KazTransOil JSC

Consolidated financial statements

For the year ended 31 December 2018
with the independent auditor's report

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Independent auditor's report

To the Shareholders of KazTransOil JSC

Opinion

We have audited the consolidated financial statements of KazTransOil JSC and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Key audit matters

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

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

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Key audit matter	How our audit addressed the key audit matter
Impairment of property, plant and equipment located in Georgia	
Property, plant and equipment located in Georgia makes up approximately 7% of the total assets of the Group as at 31 December 2018. We considered this matter to be one of the most significance in the audit due to the materiality of the carrying value of property, plant and equipment located in Georgia to the consolidated financial statements, high level of subjectivity in respect of assumptions underlying the impairment analysis and significant judgements and estimates made by management in the assessment of the recoverable amount of property, plant and equipment located in Georgia. The impairment tests were performed by management as at 30 June 2018 by engaging independent appraisers and resulted in impairment loss of 4,329,907 thousand tenge. Management performed analysis of indications that assets may be further impaired as at 31 December 2018 and did not identify external or internal factors triggering impairment of property, plant and equipment or a need for a significant revision of estimates and assumptions used in the 30 June 2018 impairment tests. Significant assumptions included discount rates, forecasted tariffs, inflation rates, transshipment volumes, future capital expenditure and operating expenses. Information on property, plant and equipment located in Georgia and the impairment tests performed is disclosed in Note 5 to the consolidated financial statements.	We involved our business valuation specialists in the testing of impairment analysis and calculation of recoverable amounts performed by management and independent appraisers engaged by them as at 30 June 2018. We involved the component auditor to analyze the assumptions underlying management forecast. We compared the discount rate and long-term growth rate to general market indicators and other available evidence. We compared forecasted transshipment in the model with business plans. We tested the mathematical integrity of the impairment models and assessed the sensitivity analysis. We assessed the analysis made by management and factors that could indicate that assets may be impaired as at 31 December 2018. We compared budgeted transshipment volume, EBITDA and revenue for 2018 with actual figures.

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Other Information included in the Group's 2018 Annual report

Other information consists of the information included in the Group's 2018 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2018 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young LLP

Gulmira Turmagambetova
Auditor / General Director
Ernst & Young LLP

Auditor Qualification Certificate
No. 0000374 dated 21 February 1998

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

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4 March 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of Tenge	Notes	31 December 2018	31 December 2017
Assets			
Non-current assets			
Property, plant and equipment	6	**671,773,612**	619,260,520
Intangible assets	7	**6,891,299**	6,545,801
Investments in joint ventures	8	**30,001,323**	31,736,986
Advances to suppliers for property, plant and equipment	9	**110,135**	295,842
Long-term accounts receivable		**82,987**	71,783
Bank deposits	15	**2,778,076**	3,948,692
Investments in bonds	18	**828,437**	748,962
Other non-current assets		**12,585**	13,100
		712,478,454	662,621,686
Current assets			
Inventories	10	**5,130,498**	4,068,718
Trade and other accounts receivable	11	**5,627,598**	7,067,133
Advances to suppliers	12	**744,873**	504,796
Prepayment for income tax		**961,849**	3,489,707
VAT recoverable and other prepaid taxes	13	**9,504,898**	8,542,998
Other current assets	14	**7,883,154**	5,856,422
Bank deposits	15	**25,424,203**	28,356,520
Cash and cash equivalents	16	**33,278,843**	40,870,527
		88,555,916	98,756,821
Non-current assets held for sale	17	**2,406,231**	2,848,498
		90,962,147	101,605,319
Total assets		**803,440,601**	764,227,005

The accounting policy and explanatory notes on pages 8 through 67 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of Tenge	Notes	31 December 2018	31 December 2017
Equity and liabilities			
Equity			
Share capital	19	**61,937,567**	61,937,567
Treasury shares repurchased from shareholders	19	**(9,549)**	(9,549)
Asset revaluation reserve	19	**243,588,977**	226,395,595
Foreign currency translation reserve	19	**39,572,764**	33,068,230
Other capital reserves	19	**(72,146)**	(623,415)
Retained earnings		**280,398,586**	278,922,619
Total equity		**625,416,199**	599,691,047
Non-current liabilities			
Employee benefit obligations	20	**12,940,911**	12,740,751
Deferred tax liabilities	34	**67,394,342**	63,123,255
Provision for asset retirement and land recultivation obligation	25	**21,109,397**	15,347,322
Deferred income	21	**8,423,897**	7,498,361
		109,868,547	98,709,689
Current liabilities			
Employee benefit obligations	20	**663,463**	600,175
Income tax payable		**1,348,926**	1,119,287
Trade and other accounts payable	22	**12,957,514**	17,612,359
Advances received	23	**20,660,210**	18,197,647
Other taxes payable	24	**6,056,874**	5,565,433
Provisions	25	**1,635,604**	223,242
Other current liabilities	26	**24,833,264**	22,508,126
		68,155,855	65,826,269
Total liabilities		**178,024,402**	164,535,958
Total equity and liabilities		**803,440,601**	764,227,005
Book value per ordinary share (in Tenge)	19	**1,608**	1,542

Signed and approved for issue on 4 March 2019.

General Director (Chairman of the Management Board) *Dossanov D.G.*

Chief Accountant *Sarmagambetova M.K.*

The accounting policy and explanatory notes on pages 8 through 67 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of Tenge	Notes	For the year ended 31 December 2018	2017
Revenue	27	**225,399,570**	222,449,954
Cost of sales	28	**(152,393,686)**	(146,598,531)
Gross profit		**73,005,884**	75,851,423
General and administrative expenses	29	**(16,871,021)**	(16,020,923)
Other operating income	30	**1,112,840**	2,446,962
Other operating expenses	31	**(3,150,563)**	(962,862)
Impairment of property, plant and equipment and intangible assets	6, 7	**(2,649,261)**	(37,682)
Operating profit		**51,447,879**	61,276,918
Net foreign exchange gain/(loss)		**2,594,699**	(651,952)
Finance income	32	**2,820,024**	4,937,555
Finance costs	33	**(2,590,261)**	(3,082,198)
Impairment of investments in bonds	18	**–**	(3,639,607)
Share in (loss)/income of joint ventures	8	**(2,075,937)**	7,101,470
Profit before income tax		**52,196,404**	65,942,186
Income tax expense	34	**(13,711,421)**	(15,824,330)
Net profit for the year		**38,484,983**	50,117,856
Earnings per share (in Tenge)	19	**100**	130
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Exchange difference from translation of foreign operations of the Group		**6,504,534**	150,119
Total other comprehensive income to be reclassified to profit or loss in subsequent periods		**6,504,534**	150,119

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

In thousands of Tenge	Notes	For the year ended 31 December 2018	2017
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation and impairment of property, plant and equipment of the Group, net	6	**55,421,707**	15,136,760
Income tax effect	34	**(11,494,525)**	(3,027,352)
		43,927,182	12,109,408
Charge of provision for asset retirement and land recultivation obligation of the Group	25	**(3,102,220)**	(30,162)
Income tax effect	34	**620,445**	6,033
		(2,481,775)	(24,129)
Revaluation of property, plant and equipment of joint ventures		**433,192**	11,418,672
Income tax effect		**(86,638)**	(2,283,734)
	8	**346,554**	9,134,938
Charge of provision for asset retirement and land recultivation obligation of joint ventures		**(3,195)**	(283,806)
Income tax effect		**638**	56,760
	8	**(2,557)**	(227,046)
Actuarial gain from employee benefit obligations of the Group	20	**688,653**	279,191
Income tax effect	34	**(137,731)**	(55,838)
		550,922	223,353
Actuarial gain/(loss) from employee benefit obligations of joint venture		**434**	(791)
Income tax effect		**(87)**	158
	8	**347**	(633)
Write-off of deferred tax assets on employee benefit obligations		**–**	(150,746)
	19, 34	**–**	(150,746)
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods, net		**42,340,673**	21,065,145
Total other comprehensive income for the year, net of tax		**48,845,207**	21,215,264
Total comprehensive income for the year, net of tax		**87,330,190**	71,333,120

Signed and approved for issue on 4 March 2019.

General Director (Chairman of the Management Board) *Dossanov D.G.*

Chief Accountant *Sarmagambetova M.K.*

The accounting policy and explanatory notes on pages 8 through 67 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of Tenge	Notes	For the year ended 31 December 2018	2017
Cash flows from operating activities			
Profit before income tax		**52,196,404**	65,942,186
Non-cash adjustment to reconcile profit before tax to net cash flows			
Depreciation and amortization	28, 29	**52,409,550**	48,965,922
Finance income	32	**(2,820,024)**	(4,937,555)
Impairment of property, plant and equipment and intangible assets	6, 7	**2,649,261**	37,682
Finance costs	33	**2,590,261**	3,082,198
Unrealized foreign exchange (gain)/loss		**(2,594,699)**	641,071
Share in loss/(income) of joint ventures	8	**2,075,937**	(7,101,470)
Revision of estimates on provision on asset retirement and land recultivation obligation	30, 31	**1,162,914**	(1,239,714)
Charge of other current provisions	29, 31	**1,293,697**	–
Loss on disposal of property, plant and equipment and intangible assets, net	31	**1,228,319**	741,248
Charge of expected credit losses, net	29	**774,844**	1,024,013
Employee benefit obligations, current service costs	28, 29	**568,282**	559,185
Impairment of non-current assets held for sale	31	**283,956**	–
Gain on disposal of non-current assets held for sale, net	30	**(254,756)**	–
Expenses on liquidation of idle production facilities	31	**106,084**	56,275
Actuarial (gain)/ loss	30, 31	**(70,352)**	39,943
Write - off of VAT recoverable		**43,191**	36,283
Charge of provision for obsolete inventories	29	**11,562**	28,552
(Reversal)/charge of reserve for impairment of advances to suppliers	29	**(618)**	598,316
Impairment of investments in bonds	18	**–**	3,639,607
Others		**(44,181)**	(108,956)
Operating cash flows before working capital changes		**111,609,632**	112,004,786
(Increase)/decrease in operating assets			
Inventories		**(1,482,723)**	(1,069,539)
Trade and other accounts receivable		**318,366**	(1,681,296)
Advances to suppliers		**(214,002)**	(128,353)
VAT recoverable and other prepaid taxes		**(987,802)**	(1,952,935)
Other current assets		**(1,999,423)**	(111,055)
Increase/(decrease) in operating liabilities			
Trade and other accounts payable		**1,656,515**	1,722,258
Advances received		**2,431,124**	1,753,424
Other taxes payable		**(680,487)**	(195,040)
Other current and non-current liabilities and employee benefit obligations		**1,249,592**	(890,337)
Cash generated from operating activities		**111,900,792**	109,451,913
Income taxes paid		**(17,364,973)**	(15,218,590)
Interest received		**2,917,095**	4,712,241
Net cash flows from operating activities		**97,452,914**	98,945,564

The accounting policy and explanatory notes on pages 8 through 67 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of Tenge	Notes	For the year ended 31 December 2018	2017
Cash flows from investing activities			
Withdrawal of bank deposits		**33,037,782**	63,785,853
Proceeds from disposal of property, plant and equipment		**5,491,706**	18,661
Proceeds from bonds redemption	18	**43,457**	–
Purchase of property, plant and equipment		**(56,309,790)**	(49,192,197)
Placement of bank deposits and bonds		**(27,090,320)**	(81,182,023)
Purchase of intangible assets		**(27,164)**	(701,553)
Net cash flows used in investing activities		**(44,854,329)**	(67,271,259)
Cash flows from financing activities			
Dividends paid	19	**(61,540,496)**	(59,617,355)
Net cash flows used in financing activities		**(61,540,496)**	(59,617,355)
Net change in cash and cash equivalents		**(8,941,911)**	(27,943,050)
Net foreign exchange difference		**1,367,345**	(480,852)
Change in allowance for expected credit losses		**(17,118)**	–
Cash and cash equivalents at the beginning of the year		**40,870,527**	69,294,429
Cash and cash equivalents at the end of the year	16	**33,278,843**	40,870,527

Signed and approved for issue on 4 March 2019.

General Director (Chairman of the Management Board)

Dossanov D.G.

Chief Accountant

Sarmagambetova M.K.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of Tenge	Share capital	Treasury shares repurchased from shareholders	Asset revaluation reserve	Foreign currency translation reserve	Other capital reserves	Retained earnings	Total
As at 31 December 2017	61,937,567	(9,549)	226,395,595	33,068,230	(623,415)	278,922,619	599,691,047
Changes in accounting policy *(Notes 8, 11, 15 and 16)*	–	–	–	–	–	(64,542)	(64,542)
As at 1 January 2018 (restated)	61,937,567	(9,549)	226,395,595	33,068,230	(623,415)	278,858,077	599,626,505
Net profit for the year	–	–	–	–	–	**38,484,983**	**38,484,983**
Other comprehensive income	–	–	**41,789,404**	**6,504,534**	**551,269**	–	**48,845,207**
Total comprehensive income for the year	–	–	**41,789,404**	**6,504,534**	**551,269**	**38,484,983**	**87,330,190**
Amortization of revaluation reserve for revalued property, plant and equipment	–	–	**(24,596,022)**	–	–	**24,596,022**	–
Dividends *(Note 19)*	–	–	–	–	–	**(61,540,496)**	**(61,540,496)**
As at 31 December 2018	**61,937,567**	**(9,549)**	**243,588,977**	**39,572,764**	**(72,146)**	**280,398,586**	**625,416,199**
As at 31 December 2016	61,937,567	(9,549)	230,346,658	32,918,111	(695,389)	263,477,884	587,975,282
Net profit for the year	–	–	–	–	–	50,117,856	50,117,856
Other comprehensive income	–	–	20,993,171	150,119	71,974	–	21,215,264
Total comprehensive income for the year	–	–	20,993,171	150,119	71,974	50,117,856	71,333,120
Amortization of revaluation reserve for revalued property, plant and equipment	–	–	(24,944,234)	–	–	24,944,234	–
Dividends *(Note 19)*	–	–	–	–	–	(59,617,355)	(59,617,355)
As at 31 December 2017	61,937,567	(9,549)	226,395,595	33,068,230	(623,415)	278,922,619	599,691,047

Signed and approved for issue on 4 March 2019.

