



ANNUAL REPORT

2016





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MISSION, VISION, VALUES

MISSION

To ensure maximum benefits for the Shareholders of the Joint Stock Company “KazTransOil” (hereinafter – “KazTransOil” JSC or the Company) by providing high quality, timely, efficient, safe and competitive services of oil transportation through the main oil pipelines with the provision of equal conditions of access to the consumers of the services of the Company.

STRATEGIC GOAL

The increase in market value (capitalization) of the Company and observance of strategic interests of the state in the field of oil transportation through the main pipeline.

VISION

“KazTransOil” JSC is a competitive and dynamically developing company providing a wide range of services of oil transportation via the modern, diversified pipeline system, in compliance with the best practices in the sphere of sustainable development, industrial safety, environmental protection, production asset management.

Company, as the national operator of the main oil pipeline, is committed to holding a leading position in the industry, participating in major oil transportation projects in Kazakhstan and abroad.

CORPORATE VALUES

In its activities, the Company is guided by the following values:

Safety and labor protection

The Company strives to ensure accident-free mode of operation at its production facilities, creates and maintains safe working conditions and care about the health of its employees. In its work, the Company strives to prevent environmental pollution, to ensure economical and efficient use of energy and natural resources.

Efficiency

The Company is aware of its responsibility before the state, shareholders, employees and society. In this regard, profitability and efficiency, achievement of high results are an undeniable value. The stable and sustainable functioning of the Company is ensured through continuous improvements of business processes, cost optimization, equipment upgrading and production investment.

Sustainable development

The Company is committed to ensuring due and high quality implementation of the sustainable development principles set out in the Corporate Governance Code.

Professionalism

In its employees, the Company values knowledge of the Company’s specifics, timely and high quality execution of tasks and ensures continuous improvement of professional knowledge and skills.

Mutual assistance and team work

The Company is aware that achieving high performance is possible due to well- coordinated work of all employees of the Company. The work in the Company is based on trust, mutual assistance, accountability and joint elaboration and implementation of goals and objectives.

The corporate values are reflected in all the spheres of the Company’s operation and play a significant role in the organization of relations with employees, building business processes, strategic planning and decision-making.



MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS



DANIYAR BERLIBAYEV

Chairman of the Board of Directors of "KazTransOil" JSC

Dear Shareholders, Partners and Colleagues!

"KazTransOil" JSC is a national operator of the main oil pipeline and one of the largest oil companies in the Republic of Kazakhstan, providing services of oil transportation to more than 80 oil producing companies of Kazakhstan.

The Company owns a branched network of main oil pipelines providing transportation for around 47% of the total volume of oil produced in the Republic of Kazakhstan.

Every year, when summarizing the performance of "KazTransOil" JSC, we note that the Company still successfully holds high standards and achieves set goals and objectives.

With a general deterioration of the macroeconomic situation in 2016, the volatility of the national currency and low oil prices had a material adverse effect on the economy of Kazakhstan. Despite this, "KazTransOil" JSC accomplished the main planned production and financial indicators and targets.

The financial performance of the Company at the end of 2015 allowed, in 2016, the payment of dividends, which hit the records in the history of People's IPO, on common shares of the Company in the amount of 51.2 billion KZT.

In the reporting year, the Board of Directors approved the Development Strategy of "KazTransOil" JSC until 2025, which is aimed at improving the efficiency and competitiveness of the Company, cost optimization and transformation of business processes, improvement of corporate management system. A special place in Development Strategy is given to sustainable development of the Company.

The year 2016 was marked with a major historical event in the world energy market –the start of commercial oil production at the giant Kashagan field. It is important to note the role of the national operator of the main oil pipeline in ensuring the smooth transportation of Kashagan oil to consumers. By the end of 2016, the company transported 117 thousand tons of Kashagan oil.

