group	6	140,245,363	(893,921)
Income tax effect	32	(25,724,217)	178,784
		114,521,146	(715,137)
<b>Reversal of provision for asset retirement obligation and land reclamation of the Group</b>			
Income tax effect	32	(1,377,295)	(231,565)
		5,509,189	926,264
<b>Reversal of deferred tax liabilities</b>			
	32	865,077	-
		865,077	-
<b>Revaluation of property, plant and equipment of joint ventures</b>			
Income tax effect	8	(222,363)	(13,835)
		889,451	55,341
<b>Reversal of provision for asset retirement obligation and land reclamation of joint ventures</b>			
Income tax effect	8	(17,874)	(126,475)
		71,495	505,902
<b>Actuarial gain/(loss) from employee benefit liabilities of the Group</b>			
Income tax effect	32	(779,578)	500,781
		3,118,312	(2,003,126)
<b>Total other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods, net</b>		<b>124,974,670</b>	<b>(1,230,756)</b>
<b>Total other comprehensive income for the year, net of tax</b>		<b>121,681,938</b>	<b>18,647,998</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>166,209,856</b>	<b>63,360,934</b>

Signed and approved for issue on 27 February 2017.

General Director



Dossanov D.G.

Sarmagambetova M.K.

Chief Accountant

*The accounting policy and explanatory notes on pages 8 through 59 form an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF CASH FLOWS**

<i>In thousands of Tenge</i>	Notes	For the years ended 31 December	
		2016	2015
<b>Cash flows from operating activities</b>			
Profit before income tax		54,907,654	67,319,394
<b>Non-cash adjustment to reconcile profit before tax to net cash flows</b>			
Depreciation and amortization	26, 27	40,874,568	33,228,121
Charge of allowance for doubtful debts, net	27	1,668,566	107,656
Share in (income)/loss of joint ventures	8	(2,336,465)	34,674,141
Finance costs	31	2,459,837	2,177,430
Finance income	30	(6,190,905)	(3,026,897)
Employee benefits, current and past service costs	18, 26, 27	1,120,030	1,070,515
Actuarial gain	18	(742,441)	-
Charge/(reversal) of provisions, net	23	154,125	(243,689)
Loss on disposal of property, plant and equipment and intangible assets, net	29	239,377	1,376,960
(Gain)/loss from disposal of assets held for sale, net		(4,443)	6,915
Impairment charge of property, plant and equipment	6	14,212,545	1,330,882
Gain from sale of inventory, net		(13,752)	(44,193)
Income from write-off of accounts payables		(2,122)	(42,363)
Amortization of deferred income	28	-	(260,305)
Loss from liquidation of idle oil pumping stations		14,688	26,538
Income from revision of estimates and reversal of provision on asset retirement and land recultivation obligation	28	(1,556,766)	(443,410)
Unrealized foreign exchange loss		1,338,240	-
Expenses on write off of VAT recoverable		42,661	-
(Reversal)/charge of provision for obsolete inventories, net	27	(95)	6,644
<b>Cash flows from operating activities before working capital changes</b>		<b>106,185,302</b>	<b>137,264,339</b>
<b>(Increase)/decrease in operating assets</b>			
Inventories		(1,177,209)	(296,689)
Trade and other accounts receivable		(3,972,316)	2,103,548
Advances to suppliers		2,693,685	(1,483,881)
VAT recoverable and other prepaid taxes		2,620,189	(309,496)
Other current assets		374,140	(2,529,789)
<b>Increase/(decrease) in operating liabilities</b>			
Trade and other accounts payable		454,933	(3,311,765)
Advances received		(1,376,981)	792,292
Other taxes payable		(330,721)	(388,809)
Other current and non-current liabilities and employee benefit liabilities		2,546,514	4,260,012
<b>Cash generated from operating activities</b>		<b>108,017,536</b>	<b>136,099,762</b>
Income taxes paid		(21,677,968)	(16,850,829)
Interest received		4,637,042	2,753,028
<b>Net cash flow from operating activities</b>		<b>90,976,610</b>	<b>122,001,961</b>

*The accounting policy and explanatory notes on pages 8 through 59 form an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**

<i>In thousands of Tenge</i>	Notes	For the years ended 31 December	
		2016	2015
<b>Cash flows from investing activities</b>			
Withdrawal of bank deposits		31,655,991	71,739,062
Placement of bank deposits		(35,048,671)	(41,427,048)
Purchase of property, plant and equipment		(38,263,193)	(70,523,460)
Purchase of intangible assets		(58,754)	(154,116)
Proceeds from disposal of property, plant and equipment		10,137	44,138
Repayment/(granting) of interest free loan	17	20,000,000	(20,000,000)
Dividends received		1,487,160	1,735,020
<b>Net cash flow used in investing activities</b>		<b>(20,217,330)</b>	<b>(58,586,404)</b>
<b>Cash flows from financing activities</b>			
Dividends paid	17	(51,156,535)	(46,429,363)
Treasury shares repurchased from shareholders	17	(9,549)	-
<b>Net cash flow used in financing activities</b>		<b>(51,166,084)</b>	<b>(46,429,363)</b>
Net foreign exchange difference		(719,055)	(8,740,626)
<b>Net change in cash and cash equivalents</b>		<b>18,874,141</b>	<b>8,245,568</b>
Cash and cash equivalents at the beginning of the year		50,420,288	42,174,720
<b>Cash and cash equivalents at the end of the year</b>	16	<b>69,294,429</b>	<b>50,420,288</b>

Signed and approved for issue on 27 February 2017.

General Director



*Dossanov D.G.*

Chief Accountant

*Sarmagambelova M.K.*


*The accounting policy and explanatory notes on pages 8 through 59 form an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

<i>In thousands of Tenge</i>	Share capital	Asset revaluation reserve	Foreign currency translation reserve	Other capital reserves	Treasury shares	Retained earnings	Total
<b>As at 31 December 2015</b>	61,937,567	125,563,376	36,210,843	(3,813,701)	-	253,033,425	472,931,510
Profit for the year	-	-	-	-	-	44,527,918	44,527,918
Other comprehensive income/(loss)	-	121,856,358	(3,292,732)	3,118,312	-	-	121,681,938
<b>Total comprehensive income/(loss) for the year</b>	-	121,856,358	(3,292,732)	3,118,312	-	44,527,918	166,209,856
Depreciation transfer of revalued property, plant and equipment	-	(17,073,076)	-	-	-	17,073,076	-
Treasury shares repurchased from shareholders (Note 17)	-	-	-	-	(9,549)	-	(9,549)
Dividends (Note 17)	-	-	-	-	-	(51,156,535)	(51,156,535)
<b>As at 31 December 2016</b>	61,937,567	230,346,658	32,918,111	(695,389)	(9,549)	263,477,884	587,975,282
<b>As at 31 December 2014</b>	61,937,567	138,237,679	14,860,910	(1,810,575)	-	244,418,740	457,644,321
Profit for the year	-	-	-	-	-	44,712,936	44,712,936
Other comprehensive income/(loss)	-	772,370	19,878,754	(2,003,126)	-	-	18,647,998
<b>Total comprehensive income/(loss) for the year</b>	-	772,370	19,878,754	(2,003,126)	-	44,712,936	63,360,934
Depreciation transfer of revalued property, plant and equipment	-	(11,975,494)	-	-	-	11,975,494	-
Dividends (Note 17)	-	-	-	-	-	(46,429,363)	(46,429,363)
Reclassification	-	(1,471,179)	1,471,179	-	-	-	-
Other (Note 17)	-	-	-	-	-	(1,644,382)	(1,644,382)
<b>As at 31 December 2015</b>	61,937,567	125,563,376	36,210,843	(3,813,701)	-	253,033,425	472,931,510

Signed and approved for issue on 27 February 2017.

General Director



Dossanov D.G.

Chief Accountant



Sarmagambetova M.K.

The accounting policy and explanatory notes on pages 8 through 59 form an integral part of these consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 1. GENERAL

On 2 May 2001, the Government of the Republic of Kazakhstan issued a resolution to create a new closed joint stock company National Company "Transportation of Oil and Gas" (hereinafter – "TNG") owned by the Government. Based on that resolution, the Committee for State Property and Privatization of the Ministry of Finance of the Republic of Kazakhstan transferred the "KazTransOil" NOTC CJSC shares to TNG, and, as a result, "KazTransOil" NOTC CJSC was re-registered and renamed "KazTransOil" CJSC.

On 31 May 2004, in accordance with the requirements of Kazakhstani legislation, CJSC "KazTransOil" was re-registered as "KazTransOil" JSC (hereinafter – "Company").

As at 31 December 2016 10% of shares of the Company are owned by minority shareholders who acquired them within the "People's IPO" program. The major shareholder of the Company, who owns the controlling interest of the Company (90%) is National Company "KazMunayGas" JSC (hereinafter – "KMG" or "Parent Company"). 90% of KMG shares are owned by Sovereign Wealth Fund "Samruk-Kazyna" JSC (hereinafter – "Samruk-Kazyna"), controlled by the Government of the Republic of Kazakhstan, 10% of KMG shares are owned by the National Bank of the Republic of Kazakhstan.

As at 31 December 2016 and 2015 the Company had ownership interest in the following companies:

	Place of incorporation	Principal activities	Ownership	
			31 December 2016	31 December 2015
NWPC "MunaiTas" JSC (hereinafter – "MunaiTas")	Kazakhstan	Oil transportation	51%	51%
"Kazakhstan-China Pipeline" LLP (hereinafter – "KCP")	Kazakhstan	Oil transportation	50%	50%
"Batumi Terminals Limited" (hereinafter – "BTL")	Cyprus	Forwarding, transshipment and storage of oil and oil products and operating Batumi Sea Port and Oil Terminal	100%	100%

The Company and its subsidiary are hereinafter referred to as the "Group".

The Company's head office is located in Astana, Kazakhstan, at 19, Kabanbay Batyr Avenue. The Company has 4 branches, which are located in Atyrau (Western branch), Pavlodar (Eastern branch), Almaty (Research and Development Centre), Astana (Main Information and Computing Center), and representative offices in the Russian Federation (Omsk and Samara). On 14 March 2016 the Board of Directors of the Company closed a representative office in Moscow.

The Group operates network of main oil pipelines of 5,377 km and water pipelines of 1,975 km on the territory of the Republic of Kazakhstan. Also the Group is engaged in storage, loading, transshipment and transfer of crude oil to other related pipeline systems. Group's joint ventures MunaiTas and KCP own Kenkiyak-Atyrau, Kenkiyak-Kumkol, and Atasu-Alashankou pipelines used for transportation of Kazakhstani crude oil to China.

BTL, subsidiary of the Company, provides services for transshipment and storage of crude oil, oil products and liquefied petroleum gas, as well as services for dry cargo transshipment through Batumi Oil Terminal and Batumi Sea Port in Georgia. BTL owns Batumi Oil Terminal LLC (hereinafter – "BOT") and Petrotrans Limited Company. BOT has the exclusive right to operate 100% of the shares of Batumi Sea Port LLC (hereinafter – "BSP").

The Company is a natural monopolist and, respectively, is subject to regulation of the Committee on Regulation of Natural Monopolies and Protection of Competition of the Ministry of National Economy of the Republic of Kazakhstan (hereinafter – "CRNMandPC"). CRNMandPC is responsible for approving the methodology for calculating the tariff and tariff rates, which serve as a base for receiving major part of the Group's revenue in domestic market of the Republic of Kazakhstan.

On 18 May 2015 amendments to the Law of the Republic of Kazakhstan *On Natural Monopolies and Regulated Markets* came into force. According to the amendments transit of crude oil through the pipelines on the territory of the Republic of Kazakhstan and export from the Republic of Kazakhstan is excluded from the regulation of natural monopolies.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**1. GENERAL (continued)**

From 1 October 2015 order of CRNMandPC dated 21 August 2015 approved the maximum tariffs for pumping oil on the domestic market for 2015-2019 in the amount of:

- In 2015 – 3,225.04 Tenge per tonne for 1,000 km without VAT;
- In 2016 – 3,547.46 Tenge per tonne for 1,000 km without VAT;
- In 2017 – 3,902.13 Tenge per tonne for 1,000 km without VAT;
- In 2018 – 4,292.40 Tenge per tonne for 1,000 km without VAT;
- In 2019 – 4,721.72 Tenge per tonne for 1,000 km without VAT.

Starting from 1 April 2014 tariffs for pumping oil on the export from the Republic of Kazakhstan equals to 5,817.20 Tenge per tonne for 1,000 km without VAT.

In general, tariff rates are based on the cost of capital return on operating assets. In accordance with the legislation of the Republic of Kazakhstan on regulation of natural monopolies, tariff rates cannot be lower than the expenditures required to provide services, and should provide for entity's profitability at the level ensuring effective functioning of a natural monopoly.

These consolidated financial statements were signed and approved for issue by the General Director and the Chief Accountant of the Company on 27 February 2017.

**2. BASIS OF PREPARATION**

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

These consolidated financial statements have been prepared on a historical cost basis, except for property, plant and equipment, which are stated at revalued amounts, and other items described in the accounting policies and notes to the consolidated financial statements.

These consolidated financial statements are presented in Tenge and all amounts are rounded to the nearest thousands, except when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period.

**3. BASIS OF CONSOLIDATION**

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at 31 December 2016. Control is achieved when the Group 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.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. BASIS OF CONSOLIDATION (continued)**

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****4.1 Interest in a joint venture**

The Group has interests in joint operations in the form of joint ventures.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Factors considered in determining joint control are similar to the factors considered in determining the existence of control of subsidiaries.

The Group's investment in its joint ventures is accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the joint venture. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The Group's share of profit or loss of a joint venture is shown on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax of the joint venture.

Financial statements of joint ventures are prepared for the same reporting period as for the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on own investments in its joint ventures. The Group determines at each reporting date whether there is any objective evidence that the investment in a joint venture is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount in consolidated statement of comprehensive income under "Share in profit or loss of joint ventures".