General Director (Chairman of the Management Board) *Dossanov D.G.*

Chief Accountant *Sarmagambetova M.K.*

The accounting policy and explanatory notes on pages 8 through 67 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 2018 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 2018 and 2017 the Company had ownership interest in the following companies:

			Ownership	
	Place of incorporation	**Principal activities**	**31 December 2018**	31 December 2017
NWPC "MunaiTas" JSC (hereinafter – "MunaiTas")	Kazakhstan	Oil transportation	**51%**	51%
"Kazakhstan-China Pipeline" LLP (hereinafter – "KCP")	Kazakhstan	Oil transportation	**50%**	50%
"Batumi Oil Terminal" (hereinafter – "BOT")*	Georgia	Forwarding, transshipment and storage of oil and oil products and operating of Batumi Sea Port	**100%**	100%
"Petrotrans Limited" (hereinafter – "PTL")**	United Arab Emirates	Forwarding of oil and oil products	**100%**	100%
"Main Waterline " LLP	Kazakhstan	Water transportation	**100%**	–

* *BOT has the exclusive right to manage 100% of the shares of "Batumi Sea Port" LLC (hereinafter – "BSP").*

** *PTL has a branch operating in Republic of Kazakhstan, Astana.*

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

The Company's head office is located in Astana, Kazakhstan, at 20 Turan Avenue. The Company has production facilities, which are located in Mangystau, Atyrau, Western-Kazakhstan, Aktubinsk, Karaganda, Pavlodar, Turkestan, North – Kazakhstan regions of Republic of Kazakhstan and in Shymkent, also the Company has a branch, which is located in Almaty (Research and Development Centre) and representative offices in Russian Federation (Moscow, Omsk and Samara).

The Company is the national operator of the Republic of Kazakhstan on the main oil pipeline. The Group operates network of main oil pipelines of 5,378 km and water pipelines of 1,945 km. Also the Group is engaged in transportation, 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 mainly used for transportation of Kazakhstani crude oil, and also for transit of Russian oil to China.

The Company is a natural monopolist and, respectively, is subject to regulation of the Committee on Regulation of Natural Monopolies, Protection of Competition and Consumer rights of the Ministry of National Economy of the Republic of Kazakhstan (hereinafter – "CRNMPCandCR"). CRNMPCandCR is responsible for approving the methodology for calculating the tariff and tariff rates for oil transportation in domestic market of the Republic of Kazakhstan.

According to the Law of the Republic of Kazakhstan *On Natural Monopolies* 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.

1. GENERAL (continued)

From 1 October 2015 order of CRNMPCandCR 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 ton for 1,000 kilometers without VAT;
- In 2016 – 3,547.46 Tenge per ton for 1,000 kilometers without VAT;
- In 2017 – 3,902.13 Tenge per ton for 1,000 kilometers without VAT;
- In 2018 – 4,292.40 Tenge per ton for 1,000 kilometers without VAT*;
- In 2019 – 4,721.72 Tenge per ton for 1,000 kilometers without VAT.

* *The rate came into effect on 1 January 2018.*

Starting from 1 April 2018 tariffs for pumping oil on the export from the Republic of Kazakhstan equals to 6,398.92 Tenge per ton for 1,000 kilometers without VAT.

Tariff for pumping oil for transit through Kazakhstani part of main oil pipeline "Tuymazy-Omsk-Novosibirsk-2" starting from 1 April 2018 is 4,292.4 Tenge per ton for 1,000 kilometers.

Tariffs for transportation of Russian oil to Republic of Uzbekistan through the territory of Republic of Kazakhstan is 25.12 US Dollars per ton (in 2017: 22.90 US Dollars per ton).

Tariff for transportation of Russian oil through the territory of Kazakhstan to the People's Republic of China on the route border of Russian Federation-border of Republic of Kazakhstan (Priirtyshsk)-Atasu (Republic of Kazakhstan) – Alashankou (People's Republic of China) is 3.11 US Dollars per ton (in Priirtyshsk-Atasu sector) (in 2017: 3.11 US Dollars per ton).

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

These consolidated financial statements for the year ended 31 December 2018 were approved by internal audit committee of the Company's Board of Directors and signed by the General Director (Chairman of the Management Board) and the Chief Accountant on 4 March 2019.

2. BASIS OF PREPARATION

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

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

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

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

3. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

3. BASIS OF CONSOLIDATION (continued)

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

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

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

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

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Interest in a joint venture

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

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

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

The Group's investment in its joint ventures is accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date.

Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 Interest in a joint venture (continued)

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

4.2 Foreign currency translation

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

Transactions and balances

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

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

All exchange differences arising from repayment and recalculation of monetary items, are included in consolidated profit or loss and other comprehensive income.

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

Group companies

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

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

Exchange rates

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

Weighted average currency exchange rates for the year ended 31 December 2018 and 2017 are as follows:

	For the year ended 31 December	
Tenge	**2018**	2017
US Dollars	**345.04**	326.08
Russian Rubles	**5.50**	5.59
Euro	**406.88**	368.65
Georgian Lari	**136.98**	130.93

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 Foreign currency translation (continued)

Exchange rates (continued)

As at 31 December the currency exchange rates of KASE were:

In Tenge	**2018**	2017
US Dollars	**384.20**	332.33
Russian Rubles	**5.52**	5.77
Euro	**439.37**	398.23
Georgian Lari	**144.44**	128.16

4.3 Current versus non-current classification of assets and liabilities

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

4.4 Fair value measurement

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 Fair value measurement (continued)

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

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

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

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

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

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

4.5 Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sale will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of comprehensive income.

Additional disclosures are provided in *Note 17*. All other notes to the consolidated financial statements include amounts for continuing operations, unless indicated otherwise.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Property, plant and equipment

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

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

The Group periodically engages independent appraisers to revalue property, plant and equipment to their fair value. According to Accounting Policy property, plant and equipment is revalued each 3 years (except for technological oil, which is revalued during the period when the fair value changes) 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 Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Further detailed information about the asset retirement and land recultivation obligation disclosed in *Notes 5* and *25*.

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 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.

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 seven-ten years. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognised in the consolidated statement of comprehensive income in the expense category consistent with the function of the intangible assets.

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

4.8 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit (hereinafter "CGU") fair value less costs to sell and its value in use.

Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In determining fair value less selling costs, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9 Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 *Revenue from Contracts with Customers*.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are "solely payments of principal and interest (SPPI)" on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

The Group's financial assets include cash and short-term bank deposits, trade and other receivables, and investments in bonds.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade and other accounts receivables, funds in credit institutions (cash and cash equivalents, bank deposits).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9 Financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

The Group includes bonds of "Special financial company DSFK" LLP to this category. Under IAS 39, these financial assets of the Group were classified as held-to-maturity investments.

Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group doesn't have financial assets of this category.

Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group doesn't have financial assets of this category.

Derecognition

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9 Financial assets (continued)

Derecognition (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

4.10 Impairment of financial assets

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

- Disclosures for significant assumptions *(Note 5)*;
- Trade and other accounts receivable *(Note 11)*;
- Bank deposits *(Note 15)*;
- Cash and cash equivalents *(Note 16)*.

The Group recognises an allowance for expected credit losses (ECLs) for all loans and other debt financial assets that are not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. ECLs are discounted at an approximation of the original effective interest rate for a similar instrument with a similar credit raiting.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision model that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For funds in credit institutions (cash and cash equivalents, bank deposits), investments in bonds, the Group calculated ECLs based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. Also it is considered a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

4.11 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 Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include trade and other accounts payable.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.11 Financial liabilities (continued)

Subsequent measurement

The measurement of financial liabilities depends on their classification.

Trade and other accounts payable

After initial recognition, trade and other accounts payable are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income or loss when the liabilities are derecognised as well as through the effective interest rate amortization process.

Derecognition

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

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

4.12 Offsetting of financial instruments

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

4.13 Inventories

Inventories are stated at the lower of cost and net realizable value.

Cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Cost of inventories is determined by using of FIFO basis.

4.14 Cash and cash equivalents

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

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

4.15 Provisions

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

The Group records a provision on asset retirement and land recultivation obligation. Provisions on asset retirement and land recultivation obligation are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the asset retirement and land recultivation obligation. The unwinding of the discount is expensed as incurred and recognised in the consolidated statement of comprehensive income as a finance cost. The estimated future costs on asset retirement and land recultivation obligation are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset *(Notes 5 and 25).*

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.16 Employee benefits

The Group provides long-term employee benefits to employees before, on and after retirement, in accordance with the Collective agreements between the Group and its employees and Company's Rule of social support of non-working pensioners and disabled people. The Collective agreement provides for one-off retirement payments, financial aid for employees' disability, anniversaries and funeral. The entitlement to benefits is usually conditional on the employee remaining in service up to retirement age.

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

Other movements are recognised in the current period, including current service cost, any past service cost and the effect of any curtailments or settlements.

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

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

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

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

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

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

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

4.17 Revenue and other income recognition

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

The Group has concluded that it is acting as a principal in all of its revenue arrangements (as it typically controls the goods or services before transferring them to the customer), except for transportation expedition contract where the Group is acting as an agent for which the Group recognizes revenue commission for its services.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.17 Revenue and other income recognition (continued)

In the consolidated financial statements, the Group generally recognizes revenue for the following types:

Rendering of transportation services

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

Rendering of pipeline operation and maintenance services

Revenues from pipeline operation and maintenance services are recognized over time, as the buyer simultaneously receives and benefits from the performance of the Group's contractual obligations.

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 at fair value through profit or loss, as well as at fair value through other comprehensive income, interest income or expense are recognized using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the consolidated statement of comprehensive income.

Dividends

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

Fees for undelivered oil volumes

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

4.18 Taxes

Corporate income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities.

The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

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

Deferred tax

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.18 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 (VAT)

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

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

Receivables and payables are stated including VAT.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.19 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 share issue in equity.

Treasury shares repurchased from shareholders

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in the share premium.

Dividends

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

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

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

4.20 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 2018.

New and amended standards and interpretations applied by the Group

The Group applied for the first time certain standards and amendments, which were effective for annual periods beginning on or after 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Although these new standards and amendments applied for the first time in 2018. The nature and the impact of each new standard or amendment are described below:

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard 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 standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted the new standard on the required effective date using the modified retrospective method to not completed contracts at the date of initial application in its consolidated financial statements. The Group performed a detailed analysis of the effects of IFRS 15, which showed absence of impact on the financial position and results of the Group as at 1 January 2018.

The Group's activities mainly relates to the transportation of oil and water through main pipelines on the territory of the Republic of Kazakhstan, as well as with the transshipment of oil and oil products in Georgia.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations applied by the Group (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

(a) Rendering of services

The Group fulfills the obligation to execute on a monthly basis and recognizes the proceeds from the oil and water transportation services, transport expedition of oil and other related services, based on the actual volume of services rendered. The obligation to perform transshipment of oil and oil products in Georgia is also performed on a monthly basis and the revenue from the provision of services is recognized on the basis of actual volumes of services rendered. Revenues from pipeline operation and maintenance services are recognized over time, as the buyer simultaneously receives and benefits from the performance of the Group's contractual obligations. Application of IFRS 15 to service contracts does not affect the Group's revenue and profit or loss.

In applying of IFRS 15, the Group is considering the following:

i) Variable consideration

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue.

The variable consideration is absent in contracts with customers, due to the absence of discounts, credit payment, concessions in price, incentives, bonuses for results or other similar items. Thereafter, this update will have no effect on Group's revenue recognition.

ii) Principal versus agent considerations

IFRS 15 requires assessment of whether the Group controls a specified good or service before it is transferred to the customer/customer's buyer.

The Group determined that it acts as a principal for all contracts under which revenue is recognized (since it controls the promised service before it is transferred to customer or customer's buyer), except for contracts on oil transportation coordination services where Group determined that it does not control the services before they are accepted by the customer's buyer. Hence, Group is an agent, rather than principal in these contracts on oil transportation coordination services.

iii) Advances received from customers

Advance payments received from customers are contractual obligations. The contractual obligations are the obligation to transfer to the buyer the goods or services for which the Group has received compensation from the buyer. If the buyer pays compensation before the Group transfers the product or service to the buyer, the contractual obligation is recognized at the time the payment is made or at the time the payment becomes payable (whichever is earlier). Contractual liabilities are recognized as revenue when the Group fulfills its contractual obligations.

Under IFRS 15, the Group must determine whether there is a significant financing component in its contracts.

The Group receives only short-term advances from its customers. They are presented as part of advances received. The Group determined that the length of time between the delivery of the services to the customer by the Group and the time when the customer pays for such services is relatively short. Therefore, the Group has concluded that given contracts do not contain significant financing component.

(b) Presentation and disclosure requirements

In accordance with the requirements for the consolidated financial statements, the Group has detailed information on revenue recognized under contracts with customers in categories reflecting how economic factors influence the nature, size, timing and uncertainty of revenue and cash flows. Disclosure of detailed revenue is discussed in *Note 27*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations applied by the Group (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

(c) Other adjustments

On adoption of IFRS 15 based on analysis made the Group will not adjust other items of the consolidated financial statements such as deferred taxes, assets held for sale and liabilities associated with them, profit or loss after tax for the year from discontinued operations, investments in joint ventures, as well as share of profit of joint ventures.

The recognition and measurement requirements in IFRS 15 are also applicable for recognition and measurement of any gains or losses on disposal of non-financial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business. These changes did not affect to the consolidated financial statements of the Group.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

With the exception of hedge accounting, which is applied prospectively, the Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018. The management of the Group decided not to restate the comparative information for the period beginning 1 January 2017, hence:

- The comparative information on financial assets and liabilities is disclosed in accordance with classification and measurement requirements of IAS 39 *(Notes 11, 15, 16 and 22)*;
- The adjustment to the opening balance of retained earnings as at 1 January 2018 is recognized in the consolidated statement of changes in equity for year ended 31 December 2018. The information on this adjustment is disclosed as follows:

In thousands of Tenge	Adjustments	1 January 2018
Assets		
Non-current assets		
Investments in joint ventures *(Note 8)*	(c)	(4.070)
Bank deposits *(Note 15)*	(b)	(31,251)
Total non-current assets		**(35,321)**
Current assets		
Trade and other accounts receivable *(Note 11)*	(b)	(27,623)
Bank deposits *(Note 15)*	(b)	(264)
Cash and cash equivalents *(Note 16)*	(b)	(1,334)
Total current assets		**(29,221)**
Total assets		**(64,542)**
Equity		
Retained earnings	(b), (c)	(64,542)
Total equity		**(64,542)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations applied by the Group (continued)

IFRS 9 Financial Instruments (continued)

(a) Classification and measurement

Under IFRS 9, the Group initially measures financial assets at fair value plus, in the case of financial assets not at fair value through profit or loss, transaction costs.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss, at amortised cost or at fair value through other comprehensive income. The classification depends on two criteria: the business model used by the Group to manage financial assets; and whether the contractual cash flows for financial instruments are "solely payments of principal and interest on the outstanding principal amount".