In the reporting year, the Company completed a number of major industrial projects, which are aimed at the maintenance of existing oil pipeline sections, and ensuring the attainment of objectives for the further development of the oil main pipelines system. It included the upgrading of the Kazakh section of the pipeline "TON-2" with the increase of its capacity to 11 million tons per year and commissioning of OPS after reconstruction "663 km", which will serve in the future as the main OPS for the oil pipeline "Kenkiyak-Atyrau" when operating in reverse mode.

A lot of attention in 2016 was given to one of the main priorities of our work — development of the corporate governance system, in particular, to the improvement of the performance of management bodies of the Company. One of the most significant events in the sphere of corporate governance of "KazTransOil" JSC was the election by the extraordinary general meeting of shareholders of new members of the Board of Directors. Moreover,

in May 2016, the Company approved a new Corporate Governance Code, according to which large-scale work was done on the revision of the Charter and the key internal documents of the company, as well as assessment of the corporate governance of "KazTransOil" JSC. The results of the assessment showed a high quality of corporate governance in the Company and its compliance with the recommendations of the Corporate Governance Code.

In the framework of the transformation of JSC NC "KazMunayGas", the Company takes an active part in activities for improvement of business processes. In addition, the Company developed its own initiatives aimed at improving the efficiency and cost optimization that will increase the value of "KazTransOil" JSC and, accordingly, the investments of our shareholders.

During the reporting year, the Company made substantial progress in several key areas. Ahead of us are new challenges and new goals. I am sure that the team of "KazTransOil" JSC will, as usual, fulfil the hopes of shareholders, partners, consumers and other stakeholders, will successfully cope with any challenges by improving and increasing its efficiency.

A handwritten signature in blue ink, reading "Daniyar Berlibayev", written over a horizontal orange line.

MESSAGE FROM THE GENERAL DIRECTOR (CHAIRMAN OF BOARD)



**DIMASH
DOSSANOV**

*General Director
(Chairman of the
Management Board)
“KazTransOil” JSC*

Dear readers!

We are happy to greet you from the pages of the Integrated Annual Report of “KazTransOil” JSC for 2016. Each annual report is an opportunity for us to present the results of our work in the reporting year, to share the most important events in the financial and production activities and the future development of the Company.

“KazTransOil” JSC closely monitors the changes in the economy and is ready to ensure sustainable operation of the Company not only in good times, but also in a constantly changing environment. We seek to fulfill the plans and are ready to be proactive in a situation when external risks are exacerbated.

In the reporting year, we achieved positive production and financial performance results. The consolidated volume of oil transportation amounted to 56.6 million tons, which corresponds to the planned target, but 7% below the same

indicator of 2015. The consolidated volume of oil transportation amounted to 43.1 billion tons-km, which is 1% higher than the planned target, and 5% below the same indicator of 2015. The main reason which negatively affects the Company’s share on the market is the decline in the oil production and delivery to the system of main oil pipelines from oil producers and transportation of oil from large fields to the oil pipelines system “CPC”. The volume of delivery of the Volga water to the water conduit “Astrakhan-Mangyshlak” amounted to 25.1 million cubic m, which is 4% above the plan and 1% higher than in 2015.

The consolidated net profit of the Company amounted to 44.5 billion KZT, which is by 18% higher than the planned target and is equal to the level of 2015. The excess over the planned target of 2016 was due to the Company’s revenue growth from its core business.

Among the significant corporate events of 2016, it is worth highlighting a few key ones. First, we have completed a major project to replace the linear part of the Kazakh section of the pipeline “Tuimazy – Omsk – Novosibirsk-2” (“TON-2”), which allowed to increase the capacity of the section from 7 to 11 million tons and increase the transit potential of the international oil transportation branch.

Second, we finished work on the reconstruction and expansion OPS “663 km”, which will serve as the lead OPS of the oil pipeline “Kenkiyak-Atyrau” in reverse. The reconstruction and expansion of OPS “663 km” were conducted in accordance with the second phase implementation plan of the second phase of the project for the construction of oil pipeline “Kazakhstan – China to enable the transportation of oil from different forwarders, including the Kashagan oil, in the direction of the People’s Republic of China, and the supply of West-Kazakh oil to domestic refineries.

