

**KazTransOil JSC**

**Separate financial statements**

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

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Independent auditor's report

**Separate financial statements**

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## Independent auditor's report

To the Shareholders of KazTransOil JSC

### Opinion

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

In our opinion, the accompanying separate financial statements present fairly, in all material respects the financial position of the Company 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 separate financial statements* section of our report. We are independent of the Company 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate 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 separate 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 separate 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 separate financial statements.

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

Property, plant and equipment makes up 79.5% of the total assets of the Company as at 31 December 2016. The Company 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 Company has a process of external valuations, with the value of property, plant and equipment being measured by independent external appraisers to ensure that the Company'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, and transportation forecasts. We overviewed the Company'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 Company'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 5 to the separate financial statements; a description of the accounting policy and key judgements and estimates is included in Notes 3.6 and 4 to the separate financial statements.

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

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

Our opinion on the separate 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 separate 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 separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

In preparing the separate financial statements, management is responsible for assessing the Company'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 Company 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 Company's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 Company'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 Company'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 separate 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 Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate 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 Company to express an opinion on the separate financial statements. We are responsible for the direction, supervision and performance of the 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.



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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 separate 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, Kazakhstan, Almaty  
Al-Farabi Ave., 77/7

27 February 2017

**SEPARATE STATEMENT OF FINANCIAL POSITION**

| <i>In thousands of Tenge</i>                            | <b>Notes</b> | <b>31 December<br/>2016</b> | <b>31 December<br/>2015</b> |
|---|--------------|-----------------------------|-----------------------------|
| <b>Assets</b>   |              |                             |                             |
| <b>Non-current assets</b>                               |              |                             |                             |
| Property, plant and equipment                           | 5            | <b>550,080,089</b>          | 430,345,045                 |
| Intangible assets                                       | 6            | <b>1,181,457</b>            | 1,478,896                   |
| Investments in subsidiaries                             | 7            | <b>28,208,864</b>           | 28,208,864                  |
| Investments in joint ventures                           | 8            | <b>7,404,945</b>            | 7,404,945                   |
| Advances to suppliers for property, plant and equipment | 9            | <b>1,057,017</b>            | 7,061,456                   |
| Bank deposits   | 15           | <b>4,182,770</b>            | 4,487,436                   |
| Other non-current assets                                |              | <b>15,065</b>               | 16,632                      |
|   |              | <b>592,130,207</b>          | 479,003,274                 |
| <b>Current assets</b>                                   |              |                             |                             |
| Inventories   | 10           | <b>2,592,270</b>            | 2,549,716                   |
| Trade and other accounts receivable                     | 11           | <b>5,194,119</b>            | 2,677,840                   |
| Interest free loan                                      | 17           | <b>-</b>                    | 18,735,079                  |
| Advances to suppliers                                   | 12           | <b>369,049</b>              | 1,992,063                   |
| Prepayment for income tax                               |              | <b>4,486,107</b>            | -                           |
| VAT recoverable and other prepaid taxes                 | 13           | <b>1,016,750</b>            | 3,615,591                   |
| Other current assets                                    | 14           | <b>5,606,478</b>            | 5,830,596                   |
| Bank deposits   | 15           | <b>15,675,618</b>           | 12,446,837                  |
| Cash and cash equivalents                               | 16           | <b>64,802,346</b>           | 44,010,416                  |
|   |              | <b>99,742,737</b>           | 91,858,138                  |
| <b>Total assets</b>                                     |              | <b>691,872,944</b>          | 570,861,412                 |

*The accounting policy and explanatory notes on pages 7 through 48 form an integral part of these separate financial statements.*

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

| <i>In thousands of Tenge</i>                                     | Notes | 31 December<br>2016 | 31 December<br>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  |       | 192,430,443         | 98,847,414          |
| Other capital reserves   | 17    | (695,324)           | (3,813,636)         |
| Retained earnings  |       | 296,909,328         | 286,399,082         |
| <b>Total equity</b>  |       | <b>550,572,465</b>  | <b>443,370,427</b>  |
| <b>Non-current liabilities</b>                                   |       |                     |                     |
| Employee benefit liabilities                                     | 18    | 11,994,599          | 15,098,686          |
| Deferred tax liabilities   | 31    | 61,032,546          | 37,516,962          |
| Provision for asset retirement and land recultivation obligation | 22    | 15,022,086          | 21,999,701          |
|  |       | <b>88,049,231</b>   | <b>74,615,349</b>   |
| <b>Current liabilities</b>                                       |       |                     |                     |
| Employee benefit liabilities                                     | 18    | 543,418             | 435,024             |
| Trade and other accounts payable                                 | 19    | 14,836,869          | 16,495,346          |
| Advances received  | 20    | 16,189,798          | 17,422,223          |
| Income tax payable   |       | -                   | 698,462             |
| Other taxes payable  | 21    | 976,530             | 1,056,377           |
| Provisions   | 22    | 41,125              | 41,125              |
| Other current liabilities  | 23    | 20,663,508          | 16,727,079          |
|  |       | <b>53,251,248</b>   | <b>52,875,636</b>   |
| <b>Total liabilities</b>   |       | <b>141,300,479</b>  | <b>127,490,985</b>  |
| <b>Total equity and liabilities</b>                              |       | <b>691,872,944</b>  | <b>570,861,412</b>  |
| <b>Book value per ordinary share (in Tenge)</b>                  | 17    | <b>1,428</b>        | <b>1,149</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 7 through 48 form an integral part of these separate financial statements.*



**SEPARATE STATEMENT OF COMPREHENSIVE INCOME**

| <i>In thousands of Tenge</i>   | Notes | For the years ended 31 December |                    |
|--|-------|---------------------------------|--------------------|
|  |       | 2016                            | 2015               |
| Revenue  | 24    | 191,869,628                     | 193,617,592        |
| Cost of sales  | 25    | (118,701,922)                   | (109,130,474)      |
| <b>Gross profit</b>  |       | <b>73,167,706</b>               | <b>84,487,118</b>  |
| General and administrative expenses  | 26    | (11,075,450)                    | (10,031,684)       |
| Other operating income   | 27    | 2,883,115                       | 1,242,068          |
| Other operating expenses   | 28    | (124,211)                       | (1,264,789)        |
| Loss from impairment of property, plant and equipment, net   | 5     | (9,197,852)                     | (1,330,882)        |
| <b>Operating profit</b>  |       | <b>55,653,308</b>               | <b>73,101,831</b>  |
| Net foreign exchange (loss)/gain   | 16    | (1,438,984)                     | 24,930,255         |
| Dividends income   | 32    | 1,487,160                       | 2,759,120          |
| Finance income   | 29    | 6,116,405                       | 2,957,496          |
| Finance costs  | 30    | (2,448,901)                     | (2,171,000)        |
| <b>Profit before income tax</b>  |       | <b>59,368,988</b>               | <b>101,577,702</b> |
| Income tax expense   | 31    | (12,525,227)                    | (21,934,973)       |
| <b>Net profit for the year</b>   |       | <b>46,843,761</b>               | <b>79,642,729</b>  |
| <b>Earnings per share (in Tenge)</b>   | 17    | <b>122</b>                      | <b>207</b>         |
| <b>Other comprehensive income/(loss)</b>   |       |                                 |                    |
| <b>Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent events</b>             |       |                                 |                    |
| Actuarial gain/(loss) from employee benefit of the Company   | 18    | 3,897,890                       | (2,503,907)        |
| Income tax effect  | 31    | (779,578)                       | 500,781            |
|  |       | <b>3,118,312</b>                | <b>(2,003,126)</b> |
| Revaluation/(impairment) of property, plant and equipment  | 5     | 128,621,077                     | (893,921)          |
| Income tax effect  | 31    | (25,724,217)                    | 178,784            |
|  |       | <b>102,896,860</b>              | <b>(715,137)</b>   |
| Reversal of provision for asset retirement obligation and land reclamation   | 22    | 6,886,484                       | 1,157,829          |
| Income tax effect  | 31    | (1,377,295)                     | (231,565)          |
|  |       | <b>5,509,189</b>                | <b>926,264</b>     |
| <b>Total other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods, net</b> |       | <b>111,524,361</b>              | <b>(1,791,999)</b> |
| <b>Total other comprehensive income/(loss) for the year, net of tax</b>  |       | <b>111,524,361</b>              | <b>(1,791,999)</b> |
| <b>Total comprehensive income for the year, net of tax</b>   |       | <b>158,368,122</b>              | <b>77,850,730</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 7 through 48 form an integral part of these separate financial statements.*

