KazTransOil JSC

Interim condensed consolidated financial statements

For the nine months ended 30 September 2016

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Report on review of interim condensed consolidated financial statements

To the Shareholders of KazTransOil JSC

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of KazTransOil JSC and its subsidiary ("the Group"), comprising the interim consolidated statement of financial position as at 30 September 2016 and the related interim consolidated statement of comprehensive income for the three and nine month periods then ended, statements of cash flows and changes in equity for the nine month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements of KazTransOil JSC and its subsidiary are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLP

Gulmira Turmagambetova
Auditor / General director

Auditor qualification certificate No. 0000374 dated 21 February 1998

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

21 November 2016

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of Tenge	Notes	30 September 2016 (unaudited)	31 December 2015 (audited)
Assets			
Non-current assets			
Property, plant and equipment	3	**591,043,568**	478,504,930
Intangible assets	4	**7,251,089**	7,399,731
Investments in joint ventures	5	**15,171,890**	13,918,006
Advances to suppliers for property, plant and equipment	6	**2,950,442**	7,733,267
Bank deposits	12	**4,141,674**	4,487,436
Other non-current assets		**16,333**	27,156
		620,574,996	512,070,526
Current assets			
Inventories	7	**4,486,669**	3,599,697
Interest free loan	30	**–**	18,735,079
Trade and other accounts receivable	8	**4,940,400**	4,224,126
Advances to suppliers	9	**1,524,576**	3,062,072
Prepayment for corporate income tax		**3,857,903**	2,376
VAT recoverable and other prepaid taxes	10	**6,573,800**	8,639,068
Other current assets	11	**3,583,013**	6,062,455
Bank deposits	12	**27,694,474**	12,446,837
Cash and cash equivalents	13	**48,404,419**	50,420,288
		101,065,254	107,191,998
Total assets		**721,640,250**	619,262,524

The accounting policy and explanatory notes on pages 8 through 38 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of Tenge	Notes	30 September 2016 (unaudited)	31 December 2015 (audited)
Equity and liabilities			
Equity			
Share capital	14	**61,937,567**	61,937,567
Treasury shares repurchased from shareholders	14	**(9,549)**	–
Asset revaluation reserve	14	**227,594,152**	125,563,376
Other capital reserves	14	**(3,813,701)**	(3,813,701)
Foreign currency translation reserve	14	**36,339,670**	36,210,843
Retained earnings		**252,973,441**	253,033,425
Total equity		**575,021,580**	472,931,510
Non-current liabilities			
Employee benefit liabilities	15	**16,049,624**	15,098,686
Deferred tax liabilities	28	**61,649,256**	40,682,643
Provision for asset retirement and land recultivation obligation	19	**12,238,511**	21,999,701
Deferred income		**7,832,991**	8,081,762
		97,770,382	85,862,792
Current liabilities			
Employee benefit liabilities	15	**486,000**	435,024
Income tax payable		**1,362,974**	2,112,015
Trade and other accounts payable	16	**10,593,957**	16,654,897
Advances received	17	**14,780,163**	17,825,174
Other taxes payable	18	**5,236,525**	4,558,010
Provisions	19	**62,930**	63,191
Other current liabilities	20	**16,325,739**	18,819,911
		48,848,288	60,468,222
Total liabilities		**146,618,670**	146,331,014
Total equity and liabilities		**721,640,250**	619,262,524
Book value of ordinary shares *(in Tenge)*	14	**1,476**	1,210

Signed and approved for issue on 21 November 2016.

General Director — *Dossanov D.G.*

Chief Accountant — *Sarmagambetova M.K.*

The accounting policy and explanatory notes on pages 8 through 38 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the three months ended 30 September (unaudited)		For the nine months ended 30 September (unaudited)	
In thousands of Tenge	**Notes**	**2016**	2015	**2016**	2015
Revenue	21	**49,938,577**	51,167,402	**154,356,571**	157,813,171
Cost of sales	22	**(32,943,094)**	(31,402,954)	**(90,261,681)**	(87,573,903)
Gross profit		**16,995,483**	19,764,448	**64,094,890**	70,239,268
General and administrative expenses	23	**(3,211,738)**	(3,056,622)	**(8,896,354)**	(8,309,424)
Other operating income	24	**774,872**	178,711	**2,448,380**	751,879
Other operating expenses	25	**(281,034)**	(728,580)	**(249,649)**	(1,335,068)
Loss on impairment of property, plant and equipment	3	**(9,146,154)**	(5,181)	**(9,142,954)**	(153,512)
Operating profit		**5,131,429**	16,152,776	**48,254,313**	61,193,143
Net foreign exchange (loss)/gain		**(459,063)**	14,131,982	**(1,475,928)**	15,190,750
Finance income	26	**1,079,823**	383,520	**4,841,678**	2,035,395
Finance cost	27	**(529,746)**	(488,311)	**(1,686,010)**	(1,411,213)
Share in income/(loss) of joint ventures	5	**689,672**	(24,504,368)	**1,764,785**	(21,917,294)
Profit before income tax		**5,912,115**	5,675,599	**51,698,838**	55,090,781
Income tax expense	28	**(1,413,583)**	(6,317,679)	**(8,677,416)**	(16,305,258)
Net profit/(loss) for the period		**4,498,532**	(642,080)	**43,021,422**	38,785,523
Earnings/(loss) per share *(in Tenge)*	14	**12**	(2)	**112**	101

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

In thousands of Tenge	Notes	For the three months ended 30 September (unaudited) 2016	2015	For the nine months ended 30 September (unaudited) 2016	2015
Other comprehensive income/(loss)					
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods					
Exchange difference from translation of foreign operations of the Group		**(411,152)**	11,648,214	**128,827**	9,963,156
Exchange difference from translation of foreign operations of the joint ventures		**–**	133,895	**–**	140,343
Total other comprehensive net income/(loss) to be reclassified to profit or loss in subsequent periods		**(411,152)**	11,782,109	**128,827**	10,103,499
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods					
Revaluation and impairment of property, plant and equipment of the Group	3	**126,396,036**	(3,471)	**126,396,669**	(69,514)
Income tax effect	28	**(25,279,206)**	694	**(25,279,333)**	13,903
		101,116,830	(2,777)	**101,117,336**	(55,611)
Reversal/(accrual) of provision for asset retirement obligation and land recultivation of the Group	19	**4,826,949**	(1,938,611)	**8,934,041**	130,233
Income tax effect	28	**(965,390)**	387,722	**(1,786,808)**	(26,046)
		3,861,559	(1,550,889)	**7,147,233**	104,187
(Accrual)/reversal of deferred tax liabilities of the Group	28	**–**	–	**865,077**	–
		–	–	**865,077**	–
Revaluation of property, plant and equipment of the joint venture		**1,111,814**	–	**1,111,814**	–
Income tax effect		**(222,363)**	–	**(222,363)**	–
	5	**889,451**	–	**889,451**	–
Reversal of provision for asset retirement obligation and land recultivation of the joint ventures		**86,838**	303,438	**108,510**	588,137
Income tax effect		**(17,368)**	(60,688)	**(21,702)**	(117,628)
	5	**69,470**	242,750	**86,808**	470,509
Other comprehensive net income/(loss) not to be reclassified to profit or loss in subsequent periods		**105,937,310**	(1,310,916)	**110,105,905**	519,085
Total other comprehensive income for the period, net of taxes		**105,526,158**	10,471,193	**110,234,732**	10,622,584
Total comprehensive income for the period, net of taxes		**110,024,690**	9,829,113	**153,256,154**	49,408,107

Signed and approved for issue on 21 November 2016.

General Director — *Dossanov D.G.*

Chief Accountant — *Sarmagambetova M.K.*

The accounting policy and explanatory notes on pages 8 through 38 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

		For the nine months ended 30 September (unaudited)	
In thousands of Tenge	**Notes**	**2016**	2015
Cash flows from operating activities			
Profit before tax		**51,698,838**	55,090,781
Non-cash adjustment to reconcile profit before tax to net cash flows			
Depreciation and amortization	22, 23	**29,213,540**	24,637,633
Charge of allowance for doubtful debts	23	**92,037**	72,003
Share in (income)/loss of joint ventures	5	**(1,764,785)**	21,917,294
Finance costs	27	**1,686,010**	1,411,213
Finance income	26	**(4,841,678)**	(2,035,395)
Employee benefits, current service cost	15	**802,212**	601,846
Loss on disposal of property, plant and equipment and intangible assets, net	25	**91,946**	1,220,096
Impairment charge of property, plant and equipment	3	**9,142,954**	153,512
Gain from sale of inventory, net		**(10,552)**	(31,626)
(Income)/expenses from revision of estimates and reversal of provision on asset retirement obligation and land recultivation and other short-term provisions, net	19	**(2,006,887)**	59,568
Gain from sale of other non-current assets, net		**(2,972)**	(30)
Income from write-off of accounts payable		**(2,122)**	(50,127)
Amortization of deferred income		**–**	(234,274)
Expenses on write-off of VAT recoverable		**42,972**	86,218
Unrealized foreign exchange loss/(gain)		**969,854**	(15,155,515)
Cash flows from operating activities before working capital changes		**85,111,367**	87,743,197
(Increase)/decrease in operating assets			
Inventories		**(1,054,706)**	(1,187,850)
Trade and other accounts receivable		**(847,987)**	1,922,359
Advances to suppliers		**1,542,276**	27,451
VAT recoverable and other prepaid taxes		**2,480,308**	216,545
Other current assets		**2,514,621**	481,971
Increase/(decrease) in operating liabilities			
Trade and other accounts payable		**(612,033)**	(3,315,523)
Advances received		**(3,044,174)**	(1,309,616)
Other taxes payable		**(133,357)**	(1,017,189)
Other current and non-current liabilities and employee benefit liabilities		**(3,155,487)**	(1,558,938)
Cash generated from operating activities		**82,800,828**	82,002,407
Income taxes paid		**(17,901,023)**	(5,507,576)
Interest received		**3,448,455**	1,682,357
Net cash flow from operating activities		**68,348,260**	78,177,188