Along with the achievements in the production activities, we, as a socially responsible Company, pay special attention to the principles of sustainable development.

The absolute priority of “KazTransOil” JSC and one of the most important strategic objectives is the ensuring of

safe labor conditions by the Company for its employees. Nonetheless, despite all the undertaken measures in the field of safety and labor protection, in 2016 there were two group accidents, in which 14 people were injured. One of them was a traffic accident in the Pavlodar oil pipeline department of the Eastern branch; the second one was an air-borne accident with the helicopter MI-8 of the Zhezkazgan branch of JSC “Airline “Euro-Asia Air”.

The activity of “KazTransOil” JSC in the field of social development includes initiatives for human resources development, improvement of training systems, further development of the corporate culture, work with the personnel reserve and the Young Specialists Council.

In 2016, the Company launched the active development of the trade union movement, whose activities are aimed at protection and representation of the interests of our workers. Today, the central office and in all four branches of “KazTransOil” JSC established the trade union organizations of workers. On 27 December 2016, the Company signed a Collective agreement with the employee representatives of branches and central office of the company for a period of 3 years, the main purpose of which is to provide social support to the employees of “KazTransOil” JSC.

The company understands its social responsibility with respect to the population in the regions where it operates. In September, in the village of Sholakkorgan of Suzak district in the South Kazakhstan region, the Company held an opening ceremony of a new kindergarten for 280 children, built at the expense of “KazTransOil” JSC and donated to the region. The new preschool institution became a real help in the largest district of the region.

Year 2017 is significant for our company. We are celebrating the 20th anniversary since the establishment of “KazTransOil” JSC. In honor of the 20th anniversary of the Company we have developed a plan of actions “Celebration of the 20th anniversary of the company - 20 good deeds”, which covers all categories of employees and their children,

young professionals, experienced professionals and veterans, university students, socially vulnerable people and those in need of help.

I thank our employees for their professionalism and responsible approach to business, our management for competent management of the Company, our shareholders for their confidence in the sustainability of the business model of “KazTransOil” JSC.

KEY OPERATING AND FINANCIAL INDICATORS

56,575 thousand tons volume of transportation
44,528 million KZT total income
7,914 persons personnel headcount

OIL TRANSPORTATION AND WATER SUPPLY

Consolidated Indicators	2016 plan	2016 actual	2015 actual	2014 actual	Change*, %
Volume of transportation, thousand tons	56,389	56,575	61,001	64,005	-7.3
Freight turnover, million tons-km.	42,505	43,130	45,446	44,206	-5.1
Volume of water supply, thousand m ³	24,172	25,133	24,998	24,815	0.5

* Hereinafter in the Annual Report of "KazTransOil" JSC for 2016, the change in quantitative indicators is calculated as the ratio of the actual values for the reporting period to the actual values for the previous year.

FINANCIAL INDICATORS

Consolidated Indicators	2016 plan	2016 actual	2015 actual	2014 actual	Change, %
Revenue, million KZT.	201,692	207,108	213,162	206,637	-2.8
EBITDA*, million KZT	96,685	108,611	110,234	105,431	-1.5
Cost of sales, million KZT	132,596	129,862	124,064	121,309	4.7
Total income for the reporting year, million KZT	37,770	44,528	44,713	46,431	-0.4

* The indicator was calculated in accordance with the Rules for development, agreement, approval, correction, execution and monitoring of execution of Development Plans of subsidiaries of JSC "Samruk-Kazyna".