Upon loss of significant influence over the joint control over the joint ventures, the Group measures and recognises its remaining investment at its fair value. Any differences between the carrying amount of the former jointly controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in statement of comprehensive income.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****4.2 Foreign currency translation**

The Group's consolidated financial statements are presented in Tenge. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Functional currency of the Company and the joint ventures MunaiTas and KCP is Tenge. Functional currency of BTL Group is US Dollar, except for BSP, which functional currency is Georgian Lari.

*Transactions and balances*

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

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

All exchange differences arising from repayment and recalculation of monetary items, are included in the consolidated statement of comprehensive income.

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).

*Group companies*

On consolidation, the assets and liabilities of foreign operations are translated into Tenge at the rate of exchange prevailing at the reporting date and their income statements are translated at weighted average currency exchange rates. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the rate of exchange at the reporting date.

*Exchange rates*

Weighted average currency exchange rates established by the Kazakhstan Stock Exchange (hereinafter – "KASE") are used as official currency exchange rates in the Republic of Kazakhstan.

Weighted average currency exchange rates for the year ended 31 December 2016 and 2015 are as follows:

<i>Tenge</i>	<b>For the year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
US Dollar	<b>341.74</b>	222.68
Russian Ruble	<b>5.12</b>	3.62
Euro	<b>378.27</b>	246.89
Georgian Lari	<b>122.24</b>	98.38

As at 31 December exchange rates established by KASE are as follows:

<i>Tenge</i>	<b>2016</b>	<b>2015</b>
US Dollar	<b>333.29</b>	340.01
Russian Ruble	<b>5.43</b>	4.61
Euro	<b>352.42</b>	371.46
Georgian Lari	<b>126.25</b>	142.86

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****4.3 Current versus non-current classification of assets and liabilities**

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

**4.4 Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation models that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****4.4 Fair value measurement (continued)**

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Group and external appraisers also compares changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purposes of the disclosure of the fair value of Group assets and liabilities are classified based on their nature, characteristics and risks inherent in them, as well as the applicable level in the fair value hierarchy, as described above.

An analysis of the fair value of property, plant and equipment and additional information about the methods of its definition in *Note 5*.

**4.5 Property, plant and equipment**

Property, plant and equipment initially are recognized at cost. Subsequent measurement is at fair value less accumulated depreciation (except for land, technological oil and construction in process) and impairment losses recognised after the date of the revaluation.

In identifying excess of technological oil the Group assesses whether the transferred item from customers meets the definition of an asset, and if it is so, recognises the transferred asset as property, plant and equipment at zero cost and revalued at each reporting date.

The Group periodically engages independent appraisers to revalue property, plant and equipment to their fair value. According to Accounting Policy property, plant and equipment is revalued each 3 years (except for technological oil, which is revalued annually) in order to ensure that fair value of the revalued asset does not significantly differ from its book value.

Any revaluation surplus is recorded in other comprehensive income and, credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as expense in the statement of comprehensive income, in this case the increase is recognised through profit in the statement of comprehensive income. A revaluation deficit is recognised as expense in the statement of comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Additionally, accumulated depreciation, as at the revaluation date, is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

The cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to significant accounting judgments, estimates and assumptions and provisions for further information about the asset retirement and land recultivation obligation (*Notes 5 and 23*).

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	Years
Buildings	5-50
Machinery and equipment	3-30
Pipelines and transportation assets	5-30
Other	2-10

According to the Group's accounting policy, technological oil, construction in progress and land are not subject to depreciation.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****4.5 Property, plant and equipment (continued)**

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.

Residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

**4.6 Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as finite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization is provided on a straight-line basis over the estimated useful economic life of the assets. Intangible assets are generally amortized over five years. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognised in the consolidated statement of comprehensive income in the expense category consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of comprehensive income when the asset is derecognised.

**4.7 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 (hereinafter – "CGU") fair value less costs to sell and its value in use.

Recoverable amount 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 selling costs, 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 CGU 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.

Impairment losses of continuing operations (including impairment reserves) are recognized in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset, except for the previously overvalued property, plant and equipment when the revaluation was taken to other comprehensive income. In this case, the impairment is also recognized in other comprehensive income up to the amount previously conducted revaluation.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****4.7 Impairment of non-financial assets (continued)**

At each reporting date the Group makes an assessment as to 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 CGU's recoverable amount. 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 exceeds 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 recognized through profit or loss, unless the asset is carried at revalued amount. In the latter case the reversal is treated as a revaluation increase.

**4.8 Financial assets***Initial recognition and measurement*

Financial assets are classified, at initial recognition, 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 short-term bank deposits, loans given, trade and other receivables.

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (hereinafter – "EIR"), less impairment.

Amortized 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 amortization is included in finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognized in the consolidated statement of comprehensive income in finance costs for loans and in general and administrative expenses for accounts receivable.

*Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the EIR, less impairment.

Amortized 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 amortization is included in finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income in finance costs. The Group had bank deposits held-to-maturity during the years ended 31 December 2016 and 2015.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****4.8 Financial assets (continued)*****Derecognition***

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised (e.g., removed from the Group's consolidated statement of financial position) 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, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of 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.

**4.9 Impairment of financial assets**

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Disclosures for significant accounting judgements, estimates and assumptions (*Note 5*);
- Trade accounts receivables (*Note 11*).

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 are 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 indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. In addition, such evidence includes observable data indicating the existence of a measurable decrease in the estimated future cash flows of a financial instrument, in particular, such as changes in arrears volumes or economic conditions, are in a certain relationship with the failure to fulfill obligations to pay debts.

***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.

The amount of the loss is measured as the difference between the assets 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 assets original effective interest rate.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****4.9 Impairment of financial assets (continued)***Financial assets carried at amortised cost (continued)*

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 profit and loss. 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 consolidated statement of comprehensive income. Loans and receivables 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 future write-off is later recovered, the recovery is credited to finance costs and general and administrative expenses in the consolidated statement of comprehensive income.

**4.10 Financial liabilities***Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, 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 loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities may include trade and other payables, loans and borrowings, financial guarantee contracts.

*Subsequent measurement*

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

*Loans and borrowings*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized 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 method amortization process.

Amortized 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 amortization is included in finance costs in the statement of comprehensive income.

*Financial guarantee contracts*

Financial guarantee contracts are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee.

*Derecognition*

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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income as income or expense.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****4.11 Offsetting of financial instruments**

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

**4.12 Inventories**

Inventories are stated at the lower of cost and net realizable value on a first-in first-out (hereinafter – “FIFO”) basis. Cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition.

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.

Cost of inventories is determined by using of FIFO basis.

**4.13 Cash and cash equivalents**

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

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

**4.14 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 profit or loss excluding any reimbursement.

The Group records a provision on asset retirement and land reclamation obligation. Provisions on asset retirement and land reclamation obligation are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the asset retirement obligation. The unwinding of the discount is expensed as incurred and recognised in the consolidated income statement as a finance cost. The estimated future costs on asset retirement and land reclamation obligation are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset (*Note 5*).

**4.15 Employment benefits**

The Company provides long-term employee benefits to employees before, on and after retirement, in accordance with the Collective agreement between the Company and its employees. The Collective agreement provides for one-off retirement payments, financial aid for employees' disability, anniversaries and funeral. The entitlement to benefits is usually conditional on the employee remaining in service up to retirement age.

The expected costs of the benefits associated with one-off retirement payments are accrued over the period of employment using the same accounting methodology as used for defined benefit post-employment plans with defined payments on the end of labor activity. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred. Other movements are recognised in the current period, including current service cost, any past service cost and the effect of any curtailments or settlements.

The most significant assumptions used in accounting for defined benefit obligations are discount rate and mortality rate. The discount rate is used to determine the net present value of future liabilities and each year the unwinding of the discount on those liabilities is charged to the consolidated statement of comprehensive income as interest cost.

The mortality assumption is used to project the future stream of benefit payments, which is then discounted to arrive at a net present value of liabilities.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****4.15 Employment benefits (continued)**

The results of the revaluation of employee benefits liabilities, including actuarial gains and losses, are recognized by the Group as follows:

- Remuneration after termination of employment through other comprehensive income. In subsequent periods, the revaluation results will not be reclassified to profit or loss;
- Other long-term benefits through profit or loss.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Company recognises the following changes in the net defined benefit obligation under 'cost of sales', 'administration expenses' and 'finance expenses' in consolidated statement of comprehensive income (by function):

- Service costs comprising current service costs, past-service costs;
- Net interest expense or income.

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

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

**4.16 Revenue recognition and other income 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, except for transportation expedition contract where the Group is acting as an agent. The following specific recognition criteria must also be met before revenue is recognized:

*Rendering of transportation services*

Revenue from rendering of transportation and transshipment services is recognized on the basis of actual volumes of oil and water transported during the reporting period.

*Rendering of other services*

Revenue from rendering of other services is recognized as services are provided.

*Interest income*

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the consolidated statement of comprehensive income.

*Dividends*

Dividend income is recognized when the Group's right to receive the payment is established (on the date of dividends approval).

*Fees for undelivered oil volumes*

Income from fees for undelivered oil volumes is recognized for nominated and non-delivered oil volumes under oil transportation contracts on "ship or pay" terms.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****4.17 Taxes***Income tax*

Income tax assets and liabilities 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 countries where the Group operates and generates taxable income.

Income tax relating to items recognised in other comprehensive income is recognised in equity and not in the statement of comprehensive income. Management of the Group 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 tax*

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or 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 taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where 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.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, 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:

- where 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 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 utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits 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 in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting 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 in equity.

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****4.17 Taxes (continued)***Value added tax (hereinafter – “VAT”)*

VAT related to sales is payable to the budget of the states in which Group’s companies registered, of the when goods are shipped or services are rendered. Input VAT can be offset against output VAT upon the receipt of a tax invoice from a supplier.

Revenue, expenses and assets are recognized after deduction of VAT, except for instances, where amount of VAT is recognized as a part of costs for asset acquisitions or as a part of expenses.

Tax legislation allows the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases unsettled at the balance sheet date is stated in the consolidated statement of financial position on a net basis.

Due to specifics of tax legislation and the Group’s operations a certain part of input VAT can be carried over into subsequent years. Such portion of VAT is classified as long-term asset and assessed for impairment and considered as a corporate asset allocated to existing CGU.

Receivables and payables are stated including VAT.

The net amount of sales tax recoverable from or payable to, the taxation authority is included as part of VAT recoverable, other taxes prepaid and other taxes payable in the consolidated statement of financial position.

**4.18 Equity***Share capital*

External costs directly attributable to the issue of new shares, excluding business combinations are shown as a deduction from the proceeds from shares issue in equity.

*Dividends*

The Group recognises a liability to make cash or non-cash distributions to shareholders, when the distribution is authorised and the distribution is no longer at the discretion of the Company. According to legislation of the Republic of Kazakhstan, distribution is authorised by the shareholders. A corresponding amount is recognised directly in equity.

At the moment of distribution of non-monetary assets the difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognized in the consolidated statement of comprehensive income.

Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorized for issue.

**4.19 Changes in accounting policies and disclosures**

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as at 1 January 2016.

**New and amended standards and interpretations applied by the Group**

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Although these new standards and amendments applied for the first time in 2016, they did not have a material impact on the consolidated financial statements of the Group. The nature and the impact of each new standard or amendment are described below:

*IFRS 14 Regulatory Deferral Accounts*

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the consolidated statement of financial position and present movements in these account balances as separate line items in the consolidated statement of comprehensive income.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****4.19 Changes in accounting policies and disclosures (continued)****New and amended standards and interpretations applied by the Group (continued)***IFRS 14 Regulatory Deferral Accounts (continued)*

The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Group is an existing IFRS preparer and the Group has no regulatory deferral account balances, this standard does not affect the consolidated financial statements.

*Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests*

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 *Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. These amendments do not have any impact on the Group's consolidated financial statements as there has been no interest acquired in a joint operation during the period.

*Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. These amendments are applied prospectively and do not have any impact on the Group's consolidated financial statements, because the Group has not used a revenue-based method to depreciate its non-current assets.

*Amendments to IAS 27 Equity Method in Separate Financial Statements*

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively.

These amendments do not have any impact on the Group's consolidated financial statements.

*Annual improvements 2012-2014 cycle*

This document includes the following amendments that do not affect the consolidated financial statements of the Group:

*IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****4.19 Changes in accounting policies and disclosures (continued)****New and amended standards and interpretations applied by the Group (continued)***Annual improvements 2012-2014 cycle (continued)**IFRS 7 Financial Instruments: Disclosures**(i) Servicing contracts*

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

*(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements*

The amendment clarifies that the offsetting disclosure requirements do not apply to interim condensed financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively.

*IAS 19 Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

*IAS 34 Interim Financial Reporting*

The amendment clarifies that the required interim disclosures must either be in the interim condensed financial statements or incorporated by cross-reference between the interim condensed financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim condensed financial statements and at the same time. This amendment is applied retrospectively.

These amendments do not have any impact on the consolidated financial statements of the Group.

*Amendments to IAS 1 Disclosure Initiative*

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement of comprehensive income and the statement of financial position may be disaggregated;
- That Group has flexibility as to the order in which they present the notes to financial statements;
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of comprehensive income.

These amendments do not have any impact on the consolidated financial statements of the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****4.19 Changes in accounting policies and disclosures (continued)****New and amended standards and interpretations applied by the Group (continued)***Annual improvements 2012-2014 cycle (continued)**Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception*

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value.

The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments are applied retrospectively and do not have any impact on the consolidated financial statements of the Group as the Group does not apply the consolidation exception.

**Standards issued but not yet effective**

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.

*IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date. During 2016, the Group has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9. The Group expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent.