Under the new requirements, the Group classifies and measures debt financial assets as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that are solely payments of principal and interest on the outstanding principal amount of the debt. The Group includes in this category trade and other receivables and funds in credit institutions (bank deposits, cash and cash equivalents). The Group analysed the characteristics of contractual cash flows of these instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification of these instruments is not required.
- Financial assets at fair value through profit or loss include debt instrument that are not held within a business model whose objective is either to collect contractual cash flows or to both collect contractual cash flows and sell, and the cash flows characteristics are not solely payments of the principal and interest on the outstanding principal amount of the debt. The Group includes bonds of "Special financial company DSFK" LLP to this category. Under IAS 39, these financial assets of the Group were classified as held-to-maturity investments. However, the change in the classification starting from 1 January 2018 has no impact on book value of bonds at the beginning of the year, as the bonds were acquired at the end of December 2017 and were measured at fair value on initial recognition, and accordingly, an adjustment to retained earnings at the beginning of the period is not required. As at 31 December 2018 the Group revised the fair value of these financial assets using a market interest rate 12.7% *(Note 18)*.

The assessment of the Group's business model was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognized before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of these assets.

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss approach.

IFRS 9 requires the Group to record an allowance for expected credit losses for all loans and other debt financial assets not held at fair value through profit or loss.

The adoption of the expected credit loss requirements of IFRS 9 resulted in increase in impairment allowances of the Group's debt financial assets. The increase in allowance resulted in adjustment to Retained earnings as at 1 January 2018. The effect of the adjustment is as follows: decreases in Trade and other receivables, Cash and cash equivalents, Bank deposits and Retained earnings amounting to 27,623 thousand Tenge, 1,334 thousand Tenge, 31,515 thousand Tenge and 64,542 thousand Tenge, respectively.

(c) Other adjustments

In addition to the adjustments described above, upon adoption of IFRS 9, other items of the primary financial statements such as investments in joint ventures were adjusted as necessary. These adjustments are due to an increase in estimated provisions for impairment losses on debt financial assets of joint ventures. As a result of this increase, the amount of Retained earnings for the beginning of the period was adjusted. The effect of the adjustment is a decrease in balances of Investments in joint ventures and Retained earnings by 4,070 thousand Tenge *(Note 8)*.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations applied by the Group (continued)

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

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

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 Group's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction.

Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

Amendments to IAS 28 Investments in Associates and Joint Ventures – clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. This election is made separately for each investment at initial recognition. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

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

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the Group's consolidated financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 Changes in accounting policies and disclosures (continued)

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective as at 31 December 2018 are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 16 Leases

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

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

In addition, 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.

The Group plans to adopt IFRS 16 retrospectively modified to those contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

At the reporting date, the Group performed a preliminary analysis of the impact of IFRS 16, which is expected to have an impact on the consolidated financial statements of the Group for the period beginning 1 January 2019, including an increase in right-of-use assets, a decrease in investments in joint ventures , an increase in lease obligations and a decrease in retained earnings. The Group expects to complete a detailed analysis by 31 March 2019 and reflect its results as of 1 January 2019 in the consolidated financial statements as at 31 March 2019.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), the overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 Changes in accounting policies and disclosures (continued)

Standards issued but not yet effective (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply the interpretation from its effective date.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are "solely payments of principal and interest on the principal amount outstanding" (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

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. The Group will apply these amendments when they become effective.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 Changes in accounting policies and disclosures (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (continued)

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

Annual improvements 2015-2017 cycle (issued in December 2017)

These improvements include:

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Group.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 Changes in accounting policies and disclosures (continued)

Standards issued but not yet effective (continued)

Annual improvements 2015-2017 cycle (issued in December 2017) (continued)

IAS 12 Income Taxes (continued)

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

- Financial risk management and policies *(Note 38)*;
- Sensitivity analyses disclosures *(Note 38)*.

Estimates and assumptions

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

Revaluation of property, plant and equipment

The Group accounts for its property, plant and equipment at fair value. Last valuation of its property, plant and equipment was performed by the Group during 2016. For this purpose, the Group engaged independent professional appraisers.

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

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

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

Estimates and assumptions (continued)

Revaluation of property, plant and equipment (continued)

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

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

* *Water transportation was included in to the CGU oil transportation as a related service.*

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

The Group assesses at each reporting date whether the carrying amount of its property, plant and equipment does not differ materially from that, which would be determined using estimated fair value at the balance sheet date. On 31 December 2018 the management of the Group revised its assessments with respect to the fair value of its property, plant and equipment. As a result, management concluded that there were no significant changes in the fair value of the Group's property, plant and equipment (except for technological oil and long-term assets of the Group located in Georgia) as at 31 December 2018 from the date of last revaluation during 2016. As a result, the fair value of the Group's property, plant and equipment approximated their carrying amount.

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 31 December 2018.

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 Group's management when determining fair value of technological oil:

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

Taking into account all these factors as at 31 December 2018 the fair value of the Group's technological oil was determined based on the price of 63,015 Tenge per ton (31 December 2017: 41,175 per ton). The effect of the change in fair value of the technological oil was equal to 54,541,851 thousand Tenge (31 December 2017: 13,353,217 thousand Tenge), in addition as at 31 December 2018 the revaluation of technological oil surplus in the amount 3,678,627 thousand Tenge (31 December 2017: 2,167,946 thousand Tenge) was recognized; the overall effect of revaluation is equal to 58,220,478 thousand Tenge (31 December 2017: 15,521,163 thousand Tenge) *(Note 6)*.

The volume of oil in the pipeline as at 31 December 2018 amounted to 2,555 thousand tons (31 December 2017: 2,498 thousand tons). According to the results of stock count at the end of 2018 the oil surpluses in the amount of 58,377 tons (for 2017: 52,652 tons), and in the reporting period there was a write-off of oil in the amount of 1,457 tons (for 2017:14,991 tons).

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

Estimates and assumptions (continued)

Impairment of assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. Impairment exists when the carrying value of an asset or cash generating units (hereinafter – 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. If no such transactions can be identified, an appropriate valuation model is used.

The value in use calculation is based on a discounted cash flow model. The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which individual assets are allocated. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

Due to the existence of impairment indicators, the Group performed an analysis of its property, plant and equipment located in Georgia and the BSP's right for land use for impairment as at current reporting period. The recoverable amount of these assets has been determined based on a value in use, using a discounted cash flow model. The value in use of property, plant and equipment and the right for land use has been defined as the value of the business, adjusted for the fair value of net working capital and non-specialized property, plant and equipment.

Forecasting cash flows is based on financial budgets approved by management of the Group covering 2018-2023 years period, and on estimated forecasts until 2031, as well as publicly available macroeconomic information. The above-mentioned assets were grouped into two CGU – the BSP and the BOT. The following assumptions were used in calculation value in use:

	Cash-generating unit	
	BOT	BSP
Discount rate	12.6%	13.3%
Long-term growth rate	1.9%	1.9%

The results of the assessment of value in use are sensitive to expected volumes of services provided, the level of tariffs for services provided, start of transshipment of additional volumes of oil, the amount of capital and operating expenditures.

As a result of analysis the carrying value of property, plant and equipment and the right for land use exceeded their recoverable amount. The Group recognized impairment of property, plant and equipment in the amount of 12,549 thousand US Dollars (equivalent to 4,329,907 thousand Tenge), including 6,605 thousand US Dollars (equivalent to 2,278,989 thousand Tenge) through profit and loss and 5,944 thousand US Dollars (equivalent to 2,050,918 thousand Tenge) through decrease in asset revaluation reserve, as well as impairment of the right for land use in the amount of 226 thousand US Dollars (equivalent to 77,979 thousand Tenge) recognized through profit and loss *(Note 7)*.

The calculation of value in use for both CGUs is most sensitive to the assumption associated with additional volumes of crude oil transshipment of Kazakhstan origin since 2023. Thus, the shift in the transshipment of this oil from 2023 to 2025 and decrease in volumes by 10% for the period from 2023 to 2031 would reduce the recoverable value of these assets by 28,000 thousand US Dollars (equivalent to 10,757,600 thousand Tenge) and 14,716 thousand US Dollars (equivalent to 5,653,887 thousand Tenge), respectively.

The increase in discount rate by 0.5% would result in decrease of recoverable amount of the above-mentioned assets by 11,146 thousand US Dollars (equivalent to 4,282,293 thousand Tenge).

As at 31 December 2018, the book value property, plant and equipment, located in Georgia, and land in use of BSP amounted to 150,895 thousand US Dollars (equivalent to 57,973,859 thousand Tenge), as at 31 December 2017: 172,576 thousand US Dollars (equivalent to 57,352,182 thousand Tenge).

In addition, as at 31 December 2018 impairment was recognized for the idle production and non-specialized property, plant and equipment of the Company in the amount of 1,040,146 thousand Tenge, including 292,293 thousand Tenge through profit and loss and 747,853 thousand Tenge through decrease in asset revaluation reserve.

As a result, the total impairment of the Group's property, plant and equipment amounted to 5,370,053 thousand Tenge *(Note 6)*.

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

Estimates and assumptions (continued)

Useful lives of items of property, plant and equipment

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

Asset retirement and land recultivation obligation

According to the Law of the Republic of Kazakhstan *About the Main Pipeline* which came into force on 4 July 2012, the Group has a legal obligation to decommission its oil pipelines at the end of their operating life and to restore the land to its original condition. Activities on land 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 Group in accordance with the technical regulations of the Republic of Kazakhstan (pipeline decommission expense is equal to 5,671 thousand Tenge per kilometer (2017: 4,278 thousand Tenge).

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:

	2018	2017
Discount rate	**8.91%**	9.05%
Inflation rate	**5.47%**	5.55%
Period of fulfillment of obligations	**16 years**	17 years

As there is no an active market for highly liquid corporate bonds in the Republic of Kazakhstan and the insufficiency of transactions on government bonds of the Republic of Kazakhstan during 2018, the management of the Group considers to use risk-free rates of US Treasury bonds as an estimated discount rate as at 31 December 2018, adjusted for country risk and inflation rates of the Republic of Kazakhstan, with extrapolated maturities corresponding to the expected duration of the asset retirement and land recultivation obligation (as at 31 December 2017: the Group used risk-free rate of government bonds of the Republic of Kazakhstan).

As at 31 December 2018 the carrying amount of the asset retirement and land recultivation obligation was 21,109,397 thousand Tenge (31 December 2017: 15,347,322 thousand Tenge) *(Note 25).*

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

Sensitivity analysis of asset retirement and land recultivation obligation for the change in significant assumptions as at 31 December 2018 is as follows:

In thousands of Tenge	**(Decrease)/ increase in rate**	**(Decrease)/ increase in liability**
Discount rate	-0.5%	1,609,182
	+0.5%	(1,488,544)
Inflation rate	-0.5%	(1,542,204)
	+0.5%	1,655,656

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

Estimates and assumptions (continued)

Impairment of advances to suppliers

The Group recognized reserve for the impairment of long-term and short-term advances to suppliers. In estimating the reserve historical and anticipated suppliers performance are considered. Changes in the economy, industry and specific characteristics may affect the reserves recorded in the consolidated financial statements.

As at 31 December 2018 and 2017 these reserves have been created for the amount of 745,465 thousand Tenge and 663,019 thousand Tenge *(Notes 9 and 12).*

Allowances for financial assets

The Group recognises allowances for expected credit losses for trade accounts receivable and funds in credit institutions (cash and cash equivalents, bank deposits).

For trade and other receivables, the Group has applied the standard's simplified approach and has calculated expected credit losses based on lifetime of these financial instruments. The Group used a provision model that is prepared taking into account Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For funds in credit institutions (cash and cash equivalents, bank deposits), the Group calculated expected credit losses based on the 12-month period. The 12-month expected credit losses is the portion of lifetime expected credit losses that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit losses.

The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. Also it is considered a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

Thus, as at 31 December 2018 and 2017 allowance for expected credit losses was created in the amount of 4,776,003 thousand Tenge and 3,450,230 thousand Tenge, respectively *(Notes 11, 15 and 16)*. Changes in the economy, industry, or specific customer conditions would have impact to these allowance recorded in the consolidated financial statements.

Tax provision

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 complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of inspections by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax inspections and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the 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 2018 was 7,702,677 thousand Tenge (31 December 2017: 5,422,606 thousand Tenge) *(Note 34)*. As at 31 December 2018 and 2017 the Group did not have unrecognized deferred tax assets.

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

Estimates and assumptions (continued)

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.

In determining the appropriate discount rate as at 31 December 2018, the management of the Group considers to use interest rates of US Treasury bonds adjusted for country risk and inflation rates of the Republic of Kazakhstan, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation (as at 31 December 2017: the Group used risk-free rates of government bonds of the Republic of Kazakhstan).

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.

Principal actuarial assumptions used for valuation of Employee benefit obligations as at 31 December 2018 and 2017 were as follows:

	2018	2017
Discount rate	**8.91%**	8.96%
Future salary increase	**5.0%**	6.0%
Mortality rate	**5.3%**	6.0%

As at 31 December 2018 the average period of post-retirement benefit obligations were 19.4 years (as at 31 December 2017: 19.6 years).