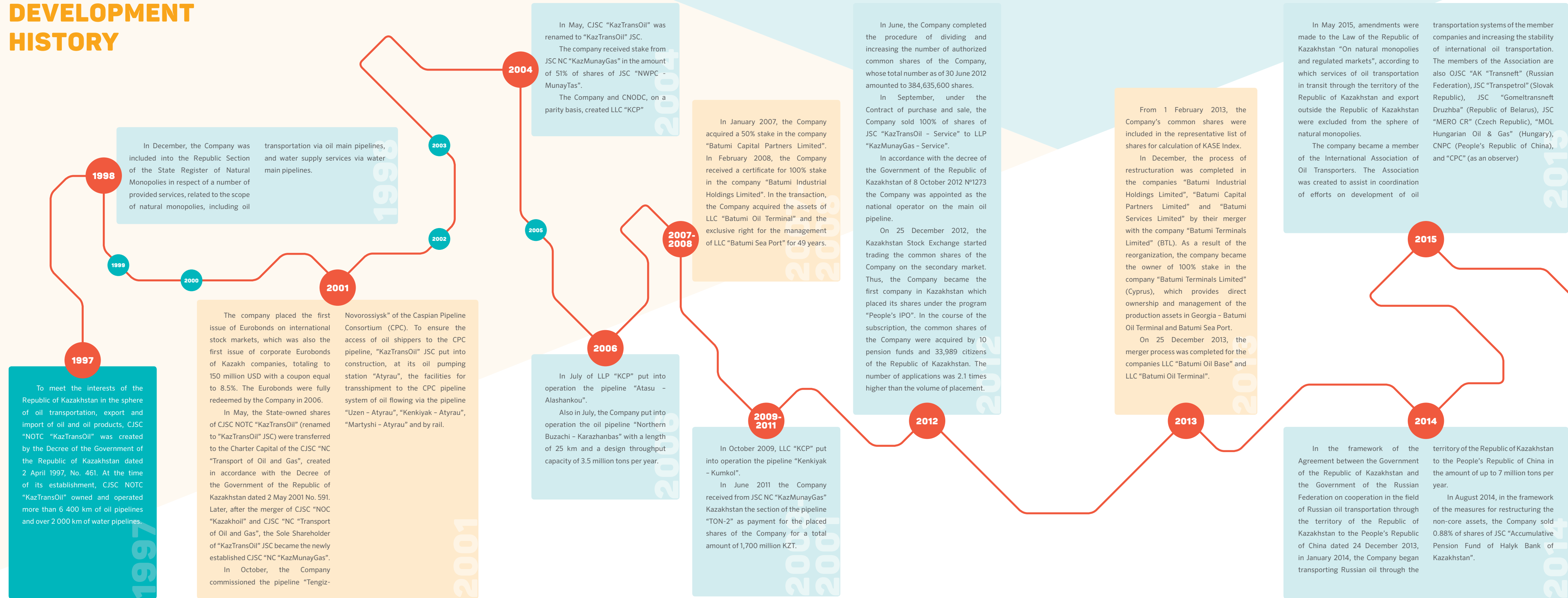
NON-FINANCIAL PERFORMANCE INDICATORS

Indicators for the Company reported separately	2016 plan	2016 actual	2015 actual	2014 actual	Change, %
Personnel headcount according to the list, persons	-	7,914	8,129	8,183	-2.6
Total number of accidents associated with the production	0	2	5	0	-60
Pollutant emissions, tons	-	27,760	25,403	25,687	9.3
Environmental payments, thousand KZT	-	77,994	70,782	63,406	10.2
Energy intensity of oil, TOE/ thousand tons	-	5.54	5.72	6.12	-3.2
Share of local content in the total volume of procurements of goods, works and services, %	40	61.2	60	68.5	2.3

SCHEME OF MAIN PIPELINES OF KAZTRANSOIL JSC



DEVELOPMENT HISTORY



KEY EVENTS IN 2016

JANUARY

Personnel changes

By the decision of the Extraordinary General Meeting of Shareholders, on 29 January 2016, “KazTransOil” JSC early terminated the powers of the members of the Board of Directors and elected a new Board of Directors.

FEBRUARY

Credit rating

The International Rating Agency “Standard & Poor’s” lowered the credit rating of the Company from “BB+” to “BB” with a “negative” outlook.