*(a) Classification and measurement*

The Group does not expect a significant impact on its consolidated statement of financial position or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

Trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9. However, the Group will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****4.19 Changes in accounting policies and disclosures (continued)****Standards issued but not yet effective (continued)***IFRS 9 Financial Instruments (continued)**(b) Impairment*

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Group expects a significant impact on its equity due to unsecured nature of its receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. During 2016, the Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Group is considering the clarifications issued by the IASB in April 2016 and will monitor any further developments.

*(i) Presentation and disclosure requirements*

IFRS 15 provides presentation and disclosure requirements, which are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in Group's financial statements. Many of the disclosure requirements in IFRS 15 are completely new.

*Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

*IAS 7 Disclosure Initiative – Amendments to IAS 7*

The amendments to IAS 7 *Statement of Cash Flows* are part of the IASB's *Disclosure Initiative* and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****4.19 Changes in accounting policies and disclosures (continued)****Standards issued but not yet effective (continued)***IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the consolidated financial statements of the Group.

*IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2*

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

*IFRS 16 Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of ‘low-value’ assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today’s accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard’s transition provisions permit certain reliefs. In 2017, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Other disclosures relating to the Group's exposure to risks and uncertainties includes:

- Financial risk management and policies (*Note 36*);
- Sensitivity analyses disclosures (*Note 36*).

**Estimates and assumptions**

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 year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated 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.

*Revaluation of property, plant and equipment*

The Group accounts for its property, plant and equipment at fair value. During 2016 the Group engaged independent external appraiser to perform valuation of its property, plant and equipment.

Input data for determining the fair value of property, plant and equipment (except for technological oil) refer to Level 3 in the fair value hierarchy (unobservable inputs).

Valuation method was at the first stage based on the valuation of the depreciable replacement cost ("cost method"). Cost method is used if the valuation object is new or is under construction, it relates to objects with a limited market (specialized assets), for which it is not possible to obtain information on sales prices (in the absence of an active market).

As part of the valuation the appraiser also performed a test for adequate profitability using the income method with analysis of economic depreciation of specialized property, plant and equipment of the Group. Adequate profitability was calculated by assessing value in use. The following assumptions were used in calculation value in use:

	Cash-generating unit		
	Oil transshipment	Sea port	Oil transportation
Discount rate	13.01%	12.67%	12.55%
Long-term growth rate	1.9%	1.9%	4.58%
Remaining useful life of the primary asset	14 years	21 years	18.2 years

The resulting value in use for cash-generating units of oil transshipment and oil transportation was below depreciated replacement cost and hence was recorded as fair value of the Group property, plant and equipment. The results of the assessment of value in use are sensitive to expected volumes of services provided, the level of tariffs for services provided, the amount of capital and operating expenditures.

As a result of the revaluation the carrying value of property, plant and equipment of the Group (except for technological oil increased by 107,287,088 thousand Tenge.

The main increase is due to increase of exchange rates of main foreign currencies against the functional currency of the Group, resulting in increased cost of the replacement of existing property, plant and equipment with foreign origin.

*Revaluation of technological oil*

Technological oil is annually revalued, due to the fact that fluctuations are quite frequent and significant. Technological oil was revalued on 30 September 2016.

Input data for determining the fair value of technological oil refer to Level 2 in the fair value hierarchy (unobservable inputs).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

#### Estimates and assumptions (continued)

##### *Revaluation of technological oil (continued)*

The following judgments were taken into account by the Group's management when determining fair value of technological oil:

- Technological oil is an integral part of the process of operating the pipeline without which the transportation is not possible and, accordingly, the object of valuation is a specialized asset;
- Technological oil cannot be sold or otherwise disposed due to regulations imposed by CRNMandPC;
- Tariffs are being closely monitored by CRNMandPC and the Government (except export tariffs) to ensure they will not adversely affect general price index in the country, and thus may be set at the level which will not allow to recover cost of oil, if it was valued at international market price;
- The Group is affected by regulations set by KMG and, should there be a decision to sell some part of oil, subject for do approval of CRNMandPC, it would be sold only to the KMG Group's trading division at internal price;
- And if the Group needs to buy additional oil to fill in new parts of pipeline, it would buy oil from the KMG Group entities at the same internal price.

Taking into account all these factors, as well as the report of an independent professional appraiser as at 30 September 2016, the fair value of the Group's technological oil was determined based on the price of 107.16 US Dollars (equivalent to 35,714 Tenge) per tonne (31 December 2015: in the amount 84.71 US Dollars (equivalent to 28,802 Tenge) per tonne). The effect of the change in fair value of the technological oil was equal to 16,573,065 thousand Tenge, in addition as at 31 December 2016 the revaluation of technological oil surplus in the amount 2,401,160 thousand Tenge was recognized; the overall effect of revaluation is equal to 18,974,225 thousand Tenge (*Note 6*).

The volume of oil in the pipeline as at 31 December 2016 amounted to 2,460,143 tonnes (31 December 2015: 2,397,778 tonnes). According to the results of stock count held on 31 December 2016 the oil surplus in the amount of 67,233 tonnes (as at 31 December 2015: 101,424 tonnes) was identified, and disposal of oil during the period was 4,868 tonnes.

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

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

##### *Useful lives of items of property, plant and equipment*

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

##### *Asset retirement and land reclamation obligation*

According to the Law of the Republic of Kazakhstan *About the Main Pipeline* which came into force on 4 July 2012, the Group has a legal obligation to decommission its oil pipelines at the end of their operating life and to restore the land to its original condition. Activities on land reclamation are carried out when replacing the pipelines at the end of their useful life.

Asset retirement and land reclamation obligation is estimated based on the value of the work to decommission and rehabilitate calculated by the Group in accordance with the technical regulations of the Republic of Kazakhstan (pipeline decommission expense is equal to 4,036 thousand Tenge per km (2015: 3,773 thousand Tenge per km).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)****Estimates and assumptions (continued)***Asset retirement and land reclamation obligation (continued)*

Reserve on liquidation of landfills and waste management is also reflected within the asset retirement and land reclamation obligation. The reserve was created in 2013 in accordance with the requirements of Environmental Code of the Republic of Kazakhstan, which states that the owner of the landfills has to create a liquidation fund for reclamation of land and for monitoring of environmental impact right after the closure of the landfill.

The reserve was determined at the end of the reporting period using the projected inflation rate for the expected period of fulfillment of obligations, and the discount rate at the end of the reporting period which is presented below:

	2016	2015
Discount rate	8.72%	6.73%
Inflation rate	5.58%	6.00%
Period of fulfillment of obligations	18 years	10 years

The discount rate is based on the risk-free government bonds of the Republic of Kazakhstan.

As at 31 December 2016 the carrying amount of the asset retirement and land reclamation obligation was 15,022,086 thousand Tenge (31 December 2015: 21,999,701 thousand Tenge) (Note 23).

Assessing the cost of rehabilitation of the environment is subject to potential changes in environmental requirements and interpretations of the law. Furthermore uncertainties in the estimates of these costs include potential changes in regulatory requirements, alternative disposal and recovery of damaged land and levels of discount and inflation rates, and the time, when such obligations will be due.

Sensitivity analysis of asset retirement and land reclamation obligation for the change in significant assumptions as at 31 December 2016 is as follows:

<i>In thousands of Tenge</i>	(Decrease)/ increase in rate	(Decrease)/ increase in liability
Discount rate	-0.5%	1,295,416
	+0.5%	(1,187,245)
Inflation rate	-0.5%	(1,226,556)
	+0.5%	1,329,128

*Allowances for doubtful debts*

The Group accrues allowances for doubtful accounts receivable, advances to suppliers and other assets. In estimating doubtful accounts historical and anticipated customer performance are considered.

Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As at 31 December 2016 and 2015 allowances for doubtful accounts have been created for the amount of 2,431,678 thousand Tenge and 814,095 thousand Tenge, respectively (Notes 9, 11 and 12).

*Tax provisions*

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of inspections by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax inspections and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)****Estimates and assumptions (continued)***Deferred tax assets*

Deferred tax assets are recognised for 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 judgement 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 amount of recognized deferred tax assets as at 31 December 2016 was 6,264,690 thousand Tenge (31 December 2015: 8,336,684 thousand Tenge) (Note 32). As at 31 December 2016 and 2015 the Group did not have unrecognized deferred tax assets.

*Employee benefits*

The cost of defined long-term employee benefits to employees before, on and after retirement and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases.

Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

As there is no active market for corporate securities in Kazakhstan, in determining the appropriate discount rate, management considers the interest rates of government securities (MEUKAM) with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying securities are further reviewed for quality on a timely basis.

The mortality rate is based on publicly available mortality tables. Increase in future salary and pension is based on expected future inflation rates for the respective country.

In December 2016 "The collective agreement between "KazTransOil" JSC and employees of "KazTransOil" JSC" has been amended, the effect of changes in the conditions was recorded as cost of services prior periods (Note 18).

Principal actuarial assumptions used for valuation of employee benefit liabilities as at 31 December 2016 and 2015 were as follows:

<i>In percent</i>	2016	2015
Discount rate	9.7%	6.55%
Future salary increase	7.0%	6.0%
Mortality rate	7.0%	12.0%

As at 31 December 2016 the average duration of post-retirement benefit liabilities was 19 years (as at 31 December 2015: 16 years).

Sensitivity analysis of employee benefit liabilities for the change in significant assumptions as at 31 December 2016 is as follows:

<i>In thousands of Tenge</i>	(Decrease)/ increase	(Decrease)/ increase in liability
Discount rate	-0.5%	536,591
	+0.5%	(504,117)
Future salary increase	-0.5%	(526,219)
	+0.5%	556,206
Life duration	-1 year	(77,751)
	+1 year	77,069

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at 31 December 2016 and 2015 are as follows:

<i>In thousands of Tenge</i>	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
<b>At revalued amount as at 31 December 2015</b>	19,906,546	181,224,490	15,037,200	97,363,099	134,803,085	69,590,536	16,386,475	53,042,281	587,353,712
Foreign currency translation	(237,646)	-	(585,710)	32,977	(794,015)	-	(88,254)	(557,063)	(2,229,711)
Additions	806	280,519	389,853	282,712	631,864	494	532,088	40,533,736	42,652,072
Additions of asset retirement and land reclamation obligation (Note 23)	-	129,237	-	-	-	-	-	-	129,237
Disposals	(3,386)	(1,155,418)	(39,908)	(97,204)	(295,333)	(173,974)	(214,213)	(70,214)	(2,049,650)
Revaluation (through revaluation reserve) (Impairment)/revaluation (through profit and loss)	4,458,872	42,647,924	5,433,818	21,572,834	40,080,997	18,974,225	7,187,329	66,059	140,422,058
	(4,344,587)	173,140	359,420	(1,103,174)	(2,899,593)	-	271,543	(6,617,494)	(14,160,745)
Subtraction of accumulated depreciation and impairment on revaluation	-	(32,825,419)	(6,450,752)	(34,213,513)	(46,182,992)	(330,205)	(9,150,597)	(331,818)	(129,485,296)
Transfer from construction-in-progress	23,210	11,930,268	222,864	13,259,894	19,588,276	-	455,092	(45,479,604)	-
Transfer to intangible assets (Note 7)	-	-	-	-	-	-	-	(24,327)	(24,327)
Transfers and reclassifications	-	(2,488)	(108,642)	(138,898)	363,251	-	19,421	(132,644)	-
<b>At revalued amount as at 31 December 2016</b>	<b>19,803,815</b>	<b>202,402,253</b>	<b>14,258,143</b>	<b>96,958,727</b>	<b>145,295,540</b>	<b>88,061,076</b>	<b>15,398,884</b>	<b>40,428,912</b>	<b>622,607,350</b>
<b>Accumulated depreciation and impairment as at 31 December 2015</b>	-	(26,043,932)	(5,464,300)	(30,151,504)	(38,724,779)	(529,745)	(7,602,703)	(331,819)	(108,848,782)
Foreign currency translation	-	-	(3,569)	(104,245)	(64,479)	-	(20,395)	-	(192,688)
Depreciation charge	-	(13,359,491)	(1,806,513)	(6,070,735)	(15,487,318)	-	(3,532,733)	-	(40,256,790)
Disposals	-	919,840	26,035	82,236	221,769	171,927	167,649	-	1,589,456
(Accrual)/reversal of impairment through expenses	-	(2,964)	-	-	5,671	-	-	(54,507)	(51,800)
Reversal/(accrual) of impairment through revaluation reserve	-	(3,336)	-	-	1,702	(171,927)	-	(3,134)	(176,695)
Subtraction of accumulated depreciation and impairment on revaluation	-	32,825,419	6,450,752	34,213,513	46,182,992	330,205	9,150,597	331,818	129,485,296
Transfers and reclassifications	-	246	(109)	4,455	(3,576)	-	(977)	(39)	-
<b>Accumulated depreciation and impairment as at 31 December 2016</b>	<b>-</b>	<b>(5,664,218)</b>	<b>(797,704)</b>	<b>(2,026,280)</b>	<b>(7,868,018)</b>	<b>(199,540)</b>	<b>(1,838,562)</b>	<b>(57,681)</b>	<b>(18,452,003)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 6. PROPERTY, PLANT AND EQUIPMENT (continued)