The accounting policy and explanatory notes on pages 8 through 38 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of Tenge	Notes	For the nine months ended 30 September (unaudited) 2016	2015
Cash flows from investing activities			
Withdrawal of bank deposits		**13,354,600**	48,724,662
Placement of bank deposits		**(28,631,858)**	(31,732,091)
Purchase of property, plant and equipment		**(24,779,116)**	(53,183,115)
Purchase of intangible assets		**(39,850)**	(110,045)
Proceeds from disposal of property, plant and equipment, intangible assets and assets held for sale		**122**	29,319
Repayment of interest free loans	30	**20,000,000**	–
Dividends received	5	**1,487,160**	1,735,020
Net cash flow used in investing activities		**(18,608,942)**	(34,536,250)
Cash flows from financing activities			
Dividends paid	14	**(51,156,535)**	(46,429,363)
Treasury shares repurchased from shareholders	14	**(9,549)**	–
Net cash flow used in financing activities		**(51,166,084)**	(46,429,363)
Net foreign exchange difference		**(589,103)**	8,562,295
Net change in cash and cash equivalents		**(2,015,869)**	5,773,870
Cash and cash equivalents at the beginning of the period		**50,420,288**	42,174,720
Cash and cash equivalents at the end of the period		**48,404,419**	47,948,590

Signed and approved for issue on 21 November 2016.

General Director Dossanov D.G.

Chief Accountant Sarmagambetova M.K.

The accounting policy and explanatory notes on pages 8 through 38 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of Tenge	Share capital	Asset revaluation reserve	Foreign currency translation reserve	Other capital reserves	Treasury shares	Retained earnings	Total
As at 31 December 2015 (audited)	61,937,567	125,563,376	36,210,843	(3,813,701)	–	253,033,425	472,931,510
Profit for the period	–	–	–	–	–	**43,021,422**	**43,021,422**
Other comprehensive income	–	**110,105,905**	**128,827**	–	–	–	**110,234,732**
Total comprehensive income for the period	–	**110,105,905**	**128,827**	–	–	**43,021,422**	**153,256,154**
Depreciation transfer of revalued property, plant and equipment	–	**(8,075,129)**	–	–	–	**8,075,129**	–
Treasury shares repurchased from shareholders *(Note 14)*	–	–	–	–	**(9,549)**	–	**(9,549)**
Dividends *(Note 14)*	–	–	–	–	–	**(51,156,535)**	**(51,156,535)**
As at 30 September 2016 (unaudited)	**61,937,567**	**227,594,152**	**36,339,670**	**(3,813,701)**	**(9,549)**	**252,973,441**	**575,021,580**
As at 31 December 2014 (audited)	61,937,567	138,237,679	14,860,910	(1,810,575)	–	244,418,740	457,644,321
Profit for the period	–	–	–	–	–	38,785,523	38,785,523
Other comprehensive income	–	519,085	10,103,499	–	–	–	10,622,584
Total comprehensive income for the period	–	519,085	10,103,499	–	–	38,785,523	49,408,107
Depreciation transfer of revalued property, plant and equipment	–	(9,190,646)	–	–	–	9,190,646	–
Dividends *(Note 14)*	–	–	–	–	–	(46,429,363)	(46,429,363)
Reclassification	–	(1,770,579)	1,770,579	–	–	–	–
As at 30 September 2015 (unaudited)	61,937,567	127,795,539	26,734,988	(1,810,575)	–	245,965,546	460,623,065

Signed and approved for issue on 21 November 2016.

General Director — Dossanov D.G.

Chief Accountant — Sarmagambetova M.K.

The accounting policy and explanatory notes on pages 8 through 38 form an integral part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2016

1. GENERAL

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

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

As at 30 September 2016 10% of shares of the Company are owned by minority shareholders who acquired them within the "People's IPO" program. The major shareholder of the Company, who owns the controlling interest of the Company (90%) is National Company "KazMunayGas" JSC (hereinafter – "KMG" or "Parent Company"). 90% of KMG shares are owned by Sovereign Wealth Fund "Samruk-Kazyna" JSC (hereinafter – "Samruk-Kazyna"), controlled by the Government of the Republic of Kazakhstan. 10% of KMG shares are owned by the National Bank of the Republic of Kazakhstan.

As at 30 September 2016 and 31 December 2015 the Company had ownership interest in the following companies:

	Place of incorporation	Principal activities	Ownership 30 September 2016	Ownership 31 December 2015
NWPC "MunaiTas" JSC (hereinafter – "MunaiTas")	Kazakhstan	Oil transportation	**51%**	51%
"Kazakhstan-China Pipeline" LLP (hereinafter – "KCP")	Kazakhstan	Oil transportation	**50%**	50%
"Batumi Terminals Limited" (hereinafter – "BTL")	Cyprus	Forwarding, transshipment and storage of oil and oil products and operating Batumi Sea Port and Oil Terminal	**100%**	100%

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

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

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

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. GENERAL (continued)

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

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

* *The rate came into effect on 1 January 2016.*

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

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

These interim condensed consolidated financial statements for the nine months period ended 30 September 2016 were signed and approved for issue by the General Director and the Chief accountant of the Company on 21 November 2016.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

Basis of preparation

These interim condensed consolidated financial statements for the nine months period ended 30 September 2016 have been prepared in accordance with International Financial Reporting Standard (hereinafter – "IFRS") IAS 34 *Interim Financial Reporting*.

These interim condensed consolidated financial statements have been prepared on a historical cost basis, except for property, plant and equipment which are stated at revalued amounts and financial assets that have been measured at fair value.

Interim condensed consolidated financial statements do not include all information and disclosures required for annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2015.

The interim condensed consolidated financial statements are presented in Tenge and all values are rounded to the nearest thousand, except for the book value of ordinary shares, earnings per share and when otherwise indicated. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Functional currency of the Company and the joint ventures MunaiTas and KCP is Tenge. Functional currency of BTL Group is US dollar, except for BSP, which functional currency is Georgian Lari.

New standards, interpretations and amendments thereof, adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016.

Several new standards and amendments apply for the first time in 2016. However, they do not impact the interim condensed consolidated financial statements of the Group. The nature and the impact of each new standard or amendment are described below.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments thereof, adopted by the Group (continued)

The Group first applies some new standards and amendments to existing standards and interpretations. These include:

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016.

Since the Group is an existing IFRS preparer and the Group has no regulatory deferral account balances, this standard does not affect the interim condensed consolidated financial statements.

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

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

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

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

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact to the Group given that the Group has not used a revenue-based method to depreciate its noncurrent assets.

Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. First-time adopters of IFRS electing to use the equity method in their separate financial statements will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group's interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments thereof, adopted by the Group (continued)

Annual improvements 2012-2014 cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. The document includes the following amendments, which do not affect the interim condensed consolidated financial statements of the Group:

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

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

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

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

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

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

IAS 19 Employee Benefits

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

IAS 34 Interim Financial Reporting

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

Amendments to IAS 1 Disclosure Initiative

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

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments thereof, adopted by the Group (continued)

Annual improvements 2012-2014 cycle (continued)

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

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

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

Seasonality of operations

The Group's operating costs are subject to seasonal fluctuations, with higher expenses for materials and repair, maintenance and other services usually expected in the latter part of the year than in the first two quarters. These fluctuations are mainly due to the pipeline repairs that are performed mainly during the second half of the year.

Purchase of inventory is mainly implemented in the first half of the year.

Foreign currency translation

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

Weighted average currency exchange rates for the three and nine month periods ended 30 September 2016 and 2015 are as follows:

	For the nine months ended 30 September	
Tenge	**2016**	2015
US dollars	**343.99**	196.23
Russian rubles	**5.05**	3.31
Euro	**383.86**	218.96
Georgian lari	**149.44**	88.76

As at 30 September 2016 and 31 December 2015 the currency exchange rates of KASE are:

Tenge	**30 September 2016**	31 December 2015
US dollars	**335.46**	340.01
Russian rubles	**5.29**	4.61
Euro	**374.81**	371.46
Georgian lari	**144.59**	142.86

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at 30 September 2016 are as follows:

In thousands of Tenge	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
At revalued amount as at 31 December 2015 (audited)	19,906,546	181,224,490	15,037,200	97,363,099	134,803,085	69,590,536	16,386,475	53,042,281	587,353,712
Foreign currency translation	(188,658)	–	(74,563)	(117,373)	(241,163)	–	3,170	(61,895)	(680,482)
Additions	–	246,863	224,640	133,866	360,728	493	208,332	23,246,340	24,421,262
Additions of asset retirement and land recultivation obligation *(Note 19)*	–	127,047	–	–	–	–	–	–	127,047
Disposals	(1,970)	(658,002)	(27,749)	(71,560)	(252,742)	(2,046)	(151,020)	–	(1,165,089)
Revaluation (through revaluation reserve)	2,020,215	42,647,924	5,033,981	15,126,251	37,862,716	16,573,065	7,071,846	60,615	126,396,613
(Impairment)/revaluation (through profit and loss)	(45,840)	173,423	218,623	(1,851,926)	(1,328,661)	–	292,665	(6,604,337)	(9,146,053)
Substraction of accumulated depreciation and impairment loss on revaluation	–	(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 4)*	–	–	–	–	–	–	–	(3,845)	(3,845)
Transfer from construction-in-progress	22,252	9,762,214	32,679	2,652,435	6,506,008	–	202,171	(19,177,759)	–
Transfers and reclassifications	–	(3,950)	17,541	(136,496)	208,591	–	44,670	(130,356)	–
At revalued amount as at 30 September 2016 (unaudited)	21,712,545	200,694,590	17,273,851	98,179,595	145,630,392	86,162,048	15,779,998	50,348,634	635,781,653
Accumulated depreciation and impairment as at 31 December 2015 (audited)	–	(26,043,932)	(5,464,300)	(30,151,504)	(38,724,779)	(529,745)	(7,602,703)	(331,819)	(108,848,782)
Foreign currency translation	–	–	36,330	226,233	167,813	–	10,406	–	440,782
Depreciation charge	–	(9,641,668)	(1,114,378)	(4,772,042)	(10,836,448)	–	(2,416,104)	–	(28,780,640)
Disposals	–	475,969	24,156	53,978	226,002	–	145,783	–	925,888
Reversal/(accrual) of impairement through expenses	–	(2,572)	–	–	5,671	–	–	–	3,099
Reversal/(accrual) of impairement through revaluation reserve	–	(1,646)	–	–	1,702	–	–	–	56
Substraction of accumulated depreciation and impairment loss 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)	1,023	(204)	–	(932)	–	–
Accumulated depreciation and impairment as at 30 September 2016 (unaudited)	–	(2,388,184)	(3,329,824)	(19,723,611)	(16,872,073)	(529,745)	(1,585,239)	(309,409)	(44,738,085)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. PROPERTY, PLANT AND EQUIPMENT (continued)

In thousands of Tenge	Land	Pipelines	Transpor-tation assets	Buildings and construc-tions	Machinery and equipment	Technolo-gical oil	Other	Construction in progress	Total
As at 30 September 2016 (unaudited)									
At revalued amount	**21,712,545**	**200,694,590**	**17,273,851**	**98,179,595**	**145,630,392**	**86,162,048**	**15,779,998**	**50,348,634**	**635,781,653**
Accumulated depreciation and impairment	**–**	**(2,388,184)**	**(3,329,824)**	**(19,723,611)**	**(16,872,073)**	**(529,745)**	**(1,585,239)**	**(309,409)**	**(44,738,085)**
Net book value (unaudited)	**21,712,545**	**198,306,406**	**13,944,027**	**78,455,984**	**128,758,319**	**85,632,303**	**14,194,759**	**50,039,225**	**591,043,568**
As at 31 December 2015 (audited)									
At revalued amount	19,906,546	181,224,490	15,037,200	97,363,099	134,803,085	69,590,536	16,386,475	53,042,281	587,353,712
Accumulated depreciation and impairment	–	(26,043,932)	(5,464,300)	(30,151,504)	(38,724,779)	(529,745)	(7,602,703)	(331,819)	(108,848,782)
Net book value (audited)	19,906,546	155,180,558	9,572,900	67,211,595	96,078,306	69,060,791	8,783,772	52,710,462	478,504,930

3. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 30 September 2016 construction in progress mainly includes the following production projects:

- Construction and reconstruction, realized as part of interstate "Kazakhstan-China" oil pipeline construction project;
- Reconstruction of main oil pipelines "Kalamkas-Karazhanbas-Aktau" on the "Karazhanbas-Aktau" route;
- Reconstruction of firefighting system, construction of acceptance points at 1,235 km of the oil pipeline "Uzen-Atyrau-Samara" and others.

As at 30 September 2016:

- The initial cost and corresponding accumulated depreciation of fully depreciated property, plant and equipment were 1,035,017 thousand Tenge (31 December 2015: 4,822,436 thousand Tenge);
- The volume of oil in pipelines, included in property, plant and equipment, amounted to 2,398 thousand tons (31 December 2015: 2,398 thousand tons);
- Construction in progress included materials and spare parts in the amount of 2,605,844 thousand Tenge (as at 31 December 2015: 1,012,567 thousand Tenge), which were acquired for construction works.

The amount of depreciation for nine months ended 30 September 2016 included in the cost of construction in progress was 11,130 thousand Tenge (for nine months ended as at 30 September 2015: 12,113 thousand Tenge).

The Company performed revaluation of property, plant and equipment as at 31 July 2016 (except for technological oil). (the previous revaluation was performed as at 31 July 2013). The revaluation of technological oil was performed as at 30 September 2016 (the previous revaluation was performed as at 31 December 2015). Valuation was performed by independent professional appraiser.

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

As part of the valuation the appraiser also performed a test for adequate profitability using the income approach with analysis of economic depreciation of specialized fixed assets 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 fixed assets. The results of the assessment of value in use are sensitive to expected volumes of services provided, the level of tariffs for services provided, the amount of capital and operating expenditures. The final fair value of fixed assets of the Company except for technological oil as at 31 July 2016 amounted to 455,561,185 thousand Tenge.

Technological oil valued on comparative approach. For the fair value, price accepted in the domestic market in the amount of 35,714 Tenge per ton (cost before valuation 28,802 Tenge per ton).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. INTANGIBLE ASSETS

Intangible assets as at 30 September 2016 and 31 December 2015 are as follows:

In thousands of Tenge	Licenses	Software	Right for land use	Other	Total
Net book value at 31 December 2015 (audited)	161,369	1,384,815	5,821,900	31,647	7,399,731
Additions	**14,610**	**8,413**	**159,955**	**–**	**182,978**
Amortization charge	**(34,178)**	**(261,169)**	**(145,852)**	**(2,831)**	**(444,030)**
Disposals	**(4,960)**	**(9,589)**	**–**	**(3,635)**	**(18,184)**
Accumulated amortization on disposals	**4,777**	**9,587**	**–**	**3,634**	**17,998**
Transfers from property, plant and equipment *(Note 3)*	**–**	**3,845**	**–**	**–**	**3,845**
Foreign currency translation	**(12,669)**	**–**	**121,420**	**–**	**108,751**
Net book value at 30 September 2016 (unaudited)	**128,949**	**1,135,902**	**5,957,423**	**28,815**	**7,251,089**
As at 30 September 2016 (unaudited)					
At cost	**636,310**	**4,500,126**	**9,242,579**	**85,022**	**14,464,037**
Accumulated amortization and impairment	**(507,361)**	**(3,364,224)**	**(3,285,156)**	**(56,207)**	**(7,212,948)**
Net book value (unaudited)	**128,949**	**1,135,902**	**5,957,423**	**28,815**	**7,251,089**
As at 31 December 2015 (audited)					
At cost	638,737	4,497,457	8,945,020	88,657	14,169,871
Accumulated amortization and impairment	(477,368)	(3,112,642)	(3,123,120)	(57,010)	(6,770,140)
Net book value (audited)	161,369	1,384,815	5,821,900	31,647	7,399,731

5. INVESTMENTS IN JOINT VENTURES

Investments in joint ventures as at 30 September 2016 and 31 December 2015 are as follows:

In thousands of Tenge	KCP	MunaiTas	Total
As at 31 December 2015 (audited)	–	13,918,006	13,918,006
Share in income of joint ventures	**5,182,020**	**1,764,785**	**6,946,805**
Unrecognised share in income of joint venture	**(5,182,020)**	**–**	**(5,182,020)**
Share in other comprehensive income of joint ventures	**56,023**	**976,259**	**1,032,282**
Unrecognised share in other comprehensive income of joint venture	**(56,023)**	**–**	**(56,023)**
Dividends	**–**	**(1,487,160)**	**(1,487,160)**
As at 30 September 2016 (unaudited)	**–**	**15,171,890**	**15,171,890**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. INVESTMENTS IN JOINT VENTURES (continued)

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

	KCP			
	30 September 2016 (unaudited)		31 December 2015 (audited)	
In thousands of Tenge	50%	100%	50%	100%
Assets and liabilities of joint ventures				
Current assets	**3,520,107**	**7,040,214**	12,346,915	24,693,830
Non-current assets	**112,526,170**	**225,052,340**	118,246,077	236,492,154
Current liabilities	**(17,545,098)**	**(35,090,196)**	(32,875,443)	(65,750,886)
Non-current liabilities	**(100,424,164)**	**(200,848,328)**	(104,878,577)	(209,757,154)
Net assets	**(1,922,985)**	**(3,845,970)**	(7,161,028)	(14,322,056)
Unrecognised accumulated loss	**1,922,985**	**3,845,970**	7,161,028	14,322,056
Net book value of investment	**–**	**–**	–	–
Additional information				
Cash and cash equivalents	**1,718,241**	**3,436,482**	8,987,307	17,974,614
Short-term financial liabilities	**(14,919,353)**	**(29,838,706)**	(28,224,964)	(56,449,928)
Long-term financial liabilities	**(98,597,253)**	**(197,194,506)**	(103,096,811)	(206,193,622)

	MunaiTas			
	30 September 2016 (unaudited)		31 December 2015 (audited)	
In thousands of Tenge	51%	100%	51%	100%
Assets and liabilities of joint ventures				
Current assets	**5,723,678**	**11,222,898**	4,414,281	8,655,453
Non-current assets	**13,506,287**	**26,482,916**	12,985,200	25,461,177
Current liabilities	**(1,176,422)**	**(2,306,710)**	(639,821)	(1,254,551)
Non-current liabilities	**(2,881,653)**	**(5,650,300)**	(2,841,654)	(5,571,871)
Net assets	**15,171,890**	**29,748,804**	13,918,006	27,290,208
Additional information				
Cash and cash equivalents	**5,448,805**	**10,683,931**	527,106	1,033,542
Short-term financial liabilities	**–**	**–**	–	–
Long-term financial liabilities	**–**	**–**	–	–

Long-term financial liabilities of KCP are represented by liabilities under loan agreement with the Industrial and Commercial Bank of China Limited and ING Bank N.V. (hereinafter – "loan agreement") for the credit line of 1,180 million US dollars, and loan agreement with the Industrial and Commercial Bank of China Limited jointly with Industrial and Commercial Bank of China in Almaty JSC for the total amount of 300 million US dollars. Within the framework of the loan agreement KCP received four tranches for the total amount of 950 million US dollars (equivalent to 318,687 million Tenge).