This downgrading was due to the downgrading of the Republic of Kazakhstan in general and the downgrading of JSC NC “KazMunayGas”. The rating level is determined by the status of the Company as a strategically important subsidiary of JSC NC “KazMunayGas”, and a high probability of provision to the Company of a timely and sufficient extraordinary support from the state if necessary.



MARCH

Closure of the Representative Office

The Board of Directors decided to shut down the Representative Office of “KazTransOil” JSC in Moscow (Russian Federation).



APRIL

Awarding certificates

“KazTransOil” JSC was audited by SAPSE for compliance of processes and services with the advanced level requirements to Customer Centers of Expertise. This compliance was confirmed by the certificate “Customer Center of Expertise” (CCoE) -Advanced certificate.

The company was the first in Kazakhstan and second in the CIS, whose client expertise center in the field of SAP was certified for the Advanced level.

MAY

Annual Meeting of Shareholders

In Astana, the Company held the Annual General Meeting of Shareholders which reviewed the results of 2015. During the meeting, the shareholders approved the annual financial statements, consolidated annual financial statements and annual report of the Company for 2015, annual report of the Board of Directors on the work accomplished in 2015, the Corporate Governance Code, amendments to the Charter of the Company and amendments/additions to the Method of determining the value of the shares at their redemption by “KazTransOil” JSC on the unorganized securities market.

Also, the shareholders of the Company approved the procedure of allocation of the net income of 2015. It was decided to pay the dividends on common stock in accordance with the year results.

Credit rating

The international rating agency “Fitch Ratings” confirmed the rating of “KazTransOil” JSC at the level of “Baa3”, with a “Negative” outlook.

The rating was confirmed on the basis on the following factors: assignment to the Government of the Republic of Kazakhstan of the credit rating “Baa3” in local currency with a “Negative” outlook; the fundamental credit strength of the Company was assessed at the level “ba1”; high dependence of the Company on the state; assumption in the Moody’s about possible provision to the Company of a wide state support in case of need.

JUNE

Dividends

The Company paid the highest dividends in the history of the Program “People’s IPO” on the common stock of “KazTransOil” JSC at the end of 2015 in the amount of 51.2 billion KZT.

AUGUST

Reconstruction of “TON-2”

The Company completed the overhaul of the Kazakh section of the main pipeline “TON-2” with a length of 185.6 km with full replacement of the pipeline, which increased the capacity of this section from 7.0 to 11.0 million tons per year.

Personnel changes

By the decision of the Board of Directors of the Company dated 5 August 2016, the powers of General Director (Chairman of the Management Board) of the Company, Nurtas Shmanov were terminated early.

On 6 August 2016, Dimash Dossanov was elected as the General Director (Chairman of the Management Board) of the Company.

SEPTEMBER

Credit rating

The international rating agency “Fitch Ratings” confirmed the Company’s credit rating at “BBB -” with a “stable” outlook. Fitch notes that the Company ratings reflect its strong operational and financial performance indicators, which will persist at least in the medium term, and take into account the strategic importance of the Company for the economy of Kazakhstan.

OCTOBER

Personnel changes

By the decision of the extraordinary General Meeting of Shareholders on 20 October 2016, “KazTransOil” JSC determined the composition of the Board of Directors, consisting of 7 persons, and Dimash Dossanov was elected as a member of the Board of Directors and General Director (Chairman of the Management Board).

Transportation of Kashagan oil

The Company started exporting the Kashagan oil via pipeline section “Atyrau-Samara” in the direction of the port of Ust-Luga. By the end of 2016, the company transported 117 thousand tons.



DECEMBER

Awarding certificates

Department of state revenues in Astana of the State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan acknowledged the Company as the best taxpayer of the Capital by the end of 2015.

Signing of the additional agreement

The Company signed a supplementary agreement to the oil transportation contract between “KazTransOil” JSC and PJSC NC “Rosneft”, providing for an increase from 2017 of the volume of Russian oil transit from 7.0 to 10.0 million tons per year along the route “Priirtyshsk-Atasu-Alashankou”.