Sensitivity analysis of Employee benefit obligations for the change in significant estimates as at 31 December 2018 is as follows:

In thousands of Tenge	**(Decrease)/ increase in rate**	**(Decrease)/ increase in liability**
Discount rate	-0.5%	843,475
	+0.5%	(761,450)
Future salary increase	-0.5%	(768,212)
	+0.5%	846,702
Life duration	-1 year	(131,942)
	+1 year	141,634

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at 31 December 2018 and 2017 are as follows:

In thousands of Tenge	Land	Pipelines	Transpor-tation assets	Buildings and con-structions	Machinery and equipment	Techno-logical oil	Other	Construction in progress	Total
At revalued amount as at 31 December 2017	19,890,305	227,862,264	14,563,900	109,033,695	157,269,793	102,839,808	17,899,977	35,937,112	685,296,854
Foreign currency translation	2,159,089	–	567,027	3,391,865	1,885,786	–	63,744	108,610	8,176,121
Additions	–	38,026	6,500,021	41,517	4,786,484	–	2,089,359	37,535,779	50,991,186
Additions of asset retirement and land recultivation obligation *(Note 25)*	–	106,229	–	–	–	–	–	–	106,229
Transfers from non-current assets held for sale *(Note 17)*	–	–	22,498	–	–	–	–	–	22,498
Disposals	(134,166)	(1,173,251)	(128,835)	(970,256)	(871,533)	(85,792)	(621,011)	(67,237)	(4,052,081)
Revaluation (through revaluation reserve)	–	–	–	–	–	58,220,478	–	–	58,220,478
Transfers to non-current assets held for sale *(Note 17)*	(168,288)	–	–	(4,270,070)	(578,375)	–	(29,015)	–	(5,045,748)
Transfers from construction-in-progress	3,468	8,321,832	2,970,215	4,472,508	19,150,067	–	1,468,985	(36,387,075)	–
Transfers to intangible assets *(Note 7)*	–	–	–	–	–	–	–	(725,094)	(725,094)
Transfers and reclassifications	–	(204,274)	(873,802)	(11,671)	1,061,493	–	28,254	–	–
At revalued amount as at 31 December 2018	21,750,408	234,950,826	23,621,024	111,687,588	182,703,715	160,974,494	20,900,293	36,402,095	792,990,443
Accumulated depreciation and impairment as at 31 December 2017	–	(20,559,375)	(2,747,072)	(8,191,902)	(28,283,381)	–	(6,196,923)	(57,681)	(66,036,334)
Foreign currency translation	–	–	(125,185)	(632,362)	(459,136)	–	(20,943)	–	(1,237,626)
Depreciation charge	–	(15,644,967)	(2,366,527)	(6,382,407)	(22,084,104)	–	(5,045,533)	–	(51,523,538)
Disposals	–	780,353	104,342	209,238	651,591	59,180	605,088	2,181	2,411,973
Impairment (through expenses)	–	(2,185)	(276,897)	(841,411)	(1,160,537)	(8,586)	(32,434)	(249,232)	(2,571,282)
Impairment (through revaluation reserve)	–	(2,457)	(58,448)	(2,045,762)	(633,919)	(50,594)	(7,591)	–	(2,798,771)
Transfers to non-current assets held for sale *(Note 17)*	–	–	–	237,984	283,028	–	17,735	–	538,747
Transfers and reclassifications	–	8,128	708	3,426	(10,857)	–	(1,405)	–	–
Accumulated depreciation and impairment as at 31 December 2018	–	(35,420,503)	(5,469,079)	(17,643,196)	(51,697,315)	–	(10,682,006)	(304,732)	(121,216,831)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROPERTY, PLANT AND EQUIPMENT (continued)

In thousands of Tenge	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
At revalued amount as at 31 December 2016	19,803,815	202,402,253	14,258,143	96,958,727	145,295,540	88,061,076	15,398,884	40,428,912	622,607,350
Foreign currency translation	(39,960)	–	18,357	68,305	70,825	–	1,865	16,163	135,555
Additions	226,722	173,793	542,875	7,791,516	1,355,741	1,165	1,050,851	40,682,344	51,825,007
Additions of asset retirement and land recultivation obligation *(Note 25)*	–	265,812	–	–	–	–	–	–	265,812
Disposals	(13,170)	(232,689)	(39,520)	(30,188)	(252,410)	(743,596)	(221,896)	(29,488)	(1,562,957)
Revaluation (through revaluation reserve)	–	–	–	–	–	15,521,163	–	–	15,521,163
Transfers to non-current assets held for sale *(Note 17)*	(87,865)	–	(170,247)	(2,810,480)	(292,648)	–	(61,471)	–	(3,422,711)
Transfer from construction-in-progress	763	25,221,954	211,570	6,917,877	10,636,366	–	1,555,826	(44,544,356)	–
Transfer to intangible assets *(Note 7)*	–	–	–	–	–	–	–	(72,365)	(72,365)
Transfers and reclassifications		31,141	(257,278)	137,938	456,379	–	175,918	(544,098)	–
At revalued amount as at 31 December 2017	19,890,305	227,862,264	14,563,900	109,033,695	157,269,793	102,839,808	17,899,977	35,937,112	685,296,854
Accumulated depreciation and impairment as at 31 December 2016	–	(5,664,218)	(797,704)	(2,026,280)	(7,868,018)	(199,540)	(1,838,562)	(57,681)	(18,452,003)
Foreign currency translation	–	–	(753)	(19,014)	(10,080)	–	(64)	–	(29,911)
Depreciation charge	–	(14,995,566)	(2,049,380)	(6,138,898)	(20,700,775)	–	(4,543,642)	–	(48,428,261)
Disposals	–	116,811	35,432	25,152	179,880	199,540	164,898	–	721,713
(Impairment)/reversal of impairment (through gain and loss)	–	(1,597)	4,462	(39,222)	(1,212)	–	(113)	–	(37,682)
Impairment (through revaluation reserve)	(2,100)	(12,255)	–	(349,844)	(17,221)	–	(2,983)	–	(384,403)
Transfers to non-current assets held for sale *(Note 17)*	2,100	–	57,480	360,045	123,378	–	31,210	–	574,213
Transfers and reclassifications	–	(2,550)	3,391	(3,841)	10,667	–	(7,667)	–	–
Accumulated depreciation and impairment as at 31 December 2017	–	(20,559,375)	(2,747,072)	(8,191,902)	(28,283,381)	–	(6,196,923)	(57,681)	(66,036,334)

6. PROPERTY, PLANT AND EQUIPMENT (continued)

In thousands of Tenge	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
As at 31 December 2018									
At revalued amount	**21,750,408**	**234,950,826**	**23,621,024**	**111,687,588**	**182,703,715**	**160,974,494**	**20,900,293**	**36,402,095**	**792,990,443**
Accumulated depreciation and impairment	**–**	**(35,420,503)**	**(5,469,079)**	**(17,643,196)**	**(51,697,315)**	**–**	**(10,682,006)**	**(304,732)**	**(121,216,831)**
Net book value	**21,750,408**	**199,530,323**	**18,151,945**	**94,044,392**	**131,006,400**	**160,974,494**	**10,218,287**	**36,097,363**	**671,773,612**
As at 31 December 2017									
At revalued amount	19,890,305	227,862,264	14,563,900	109,033,695	157,269,793	102,839,808	17,899,977	35,937,112	685,296,854
Accumulated depreciation and impairment	–	(20,559,375)	(2,747,072)	(8,191,902)	(28,283,381)	–	(6,196,923)	(57,681)	(66,036,334)
Net book value	19,890,305	207,302,889	11,816,828	100,841,793	128,986,412	102,839,808	11,703,054	35,879,431	619,260,520

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

In thousands of Tenge	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
As at 31 December 2018	**18,437,634**	**157,523,347**	**15,720,849**	**69,988,280**	**110,237,099**	**30,409,139**	**8,162,817**	**37,152,464**	**447,631,629**
As at 31 December 2017	17,601,898	155,169,285	8,156,550	70,592,417	98,708,783	30,429,636	7,537,917	37,098,481	425,294,967

6. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2018 construction in progress mainly includes the following production projects:

- Reconstruction of the “Astrakhan – Mangyshlak” water pipeline’s objects, including reconstruction of WPS-5;
- Overhaul with replacement of the pipeline of the main oil pipeline “Prorva-Kulsary”;
- Reconstruction of fire-fighting system and power supply for production facilities.

As at 31 December 2017 construction in progress mainly included the following production projects:

- Construction and reconstruction, realized as part of interstate “Kazakhstan-China” oil pipeline construction project;
- Reconstruction of the WPS-5 to increase the supply of water for the water pipeline “Astrakhan-Mangyshlak”;
- Overhaul with replacement of the pipeline on the separate sections of the main oil pipeline “Tuymazy-Omsk-Novosibirsk-2” and the main oil pipeline “Uzen-Atyrau-Samara” and others.

As at 31 December 2018:

- The initial cost and corresponding accumulated depreciation of fully depreciated plant and equipment still in use property were 1,158,467 thousand Tenge (31 December 2017: 2,065,226 thousand Tenge);
- Construction in progress included materials and spare parts in the amount of 4,479,477 thousand Tenge (as at 31 December 2017: 5,644,338 thousand Tenge), which were acquired for construction works.

Depreciation for the year ended 31 December 2018 included in the cost of construction in progress amounted to 33,166 thousand Tenge (for the year ended 31 December 2017: 34,799 thousand Tenge).

7. INTANGIBLE ASSETS

Intangible assets as at 31 December 2018 and 2017 are as follows:

In thousands of Tenge	Licenses	Software	Right for land use	Other	Total
Net book value as at 31 December 2017	312,106	1,290,744	4,912,491	30,460	6,545,801
Additions	**12,087**	**7,639**	–	**22,768**	**42,494**
Transfers from construction in progress *(Note 6)*	**133,827**	**591,267**	–	–	**725,094**
Amortization charge	**(91,059)**	**(647,563)**	**(177,006)**	**(3,550)**	**(919,178)**
Impairment	–	–	**(77,979)**	–	**(77,979)**
Foreign currency translation	**18,330**	–	**575,286**	–	**593,616**
Transfer to non-current assets held for sale *(Note 17)*	–	–	**(18,549)**	–	**(18,549)**
Transfers and reclassifications	–	–	**18,549**	**(18,549)**	–
Net book value as at 31 December 2018	**385,291**	**1,242,087**	**5,232,792**	**31,129**	**6,891,299**
Net book value as at 31 December 2016	152,886	1,088,171	4,991,673	27,871	6,260,601
Additions	185,102	503,436	–	5,945	694,483
Transfers from construction in progress *(Note 6)*	28,925	43,440	–	–	72,365
Amortization charge	(59,509)	(344,272)	(165,323)	(3,356)	(572,460)
Disposals	(26,584)	(44,766)	–	(1,909)	(73,259)
Accumulated amortization on disposals	26,258	44.719	–	1,909	72,886
Foreign currency translation	2,435	–	88,750	–	91,185
Transfers and reclassifications	2,593	16	(2,609)	–	–
Net book value as at 31 December 2017	312,106	1,290,744	4,912,491	30,460	6,545,801
As at 31 December 2018					
At cost	**1,021,657**	**5,499,098**	**9,160,850**	**93,276**	**15,774,881**
Accumulated amortization and impairment	**(636,366)**	**(4,257,011)**	**(3,928,058)**	**(62,147)**	**(8,883,582)**
Net book value	**385,291**	**1,242,087**	**5,232,792**	**31,129**	**6,891,299**
As at 31 December 2017					
At cost	859,601	5,037,905	8,181,950	89,058	14,168,514
Accumulated amortization and impairment	(547,495)	(3,747,161)	(3,269,459)	(58,598)	(7,622,713)
Net book value	312,106	1,290,744	4,912,491	30,460	6,545,801

8. INVESTMENTS IN JOINT VENTURES

Investments in joint ventures as at 31 December 2018 and 2017 are as follows:

In thousands of Tenge	**KCP**	**MunaiTas**	**Total**
As at 31 December 2017	14,331,613	17,405,373	31,736,986
Changes in accounting policy *(Note 4)*	**(3,844)**	**(226)**	**(4,070)**
Share in (loss)/income of joint ventures	**(3,726,041)**	**1,650,104**	**(2,075,937)**
Share in other comprehensive income/(loss) of joint venture	**(88,125)**	**432,469**	**344,344**
As at 31 December 2018	**10,513,603**	**19,487,720**	**30,001,323**

In thousands of Tenge	KCP	MunaiTas	Total
As at 31 December 2016	–	15,728,257	15,728,257
Share in income of joint ventures	6,225,244	1,712,517	7,937,761
Unrecognised share in income of joint venture	(836,291)	–	(836,291)
Share in other comprehensive income/(loss) of joint venture	8,942,660	(35,401)	8,907,259
As at 31 December 2017	14,331,613	17,405,373	31,736,986

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

	KCP			
	31 December 2018		31 December 2017	
In thousands of Tenge	**50%**	**100%**	50%	100%
Assets and liabilities of joint ventures				
Current assets	**18,224,069**	**36,448,138**	11,193,076	22,386,152
Non-current assets	**108,058,909**	**216,117,818**	112,914,233	225,828,466
Current liabilities	**(20,594,902)**	**(41,189,804)**	(20,394,094)	(40,788,188)
Non-current liabilities	**(95,174,473)**	**(190,348,946)**	(89,381,602)	(178,763,204)
Net assets / net book value of investment	**10,513,603**	**21,027,206**	14,331,613	28,663,226
Additional information				
Cash and cash equivalents	**8,754,456**	**17,508,912**	4,342,244	8,684,488
Short-term financial liabilities, net of trade and other payables and provisions	**(15,411,861)**	**(30,823,722)**	(16,057,521)	(32,115,042)
Long-term financial liabilities, net of trade and other payables and provisions	**(89,400,397)**	**(178,800,794)**	(83,384,876)	(166,769,752)

Long-term financial liabilities of KCP are represented by liabilities under loan agreement from 27 June 2018 with the Industrial and Commercial Bank of China Limited jointly with Industrial and Commercial Bank of China in Almaty JSC, acting as an agent. The loan amount was 540 million US Dollars (equivalent to 191,756,400 thousand Tenge at the date of attraction), the loan period is 6 years with the possibility of early repayment.The purpose of the loan is to refinance the loans from Industrial and Commercial Bank of China and ING Bank N.V. and Industrial and Commercial Bank of China and Industrial and Commercial Bank of China in Almaty JSC.

As a result of refinancing, the bank margin was reduced from 3.96% to 2.375% and the deadlines for the final repayment of the principal debt were postponed from 2023 to 2024.

The Company along with the second participant of KCP did not guarantee the loans.