Both loans are denominated in US dollars and are payable in 2023 and 2019, accordingly. The Company along with the second participant of KCP did not guarantee the loans. Nevertheless, as of 30 September 2016 the Company issued a parent support letter to KCP stating that the Company will support the operating activity of the joint venture for the next twelve months.

5. INVESTMENTS IN JOINT VENTURES (continued)

As at 30 September 2016 total payable under both loans equals to 676,781.77 thousand US dollars (equivalent to 227,033,213 thousand Tenge), including interest.

	KCP			
	For the nine months ended 30 September (unaudited)			
	2016		2015	
In thousands of Tenge	50%	100%	50%	100%
Information on profit or loss and other comprehensive income of joint ventures for the period				
Revenue	**20,622,853**	**41,245,706**	18,860,455	37,720,909
Income/(loss) from continuing operations for the period	**5,182,020**	**10,364,040**	(23,788,315)	(47,576,630)
Unrecognised income	**(5,182,020)**	**(10,364,040)**	–	–
Income/(loss) from discontinued operations for the period	**–**	**–**	–	–
Other comprehensive income	**56,023**	**112,046**	610,852	1,221,704
Unrecognised other comprehensive income	**(56,023)**	**(112,046)**	–	–
Total comprehensive loss	**–**	**–**	(23,177,463)	(46,354,926)
Dividends	**–**	**–**	–	–
Additional information				
Depreciation and amortization	**(5,379,524)**	**(10,759,048)**	(5,425,740)	(10,851,479)
Interest income	**53,163**	**106,326**	68,861	137,721
Interest expense	**(4,621,368)**	**(9,242,736)**	(2,850,866)	(5,701,732)
Income tax benefit	**14,006**	**28,012**	5,688,557	11,377,113

	KCP			
	For the three months ended 30 September (unaudited)			
	2016		2015	
In thousands of Tenge	50%	100%	50%	100%
Information on profit or loss and other comprehensive income of joint ventures for the period				
Revenue	**6,444,333**	**12,888,666**	5,553,760	11,107,520
Income/(loss) from continuing operations for the period	**1,762,436**	**3,524,872**	(25,366,900)	(50,733,800)
Unrecognised income	**(1,762,436)**	**(3,524,872)**	–	–
Income/(loss) from discontinued operations for the period	**–**	**–**	–	–
Other comprehensive income	**428,604**	**857,208**	376,645	753,290
Unrecognised other comprehensive income	**(428,604)**	**(857,208)**	–	–
Total comprehensive loss	**–**	**–**	(24,990,255)	(49,980,510)
Dividends	**–**	**–**	–	–
Additional information				
Depreciation and amortization	**(1,793,882)**	**(3,587,764)**	(1,816,940)	(3,633,880)
Interest income	**18,609**	**37,218**	13,434	26,868
Interest expense	**(1,789,682)**	**(3,579,364)**	(1,097,830)	(2,195,660)
Income tax benefit	**107,151**	**214,302**	5,073,325	10,146,650

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. INVESTMENTS IN JOINT VENTURES (continued)

	MunaiTas			
	For the nine months ended 30 September (unaudited)			
	2016		2015	
In thousands of Tenge	51%	100%	51%	100%
Information on profit or loss and other comprehensive income of joint ventures for the period				
Revenue	**3,955,766**	**7,756,404**	3,325,732	6,521,043
Income from continuing operations for the period	**1,764,785**	**3,460,363**	1,871,021	3,668,669
Income/(loss) from discontinued operations for the period	**–**	**–**	–	–
Other comprehensive income	**976,259**	**1,914,233**	–	–
Total comprehensive income	**2,741,044**	**5,374,596**	1,871,021	3,668,669
Dividends	**(1,487,160)**	**(2,916,000)**	(1,735,020)	(3,402,000)
Additional information				
Depreciation and amortization	**(786,215)**	**(1,541,598)**	(784,524)	(1,538,282)
Interest income	**314,251**	**616,178**	61,942	121,454
Interest expense	**–**	**–**	(29,839)	(58,508)
Income tax expense	**(481,915)**	**(944,931)**	(472,073)	(925,633)

	MunaiTas			
	For the three months ended 30 September (unaudited)			
	2016		2015	
In thousands of Tenge	51%	100%	51%	100%
Information on profit or loss and other comprehensive income of joint ventures for the period				
Revenue	**1,331,129**	**2,610,057**	952,594	1,867,831
Income from continuing operations for the period	**689,672**	**1,352,298**	862,532	1,691,240
Income/(loss) from discontinued operations for the period	**–**	**–**	–	–
Other comprehensive income	**958,921**	**1,880,237**	–	–
Total comprehensive income	**1,648,593**	**3,232,535**	862,532	1,691,240
Dividends	**–**	**–**	–	–
Additional information				
Depreciation and amortization	**(257,449)**	**(504,802)**	(262,238)	(514,192)
Interest income	**122,442**	**240,082**	15,337	30,073
Interest expense	**–**	**–**	(9,946)	(19,502)
Income tax expense	**(172,870)**	**(338,960)**	(215,909)	(423,351)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. ADVANCES TO SUPPLIERS FOR PROPERTY, PLANT AND EQUIPMENT

Advances to suppliers for property, plant and equipment as at 30 September 2016 and 31 December 2015 are as follows:

In thousands of Tenge	**30 September 2016 (unaudited)**	31 December 2015 (audited)
Advances to third parties for property, plant and equipment	**2,940,455**	7,786,525
Advances to related parties for property, plant and equipment *(Note 30)*	**63,245**	–
Less: allowance for doubtful debts	**(53,258)**	(53,258)
Total	**2,950,442**	7,733,267

7. INVENTORIES

Inventories as at 30 September 2016 and 31 December 2015 are as follows:

In thousands of Tenge	**30 September 2016 (unaudited)**	31 December 2015 (audited)
Spare parts	**1,723,427**	1,526,287
Fuel	**939,652**	823,047
Construction materials	**311,482**	168,591
Chemical reagents	**308,233**	90,812
Overalls	**288,956**	98,406
Goods	**70,811**	140,887
Other	**844,108**	751,667
Total	**4,486,669**	3,599,697

8. TRADE AND OTHER ACCOUNTS RECEIVABLE

Trade and other accounts receivable of the Group as at 30 September 2016 and 31 December 2015 are as follows:

In thousands of Tenge	**30 September 2016 (unaudited)**	31 December 2015 (audited)
Trade accounts receivable from third parties	**3,088,287**	2,544,880
Trade accounts receivable from related parties *(Note 30)*	**2,205,718**	1,420,739
Other accounts receivable from third parties	**507,086**	982,238
Other accounts receivable from related parties *(Note 30)*	**3,076**	36,122
	5,804,167	4,983,979
Less: allowance for doubtful debts	**(863,767)**	(759,853)
Total	**4,940,400**	4,224,126

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

	For the three months ended 30 September (unaudited)		**For the nine months ended 30 September (unaudited)**	
In thousands of Tenge	**2016**	2015	**2016**	2015
At the beginning of the period	**745,439**	688,242	**759,853**	653,120
Charge for the period	**123,331**	31,117	**92,037**	72,266
Write-off of accounts receivable	**–**	(4,629)	**(1,351)**	(4,710)
Foreign currency translation	**(5,003)**	12,317	**13,228**	6,371
At the end of the period	**863,767**	727,047	**863,767**	727,047

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. TRADE AND OTHER ACCOUNTS RECEIVABLE (continued)

Trade and other accounts receivable of the Group as at 30 September 2016 and 31 December 2015 are as follows:

In thousands of Tenge	**30 September 2016 (unaudited)**	31 December 2015 (audited)
Tenge	**3,115,834**	2,676,647
US dollars	**1,045,292**	1,273,385
Russian ruble	**–**	1,160
Other currency	**779,274**	272,934
Total	**4,940,400**	4,224,126

9. ADVANCES TO SUPPLIERS

Advances to suppliers as at 30 September 2016 and 31 December 2015 are as follows:

In thousands of Tenge	**30 September 2016 (unaudited)**	31 December 2015 (audited)
Advances to related parties *(Note 30)*	**915,266**	1,841,099
Advances to third parties	**609,310**	1,220,973
Total	**1,524,576**	3,062,072

10. VAT RECOVERABLE AND OTHER PREPAID TAXES

VAT recoverable and other prepaid taxes as at 30 September 2016 and 31 December 2015 are as follows:

In thousands of Tenge	**30 September 2016 (unaudited)**	31 December 2015 (audited)
VAT recoverable	**6,273,139**	8,359,409
Withholding tax	**31,286**	–
Property tax	**6,478**	201,810
Other taxes prepaid	**262,897**	77,849
Total	**6,573,800**	8,639,068

11. OTHER CURRENT ASSETS

Other current assets as at 30 September 2016 and 31 December 2015 are as follows:

In thousands of Tenge	**30 September 2016 (unaudited)**	31 December 2015 (audited)
Due for oil transportation coordination services	**3,107,191**	5,767,898
Prepaid insurance	**355,921**	49,092
Due from employees	**79,221**	39,460
Deferred expenses from third parties	**15,100**	30,426
Deferred expenses from related parties *(Note 30)*	**1,641**	–
Other	**23,939**	175,579
Total	**3,583,013**	6,062,455

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. BANK DEPOSITS

Bank deposits as at 30 September 2016 and 31 December 2015 were presented as follows:

In thousands of Tenge	**30 September 2016 (unaudited)**	31 December 2015 (audited)
Short-term bank deposits	**27,518,114**	12,322,761
Long-term bank deposits	**4,141,674**	4,487,436
Accrued interest on deposits	**176,360**	124,076
Total	**31,836,148**	16,934,273

As at 30 September 2016 short-term bank deposits comprise:

- US dollar denominated bank deposits placed with Kazakhstani banks with the term from 3 to 12 months, with interest from 1.5% to 3% per annum (as at 31 December 2015: from 1.4% to 2% per annum), maturing mainly in December 2016, in February and June 2017 (as at 31 December 2015: in March and May 2016);
- Tenge denominated bank deposit placed with Kazakhstani bank with the term from 3 to 12 months, with interest from 11.5% per annum, maturing mainly in December 2016.

