

**KazTransOil JSC**

Separate financial statements

*For the year ended 31 December 2017  
with the independent auditor's report*



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Independent auditor's report

**Separate financial statements**

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## Independent auditor's report

To the Shareholders of KazTransOil JSC

### **Opinion**

We have audited the separate financial statements of KazTransOil JSC (the Company), which comprise the separate statement of financial position as at 31 December 2017, the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects the financial position of the Company as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### **Basis for opinion**

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

### **Key audit matters**

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



Key audit matter	How our audit addressed the key audit matter
<b>Impairment of investment in Batumi Oil Terminal LLC</b>	
<p>Investment in Batumi Oil Terminal LLC (BOT), a subsidiary of the Company, makes up approximately 3.6% of the total assets of the Company as at 31 December 2017. We considered this matter to be one of the most significance in the audit due to the 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 the investment in BOT. In addition, the decrease in transshipment volumes of BOT, increased inflation and uncertainty about future economic growth affect BOT's business prospects and therefore trigger potential impairment of the Company's investment in BOT.</p> <p>Management performed impairment test as at 31 July 2017 and updated it as at 31 December 2017.</p> <p>Significant assumptions included discount rates, forecasted tariffs, inflation rates, transshipment volumes, future capital expenditure and operating expenses.</p> <p>Information on assessment of the recoverable amount of the investment in BOT is disclosed in Note 4 to the separate financial statements.</p>	<p>We involved our business valuation specialists in the testing of impairment analysis and calculation of recoverable amount of the investment in BOT performed by management as at 31 July 2017. We involved the component auditor to analyze the assumptions underlying management forecasts of cash flows from the investment in BOT and to compare them with existing external information and with actual results. We compared the discount rates and long-term growth rates used in assessment of the investment's recoverable amount to general market indicators and other available evidence. We compared forecasted transshipment in the model with business plan. We tested the mathematical integrity of the impairment model and assessed the sensitivity analysis.</p> <p>We assessed the analysis made by management and factors that could indicate that the investment in BOT may be impaired as at 31 December 2017. We compared budgeted transshipment volume, EBITDA and revenue for 2017 with actual figures.</p>

**Other Information included in the Company's 2017 Annual report**

Other information consists of the information included in the Company's 2017 Annual Report other than the separate financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2017 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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



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

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

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

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

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

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

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

- ▶ Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.



- ▶ Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

*Ernst & Young LLP*



Gulmira Turmagambetova  
Auditor / General Director  
Ernst & Young LLP

Auditor Qualification Certificate  
No. 0000374 dated 21 February 1998

050060, Republic of Kazakhstan, Almaty  
Al-Farabi ave., 77/7, Esentai Tower

16 March 2018



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



**SEPARATE STATEMENT OF FINANCIAL POSITION**

<i>In thousands of Tenge</i>	Notes	31 December 2017	31 December 2016
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	566,836,632	550,080,089
Intangible assets	6	1,489,927	1,181,457
Investments in subsidiaries	7	28,208,864	28,208,864
Investments in joint ventures	8	7,404,945	7,404,945
Advances to suppliers for property, plant and equipment	9	272,246	1,057,017
Bank deposits	15	3,948,692	4,182,770
Long-term investments held to maturity	17	748,962	-
Other non-current assets		13,100	15,065
		<b>608,923,368</b>	<b>592,130,207</b>
<b>Current assets</b>			
Inventories	10	3,152,484	2,592,270
Trade and other accounts receivable	11	6,197,900	5,194,119
Advances to suppliers	12	373,858	369,049
Prepayment for income tax		3,489,707	4,486,107
VAT recoverable and other prepaid taxes	13	3,027,649	1,016,750
Other current assets	14	5,786,633	5,606,478
Bank deposits	15	28,356,520	15,675,618
Cash and cash equivalents	16	36,011,198	64,802,346
		<b>86,395,949</b>	<b>99,742,737</b>
Non-current assets held for sale	5	2,848,498	-
		<b>89,244,447</b>	<b>99,742,737</b>
<b>Total assets</b>		<b>698,167,815</b>	<b>691,872,944</b>

*The accounting policy and explanatory notes on pages 7 through 51 form an integral part of these separate financial statements.*

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

<i>In thousands of Tenge</i>	Notes	31 December 2017	31 December 2016
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	18	61,937,567	61,937,567
Treasury shares repurchased from shareholders	18	(9,549)	(9,549)
Asset revaluation reserve		182,956,116	192,430,443
Other capital reserves	18	(622,717)	(695,324)
Retained earnings		304,506,370	296,909,328
<b>Total equity</b>		<b>548,767,787</b>	<b>550,572,465</b>
<b>Non-current liabilities</b>			
Employee benefit liabilities	19	12,740,751	11,994,599
Deferred tax liabilities	32	63,299,288	61,032,546
Provision for asset retirement and land recultivation obligation	23	15,347,322	15,022,086
Deferred income		3,655	-
		<b>91,391,016</b>	<b>88,049,231</b>
<b>Current liabilities</b>			
Employee benefit liabilities	19	600,175	543,418
Trade and other accounts payable	20	16,725,180	14,836,869
Advances received	21	17,915,831	16,189,798
Other taxes payable	22	1,224,538	976,530
Provisions	23	41,125	41,125
Other current liabilities	24	21,502,163	20,663,508
		<b>58,009,012</b>	<b>53,251,248</b>
<b>Total liabilities</b>		<b>149,400,028</b>	<b>141,300,479</b>
<b>Total equity and liabilities</b>		<b>698,167,815</b>	<b>691,872,944</b>
<b>Book value per ordinary share (in Tenge)</b>	18	<b>1,423</b>	<b>1,428</b>

Signed and approved for issue on 16 March 2018.

Acting General Director



ov S.A.

Chief Accountant

Sarmagambetova M.K.

*The accounting policy and explanatory notes on pages 7 through 51 form an integral part of these separate financial statements.*



**SEPARATE STATEMENT OF COMPREHENSIVE INCOME**

<i>In thousands of Tenge</i>	Notes	For the years ended 31 December	
		2017	2016
Revenue	25	208,606,879	191,869,628
Cost of sales	26	(134,081,624)	(118,701,922)
<b>Gross profit</b>		<b>74,525,255</b>	<b>73,167,706</b>
General and administrative expenses	27	(12,037,532)	(11,075,450)
Other operating income	28	2,397,469	2,883,115
Other operating expenses	29	(949,795)	(124,211)
Impairment of property, plant and equipment, net	5	(37,682)	(9,197,852)
<b>Operating profit</b>		<b>63,897,715</b>	<b>55,653,308</b>
Net foreign exchange loss		(597,171)	(1,438,984)
Dividends income		–	1,487,160
Finance income	30	4,869,730	6,116,405
Finance costs	31	(3,082,198)	(2,448,901)
Impairment of long-term investments held to maturity	17	(3,639,607)	–
<b>Profit before income tax</b>		<b>61,448,469</b>	<b>59,368,988</b>
Income tax expense	32	(15,793,678)	(12,525,227)
<b>Net profit for the year</b>		<b>45,654,791</b>	<b>46,843,761</b>
<b>Earnings per share (in Tenge)</b>	18	<b>119</b>	<b>122</b>
<b>Other comprehensive income</b>			
<b>Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent events</b>			
Actuarial gain from employee benefit liabilities of the Company	19	279,191	3,897,890
Income tax effect	32	(55,838)	(779,578)
		<b>223,353</b>	<b>3,118,312</b>
Revaluation of property, plant and equipment, net	5	15,136,760	128,621,077
Income tax effect	32	(3,027,352)	(25,724,217)
		<b>12,109,408</b>	<b>102,896,860</b>
(Charge)/reversal of provision for asset retirement and land reclamation obligation	23	(30,162)	6,886,484
Income tax effect	32	6,033	(1,377,295)
		<b>(24,129)</b>	<b>5,509,189</b>
Write-off of deferred tax assets on employee benefit liabilities	18, 32	(150,746)	–
		<b>(150,746)</b>	<b>–</b>
<b>Total other comprehensive income not to be reclassified to profit or loss in subsequent periods, net</b>		<b>12,157,886</b>	<b>111,524,361</b>
<b>Total other comprehensive income for the year, net of tax</b>		<b>12,157,886</b>	<b>111,524,361</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>57,812,677</b>	<b>158,368,122</b>

Signed and approved for issue on 16 March 2018.

Acting General Director



S.A.

Chief Accountant

  
Sarmagambetova M.K.

*The accounting policy and explanatory notes on pages 7 through 51 form an integral part of these separate financial statements.*

**SEPARATE STATEMENT OF CASH FLOWS**

<i>In thousands of Tenge</i>	Notes	For the years ended 31 December	
		2017	2016
<b>Cash flows from operating activities</b>			
Profit before income tax		61,448,469	59,368,988
<b>Non-cash adjustment to reconcile profit before tax to net cash flows</b>			
Depreciation and amortization	26, 27	45,976,094	37,865,889
Reversal of allowance for doubtful debts, net	27	(42,309)	(92,078)
Finance costs	31	3,082,198	2,448,901
Finance income	30	(4,869,730)	(6,116,405)
Actuarial loss/(gain)	28, 29	39,943	(742,441)
Employee benefits, current and past service costs	26, 27	559,185	1,120,030
Loss on disposal of property, plant and equipment and intangible assets, net	29	710,923	59,621
Expenses on liquidation of idle production facilities		56,275	14,688
Gain from disposal of inventory, net		(44,668)	(13,752)
Impairment charge of property, plant and equipment	5	37,682	9,197,852
Impairment of long-term investments held to maturity	17	3,639,607	-
Change in estimates on asset retirement and land recultivation obligation	28	(1,239,714)	(1,556,766)
Unrealized foreign exchange loss		597,171	1,438,984
Write off of VAT recoverable		36,283	42,661
Others		7,537	(2,217)
<b>Cash flows from operating activities before working capital changes</b>		<b>109,994,946</b>	<b>103,033,955</b>
<b>(Increase)/decrease in operating assets</b>			
Inventories		(1,751,897)	(322,147)
Trade and other accounts receivable		(1,018,251)	(2,462,100)
Advances to suppliers		(6,073)	1,623,014
VAT recoverable and other prepaid taxes		(1,861,559)	2,996,797
Other current assets		(171,371)	(1,250,543)
<b>Increase/(decrease) in operating liabilities</b>			
Trade and other accounts payable		893,948	106,946
Advances received		1,726,033	(1,232,425)
Other taxes payable		(479,011)	(773,470)
Other current and non-current liabilities and employee benefit liabilities		143,011	3,348,534
<b>Cash generated from operating activities</b>		<b>107,469,776</b>	<b>105,068,561</b>
Income taxes paid		(15,031,420)	(21,381,679)
Interest received		4,657,133	4,591,930
<b>Net cash flows from operating activities</b>		<b>97,095,489</b>	<b>88,278,812</b>

*The accounting policy and explanatory notes on pages 7 through 51 form an integral part of these separate financial statements.*



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

<i>In thousands of Tenge</i>	Notes	For the years ended 31 December	
		2017	2016
<b>Cash flows from investing activities</b>			
Withdrawal of bank deposits		62,412,730	31,655,991
Placement of bank deposits and bonds		(79,808,900)	(35,048,671)
Dividends received		-	1,487,160
Purchase of property, plant and equipment		(47,722,657)	(33,773,311)
Purchase of intangible assets		(701,553)	(58,754)
Repayment of interest free loan	33	-	20,000,000
Proceeds from disposal of property, plant and equipment		15,400	10,137
<b>Net cash flows used in investing activities</b>		<b>(65,804,980)</b>	<b>(15,727,448)</b>
<b>Cash flows from financing activities</b>			
Dividends paid	18	(59,617,355)	(51,156,535)
Treasury shares repurchased from shareholders	18	-	(9,549)
<b>Net cash flows used in financing activities</b>		<b>(59,617,355)</b>	<b>(51,166,084)</b>
Net foreign exchange difference		(464,302)	(593,350)
<b>Net change in cash and cash equivalents</b>		<b>(28,791,148)</b>	<b>20,791,930</b>
Cash and cash equivalents at the beginning of the year		64,802,346	44,010,416
<b>Cash and cash equivalents at the end of the year</b>	16	<b>36,011,198</b>	<b>64,802,346</b>

Signed and approved for issue on 16 March 2018.