Signing of the Collective agreement

The Company signed a Collective agreement with the employees for 2017-2019.

Launching of OPS “663 km”

The Company completed the reconstruction and expansion of the OPS “663 km”, which will serve as the main OPS for the oil pipeline “Kenkiyak-Atyrau” in the reverse mode.

1. ABOUT THE COMPANY

OIL STORAGE
IN TANKS



1.1

BUSINESS MODEL

CAPITAL

MAIN RESOURCES

RESULTS OF OPERATIONS

FINANCIAL

61,937.6 million KZT Charter capital (the own shares purchased from shareholders - 9.5 million KZT)

263,477.9 million KZT Retained earnings

NATURAL

27,911 thousand m³ Volumes of water intake

143,452 TOE Consumption of natural gas

PRODUCTION

5,377 km Length of main pipelines

1,975 km The length of water main pipelines

36 Oil pumping stations

4 water pumping stations

HUMAN

7,914 employees Headcount

65 people Personnel reserve

100% The share of workers occupied full-time

INTELLECTUAL

- The functioning of the Scientific-technical center
- Operation of the integrated management system

SOCIAL AND REPUTATIONAL

- List of stakeholders - 8 key groups
- Corporate Governance Code
- Corporate Ethics Code
- Operation of the hot line

EXTERNAL ENVIRONMENT

OIL TRANSPORTATION

- Provision of services for oil transportation (pumping, transshipment, pouring in, pouring out, storing, mixing) via main pipelines
- Organization of transportation of Kazakh oil via the pipeline systems of other countries (operator of unified routing)
- Transshipment and storage of hydrocarbons via the Batumi Oil Terminal and transshipment at the Batumi Sea Port

OPERATOR SERVICES

Operation of main oil pipelines owned by third parties

WATER SUPPLY

Water supply services via the main pipeline

IMPROVING THE EFFICIENCY OF MANAGEMENT

- Development of corporate governance and sustainability
- Improving the system of management of assets, including the assets of the Company and its SJCE
- Cost optimization and transformation of business processes

STAKEHOLDERS

207,108 million KZT Revenues

44,528 million KZT Total profit

51,157 million KZT Dividends for 2015

27,760 tons Emissions of pollutants into the atmosphere

1,128 thousand m³ Wastewater discharges

6,207 thousand tons Wastes

by 7.5% Reduction of energy consumption

84 contracts for the provision of services of oil transportation

173 contracts for water supply via main pipelines

61.2% The share of local content

44,118.2 million KZT Payroll

342 million KZT Total cost of training

0 Deaths in manufacture

0.25 Accidents frequency rate per 1000 persons

- Implementation of the Program of innovative-technological development for 2012-2020
- Certification for compliance with ISO 9001, ISO 14001, OHSAS 18001, ISO 50001

66% Employee involvement index

6 Number of calls to the hotline

- Collective agreement for 3 years

PRODUCTION CAPACITY OF THE COMPANY IN 2016

166 thousand m³

Water storage tank

1 units

Water treatment plants

1,975 km

Main water pipelines

4 units

Water pumping stations

36 units

Oil pumping stations

7 units

Stations for heating oil

64 units

Furnaces for heating oil

1,346 thousand m³

Tank park for oil storage

1 units

Main treatment plant

4 units

Oil loading/unloading railway overpasses

5,377 km

main oil pipelines

The consumers of the Company's services of oil transportation are the oil companies of the Republic of Kazakhstan and the Russian Federation, with whom the Company has signed 84 oil transportation contracts.

Oil transportation and transshipment via the main pipeline is provided by 36 oil pumping stations, 64 oil preheating furnaces, oil storage tank farm with the total storage volume of 1,346 thousand m³. Oil transshipment to other transportation modes is provided by 4 loading / unloading railway overpasses, appropriate equipment for loading oil into tankers installed on the berths of the marine oil terminal in port Aktau.