As at 30 September 2016 long-term bank deposits comprise restricted deposits with interest from 2% to 3.5% per annum maturing in 2029 and in 2026, respectively (as at 31 December 2015: from 2% to 3.5% per annum maturing in 2029 and in 2025, respectively), arranged for the purpose of preferential lending rates for the Company's employees for the purchase of residential property.

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 30 September 2016 and 31 December 2015 are as follows:

In thousands of Tenge	**30 September 2016 (unaudited)**	31 December 2015 (audited)
Time deposits with banks – Tenge	**41,056,358**	10,126,290
Time deposits with banks – US dollars	**–**	33,783,170
Current accounts with banks – US dollars	**4,718,514**	6,058,205
Current accounts with banks – Tenge	**1,991,245**	86,613
Current accounts with banks – Lari	**543,781**	199,608
Current accounts with banks – Euro	**81,181**	150,385
Current accounts with banks – Russian ruble	**1,469**	780
Other current accounts with banks	**10,313**	12,871
Cash in transit	**57**	27
Cash on hand	**1,501**	2,339
Total	**48,404,419**	50,420,288

As at 30 September 2016 most current accounts and time deposits with maturity less than 3 months in Tenge placed with Kazakhstani banks carried interest ranging from 0.5% to 12.04% per annum (as at 31 December 2015: from 0.47% to 32% per annum). Interest for current accounts 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 2015: from 0.25% to 3% per annum).

14. EQUITY

Share capital

As at 30 September 2016 and 31 December 2015 the Company's share capital comprised of 384,635,600 common shares authorized, issued and fully paid in the amount of 62,503,284 thousand Tenge, except for 1 share which was authorized but not issued and not paid.

As at 30 September 2016 and 31 December 2015 share capital was equal to 61,937,567 thousand Tenge, net of consulting costs related to the issuance of shares in the amount of 565,717 thousand Tenge.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. EQUITY (continued)

Treasury shares

On 20 June 2016 based on request of a minority shareholder and the subsequent decision of the Board of Directors dated 26-27 May 2016, the Company repurchased the announced common shares in the amount of 7,500 units for 9,549 thousand Tenge.

Dividends

On 30 May 2016 the Company accrued dividends based on the results of 2015 to the shareholders in accordance with the decision of the shareholders meeting dated 27 May 2016 totaling 51,156,535 thousands Tenge in the amount of 133 Tenge per 1 share (2015: 46,429,363 thousands Tenge based on 120.71 Tenge per 1 share), including 46,040,881 thousand Tenge attributable to KMG (2015: 41,786,427 thousand Tenge) and 5,115,654 thousand Tenge attributable to minority shareholders (2015: 4,642,936 thousand Tenge). As at 30 September 2016 dividends paid amounted to 51,156,535 thousand Tenge (as at 31 December 2015: 46,429,363 thousands Tenge).

Asset revaluation reserve

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

In thousands of Tenge	**30 September 2016 (unaudited)**	31 December 2015 (audited)
Asset revaluation reserve of the Group	**203,610,711**	102,140,226
Share in the asset revaluation reserve of the joint ventures	**23,983,441**	23,423,150
Total	**227,594,152**	125,563,376

Foreign currency translation reserve

As at 30 September 2016 foreign currency translation reserve was equal to 36,339,670 thousand Tenge (as at 31 December 2015: 36,210,843 thousand Tenge). Change in foreign currency translation reserve is due to the translation of the operations of the foreign subsidiary.

Other capital reserves

As at 30 September 2016 and 31 December 2015 other capital reserves amounted to a loss of 3,813,701 thousand Tenge. Other reserves mainly represent accrual of loss from actuarial re-measurement of defined benefit plans.

Earnings per share

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

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

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

	For the three months ended 30 September (unaudited)		**For the nine months ended 30 September (unaudited)**	
In thousands of Tenge	**2016**	2015	**2016**	2015
Net profit/(loss) for the period attributable to ordinary equity holders of the Parent of the Group	**4,498,532**	(642,080)	**43,021,422**	38,785,523
Weighted average number of ordinary shares for the period for basic earnings per share	**384,628,099**	384,635,599	**384,632,266**	384,635,599
Basic earnings/(loss) per share, in relation to profit for the period attributable to ordinary equity holders of the Company, as a Parent company of the Group *(in Tenge)*	**12**	(2)	**112**	101

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. EQUITY (continued)

Book value per ordinary share

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

In thousands of Tenge	**30 September 2016 (unaudited)**	31 December 2015 (audited)
Total assets	**721,640,250**	619,262,524
Less: intangible assets *(Note 4)*	**(7,251,089)**	(7,399,731)
Less: total liabilities	**(146,618,670)**	(146,331,014)
Net assets for calculation of book value per ordinary share	**567,770,491**	465,531,779
Number of ordinary shares	**384,628,099**	384,635,599
Book value per ordinary share *(in Tenge)*	**1,476**	1,210

15. 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 30 September 2016 and 31 December 2015 are as follows:

In thousands of Tenge	**30 September 2016 (unaudited)**	31 December 2015 (audited)
Current portion of employee benefit liabilities	**486,000**	435,024
Non-current portion of employee benefit liabilities	**16,049,624**	15,098,686
Total	**16,535,624**	15,533,710

Changes in the present value of employee benefit liabilities for the nine month periods ended 30 September 2016 and 2015 are as follows:

	For the three months ended 30 September (unaudited)		**For the nine months ended 30 September (unaudited)**	
In thousands of Tenge	**2016**	2015	**2016**	2015
At the beginning of the period	**16,206,685**	12,081,785	**15,533,710**	11,613,359
Interest cost *(Note 27)*	**207,861**	144,824	**624,032**	434,483
Current service cost *(Notes 22, 23)*	**267,213**	200,613	**802,212**	601,846
Benefits paid	**(146,135)**	(122,611)	**(424,330)**	(345,077)
At the end of the period	**16,535,624**	12,304,611	**16,535,624**	12,304,611

16. TRADE AND OTHER ACCOUNTS PAYABLE

Trade and other accounts payable as at 30 September 2016 and 31 December 2015 are as follows:

In thousands of Tenge	**30 September 2016 (unaudited)**	31 December 2015 (audited)
Accounts payable to third parties for goods and services	**9,916,457**	15,397,918
Accounts payable to related parties for goods and services *(Note 30)*	**511,429**	814,409
Other payables to third parties	**165,298**	441,898
Other payables to related parties *(Note 30)*	**773**	672
Total	**10,593,957**	16,654,897

Trade and other accounts payable as at 30 September 2016 included payables to related and third parties, related to the construction-in-progress in the amount of 8,019,731 thousand Tenge (as at 31 December 2015: 13,578,970 thousand Tenge).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. TRADE AND OTHER ACCOUNTS PAYABLE (continued)

Trade and other accounts payable as at 30 September 2016 and 31 December 2015 are denominated in the following currencies:

In thousands of Tenge	**30 September 2016 (unaudited)**	31 December 2015 (audited)
Tenge	**10,012,348**	16,454,585
US dollars	**208,320**	165,729
Euro	**7,716**	19,451
Russian rubles	**1,263**	2,570
Other currency	**364,310**	12,562
Total	**10,593,957**	16,654,897

17. ADVANCES RECEIVED

Advances received as at 30 September 2016 and 31 December 2015 are as follows:

In thousands of Tenge	**30 September 2016 (unaudited)**	31 December 2015 (audited)
Advances received from related parties *(Note 30)*	**9,591,245**	11,330,298
Advances received from third parties	**5,188,918**	6,494,876
Total	**14,780,163**	17,825,174

18. OTHER TAXES PAYABLE

Other taxes payable as at 30 September 2016 and 31 December 2015 is as follows:

In thousands of Tenge	**30 September 2016 (unaudited)**	31 December 2015 (audited)
Personal income tax	**2,827,426**	2,488,472
Withholding tax at the source of payment to non-residents	**1,291,856**	1,044,519
Property tax	**352,352**	23,773
Social tax	**316,187**	702,313
VAT payable	**911**	20,045
Other taxes	**447,793**	278,888
Total	**5,236,525**	4,558,010

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. PROVISIONS

Movement in the short-term provisions for the nine month periods ended 30 September 2016 and 2015 is as follows:

Short-term provisions

In thousands of Tenge	Tax provisions (BTL)	Environmental provisions (Company)	Other provisions (Company)	Total
As at 31 December 2015 (audited)	22,066	41,125	–	63,191
Reclass of the provisions	**–**	**(41,125)**	**41,125**	**–**
Foreign currency translation	**(261)**	**–**	**–**	**(261)**
As at 30 September 2016 (unaudited)	**21,805**	**–**	**41,125**	**62,930**
As at 31 December 2014 (audited)	221,373	41,125	53,567	316,065
Charge for the period	–	11,713	–	11,713
Used during the period	–	–	(53,567)	(53,567)
Foreign currency translation	114,193	–	–	114,193
As at 30 September 2015 (unaudited)	335,566	52,838	–	388,404

Long-term provisions

Asset retirement and land recultivation obligation

According to the Law of the Republic of Kazakhstan *About the Main Pipeline*, which came into force on 4 July 2012 the Company has a legal obligation to decommission the main pipeline (oil pipeline) after the operation and subsequent activities to restore the environment, including land recultivation.