Acting General Director



Chief Accountant

*Sarmagambetova M.K.*

*The accounting policy and explanatory notes on pages 7 through 51 form an integral part of these separate financial statements.*

## SEPARATE STATEMENT OF CHANGES IN EQUITY

<i>In thousands of Tenge</i>	Share capital	Treasury shares	Asset revaluation reserve	Other capital reserves	Retained earnings	Total
As at 31 December 2016	61,937,567	(9,549)	192,430,443	(695,324)	296,909,328	550,572,465
Profit for the year	-	-	-	-	45,654,791	45,654,791
Other comprehensive income	-	-	12,085,279	72,607	-	12,157,886
Total comprehensive income for the year	-	-	12,085,279	72,607	45,654,791	57,812,677
Depreciation transfer of revalued property, plant and equipment	-	-	(21,559,606)	-	21,559,606	-
Dividends (Note 18)	-	-	-	-	(59,617,355)	(59,617,355)
As at 31 December 2017	61,937,567	(9,549)	182,956,116	(622,717)	304,506,370	548,767,787
As at 31 December 2015	61,937,567	-	98,847,414	(3,813,636)	286,399,082	443,370,427
Profit for the year	-	-	-	-	46,843,761	46,843,761
Other comprehensive income	-	-	108,406,049	3,118,312	-	111,524,361
Total comprehensive income for the year	-	-	108,406,049	3,118,312	46,843,761	158,368,122
Depreciation transfer of revalued property, plant and equipment	-	-	(14,823,020)	-	14,823,020	-
Treasury shares repurchased from shareholders (Note 18)	-	(9,549)	-	-	-	(9,549)
Dividends (Note 18)	-	-	-	-	(51,156,535)	(51,156,535)
As at 31 December 2016	61,937,567	(9,549)	192,430,443	(695,324)	296,909,328	550,572,465

Signed and approved for issue on 16 March 2018.

Acting General Director

Chief Accountant



Sarmagambetova M.K.

The accounting policy and explanatory notes on pages 7 through 51 form an integral part of these separate financial statements.



**NOTES TO THE SEPARATE FINANCIAL STATEMENTS****For the year ended 31 December 2017****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 2017 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 2017 and 2016 the Company had ownership interest in the following companies:

	Place of incorporation	Principal activities	Ownership	
			31 December 2017	31 December 2016
NWPC “MunaiTas” JSC (hereinafter – “MunaiTas”)	Kazakhstan	Oil transportation	51%	51%
“Kazakhstan-China Pipeline” LLP (hereinafter – “KCP”)	Kazakhstan	Oil transportation	50%	50%
“Batumi Terminals Limited” (hereinafter – “BTL”)	Cyprus	Forwarding, transshipment and storage of oil and oil products and operating of Batumi Sea Port and Oil Terminal	–	100%
“Batumi Oil Terminal” LLC	Georgia	Forwarding, transshipment and storage of oil and oil products and operating of Batumi Sea Port	100%	–
“Petrotrans Limited”	United Arab Emirates	Forwarding of oil and oil products	100%	–

The Company’s head office is located in Astana, Kazakhstan, 19 Kabanbay Batyr Avenue. The Company has 3 branches, which are located in Atyrau (Western branch), Pavlodar (Eastern branch), Almaty (Research and Development Centre) and representative offices in Russian Federation (Omsk and Samara). On 26 May 2017 Board of Directors decided to close branch in Astana (Main Information and Computing Center).

The Company operates network of main oil pipelines of 5,377 km and water pipelines of 1,975 km. Also the Company is engaged in storage, loading, transshipment and transfer of crude oil to other related pipeline systems. The Company’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.

In 2017 BTL was liquidated. Based on the decision of the BTL liquidator as at 7 March 2017, 100% of shares of Petrotrans Limited (hereinafter – “PTL”) and 100% of ownership of “Batumi Oil Terminal” LLC (hereinafter – “BOT”), that was previously owned by BTL, were transferred to the Company. During 2017, the Company received a certificate confirming its ownership of investment in PTL and BOT. BOT has the exclusive right to manage 100% of the shares of Batumi Sea Port LLC (hereinafter – “BSP”). These changes did not affect the separate financial statements.

On 26 November 2017, PTL was re-registered in the United Arab Emirates.

In order to separate water transportation services from the Company’s activities on 28 December 2017, a subsidiary “Main Waterline” LLP was established and registered with an authorized capital of 28 billion Tenge. The contribution to the authorized capital will be made by the Company during 2018.

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, which serve as a base for receiving major part of the Company’s revenue in domestic market of the Republic of Kazakhstan.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****1. GENERAL (continued)**

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

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 2017.*

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

Tariff for pumping oil for transit through Kazakhstani part of main oil pipeline “Tuymazy-Omsk-Novosibirsk-2” is 1,727.10 Tenge per ton for 1,000 kilometers.

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).

Tariffs for transportation of Russian oil to Republic of Uzbekistan through the territory of Republic of Kazakhstan is 22.90 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.

In accordance with the Law of the Republic of Kazakhstan *On Natural Monopolies and Regulated Markets*, 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. 42 of 9 February 2018 and the CRNMPCandCR No. 8-OD of 15 January 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 – 42.9 billion Tenge, including on the domestic market – 13.5 billion Tenge;
- 2018 – 31.2 billion Tenge, including on the domestic market – 9.8 billion Tenge;
- 2019 – 21.36 billion Tenge, including on the domestic market – 6.6 billion Tenge.

In accordance with the above-mentioned law for failure to implementation the actions with the approved investment program, CRNMPCandCR has to apply a compensating tariff from the moment of making a decision on its application.

The actual implementation of the investment program as at 31 December 2017 is as follows:

- 2015 – 70.5 billion Tenge;
- 2016 – 37.8 billion Tenge;
- 2017 – 36.3 billion Tenge.

At the same time, in case the natural monopoly does not fulfill the activities of the investment program for reasons beyond the control of the entity of the natural monopoly, the timing of the implementation of the investment program may be postponed to the next year by adjusting the investment program until 1 March of the year following the year of implementation of the investment program. Taking into account this norm, in January 2018 the Company submitted for consideration and approval an application for adjusting the investment program for 2017, taking into account the rolling volumes of work.



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

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**1. GENERAL (continued)**

It is expected that the activities of the approved investment program will be implemented in full by the Company during 5 years period in the order established by law.

These separate financial statements for the year ended 31 December 2017 were approved by internal audit committee and signed by the Acting General Director and the Chief Accountant on 16 March 2018.

**2. BASIS OF PREPARATION**

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

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

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

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

These separate financial statements were issued in addition to the consolidated financial statements of the Company and its subsidiary. These consolidated financial statements were signed and approved for issue by the Acting General Director and the Chief Accountant of the Company on 16 March 2018. A copy of the consolidated financial statements may be obtained from the head office of the Company (*Note 1*).

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****3.1 Investment in a subsidiary**

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

The Company assesses at each reporting date whether there is any objective evidence that an investment in a subsidiary may be impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the subsidiary and its carrying value and then recognizes the loss within the statement of comprehensive income.

**3.2 Interest in joint ventures**

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

**3.3 Foreign currency translation**

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

*Transactions and balances*

Transactions in foreign currencies are initially recorded by the Company at its functional currency rate prevailing at the date of the transaction first qualified for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of functional currency ruling at the reporting date.

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

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

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.3 Foreign currency translation (continued)***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 2017 and 2016 are as follows:

<i>Tenge</i>	<b>For the year ended 31 December</b>	
	<b>2017</b>	<b>2016</b>
US dollar	<b>326.08</b>	341.74
Russian ruble	<b>5.59</b>	5.12
Euro	<b>368.65</b>	378.27

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

<i>Tenge</i>	<b>2017</b>	<b>2016</b>
US dollar	<b>332.33</b>	333.29
Russian ruble	<b>5.77</b>	5.43
Euro	<b>398.23</b>	352.42

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

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Company classifies all other liabilities as non-current.

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

**3.5 Fair value measurement**

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

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

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



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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.5 Fair value measurement (continued)**

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

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

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

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

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

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

An analysis of the fair value of property, plant and equipment and additional information about the methods of its definition in *Note 4*.

**3.6 Non-current assets held for sale and discontinued operations**

The Company 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.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.6 Non-current assets held for sale and discontinued operations (continued)**

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 separate statement of comprehensive income.

Additional disclosures are provided in *Note 5*. All other notes to the separate financial statements include amounts for continuing operations, unless indicated otherwise.

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

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

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

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

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

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to significant accounting judgments, estimates and assumptions and provisions for further information about the asset retirement and land recultivation obligation (*Notes 4 and 22*).

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

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

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

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

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



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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.8 Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. 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 7-10 years. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

The amortization expense on intangible assets with finite lives is recognised in the separate statement of comprehensive income in the expense category consistent with the function of the intangible assets.

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

**3.9 Impairment of non-financial assets**

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

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

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

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

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

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

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.10 Financial assets***Initial recognition and measurement*

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

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include cash and short-term bank deposits, trade and other receivables and investments held to maturity.

*Subsequent measurement*

The measurement of financial liabilities depends on their classification.

*Loans and receivables*

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

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The EIR amortization is included in finance income in the separate statement of comprehensive income. The losses arising from impairment are recognized in the separate statement of comprehensive income in finance costs for loans and in general and administrative expenses or other operating expenses for receivables.