<i>In thousands of Tenge</i>	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
<b>At revalued amount as at 31 December 2014</b>	12,483,895	147,474,455	9,979,926	78,466,503	114,120,834	69,568,777	14,949,767	28,895,431	475,939,588
Foreign currency translation	7,391,985	-	3,131,381	13,054,705	10,623,628	-	445,984	719,849	35,367,532
Additions	26	3,131	1,938,243	52,332	1,503,954	-	1,010,513	73,923,923	78,432,122
Recognition of asset retirement and land reclamation obligation (Note 23)	-	1,674,849	-	-	-	-	-	-	1,674,849
Disposals	(13,414)	(1,592,467)	(247,868)	(187,081)	(685,777)	(140,123)	(480,674)	(396,125)	(3,743,529)
Devaluation (asset revaluation reserve)	-	-	-	-	-	(2,759,330)	-	-	(2,759,330)
Revaluation of excess oil (asset revaluation reserve)	-	-	-	-	-	2,921,212	-	-	2,921,212
Transfer to assets held for sale	(2,443)	-	-	(27,573)	-	-	-	-	(30,016)
Transfer from construction-in-progress	46,497	30,335,502	159,867	6,190,525	11,712,551	-	301,071	(48,746,013)	-
Transfer to Intangible assets (Note 7)	-	-	-	-	-	-	-	(448,716)	(448,716)
Transfers and reclassifications	-	3,329,020	75,651	(186,312)	(2,472,105)	-	159,814	(906,068)	-
<b>At revalued amount as at 31 December 2015</b>	19,906,546	181,224,490	15,037,200	97,363,099	134,803,085	69,590,536	16,386,475	53,042,281	587,353,712
<b>Accumulated depreciation and impairment as at 31 December 2014</b>	-	(14,327,030)	(3,092,269)	(16,566,241)	(21,244,909)	(330,205)	(4,658,747)	(329,524)	(60,548,925)
Foreign currency translation	-	-	(1,293,722)	(7,712,232)	(5,768,319)	-	(329,841)	-	(15,104,114)
Depreciation charge	-	(10,245,282)	(1,310,496)	(5,894,933)	(12,206,511)	-	(3,059,098)	-	(32,716,320)
Disposals	-	194,239	232,187	153,001	630,477	70,058	464,020	155,238	1,899,220
Impairment (asset revaluation reserve)	-	(697,404)	-	(74,850)	(60,242)	(195,867)	(346)	(27,094)	(1,055,803)
Impairment (through profit and loss)	-	(951,986)	-	(68,763)	(100,868)	(73,731)	(5,095)	(130,439)	(1,330,882)
Transfer to assets held for sale	-	-	-	8,042	-	-	-	-	8,042
Transfers and reclassifications	-	(16,469)	-	4,472	25,593	-	(13,596)	-	-
<b>Accumulated depreciation and impairment as at 31 December 2015</b>	-	(26,043,932)	(5,464,300)	(30,151,504)	(38,724,779)	(529,745)	(7,602,703)	(331,819)	(108,848,782)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 6. PROPERTY, PLANT AND EQUIPMENT (continued)

<i>In thousands of Tenge</i>	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
<b>As at 31 December 2016</b>									
At revalued amount	19,803,815	202,402,253	14,258,143	96,958,727	145,295,540	88,061,076	15,398,884	40,428,912	622,607,350
Accumulated depreciation and impairment	-	(5,664,218)	(797,704)	(2,026,280)	(7,868,018)	(199,540)	(1,838,562)	(57,681)	(18,452,003)
<b>Net book value</b>	<b>19,803,815</b>	<b>196,738,035</b>	<b>13,460,439</b>	<b>94,932,447</b>	<b>137,427,522</b>	<b>87,861,536</b>	<b>13,560,322</b>	<b>40,371,231</b>	<b>604,155,347</b>
<b>As at 31 December 2015</b>									
At revalued amount	19,906,546	181,224,490	15,037,200	97,363,099	134,803,085	69,590,536	16,386,475	53,042,281	587,353,712
Accumulated depreciation and impairment	-	(26,043,932)	(5,464,300)	(30,151,504)	(38,724,779)	(529,745)	(7,602,703)	(331,819)	(108,848,782)
<b>Net book value</b>	<b>19,906,546</b>	<b>155,180,558</b>	<b>9,572,900</b>	<b>67,211,595</b>	<b>96,078,306</b>	<b>69,060,791</b>	<b>8,783,772</b>	<b>52,710,462</b>	<b>478,504,930</b>

The carrying value of each revalued class of property, plant and equipment that would have been recognized in the consolidated financial statements had the assets been carried at cost less any accumulated depreciation and any accumulated impairment loss is as follows:

	Land	Pipelines	Transportation assets	Buildings	Machinery and equipment	Technological oil	Other	Construction in progress	Total
At 31 December 2016	17,858,045	113,043,696	8,226,855	54,618,535	91,372,518	1,165,954	5,040,375	46,197,116	337,523,094
At 31 December 2015	16,615,655	118,066,342	9,268,162	44,720,310	83,458,723	1,165,495	6,453,723	52,942,744	332,691,154

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****6. PROPERTY, PLANT AND EQUIPMENT (continued)**

As at 31 December 2016 and 2015 construction in progress mainly includes the following production projects:

- Construction and reconstruction, realized as part of interstate “Kazakhstan-China” oil pipeline construction project;
- Reconstruction of main oil pipelines “Kalamkas-Karazhanbas-Aktau” on the “Karazhanbas-Aktau” route;
- Reconstruction of the VNS-5 to increase the supply of water for the water pipeline “Astrakhan-Mangyshlak”;
- Reconstruction of firefighting system, construction of acceptance points at 1,235 km of the oil pipeline “Uzen-Atyrau-Samara”, construction of nonperforming automated communication centers, upgrade of hardware for automation and instrumentation systems, modernization of the existing fiber-optic network, reconstruction of firefighting systems and power supply facilities, implementation of the project for the installation of system for measurement of quantity and quality of oil for bitumen plant and others.

As at 31 December 2016:

- The initial cost and corresponding accumulated depreciation of fully depreciated property, plant and equipment were 1,482,726 thousand Tenge (31 December 2015: 4,822,436 thousand Tenge);
- The volume of oil in pipelines, included in property, plant and equipment, amounted to 2,460 thousand tonnes (31 December 2015: 2,398 thousand tonnes);
- Construction in progress included materials and spare parts in the amount of 2,432,369 thousand Tenge (31 December 2015: 1,012,567 thousand Tenge), which were acquired for construction works. This increase is mainly due to purchases in 2016 for use in the reconstruction of Aktau MOPS as part of the production program to increase oil pumping.

Depreciation for the year ended 31 December 2016 included in the cost of construction in progress amounted to 15,736 thousand Tenge (for the year ended 31 December 2015: 17,419 thousand Tenge).

**7. INTANGIBLE ASSETS**

Intangible assets as at 31 December 2016 and 2015 are as follows:

<i>In thousands of Tenge</i>	Licenses	Software	Right for land use	Other	Total
<b>Net book value as at 31 December 2015</b>	161,369	1,384,815	5,821,900	31,647	7,399,731
Additions	46,196	24,128	119,609	-	189,933
Disposals	(4,960)	(9,590)	-	(3,635)	(18,185)
Amortization charge	(48,578)	(344,677)	(236,484)	(3,775)	(633,514)
Accumulated amortization on disposals	4,777	9,588	-	3,634	17,999
Transfer from construction in progress (Note 6)	420	23,907	-	-	24,327
Foreign currency translation	(6,338)	-	(713,352)	-	(719,690)
<b>Net book value as at 31 December 2016</b>	<b>152,886</b>	<b>1,088,171</b>	<b>4,991,673</b>	<b>27,871</b>	<b>6,260,601</b>
<b>Net book value as at 31 December 2014</b>	194,907	1,131,148	4,120,734	32,654	5,479,443
Additions	28,013	121,937	-	4,166	154,116
Disposals	(8,853)	(54,096)	-	-	(62,949)
Amortization charge	(105,266)	(317,229)	(101,552)	(5,173)	(529,220)
Accumulated amortization on disposals	8,853	53,431	-	-	62,284
Transfer from construction in progress (Note 6)	1,118	447,598	-	-	448,716
Transfers and reclassifications	(1,830)	1,830	-	-	-
Foreign currency translation	44,427	196	1,802,718	-	1,847,341
<b>Net book value as at 31 December 2015</b>	<b>161,369</b>	<b>1,384,815</b>	<b>5,821,900</b>	<b>31,647</b>	<b>7,399,731</b>
<b>As at 31 December 2016</b>					
At cost	672,215	4,535,902	8,036,273	85,022	13,329,412
Accumulated amortization and impairment	(519,329)	(3,447,731)	(3,044,600)	(57,151)	(7,068,811)
<b>Net book value</b>	<b>152,886</b>	<b>1,088,171</b>	<b>4,991,673</b>	<b>27,871</b>	<b>6,260,601</b>
<b>As at 31 December 2015</b>					
At cost	638,737	4,497,457	8,945,020	88,657	14,169,871
Accumulated amortization and impairment	(477,368)	(3,112,642)	(3,123,120)	(57,010)	(6,770,140)
<b>Net book value</b>	<b>161,369</b>	<b>1,384,815</b>	<b>5,821,900</b>	<b>31,647</b>	<b>7,399,731</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 8. INVESTMENTS IN JOINT VENTURES

Investments in joint ventures as at 31 December 2016 and 2015 are as follows:

<i>In thousands of Tenge</i>	KCP	MunaiTas	Total
<b>As at 31 December 2015</b>	-	13,918,006	13,918,006
Share in income of joint ventures	6,324,738	2,336,465	8,661,203
Unrecognised share in income of joint venture	(6,324,738)	-	(6,324,738)
Other comprehensive income of joint ventures	327,966	960,946	1,288,912
Unrecognised other comprehensive income of joint venture	(327,966)	-	(327,966)
Dividends	-	(1,487,160)	(1,487,160)
<b>As at 31 December 2016</b>	-	15,728,257	15,728,257

<i>In thousands of Tenge</i>	KCP	MunaiTas	Total
<b>As at 31 December 2014</b>	36,982,132	12,861,202	49,843,334
Share in income/(loss) of joint ventures	(44,571,259)	2,736,090	(41,835,169)
Unrecognised share in loss of joint venture	7,161,028	-	7,161,028
Share in other comprehensive income of joint ventures	428,099	55,734	483,833
Dividends	-	(1,735,020)	(1,735,020)
<b>As at 31 December 2015</b>	-	13,918,006	13,918,006

The following tables below show summarized financial information about joint ventures, including the Group's proportionate share:

<i>In thousands of Tenge</i>	KCP			
	31 December 2016		31 December 2015	
	50%	100%	50%	100%
<b>Assets and liabilities of joint ventures</b>				
Current assets	8,302,354	16,604,708	12,346,915	24,693,830
Non-current assets	110,886,209	221,772,418	118,246,077	236,492,154
Current liabilities	(20,275,079)	(40,550,158)	(32,875,443)	(65,750,886)
Non-current liabilities	(99,421,809)	(198,843,618)	(104,878,577)	(209,757,154)
<b>Net assets</b>	<b>(508,325)</b>	<b>(1,016,650)</b>	<b>(7,161,028)</b>	<b>(14,322,056)</b>
Unrecognised accumulated comprehensive loss	508,325	1,016,650	7,161,028	14,322,056
<b>Net book value of investment</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Additional information</b>				
Cash and cash equivalents	6,259,460	12,518,920	8,987,307	17,974,614
Short-term financial liabilities	(16,270,055)	(32,540,110)	(28,224,964)	(56,449,928)
Long-term financial liabilities	(97,898,723)	(195,797,446)	(103,096,811)	(206,193,622)

<i>In thousands of Tenge</i>	MunaiTas			
	31 December 2016		31 December 2015	
	51%	100%	51%	100%
<b>Assets and liabilities of joint ventures</b>				
Current assets	5,808,421	11,389,061	4,414,281	8,655,453
Non-current assets	13,464,948	26,401,859	12,985,200	25,461,177
Current liabilities	(706,488)	(1,385,271)	(639,821)	(1,254,551)
Non-current liabilities	(2,838,624)	(5,565,929)	(2,841,654)	(5,571,871)
<b>Net assets</b>	<b>15,728,257</b>	<b>30,839,720</b>	<b>13,918,006</b>	<b>27,290,208</b>
<b>Additional information</b>				
Cash and cash equivalents	5,641,461	11,061,688	527,106	1,033,541
Short-term financial liabilities	-	-	-	-
Long-term financial liabilities	-	-	-	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 8. INVESTMENTS IN JOINT VENTURES (continued)

Long-term financial liabilities of KCP are represented by liabilities under loan agreement with the Industrial and Commercial Bank of China Limited and ING Bank N.V. (hereinafter – “loan agreement”) for the credit line of 1,180 million US Dollars, and loan agreement with the Industrial and Commercial Bank of China Limited jointly with Industrial and Commercial Bank of China in Almaty JSC for the total amount of 300 million US Dollars. Within the framework of the loan agreement KCP received four tranches for the total amount of 950 million US Dollars (equivalent to 316,626 million Tenge).

Both loans are denominated in US Dollars and are payable in 2023 and 2019. The Company along with the second participant of KCP did not guarantee the loans. Nevertheless, as of 31 December 2016 the Company issued a parent support letter to KCP stating that the Company will support the operating activity of the joint venture for the next twelve months.

As at 31 December 2016 total payable under both loans equals to 685,102 thousand US Dollars (equivalent to 228,337,556 thousand Tenge), including interest. As at 31 December 2015 total payable under both loans equals to 773,687 thousand US Dollars (equivalent to 262,643,548 thousand Tenge), including interest.