**SEPARATE 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  |            | 59,368,988                      | 101,577,702        |
| <b>Non-cash adjustment to reconcile profit before tax to net cash flows</b>   |            |                                 |                    |
| Depreciation and amortization   | 25, 26     | 37,865,889                      | 31,285,990         |
| (Reversal)/charge of provision for doubtful debts, net  | 26         | (92,078)                        | 107,656            |
| Charge of provisions, net   | 22         | –                               | 11,079             |
| Finance costs   | 30         | 2,448,901                       | 2,171,000          |
| Finance income  | 29         | (6,116,405)                     | (2,957,496)        |
| Actuarial gain  | 18, 27     | (742,441)                       | –                  |
| Employee benefits, current and past service costs   | 18, 25, 26 | 1,120,030                       | 1,070,515          |
| Loss on disposal of property, plant and equipment and intangible assets, net  | 28         | 59,621                          | 1,159,443          |
| Expenses of liquidation of idle production facilities   |            | 14,688                          | 26,538             |
| Loss from disposal of assets held for sale, net   |            | –                               | 14,676             |
| Gain from sale of inventory, net  |            | (13,752)                        | (44,193)           |
| Impairment charge of property, plant and equipment  | 5          | 9,197,852                       | 1,330,882          |
| Income from revision of estimates and reversal of provision on asset retirement and land recultivation obligation and other short-term provisions | 22, 27     | (1,556,766)                     | (443,410)          |
| Income from write-off of accounts payable   |            | (2,122)                         | (41,920)           |
| Amortization of deferred income   | 27         | –                               | (260,305)          |
| Unrealized foreign exchange loss  |            | 1,438,984                       | –                  |
| (Reversal)/charge of provision for obsolete inventories, net  | 26         | (95)                            | 6,644              |
| <b>Cash flows from operating activities before working capital changes</b>  |            | <b>102,991,294</b>              | <b>135,014,801</b> |
| <b>(Increase)/decrease in operating assets</b>  |            |                                 |                    |
| Inventories   |            | (322,147)                       | (503,557)          |
| Trade and other accounts receivable   |            | (2,462,100)                     | 2,303,079          |
| Advances to suppliers   |            | 1,623,014                       | (1,317,140)        |
| VAT recoverable and other prepaid taxes   |            | 3,039,458                       | (137,092)          |
| Other current assets  |            | (1,250,543)                     | (5,272,883)        |
| <b>Increase/(decrease) in operating liabilities</b>   |            |                                 |                    |
| Trade and other accounts payable  |            | 106,946                         | (2,797,519)        |
| Advances received   |            | (1,232,425)                     | 721,742            |
| Other taxes payable   |            | (773,470)                       | 169,729            |
| Other current and non-current liabilities and employee benefit liabilities  |            | 3,348,534                       | 4,396,580          |
| <b>Cash generated from operations</b>   |            | <b>105,068,561</b>              | <b>132,577,740</b> |
| Income tax paid   |            | (21,381,679)                    | (16,850,829)       |
| Interest received   |            | 4,591,930                       | 2,729,303          |
| <b>Net cash flow from operating activities</b>  |            | <b>88,278,812</b>               | <b>118,456,214</b> |

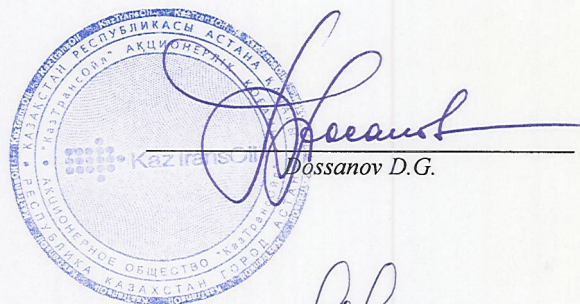
*The accounting policy and explanatory notes on pages 7 through 48 form an integral part of these separate financial statements.*

**SEPARATE 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)        |
| Dividends received                                      |       | 1,487,160                       | 2,759,945           |
| Purchase of property, plant and equipment               |       | (33,773,311)                    | (68,635,483)        |
| Purchase of intangible assets                           |       | (58,754)                        | (135,491)           |
| Repayment/(granting) of interest free loan              | 17    | 20,000,000                      | (20,000,000)        |
| Proceeds from disposal of property, plant and equipment |       | 10,137                          | 44,138              |
| <b>Net cash flow used in investing activities</b>       |       | <b>(15,727,448)</b>             | <b>(55,654,877)</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                         |       | (593,350)                       | (11,610,290)        |
| <b>Net change in cash and cash equivalents</b>          |       | <b>20,791,930</b>               | <b>4,761,684</b>    |
| Cash and cash equivalents at the beginning of the year  |       | 44,010,416                      | 39,248,732          |
| <b>Cash and cash equivalents at the end of the year</b> | 16    | <b>64,802,346</b>               | <b>44,010,416</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 7 through 48 form an integral part of these separate financial statements.*

## SEPARATE STATEMENT OF CHANGES IN EQUITY

| <i>In thousands of Tenge</i>                                    | Share capital | Asset revaluation reserve | Other capital reserves | Treasury shares | Retained earnings | Total        |
|---|---------------|---------------------------|------------------------|-----------------|-------------------|--------------|
| <b>As at 31 December 2015</b>                                   | 61,937,567    | 98,847,414                | (3,813,636)            | –               | 286,399,082       | 443,370,427  |
| Profit for the year   | –             | –                         | –                      | –               | 46,843,761        | 46,843,761   |
| Other comprehensive income                                      | –             | 108,406,049               | 3,118,312              | –               | –                 | 111,524,361  |
| <b>Total comprehensive income for the year</b>                  | –             | 108,406,049               | 3,118,312              | –               | 46,843,761        | 158,368,122  |
| Depreciation transfer of revalued property, plant and equipment | –             | (14,823,020)              | –                      | –               | 14,823,020        | –            |
| Dividends (Note 17)   | –             | –                         | –                      | –               | (51,156,535)      | (51,156,535) |
| Treasury shares repurchased from shareholders (Note 17)         | –             | –                         | –                      | (9,549)         | –                 | (9,549)      |
| <b>As at 31 December 2016</b>                                   | 61,937,567    | 192,430,443               | (695,324)              | (9,549)         | 296,909,328       | 550,572,465  |
| <b>As at 31 December 2014</b>                                   | 61,937,567    | 108,539,359               | (1,810,510)            | –               | 244,927,026       | 413,593,442  |
| Profit for the year   | –             | –                         | –                      | –               | 79,642,729        | 79,642,729   |
| Other comprehensive income/(loss)                               | –             | 211,127                   | (2,003,126)            | –               | –                 | (1,791,999)  |
| <b>Total comprehensive income/(loss) for the year</b>           | –             | 211,127                   | (2,003,126)            | –               | 79,642,729        | 77,850,730   |
| Depreciation transfer of revalued property, plant and equipment | –             | (9,903,072)               | –                      | –               | 9,903,072         | –            |
| Dividends (Note 17)   | –             | –                         | –                      | –               | (46,429,363)      | (46,429,363) |
| Other (Note 17)   | –             | –                         | –                      | –               | (1,644,382)       | (1,644,382)  |
| <b>As at 31 December 2015</b>                                   | 61,937,567    | 98,847,414                | (3,813,636)            | –               | 286,399,082       | 443,370,427  |

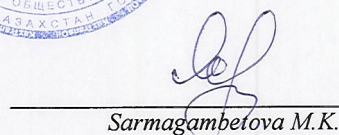
Signed and approved for issue on 27 February 2017.

General Director



*Dossanov D.G.*

Chief Accountant



*Sarmagambetova M.K.*

*The accounting policy and explanatory notes on pages 7 through 48 form an integral part of these separate financial statements.*

## NOTES TO THE SEPARATE 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<br>(hereinafter – "MunaiTas")        | Kazakhstan             | Oil transportation   | 51%              | 51%              |
| "Kazakhstan-China Pipeline" LLP<br>(hereinafter – "KCP") | Kazakhstan             | Oil transportation   | 50%              | 50%              |
| "Batumi Terminals Limited"<br>(hereinafter – "BTL")      | Cyprus                 | Forwarding, transshipment and storage of oil and oil products and operating Batumi Sea Port and Oil Terminal | 100%             | 100%             |

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 Company 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 Company 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 Company'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 SEPARATE 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 separate 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**

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

These separate 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 separate financial statements.

The separate financial statements are presented in Tenge and all values are rounded to the nearest thousands, except when otherwise indicated.

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

These separate financial statements were issued in addition to the consolidated financial statements of the Company and its subsidiary. 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. A copy of the consolidated financial statements may be obtained from the head office of the Company (*Note 1*).

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****3.1 Investments in subsidiary**

Investments in subsidiary is accounted for at cost less any impairment in value in these separate financial statements.

The Company assesses at each reporting date whether there is any objective evidence that an investment in a subsidiary may be impaired. If any such indication exists, the Company makes an estimate of the recoverable amount on investment. Recoverable amount on investment is higher than its fair value less costs to sell and its value in use; recoverable amount on investment is determined for an individual investment.

Where the cost of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the investments. In determining fair value less costs to sell several methods are applied. These calculations, if applicable, are corroborated by valuation multipliers, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment loss is recognized as current expenses in the period when impairment is recognized.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.2 Interest in joint ventures**

Investments in joint ventures are accounted for in these separate financial statements at initial cost less impairment. As discussed in Note 1, the Company participates in two jointly controlled entities: KCP and MunaiTas (Note 8).

**3.3 Foreign currency translation**

These separate financial statements are presented in Tenge, which is the Company's functional and presentation currency.

*Transactions and balances*

Transactions in foreign currencies are initially recorded by the Company 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 separate 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).

*Foreign currency translation*

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      |

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      |

**3.4 Current versus non-current classification of assets and liabilities**

The Company presents assets and liabilities in the separate 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

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.4 Current versus non-current classification of assets and liabilities (continued)**

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

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

**3.5 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 Company. 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 Company 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 separate 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 separate financial statements on a recurring basis, the Company 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.

At each reporting date, the Company analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, the Company verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Company 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 Company 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 4*.

**3.6 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 Company 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 initial recognition such property, plant and equipment is measured at zero cost and revalued at each reporting date.