*Held-to-maturity investments*

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

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the separate statement of comprehensive income. The losses arising from impairment are recognised in the separate statement of comprehensive income in finance costs. The Company had bank deposits held-to-maturity during the years ended 31 December 2017 and 2016. During 2017 Company acquired long-term bonds, that were classified as investments held-to-maturity.

*Derecognition*

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

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

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



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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.10 Financial assets (continued)***Derecognition (continued)*

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

**3.11 Impairment of financial assets**

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

- Disclosures for significant accounting judgements, estimates and assumptions (*Note 4*);
- Trade accounts receivables (*Note 11*).

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. In addition, such evidence includes observable data indicating the existence of a measurable decrease in the estimated future cash flows of a financial instrument, in particular, such as changes in arrears volumes or economic conditions, are in a certain relationship with the failure to fulfill obligations to pay debts.

*Financial assets carried at amortized cost*

For financial assets carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the separate statement of comprehensive income. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

If a future write-off is later recovered, the recovery is credited to finance costs and general and administrative expenses in the separate statement of comprehensive income.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.12 Financial liabilities***Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

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

*Subsequent measurement*

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

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

*Loans and borrowings*

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

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in the separate statement of comprehensive income.

*Financial guarantee contracts*

Financial guarantee contracts are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee.

*Derecognition*

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

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

**3.13 Offsetting of financial instruments**

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

**3.14 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.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.15 Cash and cash equivalents**

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

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

**3.16 Provisions**

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

The Company records a provision on asset retirement and land reclamation obligation. Asset retirement and land reclamation obligation costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the provisions for asset retirement and land reclamation obligation. The unwinding of the discount is expensed as incurred and recognised in the separate statement of comprehensive income as a finance cost. The estimated future costs of asset retirement and land reclamation 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 4 and 23*).

**3.17 Employee benefits**

The Company provides long-term employee benefits to employees before, on and after retirement, in accordance with the Collective agreement between the Company and its employees. 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 separate statement of comprehensive income as interest cost.

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

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

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

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

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



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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.17 Employee benefits (continued)**

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.

**3.18 Revenue and other income recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

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

*Rendering of transportation services*

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

*Rendering of other services*

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

*Interest income*

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

*Dividends*

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

*Fees for undelivered oil volumes*

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

**3.19 Taxes***Current 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 Republic of Kazakhstan, where the Company operates and generates taxable income.

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

*Deferred tax*

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

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.19 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.

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

VAT related to sales is payable to the budget of Republic of Kazakhstan when goods are shipped or services are rendered. Input VAT can be offset against output VAT upon the receipt of a tax invoice from a supplier.

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

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

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

Receivables and payables are stated including VAT.

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

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.20 Equity***Share capital*

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

*Dividends*

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

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

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

**3.21 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 2017.

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

The Company applied for the first time certain standards and amendments, which were effective for annual periods beginning on or after 1 January 2017. The Company 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 2017, they did not have a material impact on the separate financial statements of the Company. The nature and the impact of each new standard or amendment are described below:

*Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative*

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). These amendments do not have any impact on the Company's separate financial statements as the Company has no liabilities subject to financial activities as at 31 December 2017.

*Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Company applied amendments retrospectively. However, their application has no effect on the Company's financial position and performance as the Company has no deductible temporary differences or assets that are in the scope of the amendments.

*Annual improvements 2014-2016 cycle**Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12*

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

These amendments do not have any impact on the Company's separate financial statements as at 31 December 2017, as the Company does not have interests in other entities classified as held for sale.



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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.21 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 2017 are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

*IFRS 9 Financial Instruments*

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

The Company plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Company performed a general impact assessment of IFRS 9, in particular, classification and measurement, however currently Company is in process of determining the impact on its consolidated financial statements.

The preliminary assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018 when the Company will adopt IFRS 9. Overall, the Company does not expect significant impact on its separate financial statements applying requirements of IFRS 9.

*(a) Classification and measurement*

The Company does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9. Trade and other receivables are held by the Company to collect contractual cash flows and are expected to result in cash flows that are solely payments to principal and interest. The Company analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

The Company expects to measure at fair value through profit or loss, bonds of “Special Financial Company DSFK” LLP, currently measured at amortized cost. However, the Company does not expect significant influence, as the bonds were acquired at the end of December 2017 and are measured at fair value at initial recognition.

*(b) Impairment*

IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Company will apply the simplified approach and record lifetime expected losses on all trade receivables and other financial assets. The Company expects that these requirements will not have a significant influence on its equity, however the final results will be received by the Company after more detailed analysis taking into account all reasonable and confirmed information, including forecasted information, to determine the extent of the impact. As at reporting date, the Company did not complete detailed analysis of the impact of impairment requirements of IFRS 9.

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014, and amended in April 2016. 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 new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, early adoption is permitted. The Company plans to adopt the new standard on the required effective date using the modified retrospective method. During 2017, the Company performed a detailed analysis of the effects of IFRS 15, which showed absence of impact on the financial position and results of the Company.

The Company’s activities are mainly related to the transportation of oil through main pipelines on the territory of the Republic of Kazakhstan.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.21 Changes in accounting policies and disclosures (continued)****Standards issued but not yet effective (continued)***IFRS 15 Revenue from Contracts with Customers (continued)**(a) Rendering of services*

The Company fulfills the obligation to execute on a monthly basis and recognizes the proceeds from the provision of oil transportation services, transport expedition of oil and other related services, based on the actual volume of services rendered at the end of transportation route. Revenues from pipeline operation and maintenance services are recognized over time, as the buyer simultaneously receives and benefits from the performance of the Company's contractual obligations. It is expected that the application of IFRS 15 to service contracts will not affect the Company's revenue and profit or loss.

In preparing to adopt IFRS 15, the Company 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. This update will have no effect on revenue recognition.

*(ii) Principal versus agent considerations*

IFRS 15 requires assessment of whether the Company controls a specified good or service before it is transferred to the customer.

The Company 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), except for contracts on oil transportation coordination services where the Company determined that it does not control the services before they are transferred to the customer. Hence, the Company is an agent, rather than principal in these contracts on oil transportation coordination services.

*(iii) Advances received from customers*

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

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

*(b) Presentation and disclosure requirements*

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in the Company's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Company has assessed that the impact of some of these disclosures requirements will be significant.

In particular, the Company expects that the notes to the separate financial statements will not be expanded because of the disclosure of significant judgments made when determining the transaction price of the contracts.

Also, small disclosures are expected as a result of the significant judgement made when assessing the contracts where the Company has concluded that: it acts as an agent instead of a principal, there is no significant financing component, and no variable consideration.

In addition, as required by IFRS 15, the Company will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

In 2017 the Company continued testing of appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.21 Changes in accounting policies and disclosures (continued)****Standards issued but not yet effective (continued)***IFRS 15 Revenue from Contracts with Customers (continued)**(c) Other adjustments*

On adoption of IFRS 15 based on analysis made the Company will not adjust other items of the 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. However, on transition, the effect of these changes is not expected to be material for the Company.

*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 Company will apply these amendments when they become effective.

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

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

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

*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.



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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.21 Changes in accounting policies and disclosures (continued)****Standards issued but not yet effective (continued)***IFRS 16 Leases (continued)*

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

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Company will continue to assess the potential effect of IFRS 16 on its separate financial statements.

*Transfers of Investment Property – Amendments to IAS 40*

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. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. The Company will apply amendments when they become effective. The Company does not expect that amendments will have any effect on its separate financial statements.

*Annual improvements 2014-2016 cycle (issued in December 2016)**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. The amendment is effective from 1 January 2018. This amendment is not applicable to the Company.

*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 decision is taken separately for each investment upon 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.

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact. These amendments are not applicable to the Company.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.21 Changes in accounting policies and disclosures (continued)****Standards issued but not yet effective (continued)***Annual improvements 2014-2016 cycle (issued in December 2016) (continued)**IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration*

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 the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

- (i) The beginning of the reporting period in which the entity first applies the interpretation; or
- (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Company's current practice is in line with the Interpretation, the Company does not expect any effect on its separate financial statements.

*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 must 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 Company will apply interpretation from its effective date. Since the Company operates in a complex multinational tax environment, applying the Interpretation may affect its separate financial statements and the required disclosures. In addition, the Company may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

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

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

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

- Financial risk management and policies (*Note 35*);
- Sensitivity analyses disclosures (*Note 35*).

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

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

*Revaluation of property, plant and equipment*

The Company accounts for its property, plant and equipment at fair value. Last valuation of its property, plant and equipment was performed by the Company during 2016. For this purpose, the Company 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).

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 Company. Adequate profitability was calculated by assessing value in use. The following assumptions were used in calculation value in use:

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

The resulting value in use was below depreciated replacement cost and hence was recorded as fair value of the Company's property, plant and equipment. The results of the assessment of value in use are sensitive to expected volumes of services provided, the level of tariffs for services provided, the amount of capital and operating expenditures.

As a result of the revaluation performed during 2016 the carrying value of property, plant and equipment of the Company increased by 119,651,720 thousand Tenge.

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

The Company 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 2017 the management of the Company 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 Company's property, plant and equipment (except for technological oil) as at 31 December 2017 from the date of last revaluation during 2016. As a result, the fair value of the Company'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 2017.

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



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

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**4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)****Estimates and assumptions (continued)***Revaluation of technological oil (continued)*

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

- Technological oil is an integral part of the process of operating the pipeline without which the transportation is not possible and, accordingly, the object of valuation is a specialized asset;
- Technological oil cannot be sold or otherwise disposed due to regulations imposed by 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 Company 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 Company's trading division at internal price;
- And if the Company needs to buy additional oil to fill in new parts of pipeline, it would buy oil from the KMG Company entities at the same internal price.

Taking into account all these factors, as well as the report of an independent professional appraiser as at 31 December 2017 the fair value of the Company's technological oil was determined based on the price of 41,175 Tenge per ton (31 December 2016: 35,714 per ton). The effect of the change in fair value of the technological oil was equal to 13,353,217 thousand Tenge (31 December 2016: 16,573,065 thousand Tenge), in addition as at 31 December 2017 the revaluation of technological oil surplus in the amount 2,167,946 thousand Tenge (31 December 2016: 2,401,160 thousand Tenge) was recognized; the overall effect of revaluation is equal to 15,521,163 thousand Tenge (31 December 2016: 18,974,225 thousand Tenge) (*Note 5*).

The volume of oil in the pipeline as at 31 December 2017 amounted to 2,498 tons (31 December 2016: 2,460 tons). According to the results of stock count during 2017 the oil surpluses in the amount of 52,652 tons (for 2016: 67,233 tons) and shortage of the oil in the amount of 14,991 tons were recognized.