Also, the Company provides water supply services via the main pipelines to oil and gas producers, industrial and utility companies, as well as agricultural producers of Atyrau and Mangystau regions, which signed 173 contracts with 23 oil and gas producers and 36 industrial enterprises, 20 utility companies and public organizations, 94 agriculture producers.

Water is supplied by the 1st and 2nd water-lifting pumping stations of LPDS "Kigach", water pumping stations of WPSs - 8 (Kulsary), WPS "Karazhanbas" and waste-water treatment facility of WTF "Kulsary", as well as water storage tanks with a total capacity of 136 thousand m³.

Besides, the Company provides operation services for the pipeline owned by LLC "KCP", JSC "NWPC - MunayTas", "Karachaganak Petroleum Operating B. V." and JSC "Turgay Petroleum".

1.2 THE COMPANY'S DEVELOPMENT STRATEGY UNTIL 2025

In December 2016, the Board of Directors approved the Development Strategy of "KazTransOil" JSC until 2025 (the Development Strategy), which aims to increase the market value (capitalization) of the Company and compliance with the strategic interests of the state in the field of oil transportation through the oil main pipeline.

The Development Strategy was developed in accordance with the recommendations of JSC NC "KazMunayGas" and changes in the internal and external environment in 2015-2016, which had significant impact on the operations of the Company.







The Development Strategy of the Company defines the mission, vision, strategic goal and strategic directions of development of the Company, which correspond to the current state and prospects of development of the oil and

gas industry. The special place in strategy of development devoted to sustainable development and increase efficiency.



In the process of updating the Development Strategy, the Company developed strategic values and initiatives, adjusted the main policy targets until 2025. Thus, in the long term, the further development of the Company will be accomplished in the context of the following strategic directions:

- Oil transportation;
- Water supply;
- Operator services;
- Improving the efficiency of management.