**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.6 Property, plant and equipment (continued)**

The Company 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 and impairment 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 Company 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 4 and 22*).

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

|                                     | <b>Years</b> |
|-------------------------------------|--------------|
| Buildings                           | 5-50         |
| Machinery and equipment             | 3-30         |
| Pipelines and transportation assets | 5-30         |
| Other                               | 2-10         |

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

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.

**3.7 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.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.7 Intangible assets (continued)**

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 separate 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 recognised in the statement of comprehensive income when the asset is derecognised.

**3.8 Impairment of non-financial assets**

The Company 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 Company 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 Company bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Company'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 separate 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.

At each reporting date the Company 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 Company 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.

**3.9 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 Company determines the classification of its financial assets at initial recognition.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.9 Financial assets (continued)***Initial recognition and measurement (continued)*

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 Company commits to purchase or sell the asset.

The Company'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 as follows.

*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 separate statement of comprehensive income. The losses arising from impairment are recognised in the separate 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 Company 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 statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs. The Company had bank deposits held-to-maturity during the years ended 31 December 2016 and 2015.

*Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized (e.g., removed from the Company's separate statement of financial position) when:

- The rights to receive cash flows from the asset have expired;
- The Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company 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 Company's continuing involvement in the asset. In that case, the Company 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 Company 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 Company could be required to repay.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.10 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 4*);
- Trade accounts receivables (*Note 11*).

The Company 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 amortized cost*

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the 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.

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 separate 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 Company.

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 separate statement of comprehensive income.

**3.11 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 Company 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 Company's financial liabilities may include trade and other payables, loans and borrowings, financial guarantee contracts.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.11 Financial liabilities (continued)***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 effective interest rate method. Gains and losses are recognised in the separate statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate 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 effective interest rate. The effective interest rate amortization is included in finance costs in the separate 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. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortization.

*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 separate statement of comprehensive income.

**3.12 Offsetting of financial instruments**

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

**3.13 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.

**3.14 Cash and cash equivalents**

Cash and cash equivalents in the separate 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 separate statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.15 Provisions**

Provisions are recognised when the Company 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 Company 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 Company records a provision on asset retirement and land reclamation obligation. Asset retirement and land reclamation obligation costs 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 provisions for asset retirement and land reclamation obligation. The unwinding of the discount is expensed as incurred and recognised in the separate statement of comprehensive income as a finance cost. The estimated future costs of asset retirement and land reclamation 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 4*).

**3.16 Employee 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 and with the Rules on social support of not working pensioners and disabled people of the Company. The Collective agreement and above Rules provides for one-off retirement payments, monthly payments to for unemployed pensioners, payment for holidays, anniversaries and funeral. The entitlement to pension 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 separate 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.

The results of the revaluation of employee benefits liabilities, including actuarial gains and losses, are recognized by the Company 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', 'general and administrative expenses' and 'finance costs' in the profit or loss (by function):

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

Employee benefits, other than one-time retirement allowance, 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.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.17 Revenue and other income recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company 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 Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements, except for transportation expedition contract where the Company is acting as an agent. The following specific recognition criteria must also be met before revenue is recognised:

*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 separate statement of comprehensive income.

*Dividends*

Dividend income is recognised when the Company'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.

**3.18 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 Republic of Kazakhstan, where the Company operates and generates taxable income.

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

*Deferred 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.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.18 Taxes (continued)***Deferred tax (continued)*

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.

*Value added tax (hereinafter – “VAT”)*

VAT related to sales is payable to the Kazakhstani budget 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 separate statement of financial position on a net basis.

Due to specifics of tax legislation and the Company'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.



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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.18 Taxes (continued)***Value added tax (hereinafter – “VAT”) (continued)*

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 separate statement of financial position.

**3.19 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 Company 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. Liability in respect of the distribution of non-monetary assets measured at fair value of the assets to be distributed, and the revaluation of the fair value of these assets are recognized 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 separate 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 separate financial statements are authorized for issue.

**3.20 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 Company**

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

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2016, they did not have a material impact on the separate financial statements of the Company. 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 statement of financial position and present movements in these account balances as separate line items in the statement of comprehensive income. 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 Company is an existing IFRS preparer and the Company has no regulatory deferral account balances, this standard does not affect the separate 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, a 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.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.20 Changes in accounting policies and disclosures (continued)****New and amended standards and interpretations applied by the Company (continued)***Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests (continued)*

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 Company 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 Amortization*

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 amortize intangible assets. These amendments are applied prospectively and do not have any impact on the Company's separate 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 Company's separate financial statements.

*Annual improvements 2012-2014 cycle*

This document includes the following amendments that do not affect the separate financial statements of the Company:

*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.

*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.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.20 Changes in accounting policies and disclosures (continued)****New and amended standards and interpretations applied by the Company (continued)***Annual improvements 2012-2014 cycle (continued)**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.

*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 Company 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 Company.

*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 separate financial statements of the Company as the Company 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 Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.20 Changes in accounting policies and disclosures (continued)****Standards issued but not yet effective (continued)***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 Company plans to adopt the new standard on the required effective date. During 2016, the Company 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 Company in the future. Overall, the Company expects no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9. The Company 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 Company does not expect a significant impact on its separate 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 Company expects that these will continue to be measured at amortized cost under IFRS 9. However, the Company will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortized cost measurement under IFRS 9.

*(b) Impairment*

IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Company expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Company 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 Company performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Company 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 Company's financial statements. Many of the disclosure requirements in IFRS 15 are completely new.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.20 Changes in accounting policies and disclosures (continued)****Standards issued but not yet effective (continued)***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 Company.

*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 Company.

*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 Company is assessing the potential effect of the amendments on its separate 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.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.20 Changes in accounting policies and disclosures (continued)****Standards issued but not yet effective (continued)***IFRS 16 Leases (continued)*

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 Company plans to assess the potential effect of IFRS 16 on its separate financial statements.

**4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the Company's separate 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 Company's exposure to risks and uncertainties includes:

- Financial risk management and policies (*Note 34*);
- Sensitivity analyses disclosures (*Note 34*).

**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 Company based its assumptions and estimates on parameters available when the separate 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 Company. Such changes are reflected in the assumptions when they occur.

*Revaluation of property, plant and equipment*

The Company performed revaluation of property, plant and equipment as at 31 July 2016 (except for technological oil). (the previous revaluation was performed as at 31 July 2013). Valuation was performed by independent professional appraiser.

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 approach"). Cost approach 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 approach with analysis of economic depreciation of specialized property, plant and equipment of the Company. Adequate profitability was calculated by assessing value in use.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)****Estimates and assumptions (continued)***Revaluation of property, plant and equipment (continued)*

The following assumptions were used in calculation value in use:

|  |            |
|--|------------|
| Discount rate                              | 12.55%     |
| Long-term growth rate                      | 4.58%      |
| Remaining useful life of the primary asset | 18.2 years |

The resulting value in use was below depreciated replacement cost and hence was recorded as fair value of the Company 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. The final fair value of property, plant and equipment of the Company except for technological oil as at 31 July 2016 amounted to 455,561,185 thousand Tenge.

*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).

The following judgments were taken into account by the Company'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 Company is affected by regulations set by KMG and, should there be a decision to sell some part of oil, subject to approval of CRNMandPC, it would be sold only to the KMG Group's trading division at internal price;
- And if the Company 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 Company '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.

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.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)****Estimates and assumptions (continued)***Impairment of property, plant and equipment*

An 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 Company 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 Company 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 recultivation obligation*

According to the Law of the Republic of Kazakhstan *About the Main Pipeline* which came into force on 4 July 2012, the Company 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 recultivation are carried out when replacing the pipelines at the end of their useful life.

Asset retirement and land recultivation obligation is estimated based on the value of the work to decommission and rehabilitate calculated by the Company 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)).

Reserve on liquidation of landfills and waste management is also reflected within the asset retirement and land recultivation 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 recultivation 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 recultivation obligation was 15,022,086 thousand Tenge (as at 31 December 2015: 21,999,701 thousand Tenge) (*Note 22*).

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 the such obligations will be due.



**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)****Estimates and assumptions (continued)***Asset retirement and land reclamation obligation (continued)*

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> | <b>(Decrease)/<br/>increase<br/>in rate</b> | <b>Increase/<br/>(decrease)<br/>in liability</b> |
|------------------------------|---|--|
| 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 Company 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 separate financial statements. As at 31 December 2016 and 2015 allowances for doubtful accounts have been created for the amount of thousand 696,903 thousand Tenge and 790,332 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 Company 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 of prevailing country.

*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 6,264,691 thousand Tenge (31 December 2015: 8,175,916 thousand Tenge) (*Note 31*). As at 31 December 2016 and 2015 the Company 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*).