*Impairment of assets*

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. 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 (DCF) model. The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which individual assets are allocated. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

*Impairment of investments in subsidiaries*

Because of the presence of impairment indicators the management of the Company performed impairment tests as at 31 July 2017 and updated it as at 31 December 2017 to identify recoverable amount of the investments.

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

The recoverable amount of investment in BOT has been determined based on the value of the business of BOT and BSP using DCF model under the income approach. Forecasting cash flows are based on financial budgets approved by management of BOT, BSP and Company covering period 2017-2022 and the expected forecast until 2030, and publicly available macroeconomic information. The following assumptions were used in calculation value in use:

	Cash-generating unit	
	BOT	BSP
Discount rate	13.0%	13.4%
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, the amount of capital and operating expenditures.

Based on the analysis, the book value of investments in BOT did not exceed its recoverable amount. Accordingly, no impairment was recognized in the Company's separate financial statements.

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

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

*Asset retirement and land reclamation obligation*

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

Asset retirement and land reclamation obligation is estimated based on the value of the work to decommission and rehabilitate calculated by the Company in accordance with the technical regulations of the Republic of Kazakhstan (pipeline decommission expense is equal to 4,278 thousand Tenge per kilometer (2016: 4,036 thousand Tenge).

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

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

	2017	2016
Discount rate	9.05%	8.72%
Inflation rate	5.55%	5.58%
Period of fulfillment of obligations	17 years	18 years

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

As at 31 December 2017 the carrying amount of the asset retirement and land reclamation obligation was 15,347,322 thousand Tenge (31 December 2016: 15,022,086 thousand Tenge) (*Note 23*).

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

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

Sensitivity analysis of asset retirement and land recultivation obligation for the change in significant assumptions as at 31 December 2017 is as follows:

<i>In thousands of Tenge</i>	(Decrease)/ increase in rate	(Decrease)/ increase in liability
Discount rate	-0.5%	1,232,842
	+0.5%	(1,135,180)
Inflation rate	-0.5%	(1,176,606)
	+0.5%	1,269,246

*Allowances for doubtful debts*

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

Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the separate financial statements. As at 31 December 2017 and 2016 allowances for doubtful accounts have been created for the amount of 654,557 thousand Tenge and 696,903 thousand Tenge, respectively (*Notes 9, 11 and 12*).

*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 complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of inspections by the tax authorities.

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 tax authorities. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in 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 2017 was 5,422,606 thousand Tenge (31 December 2016: 6,264,691 thousand Tenge) (*Note 32*). As at 31 December 2017 and 2016 the Company did not have unrecognized deferred tax assets.

*Employee benefits*

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

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

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

As there is no active market for corporate bonds in Kazakhstan, in determining the appropriate discount rate, management considers the interest rates of government bonds (MEUKAM) with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

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

In December 2016 “The collective agreement between “KazTransOil” JSC and employees of “KazTransOil” JSC” has been amended, the effect of changes in the conditions was recorded as cost of services of prior periods (*Note 19*). In 2017 the terms of this agreement remained unchanged.

Principal actuarial assumptions used for valuation of employee benefit liabilities as at 31 December 2017 and 2016 were as follows:

<i>In percent</i>	2017	2016
Discount rate	8.96%	9.7%
Future salary increase	6.0%	7.0%
Mortality rate	6.0%	7.0%

As at 31 December 2017 the average period of post-retirement benefit liabilities were 19.6 years (as at 31 December 2016: 19 years).

Sensitivity analysis of employee benefit liabilities for the change in significant estimates as at 31 December 2017 is as follows:

<i>In thousands of Tenge</i>	(Decrease)/ increase in rate	(Decrease)/ increase in liability
Discount rate	-0.5%	536,339
	+0.5%	(570,886)
Future salary increase	-0.5%	(559,848)
	+0.5%	591,749
Life duration	-1 year	(82,545)
	+1 year	81,822



## NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

### 5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at 31 December 2017 and 2016 are as follows:

<i>In thousands of Tenge</i>	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
<b>At revalued amount as at 31 December 2016</b>	5,930,619	202,402,253	10,401,644	75,299,876	133,165,450	88,061,076	15,070,260	37,663,609	567,994,787
Additions	226,722	173,793	558,622	7,791,516	1,355,741	1,165	1,050,851	39,596,498	50,754,908
Additions of asset retirement and land reclamation obligation (Note 23)	-	265,812	-	-	-	-	-	-	265,812
Disposals	(13,170)	(232,689)	(39,520)	(30,188)	(230,889)	(743,596)	(202,331)	(29,162)	(1,521,545)
Revaluation (through revaluation reserve)	-	-	-	-	-	15,521,163	-	-	15,521,163
Transfers from construction-in-progress	763	25,221,954	26,683	5,075,525	9,760,841	-	1,476,262	(41,562,028)	-
Transfers to intangible assets (Note 6)	-	-	-	-	-	-	-	(72,365)	(72,365)
Transfers to non-current assets held for sale	(87,865)	-	(170,247)	(2,810,480)	(292,648)	-	(61,471)	-	(3,422,711)
Transfers and reclassifications	-	31,141	(257,278)	137,938	456,379	-	175,918	(544,098)	-
<b>At revalued amount as at 31 December 2017</b>	<b>6,057,069</b>	<b>227,862,264</b>	<b>10,519,904</b>	<b>85,464,187</b>	<b>144,214,874</b>	<b>102,839,808</b>	<b>17,509,489</b>	<b>35,052,454</b>	<b>629,520,049</b>
<b>Accumulated depreciation and impairment as at 31 December 2016</b>	-	(5,664,218)	(717,047)	(1,766,980)	(7,682,042)	(199,540)	(1,827,230)	(57,641)	(17,914,698)
Depreciation charge	-	(14,995,566)	(1,668,519)	(4,795,774)	(19,689,927)	-	(4,484,622)	-	(45,634,408)
Disposals	-	116,811	35,432	25,152	173,684	199,540	162,942	-	713,561
Accrual of impairment (through revaluation reserve)	(2,100)	(12,255)	-	(349,844)	(17,221)	-	(2,983)	-	(384,403)
(Accrual)/reversal of impairment (through profit and loss)	-	(1,597)	4,462	(39,222)	(1,212)	-	(113)	-	(37,682)
Transfers to non-current assets held for sale	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)	-	-
<b>Accumulated depreciation and impairment as at 31 December 2017</b>	<b>-</b>	<b>(20,559,375)</b>	<b>(2,284,801)</b>	<b>(6,570,464)</b>	<b>(27,082,673)</b>	<b>-</b>	<b>(6,128,463)</b>	<b>(57,641)</b>	<b>(62,683,417)</b>

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****5. PROPERTY, PLANT AND EQUIPMENT (continued)**

<i>In thousands of Tenge</i>	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
<b>At revalued amount as at 31 December 2015</b>	3,935,614	181,224,490	8,075,342	64,221,098	110,571,364	69,260,331	15,264,421	51,076,938	503,629,598
Additions	806	280,519	389,853	282,712	631,864	494	532,088	35,877,528	37,995,864
Additions of asset retirement and land reclamation obligation (Note 22)	–	129,237	–	–	–	–	–	–	129,237
Disposals	(3,386)	(1,155,418)	(25,897)	(97,204)	(230,402)	(173,974)	(169,103)	(10,409)	(1,865,793)
Revaluation (through revaluation reserve) (Impairment)/revaluation (through profit and loss)	2,020,215	42,647,924	5,033,982	15,126,251	37,863,104	18,974,225	7,072,163	59,908	128,797,772
Subtraction of accumulated depreciation and impairment on revaluation	(45,840)	173,140	218,623	(1,851,926)	(1,338,183)	–	281,112	(6,582,978)	(9,146,052)
Transfer from construction-in-progress	–	(32,825,419)	(3,188,501)	(14,918,701)	(32,288,170)	–	(8,278,311)	(22,410)	(91,521,512)
Transfer to intangible assets (Note 6)	23,210	11,930,268	6,884	12,676,544	17,592,514	–	348,469	(42,577,889)	–
Transfers and reclassifications	–	–	–	–	–	–	–	(24,327)	(24,327)
Transfers and reclassifications	–	(2,488)	(108,642)	(138,898)	363,359	–	19,421	(132,752)	–
<b>At revalued amount as at 31 December 2016</b>	5,930,619	202,402,253	10,401,644	75,299,876	133,165,450	88,061,076	15,070,260	37,663,609	567,994,787
<b>Accumulated depreciation and impairment as at 31 December 2015</b>	–	(26,043,932)	(2,528,532)	(12,037,870)	(25,633,779)	(199,540)	(6,818,490)	(22,410)	(73,284,553)
Depreciation charge	–	(13,359,491)	(1,401,551)	(4,734,532)	(14,559,152)	–	(3,453,791)	–	(37,508,517)
Disposals	–	919,840	24,668	82,236	219,035	171,927	167,649	–	1,585,355
(Accrual)/reversal of impairment (through revaluation reserve)	–	(3,336)	–	–	1,702	(171,927)	–	(3,134)	(176,695)
(Accrual)/reversal of impairment (through profit and loss)	–	(2,964)	–	–	5,671	–	–	(54,507)	(51,800)
Subtraction of accumulated depreciation and impairment on revaluation	–	32,825,419	3,188,501	14,918,701	32,288,170	–	8,278,311	22,410	91,521,512
Transfers and reclassifications	–	246	(133)	4,485	(3,689)	–	(909)	–	–
<b>Accumulated depreciation and impairment as at 31 December 2016</b>	–	(5,664,218)	(717,047)	(1,766,980)	(7,682,042)	(199,540)	(1,827,230)	(57,641)	(17,914,698)

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****5. PROPERTY, PLANT AND EQUIPMENT (continued)**

<i>In thousands of Tenge</i>	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
<b>As at 31 December 2017</b>									
At revalued amount	6,057,069	227,862,264	10,519,904	85,464,187	144,214,874	102,839,808	17,509,489	35,052,454	629,520,049
Accumulated impairment and depreciation	–	(20,559,375)	(2,284,801)	(6,570,464)	(27,082,673)	–	(6,128,463)	(57,641)	(62,683,417)
<b>Net book value</b>	<b>6,057,069</b>	<b>207,302,889</b>	<b>8,235,103</b>	<b>78,893,723</b>	<b>117,132,201</b>	<b>102,839,808</b>	<b>11,381,026</b>	<b>34,994,813</b>	<b>566,836,632</b>
<b>As at 31 December 2016</b>									
At revalued amount	5,930,619	202,402,253	10,401,644	75,299,876	133,165,450	88,061,076	15,070,260	37,663,609	567,994,787
Accumulated impairment and depreciation	–	(5,664,218)	(717,047)	(1,766,980)	(7,682,042)	(199,540)	(1,827,230)	(57,641)	(17,914,698)
<b>Net book value</b>	<b>5,930,619</b>	<b>196,738,035</b>	<b>9,684,597</b>	<b>73,532,896</b>	<b>125,483,408</b>	<b>87,861,536</b>	<b>13,243,030</b>	<b>37,605,968</b>	<b>550,080,089</b>

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

<i>In thousands of Tenge</i>	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
<b>As at 31 December 2017</b>	<b>1,166,941</b>	<b>154,356,744</b>	<b>4,226,890</b>	<b>58,494,020</b>	<b>87,880,003</b>	<b>30,429,638</b>	<b>7,066,085</b>	<b>35,649,795</b>	<b>379,270,116</b>
As at 31 December 2016	942,377	137,133,792	4,568,337	49,659,608	87,406,834	30,577,783	6,371,355	38,463,016	355,123,102

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

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**5. PROPERTY, PLANT AND EQUIPMENT (continued)**

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

- Construction and reconstruction, realized as part of interstate “Kazakhstan-China” oil pipeline construction project;
- Reconstruction of the WPS-5 to increase the supply of water for the water pipeline “Astrakhan-Mangyshlak”;
- Overhaul with replacement of the pipeline on the section 1,001.9-1,187.5 kilometers of the main oil pipeline “Tuymazy-Omsk-Novosibirsk-2” (the second stage of construction) and the main oil pipeline “Uzen-Atyrau-Samara” on the section 1,031-1,065 kilometers and others .