<i>In thousands of Tenge</i>	KCP			
	For the year ended 31 December			
	2016		2015	
	50%	100%	50%	100%
<b>Information on profit or loss and other comprehensive income of joint ventures for the year</b>				
Revenue	26,743,101	53,486,202	25,567,304	51,134,608
Income/(loss) from continuing operations for the year	6,324,738	12,649,476	(44,571,259)	(89,142,518)
Unrecognised (income)/loss	(6,324,738)	(12,649,476)	7,161,028	14,322,056
Income from discontinued operations for the year	-	-	-	-
Other comprehensive income	327,966	655,932	428,099	856,198
Unrecognised other comprehensive income	(327,966)	(655,932)	-	-
<b>Total comprehensive loss</b>	-	-	(36,982,132)	(73,964,264)
<b>Dividends</b>	-	-	-	-
<b>Additional information</b>				
Depreciation and amortization	(7,228,967)	(14,457,934)	(7,228,928)	(14,457,856)
Interest income	76,264	152,528	90,888	181,776
Interest expense	(6,264,362)	(12,528,724)	(4,065,698)	(8,131,396)
Income/(loss) on exchange differences	1,979,943	3,959,886	(58,658,603)	(117,317,206)
Income tax benefit	249,832	499,664	8,989,252	17,978,504

<i>In thousands of Tenge</i>	MunaiTas			
	For the year ended 31 December			
	2016		2015	
	51%	100%	51%	100%
<b>Information on profit or loss and other comprehensive income of joint ventures for the year</b>				
Revenue	5,557,170	10,896,412	4,427,224	8,680,832
Income from continuing operations for the year	2,336,465	4,581,304	2,736,090	5,364,883
Income from discontinued operations for the year	-	-	-	-
Other comprehensive income	960,946	1,884,208	55,734	109,282
<b>Total comprehensive income</b>	<b>3,297,411</b>	<b>6,465,512</b>	<b>2,791,824</b>	<b>5,474,165</b>
<b>Dividends</b>	<b>(1,487,160)</b>	<b>(2,916,000)</b>	<b>(1,735,020)</b>	<b>(3,402,000)</b>
<b>Additional information</b>				
Depreciation and amortization	(1,039,847)	(2,038,916)	(1,047,729)	(2,054,371)
Interest income	458,836	899,678	81,365	159,539
Income tax expense	(619,120)	(1,213,961)	(690,379)	(1,353,684)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****9. ADVANCES TO SUPPLIERS FOR PROPERTY, PLANT AND EQUIPMENT**

Advances to suppliers for property, plant and equipment as at 31 December 2016 and 2015 are as follows:

<i>In thousands of Tenge</i>	31 December 2016	31 December 2015
Advances to third parties for property, plant and equipment and construction services	1,717,166	7,786,525
Advances to related parties for property, plant and equipment and construction services (Note 34)	14,695	-
	1,731,861	7,786,525
Less: allowance for doubtful debts	(53,258)	(53,258)
<b>Total</b>	<b>1,678,603</b>	<b>7,733,267</b>

Movement in allowance for doubtful debts related to the advances given to suppliers for property, plant and equipment was as follows:

<i>In thousands of Tenge</i>	2016	2015
As at 1 January	53,258	99,526
Reversal for the year (Note 27)	-	(197)
Used in write-off of advances	-	(46,071)
<b>As at 31 December</b>	<b>53,258</b>	<b>53,258</b>

**10. INVENTORIES**

Inventories as at 31 December 2016 and 2015 are as follows:

<i>In thousands of Tenge</i>	31 December 2016	31 December 2015
Fuel	1,580,081	823,047
Spare parts	1,511,168	1,526,287
Construction materials	517,552	168,591
Overalls	144,234	98,406
Goods	133,548	140,887
Chemical reagents	62,220	90,812
Other	450,232	751,667
<b>Total</b>	<b>4,399,035</b>	<b>3,599,697</b>

**11. TRADE AND OTHER ACCOUNTS RECEIVABLE**

Trade and other accounts receivable as at 31 December 2016 and 2015 are as follows:

<i>In thousands of Tenge</i>	31 December 2016	31 December 2015
Trade accounts receivable from third parties	5,151,952	2,544,880
Trade accounts receivable from related parties (Note 34)	3,030,762	1,420,739
Other accounts receivable from third parties	672,111	982,238
Other accounts receivable from related parties (Note 34)	509	36,122
	8,855,334	4,983,979
Less: allowance for doubtful debts	(2,378,382)	(759,853)
<b>Total</b>	<b>6,476,952</b>	<b>4,224,126</b>

Movement in allowance for doubtful debts related to trade and other receivables is as follows:

<i>In thousands of Tenge</i>	2016	2015
As at 1 January	759,853	653,120
Charge for the year (Note 27)	1,669,512	107,934
Used in write-off of receivable	(1,351)	(11,385)
Currency translation	(49,632)	10,184
<b>As at 31 December</b>	<b>2,378,382</b>	<b>759,853</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****11. TRADE AND OTHER ACCOUNTS RECEIVABLE (continued)**

Trade and other accounts receivable as at 31 December 2016 and 2015 are denominated in the following currencies:

<i>In thousands of Tenge</i>	31 December 2016	31 December 2015
Tenge	5,192,550	2,676,647
US Dollar	977,206	1,273,385
Russian Ruble	1,569	1,160
Other currency	305,627	272,934
<b>Total</b>	<b>6,476,952</b>	<b>4,224,126</b>

As at 31 December the ageing analysis of trade receivables is as follows:

<i>In thousands of Tenge</i>	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-60 days	60-90 days	90-120 days	>120 days
2016	6,476,952	3,826,374	498,442	866,255	692,404	97,954	495,523
2015	4,224,126	2,843,181	1,163,079	64,333	31,472	25,652	96,409

**12. ADVANCES TO SUPPLIERS**

Advances to suppliers as at 31 December 2016 and 2015 are as follows:

<i>In thousands of Tenge</i>	31 December 2016	31 December 2015
Advances to related parties (Note 34)	257,916	1,841,099
Advances to third parties	117,504	1,221,957
	375,420	3,063,056
Less: allowance for doubtful debts	(38)	(984)
<b>Total</b>	<b>375,382</b>	<b>3,062,072</b>

Movement in allowance for doubtful debts related to advances given to suppliers is as follows:

<i>In thousands of Tenge</i>	2016	2015
As at 1 January	984	1,073
Reversal for the year (Note 27)	(946)	(81)
Used in write-off of advances	--	(8)
<b>As at 31 December</b>	<b>38</b>	<b>984</b>

**13. VAT RECOVERABLE AND OTHER PREPAID TAXES**

VAT recoverable and other prepaid taxes as at 31 December 2016 and 2015 are as follows:

<i>In thousands of Tenge</i>	31 December 2016	31 December 2015
VAT recoverable	6,072,444	8,359,409
Other taxes prepaid	373,934	279,659
<b>Total</b>	<b>6,446,378</b>	<b>8,639,068</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****14. OTHER CURRENT ASSETS**

Other current assets as at 31 December 2016 and 2015 are as follows:

<i>In thousands of Tenge</i>	31 December 2016	31 December 2015
Due for oil transportation coordination services	5,551,741	5,767,898
Prepaid insurance	31,629	49,092
Deferred expenses from third parties	31,547	30,426
Due from employees	24,252	39,460
Deferred expenses from related parties (Note 34)	5,791	-
Other	82,169	175,579
<b>Total</b>	<b>5,727,129</b>	<b>6,062,455</b>

**15. BANK DEPOSITS**

Bank deposits as at 31 December 2016 and 2015 are as follows:

<i>In thousands of Tenge</i>	31 December 2016	31 December 2015
Short-term bank deposits – US Dollar	14,498,115	12,322,761
Short-term bank deposits – Tenge	1,000,000	-
Long-term bank deposits – Tenge	4,182,770	4,487,436
Accrued interest on deposits – Tenge	96,715	65,724
Accrued interest on deposits – US Dollar	80,788	58,352
<b>Total</b>	<b>19,858,388</b>	<b>16,934,273</b>

As at 31 December 2016 bank deposits comprised the following:

- Tenge denominated bank deposit placed with Kazakhstani bank with the term from 3 to 12 months, with interest from 11% per annum, maturing mainly in January 2017;
- US Dollar denominated deposits placed with Kazakhstani banks with maturity from 3 to 12 months, with interest from 1% to 2% per annum (as at 31 December 2015: from 1.4% to 2% per annum), maturing in July and August 2017 (as at 31 December 2015: in March and May 2016);
- Long-term bank deposits comprise restricted deposits with interest from 2% to 3.5% per annum maturing in 2029 and in 2026, respectively (as at 31 December 2015: from 2% to 3.5% per annum maturing in 2029 and in 2025, respectively), arranged for the purpose of preferential lending rates for the Company's employees for the purchase of residential property.

**16. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents as at 31 December 2016 and 2015 are as follows:

<i>In thousands of Tenge</i>	31 December 2016	31 December 2015
Time deposits with banks – Tenge	52,590,424	10,126,290
Time deposits with banks – US Dollar	10,699,446	33,783,170
Current accounts with banks – US Dollar	5,370,006	6,058,205
Current accounts with banks – Tenge	285,255	86,613
Current accounts with banks – Lari	268,298	199,608
Current accounts with banks – Euro	59,992	150,385
Current accounts with banks – Russian Ruble	4,999	780
Other current accounts with banks	15,127	12,871
Cash in transit	52	27
Cash on hand	830	2,339
<b>Total</b>	<b>69,294,429</b>	<b>50,420,288</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****16. CASH AND CASH EQUIVALENTS (continued)**

As at 31 December 2016 current accounts and time deposits with maturity less than 3 months in Tenge placed with Kazakhstani banks carried interest ranging from 0.5% to 10.50% per annum (as at 31 December 2015: from 0.47% to 32% per annum).

Interest for current accounts and time deposits with maturity less than 3 months placed in US Dollar ranged from 0.25% to 4% per annum (as at 31 December 2015: from 0.25% to 3% per annum).

Due to change of exchange rate of US Dollar towards Tenge, the Company accrued foreign exchange gain (*Note 4.2*), related mainly to recalculation of cash and cash equivalents in foreign currency (in US Dollars), on current bank accounts, time deposits less than 3 months, short-term and long-term deposits in second-tier banks. Net foreign exchange loss for the year ended 31 December 2016 was 1,611,563 thousand Tenge (net foreign exchange gain for the year ended 31 December 2015 was 25,544,225 thousand Tenge).

**17. EQUITY****Share capital**

As at 31 December 2016 and 2015 the Company's share capital comprised of 384,635,600 common shares authorized, issued and fully paid in the amount of 62,503,284 thousand Tenge, except for 1 share which was authorized but not issued and not paid.

As at 31 December 2016 and 2015 the share capital was equal to 61,937,567 thousand Tenge, net of consulting costs related to the issuance of shares in the amount of 565,717 thousand Tenge.

**Treasury shares**

In 2016 based on request of a minority shareholder and the subsequent decision of the Board of Directors, the Company repurchased the announced common shares in the amount of 7,500 units for 9,549 thousand Tenge.

**Asset revaluation reserve**

Revaluation reserve was formed based on revaluation and devaluation of property, plant and equipment of the Group and share in the asset revaluation reserve of the joint ventures.

<i>In thousands of Tenge</i>	31 December 2016	31 December 2015
Asset revaluation reserve of the Group	207,642,414	102,140,226
Share in the asset revaluation reserve of the joint ventures	22,704,244	23,423,150
<b>Total</b>	<b>230,346,658</b>	<b>125,563,376</b>

**Foreign currency translation reserve**

As at 31 December 2016 foreign currency translation reserve was equal to 32,918,111 thousand Tenge (as at 31 December 2015: 36,210,843 thousand Tenge). Change in foreign currency translation reserve is due to the translation of the operations of the foreign subsidiary. Significant increase related to considerable changes in foreign exchange rates (*Note 4.2*).

**Other capital reserves**

As at 31 December 2016 other capital reserves amounted to 695,389 thousand Tenge (31 December 2015: 3,813,701 thousand Tenge). Increase in given reserve is due to accrual of actuarial gain from employee benefit liabilities in the amount of 3,897,890 thousand Tenge (*Note 18*), income tax effect of which amounted to 779,578 thousand Tenge (*Note 32*) (31 December 2015: loss in the amount of 2,503,907 thousand Tenge, income tax effect of which amounted to 500,781 thousand Tenge).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****17. EQUITY (continued)****Other**

In 2015 the Company provided to KMG interest free loan based on the decision made by the Board of Directors in the amount of 20,000,000 thousand Tenge with the maturity on 30 June 2016. Discount on loans given in the amount of 1,644,382 thousand Tenge was recognized by the Company through retained earnings and unamortized portion amounted to 1,264,921 thousand Tenge at the beginning of the period. On 31 December 2016 interest free loan was repaid by KMG and the discount was fully amortized (Notes 31, 34).

**Dividends**

In 2016 the Company accrued and paid dividends based on the results of 2015 to the shareholders in accordance with the decision of the shareholders meeting dated 27 May 2016 totaling 51,156,535 thousands Tenge in the amount of 133 Tenge per 1 share (2015: 46,429,363 thousands Tenge based on 120.71 Tenge per 1 share), including 46,040,881 thousand Tenge attributable to KMG (2015: 41,786,427 thousand Tenge) and 5,115,654 thousand Tenge attributable to minority shareholders (2015: 4,642,936 thousand Tenge).

**Earnings per share**

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the period.

As the Parent of the Group does not issue convertible financial instruments, basic earnings per share of the Group are equal to diluted earnings per share.

The following reflects the net profit and share data used in the basic earnings per share computations:

<i>In thousands of Tenge</i>	2016	2015
Net profit for the period attributable to ordinary equity holders of the Parent of the Group	44,527,918	44,712,936
Weighted average number of ordinary shares for the year for basic earnings per share	384,631,224	384,635,599
<b>Basic earnings per share, in relation to profit for the year attributable to ordinary equity holders of the Company, as a Parent company of the Group (in Tenge)</b>	<b>116</b>	<b>116</b>

**Book value per ordinary share**

Book value per ordinary share is calculated in accordance with requirements of KASE of the Parent of the Group is as follows:

<i>In thousands of Tenge</i>	31 December 2016	31 December 2015
Total assets	744,975,997	619,262,524
Less: intangible assets (Note 4)	(6,260,601)	(7,399,731)
Less: total liabilities	(157,000,715)	(146,331,014)
Net assets for calculation of book value per ordinary share	581,714,681	465,531,779
Number of ordinary shares	384,628,099	384,635,599
<b>Book value per ordinary share (in Tenge)</b>	<b>1,512</b>	<b>1,210</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****18. EMPLOYEE BENEFIT LIABILITIES**

The Company has employee benefit liabilities, mainly consisting of additional payments for pensions and jubilee obligations, applicable to all employees. These payments are unfunded.