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)****Estimates and assumptions (continued)***Employee benefits (continued)*

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

| <i>In percent</i>      | <b>2016</b> | <b>2015</b> |
|------------------------|-------------|-------------|
| Discount rate          | <b>9.7%</b> | 6.55%       |
| Future salary increase | <b>7.0%</b> | 6.0%        |
| Mortality rate         | <b>7.0%</b> | 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> | <b>(Decrease)/<br/>increase</b> | <b>Increase/<br/>(decrease)<br/>in liability</b> |
|------------------------------|---------------------------------|--|
| 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 SEPARATE FINANCIAL STATEMENTS (continued)

## 5. 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>   | 3,935,614        | 181,224,490        | 8,075,342             | 64,221,098                  | 110,571,364             | 69,260,331        | 15,264,421         | 51,076,938               | 503,629,598         |
| Additions  | 806              | 280,519            | 389,853               | 282,712                     | 631,864                 | 494               | 532,088            | 35,877,528               | 37,995,864          |
| Additions of asset retirement and land revaluation obligation (Note 22)                      | -                | 129,237            | -                     | -                           | -                       | -                 | -                  | -                        | 129,237             |
| Disposals  | (3,386)          | (1,155,418)        | (25,897)              | (97,204)                    | (230,402)               | (173,974)         | (169,103)          | (10,409)                 | (1,865,793)         |
| Revaluation (through revaluation reserve) (impairment)/revaluation (through profit and loss) | 2,020,215        | 42,647,924         | 5,033,982             | 15,126,251                  | 37,863,104              | 18,974,225        | 7,072,163          | 59,908                   | 128,797,772         |
| Subtraction of accumulated depreciation and impairment on revaluation                        | (45,840)         | 173,140            | 218,623               | (1,851,926)                 | (1,338,183)             | -                 | 281,112            | (6,582,978)              | (9,146,052)         |
| Transfer from construction-in-progress   | 23,210           | (32,825,419)       | (3,188,501)           | (14,918,701)                | (32,288,170)            | -                 | (8,278,311)        | (22,410)                 | (91,521,512)        |
| Transfer to intangible assets (Note 6)   | -                | 11,930,268         | 6,884                 | 12,676,544                  | 17,592,514              | -                 | 348,469            | (42,577,889)             | -                   |
| Transfers and reclassifications  | -                | (2,488)            | (108,642)             | (138,898)                   | 363,359                 | -                 | 19,421             | (24,327)                 | (24,327)            |
| <b>At revalued amount as at 31 December 2016</b>   | <b>5,930,619</b> | <b>202,402,253</b> | <b>10,401,644</b>     | <b>75,299,876</b>           | <b>133,165,450</b>      | <b>88,061,076</b> | <b>15,070,260</b>  | <b>37,663,609</b>        | <b>567,994,787</b>  |
| <b>Depreciation and impairment as at 31 December 2015</b>                                    | -                | (26,043,932)       | (2,528,532)           | (12,037,870)                | (25,633,779)            | (199,540)         | (6,818,490)        | (22,410)                 | (73,284,553)        |
| Depreciation charge  | -                | (13,359,491)       | (1,401,551)           | (4,734,532)                 | (14,559,152)            | -                 | (3,453,791)        | -                        | (37,508,517)        |
| Disposals  | -                | 919,840            | 24,668                | 82,236                      | 219,035                 | 171,927           | 167,649            | -                        | 1,585,355           |
| (Accrual)/reversal of impairment (through revaluation reserve)                               | -                | (3,336)            | -                     | -                           | 1,702                   | (171,927)         | -                  | (3,134)                  | (176,695)           |
| (Accrual)/reversal of impairment (through profit and loss)                                   | -                | (2,964)            | -                     | -                           | 5,671                   | -                 | -                  | (54,507)                 | (51,800)            |
| Subtraction of accumulated depreciation and impairment on revaluation                        | -                | 32,825,419         | 3,188,501             | 14,918,701                  | 32,288,170              | -                 | 8,278,311          | 22,410                   | 91,521,512          |
| Transfers and reclassifications  | -                | 246                | (133)                 | 4,485                       | (3,689)                 | -                 | (909)              | -                        | -                   |
| <b>Depreciation and impairment as at 31 December 2016</b>                                    | <b>-</b>         | <b>(5,664,218)</b> | <b>(717,047)</b>      | <b>(1,766,980)</b>          | <b>(7,682,042)</b>      | <b>(199,540)</b>  | <b>(1,827,230)</b> | <b>(57,641)</b>          | <b>(17,914,698)</b> |

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

## 5. 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>                          | 3,905,170 | 147,474,455  | 6,279,383             | 59,315,573                  | 101,311,191             | 69,238,572        | 14,269,705  | 27,625,768               | 429,419,817  |
| Additions   | 26        | 3,131        | 1,938,243             | 52,332                      | 1,503,954               | -                 | 1,010,513   | 71,783,342               | 76,291,541   |
| Recognition of asset retirement and land reclamation obligation (Note 22) | -         | 1,674,849    | -                     | -                           | -                       | -                 | -           | -                        | 1,674,849    |
| Disposals   | (13,414)  | (1,592,467)  | (224,365)             | (187,081)                   | (618,593)               | (140,123)         | (426,128)   | (237,588)                | (3,439,759)  |
| 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 non-current assets, held for sale                             | (2,443)   | -            | -                     | (27,573)                    | -                       | -                 | -           | -                        | (30,016)     |
| Transfer from construction-in-progress                                    | 46,275    | 30,335,502   | 6,430                 | 5,254,159                   | 10,846,917              | -                 | 250,517     | (46,739,800)             | -            |
| Transfer to intangible assets (Note 6)                                    | -         | -            | -                     | -                           | -                       | -                 | -           | (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>                          | 3,935,614 | 181,224,490  | 8,075,342             | 64,221,098                  | 110,571,364             | 69,260,331        | 15,264,421  | 51,076,938               | 503,629,598  |
| <b>Depreciation and impairment as at 31 December 2014</b>                 | -         | (14,327,030) | (1,546,897)           | (7,116,726)                 | (14,601,608)            | -                 | (4,222,557) | (20,115)                 | (41,834,933) |
| Depreciation charge   | -         | (10,245,282) | (1,204,066)           | (4,943,046)                 | (11,503,849)            | -                 | (2,994,363) | -                        | (30,890,596) |
| Disposals   | -         | 194,239      | 222,431               | 153,001                     | 607,195                 | 70,058            | 417,457     | 155,238                  | 1,819,619    |
| 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 non-current assets, held for sale                             | -         | -            | -                     | 8,042                       | -                       | -                 | -           | -                        | 8,042        |
| Transfers and reclassifications   | -         | (16,469)     | -                     | 4,472                       | 25,593                  | -                 | (13,596)    | -                        | -            |
| <b>Depreciation and impairment as at 31 December 2015</b>                 | -         | (26,043,932) | (2,528,532)           | (12,037,870)                | (25,633,779)            | (199,540)         | (6,818,490) | (22,410)                 | (73,284,553) |
| <b>As at 31 December 2016</b>   | 5,930,619 | 202,402,253  | 10,401,644            | 75,299,876                  | 133,165,450             | 88,061,076        | 15,070,260  | 37,663,609               | 567,994,787  |
| At revalued amount  | -         | (5,664,218)  | (717,047)             | (1,766,980)                 | (7,682,042)             | (199,540)         | (1,827,230) | (57,641)                 | (17,914,698) |
| Accumulated impairment and depreciation                                   | 5,930,619 | 196,738,035  | 9,684,597             | 73,532,896                  | 125,483,408             | 87,861,536        | 13,243,030  | 37,605,968               | 550,080,089  |
| <b>Net book value</b>   |           |              |                       |                             |                         |                   |             |                          |              |
| <b>As at 31 December 2015</b>   | 3,935,614 | 181,224,490  | 8,075,342             | 64,221,098                  | 110,571,364             | 69,260,331        | 15,264,421  | 51,076,938               | 503,629,598  |
| At revalued amount  | -         | (26,043,932) | (2,528,532)           | (12,037,870)                | (25,633,779)            | (199,540)         | (6,818,490) | (22,410)                 | (73,284,553) |
| Accumulated impairment and depreciation                                   | 3,935,614 | 155,180,558  | 5,546,810             | 52,183,228                  | 84,937,585              | 69,060,791        | 8,445,931   | 51,054,528               | 430,345,045  |
| <b>Net book value</b>   |           |              |                       |                             |                         |                   |             |                          |              |

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****5. 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: 4,104,796 thousand Tenge).
- The volume of oil in pipelines, included in property, plant and equipment, amounted to 2,460 thousand tons (31 December 2015: 2,398 thousand tons);
- Construction in progress included materials and spare parts in the amount of 1,531,574 thousand Tenge (31 December 2015: 496,573 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).