As at 31 December 2018 total payable under loan including interest equals to 545,613 thousand US Dollars (equivalent to 209,624,516 thousand Tenge). As at 31 December 2017 total payable under both loans including interest equaled to 598,455 thousand US Dollars (equivalent to 198,884,794 thousand Tenge).

8. INVESTMENTS IN JOINT VENTURES (continued)

	MunaiTas			
	31 December 2018		31 December 2017	
In thousands of Tenge	**51%**	**100%**	51%	100%
Assets and liabilities of joint ventures				
Current assets	**9,688,754**	**18,997,557**	8,082,188	15,847,427
Non-current assets	**14,019,921**	**27,490,041**	13,032,214	25,553,361
Current liabilities	**(1,634,263)**	**(3,204,437)**	(969,387)	(1,900,759)
Non-current liabilities	**(2,586,692)**	**(5,071,945)**	(2,739,642)	(5,371,847)
Net assets / net book value of investment	**19,487,720**	**38,211,216**	17,405,373	34,128,182
Additional information				
Cash and cash equivalents	**9,485,812**	**18,599,631**	7,690,327	15,079,073
Short-term financial liabilities, net of trade and other payables and provisions	**–**	**–**	–	–
Long-term financial liabilities, net of trade and other payables and provisions	**–**	**–**	–	–

	KCP			
	For the year ended 31 December			
	2018		2017	
In thousands of Tenge	**50%**	**100%**	50%	100%
Information on profit or loss and other comprehensive income of joint ventures for the year				
Revenue	**30,443,093**	**60,886,186**	31,616,305	63,232,610
(Loss)/income from continuing operations for the year	**(3,726,041)**	**(7,452,082)**	6,225,244	12,450,488
Unrecognised income	**–**	**–**	(836,291)	(1,672,582)
Income/(loss) from discontinued operations for the year	**–**	**–**	–	–
Other comprehensive (loss)/income	**(88,125)**	**(176,250)**	8,942,660	17,885,320
Total comprehensive (loss)/income	**(3,814,166)**	**(7,628,332)**	14,331,613	28,663,226
Dividends	**–**	**–**	–	–
Additional information				
Depreciation and amortization	**(5,996,100)**	**(11,992,200)**	(7,061,412)	(14,122,824)
Interest income	**111,955**	**223,910**	80,853	161,706
Interest expense	**(6,072,471)**	**(12,144,942)**	(6,160,434)	(12,320,868)
(Loss)/income on exchange differences	**(12,668,632)**	**(25,337,264)**	701,437	1,402,874
Income tax benefit/(expense)	**521,561**	**1,043,122**	(1,693,842)	(3,387,684)

8. INVESTMENTS IN JOINT VENTURES (continued)

	MunaiTas			
	For the year ended 31 December			
	2018		2017	
In thousands of Tenge	51%	100%	51%	100%
Information on profit or loss and other comprehensive income of joint ventures for the year				
Revenue	**4,542,842**	**8,907,533**	4,323,112	8,476,690
Income from continuing operations for the year	**1,650,104**	**3,235,498**	1,712,517	3,357,877
Income/(loss) from discontinued operations for the year	–	–	–	–
Other comprehensive income/(loss)	**432,469**	**847,978**	(35,401)	(69,414)
Total comprehensive income	**2,082,573**	**4,083,476**	1,677,116	3,288,463
Dividends	–	–	–	–
Additional information				
Depreciation and amortization	**(906,649)**	**(1,777,743)**	(947,403)	(1,857,653)
Interest income	**609,842**	**1,195,769**	558,060	1,094,235
Income tax expense	**(420,663)**	**(824,829)**	(431,073)	(845,241)

9. ADVANCES TO SUPPLIERS FOR PROPERTY, PLANT AND EQUIPMENT

Advances to suppliers for property, plant and equipment as at 31 December 2018 and 2017 are as follows:

In thousands of Tenge	31 December 2018	31 December 2017
Advances to third parties for property, plant and equipment and construction services	**838,835**	910,669
Advances to related parties for property, plant and equipment and construction services *(Note 36)*	**16,118**	46,927
	854,953	957,596
Less: impairment	**(744,818)**	(661,754)
Total	**110,135**	295,842

Movement in reserve for impairment of advances given to suppliers for property, plant and equipment was as follows:

In thousands of Tenge	2018	2017
As at 1 January	**661,754**	53,258
Charge for the year *(Note 29)*	–	597,052
Used in write-off of advances	**(10,696)**	–
Foreign currency translation	**93,760**	11,444
As at 31 December	**744,818**	661,754

10. INVENTORIES

Inventories as at 31 December 2018 and 2017 are as follows:

In thousands of Tenge	31 December 2018	31 December 2017
Spare parts	**2,136,344**	1,978,556
Fuel	**1,012,002**	905,183
Construction materials	**549,851**	541,497
Chemical reagents	**383,129**	90,817
Overalls	**345,834**	173,167
Goods	**98,814**	81,554
Other	**604,524**	297,944
Total	**5,130,498**	4,068,718

11. TRADE AND OTHER ACCOUNTS RECEIVABLE

Trade and other accounts receivable as at 31 December 2018 and 2017 are as follows:

In thousands of Tenge	**31 December 2018**	31 December 2017
Trade accounts receivable from third parties	**7,163,458**	6,243,094
Trade accounts receivable from related parties *(Note 36)*	**2,420,294**	3,551,029
Other accounts receivable from third parties	**725,594**	716,947
Other accounts receivable from related parties *(Note 36)*	**19,761**	509
	10,329,107	10,511,579
Less: allowance for expected credit losses	**(4,701,509)**	(3,444,446)
Total	**5,627,598**	7,067,133

Movement in allowance for expected credit losses related to trade and other receivables is as follows:

In thousands of Tenge	**2018**	2017
As at 1 January	**3,444,446**	2,378,382
Changes in accounting policy *(Note 4)*	**27,623**	–
Charge for the year, net *(Note 29)*	**774,844**	1,024,013
Currency translation	**454,596**	42,051
As at 31 December	**4,701,509**	3,444,446

Trade and other accounts receivable as at 31 December 2018 and 2017 are denominated in the following currencies:

In thousands of Tenge	**31 December 2018**	31 December 2017
Tenge	**4,935,286**	6,196,038
US Dollar	**673,886**	413,088
Russian Ruble	**1,905**	1,717
Other currency	**16,521**	456,290
Total	**5,627,598**	7,067,133

Set out below is the information about credit risk exposure on Group's trade and other accounts receivable using the model of estimated reserves:

	Trade and other accounts receivable				
	Past due payments				
In thousands of Tenge	**less than 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
As at 31 December 2018					
Estimated total gross carrying amount at default	**4,190,311**	**164,353**	**343,815**	**5,630,628**	**10,329,107**
Expected credit losses	**(81,477)**	**(45,948)**	**(69,582)**	**(4,504,502)**	**(4,701,509)**

	Trade and other accounts receivable				
	Past due payments				
In thousands of Tenge	less than 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total
As at 31 December 2017					
Estimated total gross carrying amount at default	7,051,867	135,191	56,056	3,268,465	10,511,579
Expected credit losses	(94,245)	(78,106)	(3,630)	(3,268,465)	(3,444,446)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. ADVANCES TO SUPPLIERS

Advances to suppliers as at 31 December 2018 and 2017 are as follows:

In thousands of Tenge	**31 December 2018**	31 December 2017
Advances to third parties	**519,721**	301,599
Advances to related parties *(Note 36)*	**225,799**	204,462
	745,520	506,061
Less: impairment	**(647)**	(1,265)
Total	**744,873**	504,796

Movement in reserve for impairment of advances given to suppliers is as follows:

In thousands of Tenge	**2018**	2017
As at 1 January	**1,265**	38
(Reversal)/charge for the year *(Note 29)*	**(618)**	1,264
Used in write-off of advances	**–**	(37)
As at 31 December	**647**	1,265

13. VAT RECOVERABLE AND OTHER PREPAID TAXES

VAT recoverable and other prepaid taxes as at 31 December 2018 and 2017 are as follows:

In thousands of Tenge	**31 December 2018**	31 December 2017
VAT recoverable	**9,021,244**	8,157,636
Other taxes prepaid	**483,654**	385,362
Total	**9,504,898**	8,542,998

14. OTHER CURRENT ASSETS

Other current assets as at 31 December 2018 and 2017 are as follows:

In thousands of Tenge	**31 December 2018**	31 December 2017
Due for oil transportation coordination services	**7,653,717**	5,678,717
Prepaid insurance	**128,906**	65,716
Deferred expenses from third parties	**47,352**	39,547
Due from employees	**13,986**	45,518
Deferred expenses from related parties *(Note 36)*	**5**	5
Other	**39,188**	26,919
Total	**7,883,154**	5,856,422

15. BANK DEPOSITS

Bank deposits as at 31 December 2018 and 2017 are as follows:

In thousands of Tenge	**31 December 2018**	31 December 2017
Short-term bank deposits – US Dollar	**25,357,200**	18,005,639
Short-term bank deposits – Tenge	**–**	10,000,000
Long-term bank deposits – Tenge	**2,802,206**	3,948,692
Accrued interest on deposits – Tenge	**53,150**	309,811
Accrued interest on deposits – US Dollar	**41,315**	41,070
Less: allowance for expected credit losses	**(51,592)**	–
Total	**28,202,279**	32,305,212

15. BANK DEPOSITS (continued)

Movement in allowance for expected credit losses on short-term bank deposits is as follows:

In thousands of Tenge	**2018**	2017
As at 1 January	**–**	–
Changes in accounting policy *(Note 4)*	**264**	–
Charge for the year, net *(Note 33)*	**27,198**	–
As at 31 December	**27,462**	–

Movement in allowance for expected credit losses on long-term bank deposits is as follows:

In thousands of Tenge	**2018**	2017
As at 1 January	**–**	–
Changes in accounting policy *(Note 4)*	**31,251**	–
Reversal for the year *(Note 33)*	**(7,121)**	–
As at 31 December	**24,130**	–

As at 31 December 2018 and 2017 bank deposits comprised of the following:

- US Dollar denominated deposits with maturity from 3 to 12 months, with interest from 0.5% to 0.7% per annum (as at 31 December 2017: from 0.5% to 1% per annum), maturing from January to June 2019 (as at 31 December 2017: from June to August 2018);
- Restricted long-term bank deposits with interest from 2% to 3.5% per annum maturing in 2029 and in 2027, respectively (as at 31 December 2017: from 2% to 3.5% per annum maturing in 2029 and in 2027, 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 2018 and 2017 are as follows:

In thousands of Tenge	**31 December 2018**	31 December 2017
Time deposits with banks – Tenge	**27,107,538**	35,566,876
Current accounts with banks – Tenge	**3,202,253**	420,100
Current accounts with banks – US Dollar	**2,468,302**	4,635,546
Current accounts with banks – Lari	**461,040**	165,168
Current accounts with banks – Russian Ruble	**31,447**	16,926
Current accounts with banks – Euro	**8,452**	57,825
Other current accounts with banks	**21,567**	13,093
Cash in hand	**1,146**	777
Less: allowance for expected credit losses	**(22,902)**	(5,784)
Total	**33,278,843**	40,870,527

Movement in allowance for expected credit losses on cash and cash equivalents is as follows:

In thousands of Tenge	**2018**	2017
As at 1 January	**5,784**	5,443
Changes in accounting policy *(Note 4)*	**1,334**	–
Charge for the year, net *(Note 33)*	**15,906**	–
Foreign currency translation	**(122)**	341
As at 31 December	**22,902**	5,784

As at 31 December 2018 current accounts and time deposits with maturity less than 3 months in Tenge placed with Kazakhstani banks carried interest ranging from 6.55% to 7.50% per annum (as at 31 December 2017: from 0.5% to 9.84% per annum).

Interest for current accounts placed in US Dollars ranged from 0.25% to 4% per annum (as at 31 December 2017: from 0.25% to 4% per annum).

17. NON-CURRENT ASSETS HELD FOR SALE

As at 31 December 2018, non-current assets held for sale are represented by property of the administrative – residential building in Pavlodar and individual vehicles with the carrying value of 2,406,231 thousand Tenge (as at 31 December 2017: 2,848,498 thousand Tenge), since their recovery is planned to be through sale rather than through continuing use. These assets were recognized at the lower of their carrying amount and fair value less costs to sell and are available for immediate sale in their present condition. Management of the Group expects to complete the sale of the above assets during 2019.

Based on the supply and demand in the real estate market, in the current reporting period the management of the Group recognized impairment of the administrative-residential building in Pavlodar in the amount of 283,956 thousand Tenge *(Note 31)*.

During 2018, the Group classified as non-current assets held for sale and subsequently sold the property of administrative building in Astana, including property, plant and equipment with the carrying value of 4,507,001 thousand Tenge *(Note 6)* and intangible assets with the carrying value of 18,549 thousand Tenge *(Note 7)*. In addition, during the reporting period, the Group sold certain vehicles with the carrying value of 135,813 thousand Tenge, which were recognized as non-current assets held for sale as at 31 December 2017. Net income from the sale of the above assets amounted to 254,756 thousand *(Note 30)*.

With that, the management of the Group decided to cancel the sale of certain assets in the amount of 22,498 thousand Tenge and transfer them back to property, plant and equipment to continue their use *(Note 6)*.

18. INVESTMENTS IN BONDS

In December 2017, in accordance with the Decision of the Government of the Republic of Kazakhstan dated 7 November 2017, the Group purchased bonds of "Special Financial Company DSFK" LLP (hereinafter – "DSFK bonds") using the funds placed with RBK Bank JSC. The nominal amount of the bonds was 5,019,520 thousand tenge, the number of bonds is 5,019,520 thousand units. DSFK bonds carry coupon interest of 0.01% per annum and mature in 15 years. The above mentioned bonds are secured by a financial guarantee of "Kazakhmys Corporation" LLP of 1,379,913thousand Tenge. The guarantee is exercisable upon request of the Group not earlier than the fifth anniversary after the inception of the bonds. As at 31 December 2017 the Company recognized impairment loss for non-guaranteed bonds in the amount of 3,639,607 thousand Tenge, as well as expenses for discounting of these long-term investments held to maturity in the amount of 630,951 thousand Tenge *(Note 33)*.