Employee benefit liabilities as at 31 December 2016 and 2015 are as follows:

<i>In thousands of Tenge</i>	31 December 2016	31 December 2015
Current portion of employee benefit liabilities	543,418	435,024
Non-current portion of employee benefit liabilities	11,994,599	15,098,686
<b>Total</b>	<b>12,538,017</b>	<b>15,533,710</b>

Changes in the present value of employee benefit liabilities for the years ended 31 December 2016 and 2015 are as follows:

<i>In thousands of Tenge</i>	2016	2015
Employee benefit liabilities at the beginning of the year	15,533,710	11,613,360
Interest cost (Note 31)	1,112,503	832,855
Current services cost (Notes 26, 27)	641,073	1,070,515
Past service cost (Notes 26, 27)	478,957	-
Actuarial gain through profit and loss (Note 28)	(742,441)	-
Actuarial (gain)/loss through other comprehensive income (Note 17)	(3,897,890)	2,503,907
Benefits paid	(587,895)	(486,927)
<b>Employee benefit liabilities at the end of the year</b>	<b>12,538,017</b>	<b>15,533,710</b>

**19. DEFERRED INCOME**

As at 31 December 2016 deferred income represents advances in the amount of 7,731,328 thousand Tenge (as at 31 December 2015: 8,081,762 thousand Tenge), which are received by a group of BTL from Batumi International Container Terminal (hereinafter – “BICT”) based on agreement for operating lease of land.

**20. TRADE AND OTHER ACCOUNTS PAYABLE**

Trade and other accounts payable as at 31 December 2016 and 2015 are as follows:

<i>In thousands of Tenge</i>	31 December 2016	31 December 2015
Accounts payable to third parties for goods and services	13,330,438	15,397,918
Accounts payable to related parties for goods and services (Note 34)	1,947,068	814,409
Other accounts payable to third parties	106,515	441,898
Other accounts payable to related parties (Note 34)	777	672
<b>Total</b>	<b>15,384,798</b>	<b>16,654,897</b>

Trade and other accounts payable included payables to related and third parties, related to property, plant and equipment and construction in progress in the amount of 11,769,003 thousand Tenge (as at 31 December 2015: 13,578,970 thousand Tenge).

Trade and other accounts payable as at 31 December 2016 and 2015 are in the following currencies:

<i>In thousands of Tenge</i>	31 December 2016	31 December 2015
Tenge	14,755,776	16,454,585
US Dollar	113,875	165,729
Russian Ruble	44,737	2,570
Euro	20,135	19,451
Other currency	450,275	12,562
<b>Total</b>	<b>15,384,798</b>	<b>16,654,897</b>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****21. ADVANCES RECEIVED**

Advances received as at 31 December 2016 and 2015 are as follows:

<i>In thousands of Tenge</i>	31 December 2016	31 December 2015
Advances received from related parties (Note 34)	10,407,356	11,330,298
Advances received from third parties	6,037,076	6,494,876
<b>Total</b>	<b>16,444,432</b>	<b>17,825,174</b>

**22. OTHER TAXES PAYABLE**

Other taxes payable as at 31 December 2016 and 2015 are as follows:

<i>In thousands of Tenge</i>	31 December 2016	31 December 2015
Personal income tax	2,833,115	2,488,472
Withholding tax at the source of payment to non-residents	1,172,181	1,044,519
Social tax	530,575	702,313
Property tax	162,122	23,773
VAT payable	8,650	20,045
Other taxes	349,023	278,888
<b>Total</b>	<b>5,055,666</b>	<b>4,558,010</b>

**23. PROVISIONS**

Movements in provisions for the years ended 31 December 2016 and 2015 are as follows:

**Short-term provisions**

<i>In thousands of Tenge</i>	Tax provisions (BTL)	Environmental provisions (Company)	Other (Company)	Total
As at 31 December 2015	22,066	41,125	-	63,191
Charge/(reversal) for the year	154,125	(41,125)	41,125	154,125
Foreign currency translation	(9,213)	-	-	(9,213)
<b>As at 31 December 2016</b>	<b>166,978</b>	<b>-</b>	<b>41,125</b>	<b>208,103</b>
As at 31 December 2014	221,373	41,125	53,567	316,065
Charge/(reversal) for the year	(254,768)	11,079	-	(243,689)
Use of provision	-	(11,079)	(53,567)	(64,646)
Foreign currency translation	55,461	-	-	55,461
<b>As at 31 December 2015</b>	<b>22,066</b>	<b>41,125</b>	<b>-</b>	<b>63,191</b>

**Long-term provisions***Asset retirement and land recultivation obligation*

The Company revised the long-term provisions considering current best estimate. Assumptions used and the sensitivity to changes in the discount rate are reflected in Note 5.

<i>In thousands of Tenge</i>	2016	2015
As at 1 January	21,999,701	20,631,009
Charge for the year (Note 6)	129,237	1,674,849
Revision of estimates through other comprehensive income	(6,886,484)	(1,157,829)
Income from revision of estimates and write-off of provision through profit and loss (Note 28)	(1,556,766)	(443,410)
Unwinding of discount on asset retirement and land recultivation obligation (Note 31)	1,336,398	1,295,082
<b>As at 31 December</b>	<b>15,022,086</b>	<b>21,999,701</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****24. OTHER CURRENT LIABILITIES**

Other current liabilities as at 31 December 2016 and 2015 are as follows:

<i>In thousands of Tenge</i>	31 December 2016	31 December 2015
Salaries and other compensations	9,506,279	6,172,019
Accounts payable for oil transportation coordination services to related parties (Note 34)	5,656,284	5,923,268
Accounts payable for oil transportation coordination services to third parties	5,067,651	4,035,988
Accounts payable to pension fund	580,524	693,938
Current portion of deferred income from third parties	460,940	1,086,643
Other	1,241,923	908,055
<b>Total</b>	<b>22,513,601</b>	<b>18,819,911</b>

Salaries and other compensations include current salary payable, remunerations based on the year results and vacation payments payable.

**25. REVENUE**

Revenue for the years ended 31 December 2016 and 2015 is as follows:

<i>In thousands of Tenge</i>	2016	2015
Crude oil transportation	171,762,134	176,036,600
Pipeline operation services	9,518,791	8,918,816
Oil reloading and railway shipment	8,088,986	14,562,118
Water transportation	7,156,674	6,603,736
Seaport services	5,462,714	3,648,789
Fees for undelivered oil volumes	2,507,272	1,294,978
Oil transportation coordination services	713,708	594,761
Oil storage services	62,951	58,222
Other	1,834,585	1,443,742
<b>Total</b>	<b>207,107,815</b>	<b>213,161,762</b>

For the year ended 31 December 2016 revenue from the four major customers amounted to 51,090,880 thousand Tenge, 24,509,836 thousand Tenge, 13,181,553 thousand Tenge and 13,164,119 thousand Tenge, respectively (for the year ended 31 December 2015 revenue from the four major customers: 49,586,658 thousand Tenge, 24,980,450 thousand Tenge, 12,632,136 thousand Tenge and 14,828,129 thousand Tenge, respectively).

**26. COST OF SALES**

Cost of sales for the years ended 31 December 2016 and 2015 are as follows:

<i>In thousands of Tenge</i>	2016	2015
Personnel costs	48,189,834	43,692,713
Depreciation and amortization	39,786,718	32,379,654
Materials and fuel	7,822,702	7,708,753
Electric energy	6,755,713	6,968,369
Taxes other than income tax	6,344,703	5,415,904
Repair and maintenance cost	5,041,045	4,721,519
Security services	4,145,043	4,231,976
Gas expense	2,885,866	2,559,678
Air services	1,563,931	1,608,525
Railway services	1,137,994	8,050,129
Post-employment benefits (Note 18)	1,052,828	1,004,841
Business trip expenses	896,935	874,997
Insurance	660,847	516,489
Environmental protection	403,775	473,387
Communication services	259,822	267,810
Operating lease expense	229,036	281,373
Diagnostics of production assets	165,268	843,692
Other	2,519,723	2,464,180
<b>Total</b>	<b>129,861,783</b>	<b>124,063,989</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****26. COST OF SALES (continued)**

The increase in personnel costs is due to the indexation of salaries of production personnel made starting from 1 January 2016 and accrual of remuneration for the year.

The increase in depreciation and amortization expenses is primarily associated with a significant commissioning of objects of construction in progress in 2015, as well as a significant upward revaluation during 2016.

Decrease in costs of railway services is due to reduction of oil cargo transshipment volumes from 2,973 thousand tonnes for 12 months of 2015 to 346 thousand tonnes for 12 months of 2016.

**27. GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses for the years ended 31 December 2016 and 2015 are as follows:

<i>In thousands of Tenge</i>	2016	2015
Personnel costs	9,137,439	7,576,892
Net charge of allowance for doubtful debts (Notes 9, 11 and 12)	1,668,566	107,656
Depreciation and amortization	1,087,850	848,467
Consulting services	727,278	643,244
Office maintenance	484,629	483,416
Business trip expenses	303,027	282,936
Taxes other than income tax	261,707	225,816
Repair and technical maintenance	215,390	196,722
Training	150,321	150,197
Charity expenses	140,411	13,526
Insurance and security	140,276	124,056
Materials and fuel	126,999	143,345
Write-off of VAT recoverable	109,801	240,830
Bank costs	108,866	133,250
Communication services	107,267	113,615
Advertising expenses	90,863	11,479
Information services	90,770	101,710
Social sphere expenses	77,897	185,200
Post-employment benefits (Note 18)	67,202	65,674
Operating lease expense	37,286	45,321
(Reversal)/charge of provision for obsolete inventory	(95)	6,644
Other	519,649	392,224
<b>Total</b>	<b>15,653,399</b>	<b>12,092,220</b>

The increase in personnel costs is due to the indexation of salaries of personnel during 2016 and accrual of remuneration for the year.

**28. OTHER OPERATING INCOME**

Other operating income for the years ended 31 December 2016 and 2015 is as follows:

<i>In thousands of Tenge</i>	2016	2015
Income from revision of estimates on provision on asset retirement obligation and land recultivation (Note 23)	1,556,766	443,410
Income from fines and penalties	1,143,367	447,149
Actuarial gain (Note 18)	742,441	-
Amortization of deferred income from related parties (Note 34)	-	260,305
Other income	497,201	508,277
<b>Total</b>	<b>3,939,775</b>	<b>1,659,141</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****29. OTHER OPERATING EXPENSES**

Other operating expenses for the years ended 31 December 2016 and 2015 are as follows:

<i>In thousands of Tenge</i>	2016	2015
Loss from disposal of property, plant and equipment and intangible assets, net	239,377	1,376,960
Other expenses	628,802	357,009
<b>Total</b>	<b>868,179</b>	<b>1,733,969</b>

Net loss on disposal of property, plant and equipment for the year ended 31 December 2015 is due to the write-off of certain idle main oil pipelines.

**30. FINANCE INCOME**

Finance income for the years ended 31 December 2016 and 2015 is as follows:

<i>In thousands of Tenge</i>	2016	2015
Interest income on bank deposits and current accounts	4,885,662	2,588,355
Unwinding of discount on interest free loan (Note 34)	1,264,921	379,461
Unwinding of discount on loans to employees	10,932	28,483
Other finance income from third parties	29,390	30,598
<b>Total</b>	<b>6,190,905</b>	<b>3,026,897</b>

**31. FINANCE COSTS**

Finance costs for the years ended 31 December 2016 and 2015 are as follows:

<i>In thousands of Tenge</i>	2016	2015
Unwinding of discount on asset retirement and land recultivation obligation (Note 23)	1,336,398	1,295,082
Interest cost on employee benefit liability (Note 18)	1,112,503	832,855
Other finance costs	10,936	49,493
<b>Total</b>	<b>2,459,837</b>	<b>2,177,430</b>

**32. INCOME TAX EXPENSE**

Income tax expense for the years ended 31 December 2016 and 2015 is as follows:

<i>In thousands of Tenge</i>	2016	2015
Current income tax expense	16,774,997	22,668,024
Adjustments to the previous years	446,882	1,175,541
Deferred income tax benefits	(6,842,143)	(1,237,107)
<b>Income tax expense</b>	<b>10,379,736</b>	<b>22,606,458</b>

As at 31 December 2016 the Group wrote off the carrying value of deferred tax liabilities in the amount of 2,235,454 thousand Tenge, of which 1,370,377 thousand Tenge were written off through profit and loss and 865,077 thousand Tenge through other comprehensive income, attributable to BTL Group due to change of the tax legislation of Georgia, which represented change in the tax base for calculating income tax of resident enterprises from 1 January 2017. Based on the new tax legislation the taxable base will include distributed profits (dividends), expenses not related to business operations, as well as gratuitous supply of goods/services/transfer of funds. Until 1 January 2017 the taxable base for the calculation of income tax is taxable income, as determined in accordance with the requirements of the existing tax legislation of Georgia.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****32. INCOME TAX EXPENSE (continued)**

A reconciliation of income tax expense on accounting profit, multiplied by income tax rate and current income tax expense for the years ended 31 December 2016 and 2015 is as follows:

<i>In thousands of Tenge</i>	2016	2015
<b>Profit before income tax</b>	<b>54,907,654</b>	<b>67,319,394</b>
Statutory rate	20%	20%
<b>Income tax expense on accounting profit</b>	<b>10,981,531</b>	<b>13,463,879</b>
Adjustments to the previous years	446,882	1,175,541
<b>Tax effect of permanent differences</b>		
Reversal of temporary differences	(1,370,377)	-
Gain on surplus of technological oil	503,353	605,683
Other non-deductible expenses	396,021	583,262
<b>Tax effect of other adjustments</b>		
(Income)/loss of joint ventures recognized based on equity method	(467,293)	6,934,828
Effect of difference in tax rates	(110,381)	(156,735)
<b>Income tax expense reported in the consolidated statement of comprehensive income</b>	<b>10,379,736</b>	<b>22,606,458</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****32. INCOME TAX EXPENSE (continued)**

Deferred income tax balances, calculated by applying the statutory income tax rates in effect at the respective statement of financial position dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the consolidated financial statements are comprised of the following as at 31 December:

<i>In thousands of Tenge</i>	31 December 2016	Charged to profit and loss	Charged to foreign currency translation	Charged to other capital reserves	31 December 2015	Charged to profit and loss	Charged to foreign currency translation	Charged to other capital reserves	1 January 2015
<b>Deferred tax assets</b>									
Employee benefits and other employee compensation and related costs	2,994,320	188,398	-	(779,578)	3,585,500	(32,913)	-	500,781	3,117,632
Allowance for doubtful debts	139,381	(23,438)	-	-	162,819	12,464	-	-	150,355
Provision for obsolete and slow-moving inventories	3,549	(3,961)	-	-	7,510	1,268	-	-	6,242
Provision for assets retirement and land reclamation obligation	3,004,417	23,203	-	(1,377,295)	4,358,509	504,324	-	(231,565)	4,085,750
Provision for environmental protection and other provisions	8,225	(52,145)	-	-	60,370	11,693	-	-	48,677
Taxes payable	114,798	(9,507)	-	-	124,305	26,943	-	-	97,362
Deferred income from related parties	-	-	-	-	-	(52,061)	-	-	52,061
Financial liabilities on intercompany loans	-	(37,671)	-	-	37,671	(91,161)	-	-	128,832
	<b>6,264,690</b>	<b>84,879</b>	<b>-</b>	<b>(2,156,873)</b>	<b>8,336,684</b>	<b>380,557</b>	<b>-</b>	<b>269,216</b>	<b>7,686,911</b>
<b>Deferred tax liabilities</b>									
Property, plant and equipment	(67,121,203)	6,757,264	-	(24,859,140)	(49,019,327)	856,550	(1,199,835)	178,784	(48,854,826)
	<b>(67,121,203)</b>	<b>6,757,264</b>	<b>-</b>	<b>(24,859,140)</b>	<b>(49,019,327)</b>	<b>856,550</b>	<b>(1,199,835)</b>	<b>178,784</b>	<b>(48,854,826)</b>
<b>Net deferred income tax liabilities</b>	<b>(60,856,513)</b>	<b>6,842,143</b>	<b>-</b>	<b>(27,016,013)</b>	<b>(40,682,643)</b>	<b>1,237,107</b>	<b>(1,199,835)</b>	<b>448,000</b>	<b>(41,167,915)</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**32. INCOME TAX EXPENSE (continued)**

The deferred taxes on property, plant and equipment represent differences between tax and book base of property, plant and equipment due to different depreciation rates in tax and accounting books and impairment and revaluation of property, plant and equipment.

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.

**33. SEGMENT INFORMATION**

For management purposes, the Group is organised into business units based on its services and has three reportable segments, as follows:

- Oil transportation and related services;
- Oil transshipment;
- Other segments.

Segments that are identified, but do not separately exceed quantitative limits (amount of separate segment revenue comprises less than 10% of combined revenue) are combined in "Other segments". Such services include transshipment of dry cargo (sugar-airbrick, ammonium nitrate, cement, grain, sunflower and oil cake) in BSP with operation of dry-cargo, ferry and container terminal, and also passenger terminal services.

Oil transportation and related services provided by the Company, which do not exceed quantitative limits and are intimately connected with the Group's main operating activities, or with main asset of the Group – pipelines, such as: water transportation, oil storage, expedition services, services on support and maintenance of pipelines, are included into service related to oil transportation. Separate management report is not provided to the Management of the Group on some types of these services and accordingly they cannot be identified as separate segments.

Services on transshipment of oil and oil-products through BSP with operation of BOT are included in "Oil transshipment" segment. Revenue from oil terminal is generated through storage, transshipment of oil and oil-products and expedition. Expedition services represent transshipment of oil and oil-products services through railway from Azerbaijanian-Georgian border to terminal in Batumi. This type of activity is directly related to oil transshipment, and therefore is not shown as a separate segment.

Management analyses its operating segments by segment profit.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 33. SEGMENT INFORMATION (continued)

	For the year ended 31 December 2016				For the year ended 31 December 2015			
	Oil transportation and related services (Kazakhstan)	Oil transshipment (Georgia)	Other	Total segments	Oil transportation and related services (Kazakhstan)	Oil transshipment (Georgia)	Other	Total segments
<i>In thousands of Tenge</i>								
<b>Revenue</b>								
External customers	191,869,628	9,079,690	6,158,497	207,107,815	193,617,592	15,509,570	4,034,600	213,161,762
<b>Total revenue</b>	<b>191,869,628</b>	<b>9,079,690</b>	<b>6,158,497</b>	<b>207,107,815</b>	<b>193,617,592</b>	<b>15,509,570</b>	<b>4,034,600</b>	<b>213,161,762</b>
<b>Financial results</b>								
Impairment of property, plant and equipment through profit and loss	(9,197,852)	(3,510,353)	(1,504,340)	(14,212,545)	(1,330,882)	-	-	(1,330,882)
Depreciation and amortization	(37,865,889)	(2,126,990)	(881,689)	(40,874,568)	(31,285,990)	(1,268,517)	(673,614)	(33,228,121)
Interest income	4,840,552	45,110	-	4,885,662	2,549,552	36,142	33,260	2,618,954
Share in income/(loss) of joint ventures	2,336,465	-	-	2,336,465	(34,674,141)	-	-	(34,674,141)
Income tax (expense)/benefit	(12,525,227)	1,532,362	613,129	(10,379,736)	(21,987,166)	(547,895)	(71,397)	(22,606,458)
<b>Segment profit/(loss)</b>	<b>47,693,066</b>	<b>(3,984,688)</b>	<b>819,540</b>	<b>44,527,918</b>	<b>42,157,275</b>	<b>2,241,690</b>	<b>313,971</b>	<b>44,712,936</b>
<b>Total assets</b>	<b>671,987,485</b>	<b>50,386,782</b>	<b>22,601,730</b>	<b>744,975,997</b>	<b>549,165,702</b>	<b>50,635,685</b>	<b>19,461,137</b>	<b>619,262,524</b>
<b>Total liabilities</b>	<b>141,124,446</b>	<b>11,381,187</b>	<b>4,495,082</b>	<b>157,000,715</b>	<b>130,656,666</b>	<b>5,406,399</b>	<b>10,267,949</b>	<b>146,331,014</b>
<b>Other disclosures</b>								
Investments in joint ventures (Note 8)	15,728,257	-	-	15,728,257	13,918,006	-	-	13,918,006
Capital expenditures	38,046,856	3,257,807	1,537,342	42,842,005	75,641,329	1,332,376	826,830	77,800,535



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****34. RELATED PARTY TRANSACTIONS**

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related party transactions were made on agreed terms between the parties that may not necessarily be at market rates, except for certain regulated services, which were provided based on the tariffs available to related and third parties.

The following tables provide the total amount of transactions, which have been entered into with related parties during 2016 and 2015 and the related balances as at 31 December 2016 and 2015.

Advances to related parties for property, plant and equipment are as follows:

<i>In thousands of Tenge</i>	Note	31 December 2016	31 December 2015
<b>Advances to related parties for property, plant and equipment</b>			
Advances for property, plant and equipment to entities under common control of KMG Group		14,695	-
<b>Total advances to related parties for property, plant and equipment</b>	9	14,695	-

Trade and other accounts receivables from related parties are as follows:

<i>In thousands of Tenge</i>	Note	31 December 2016	31 December 2015
<b>Trade and other accounts receivable from related parties</b>			
Trade accounts receivable from joint ventures		2,218,268	719,246
Trade accounts receivable from entities under common control of KMG Group		812,058	701,270
Trade accounts receivable from entities under common control of Samruk-Kazyna Group		436	223
<b>Total trade and other accounts receivable from related parties</b>	11	3,030,762	1,420,739
Other accounts receivables from entities under common control of KMG and Samruk-Kazyna Group	11	509	36,122
<b>Total trade and other accounts receivable from related parties</b>		3,031,271	1,456,861

Advances provided to related parties are as follows:

<i>In thousands of Tenge</i>	Note	31 December 2016	31 December 2015
<b>Advances paid to related parties</b>			
Advances paid to entities under common control of KMG		140,560	1,684,777
Advances paid to entities under common control of Samruk-Kazyna Group		117,356	156,322
<b>Total advances paid to related parties</b>	12	257,916	1,841,099

Deferred expenses from related parties are as follows:

<i>In thousands of Tenge</i>	Note	2016	2015
<b>Deferred expenses from related parties</b>			
Deferred expenses from entities under control of Samruk-Kazyna Group		5,791	-
<b>Total deferred expenses from related parties</b>	14	5,791	-

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****34. RELATED PARTY TRANSACTIONS (continued)**

Interest free loan to related parties is as follows:

<i>In thousands of Tenge</i>	Note	31 December 2016	31 December 2015
<b>Interest free loan to related parties</b>			
Interest free loan to KMG Group		-	18,735,079
<b>Total interest free loan to related parties</b>	17	-	18,735,079

Trade and other accounts payable to related parties are as follows:

<i>In thousands of Tenge</i>	Note	31 December 2016	31 December 2015
<b>Trade accounts payables to related parties for goods and services</b>			
Trade accounts payables to entities under common control of Samruk-Kazyna		1,278,291	255,056
Group Trade accounts payables to entities under common control of KMG Group		668,777	559,353
<b>Total trade and other accounts payable to related parties for goods and services</b>	20	1,947,068	814,409
<b>Other payables to entities under common control of Samruk-Kazyna Group</b>			
		777	672
	20	777	672
<b>Total trade and other accounts payable to related parties for goods and services</b>		1,947,845	815,081

Advances received from related parties are as follows:

<i>In thousands of Tenge</i>	Note	31 December 2016	31 December 2015
<b>Advances received from related parties</b>			
Advances from entities under common control of KMG Group		9,990,855	10,845,082
Advances from entities under common control of Samruk-Kazyna Group		416,492	485,209
Advances from joint ventures		9	7
<b>Total advances received from related parties</b>	21	10,407,356	11,330,298

Other current liabilities to related parties are as follows:

<i>In thousands of Tenge</i>	Note	31 December 2016	31 December 2015
<b>Accounts payable for oil transportation coordination to related parties</b>			
Accounts payable for oil transportation coordination to entities under common control of KMG Group		5,656,284	5,923,268
<b>Total of accounts payable for oil transportation coordination for related parties</b>	24	5,656,284	5,923,268
<b>Employee benefits obligation of key management personnel</b>			
Employee benefits obligation of key management personnel		43,840	8,062
<b>Total employee benefits obligation of key management personnel</b>		43,840	8,062
<b>Total other current liabilities to related parties</b>		5,700,124	5,931,330

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****34. RELATED PARTY TRANSACTIONS (continued)**

During years ended 31 December the Group had the following transactions with the related parties:

<i>In thousands of Tenge</i>	2016	2015
<b>Sales to related parties</b>		
Revenue from main activities with entities under common control of KMG Group	114,182,315	111,861,543
Revenue from main activities with joint ventures	8,108,759	7,612,064
Revenue from main activities with entities under common control of Samruk-Kazyna Group	4,553,518	5,361,313
Revenue from other activities with entities under common control of KMG Group	24,878	28,096
Revenue from other activities with entities under common control of Samruk-Kazyna Group	1,337	-
<b>Total</b>	<b>126,870,807</b>	<b>124,863,016</b>

Revenue from main activities with entities under common control of KMG is related to the services of oil and water transportation.

<i>In thousands of Tenge</i>	2016	2015
<b>Purchases from related parties</b>		
Purchases of services from entities under common control of KMG Group	9,359,945	9,167,825
Purchases of services from entities under common control of Samruk-Kazyna Group	3,004,858	2,691,546
Purchases of property, plant and equipment, intangible assets and inventory from entities under common control of Samruk-Kazyna Group	991,574	520,282
Purchases of property, plant and equipment, intangible assets and inventory from entities under common control of KMG Group	841,864	214,713
Purchases of inventory from entities under common control of KMG Group	70,860	262,611
Purchases of inventory from entities under common control of Samruk-Kazyna Group	18,778	14,741
Purchases of intangible assets from entities under common control of Samruk-Kazyna Group	-	15,737
Purchases of services from joint ventures	4,877	-
<b>Total</b>	<b>14,292,756</b>	<b>12,887,455</b>

Other operating income of the Group from related parties is as follows:

<i>In thousands of Tenge</i>	Note	2016	2015
<b>Other operating income from related parties</b>			
Amortization of deferred income from related parties	28	-	260,305
<b>Total</b>		<b>-</b>	<b>260,305</b>

Finance income of the Group from related parties is as follows:

<i>In thousands of Tenge</i>	Note	2016	2015
<b>Finance income from related parties</b>			
Discounting of interest free loan provided to KMG Group	30	1,264,921	379,461
<b>Total</b>		<b>1,264,921</b>	<b>379,461</b>

Total accrued compensation to key management personnel for the year ended 31 December 2016 amounts to 759,880 thousand Tenge (for the year ended 31 December 2015: 548,955 thousand Tenge). Payments to key personnel consist primarily of payroll costs and remuneration established by contracts and Company's internal regulations.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**35. CONTINGENT LIABILITIES AND COMMITMENTS****Operating environment**

Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The National Bank of the Republic of Kazakhstan shifted to inflation targeting policy. Starting from 20 August 2015 it was decided to cease the support of Tenge exchange rate against US Dollar and other main currencies in order to decrease the volume of currency interventions and to reduce the influence on establishing the Tenge exchange rate. Official exchange rate before devaluation amounted to 188.38 Tenge per 1 US Dollar. As at 31 December 2016 the exchange rate amounted to 333.29 Tenge per 1 US Dollar.