The carrying value of each revalued class of property, plant and equipment that would have been recognized in the separate financial statements had the assets been carried at cost less any accumulated depreciation and any accumulated impairment loss is 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       |
|------------------------------|---------|-------------|-----------------------|-----------------------------|-------------------------|-------------------|-----------|--------------------------|-------------|
| As at 31 December 2016       | 951,278 | 113,043,696 | 4,117,164             | 42,817,067                  | 78,777,934              | 1,165,954         | 4,543,753 | 43,455,859               | 288,872,705 |
| As at 31 December 2015       | 928,067 | 118,066,342 | 5,056,019             | 32,827,318                  | 72,663,916              | 1,165,495         | 5,945,536 | 50,923,576               | 287,576,269 |

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****6. INTANGIBLE ASSETS**

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

| <i>In thousands of Tenge</i>                    | <b>Licenses</b> | <b>Software</b>  | <b>Other</b>  | <b>Total</b>     |
|---|-----------------|------------------|---------------|------------------|
| <b>Net book value as at 31 December 2015</b>    | 63,273          | 1,384,124        | 31,499        | 1,478,896        |
| Additions                                       | 27,400          | 24,128           | -             | 51,528           |
| Disposals                                       | (4,960)         | (9,590)          | (3,635)       | (18,185)         |
| Amortization charge                             | (24,656)        | (344,677)        | (3,775)       | (373,108)        |
| Accumulated amortization on disposals           | 4,777           | 9,588            | 3,634         | 17,999           |
| Transfer from construction in progress (Note 5) | 420             | 23,907           | -             | 24,327           |
| <b>Net book value as at 31 December 2016</b>    | <b>66,254</b>   | <b>1,087,480</b> | <b>27,723</b> | <b>1,181,457</b> |
| <b>Net book value as at 31 December 2014</b>    | 145,451         | 1,129,545        | 32,506        | 1,307,502        |
| Additions                                       | 9,388           | 121,937          | 4,166         | 135,491          |
| Disposals                                       | (5,749)         | (47,888)         | -             | (53,637)         |
| Amortization charge                             | (90,854)        | (316,786)        | (5,173)       | (412,813)        |
| Accumulated amortization on disposals           | 5,749           | 47,888           | -             | 53,637           |
| Transfer from construction in progress (Note 5) | 1,118           | 447,598          | -             | 448,716          |
| Transfers and reclassifications                 | (1,830)         | 1,830            | -             | -                |
| <b>Net book value as at 31 December 2015</b>    | <b>63,273</b>   | <b>1,384,124</b> | <b>31,499</b> | <b>1,478,896</b> |
| <b>As at 31 December 2016</b>                   |                 |                  |               |                  |
| At cost   | 491,042         | 4,532,198        | 84,851        | 5,108,091        |
| Accumulated amortization and impairment         | (424,788)       | (3,444,718)      | (57,128)      | (3,926,634)      |
| <b>Net book value</b>                           | <b>66,254</b>   | <b>1,087,480</b> | <b>27,723</b> | <b>1,181,457</b> |
| <b>As at 31 December 2015</b>                   |                 |                  |               |                  |
| At cost   | 468,182         | 4,493,753        | 88,486        | 5,050,421        |
| Accumulated amortization and impairment         | (404,909)       | (3,109,629)      | (56,987)      | (3,571,525)      |
| <b>Net book value</b>                           | <b>63,273</b>   | <b>1,384,124</b> | <b>31,499</b> | <b>1,478,896</b> |

**7. INVESTMENTS IN SUBSIDIARIES**

As at 31 December 2016 investments in subsidiaries are represented by the investments in BTL in the amount of 28,208,864 thousand Tenge (as at 31 December 2015: 28,208,864 thousand Tenge).

**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> | <b>31 December<br/>2016</b> | 31 December<br>2015 |
|------------------------------|-----------------------------|---------------------|
| KCP                          | 6,500,000                   | 6,500,000           |
| MunaiTas                     | 904,945                     | 904,945             |
| <b>Total</b>                 | <b>7,404,945</b>            | <b>7,404,945</b>    |

**NOTES TO THE SEPARATE 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>  | <b>31 December<br/>2016</b> | 31 December<br>2015 |
|---|-----------------------------|---------------------|
| Advances to third parties for property, plant and equipment and construction services             | <b>1,095,580</b>            | 7,114,714           |
| Advances to related parties for property, plant and equipment and construction services (Note 32) | <b>14,695</b>               | –                   |
|   | <b>1,110,275</b>            | 7,114,714           |
| Less: allowance for doubtful debts  | <b>(53,258)</b>             | (53,258)            |
| <b>Total</b>  | <b>1,057,017</b>            | 7,061,456           |

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>    | <b>2016</b>   | 2015     |
|---------------------------------|---------------|----------|
| <b>As at 1 January</b>          | <b>53,258</b> | 99,526   |
| Reversal for the year (Note 26) | –             | (197)    |
| Used in write-off of advances   | –             | (46,071) |
| <b>As at 31 December</b>        | <b>53,258</b> | 53,258   |

**10. INVENTORIES**

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

| <i>In thousands of Tenge</i> | <b>31 December<br/>2016</b> | 31 December<br>2015 |
|------------------------------|-----------------------------|---------------------|
| Spare parts                  | <b>1,315,537</b>            | 1,388,802           |
| Fuel                         | <b>528,839</b>              | 515,487             |
| Construction materials       | <b>196,667</b>              | 111,722             |
| Overalls                     | <b>144,234</b>              | 98,406              |
| Goods                        | <b>133,548</b>              | 140,887             |
| Chemical reagents            | <b>52,781</b>               | 89,372              |
| Other                        | <b>220,664</b>              | 205,040             |
| <b>Total</b>                 | <b>2,592,270</b>            | 2,549,716           |

**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>                             | <b>31 December<br/>2016</b> | 31 December<br>2015 |
|--|-----------------------------|---------------------|
| Trade accounts receivable from related parties (Note 32) | <b>2,951,440</b>            | 1,394,939           |
| Trade accounts receivable from third parties             | <b>2,213,667</b>            | 1,000,631           |
| Other accounts receivable from third parties             | <b>672,110</b>              | 982,238             |
| Other accounts receivable from related parties (Note 32) | <b>509</b>                  | 36,122              |
|  | <b>5,837,726</b>            | 3,413,930           |
| Less: allowance for doubtful debts                       | <b>(643,607)</b>            | (736,090)           |
| <b>Total</b>   | <b>5,194,119</b>            | 2,677,840           |

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

| <i>In thousands of Tenge</i>             | <b>2016</b>     | 2015    |
|--|-----------------|---------|
| <b>As at 1 January</b>                   | <b>736,090</b>  | 634,885 |
| (Reversal)/charge for the year (Note 26) | <b>(91,132)</b> | 107,934 |
| Used in write-off of receivable          | <b>(1,351)</b>  | (6,729) |
| <b>As at 31 December</b>                 | <b>643,607</b>  | 736,090 |

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

As at 31 December 2016 and 2015 the ageing analysis of trade receivables is as follows:

| <i>In thousands of Tenge</i> | Total     | Neither<br>past due<br>nor<br>impaired | Past due but not impaired |               |               |                |              |
|------------------------------|-----------|--|---------------------------|---------------|---------------|----------------|--------------|
|                              |           |  | <30<br>days               | 30-60<br>days | 60-90<br>days | 90-120<br>days | >120<br>days |
| 2016                         | 5,194,119 | 3,379,432                              | 310,133                   | 762,602       | 658,075       | 52,960         | 30,917       |
| 2015                         | 2,677,840 | 2,532,905                              | 45,204                    | 57,883        | 26,380        | 15,468         | -            |

As at 31 December 2016 and 2015 trade and other accounts receivables are denominated in the following currencies:

| <i>In thousands of Tenge</i> | 31 December<br>2016 | 31 December<br>2015 |
|------------------------------|---------------------|---------------------|
| Tenge                        | 5,192,550           | 2,676,647           |
| Foreign currencies           | 1,569               | 1,193               |
| <b>Total</b>                 | <b>5,194,119</b>    | <b>2,677,840</b>    |

**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<br>2016 | 31 December<br>2015 |
|---------------------------------------|---------------------|---------------------|
| Advances to related parties (Note 32) | 257,916             | 1,841,099           |
| Advances to third parties             | 111,171             | 151,948             |
|                                       | 369,087             | 1,993,047           |
| Less: allowance for doubtful debts    | (38)                | (984)               |
| <b>Total</b>                          | <b>369,049</b>      | <b>1,992,063</b>    |

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

| <i>In thousands of Tenge</i>    | 2016       | 2015         |
|---------------------------------|------------|--------------|
| <b>As at 1 January</b>          | <b>984</b> | <b>1,073</b> |
| Reversal for the year (Note 26) | (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<br>2016 | 31 December<br>2015 |
|------------------------------|---------------------|---------------------|
| VAT recoverable              | 757,468             | 3,403,826           |
| Other taxes prepaid          | 259,282             | 211,765             |
| <b>Total</b>                 | <b>1,016,750</b>    | <b>3,615,591</b>    |

**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<br>2016 | 31 December<br>2015 |
|--|---------------------|---------------------|
| Due for oil transportation coordination services | 5,551,741           | 5,767,898           |
| Prepaid insurance                                | 31,629              | 49,092              |
| Due from employees                               | 8,254               | 12,302              |
| Deferred expenses from third parties             | 7,883               | 213                 |
| Deferred expenses from related parties (Note 32) | 5,791               | -                   |
| Other  | 1,180               | 1,091               |
| <b>Total</b>                                     | <b>5,606,478</b>    | <b>5,830,596</b>    |



**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****15. BANK DEPOSITS**

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

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

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>                | <b>31 December<br/>2016</b> | 31 December<br>2015 |
|---|-----------------------------|---------------------|
| Time deposits with banks – Tenge            | <b>52,590,424</b>           | 10,126,290          |
| Time deposits with banks – US dollar        | <b>10,699,446</b>           | 33,783,170          |
| Current accounts with banks – US dollar     | <b>1,206,547</b>            | 23                  |
| Current accounts with banks – Tenge         | <b>285,255</b>              | 86,613              |
| Current accounts with banks – Russian ruble | <b>4,999</b>                | 780                 |
| Other current accounts with banks           | <b>15,127</b>               | 12,871              |
| Cash in transit                             | <b>52</b>                   | 27                  |
| Cash on hand                                | <b>496</b>                  | 642                 |
| <b>Total</b>                                | <b>64,802,346</b>           | 44,010,416          |

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 dollars 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 3.3*), 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 1,438,984 thousand Tenge (net foreign exchange gain for the year ended 31 December 2015 was 24,930,255 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.