Additionally provision on liquidation of the waste landfills is reflected as part of the asset retirement and land recultivation obligation. Provision was created based on the requirements of the Ecological Code of the Republic of Kazakhstan, according to which owner of the waste landfills must create liquidation fund for subsequent activities for land remediation and monitoring the impact on the environment after the landfill closure. Ecological Code of the Republic of Kazakhstan also prohibits usage of landfill without liquidation fund created.

As at 30 September 2016 the Company revised the long-term provisions considering current best estimate, which was based on the discount rate of 9.58% (as at 31 December 2015: 6.73%), inflation rate of 6.03% (as at 31 December 2015: 6.00%), and period of pipeline abandonment of 20 years (as at 31 December 2015: 10 years).

Movement in the long-term provisions for the three and nine month periods ended 30 September 2016 and 2015 is as follows:

	For the three months ended 30 September (unaudited)		For the nine months ended 30 September (unaudited)	
In thousands of Tenge	**2016**	2015	**2016**	2015
At the beginning of the period	**17,348,843**	19,494,626	**21,999,701**	20,631,009
Charge for the period *(Note 3)*	**85,386**	208,575	**127,047**	1,111,925
(Income)/expenses from revision of estimates through profit and loss and write-off of provision *(Notes 24, 25)*	**(690,691)**	651,988	**(2,006,887)**	47,855
Revision of estimates through revaluation reserve	**(4,826,949)**	1,938,611	**(8,934,041)**	(130,233)
Unwinding of discount of the asset retirement and land recultivation obligation *(Note 27)*	**321,922**	300,423	**1,052,691**	933,667
At the end of the period	**12,238,511**	22,594,223	**12,238,511**	22,594,223

20. OTHER CURRENT LIABILITIES

Other current liabilities as at 30 September 2016 and 31 December 2015 are as follows:

In thousands of Tenge	**30 September 2016 (unaudited)**	31 December 2015 (audited)
Accounts payable for oil transportation coordination services to related parties *(Note 30)*	**6,039,723**	5,923,268
Accounts payable for oil transportation coordination services to third parties	**5,077,608**	4,035,988
Salaries and wages	**3,600,031**	6,172,019
Payable to pension fund	**341,654**	693,938
Current portion of deferred income from third parties	**331,434**	1,086,643
Other	**935,289**	908,055
Total	**16,325,739**	18,819,911

Salaries and wages comprise current salary payable and vacation payments payable.

21. REVENUE

Revenue for the three and nine month periods ended 30 September 2016 and 2015 is as follows:

	For the three months ended 30 September (unaudited)		**For the nine months ended 30 September (unaudited)**	
In thousands of Tenge	**2016**	2015	**2016**	2015
Crude oil transportation	**42,127,512**	42,723,462	**129,248,549**	131,462,949
Pipeline operation services	**2,312,802**	2,267,494	**6,915,611**	6,683,152
Oil and oil products reloading and railway shipment	**1,328,977**	3,049,543	**5,867,781**	10,148,323
Water transportation	**1,939,886**	1,727,799	**5,432,963**	4,931,887
Seaport services	**1,483,779**	944,144	**4,173,287**	2,463,009
Fees for undelivered oil volumes	**243,741**	–	**756,523**	632,399
Oil transportation coordination services	**172,495**	135,941	**526,391**	423,876
Oil storage services	**13,900**	15,709	**52,226**	43,476
Other	**315,485**	303,310	**1,383,240**	1,024,100
Total	**49,938,577**	51,167,402	**154,356,571**	157,813,171

During the nine months period ended 30 September 2016 revenue from sales to three major customers amounted to 38,787,521 thousand Tenge, 18,428,407 thousand Tenge and 9,959,511 thousand Tenge, respectively (for the nine month period ended 30 September 2015: 36,915,175 thousand Tenge, 18,716,892 thousand Tenge and 11,404,404 thousand Tenge, respectively).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. COST OF SALES

Cost of sales for the three and nine month periods ended 30 September 2016 and 2015 is as follows:

	For the three months ended 30 September (unaudited)		For the nine months ended 30 September (unaudited)	
In thousands of Tenge	**2016**	2015	**2016**	2015
Personnel costs	**11,771,132**	11,299,145	**31,728,194**	29,367,656
Depreciation and amortization	**10,472,478**	8,004,199	**28,473,305**	24,009,641
Materials and fuel	**2,623,648**	2,560,315	**5,212,615**	5,364,096
Electric energy	**1,679,167**	1,707,681	**5,069,227**	5,226,216
Taxes other than corporate income tax	**1,545,473**	1,391,109	**4,651,234**	4,181,488
Repair and maintenance	**1,417,629**	1,438,435	**3,514,300**	3,237,350
Security services	**1,043,830**	1,080,206	**3,053,283**	3,127,205
Gas expenses	**328,945**	363,060	**2,082,993**	1,737,505
Air services	**404,939**	414,063	**1,150,560**	1,257,519
Railway services	**8,708**	1,538,465	**1,124,847**	5,932,225
Post-employment benefits *(Note 15)*	**251,122**	188,616	**753,364**	565,852
Business trip expenses	**280,749**	199,456	**676,619**	633,337
Insurance	**171,271**	79,623	**494,948**	332,137
Communication services	**66,704**	65,944	**194,812**	208,268
Environmental protection	**80,826**	79,005	**185,914**	196,593
Operating lease expense	**64,441**	70,835	**185,819**	199,614
Diagnostics of production assets	**56,191**	312,163	**106,666**	446,315
Other	**675,841**	610,634	**1,602,981**	1,550,886
Total	**32,943,094**	31,402,954	**90,261,681**	87,573,903

Increase in personnel costs is due to the indexation of salaries of production personnel made starting from 1 January 2016.

The increase in depreciation and amortization expenses is primarily associated with a significant commissioning of objects of construction in progress in 2015.

Decreasing costs of railway services is due to reduction of oil cargo transshipment volumes from 1,889 thousand tons for 9 months of 2015 to 190 thousand tons for 9 months of 2016.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the three and nine month periods ended 30 September 2016 and 2015 are as follows:

In thousands of Tenge	For the three months ended 30 September (unaudited) 2016	2015	For the nine months ended 30 September (unaudited) 2016	2015
Personnel costs	**1,972,021**	1,914,145	**5,570,981**	5,150,392
Depreciation and amortization	**296,031**	237,642	**740,235**	627,992
Consulting services	**164,024**	165,386	**406,923**	455,859
Office maintenance	**125,350**	123,999	**348,035**	335,768
Business trip expenses	**66,848**	54,641	**210,967**	191,108
Taxes other than corporate income tax	**69,124**	56,827	**200,396**	153,189
Repair and technical maintenance	**52,408**	51,536	**158,184**	139,806
Bank costs	**54,421**	35,832	**106,145**	100,458
Insurance and security	**35,699**	36,101	**106,087**	92,014
Charity expenses	**8,849**	27,041	**98,935**	38,527
Write-off of VAT recoverable	**24,400**	104,357	**81,979**	202,081
Training	**29,294**	46,881	**81,539**	93,198
Communication services	**25,107**	26,225	**74,457**	79,907
Information expenses	**22,760**	25,927	**66,887**	75,969
Materials and fuel	**35,487**	9,972	**61,806**	80,529
Post-employment benefits *(Note 15)*	**16,091**	11,997	**48,848**	35,994
Advertising expense	**20,686**	2,990	**44,601**	6,836
Social sphere expenses	**23,688**	66,696	**29,346**	131,608
Operating lease expense	**8,815**	12,496	**28,775**	32,423
Transportation expenses	**1,713**	845	**3,440**	5,476
Charge of provision for doubtful debts	**123,331**	31,119	**92,037**	72,003
Other	**35,591**	13,967	**335,751**	208,287
Total	**3,211,738**	3,056,622	**8,896,354**	8,309,424

Increase in personnel costs is due to the indexation of salaries of administrative personnel made starting from 1 January 2016.

24. OTHER OPERATING INCOME

Other operating income for the three and nine month periods ended 30 September 2016 and 2015 is as follows:

In thousands of Tenge	For the three months ended 30 September (unaudited) 2016	2015	For the nine months ended 30 September (unaudited) 2016	2015
Income from revision of estimates and reversal of asset retirement and land recultivation obligation *(Note 19)*	**690,691**	–	**2,006,887**	–
Income from fines and penalties	**21,360**	73,474	**210,792**	345,823
Other income	**62,821**	105,237	**230,701**	406,056
Total	**774,872**	178,711	**2,448,380**	751,879

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. OTHER OPERATING EXPENSES

Other operating expenses for the three and nine month periods ended 30 September 2016 and 2015 are as follows:

	For the three months ended 30 September (unaudited)		For the nine months ended 30 September (unaudited)	
In thousands of Tenge	**2016**	2015	**2016**	2015
Net loss on disposal of property, plant and equipment and intangible assets	**4,113**	69,446	**91,946**	1,220,096
Expenses from revision of estimates and reversal of asset retirement and land recultivation obligation *(Note 19)*	**–**	651,988	**–**	47,855
Other expenses	**276,921**	7,146	**157,703**	67,117
Total	**281,034**	728,580	**249,649**	1,335,068

Net loss on disposal of property, plant and equipment for the six months period ended 30 September 2015 is due to the write-off of certain idle main oil pipelines.