In the current reporting period the issuer repurchased 43,457 thousand bonds at a price of 1 Tenge per 1 bond. The Group also revised the fair value of bonds based on the market interest rate of 12.7% and as a result, recognized income from revision of bond's fair value in the amount of 122,932 thousand Tenge *(Note 32)*. Thus, as at 31 December 2018, the book value of investment in bonds amounted to 828,437 thousand Tenge (as at 31 December 2017: 748,962 thousand Tenge).

19. EQUITY

Share capital

As at 31 December 2018 and 2017 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 2018 and 2017 the share capital was equal to 61,937,567 thousand Tenge, net of consulting costs related to the issuance of shares in the amount of 565,717 thousand Tenge.

Treasury shares repurchased from shareholders

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.

19. EQUITY (continued)

Asset revaluation reserve

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

In thousands of Tenge	**31 December 2018**	31 December 2017
Revaluation reserve for property, plant and equipment of the Group	**215,013,525**	196,489,838
Share in the asset revaluation reserve of the joint ventures	**28,575,452**	29,905,757
Total	**243,588,977**	226,395,595

Foreign currency translation reserve

As at 31 December 2018 foreign currency translation reserve was equal to 39,572,764 thousand Tenge (as at 31 December 2017: 33,068,230 thousand Tenge). Change in foreign currency translation reserve is due to the translation of the operations of the foreign subsidiaries as a result of changes in exchange rates *(Note 4.2)*.

Other capital reserves

As at 31 December 2018 other capital reserves represent a loss amounted to 72,146 thousand Tenge (31 December 2017: 623,415 thousand Tenge). Change in given reserve is due to accrual of actuarial gain from Employee benefit obligations in the amount of 689,087 thousand Tenge, income tax effect of which amounted to 137,818 thousand Tenge (31 December 2017: actuarial gains in the amount of 278,400 thousand Tenge, income tax effect of which amounted to 55,680 thousand Tenge). Also in 2017 the Group wrote off deferred tax assets of 150,746 thousand Tenge, related to the change in estimates of long-term employee benefit obligations.

Dividends

During 2018, the Company accrued and paid dividends as the result of 2017 year to the shareholders based on the decision of the general meeting of shareholders dated 24 May 2018 in the amount 61,540,496 thousand Tenge calculated as 160 Tenge per 1 share, with the use of net income received in 2017, in the amount 50,117,856 thousand Tenge and retained earnings of previous years in the amount 11,422,640 thousand Tenge (as at 31 December 2017: 59,617,355 thousand Tenge based on 155 Tenge per 1 share), including 55,387,527 thousand Tenge related to KMG (as at 31 December 2017: 53,656,666 thousand Tenge) and 6,152,969 thousand Tenge related to minority shareholders (as at 31 December 2017: 5,960,689 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.

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

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

In thousands of Tenge	**2018**	2017
Net profit for the period attributable to ordinary equity holders of the Parent of the Group	**38,484,983**	50,117,856
Weighted average number of ordinary shares for the year for basic earnings per share	**384,628,099**	384,628,099
Basic earnings per share, in relation to profit for the year attributable to ordinary equity holders of the Company, as a Parent company of the Group (in Tenge)	**100**	130

19. EQUITY (continued)

Book value per ordinary share

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

In thousands of Tenge	**31 December 2018**	31 December 2017
Total assets	**803,440,601**	764,227,005
Less: intangible assets *(Note 7)*	**(6,891,299)**	(6,545,801)
Less: total liabilities	**(178,024,402)**	(164,535,958)
Net assets for calculation of book value per ordinary share	**618,524,900**	593,145,246
Number of ordinary shares	**384,628,099**	384,628,099
Book value per ordinary share (in Tenge)	**1,608**	1,542

20. EMPLOYEE BENEFIT OBLIGATIONS

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

Employee benefit obligations as at 31 December 2018 and 2017 are as follows:

In thousands of Tenge	**31 December 2018**	31 December 2017
Current portion of employee benefit obligations	**663,463**	600,175
Non-current portion of employee benefit obligations	**12,940,911**	12,740,751
Total	**13,604,374**	13,340,926

Changes in the present value of employee benefit obligations for the years ended 31 December 2018 and 2017 are as follows:

In thousands of Tenge	**2018**	2017
Employee benefit obligations at the beginning of the year	**13,340,926**	12,538,017
Interest cost *(Note 33)*	**1,163,566**	1,182,271
Current services cost *(Notes 28, 29)*	**568,282**	559,185
Actuarial (gain)/loss through profit and loss *(Notes 30, 31)*	**(70,352)**	39,943
Actuarial gain through other comprehensive income	**(688,653)**	(279,191)
Benefits paid	**(709,395)**	(699,299)
Employee benefit obligations at the end of the year	**13,604,374**	13,340,926

21. DEFERRED INCOME

As at 31 December 2018 deferred income mainly represents a guarantee of the Group in the amount of 8,423,897 thousand Tenge (as at 31 December 2017: 7,498,361 thousand Tenge), ensuring the provision of individual BSP assets for long-term lease to a counterparty ("Batumi International Container Terminal" LLC).

The increase in the amount of these liabilities as at 31 December 2018 is due to increase in the exchange rates at the reporting date as well as amortization of liabilities for the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. TRADE AND OTHER ACCOUNTS PAYABLE

Trade and other accounts payable as at 31 December 2018 and 2017 are as follows:

In thousands of Tenge	**31 December 2018**	31 December 2017
Accounts payable to third parties for goods and services	**10,209,574**	16,443,979
Accounts payable to related parties for goods and services *(Note 36)*	**2,062,160**	820,196
Other accounts payable to third parties	**682,590**	345,994
Other accounts payable to related parties *(Note 36)*	**3,190**	2,190
Total	**12,957,514**	17,612,359

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 4,655,943 thousand Tenge (as at 31 December 2017: 12,190,230 thousand Tenge). The decrease in trade and other accounts payable as at 31 December 2018 is associated with the repayment of debt on capital services and the acquisition of construction in progress and property, plant and equipment.

Trade and other accounts payable as at 31 December 2018 and 2017 are in the following currencies:

In thousands of Tenge	**31 December 2018**	31 December 2017
Tenge	**12,207,766**	16,658,063
US Dollar	**244,584**	358,700
Euro	**34,206**	24,370
Russian Ruble	**3,770**	14,574
Other currency	**467,188**	556,652
Total	**12,957,514**	17,612,359

23. ADVANCES RECEIVED

Advances received as at 31 December 2018 and 2017 are as follows:

In thousands of Tenge	**31 December 2018**	31 December 2017
Advances received from related parties *(Note 36)*	**13,198,088**	10,919,781
Advances received from third parties	**7,462,122**	7,277,866
Total	**20,660,210**	18,197,647

24. OTHER TAXES PAYABLE

Other taxes payable as at 31 December 2018 and 2017 are as follows:

In thousands of Tenge	**31 December 2018**	31 December 2017
Personal income tax	**3,773,442**	3,304,942
Withholding tax at the source of payment to non-residents	**1,146,069**	1,063,456
Social tax	**671,697**	684,221
Property tax	**118,004**	217,714
VAT payable	**12,092**	8,075
Other taxes	**335,570**	287,025
Total	**6,056,874**	5,565,433

25. PROVISIONS

Movements in provisions for the years ended 31 December 2018 and 2017 are as follows:

Short-term provisions

In thousands of Tenge	Tax provisions (BOT)	Provision on compensating tariff (Company)	Other provisions	Total
As at 31 December 2017	182,117	–	41,125	223,242
Charge for the year	–	**1,046,994**	**246,703**	**1,293,697**
Transfers and reclassifications	–	–	**72,114**	**72,114**
Foreign currency translation	**10,367**	–	**36,184**	**46,551**
As at 31 December 2018	**192,484**	**1,046,994**	**396,126**	**1,635,604**
As at 31 December 2016	166,978	–	41,125	208,103
Foreign currency translation	15,139	–	–	15,139
As at 31 December 2017	182,117	–	41,125	223,242

In accordance with the order of the CRNMPCandCR and the subsequent decision of the judicial authorities, the Group accrued a provision on the compensating tariff in the amount of 1,046,994 thousand Tenge as at 31 December 2018, as there is a high probability of outflow of financial resources of the Group.

Also, the Group recognized other provisions in the amount of 246,703 thousand Tenge *(Note 31)*, including the provision of PTL in the amount of 679 thousand US Dollars (equivalent to 234,282 thousand Tenge) to compensate the losses incurred by customers for deterioration of the quality of the transported gas and vacuum gas oil.

Long-term provisions

Asset retirement and land recultivation obligation

As at 31 December 2018 and 2017, the Company revised the long-term provisions considering current best estimate. Assumptions used and the sensitivity to changes in the discount rate are reflected in *Note 5*.

In thousands of Tenge	2018	2017
As at 1 January	**15,347,322**	15,022,086
Charge for the year through asset *(Note 6)*	**106,229**	265,812
Revision of estimates through other comprehensive loss	**3,102,220**	30,162
Revision of estimates through profit and loss *(Notes 30 and 31)*	**1,162,914**	(1,239,714)
Unwinding of discount on asset retirement and land recultivation obligation *(Note 33)*	**1,390,712**	1,268,976
As at 31 December	**21,109,397**	15,347,322

26. OTHER CURRENT LIABILITIES

Other current liabilities as at 31 December 2018 and 2017 are as follows:

In thousands of Tenge	31 December 2018	31 December 2017
Salaries and other compensations	**10,279,349**	10,053,682
Accounts payable for oil transportation coordination services to related parties *(Note 36)*	**8,437,279**	6,589,984
Accounts payable for oil transportation coordination services to third parties	**4,319,474**	4,118,923
Accounts payable to pension fund	**817,336**	741,564
Current portion of deferred income from third parties	**579,231**	540,164
Other accruals	**400,595**	463,809
Total	**24,833,264**	22,508,126

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

27. REVENUE

Revenue for the years ended 31 December 2018 and 2017 are as follows:

In thousands of Tenge	Oil transportation and related services	Oil transshipment	Water transportation	Others	Total segments 2018	Total segments 2017
Crude oil transportation	189,600,250	–	–	–	189,600,250	184,818,487
Pipeline operation and maintenance services	13,233,048	–	–	–	13,233,048	10,598,775
Water transportation	–	–	7,536,197	–	7,536,197	7,046,075
Seaport services	–	–	–	5,453,702	5,453,702	4,677,944
Fees for undelivered oil volumes	4,852,920	–	–	–	4,852,920	5,198,277
Oil transshipment and railway shipment	–	3,001,848	–	–	3,001,848	8,200,586
Oil transportation coordination services	691,347	–	–	–	691,347	697,652
Oil storage services	77,375	–	–	–	77,375	100,327
Other	110,286	–	354	842,243	952,883	1,111,831
Total	**208,565,226**	**3,001,848**	**7,536,551**	**6,295,945**	**225,399,570**	222,449,954
Geographic regions						
Kazakhstan	208,565,226	–	7,536,551	–	216,101,777	–
Georgia	–	3,001,848	–	6,295,945	9,297,793	–
Total revenue under contracts with customers	208,565,226	3,001,848	7,536,551	6,295,945	225,399,570	–
Timing of revenue recognition						
At a point in time	195,332,178	3,001,848	7,536,551	6,295,945	212,166,522	–
Over time	13,233,048	–	–	–	13,233,048	–
Total revenue under contracts with customers	208,565,226	3,001,848	7,536,551	6,295,945	225,399,570	–

The decrease of revenue from the oil transshipment and railway shipment is associated with decrease in the volume of oil products and gas transported through the Georgian railway from 935 thousand tons in 2017 to 37 thousand tons in 2018.

For the year ended 31 December 2018 revenue from the five major customers amounted to 50,677,435 thousand Tenge, 29,489,655 thousand Tenge, 13,563,399 thousand Tenge, 10,956,630 thousand Tenge and 9,450,461 thousand Tenge. For the year ended 31 December 2017, revenue from these customers amounted to 49,159,783 thousand Tenge, 26,582,952 thousand Tenge, 13,132,025 thousand Tenge, 10,663,597 thousand Tenge and 12,106,463 thousand Tenge, respectively.

28. COST OF SALES

Cost of sales for the years ended 31 December 2018 and 2017 are as follows:

In thousands of Tenge	**2018**	2017
Personnel costs	**50,899,811**	51,365,261
Depreciation and amortization	**50,759,001**	47,706,105
Taxes other than income tax	**8,387,637**	7,378,580
Materials and fuel	**8,177,241**	8,044,338
Electric energy	**7,349,797**	7,376,113
Repair and maintenance	**6,862,945**	5,639,398
Security services	**4,972,112**	4,261,973
Gas expense	**2,950,498**	3,600,450
Food and accomodation	**1,786,131**	549,634
Transportation services	**1,548,268**	285,740
Air services	**1,057,842**	1,186,286
Environmental protection	**1,039,222**	473,677
Business trip expenses	**982,420**	910,133
Insurance	**653,375**	637,977
Post-employment benefits *(Note 20)*	**530,504**	528,274
Outstaffing services	**443,259**	396,876
Obligatory social medical insurance	**428,535**	154,997
Diagnostics of production assets	**368,319**	377,305
Operational rent expenses	**333,818**	189,483
Railway services	**312,951**	2,740,376
Communication services	**258,195**	257,442
Other	**2,291,805**	2,538,113
Total	**152,393,686**	146,598,531

The increase in depreciation and amortization expenses and taxes (except for income tax) is primarily associated with a significant commissioning of objects of construction in progress at the end of 2017.

The increase in the Company's expenses for food and accommodation for production personnel working at remote areas, as well as transportation costs is associated with the outsourcing of these services.

The reduction in the cost of railway services is mainly due to decrease in the volume of oil, oil products and gas transportation in Georgia *(Note 27)*.

The increase in the cost of environmental protection is associated with the implementation of measures to restore disturbed lands (historical pollution) along the main oil pipeline.

29. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 December 2018 and 2017 are as follows:

In thousands of Tenge	2018	2017
Personnel costs	**8,802,714**	8,698,946
Depreciation and amortization	**1,650,549**	1,259,817
Charge of provision on compensating tariff *(Note 25)*	**1,046,994**	–
Charge of allowance for expected credit losses, net *(Note 11)*	**774,844**	1,024,013
Office maintenance	**581,342**	497,469
Repair and maintenance	**417,832**	285,544
Consulting services	**355,333**	516,403
Write-off of VAT recoverable	**346,556**	91,939
Social sphere expenses	**333,814**	303,460
Business trip expenses	**325,718**	290,252
Taxes other than income tax	**287,536**	351,289
Outstaffing services	**216,548**	500,323
Training	**170,072**	138,557
Transportation services	**162,313**	123,866
Information services	**140,445**	108,617
Communication services	**139,128**	99,910
Materials and fuel	**101,783**	122,954
Advertising expenses	**82,425**	71,195
Bank costs	**77,741**	107,687
Insurance and security	**75,547**	130,663
Operational rent expenses	**61,233**	31,584
Post-employment benefits *(Note 20)*	**37,778**	30,911
Charity expenses	**33,814**	46,956
Obligatory social medical insurance	**33,679**	9,432
Charge of provision for obsolete inventories, net	**11,562**	28,552
(Reversal)/charge of reserve for impairment of advances to suppliers *(Notes 9 and 12)*	**(618)**	598,316
Other	**604,339**	552,268
Total	**16,871,021**	16,020,923

30. OTHER OPERATING INCOME

Other operating income for the years ended 31 December 2018 and 2017 is as follows:

In thousands of Tenge	2018	2017
Income from disposal of inventories	**304,331**	105,876
Income from fines and penalties	**266,145**	682,829
Gain on disposal of non-current assets held for sale, net *(Note 17)*	**254,756**	–
Actuarial gain *(Note 20)*	**70,352**	–
Revision of estimates on provision on asset retirement and land recultivation obligation *(Note 25)*	**–**	1,239,714
Cost recovery from temporary structures	**–**	217,054
Other income	**217,256**	201,489
Total	**1,112,840**	2,446,962

31. OTHER OPERATING EXPENSES

Other operating expenses for the years ended 31 December 2018 and 2017 are as follows:

In thousands of Tenge	2018	2017
Net loss on disposal of property, plant and equipment and intangible assets	**1,228,319**	741,248
Revision of estimates on provision on asset retirement and land recultivation obligation *(Note 25)*	**1,162,914**	–
Impairment of non-current assets held for sale *(Note 17)*	**283,956**	–
Charge of other current provisions *(Note 25)*	**246,703**	–
Expenses for liquidation of idle production facilities	**106,084**	56,275
Actuarial loss *(Note 20)*	**–**	39,943
Other expenses	**122,587**	125,396
Total	**3,150,563**	962,862

32. FINANCE INCOME

Finance income for the years ended 31 December 2018 and 2017 is as follows:

In thousands of Tenge	**2018**	2017
Interest income on bank deposits and current accounts	**2,671,783**	4,918,019
Income from revision of bond's fair value *(Note 18)*	**122,932**	–
Other finance income	**25,309**	19,536
Total	**2,820,024**	4,937,555

33. FINANCE COSTS

Finance costs for the years ended 31 December 2018 and 2017 are as follows:

In thousands of Tenge	**2018**	2017
Unwinding of discount on asset retirement and land recultivation obligation *(Note 25)*	**1,390,712**	1,268,976
Interest cost on employee benefit obligations *(Note 20)*	**1,163,566**	1,182,271
Charge of allowance for expected credit losses of cash and cash equivalents, bank deposits, net *(Notes 15 and 16)*	**35,983**	–
Discount of investments in bonds *(Note18)*	**–**	630,951
Total	**2,590,261**	3,082,198

34. INCOME TAX EXPENSE

Income tax expense for the years ended 31 December 2018 and 2017 is as follows:

In thousands of Tenge	**2018**	2017
Current income tax expense	**19,417,881**	17,080,223
Changes in estimates of current income tax of the prior periods	**1,034,264**	(294,732)
Deferred income tax benefits	**(6,740,724)**	(961,161)
Income tax expense	**13,711,421**	15,824,330

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 2018 and 2017 is as follows:

In thousands of Tenge	**2018**	2017
Profit before income tax	**52,196,404**	65,942,186
Statutory rate	**20%**	20%
Income tax expense on accounting profit	**10,439,281**	13,188,437
Changes in estimates of current income tax of the prior periods	**1,034,264**	(294,732)
Decrease due to revision of estimates on taxable temporary differences related to property, plant and equipment	**(1,065,393)**	–
Profit and intolerable losses of foreign operations	**988,954**	770,545
Gain on surplus of technological oil	**788,242**	433,589
Provision on compensating tariff	**209,399**	–
Impairment of non-depreciable property, plant and equipment	**93,462**	1,029,766
Write-off of deferred tax assets on long-term employee benefit obligations	**44,213**	1,166,108
Impairment of investments in bonds	**–**	727,921
Other non-deductible expenses	**614,476**	222.990
Tax effect of other adjustments		
Loss/(profit) of joint ventures recognized based on equity method	**564,523**	(1,420,294)
Corporate income tax expense reported in the consolidated statement of comprehensive income	**13,711,421**	15,824,330

34. INCOME TAX EXPENSE (continued)

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

In thousands of Tenge	**31 December 2018**	**Charged to profit and loss**	**Charged to other comp-rehensive income**	31 December 2017	Charged to profit and loss	Charged to other comp-rehensive income	1 January 2017
Deferred tax assets							
Employee benefits and other employee compensation and related costs	**1,953,562**	**154,354**	**(137,731)**	1,936,939	(850,797)	(206,584)	2,994,320
Reserve for impairment of advances to suppliers	**10,781**	**(124)**	**–**	10,905	245	–	10,660
Provision for obsolete and slow-moving inventories	**3,353**	**(170)**	**–**	3,523	(26)	–	3,549
Provision for assets retirement and land recultivation obligation	**4,221,881**	**531,971**	**620,445**	3,069,465	59,015	6,033	3,004,417
Provision for environmental protection and other provisions	**8,225**	**–**	**–**	8,225	–	–	8,225
Taxes payable	**125,916**	**(21,437)**	**–**	147,353	32,555	–	114,798
Fair value change and discounting of investments in bonds	**101,604**	**(24,586)**	**–**	126,190	126,190	–	–
Transfer of losses for subsequent periods	**694,956**	**694,956**	**–**	–	–	–	–
Unrealized income from intragroup transactions	**401,821**	**401,821**	**–**	–	–	–	–
Expected credit losses	**180,578**	**60,572**	**–**	120,006	(8,715)	–	128,721
	7,702,677	**1,797,357**	**482,714**	5,422,606	(641,533)	(200,551)	6,264,690
Deferred tax liabilities							
Property, plant and equipment	**(75,097,019)**	**4,943,367**	**(11,494,525)**	(68,545,861)	1,602,694	(3,027,352)	(67,121,203)
	(75,097,019)	**4,943,367**	**(11,494,525)**	(68,545,861)	1,602,694	(3,027,352)	(67,121,203)
Net deferred income tax liabilities	**(67,394,342)**	**6,740,724**	**(11,011,811)**	(63,123,255)	961,161	(3,227,903)	(60,856,513)

34. INCOME TAX EXPENSE (continued)

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

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

35. SEGMENT INFORMATION

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

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

In relation to the formation at the end of 2017 of the subsidiary of "Main Waterline" LLP, the Group as at 31 December 2018 has allocated a separate segment "Water transportation". Earlier this segment was aggregated in the segment "Oil transportation and related services".

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

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

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

35. SEGMENT INFORMATION (continued)

	For the year ended 31 December 2018					For the year ended 31 December 2017				
In thousands of Tenge	**Oil transportation and related services (Kazakhstan)**	**Oil transshipment (Georgia)**	**Water transportation (Kazakhstan)**	**Other**	**Total segments**	Oil transportation and related services (Kazakhstan)	Oil transshipment (Georgia)	Water transportation (Kazakhstan	Other	Total segments
Revenue										
External customers	**208,565,226**	**3,001,848**	**7,536,551**	**6,295,945**	**225,399,570**	201,560,804	8,200,586	7,046,075	5,642,489	222,449,954
Total revenue	**208,565,226**	**3,001,848**	**7,536,551**	**6,295,945**	**225,399,570**	201,560,804	8,200,586	7,046,075	5,642,489	222,449,954
Financial results										
Impairment of property, plant and equipment intangible assets through profit and loss	**(292,293)**	**(2,239,655)**	**–**	**(117,313)**	**(2,649,261)**	(37,682)	–	–	–	(37,682)
Depreciation and amortization	**(46,235,224)**	**(1,873,222)**	**(3,219,403)**	**(1,081,701)**	**(52,409,550)**	(43,114,292)	(2,015,827)	(2,861,802)	(974,001)	(48,965,922)
Interest income	**2,468,573**	**4,831**	**136,962**	**61,417**	**2,671,783**	4,862,911	55,108	–	–	4,918,019
Share in(loss)/income of joint ventures	**(2,075,937)**	**–**	**–**	**–**	**(2,075,937)**	7,101,470	–	–	–	7,101,470
Income tax (expense)/benefit	**(13,680,920)**	**–**	**129,974**	**(160,475)**	**(13,711,421)**	(15,793,678)	(15,978)	–	(14,674)	(15,824,330)
Segment profit/(loss) for the period	**45,662,399**	**(6,234,183)**	**(2,648,387)**	**1,705,154**	**38,484,983**	55,072,740	(3,302,861)	(2,332,226)	680,203	50,117,856
Other disclosures										
Total assets	**706,250,834**	**51,206,176**	**28,932,026**	**17,051,565**	**803,440,601**	669,637,249	52,756,058	24,285,345	17,548,353	764,227,005
Total liabilities	**159,223,487**	**6,973,998**	**749,277**	**11,077,640**	**178,024,402**	147,563,341	13,190,178	1,307,910	2,474,529	164,535,958
Investments in joint ventures *(Note 8)*	**30,001,323**	**–**	**–**	**–**	**30,001,323**	31,736,986	–	–	–	31,736,986
Capital expenditures	**50,380,291**	**75,563**	**182,410**	**395,416**	**51,033,680**	51,351,798	1,167,692	–	–	52,519,490

36. 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 terms agreed to between the parties that may not necessarily be at market rates, except for certain regulated services, which are 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 2018 and 2017 and the related balances as at 31 December 2018 and 2017.

Non-current advances given to related parties for property, plant and equipment are as follows:

In thousands of Tenge	Notes	31 December 2018	31 December 2017
Non-current advances given to related parties for property, plant and equipment and construction services			
Non-current advances to entities under common control of Samruk-Kazyna Group		**–**	46,927
Non-current advances to entities under common control of KMG		**16,118**	–
Total non-current advances given to related parties for property, plant and equipment and construction services	9	**16,118**	46,927

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

In thousands of Tenge	Notes	31 December 2018	31 December 2017
Trade and other accounts receivable from related parties			
Trade accounts receivable from joint ventures		**994,993**	2,495,886
Trade accounts receivable from entities under common control of Samruk-Kazyna Group		**817,719**	3,442
Trade accounts receivable from entities under common control of KMG		**607,582**	1,051,701
Total trade accounts receivable from related parties	11	**2,420,294**	3,551,029
Other accounts receivables from entities under common control of KMG and Samruk-Kazyna Group		**19,761**	509
Total other accounts receivable from related parties	11	**19,761**	509
Less: allowance for expected credit losses		**(7,295)**	–
Total		**2,432,760**	3,551,538

Advances provided to related parties are as follows:

In thousands of Tenge	Notes	31 December 2018	31 December 2017
Advances paid to related parties			
Advances paid to entities under common control of KMG		**210,957**	103,181
Advances paid to entities under common control of Samruk-Kazyna Group		**14,842**	101,281
Total advances paid to related parties	12	**225,799**	204,462

Deferred expenses from related parties are as follows:

In thousands of Tenge	Notes	2018	2017
Deferred expenses from related parties			
Deferred expenses from entities under control of Samruk-Kazyna Group		**5**	5
Total deferred expenses from related parties	14	**5**	5

36. RELATED PARTY TRANSACTIONS (continued)

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

In thousands of Tenge	Notes	31 December 2018	31 December 2017
Trade accounts payables to related parties for goods and services			
Trade accounts payables to entities under common control of Samruk-Kazyna Group		**1,334,743**	232,361
Trade accounts payables to entities under common control of KMG		**720,259**	585,503
Trade accounts payable to joint ventures		**7,158**	2,332
Total trade accounts payable to related parties for goods and services	22	**2,062,160**	820,196
Other payables to entities under common control of Samruk-Kazyna Group		**2,493**	2,190
Other payables to entities under common control of KMG		**697**	–
Total other accounts payable to related parties for goods and services	22	**3,190**	2,190
Total trade and other accounts payable to related parties for goods and services		**2,065,350**	822,386

Advances received from related parties are as follows:

In thousands of Tenge	Notes	31 December 2018	31 December 2017
Advances received from related parties			
Advances from entities under common control of KMG		**12,869,915**	10,560,712
Advances from entities under common control of Samruk-Kazyna Group		**328,173**	359,068
Advances from joint ventures		**–**	1
Total advances received from related parties	23	**13,198,088**	10,919,781

Other current liabilities to related parties are as follows:

In thousands of Tenge	Notes	31 December 2018	31 December 2017
Accounts payable for oil transportation coordination services to related parties			
Accounts payable for oil transportation coordination services to entities under common control of KMG		**8,437,279**	6,589,984
Total of accounts payable for oil transportation coordination services to related parties	26	**8,437,279**	6,589,984
Employee benefits obligation of key management personnel			
Employee benefits obligation of key management personnel		**55,559**	44,502
Total employee benefits obligation of key management personnel		**55,559**	44,502
Total other current liabilities to related parties		8,492,838	6,634,486

36. RELATED PARTY TRANSACTIONS (continued)

The following tables provide the total amount of transactions, which have been entered into with related parties during the year ended 31 December:

In thousands of Tenge	2018	2017
Sales to related parties		
Revenue from main activities with entities under common control of KMG	**120,997,267**	117,469,386
Revenue from main activities with joint ventures	**9,284,834**	9,121,018
Revenue from main activities with entities under common control of Samruk-Kazyna Group	**5,739,205**	3,731,719
Income from sale of non-current assets held for sale to KMG	**372,976**	–
Income from other activities with entities under common control of Samruk-Kazyna Group	**57,756**	16,138
Income from other activities with entities under common control of KMG	**39,576**	84,391
Income from other activities with joint ventures	**1,238**	–
Total	**136,492,852**	130,422,652

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

Purchase of services and assets from related parties is as follows:

In thousands of Tenge	2018	2017
Purchases from related parties		
Purchases of property, plant and equipment from entities under common control of Samruk-Kazyna Group	**17,627,906**	1,057,305
Purchases of services from entities under common control of KMG	**5,744,501**	7,387,038
Purchases of services from entities under common control of Samruk-Kazyna Group	**2,934,371**	2,992,827
Purchases of inventory from entities under common control of KMG	**1,429,260**	1,071,536
Purchases of property, plant and equipment from entities under common control of KMG	**199,669**	747,248
Purchases of services from joint ventures	**34,645**	7,506
Purchases of inventory from entities under common control of Samruk-Kazyna Group	**165**	3,359
Total	**27,970,517**	13,266,819

In the reporting period, the Company acquired property, plant and equipment from a related party under common control of Samruk-Kazyna Group in the amount of 17,627,906 thousand Tenge, as part of the projects under overhaul with replacement of the pipeline of the main oil pipeline Prorva-Kulsary and reconstruction of the "Astrakhan – Mangyshlak" water pipeline.