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

**Other capital reserves**

As at 31 December 2016 other capital reserves amounted to 695,324 thousand Tenge (31 December 2015: 3,813,636 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).

**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 the loan 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 29, 32*).

**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 thousand Tenge in the amount of 133 Tenge per 1 share (2015: 46,429,363 thousand 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 Company does not issue convertible financial instruments, basic earnings per share of the Company 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 for basic earnings                                    | 46,843,761  | 79,642,729  |
| Weighted average number of ordinary shares 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 (in Tenge)</b> | <b>122</b>  | <b>207</b>  |

**Book value per ordinary share**

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

| <i>In thousands of Tenge</i>                                       | 31 December<br>2016 | 31 December<br>2015 |
|--|---------------------|---------------------|
| Total assets   | 691,872,944         | 570,861,412         |
| Less: intangible assets ( <i>Note 6</i> )                          | (1,181,457)         | (1,478,896)         |
| Less: total liabilities  | (141,300,479)       | (127,490,985)       |
| <b>Net assets for calculation of book value per ordinary share</b> | <b>549,391,008</b>  | <b>441,891,531</b>  |
| Number of ordinary shares  | 384,628,099         | 384,635,599         |
| <b>Book value per ordinary share (in Tenge)</b>                    | <b>1,428</b>        | <b>1,149</b>        |

**NOTES TO THE SEPARATE 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>                        | <b>31 December<br/>2016</b> | 31 December<br>2015 |
|---|-----------------------------|---------------------|
| Current portion of employee benefit liabilities     | <b>543,418</b>              | 435,024             |
| Non-current portion of employee benefit liabilities | <b>11,994,599</b>           | 15,098,686          |
| <b>Total</b>  | <b>12,538,017</b>           | 15,533,710          |

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>                                       | <b>2016</b>        | 2015       |
|--|--------------------|------------|
| <b>Employee benefit liabilities at the beginning of the year</b>   | <b>15,533,710</b>  | 11,613,360 |
| Interest cost (Note 30)  | <b>1,112,503</b>   | 832,855    |
| Current services cost (Notes 25, 26)                               | <b>641,073</b>     | 1,070,515  |
| Past service cost (Notes 25, 26)                                   | <b>478,957</b>     | -          |
| Actuarial gain through profit and loss (Note 27)                   | <b>(742,441)</b>   | -          |
| Actuarial (gain)/loss through other comprehensive income (Note 17) | <b>(3,897,890)</b> | 2,503,907  |
| Benefits paid  | <b>(587,895)</b>   | (486,927)  |
| <b>Employee benefit liabilities at the end of the year</b>         | <b>12,538,017</b>  | 15,533,710 |

**19. 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>   | <b>31 December<br/>2016</b> | 31 December<br>2015 |
|--|-----------------------------|---------------------|
| Accounts payable to third parties for goods and services             | <b>12,816,838</b>           | 15,250,927          |
| Accounts payable to related parties for goods and services (Note 32) | <b>1,912,739</b>            | 801,849             |
| Other accounts payable to third parties                              | <b>106,515</b>              | 441,898             |
| Other accounts payable to related parties (Note 32)                  | <b>777</b>                  | 672                 |
| <b>Total</b>   | <b>14,836,869</b>           | 16,495,346          |

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 11.562.030 thousand Tenge (as at 31 December 2015: 13.454.045 thousand Tenge).

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

| <i>In thousands of Tenge</i> | <b>31 December<br/>2016</b> | 31 December<br>2015 |
|------------------------------|-----------------------------|---------------------|
| Tenge                        | <b>14,755,776</b>           | 16,454,586          |
| Russian ruble                | <b>44,737</b>               | 2,570               |
| US dollar                    | <b>21,554</b>               | 23,152              |
| Euro                         | <b>14,802</b>               | 15,038              |
| <b>Total</b>                 | <b>14,836,869</b>           | 16,495,346          |

**20. ADVANCES RECEIVED**

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

| <i>In thousands of Tenge</i>                     | <b>31 December<br/>2016</b> | 31 December<br>2015 |
|--|-----------------------------|---------------------|
| Advances received from related parties (Note 32) | <b>10,407,356</b>           | 11,330,298          |
| Advances received from third parties             | <b>5,782,442</b>            | 6,091,925           |
| <b>Total</b>                                     | <b>16,189,798</b>           | 17,422,223          |

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****21. OTHER TAXES PAYABLE**

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

| <i>In thousands of Tenge</i> | <b>31 December<br/>2016</b> | 31 December<br>2015 |
|------------------------------|-----------------------------|---------------------|
| Personal income tax          | <b>455,757</b>              | 413,631             |
| Social tax                   | <b>417,256</b>              | 574,333             |
| Property tax                 | <b>71,467</b>               | 23,773              |
| VAT payable                  | <b>8,650</b>                | 20,045              |
| Other taxes                  | <b>23,400</b>               | 24,595              |
| <b>Total</b>                 | <b>976,530</b>              | 1,056,377           |

**22. 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>  | <b>Environmental<br/>provision</b> | <b>Other<br/>provisions</b> | <b>Total</b>  |
|-------------------------------|------------------------------------|-----------------------------|---------------|
| <b>As at 31 December 2015</b> | 41,125                             | –                           | 41,125        |
| Charge for the year           | <b>(41,125)</b>                    | <b>41,125</b>               | –             |
| <b>As at 31 December 2016</b> | –                                  | <b>41,125</b>               | <b>41,125</b> |
| <b>As at 31 December 2014</b> | 41,125                             | 53,567                      | 94,692        |
| Charge for the year           | 11,079                             | –                           | 11,079        |
| Used provision                | (11,079)                           | (53,567)                    | (64,646)      |
| <b>As at 31 December 2015</b> | 41,125                             | –                           | 41,125        |

**Long-term provisions***Asset retirement and land reclamation 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 4*.

| <i>In thousands of Tenge</i>  | <b>2016</b>        | 2015        |
|---|--------------------|-------------|
| <b>As at 1 January</b>  | <b>21,999,701</b>  | 20,631,009  |
| Charge for the year ( <i>Note 5</i> )   | <b>129,237</b>     | 1,674,849   |
| Revision of estimates through other comprehensive income  | <b>(6,886,484)</b> | (1,157,829) |
| Income from revision of estimates and write-off of provision through profit and loss ( <i>Note 27</i> ) | <b>(1,556,766)</b> | (443,410)   |
| Unwinding of discount on asset retirement and land reclamation obligation ( <i>Note 30</i> )            | <b>1,336,398</b>   | 1,295,082   |
| <b>As at 31 December</b>  | <b>15,022,086</b>  | 21,999,701  |

**23. OTHER CURRENT LIABILITIES**

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

| <i>In thousands of Tenge</i>  | <b>31 December<br/>2016</b> | 31 December<br>2015 |
|---|-----------------------------|---------------------|
| Salaries and other compensations  | <b>9,256,978</b>            | 5,979,200           |
| Accounts payable for oil transportation coordination services to related parties ( <i>Note 32</i> ) | <b>5,656,284</b>            | 5,923,268           |
| Accounts payable for oil transportation coordination services to third parties                      | <b>5,067,651</b>            | 4,035,988           |
| Accounts payable to pension fund  | <b>580,524</b>              | 693,938             |
| Other   | <b>102,071</b>              | 94,685              |
| <b>Total</b>  | <b>20,663,508</b>           | 16,727,079          |

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

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****24. 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          |
| Water transportation                     | 7,156,674          | 6,603,736          |
| 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                                    | 148,098            | 110,479            |
| <b>Total</b>                             | <b>191,869,628</b> | <b>193,617,592</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).

**25. 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                    | 45,003,792         | 41,717,985         |
| Depreciation and amortization      | 37,034,002         | 30,565,239         |
| Electric energy                    | 6,561,263          | 6,818,036          |
| Materials and fuel                 | 6,294,441          | 6,283,694          |
| Taxes other than income tax        | 5,884,037          | 5,125,659          |
| Repair and maintenance cost        | 4,484,009          | 4,436,374          |
| Security services                  | 3,732,563          | 3,955,479          |
| Gas expense                        | 2,885,866          | 2,559,678          |
| Air services                       | 1,563,931          | 1,608,525          |
| Post-employment benefits (Note 18) | 1,052,828          | 1,004,841          |
| Business trip expenses             | 878,823            | 857,037            |
| Insurance                          | 513,215            | 441,544            |
| Environmental protection           | 403,775            | 473,387            |
| Communication services             | 242,735            | 253,619            |
| Diagnostics of production assets   | 165,268            | 843,692            |
| Operating lease expense            | 89,948             | 105,763            |
| Other                              | 1,911,426          | 2,079,922          |
| <b>Total</b>                       | <b>118,701,922</b> | <b>109,130,474</b> |