As at 31 December 2016 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 main oil pipelines “Kalamkas-Karazhanbas-Aktau” on the “Karazhanbas-Aktau” route;
- Reconstruction of the WPS-5 to increase the supply of water for the water pipeline “Astrakhan-Mangyshlak”;
- Reconstruction of firefighting system, construction of acceptance points at 1,235 kilometers of the oil pipeline “Uzen-Atyrau-Samara”, construction of nonperforming automated communication centers, upgrade of hardware for automation and instrumentation systems, modernization of the existing fiber-optic network, reconstruction of firefighting systems and and power supply facilities, implementation of the project for the installation of system for measurement of quantity and quality of oil for to bitumen plant and others.

As at 31 December 2017:

- The initial cost and corresponding accumulated depreciation of fully depreciated property, plant and equipment were 2,027,373 thousand Tenge (31 December 2016: 1,482,726 thousand Tenge);
- Construction in progress included materials and spare parts in the amount of 4,977,784 thousand Tenge (as at 31 December 2016: 1,531,574 thousand Tenge), which were acquired for construction works. This increase is mainly due to purchases in 2017 for use in the construction of main pumping station MOPS Uzen and OPS Zhetybai, as well as for the reconstruction of technological pipelines at the MOPS Atasu.

Depreciation for the year ended 31 December 2017 included in the cost of construction in progress amounted to 34,799 thousand Tenge (for the year ended 31 December 2016: 15,736 thousand Tenge).

*Transfers to non-current assets held for sale*

As at 31 December 2017 the Company classified the property of administrative and residential building in Pavlodar (hereinafter – “ARB”), as well as individual vehicles as assets held for sale, as their carrying amount is planned to be recovered through sale rather than through continuing use. These assets are available for immediate sale in their present condition.

Management of the Company expects to complete the sale of the above assets during 2018. These assets held for sale are recognized at the amount of 2,848,498 thousand Tenge, which is the lowest of their carrying amount and fair value less costs to sell.



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

Intangible assets as at 31 December 2017 and 2016 are as follows:

<i>In thousands of Tenge</i>	<b>Licenses</b>	<b>Software</b>	<b>Other</b>	<b>Total</b>
<b>Net book value as at 31 December 2016</b>	66,254	1,087,480	27,723	1,181,457
Additions	103,256	503,436	5,945	612,637
Transfers from construction in progress (Note 5)	28,925	43,440	–	72,365
Disposals	(21,367)	(44,766)	(1,909)	(68,042)
Amortization charge	(28,857)	(344,272)	(3,356)	(376,485)
Accumulated amortization on disposals	21,367	44,719	1,909	67,995
Transfers and reclassifications	(16)	16	–	–
<b>Net book value as at 31 December 2017</b>	<b>169,562</b>	<b>1,290,053</b>	<b>30,312</b>	<b>1,489,927</b>
<b>Net book value as at 31 December 2015</b>	63,273	1,384,124	31,499	1,478,896
Additions	27,400	24,128	–	51,528
Disposals	(4,960)	(9,590)	(3,635)	(18,185)
Amortization charge	(24,656)	(344,677)	(3,775)	(373,108)
Accumulated amortization on disposals	4,777	9,588	3,634	17,999
Transfer from construction in progress (Note 5)	420	23,907	–	24,327
<b>Net book value as at 31 December 2016</b>	<b>66,254</b>	<b>1,087,480</b>	<b>27,723</b>	<b>1,181,457</b>
<b>As at 31 December 2017</b>				
At cost	601,840	5,034,201	88,887	5,724,928
Accumulated amortization and impairment	(432,278)	(3,744,148)	(58,575)	(4,235,001)
<b>Net book value</b>	<b>169,562</b>	<b>1,290,053</b>	<b>30,312</b>	<b>1,489,927</b>
<b>As at 31 December 2016</b>				
At cost	491,042	4,532,198	84,851	5,108,091
Accumulated amortization and impairment	(424,788)	(3,444,718)	(57,128)	(3,926,634)
<b>Net book value</b>	<b>66,254</b>	<b>1,087,480</b>	<b>27,723</b>	<b>1,181,457</b>

**7. INVESTMENTS IN SUBSIDIARIES**

As a result of the liquidation of BTL, during 2017, the Company obtained control over subsidiaries of BTL (Note 1). The Company attracted an independent appraiser for the purpose of allocating the cost of investment in BTL between investments in PTL and BOT. Based on the valuation reports, the Company allocated the cost of the investment in BTL in proportion to the fair value of each organization (PTL and BOT).

As at 31 December 2017 and 2016 investments in subsidiaries are as follows:

<i>In thousands of Tenge</i>	<b>31 December 2017</b>	31 December 2016
BTL	–	28,208,864
BOT	25,387,978	–
PTL	2,820,886	–
<b>Total</b>	<b>28,208,864</b>	<b>28,208,864</b>

**8. INVESTMENTS IN JOINT VENTURES**

Investments in joint ventures as at 31 December 2017 and 2016 are as follows:

<i>In thousands of Tenge</i>	<b>31 December 2017</b>	31 December 2016
KCP	6,500,000	6,500,000
MunaiTas	904,945	904,945
<b>Total</b>	<b>7,404,945</b>	<b>7,404,945</b>

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

Advances to suppliers for property, plant and equipment as at 31 December 2017 and 2016 are as follows:

<i>In thousands of Tenge</i>	31 December 2017	31 December 2016
Advances to third parties for property, plant and equipment and construction services	278,577	1,095,580
Advances to related parties for property, plant and equipment and construction services (Note 33)	46,927	14,695
	<b>325,504</b>	<b>1,110,275</b>
Less: allowance for doubtful debts	(53,258)	(53,258)
<b>Total</b>	<b>272,246</b>	<b>1,057,017</b>

**10. INVENTORIES**

Inventories as at 31 December 2017 and 2016 are as follows:

<i>In thousands of Tenge</i>	31 December 2017	31 December 2016
Spare parts	1,846,954	1,315,537
Fuel	530,647	528,839
Construction materials	244,394	196,667
Overalls	173,167	144,234
Chemical reagents	87,826	52,781
Goods	81,554	133,548
Other	187,942	220,664
<b>Total</b>	<b>3,152,484</b>	<b>2,592,270</b>

**11. TRADE AND OTHER ACCOUNTS RECEIVABLE**

Trade and other accounts receivable as at 31 December 2017 and 2016 are as follows:

<i>In thousands of Tenge</i>	31 December 2017	31 December 2016
Trade accounts receivable from related parties (Note 33)	3,507,303	2,951,440
Trade accounts receivable from third parties	2,573,175	2,213,667
Other accounts receivable from third parties	716,947	672,110
Other accounts receivable from related parties (Note 33)	509	509
	<b>6,797,934</b>	<b>5,837,726</b>
Less: allowance for doubtful debts	(600,034)	(643,607)
<b>Total</b>	<b>6,197,900</b>	<b>5,194,119</b>

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

<i>In thousands of Tenge</i>	2017	2016
<b>As at 1 January</b>	<b>643,607</b>	<b>736,090</b>
Reversal (Note 27)	(43,573)	(91,132)
Used in write-off of receivable	-	(1,351)
<b>As at 31 December</b>	<b>600,034</b>	<b>643,607</b>

As at 31 December 2017 and 2016 the ageing analysis of trade receivables is as follows:

<i>In thousands of Tenge</i>	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	31-60 days	61-90 days	91-120 days	>120 days
2017	6,197,900	4,012,249	324,423	927,393	606,416	230,517	96,902
2016	5,194,119	3,379,432	310,133	762,602	658,075	52,960	30,917

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

As at 31 December 2017 and 2016 trade and other accounts receivables are denominated in the following currencies:

<i>In thousands of Tenge</i>	31 December 2017	31 December 2016
Tenge	6,196,180	5,192,550
Foreign currencies	1,720	1,569
<b>Total</b>	<b>6,197,900</b>	<b>5,194,119</b>

**12. ADVANCES TO SUPPLIERS**

Advances to suppliers as at 31 December 2017 and 2016 are as follows:

<i>In thousands of Tenge</i>	31 December 2017	31 December 2016
Advances to related parties (Note 33)	204,462	257,916
Advances to third parties	170,661	111,171
	<b>375,123</b>	<b>369,087</b>
Less: allowance for doubtful debts	(1,265)	(38)
<b>Total</b>	<b>373,858</b>	<b>369,049</b>

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

<i>In thousands of Tenge</i>	2017	2016
As at 1 January	38	984
Charge/(reversal) for the year (Note 27)	1,264	(946)
Used in write-off of advances	(37)	-
<b>As at 31 December</b>	<b>1,265</b>	<b>38</b>

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

VAT recoverable and other prepaid taxes as at 31 December 2017 and 2016 are as follows:

<i>In thousands of Tenge</i>	31 December 2017	31 December 2016
VAT recoverable	2,751,956	757,468
Other taxes prepaid	275,693	259,282
<b>Total</b>	<b>3,027,649</b>	<b>1,016,750</b>

**14. OTHER CURRENT ASSETS**

Other current assets as at 31 December 2017 and 2016 are as follows:

<i>In thousands of Tenge</i>	31 December 2017	31 December 2016
Due for oil transportation coordination services	5,678,717	5,551,741
Prepaid insurance	65,716	31,629
Due from employees	42,195	8,254
Deferred expenses from related parties (Note 33)	5	5,791
Deferred expenses from third parties	-	7,883
Other	-	1,180
<b>Total</b>	<b>5,786,633</b>	<b>5,606,478</b>