In 2015, the Kazakhstan economy continued to be negatively impacted by a significant drop in crude oil prices and a significant devaluation of Kazakhstani Tenge. The combination of the above along with other factors resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth. The management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

**Taxation**

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe.

Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued as at 31 December 2016.

As at 31 December 2016 the Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained, except as provided for or otherwise disclosed in these consolidated financial statements.

*Transfer pricing control*

Transfer pricing control in Kazakhstan has a very wide scope and applies to many transactions that directly or indirectly relate to international business regardless of whether the transaction participants are related or not. The transfer pricing legislation requires that all taxes applicable to a transaction should be calculated based on market price determined in accordance with the arm's length principle.

The new law on transfer pricing came into effect in Kazakhstan from 1 January 2009. The new law is not explicit and there is little precedence with some of its provisions. Moreover, the law is not supported by detailed guidance, which is still under development. As a result, application of transfer pricing control to various types of transactions is not clearly regulated.

Because of the uncertainties associated with the Kazakhstan transfer pricing legislation, there is a risk that the tax authorities may take a position that differs from the Group's position, which could result in additional taxes, fines and interest as at 31 December 2016.

As at 31 December 2016 Management believes that its interpretation of the transfer pricing legislation is appropriate and that it is probable that the Group's positions with regard to transfer pricing will be sustained.

*Tax commitments of Georgian entities*

According to the Tax Code of Georgia (hereinafter – "TCG"), tax administration is authorized to make motivated written decision on use of market prices for taxation purposes if transaction takes place between related parties. Although TCG contains certain guidance on the determination of market prices of goods and services, the mechanism is not sophisticated and there is no separate transfer pricing legislation in Georgia. Existence of such ambiguity creates uncertainties as related to the position that tax authorities might take when considering taxation of transactions between related parties.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****Taxation (continued)***Tax commitments of Georgian entities (continued)*

The Georgian subsidiaries of the Group have significant transactions with off-shore subsidiaries of the Group as well as amongst each other. These transactions fall within the definition of transactions between related parties and may be challenged by tax authorities of Georgia. Management believes that it has sufficient arguments to assert that pricing of transactions between entities of the Group is at arm's length, however due to absent legislative basis for determination of market prices tax authorities might take position different from that of the Group.

In 2015 Georgian Tax Authorities (hereinafter – "GTA") additionally accrued taxes and fines in the amount of 8,583 thousand US Dollars (equivalent to 2,860,628 thousand Tenge) as a result of tax inspections for the period of 2009-2014. Companies did not agree with the decision of GTA and filed an appeal.

In October 2016 the Ministry of Finance Disputes Council of Georgia satisfied the claim of BOT and instructed the audit department to cancel the additional taxes on BOT in the amount of 5,831 thousand US Dollars (equivalent to 1,943,414 thousand Tenge). Complaint of BSP in the amount of 2,752 thousand US Dollars (equivalent to 917,214 thousand Tenge) was returned for reconsideration of GTA.

Based on the analysis of local tax legislation and current practice related to similar tax cases in Georgia management of BTL Group assessed the recognized provision for taxes in the amount of 506 thousand US Dollars (equivalent to 168,645 thousand Tenge) as the probable expense. The Group recognized tax expense in the amount of 361 thousand US Dollars (equivalent to 120,318 thousand Tenge). The remaining amount of 1,885 million US Dollars (equivalent to 628,252 thousand Tenge) is not recognized as an additional liability as the management believes that an appeal of BSP will be successful and assesses the probability of outflow of economic benefits as remote.

**Environmental matters**

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Potential liabilities which may arise as a result of changes in legislation cannot be reasonably estimated. Under existing legislation management believes that there are no probable or possible liabilities which could have a material adverse effect on the Group's financial position or results of operations except for those described in the present consolidated financial statements (*Notes 5 and 23*).

**Insurance matters**

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available.

The Group has insurance coverage over property, third party liability in respect of property and environmental damage arising from accidents on Group's property or relating to Group's operations.

**Contractual commitments**

As at 31 December 2016 the Group had contractual obligations to acquire property, plant and equipment, and construction services for the amount of 25,628,294 thousand Tenge (31 December 2015: 42,647,645 thousand Tenge).

Share of the Group as at 31 December 2016 in contractual obligations of joint ventures to acquire property, plant and equipment, and construction services amounted to 147,419 thousand Tenge (31 December 2015: 361,105 thousand Tenge).

**Legal proceedings***Legal proceedings with business counterparties of BTL Group*

During 2015 the companies of the Group have been involved in a number of disputes in Georgia. The total amount of claims against the Group is equal to 62 million US Dollars (equal to 20,663,980 thousand Tenge). Parties have signed the Conciliatory Act and legal proceedings were terminated. On 22 July 2015 the court has removed arrest from BTL's shares in BOT, BOT's property and exclusive rights to control 100% share in BSP. In March 2016 the parties signed on mutually beneficial conditions additional agreements to the contracts, in which there were disputes.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****Legal proceedings (continued)***Legal proceedings with BICT*

BSP was sued by BICT (hereinafter – “Parties”), a lessee of berths, certain movable property and 13 hectares of land for a period of 48 years, for violating the lease agreement. The amount of compensation mostly for moral damages and lost profits requested by BICT is 5,422 thousand US Dollars (equivalent to 1,807,098 thousands Tenge).

On 4 September 2015 settlement of dispute agreement was signed. According to this agreement Parties agreed to drop all the legal proceedings. During 2016 the Parties fulfilled their obligations in accordance with the settlement agreement and an additional agreement to the contract was signed in 2015.

*Legal proceedings with BOT*

On 19 December 2016 the proposal from the law enforcement agencies of Georgia on the implementation of the court ruling was received, which contains the order that BOT should not use its dominant position in the market, as well as the requirements on conclusion of the agreement on services.

According to this definition, the court decided to arrest the property owned by BOT – the land plot (c. Batumi) and buildings and constructions located on it.

As at 31 December 2016 the total cost of the arrested property is 55 million US Dollars (equivalent to 18,330,950 thousand Tenge).

This arrest restricts the alienation of the arrested property, but does not affect the operational and economic activities of BOT. On 23 December 2016 BOT appealed the above decision in the Tbilisi City Court.

According to management of BOT the plaintiff's claims against BOT are not supported. At the same time, the assessment of the risk as at 31 December 2016 is not possible, because BOT did not receive the statement of claim, which under the laws of Georgia must be given by the claimant of BOT within two months.

Management of BOT is engaged in the settlement of the dispute by negotiating with the plaintiff.

**Pledged assets of BTL Group**

As at 31 December 2015 certain items of property, plant and equipment of BOT with residual value of 46,600 thousand US Dollars (equivalent to 15,844,466 thousand Tenge) were pledged as guarantee in favor of TBC Bank, which acted as a guarantor to ensure obligations of Georgian Transit Ltd (hereinafter – “GT Ltd”) to Georgian railways (hereinafter – “GR”) according to transportation contracts.

The maximum amount of the guarantee was equal to 10,000 thousand US Dollars (equivalent to 3,354,600 thousand Tenge), GT Ltd is obliged to provide minimal required annual volume of transshipment in the amount of 4 million tonnes to GR, 2 million tonnes of which should be transhipped by BTL Group.

The minimum required annual volume of transshipment through GR subsequently was decreased to 3.2 million tonnes, including BTL – 2.5 million tonnes. During the annual period total volume of transshipment was provided, and the parties have no claims for failure to fulfill obligations. Therefore, as at 31 December 2016 the bank guarantee was not renewed, the assets were released from the pledge.

**Expropriation of the BSP assets**

In accordance with BSP Management Right agreement between BOT and the Government of Georgia, the Government of Georgia has the right for expropriation of the BSP's assets, in case the BSP in the course of 2 years does not meet its obligations on minimum volume of transshipment, which is 4 million tonnes per year. As at 31 December 2016 the Group's management considers BSP was not exposed to risk of asset expropriation from the Government of Georgia, as actual volumes of transshipment were more than 6.9 million tonnes (31 December 2015: 6.5 million tonnes).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's principal financial liabilities comprise of trade and other payables. The main purpose of these financial liabilities is to raise funds for the Group's operations. The Group has trade receivables and cash and cash equivalents that arise directly from its operations.

The Group is exposed to market risk that comprises of credit risk, currency risk and liquidity risk.

The management of the Group reviews and agrees policies for managing each of these risks which are summarized below.

**Credit risk**

The Group trades only with recognized, creditworthy parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. Maximum exposure is the carrying amount. There are no significant concentrations of credit risk within the Group.

The Group places deposits with Kazakhstani and foreign banks (*Notes 15 and 16*). The Group's management reviews credit ratings of these banks periodically to eliminate extraordinary credit risk exposure. The Group's management believes that recent international credit crisis and subsequent changes in credit rating of local banks does not justify extraordinary credit risk. Accordingly, no impairment provision against bank deposits is required.

The table below shows the balances of bank accounts and cash and cash equivalents at the 31 December 2016 and 2015 using the "Moody's", "Fitch" and "Standard & Poor's" credit ratings.

Bank	Location	Rating		31 December 2016	31 December 2015
		31 December 2016	31 December 2015		
"Halyk Bank of Kazakhstan" JSC	Kazakhstan	BB+/Stable	BB+/Negative	77,756,612	47,532,496
"Sberbank Russia" SB JSC	Kazakhstan	BB+/Stable	BB+/Negative	5,070,824	6,897,362
Hellenic Bank	Georgia	Caa2	B-/Stable	3,614,530	4,943,702
"Altyn Bank" JSC	Kazakhstan	BB/Positive	-	1,829,416	-
Halyk Bank of Georgia	Georgia	BB-/Stable	BB-/Stable	648,249	1,257,397
TBC Bank	Georgia	Ba3	BB-/Stable	127,650	75,023
Bank of Georgia	Georgia	B1/Stable	B-/Stable	101,320	102,180
"GazBank" JSCB JSC	Russia	B3	B3/Stable	3,268	30
"KazKommertzBank" JSC	Kazakhstan	CCC/Stable	B-/Negative	56	30
"Tsesna Bank" JSC	Kazakhstan	B/Stable	B+/Stable	10	3,408,853
"Delta bank" JSC	Kazakhstan	CCC+	B/Stable	-	3,104,623
Basis Bank	Georgia	-	B-/Stable	-	29,194
Cartu Bank	Georgia	-	B-/Stable	-	679
"NBK Bank" OJSC	Russia	BB/Stable	BB+/Negative	-	495
"Sberbank Russia" OJSC	Russia	Ba3/Negative	BB+/Negative	-	73
"RBS Bank Kazakhstan" SB JSC	Kazakhstan	-	A3/Positive	-	58
<b>Total</b>				<b>89,151,935</b>	<b>67,352,195</b>

**Liquidity risks**

The Group monitors its risk to a shortage of funds using a current liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g., accounts receivable, other financial assets) and projected cash flows from operations.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2016 and 2015 based on contractual undiscounted payments.

<i>In thousands of Tenge</i>	On demand	<1 year	1 to 2 years	2 to 5 years	>5 years	Total
<b>As at 31 December 2016</b>						
Trade and other payables	-	15,370,051	7,877	492	6,378	15,384,798
	-	15,370,051	7,877	492	6,378	15,384,798
<b>As at 31 December 2015</b>						
Trade and other payables	-	16,616,457	1,951	31,572	4,917	16,654,897
	-	16,616,457	1,951	31,572	4,917	16,654,897

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Currency risk**

The table below shows the total amount of foreign currency denominated assets and liabilities that increase foreign exchange exposure.

<i>In thousands of Tenge</i>	US Dollar	Russian Ruble	Euro	Other currencies	Total
<b>At 31 December 2016</b>					
Assets	31,738,097	14,706	59,992	589,923	32,402,718
Liabilities	1,714,667	101,655	20,135	699,576	2,536,033
<b>At 31 December 2015</b>					
Assets	53,522,360	6,655	172,111	474,580	54,175,706
Liabilities	1,957,107	49,778	31,332	302,809	2,341,026

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations. The Group also has transactional currency exposures. Such exposure arises from revenues in US Dollars.

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

<i>In thousands of Tenge</i>	Increase/ decrease in US Dollar rate	Effect on profit before tax
<b>2016</b>		
US Dollar	+13.00%	3,903,046
	-13.00%	(3,903,046)
Russian Ruble	+23.00%	(19,998)
	-19.00%	16,520
<b>2015</b>		
US Dollar	+60.00%	30,939,152
	-20.00%	(10,313,051)
Russian Ruble	+40.00%	(17,249)
	-29.00%	12,506

**Capital management**

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy equity ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.

As at 31 December 2016 and 2015 the Group does not have significant debts. The Group has sufficient cash, exceeding its debt as at the reporting date.

**Fair value of financial instruments**

The carrying amount of cash, bank deposits, trade and other accounts receivable, loans, trade and other accounts payable and other current liabilities approximates their fair value due to the short-term maturity of these financial instruments.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**37. SUBSEQUENT EVENTS**

On 15 February 2017 BOT received the statement of claim, according to which the claimant demands the court to oblige BOT to conclude a service agreement on the terms specified in the statement of claim, as well as to compensate to the claimant damages in the amount of 2,500 thousand US dollars (equivalent to 833,225 thousand Tenge ) and monthly amount of 280 thousand US dollars (equivalent to 93,321 thousand Tenge) from 1 December 2016 until execution of judgment. On 24 February 2017 BOT provided to the claimant and the court a response to the statement of claim with the position of BOT in this case.