26. FINANCE INCOME

Finance income for the three and nine month periods ended 30 September 2016 and 2015 is as follows:

	For the three months ended 30 September (unaudited)		For the nine months ended 30 September (unaudited)	
In thousands of Tenge	**2016**	2015	**2016**	2015
Interest income on bank deposits and current accounts	**1,069,631**	352,978	**3,542,942**	1,987,209
Undwinding of discount on interest free loan *(Note 30)*	**–**	–	**1,264,921**	–
Unwinding of discount on loans to employees	**2,692**	17,685	**8,703**	25,695
Other finance income from third parties	**7,500**	12,857	**25,112**	22,491
Total	**1,079,823**	383,520	**4,841,678**	2,035,395

27. FINANCE COSTS

Finance costs for the three and nine month periods ended 30 September 2016 and 2015 are as follows:

	For the three months ended 30 September (unaudited)		For the nine months ended 30 September (unaudited)	
In thousands of Tenge	**2016**	2015	**2016**	2015
Unwinding of discount on asset retirement and land recultivation obligation *(Note 19)*	**321,922**	300,423	**1,052,691**	933,667
Interest cost on employee benefits *(Note 15)*	**207,861**	144,824	**624,032**	434,483
Other finance costs	**(37)**	43,064	**9,287**	43,063
Total	**529,746**	488,311	**1,686,010**	1,411,213

28. INCOME TAX EXPENSE

Income tax expense for the three and nine month periods ended 30 September 2016 and 2015 is as follows:

	For the three months ended 30 September (unaudited)		For the nine months ended 30 September (unaudited)	
In thousands of Tenge	**2016**	2015	**2016**	2015
Current income tax expense	**3,639,925**	6,753,025	**13,842,466**	17,462,008
Deferred income tax benefit	**(2,226,342)**	(435,346)	**(5,165,050)**	(1,156,750)
Income tax expense	**1,413,583**	6,317,679	**8,677,416**	16,305,258

28. INCOME TAX EXPENSE (continued)

Movement in deferred tax liabilities for the three and nine month periods ended 30 September 2016 and 2015 is as follows:

In thousands of Tenge	For the three months ended 30 September (unaudited) 2016	2015	For the nine months ended 30 September (unaudited) 2016	2015
At the beginning of the period	**37,640,499**	40,673,656	**40,682,643**	41,167,915
Charged to profit and loss	**(2,226,342)**	(435,346)	**(5,165,050)**	(1,156,750)
Charged to other comprehensive income/(loss)	**26,244,596**	(388,416)	**26,201,064**	12,143
Foreign currency translation	**(9,497)**	756,530	**(69,401)**	583,116
At the end of the period	**61,649,256**	40,606,424	**61,649,256**	40,606,424

On 30 September 2016 the Group wrote off the carrying value of deferred tax liabilities in the amount of 3,341,714 thousand Tenge, of which 2,476,637 thousand Tenge were written off through profit and loss and 865,077 thousand Tenge through other comprehensive income, attributable to BTL Group due to change of the tax legislation of Georgia, which represented change in the tax base for calculating corporate income tax of resident enterprises from 1 January 2017. Therefore the taxable base will include distributed profits (dividends), expenses not related to business operations, as well as gratuitous supply of goods/services/transfer of funds. Until 1 January 2017 the taxable base for the calculation of corporate income tax is taxable income, as determined in accordance with the requirements of the existing tax legislation of Georgia.

29. SEGMENT INFORMATION

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

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

Segments that are identified, but do not separately exceed quantitative limits (amount of separate segment revenue composes less than 10% of combined revenue) are combined in "Other segments". Such services include transshipment of dry cargo (sugar-airbrick, ammonium nitrate, cement, grain, sunflower and oil cake) in BSP with operation of dry-cargo, ferry and container terminal, and also passenger terminal services. Oil transportation and related services provided by the Company, which do not exceed quantitative limits and are intimately connected with the Group's main operating activities, or with main asset of the Group – pipelines, such as: water transportation, oil storage, expedition services, services on support and maintenance of pipelines, are included into service related to oil transportation. Separate management report is not provided to the Management of the Group on some types of these services and accordingly they cannot be identified as separate segments.

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

29. SEGMENT INFORMATION (continued)

Management of the Group analyzes its operating segments by segment profit.

Information on revenue, profit, assets and liabilities of the Group's segments for the three months ended 30 September 2016 and 2015, respectively, is presented below:

	For the three months ended 30 September 2016 (unaudited)				For the three months ended 30 September 2015 (unaudited)			
In thousands of Tenge	**Oil transportation and related services (Kazakhstan)**	**Oil trans-shipment (Georgia)**	**Other**	**Total segments**	Oil transportation and related services (Kazakhstan)	Oil trans-shipment (Georgia)	Other	Total segments
Revenue								
External customers	**46,844,554**	**1,480,938**	**1,613,085**	**49,938,577**	46,890,927	3,228,231	1,048,244	51,167,402
Total revenue	**46,844,554**	**1,480,938**	**1,613,085**	**49,938,577**	46,890,927	3,228,231	1,048,244	51,167,402
Financial results								
Impairment of property, plant and equipment through profit and loss	**(9,146,154)**	**–**	**–**	**(9,146,154)**	(5,181)	–	–	(5,181)
Depreciation and amortization	**(9,998,623)**	**(433,185)**	**(336,701)**	**(10,768,509)**	(7,740,152)	(321,221)	(180,468)	(8,241,841)
Interest income	**1,061,147**	**6,433**	**9,551**	**1,077,131**	348,817	8,225	8,793	365,835
Share in income/(loss) of joint ventures	**689,672**	**–**	**–**	**689,672**	(24,504,368)	–	–	(24,504,368)
Income tax (expense)/benefit	**(1,403,935)**	**(225,151)**	**215,503**	**(1,413,583)**	(6,153,338)	(189,638)	25,297	(6,317,679)
Segment profit/(loss) for the period	**4,249,661**	**(198,533)**	**447,404**	**4,498,532**	(1,295,962)	543,680	110,202	(642,080)

29. SEGMENT INFORMATION (continued)

Information on revenue, profit, assets and liabilities of the Group's segments for the nine month periods ended September 2016 and 2015, respectively, is presented below:

	For the nine months ended 30 September 2016 (unaudited)				For the nine months ended 30 September 2015 (unaudited)			
In thousands of Tenge	**Oil transportation and related services (Kazakhstan)**	**Oil trans-shipment (Georgia)**	**Other**	**Total segments**	Oil transportation and related services (Kazakhstan)	Oil trans-shipment (Georgia)	Other	Total segments
Revenue								
External customers	**143,036,204**	**6,744,956**	**4,575,411**	**154,356,571**	144,245,111	10,820,888	2,747,172	157,813,171
Total revenue	**143,036,204**	**6,744,956**	**4,575,411**	**154,356,571**	144,245,111	10,820,888	2,747,172	157,813,171
Financial results								
Impairment of property, plant and equipment through profit and loss	**(9,142,954)**	**–**	**–**	**(9,142,954)**	(153,512)	–	–	(153,512)
Depreciation and amortization	**(26,781,186)**	**(1,551,051)**	**(881,303)**	**(29,213,540)**	(23,352,151)	(838,995)	(446,487)	(24,637,633)
Interest income	**3,504,759**	**32,679**	**30,616**	**3,568,054**	1,968,043	18,970	22,687	2,009,700
Share in income/(loss) of joint ventures	**1,764,785**	**–**	**–**	**1,764,785**	(21,917,294)	–	–	(21,917,294)
Income tax (expense)/benefit	**(10,918,349)**	**1,451,820**	**789,113**	**(8,677,416)**	(15,851,927)	(451,767)	(1,564)	(16,305,258)
Segment profit for the period	**39,863,411**	**1,445,285**	**1,712,726**	**43,021,422**	36,971,610	1,501,978	311,935	38,785,523

	30 September 2016 (unaudited)				31 December 2015 (audited)			
In thousands of Tenge	**Oil transportation and related services (Kazakhstan)**	**Oil trans-shipment (Georgia)**	**Other**	**Total segments**	Oil transportation and related services (Kazakhstan)	Oil trans-shipment (Georgia)	Other	Total segments
Total assets	**651,042,693**	**47,922,809**	**22,674,748**	**721,640,250**	549,165,702	50,635,685	19,461,137	619,262,524
Total liabilities	**130,847,943**	**5,425,141**	**10,345,586**	**146,618,670**	130,656,666	5,406,399	10,267,949	146,331,014
Additional information								
Capital expenditures	**20,929,246**	**2,468,128**	**1,206,866**	**24,604,240**	75,641,329	1,332,376	826,830	77,800,535
Investments in joint ventures *(Note 5)*	**15,171,890**	**–**	**–**	**15,171,890**	13,918,006	–	–	13,918,006

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. 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 nine month periods ended 30 September 2016 and 30 September 2015 and the related balances as at 30 September 2016 and 31 December 2015:

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

In thousands of Tenge	**Notes**	**30 September 2016 (unaudited)**	31 December 2015 (audited)
Advances paid to related parties for property, plant and equipment			
Advances paid to entities under common control of KMG		**63,245**	–
Total of advances paid to related parties for property, plant and equipment	6	**63,245**	–