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

Bank deposits as at 31 December 2017 and 2016 are as follows:

<i>In thousands of Tenge</i>	<b>31 December 2017</b>	31 December 2016
Short-term bank deposits – US dollar	<b>18,005,639</b>	14,498,115
Short-term bank deposits – Tenge	<b>10,000,000</b>	1,000,000
Long-term bank deposits – Tenge	<b>3,948,692</b>	4,182,770
Accrued interest on deposits – Tenge	<b>309,811</b>	96,715
Accrued interest on deposits – US dollar	<b>41,070</b>	80,788
<b>Total</b>	<b>32,305,212</b>	19,858,388

As at 31 December 2017 and 2016 bank deposits comprised the following:

- Tenge denominated bank deposit with the term from 3 to 12 months, with interest from 7.4% per annum, maturing in January 2018 (as at 31 December 2016: with interest 11% per annum, maturing in January 2017);
- US dollar denominated deposits with maturity from 3 to 12 months, with interest from 0.5% to 1% per annum (as at 31 December 2016: from 1% to 2% per annum), maturing from June to August 2018 (as at 31 December 2016: in July and August 2017);
- 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 2016: from 2% to 3.5% per annum maturing in 2029 and in 2026, 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 2017 and 2016 are as follows:

<i>In thousands of Tenge</i>	<b>31 December 2017</b>	31 December 2016
Time deposits with banks – Tenge	<b>35,566,876</b>	52,590,424
Time deposits with banks – US dollar	–	10,699,446
Current accounts with banks – Tenge	<b>419,768</b>	285,255
Current accounts with banks – Russian ruble	<b>11,142</b>	4,999
Current accounts with banks – US dollar	<b>207</b>	1,206,547
Other current accounts with banks	<b>13,093</b>	15,127
Cash in transit	–	52
Cash on hand	<b>112</b>	496
<b>Total</b>	<b>36,011,198</b>	64,802,346

As at 31 December 2017 current accounts and time deposits with maturity less than 3 months in Tenge placed with Kazakhstani banks carried interest ranging from 0.5% to 9.84% per annum (as at 31 December 2016: from 0.5% to 10.5% per annum).

Interest for current accounts and time deposits with maturity less than 3 months placed in US dollars ranged from 0.25% to 4% per annum (for current accounts and time deposits as at 31 December 2016: from 0.25% to 4% per annum).

**17. LONG-TERM INVESTMENTS HELD TO MATURITY**

In December 2017, in accordance with the Decision of the Government of the Republic of Kazakhstan dated 7 November 2017, the Company acquired bonds of “Special Financial Company DSFK” LLP (hereinafter – “DSFK bonds”) using the funds placed with RBK Bank JSC (hereinafter – “RBK Bank”). 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 bonds are secured by a financial guarantee of “Kazakhmys Corporation” LLP of 1,379,913 thousand Tenge. The guarantee is exercisable upon request of the Company not earlier than the fifth anniversary after the inception of the bonds.

As at 31 December 2017 the Company recognized an impairment loss for a non-guaranteed bonds 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 31). As a result, the carrying value of the given bonds as at the reporting date was 748,962 thousand Tenge.



**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****18. EQUITY****Share capital**

As at 31 December 2017 and 2016 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 2017 and 2016 the share capital was equal to 61,937,567 thousand Tenge, net of consulting costs related to the issuance of shares in the amount of 565,717 thousand Tenge.

**Treasury shares**

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

**Other capital reserves**

As at 31 December 2017 other capital reserves amounted to 622,717 thousand Tenge (31 December 2016: 695,324 thousand Tenge). Change in given reserve is due to accrual of actuarial gain from employee benefit liabilities in the amount of 279,191 thousand Tenge (*Note 19*), income tax effect of which amounted to 55,838 thousand Tenge (*Note 32*) (31 December 2016: loss in the amount of 3,897,890 thousand Tenge, income tax effect of which amounted to 779,578 thousand Tenge) (*Note 32*). Also in the current reporting period, the Company wrote off deferred tax assets of 150,746 thousand Tenge related to change in estimates of long-term employee benefit obligations (*Note 32*).

**Dividends**

During 2017 the Company accrued and paid dividends as the result of 2016 year to the shareholders based on the decision of the shareholders meeting dated 25 May 2017 in the amount of 59,617,355 thousand Tenge based on 155 Tenge per 1 share (as at 31 December 2016: 51,156,535 thousand Tenge based on 133 Tenge per 1 share), including 53,656,666 thousand Tenge attributable to KMG (as at 31 December 2016: 46,040,881 thousand Tenge) and 5,960,689 thousand Tenge attributable to minority shareholders (as at 31 December 2016: 5,115,654 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 Company by the weighted average number of ordinary shares outstanding during the period. As the Company does not issue convertible financial instruments, basic earnings per share of the Company are equal to diluted earnings per share.

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

<i>In thousands of Tenge</i>	2017	2016
Net profit attributable to ordinary equity holders of the Company	45,654,791	46,843,761
Weighted average number of ordinary shares for basic earnings per share	384,628,099	384,631,224
<b>Basic earnings per share, in relation to profit for the year attributable to ordinary equity holders of the Company (in Tenge)</b>	<b>119</b>	<b>122</b>

**Book value per ordinary share**

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

<i>In thousands of Tenge</i>	31 December 2017	31 December 2016
Total assets	698,167,815	691,872,944
Less: intangible assets ( <i>Note 6</i> )	(1,489,927)	(1,181,457)
Less: total liabilities	(149,400,028)	(141,300,479)
<b>Net assets for calculation of book value per ordinary share</b>	<b>547,277,860</b>	<b>549,391,008</b>
Number of ordinary shares	384,628,099	384,628,099
<b>Book value per ordinary share (in Tenge)</b>	<b>1,423</b>	<b>1,428</b>

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****19. EMPLOYEE BENEFIT LIABILITIES**

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

Employee benefit liabilities as at 31 December 2017 and 2016 are as follows:

<i>In thousands of Tenge</i>	31 December 2017	31 December 2016
Current portion of employee benefit liabilities	600,175	543,418
Non-current portion of employee benefit liabilities	12,740,751	11,994,599
<b>Total</b>	<b>13,340,926</b>	<b>12,538,017</b>

Changes in the present value of employee benefit liabilities for the years ended 31 December 2017 and 2016 are as follows:

<i>In thousands of Tenge</i>	2017	2016
<b>Employee benefit liabilities at the beginning of the year</b>	<b>12,538,017</b>	<b>15,533,710</b>
Interest cost (Note 31)	1,182,271	1,112,503
Current services cost (Notes 26, 27)	559,185	641,073
Past service cost (Notes 26, 27)		478,957
Actuarial loss/(gain) through profit and loss (Notes 28, 29)	39,943	(742,441)
Actuarial gain through other comprehensive income (Note 18)	(279,191)	(3,897,890)
Benefits paid	(699,299)	(587,895)
<b>Employee benefit liabilities at the end of the year</b>	<b>13,340,926</b>	<b>12,538,017</b>

**20. TRADE AND OTHER ACCOUNTS PAYABLE**

Trade and other accounts payable as at 31 December 2017 and 2016 are as follows:

<i>In thousands of Tenge</i>	31 December 2017	31 December 2016
Accounts payable to third parties for goods and services	15,234,298	12,816,838
Accounts payable to related parties for goods and services (Note 33)	1,142,698	1,912,739
Other accounts payable to third parties	345,994	106,515
Other accounts payable to related parties (Note 33)	2,190	777
<b>Total</b>	<b>16,725,180</b>	<b>14,836,869</b>

Trade and other accounts payable included payables to related and third parties, related to property, plant and equipment and construction in progress in the amount of 12,509,741 thousand Tenge (as at 31 December 2016: 11,562,030 thousand Tenge).

Trade and other accounts payables as at 31 December 2017 and 2016 are in the following currencies:

<i>In thousands of Tenge</i>	31 December 2017	31 December 2016
Tenge	16,675,818	14,755,776
US dollar	18,062	21,554
Euro	16,726	14,802
Russian ruble	14,574	44,737
<b>Total</b>	<b>16,725,180</b>	<b>14,836,869</b>

**21. ADVANCES RECEIVED**

Advances received as at 31 December 2017 and 2016 are as follows:

<i>In thousands of Tenge</i>	31 December 2017	31 December 2016
Advances received from related parties (Note 33)	10,919,781	10,407,356
Advances received from third parties	6,996,050	5,782,442
<b>Total</b>	<b>17,915,831</b>	<b>16,189,798</b>

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****22. OTHER TAXES PAYABLE**

Other taxes payable as at 31 December 2017 and 2016 are as follows:

<i>In thousands of Tenge</i>	<b>31 December 2017</b>	31 December 2016
Personal income tax	593,794	455,757
Social tax	568,570	417,256
Property tax	33,271	71,467
VAT payable	8,075	8,650
Other taxes	20,828	23,400
<b>Total</b>	<b>1,224,538</b>	<b>976,530</b>

**23. PROVISIONS**

Short-term reserves as at 31 December 2017 and 2016 included other reserves in the amount of 41,125 thousand Tenge.

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

The company revised the long-term provisions considering current best estimate. Assumptions used and the sensitivity to changes in the discount rate are reflected in *Note 4*.

<i>In thousands of Tenge</i>	<b>2017</b>	2016
<b>As at 1 January</b>	<b>15,022,086</b>	21,999,701
Charge for the year ( <i>Note 5</i> )	265,812	129,237
Revision of estimates through other comprehensive income	30,162	(6,886,484)
Revision of estimates through profit and loss ( <i>Note 28</i> )	(1,239,714)	(1,556,766)
Unwinding of discount on asset retirement and land recultivation obligation ( <i>Note 31</i> )	1,268,976	1,336,398
<b>As at 31 December</b>	<b>15,347,322</b>	<b>15,022,086</b>

**24. OTHER CURRENT LIABILITIES**

Other current liabilities as at 31 December 2017 and 2016 are as follows:

<i>In thousands of Tenge</i>	<b>31 December 2017</b>	31 December 2016
Salaries and other compensations	9,911,112	9,256,978
Accounts payable for oil transportation coordination services to related parties ( <i>Note 33</i> )	6,589,984	5,656,284
Accounts payable for oil transportation coordination services to third parties	4,118,923	5,067,651
Accounts payable to pension fund	741,564	580,524
Other	140,580	102,071
<b>Total</b>	<b>21,502,163</b>	<b>20,663,508</b>

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

**25. REVENUE**

Revenue for the years ended 31 December 2017 and 2016 is as follows:

<i>In thousands of Tenge</i>	<b>2017</b>	2016
Crude oil transportation	184,818,487	171,762,134
Pipeline operation services	10,598,775	9,518,791
Water transportation	7,046,075	7,156,674
Fees for undelivered oil volumes	5,198,277	2,507,272
Oil transportation coordination services	697,652	713,708
Oil storage services	100,327	62,951
Other	147,286	148,098
<b>Total</b>	<b>208,606,879</b>	<b>191,869,628</b>

For the year ended 31 December 2017 revenue from the four major customers amounted to 49,159,783 thousand Tenge, 26,582,952 thousand Tenge, 13,132,025 thousand Tenge and 12,106,463 thousand Tenge, respectively (for the year ended 31 December 2016 revenue from the four major customers: 51,090,880 thousand Tenge, 24,509,836 thousand Tenge, 13,181,553 thousand Tenge and 13,164,119 thousand Tenge, respectively).