The increase in personnel costs is due to the indexation of salaries of production personnel during 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.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****26. 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  | 7,205,925         | 6,082,875         |
| Depreciation and amortization  | 831,887           | 720,751           |
| Consulting services  | 541,713           | 515,084           |
| Office maintenance   | 455,581           | 461,243           |
| Business trip expenses   | 226,135           | 188,036           |
| Taxes other than income tax  | 197,460           | 174,596           |
| Repair and technical maintenance   | 175,065           | 170,780           |
| Training   | 140,069           | 145,541           |
| Materials and fuel   | 116,747           | 136,250           |
| Write-off of VAT recoverable   | 109,801           | 240,830           |
| Bank costs   | 102,715           | 123,716           |
| Communication services   | 98,382            | 104,524           |
| Advertising expenses   | 90,863            | 11,479            |
| Information services   | 90,770            | 101,710           |
| Social sphere expenses   | 73,796            | 182,983           |
| Post-employment benefits (Note 18)   | 67,202            | 65,674            |
| Charity expense  | 65,912            | –                 |
| Operating lease expense  | 33,527            | 26,696            |
| (Reversal)/charge of provision for doubtful debts, net<br>(Notes 9, 11 and 12) | (92,078)          | 107,656           |
| (Reversal)/charge of provision for obsolete inventories, net                   | (95)              | 6,644             |
| Other  | 544,073           | 464,616           |
| <b>Total</b>   | <b>11,075,450</b> | <b>10,031,684</b> |

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

**27. 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<br>and land recultivation (Note 22) | 1,556,766        | 443,410          |
| Actuarial gain (Note 18)  | 742,441          | –                |
| Income from fines and penalties   | 446,559          | 387,504          |
| Amortization of deferred income from related parties (Note 32)  | –                | 260,305          |
| Other income  | 137,349          | 150,849          |
| <b>Total</b>  | <b>2,883,115</b> | <b>1,242,068</b> |

**28. 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 | 59,621         | 1,159,443        |
| Other expenses   | 64,590         | 105,346          |
| <b>Total</b>   | <b>124,211</b> | <b>1,264,789</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.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****29. 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 | 4,840,552        | 2,549,552        |
| Unwinding of discount on interest free loan (Note 32) | 1,264,921        | 379,461          |
| Unwinding of discount on loans to employees           | 10,932           | 28,483           |
| <b>Total</b>  | <b>6,116,405</b> | <b>2,957,496</b> |

**30. 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 reclamation obligation (Note 22) | 1,336,398        | 1,295,082        |
| Interest cost on employee benefit liability (Note 18)                               | 1,112,503        | 832,855          |
| Other finance costs   | –                | 43,063           |
| <b>Total</b>  | <b>2,448,901</b> | <b>2,171,000</b> |

**31. 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        | 16,443,850        | 22,595,962        |
| Adjustments to the previous years | 446,883           | 1,175,541         |
| Deferred income tax benefits      | (4,365,506)       | (1,836,530)       |
| <b>Income tax expense</b>         | <b>12,525,227</b> | <b>21,934,973</b> |

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>59,368,988</b> | <b>101,577,702</b> |
| Statutory rate   | 20%               | 20%                |
| <b>Income tax expense on accounting profit</b>                                       | <b>11,873,798</b> | <b>20,315,540</b>  |
| Adjustments to the previous years  | 446,883           | 1,175,541          |
| <b>Tax effect of permanent differences</b>   |                   |                    |
| Non-deductible gain from dividends   | (297,432)         | (551,824)          |
| Gain on surplus of technological oil   | 503,354           | 605,683            |
| Income of foreign subsidiary in countries with preferential tax treatment            | 114,678           | 403,648            |
| Other non-taxable income   | (116,054)         | (13,615)           |
| <b>Income tax expense reported in the separate statement of comprehensive income</b> | <b>12,525,227</b> | <b>21,934,973</b>  |

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****31. INCOME TAX EXPENSE (continued)**

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

| <i>In thousands of Tenge</i>  | 31 December<br>2016 | Charged to<br>profit and<br>loss | Charged to<br>other comp-<br>rehensive<br>income | 31 December<br>2015 | Charged to<br>profit and<br>loss | Charged to<br>other comp-<br>rehensive<br>income | 1 January<br>2015   |
|---|---------------------|----------------------------------|--|---------------------|----------------------------------|--|---------------------|
| <b>Deferred tax assets</b>  |                     |                                  |  |                     |                                  |  |                     |
| Employee benefits and other employee compensation and related costs | 2,994,320           | 292,150                          | (779,578)  | 3,481,748           | (108,108)                        | 500,781  | 3,089,075           |
| Allowance for doubtful debts  | 139,381             | (18,685)                         | -  | 158,066             | 10,446                           | -  | 147,620             |
| Provision for obsolete and slow-moving inventories                  | 3,549               | (24)                             | -  | 3,573               | (1,082)                          | -  | 4,655               |
| Taxes payable   | 114,798             | (9,566)                          | -  | 124,364             | 27,002                           | -  | 97,362              |
| Provision for environmental protection and other provisions         | 8,225               | (41,431)                         | -  | 49,656              | 979                              | -  | 48,677              |
| Provision for assets retirement and land reclamation obligation     | 3,004,418           | 23,204                           | (1,377,295)                                      | 4,358,509           | 504,324                          | (231,565)  | 4,085,750           |
| Deferred income from related parties                                | -                   | -                                | -  | -                   | (52,061)                         | -  | 52,061              |
|   | <b>6,264,691</b>    | <b>245,648</b>                   | <b>(2,156,873)</b>                               | <b>8,175,916</b>    | <b>381,500</b>                   | <b>269,216</b>                                   | <b>7,525,200</b>    |
| <b>Deferred tax liabilities</b>                                     |                     |                                  |  |                     |                                  |  |                     |
| Investments in joint ventures                                       | (176,032)           | -                                | -  | (176,032)           | -                                | -  | (176,032)           |
| Property, plant and equipment                                       | (67,121,205)        | 4,119,858                        | (25,724,217)                                     | (45,516,846)        | 1,455,030                        | 178,784  | (47,150,660)        |
|   | <b>(67,297,237)</b> | <b>4,119,858</b>                 | <b>(25,724,217)</b>                              | <b>(45,692,878)</b> | <b>1,455,030</b>                 | <b>178,784</b>                                   | <b>(47,326,692)</b> |
| <b>Net deferred income tax liabilities</b>                          | <b>(61,032,546)</b> | <b>4,365,506</b>                 | <b>(27,881,090)</b>                              | <b>(37,516,962)</b> | <b>1,836,530</b>                 | <b>448,000</b>                                   | <b>(39,801,492)</b> |

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 of property, plant and equipment.

**32. 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 the terms agreed 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<br>2016 | 31 December<br>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    | <b>14,695</b>       | <b>-</b>            |



**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****32. RELATED PARTY TRANSACTIONS (continued)**

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

| <i>In thousands of Tenge</i>   | <b>Note</b> | <b>31 December<br/>2016</b> | <b>31 December<br/>2015</b> |
|--|-------------|-----------------------------|-----------------------------|
| <b>Trade and other accounts receivable from related parties</b>                              |             |                             |                             |
| Trade accounts receivable from joint ventures  |             | <b>2,218,268</b>            | 719,246                     |
| Trade accounts receivable from entities under common control of KMG Group                    |             | <b>732,736</b>              | 675,470                     |
| Trade accounts receivable from entities under common control of Samruk-Kazyna Group          |             | <b>436</b>                  | 223                         |
| <b>Total trade and other accounts receivable from related parties</b>                        | <b>11</b>   | <b>2,951,440</b>            | 1,394,939                   |
| Other accounts receivables from entities under common control of KMG and Samruk-Kazyna Group | 11          | <b>509</b>                  | 36,122                      |
| <b>Total trade and other accounts receivable from related parties</b>                        |             | <b>2,951,949</b>            | 1,431,061                   |

Advances provided to related parties are as follows:

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

Deferred expenses from related parties are as follows:

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

Interest free loan to related parties is as follows:

| <i>In thousands of Tenge</i>                       | <b>Note</b> | <b>2016</b> | <b>2015</b> |
|--|-------------|-------------|-------------|
| <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> | <b>17</b>   | -           | 18,735,079  |

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

| <i>In thousands of Tenge</i>  | <b>Note</b> | <b>31 December<br/>2016</b> | <b>31 December<br/>2015</b> |
|---|-------------|-----------------------------|-----------------------------|
| <b>Trade accounts payables to related parties for goods and services</b>                |             |                             |                             |
| Trade accounts payables to entities under common control of Samruk-Kazyna Group         |             | <b>1,278,291</b>            | 255,056                     |
| Trade accounts payables to entities under common control of KMG Group                   |             | <b>634,448</b>              | 546,793                     |
| <b>Total trade and other accounts payable to related parties for goods and services</b> | <b>19</b>   | <b>1,912,739</b>            | 801,849                     |
| Other payables to entities under control of Samruk-Kazyna Group                         | 19          | <b>777</b>                  | 672                         |
| <b>Total trade and other accounts payable to related parties for goods and services</b> |             | <b>1,913,516</b>            | 802,521                     |

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****32. RELATED PARTY TRANSACTIONS (continued)**

Advances received from related parties are as follows:

| <i>In thousands of Tenge</i>                                       | <b>Note</b> | <b>31 December<br/>2016</b> | <b>31 December<br/>2015</b> |
|--|-------------|-----------------------------|-----------------------------|
| <b>Advances received from related parties</b>                      |             |                             |                             |
| Advances from entities under common control of KMG Group           |             | <b>9,990,855</b>            | 10,845,082                  |
| Advances from entities under common control of Samruk-Kazyna Group |             | <b>416,492</b>              | 485,209                     |
| Advances from joint ventures                                       |             | <b>9</b>                    | 7                           |
| <b>Total advances received from related parties</b>                | <b>20</b>   | <b>10,407,356</b>           | <b>11,330,298</b>           |