Cash flows to related to the payment of dividends are as follows:

	For the year ended 31 December	
In thousands of Tenge	2018	2017
Cash flows to related parties		
Payment of KMG dividends	**55,387,527**	53,656,666
Total	**55,387,527**	53,656,666

Total accrued compensation to key management personnel for the year ended 31 December 2018 amounts to 834,325 thousand Tenge (for the year ended 31 December 2017: 586,985 thousand Tenge). Payments to key personnel consist primarily of payroll costs and remuneration established by contracts and Company's internal regulations.

37. 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.

37. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Operating environment (continued)

Kazakhstan economy continued to be negatively impacted by a significant drop in crude oil prices and a significant devaluation of Kazakhstani Tenge that took place in 2015. 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. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not usual, 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 80% 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 proceeding 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 2018.

As at 31 December 2018 the Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained, except as provided for or otherwise disclosed in these consolidated financial statements.

Transfer pricing control

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

The transfer pricing law is not explicit and there is little precedence with some of its provisions. Moreover, the law is not supported by detailed guidance. As a result, application of transfer pricing control to various types of transactions is not clearly regulated.

Because of the uncertainties associated with the Kazakhstan transfer pricing legislation, there is a risk that the tax authorities may take a position that differs from the Group's position, which could result in additional taxes, fines and interest as at 31 December 2018.

As at 31 December 2018 the Management believes that its interpretation of the transfer pricing legislation is appropriate and that it is probable that the Group's positions with regard to transfer pricing will be sustained.

Tax commitments of Georgian entities

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

BOT has significant transactions with off-shore subsidiary of the Company (PTL). These transactions fall within the definition of transactions between related parties and may be challenged by tax authorities of Georgia. Management believes that it has sufficient arguments to assert that pricing of transactions between entities of the Group is at arm's length, however due to absent legislative basis for determination of market prices tax authorities might take position different from that of the Group.

37. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Taxation (continued)

Tax commitments of Georgian entities (continued)

In 2015 Georgian Tax Authorities (hereinafter – "GTA") additionally accrued taxes and fines in the amount of 2,723 thousand US Dollars (equivalent to 1,046,177 thousand Tenge) as a result of tax inspections of BSP for the period of 2010-2014. BSP did not agree with the decision of GTA and filed an appeal.

As a result in 2016 by the decision of the audit department of the Georgian Revenue Service, the accrued taxes were reduced to 1,786 thousand US Dollars (equivalent to 686,181 thousand Tenge). BSP filed another appeal to the Board of Dispute Resolution of the Georgia Revenue Service.

Also in 2018, the GTA carried out a tax audit of BOT for the period from 2015 to the first half of 2018, the results of which accrued taxes and fines in the amount of 1,856 thousand US Dollars (equivalent to 713,075 thousand Tenge). Management of the BOT believes that additional charges of taxes and fines are controversial and sent a complaint to the Ministry of Finance of Georgia.

The management of the BOT, based on an analysis of local tax laws and current practice for similar tax proceedings, at the end of 2016 recognized the obligation to pay taxes in the amount of 858 thousand US Dollars (equivalent to 329,644 thousand Tenge). The remaining amount of 928 thousand US Dollars (equivalent to 356,538 thousand Tenge) for BSP for the period of inspection of 2010-2014 and 1,856 thousand US Dollars (equivalent to 713,075 thousand Tenge) for BOT for the period of inspection from 2015 to the first half of 2018 is not recognized as additional obligations, since management believes that the BSP's appeal and BOT's complaint will be successful and assess the likelihood of outflow of financial resources in this part unlikely.

As at 31 December 2018 the decision of the department of the Georgian Revenue Service was not revised.

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 Group's financial position or results of operations except for those described in the present consolidated financial statements *(Notes 5, 25)*.

Insurance matters

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

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

Contractual commitments to acquire property, plant and equipment

As at 31 December 2018 the Group had contractual obligations to acquire property, plant and equipment, and construction services for the amount of 38,927,686 thousand Tenge (31 December 2017: 18,507,367 thousand Tenge). These contractual commitments are part of the investment program.

Share of the Company as at 31 December 2018 in contractual obligations of joint ventures to acquire property, plant and equipment, and construction services amounted to 3,707,759 thousand Tenge (31 December 2017: 123,176 thousand Tenge).

37. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Investment program commitments

In accordance with the Law of the Republic of Kazakhstan *On Natural Monopolies*, the Company, as a subject of natural monopolies, within the approved maximum tariffs for 2015-2019, has an obligation to execute an investment program aimed at capital construction/reconstruction/overhaul/diagnostics of production facilities for 2015-2019 (approved by the joint order of the Ministry of Energy of the Republic of Kazakhstan No. 68 from 27 February 2018 and the CRNMPC and CR No. 43-OD from 23 February 2018), in the total amount of 191 billion Tenge including:

- 2015 – 57.1 billion Tenge, including on the domestic market – 18.4 billion Tenge;
- 2016 – 38.4 billion Tenge, including on the domestic market – 12.5 billion Tenge;
- 2017 – 37.09 billion Tenge, including on the domestic market – 11.7 billion Tenge;
- 2018 – 37.09 billion Tenge, including on the domestic market – 11.5 billion Tenge;
- 2019 – 21.36 billion Tenge, including on the domestic market – 6.6 billion Tenge.

As at 31 December 2018, Company's commitments for the execution of the investment program is 51.8 billion Tenge (31 December 2017: 63.4 billion Tenge).

In relation to production needs, in order to maintain the current level of production, in the second half of 2018, the Company sent to the Ministry of Energy of the Republic of Kazakhstan and CRNMPCandCR proposals for adjusting the above investment program for 2018-2019. In response to the Company's appeal, CRNMPCandCR refused to adjust the investment program in connection with the existing remarks, which accordingly entails the risk of applying a temporary compensating tariff for non-performance of certain measures of the investment program. A temporary compensating tariff can be applied to the Company's services for pumping oil to the domestic market and supplying water for twelve months, starting from 1 July 2020.

The Company did not agree with remarks of CRNMPCandCR and conducts to appeal its actions in accordance with the procedure established by the legislation.

Legal proceedings

Legal proceedings BOT

On 19 December 2016 the proposal from the law enforcement agencies of Georgia on the implementation of the court ruling was received, which contains the order that BOT should not use its dominant position in the market, as well as the requirements on conclusion of the agreement on services. According to this definition, the court decided to arrest the property owned by BOT – the land plot (c. Batumi) and buildings and constructions located on it. This arrest restricts the alienation of the arrested property, but does not affect the operational and economic activities of BOT. On 23 December 2016, BOT appealed the above decision in the Tbilisi City Court.

On 15 February 2017, BOT received a statement of claim according to which the plaintiff (Vibro Diagnostic) requires the court to oblige BOT to enter into a service contract on the terms specified at the claimant's claim, and also compensate the plaintiff for damages in amount of 2,038 thousand US Dollars (equivalent to 783,000 thousand Tenge) and, additionally from 1 December 2016 until the execution of the court decision, a monthly amount of 280 thousand US Dollars (equivalent to107,576 thousand Tenge). On 24 February 2017 the plaintiff and the court sent a response to the statement of claim with the position of the BOT in this case.

On 11 September 2017, the Tbilisi Court of Appeal refused to satisfy the BOT's claim to appeal against the ruling of the court, received on 19 December 2016, but BOT continues legal proceedings.

Due to the fact that the market value of the arrested property exceeded the plaintiff's monetary claim (as at 31 December 2017, the carrying value of the arrested property was 50.1 million US Dollars, equivalent to 16,650 million Tenge), based on the petition of the BOT and the subsequent court decision, at the end of 2018, the arrested land plot was replaced with another land plot. As a result, the total book value of all arrested property as at 31 December 2018 was 5.85 million US Dollars (equivalent to 2,152 million Tenge).

As at 31 December 2018 the Group did not recognize any additional obligations due to the opinion of BOT management, the plaintiff's claims against BOT are not supported.

On 12 February 2019, the City Court of Tbilisi made a decision in favor of the plaintiff, BOT intends to appeal the court decision in the next instance.

37. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Legal proceedings (continued)

Expropriation of the BSP assets

In accordance with BSP Management Right agreement between BOT and the Georgia Government, the Georgian Government has the right for expropriation of the BSP's assets, in case the BSP in the course of 2 years does not meet its obligations on minimum volume of transshipment, which is 4 million tons per year. In addition, if the transshipment volume is less than 6 million tons per year, BOT shall pay the following penalties for:

- Non-fulfillment of up to 1 million tons in the amount of 0.1 US Dollars (ten US cents) per ton;
- Non-fulfillment of 1 to 2 million tons in the amount of 0.2 US Dollars (twenty US cents) per ton;
- Non-fulfillment of over 2 million tons in the amount of US Dollars 1 per ton.

During 2018, the actual volumes of transshipment through BSP amounted to 5.6 million tons (as at 31 December 2017: 5.9 million tons). According to the Agreement, based on factual volumes in 2018, the Group accrued penalties under the contract in the amount of 36 thousand US Dollars (equivalent to 12,421 thousand Tenge).

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The Group is exposed to market risk that comprises credit risk, currency risk and liquidity risk. The management of the Group reviews and agrees policies for managing each of these risks which are summarized below.

Credit risk

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

The Group places deposits with Kazakhstani and foreign banks *(Notes 15 and 16)*. Management of the Group reviews credit ratings of these banks periodically to eliminate extraordinary credit risk exposure. In accordance with IFRS 9, the Group accruals allowances for expected credit losses in respect of funds with credit institutions.

The table below shows the balances of bank deposits and cash and cash equivalents at the 31 December 2018 and 2017 using the "Moody's", "Fitch" and "Standard & Poor's" credit ratings.

Bank	Location	Rating **31 December 2018**	Rating 31 December 2017	**31 December 2018**	31 December 2017
"Halyk Bank of Kazakhstan" JSC	Kazakhstan	**BB/Positive**	Ba1/Stable	**60,758,933**	68,314,402
Halyk Bank of Georgia	Georgia	**BB-**	BB-/B	**380,742**	49,517
Hellenic Bank	Cyprus	**Caa1**	B-	**249,730**	4,641,986
Bank of Georgia	Georgia	**Ba3/Ba2**	BB-/B	**42,646**	56,828
TBC Bank	Georgia	**Ba3/Ba2**	BB-/B	**38,036**	101,028
"Sberbank" SB JSC	Russia	**Baa3**	BBB-	**9,338**	724
"ForteBank" JSC	Kazakhstan	**B/Stable**	B3/Positive	**384**	5
"Sberbank Russia" SB JSC	Kazakhstan	**BB+/Positive**	BB+/Positive	**167**	12
GazBank JSC CB	Russia	**–**	B3/Stable	**–**	10,418
"Altyn Bank" JSC	Kazakhstan	**BBB-/Stable**	Ba2/Stable	**–**	25
"Tsesna Bank" JSC	Kazakhstan	**B-**	B/Stable	**–**	9
"KazKommertzBank" JSC	Kazakhstan	**–**	Ba2/Stable	**–**	8
Total				**61,479,976**	73,174,962

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risks

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

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2018 and 2017 based on contractual undiscounted payments.

In thousands of Tenge	On demand	More than 1 year	1 to 2 years	2 to 5 years	Less than 5 years	Total
As at 31 December 2018						
Trade and other payables	**–**	**12,884,530**	**67,552**	**820**	**4,612**	**12,957,514**
	–	**12,884,530**	**67,552**	**820**	**4,612**	**12,957,514**
As at 31 December 2017						
Trade and other payables	–	17,580,864	27,068	145	4,282	17,612,359
	–	17,580,864	27,068	145	4,282	17,612,359

Currency risk

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

In thousands of Tenge	US Dollar	Russian Ruble	Euro	Other currencies	Total
At 31 December 2018					
Assets	**28,582,197**	**37,829**	**8,452**	**517,518**	**29,145,996**
Liabilities	**931,277**	**65,608**	**35,359**	**647,378**	**1,679,622**
At 31 December 2017					
Assets	23,128,576	13,487	57,825	492,846	23,692,734
Liabilities	994,780	85,231	69,899	881,006	2,030,916

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

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

In thousands of Tenge	Increase/ decrease in exchange rate	Effect on profit before tax
2018		
US Dollar	**+14.00%**	**3,871,129**
	-10.00%	**(2,765,092)**
Russian Ruble	**+14.00%**	**(3,889)**
	-9.00%	**2,500**
Euro	**+14.00%**	**(3,767)**
	-10.00%	**2,691**
2017		
US Dollar	+10.00%	2,213,380
	-10.00%	(2,213,380)
Russian Ruble	+16.00%	(11,479)
	-16.00%	11,479
Euro	+13.50%	(1,630)
	-9.50%	1,147

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

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

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

As at 31 December 2018 and 2017 the Group does not have significant debts. The Group has sufficient cash, exceeding its debt as at the reporting date.

Fair value of financial instruments

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

39. SUBSEQUENT EVENTS

Pursuant to the instructions of the Head of state from 29 September 2018 and the decision of the Management Board of KMG from 11 February 2019, as well as the decision of the Board of Directors of the Company from 29 January 2019, the Company in 2019 will provide sponsorship for the construction of the facility in Turkestan for the total amount of 2.2 billion Tenge. Within the above amount, on 18 February 2019, the Company made the first tranche of financing in the amount of 1 billion Tenge.