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

Cost of sales for the years ended 31 December 2017 and 2016 are as follows:

<i>In thousands of Tenge</i>	2017	2016
Personnel costs	48,421,084	45,003,792
Depreciation and amortization	44,898,883	37,034,002
Materials and fuel	7,342,287	6,294,441
Electric energy	7,170,357	6,561,263
Taxes other than income tax	6,931,850	5,884,037
Repair and maintenance cost	5,353,426	4,484,009
Security services	3,884,698	3,732,563
Gas expense	2,471,887	2,885,866
Air services	1,186,286	1,563,931
Business trip expenses	896,764	878,823
Post-employment benefits (Note 19)	528,274	1,052,828
Insurance	481,785	513,215
Environmental protection	473,677	403,775
Outstaffing services	396,876	54,124
Diagnostics of production assets	377,305	165,268
Transportation services	285,740	–
Communication services	241,790	242,735
Obligatory Social Medical Insurance	154,997	–
Operating lease expense	97,855	89,948
Other	2,485,803	1,857,302
<b>Total</b>	<b>134,081,624</b>	<b>118,701,922</b>

Increase in personnel costs is due to the indexation of salaries of operating personnel made starting from 1 January 2017.

**27. GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses for the years ended 31 December 2017 and 2016 are as follows:

<i>In thousands of Tenge</i>	2017	2016
Personnel costs	7,120,393	7,205,925
Depreciation and amortization	1,077,211	831,887
Outstaffing services	500,323	308,678
Office maintenance	473,013	455,581
Consulting services	337,386	233,035
Social sphere expenses	300,851	73,796
Taxes other than income tax	276,291	197,460
Repair and technical maintenance	247,719	175,065
Business trip expenses	235,471	226,135
Training	137,253	140,069
Transportation services	118,975	–
Insurance and security	115,337	121,822
Materials and fuel	114,150	116,747
Information services	108,617	90,770
Bank costs	99,535	102,715
Communication services	94,041	98,382
Write-off of VAT recoverable	91,939	109,801
Advertising expenses	71,195	90,863
Post-employment benefits (Note 19)	30,911	67,202
Operating lease expense	18,867	33,527
Charge/(reversal) of provision for obsolete inventories, net	9,639	(95)
Obligatory Social Medical Insurance	9,432	–
Charity expense	–	65,912
Reversal of allowance for doubtful debts, net (Notes 9, 11 and 12)	(42,309)	(92,078)
Other	491,292	422,251
<b>Total</b>	<b>12,037,532</b>	<b>11,075,450</b>



**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****28. OTHER OPERATING INCOME**

Other operating income for the years ended 31 December 2017 and 2016 is as follows:

<i>In thousands of Tenge</i>	2017	2016
Revision of estimates on provision on asset retirement and land reclamation obligation (Note 23)	1,239,714	1,556,766
Income from fines and penalties	680,220	446,559
Cost recovery from temporary structures	217,054	–
Actuarial gain (Note 19)	–	742,441
Other income	260,481	137,349
<b>Total</b>	<b>2,397,469</b>	<b>2,883,115</b>

**29. OTHER OPERATING EXPENSES**

Other operating expenses for the years ended 31 December 2017 and 2016 are as follows:

<i>In thousands of Tenge</i>	2017	2016
Net loss from disposal of property, plant and equipment and intangible assets	710,923	59,621
Expenses for liquidation of idle production facilities	56,275	14,688
Actuarial loss (Note 19)	39,943	–
Other expenses	142,654	49,902
<b>Total</b>	<b>949,795</b>	<b>124,211</b>

**30. FINANCE INCOME**

Finance income for the years ended 31 December 2017 and 2016 is as follows:

<i>In thousands of Tenge</i>	2017	2016
Interest income on bank deposits and current accounts	4,862,911	4,840,552
Loans to employees: amortization of discount	4,906	10,932
Unwinding of discount on interest free loan (Note 33)	–	1,264,921
Unwinding of discount on loans to employees	1,913	–
<b>Total</b>	<b>4,869,730</b>	<b>6,116,405</b>

**31. FINANCE COSTS**

Finance costs for the years ended 31 December 2017 and 2016 are as follows:

<i>In thousands of Tenge</i>	2017	2016
Unwinding of discount on asset retirement and land reclamation obligation (Note 23)	1,268,976	1,336,398
Interest cost on employee benefit liabilities (Note 19)	1,182,271	1,112,503
Discount of investments held to maturity (Note 17)	630,951	–
<b>Total</b>	<b>3,082,198</b>	<b>2,448,901</b>

**32. INCOME TAX EXPENSE**

Income tax expense for the years ended 31 December 2017 and 2016 is as follows:

<i>In thousands of Tenge</i>	2017	2016
Current income tax expense	17,049,571	16,443,850
Adjustments of the past periods	(294,732)	446,883
Deferred income tax benefits	(961,161)	(4,365,506)
<b>Income tax expense</b>	<b>15,793,678</b>	<b>12,525,227</b>

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

### 32. INCOME TAX EXPENSE (continued)

A reconciliation of income tax expense on accounting profit, multiplied by income tax rate and current income tax expense for the years ended 31 December 2017 and 2016 is as follows:

<i>In thousands of Tenge</i>	2017	2016
<b>Profit before income tax</b>	<b>61,448,469</b>	59,368,988
Statutory rate	20%	20%
<b>Income tax expense on accounting profit</b>	<b>12,289,694</b>	11,873,798
Adjustments of the past periods	(294,732)	446,883
Non-taxable income in the form of dividends on investments	–	(297,432)
Gain on surplus of technological oil	433,589	503,354
Income of foreign subsidiary in countries with preferential tax treatment	221,492	114,678
Impairment of long-term investments held to maturity	727,921	–
Reversal of deferred tax assets on long-term employee benefit liabilities	1,166,108	–
Other non-deductible expenses	1,249,606	(116,054)
<b>Income tax expense reported in the separate statement of comprehensive income</b>	<b>15,793,678</b>	12,525,227

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

<i>In thousands of Tenge</i>	31 December 2017	Charged to profit and loss	Charged to other comprehensive income	31 December 2016	Charged to profit and loss	Charged to other comprehensive income	1 January 2015
<b>Deferred tax assets</b>							
Employee benefits and other employee compensation and related costs	1,936,939	(850,797)	(206,584)	2,994,320	292,150	(779,578)	3,481,748
Allowance for doubtful debts	130,911	(8,470)	–	139,381	(18,685)	–	158,066
Provision for obsolete and slow-moving inventories	3,523	(26)	–	3,549	(24)	–	3,573
Taxes payable	147,353	32,555	–	114,798	(9,566)	–	124,364
Provision for environmental protection and other provisions	8,225	–	–	8,225	(41,431)	–	49,656
Provision for assets retirement and land recultivation obligation	3,069,465	59,014	6,033	3,004,418	23,204	(1,377,295)	4,358,509
Discounting on investments held for sale	126,190	126,190	–	–	–	–	–
	<b>5,422,606</b>	<b>(641,534)</b>	<b>(200,551)</b>	6,264,691	245,648	(2,156,873)	8,175,916
<b>Deferred tax liabilities</b>							
Investments in joint ventures	(176,032)	–	–	(176,032)	–	–	(176,032)
Property, plant and equipment	(68,545,862)	1,602,695	(3,027,352)	(67,121,205)	4,119,858	(25,724,217)	(45,516,846)
	<b>(68,721,894)</b>	<b>1,602,695</b>	<b>(3,027,352)</b>	(67,297,237)	4,119,858	(25,724,217)	(45,692,878)
<b>Net deferred income tax liabilities</b>	<b>(63,299,288)</b>	<b>961,161</b>	<b>(3,227,903)</b>	(61,032,546)	4,365,506	(27,881,090)	(37,516,962)

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.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****33. 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 2017 and 2016 and the related balances as at 31 December 2017 and 2016.

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

<i>In thousands of Tenge</i>	<b>Note</b>	<b>31 December 2017</b>	31 December 2016
<b>Advances to related parties for property, plant and equipment</b>			
Advances for property, plant and equipment to entities under common control of Samruk-Kazyna Group		46,927	–
Advances for property, plant and equipment to entities under common control of KMG		–	14,695
<b>Total advances to related parties for property, plant and equipment</b>	<b>9</b>	<b>46,927</b>	<b>14,695</b>

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

<i>In thousands of Tenge</i>	<b>Note</b>	<b>31 December 2017</b>	31 December 2016
<b>Trade and other accounts receivable from related parties</b>			
Trade accounts receivable from joint ventures		2,495,886	2,218,268
Trade accounts receivable from entities under common control of KMG		1,007,975	732,736
Trade accounts receivable from entities under common control of Samruk-Kazyna Group		3,442	436
<b>Total trade and other accounts receivable from related parties</b>	<b>11</b>	<b>3,507,303</b>	<b>2,951,440</b>
Other accounts receivables from entities under common control of KMG and Samruk-Kazyna Group	11	509	509
<b>Total trade and other accounts receivable from related parties</b>		<b>3,507,812</b>	<b>2,951,949</b>

Advances provided to related parties are as follows:

<i>In thousands of Tenge</i>	<b>Note</b>	<b>31 December 2017</b>	31 December 2016
<b>Advances paid to related parties</b>			
Advances paid to entities under common control of KMG		103,181	140,560
Advances paid to entities under common control of Samruk-Kazyna Group		101,281	117,356
<b>Total advances paid to related parties</b>	<b>12</b>	<b>204,462</b>	<b>257,916</b>

Deferred expenses from related parties are as follows:

<i>In thousands of Tenge</i>	<b>Note</b>	<b>2017</b>	2016
<b>Deferred expenses from related parties</b>			
Deferred expenses from entities under control of Samruk-Kazyna Group		5	5,791
<b>Total deferred expenses from related parties</b>	<b>14</b>	<b>5</b>	<b>5,791</b>

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****33. RELATED PARTY TRANSACTIONS (continued)**