Other current liabilities to related parties are as follows:

| <i>In thousands of Tenge</i>  | <b>Note</b> | <b>31 December<br/>2016</b> | <b>31 December<br/>2015</b> |
|---|-------------|-----------------------------|-----------------------------|
| <b>Accounts payable for oil transportation coordination services to related parties</b>                     |             |                             |                             |
| Accounts payable for oil transportation coordination services to entities under common control of KMG Group |             | <b>5,656,284</b>            | 5,923,268                   |
| <b>Total of accounts payable for oil transportation coordination services to related parties</b>            | <b>23</b>   | <b>5,656,284</b>            | <b>5,923,268</b>            |
| <b>Employee benefits obligation of key management personnel</b>   |             |                             |                             |
| Employee benefits obligation of key management personnel  |             | <b>43,840</b>               | 8,062                       |
| <b>Total employee benefits obligation of key management personnel</b>                                       |             | <b>43,840</b>               | <b>8,062</b>                |
| <b>Total other current liabilities to related parties</b>   |             | <b>5,700,124</b>            | <b>5,931,330</b>            |

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

| <i>In thousands of Tenge</i>  | <b>2016</b>        | <b>2015</b>        |
|---|--------------------|--------------------|
| <b>Sales to related parties</b>   |                    |                    |
| Revenue from main activities with entities under common control of KMG Group            | <b>113,671,755</b> | 111,540,478        |
| Revenue from main activities with joint ventures  | <b>8,108,759</b>   | 7,612,064          |
| Revenue from main activities with entities under common control of Samruk-Kazyna Group  | <b>4,553,518</b>   | 5,361,313          |
| Revenue from other activities with entities under common control of KMG Group           | <b>24,878</b>      | 28,096             |
| Revenue from other activities with entities under common control of Samruk-Kazyna Group | <b>1,337</b>       | –                  |
| <b>Total</b>  | <b>126,360,247</b> | <b>124,541,951</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>   | <b>2016</b>       | <b>2015</b>       |
|--|-------------------|-------------------|
| <b>Purchases from related parties</b>  |                   |                   |
| Purchases of services from entities under common control of KMG Group                                | <b>9,317,569</b>  | 9,143,656         |
| Purchases of services from entities under common control of Samruk-Kazyna Group                      | <b>3,004,858</b>  | 2,691,546         |
| Purchases of property, plant and equipment from entities under common control of Samruk-Kazyna Group | <b>991,574</b>    | 550,760           |
| Purchases of property, plant and equipment from entities under common control of KMG Group           | <b>841,864</b>    | 477,324           |
| Purchases of inventory from entities under common control of KMG Group                               | <b>70,860</b>     | –                 |
| Purchases of inventory from entities under common control of Samruk-Kazyna Group                     | <b>18,778</b>     | –                 |
| Purchases of services from joint ventures  | <b>4,877</b>      | –                 |
| <b>Total</b>   | <b>14,250,380</b> | <b>12,863,286</b> |

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****32. RELATED PARTY TRANSACTIONS (continued)**

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

| <i>In thousands of Tenge</i>                         | <b>Note</b> | <b>2016</b> | <b>2015</b>    |
|--|-------------|-------------|----------------|
| <b>Other operating income from related parties</b>   |             |             |                |
| Amortization of deferred income from related parties | 27          | –           | 260,305        |
| <b>Total</b>   |             | <b>–</b>    | <b>260,305</b> |

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

| <i>In thousands of Tenge</i>                            | <b>Note</b> | <b>2016</b>      | <b>2015</b>    |
|---|-------------|------------------|----------------|
| <b>Finance income from related parties</b>              |             |                  |                |
| Discounting of interest-free loan provided to KMG Group | 29          | <b>1,264,921</b> | 379,461        |
| <b>Total</b>  |             | <b>1,264,921</b> | <b>379,461</b> |

Dividend income of the Company's transactions with related parties is as follows:

| <i>In thousands of Tenge</i>                |  | <b>2016</b>      | <b>2015</b>      |
|---|--|------------------|------------------|
| <b>Dividend income from related parties</b> |  |                  |                  |
| Dividend income from subsidiaries           |  | –                | 1,024,100        |
| Dividend income from joint ventures         |  | <b>1,487,160</b> | 1,735,020        |
| <b>Total</b>                                |  | <b>1,487,160</b> | <b>2,759,120</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.

**33. 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 Company'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 Company's tax positions will be sustained.

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

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**33. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****Taxation (continued)***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 Company’s position, which could result in additional taxes, fines and interest as at 31 December 2016.

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

**Environmental obligations**

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 Company’s financial position or results of operations, except as provided for or otherwise disclosed in these separate financial statements (*Notes 4, 22*).

**Insurance issues**

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 Company has insurance coverage over property, third party liability in respect of property or environmental damage arising from accidents on Company’s property or relating to the Company’s operations.

**Contractual commitments**

As at 31 December 2016, the Company had contractual obligations to acquire property, plant and equipment, and construction services for the amount of 24,940,800 thousand Tenge (as at 31 December 2015: 41,288,864 thousand Tenge).

**34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

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

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

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

**Credit risk**

The Company trades only with recognized, creditworthy parties. It is the Company’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 Company’s exposure to bad debts is not significant. Maximum exposure is the carrying amount. There are no significant concentrations of credit risk within the Company.

The Company places deposits with Kazakhstani banks (*Notes 15 and 16*). The Company’s management reviews credit ratings of these banks periodically to eliminate extraordinary credit risk exposure. The Company’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.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Credit risk (continued)**

The table below shows the balances of bank accounts and deposits at the separate statement of financial position date using the “Moody’s” and “Standard and Poor’s” credit ratings.

| <i>In thousands of Tenge</i>   | Location   | Rating       |              | 2016              | 2015              |
|--------------------------------|------------|--------------|--------------|-------------------|-------------------|
|                                |            | 2016         | 2015         |                   |                   |
| <b>Bank</b>                    |            |              |              |                   |                   |
| “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         |
| “Altyn Bank” JSC               | Kazakhstan | BB/Positive  | –            | 1,829,416         | –                 |
| “GasBank CJSC” JSCB            | Russia     | B3           | B3/Stable    | 3,268             | 30                |
| “Kazkommertsbank” JSC          | Kazakhstan | CCC/Stable   | B-/Negative  | 56                | 30                |
| “Tsesnabank” JSC               | Kazakhstan | B/Stable     | B+/Stable    | 10                | 3,408,853         |
| “Delta Bank” JSC               | Kazakhstan | CCC+         | B/Stable     | –                 | 3,104,623         |
| “NBK-Bank” JSC                 | Russia     | BB/Stable    | BB+/Negative | –                 | 495               |
| “Sberbank Russia” OJSC         | Russia     | Ba3/Negative | BB+/Negative | –                 | 73                |
| “RBS Kazakhstan” SB JSC        | Kazakhstan | –            | A3/Positive  | –                 | 58                |
| <b>Total</b>                   |            |              |              | <b>84,660,186</b> | <b>60,944,020</b> |

**Liquidity risks**

The Company 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 Company’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 payable       | –         | 14,822,122 | 7,877        | 492          | 6,378    | 14,836,869 |
| <b>Total</b>                  | –         | 14,822,122 | 7,877        | 492          | 6,378    | 14,836,869 |
| <b>As at 31 December 2015</b> |           |            |              |              |          |            |
| Trade and other payable       | –         | 16,456,906 | 1,951        | 31,572       | 4,917    | 16,495,346 |
| <b>Total</b>                  | –         | 16,456,906 | 1,951        | 31,572       | 4,917    | 16,495,346 |

**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>As at 31 December 2016</b> |            |               |        |                  |            |
| Assets                        | 26,492,779 | 14,706        | –      | –                | 26,507,485 |
| Liabilities                   | 21,554     | 101,655       | 14,802 | –                | 138,011    |
| <b>As at 31 December 2015</b> |            |               |        |                  |            |
| Assets                        | 46,182,339 | 6,655         | –      | –                | 46,188,994 |
| Liabilities                   | 23,826     | 49,778        | 15,038 | –                | 88,642     |

The Company does not have formal arrangements to mitigate foreign exchange risks of the Company’s operations.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Currency risk (continued)**

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 Company's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no significant impact on the Company's equity.

| <i>In thousands of Tenge</i> | <b>Increase/<br/>decrease in<br/>exchange rate</b> | <b>Effect<br/>on profit<br/>before tax</b> |
|------------------------------|--|--|
| <b>2016</b>                  | <b>+13.00%</b>                                     | <b>3,441,259</b>                           |
| US dollar                    | <b>-13.00%</b>                                     | <b>(3,441,259)</b>                         |
| <b>2016</b>                  | <b>+23.00%</b>                                     | <b>(19,998)</b>                            |
| Russian ruble                | <b>-19.00%</b>                                     | <b>16,520</b>                              |
| <b>2015</b>                  | <b>+60.00%</b>                                     | <b>27,695,108</b>                          |
| US dollar                    | <b>-20.00%</b>                                     | <b>(9,231,703)</b>                         |
| <b>2015</b>                  | <b>+40.00%</b>                                     | <b>(17,249)</b>                            |
| Russian ruble                | <b>-29.00%</b>                                     | <b>12,506</b>                              |

**Capital management**

The primary objective of the Company'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 Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company 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 Company does not have significant debts. The Company 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.