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

In thousands of Tenge	**Notes**	**30 September 2016 (unaudited)**	31 December 2015 (audited)
Trade and other accounts receivable from related parties			
Trade accounts receivable from joint ventures		**1,370,488**	719,246
Trade accounts receivable from entities under common control of KMG		**830,121**	701,270
Trade accounts receivable from entities under common control of Samruk-Kazyna Group		**5,109**	223
	8	**2,205,718**	1,420,739
Other accounts receivables from entities under common control of KMG and Samruk-Kazyna Group	8	**3,076**	36,122
Total of trade and other accounts receivable from related parties		**2,208,794**	1,456,861

Interest free loans to related parties are as follows:

In thousands Tenge	**Notes**	**30 September 2016 (unaudited)**	31 December 2015 (audited)
Interest free loans to related parties			
Interest free loans to KMG		–	18,735,079
Total of interest free loans to related parties		–	18,735,079

On 5 November 2015 the Company provided to KMG interest-free loan based on the decision made on 14-15 October 2015 by the Board of Directors in the amount of 20,000,000 thousand Tenge with the maturity on 30 June 2016. Discount on loans given in the amount of 1,644,382 thousand Tenge was recognized by the Company though retained earnings and unamortized portion amounted to 1,264,921 thousand Tenge at the beginning of the period. On 30 September 2016 interest free loan was repaid by KMG and the discount was fully amortized.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. RELATED PARTY TRANSACTIONS (continued)

Advances provided to related parties are as follows:

In thousands of Tenge	Notes	**30 September 2016 (unaudited)**	31 December 2015 (audited)
Advances paid to related parties			
Advances paid to entities under common control of KMG		**657,642**	1,684,777
Advances paid to entities under common control of Samruk-Kazyna Group		**257,624**	156,322
Total of advances paid to related parties	9	**915,266**	1,841,099

Deferred expenses from related parties are as follows:

In thousands Tenge	Notes	**30 September 2016 (unaudited)**	31 December 2015 (audited)
Deferred expenses from related parties			
Deferred expenses from entities under common control of Samruk-Kazyna Group	11	**1,641**	–
Total of deferred expenses from related parties		**1,641**	–

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

In thousands of Tenge	Notes	**30 September 2016 (unaudited)**	31 December 2015 (audited)
Trade accounts payable to related parties for goods and services			
Accounts payable to entities under common control of KMG		**434,629**	559,353
Accounts payable to entities under common control of Samruk-Kazyna Group		**76,800**	255,056
Total of trade accounts payable to related parties for goods and services	16	**511,429**	814,409
Other payables to related parties			
Other payables to entities under common control of Samruk-Kazyna Group	16	**773**	672
Total of trade and other accounts payable to related parties		**512,202**	815,081

Advances received from related parties are as follows:

In thousands of Tenge	Notes	**30 September 2016 (unaudited)**	31 December 2015 (audited)
Advances received from related parties			
Advances from entities under common control of KMG		**9,158,959**	10,845,082
Advances from entities under common control of Samruk-Kazyna Group		**432,275**	485,209
Advances from joint ventures		**11**	7
Total of advances received from related parties	17	**9,591,245**	11,330,298

30. RELATED PARTY TRANSACTIONS (continued)

Other current liabilities to related parties are as follows:

In thousands of Tenge	Notes	**30 September 2016 (unaudited)**	31 December 2015 (audited)
Accounts payable for oil transportation expedition to related parties			
Accounts payable for oil transportation expedition to entities under common control of KMG		**6,039,723**	5,923,268
	20	**6,039,723**	5,923,268
Employee benefits of key management personnel			
Employee benefits of key management personnel		**25,759**	8,062
		25,759	8,062
Total of other current liabilities to related parties		**6,065,482**	5,931,330

The following tables provide the total amount of transactions, which have been entered into with related parties during the three and nine month periods ended 30 September 2016 and 2015:

	For the three months ended 30 September (unaudited)		**For the nine months ended 30 September (unaudited)**	
In thousands of Tenge	**2016**	2015	**2016**	2015
Sales to related parties				
Revenue from main activities with entities under common control of KMG	**28,429,821**	27,047,753	**85,966,441**	83,508,125
Revenue from main activities with joint ventures	**1,978,010**	1,902,216	**5,931,176**	5,698,917
Revenue from main activities with entities under common control of Samruk-Kazyna Group	**1,068,448**	1,294,212	**3,404,872**	4,037,438
Revenue from other activities with entities under common control of KMG	**3,559**	3,633	**24,616**	162,396
Revenue from other activities with entities under common control of Samruk-Kazyna Group	**–**	–	**1,338**	–
Total	**31,479,838**	30,247,814	**95,328,443**	93,406,876

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

	For the three months ended 30 September (unaudited)		**For the nine months ended 30 September (unaudited)**	
In thousands of Tenge	**2016**	2015	**2016**	2015
Purchases from related parties				
Purchases of services from entities under common control of KMG	**2,087,807**	1,967,924	**6,894,535**	6,700,779
Purchases of services from entities under common control of Samruk-Kazyna Group	**702,571**	662,466	**2,094,092**	2,010,646
Purchases of services from joint ventures	**–**	–	**4,877**	–
Purchases of inventory from entities under common control of KMG	**133,222**	(648,898)	**772,305**	313,963
Purchases of property, plant and equipment from entities under common control of KMG	**125,641**	110,927	**363,532**	110,927
Purchases of inventory from entities under common control of Samruk-Kazyna Group	**1,048**	14,374	**18,410**	14,374
Purchases of intangible assets from entities under common control of Samruk-Kazyna Group	**–**	15,737	**–**	15,737
Total	**3,050,289**	2,122,530	**10,147,751**	9,166,426

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. RELATED PARTY TRANSACTIONS (continued)

Amortization of deferred income of the Group from transactions with related parties is as follow:

In thousands of Tenge	Notes	For the three months ended 30 September (unaudited) 2016	2015	For the nine months ended 30 September (unaudited) 2016	2015
Amortization of deferred income from related parties					
Amortization of deferred income from related parties		–	78,091	–	234,274
Total		–	78,091	–	234,274

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

In thousands of Tenge	Notes	For the three months ended 30 September (unaudited) 2016	2015	For the nine months ended 30 September (unaudited) 2016	2015
Finance income from related parties					
Discounting of interest free loans provided to KMG	26	–	–	**1,264,921**	–
Total		–	–	**1,264,921**	–

Total accrued compensation to key management personnel for the nine months ended 30 September 2016 amounts to 506,351 thousand Tenge (for the nine months ended 30 September 2015: 381,627 thousand Tenge). Payments to key personnel consist primarily of payroll costs and remuneration established by contracts and Company's internal regulations.

31. CONTRACTUAL LIABILITIES AND COMMITMENTS

Information on contractual liabilities and commitments of the Group is disclosed in the consolidated financial statements for the year ended 31 December 2015; during the nine months period ended 30 September 2016 there were no significant changes in the contractual liabilities and commitments, except for the following:

Contractual commitments

As at 30 September 2016 the Group had contractual obligations to acquire property, plant and equipment, and construction services in the amount of 34,565,962 thousand Tenge (as at 31 December 2015: 42,647,645 thousand Tenge).

Share of the Group as at 30 September 2016 in contractual obligations of joint ventures to acquire property, plant and equipment, and construction services amounted to 294,319 thousand Tenge (as at 31 December 2015: 361,105 thousand Tenge).

Pledged assets of the BTL Group

As at 31 December 2015 certain items of property, plant and equipment of BOT with residual value of 46,600 thousand US dollars (equivalent to 15,844,466 thousand Tenge) were pledged as guarantee in favor of TBC Bank, which acted as a guarantor to ensure obligations of Georgian Transit Ltd (hereinafter – GT Ltd) to Georgian railways (hereinafter – "GR") according to transportation contracts. The maximum amount of the guarantee was equal to 10,000 thousand US dollars (equivalent to 3,354,600 thousand Tenge). During the period from 17 September 2015 till 16 September 2016 GT Ltd is obliged to provide minimal required annual volume of transshipment in the amount of 4 million tons to GR, 2 million tons of which should be transshipped by BTL Group. In accordance with the resolution of the GR on 29 July 2016, the minimum required annual volume of transshipment through GR subsequently declined to 3.2 million tons. From 17 September 2015 till 16 September 2016 the total volume of transshipment, carried by GT Ltd exceeded 3.2 million tons, including volume of transshipment by GT Ltd the BTL Group of 2.5 million tonnes; therefore as at 30 September 2016 GT Ltd has fulfilled all obligations under the terms of oil transportation and accordingly the bank guarantee has been executed.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. CONTRACTUAL LIABILITIES AND COMMITMENTS (continued)

Expropriation of the BSP assets

In accordance with BSP Management Right agreement between BOT and the Government of Georgia, the Government of Georgia has the right for expropriation of the BSP's assets, in case the BSP in the course of 2 years does not meet its obligations on minimum volume of transshipment, which is 4 million tons per year, As at 30 September 2016 actual volumes of transshipment though Port exceeded 4.98 million tons (as at 31 December 2015: 6.5 million tons). Management of BTL Group expects that transshipment of volumes will be completed and probability of expropriation of BSP assets is remote.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Fair value of financial instruments

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

33. SUBSEQUENT EVENTS

In October 2016 the Ministry of Finance Disputes Council of Georgia satisfied the claim of BOT and instructed the audit department to cancel the additional taxes on BOT in the amount of 5,751 thousand US dollars (equivalent to 1,929,230 thousand Tenge).