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

<i>In thousands of Tenge</i>	Note	31 December 2017	31 December 2016
<b>Trade accounts payables to related parties for goods and services</b>			
Trade accounts payables to entities under common control of KMG		910,337	634,448
Trade accounts payables to entities under common control of Samruk-Kazyna Group		232,361	1,278,291
<b>Total trade and other accounts payable to related parties for goods and services</b>	20	<b>1,142,698</b>	<b>1,912,739</b>
Other payables to entities under control of Samruk-Kazyna Group	20	2,190	777
<b>Total trade and other accounts payable to related parties for goods and services</b>		<b>1,144,888</b>	<b>1,913,516</b>

Advances received from related parties are as follows:

<i>In thousands of Tenge</i>	Note	31 December 2017	31 December 2016
<b>Advances received from related parties</b>			
Advances from entities under common control of KMG		10,560,712	9,990,855
Advances from entities under common control of Samruk-Kazyna Group		359,068	416,492
Advances from joint ventures		1	9
<b>Total advances received from related parties</b>	21	<b>10,919,781</b>	<b>10,407,356</b>

Other current liabilities to related parties are as follows:

<i>In thousands of Tenge</i>	Note	31 December 2017	31 December 2016
<b>Accounts payable for oil transportation coordination services to related parties</b>			
Accounts payable for oil transportation coordination services to entities under common control of KMG		6,589,984	5,656,284
<b>Total of accounts payable for oil transportation coordination services to related parties</b>	24	<b>6,589,984</b>	<b>5,656,284</b>
<b>Employee benefits obligation of key management personnel</b>			
Employee benefits obligation of key management personnel		44,502	43,840
<b>Total employee benefits obligation of key management personnel</b>		<b>44,502</b>	<b>43,840</b>
<b>Total other current liabilities to related parties</b>		<b>6,634,486</b>	<b>5,700,124</b>

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

<i>In thousands of Tenge</i>	2017	2016
<b>Sales to related parties</b>		
Revenue from main activities with entities under common control of KMG	116,967,549	113,671,755
Revenue from main activities with joint ventures	9,121,018	8,108,759
Revenue from main activities with entities under common control of Samruk-Kazyna Group	3,731,719	4,553,518
Revenue from other activities with entities under common control of KMG	84,391	24,878
Revenue from other activities with entities under common control of Samruk-Kazyna Group	16,138	1,337
<b>Total</b>	<b>129,920,815</b>	<b>126,360,247</b>

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****33. RELATED PARTY TRANSACTIONS (continued)**

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

<i>In thousands of Tenge</i>	2017	2016
<b>Purchases from related parties</b>		
Purchases of services from entities under common control of KMG	7,376,930	9,317,569
Purchases of services from entities under common control of Samruk-Kazyna Group	2,992,827	3,004,858
Purchases of property, plant and equipment from entities under common control of KMG Company	1,099,992	841,864
Purchases of inventory from entities under common control of KMG	1,071,536	70,860
Purchases of property, plant and equipment from entities under common control of Samruk-Kazyna Group	1,057,305	991,574
Purchases of services from joint ventures	7,506	4,877
Purchases of inventory from entities under common control of Samruk-Kazyna Group	3,359	18,778
<b>Total</b>	<b>13,609,455</b>	<b>14,250,380</b>

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

<i>In thousands of Tenge</i>	Note	2017	2016
<b>Finance income from related parties</b>			
Discounting of interest-free loan provided to KMG	30	–	1,264,921
<b>Total</b>		<b>–</b>	<b>1,264,921</b>

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

<i>In thousands of Tenge</i>	2017	2016
<b>Dividend income from related parties</b>		
Dividend income from joint ventures	–	1,487,160
<b>Total</b>	<b>–</b>	<b>1,487,160</b>

Cash flows from related parties is as follows:

<i>In thousands Tenge</i>	2017	2016
<b>Cash flows from related parties</b>		
Return of Interest free loan from KMG	–	20,000,000
<b>Total</b>	<b>–</b>	<b>20,000,000</b>

In 2015, the Company, on the basis of a decision of the Board of Directors, issued KMG an interest-free loan of 20 billion Tenge with maturity date until 30 June 2016.

As at 31 December 2016 the loan was repaid by KMG, by transferring funds to the Company's settlement account.

Total accrued compensation to key management personnel for the year ended 31 December 2017 amounts to 586,985 thousand Tenge (for the year ended 31 December 2016: 759,880 thousand Tenge). Payments to key personnel consist primarily of payroll costs and remuneration established by contracts and Company's internal regulations.

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

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

The 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 Company's business in the current circumstances.



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

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**34. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****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 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years 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 2017.

As at 31 December 2017 the Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Company's tax positions will be sustained, except as provided for or otherwise disclosed in these separate financial statements.

*Transfer pricing control*

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

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

Because of the uncertainties associated with the Kazakhstan transfer pricing legislation, there is a risk that the tax authorities may take a position that differs from the Company's position, which could result in additional taxes, fines and interest as at 31 December 2017.

As at 31 December 2017 the Management believes that its interpretation of the transfer pricing legislation is appropriate and that it is probable that the Company's positions with regard to transfer pricing will be sustained.

**Environmental obligations**

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Potential liabilities which may arise as a result of changes in legislation cannot be reasonably estimated. Under existing legislation management believes that there are no probable or possible liabilities which could have a material adverse effect on the Company's financial position or results of operations, except as provided for or otherwise disclosed in these separate financial statements (*Notes 4, 23*).

**Insurance issues**

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company has insurance coverage over property, third party liability in respect of property or environmental damage arising from accidents on Company's property or relating to the Company's operations.

**Contractual commitments**

As at 31 December 2017, the Company had contractual obligations to acquire property, plant and equipment, and construction services for the amount of 26,440,947 thousand Tenge (as at 31 December 2016: 24,940,800 thousand Tenge).

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

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

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

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

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

**Credit risk**

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

The Company places deposits with Kazakhstani banks (*Notes 15 and 16*). The Company's management reviews credit ratings of these banks periodically to eliminate extraordinary credit risk exposure, and believes that the Company's bank deposits do not require a provision for impairment.

The table below shows the balances of bank accounts and deposits at the separate statement of financial position date using the "Moody's", "Fitch" and "Standard and Poor's" credit ratings.

Bank	Location	Rating		31 December 2017	31 December 2016
		31 December 2017	31 December 2016		
"Halyk Bank of Kazakhstan" JSC	Kazakhstan	Ba1/Stable	BB+/Stable	68,305,097	77,756,612
"GasBank CJSC" JSCB	Russia	B3/Stable	B3	10,418	3,268
Sberbank" SB JSC	Russia	BBB-	–	724	–
"Altyn Bank" JSC	Kazakhstan	Ba2/Stable	BB/Positive	25	1,829,416
"Sberbank Russia" SB JSC	Kazakhstan	BB+/Positive	BB+/Stable	12	5,070,824
"Tsesnabank" JSC	Kazakhstan	B/Stable	B/Stable	9	10
"Kazkommertsbank" JSC	Kazakhstan	Ba2/Stable	CCC/Stable	8	56
"ForteBank" JSC	Kazakhstan	B3/Positive	–	5	–
<b>Total</b>				<b>68,316,298</b>	<b>84,660,186</b>

**Liquidity risks**

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

The table below summarizes the maturity profile of the Company's financial liabilities at 31 December 2017 and 2016 based on contractual undiscounted payments.

<i>In thousands of Tenge</i>	On demand	<1 year	1 to 2 years	2 to 5 years	>5 years	Total
<b>As at 31 December 2017</b>						
Trade and other payable	–	16,693,685	27,068	145	4,282	16,725,180
<b>Total</b>	–	<b>16,693,685</b>	<b>27,068</b>	<b>145</b>	<b>4,282</b>	<b>16,725,180</b>
<b>As at 31 December 2016</b>						
Trade and other payable	–	14,822,122	7,877	492	6,378	14,836,869
<b>Total</b>	–	<b>14,822,122</b>	<b>7,877</b>	<b>492</b>	<b>6,378</b>	<b>14,836,869</b>

**Currency risk**

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

<i>In thousands of Tenge</i>	US dollar	Russian ruble	Euro	Other currencies	Total
<b>As at 31 December 2017</b>					
Assets	18,046,919	13,487	–	–	18,060,406
Liabilities	18,062	85,231	16,726	–	120,019
<b>As at 31 December 2016</b>					
Assets	26,492,779	14,706	–	–	26,507,485
Liabilities	21,554	101,655	14,802	–	138,011

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)****35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Currency risk (continued)**

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

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

<i>In thousands of Tenge</i>	Increase/ decrease in exchange rate	Effect on profit before tax
<b>2017</b>		
US dollar	+10.00%	1,802,886
	-10.00%	(1,802,886)
Russian ruble	+16.00%	(11,479)
	-16.00%	11,479
Euro	+13.50%	(2,258)
	-9.50%	1,589
<b>2016</b>		
US dollar	+13.00%	3,441,259
	-13.00%	(3,441,259)
Russian ruble	+23.00%	(19,998)
	-19.00%	16,520
Euro	+15.00%	(2,220)
	-15.00%	2,220

**Capital management**

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy equity ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Company has sufficient cash, exceeding its debt as at the reporting date.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 2016.

As at 31 December 2017 and 2016 the Company does not have significant debts.

**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.

**36. SUBSEQUENT EVENTS**

In order to optimize expenses, as well as to increase the efficiency of the Company's operations and the quality of its production processes management, from 3 January 2018, the Company has moved from a three-level to a two-level management system. On 19 January 2018, the Company's Management Committee approved the closure of two branches located in Atyrau (Western branch) and Pavlodar (Eastern branch) cities, performing administrative and management functions with respect to the regional production departments of the Company. As a result of this restructuring, the Company will directly manage the above-mentioned production structural divisions. Management of the Company does not expect significant liabilities related to this restructuring.

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

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**36. SUBSEQUENT EVENTS (continued)**

In accordance with the agreement signed on 18 October 2017 between Company and Central Asia Transit LLC on provision of oil transportation services in transit, for the purpose of transit through the territory of the Republic of Kazakhstan towards the Kyrgyz Republic in 2018, oil supplies of Russian origin will be launched through the system the Company's main oil pipelines along the route "the border of the Russian Federation from the Republic of Kazakhstan – the oil loading point Shagyr". According to oil supply schedules, up to 500 thousand tons of raw materials are to be transported annually along this route. Tariff for services provided on this route will be 25.12 US dollars per ton.

On 27 February 2018, the Company's orders on increase in the tariffs for the pumping oil on the export from the Republic of Kazakhstan to 6,398.92 Tenge per ton for 1,000 km (excluding VAT) and for pumping oil for transit through Kazakhstani part of main oil pipeline "Tuymazy-Omsk-Novosibirsk-2" to 4,292.4 Tenge per 1 ton per 1,000 km (excluding VAT) were approved. The tariffs are effective from 1 April 2018.