STRATEGIC DEVELOPMENT DIRECTIONS OF "KAZTRANSOIL" JSC UNTIL 2025

Strategic directions	Targets under strategic directions	Strategic initiatives up to 2025	Main activities planned for 2017	The key risks in the Company operations (see Chapter 2, Risk Management)
 Oil transportation	<ul style="list-style-type: none"> Ensuring quality, reliable, uninterrupted and effective oil transportation. Increase in oil transportation and turnover volumes by attracting new gas shippers. 	<ul style="list-style-type: none"> Attraction of additional volume from the fields Tengiz, Kashagan and Karachaganak for transportation of oil via the pipeline "Atyrau-Samara". Reversal and expansion of the pipeline "Kenkiyak-Atyrau", increase of the throughput capacity of the pipeline "Kazakhstan-China". Ensuring a more flexible and effective tariff policy, which takes into account the dynamics of industry development and investment needs of the Company. 	<ul style="list-style-type: none"> Supply the Kazakh light oil via the pipeline "Atyrau-Samara" for further transportation mixed with low-sulfur Siberian light oil with transshipment at the port of Novorossiysk. Completion of the construction of POPS "Kenkiyak". Review of the implementation issues of the 1st stage of the reversal project of the pipeline section "Kenkiyak-Atyrau" with the increase in the throughput capacity in the reverse mode to 6 million tons per year. Reconstruction of main oil pipeline "Kalamkas - Karazhanbas - Aktau", the section "Karazhanbas - Aktau". 	<ul style="list-style-type: none"> Reduction or termination of oil supplies Accidents (manmade) Accident (natural) Risk of intentional theft or destruction of assets
 Water supply	<ul style="list-style-type: none"> Improving the effectiveness of water supply and developing the existing system of water main pipelines if the measures are cost effective. 	<ul style="list-style-type: none"> Increase of the throughput capacity of the main pipeline; Increase of the water supply profitability (setting the investment rates, use of public grants, other measures). 	<ul style="list-style-type: none"> The implementation of measures for the establishment of a limited liability company with 100% of the Company's participation for the purpose of outsourcing the services of water supply through the main pipeline from the main activities of the Company. Completion of the project "Reconstruction of WPS-5 for increase of water supply via the water pipeline "Astrakhan-Mangyshlak". 	<ul style="list-style-type: none"> Reduction or termination of water supplies Accidents (manmade) Accident (natural) Risk of intentional theft or destruction of assets
 Operator services	<ul style="list-style-type: none"> The increase of revenues from operation of main pipelines owned by third parties. 	<ul style="list-style-type: none"> Improving the performance and increasing the competitiveness of equipment maintenance and repair with the purpose of extending the scope of operator services. Participation in the tender for provision of services to "CPC". 	<ul style="list-style-type: none"> Participation in the tender for provision of maintenance services for the oil pipeline facilities of "CTC". 	<ul style="list-style-type: none"> Risks of strategic partners; Reduction or termination of oil supplies.
 Improving the efficiency of management	<ul style="list-style-type: none"> Increase in the market value of the Company and provision of competitive services taking into account the interests of the state and shareholders. 			<ul style="list-style-type: none"> Accidents associated with the production and resulting in disability or death Environmental risks (claims and administrative fines) Currency risk Risks of strategic partners
 Cost optimization and business processes transformation	<ul style="list-style-type: none"> Measures for optimization, improvement and increase of the performance of business processes, and cost optimization. 	<ul style="list-style-type: none"> Implementation of the measures under the Program of cost management for 2017-2021. Participation in the implementation of projects under the transformation program of JSC NC "KazMunayGas". Outsourcing of support activities. Optimization of the logistics of inventory assets and warehouses. Transfer of the main oil pipelines management to the Main Dispatcher Department in Astana. Restructuring of the Company management, including the creation of service units for production support. 	<ul style="list-style-type: none"> Implementation of the measures of the Cost Management Program for 2017-2021, scheduled for 2017. Participation in the program of transformation of JSC NC «KazMunayGas». Implementation of the Action Plan on Company operations optimization and performance improvement for 2017. 	
 Corporate governance	<ul style="list-style-type: none"> Improvement of the Corporate Governance system and use of the world's best practices 	<ul style="list-style-type: none"> Ensuring a high level corporate governance; Maintaining stable dividend payments; Improving the measures of countering corruption and settlement of conflict of interests. 	<ul style="list-style-type: none"> Confirmation of compliance with the international ISM standards ISO 9001:2015, ISO 14001:2015, OHSAS 18001:2007, ISO 50001:2011. Independent evaluation of the work of the Board of Directors and its committees in 2016 with the assistance of independent external consultants. Updating internal documents of the Company in accordance with the approved Corporate Governance Code. Adoption of anti-corruption standards in "KazTransOil" JSC. Holding the 8th meeting of the International Association of Oil Transporters in Astana. 	

STRATEGIC DEVELOPMENT DIRECTIONS OF “KAZTRANSOIL” JSC UNTIL 2025 (continued)

Strategic directions	Targets under strategic directions	Strategic initiatives up to 2025	Main activities planned for 2017	The key risks in the Company operations (see Chapter 2, Risk Management)
 Asset management	<ul style="list-style-type: none"> Ensuring the effectiveness and improving the asset management in the Company. 	<ul style="list-style-type: none"> Improving the asset management system, including the assets of the Company and SJCE 	<ul style="list-style-type: none"> The completion of the liquidation of the company “Batumi Terminals Limited”. Ensuring financial sustainability of LLC “KCP”. 	<ul style="list-style-type: none"> Accidents associated with the production and resulting in disability or death Environmental risks (claims and administrative fines) Currency risk Risks of strategic partners
 Sustainable development	<ul style="list-style-type: none"> Development of the business and preservation/protection of the environment, creation of favorable working conditions, ensuring safety in the workplace and contribution to the development of local communities where Company operates. 	<ul style="list-style-type: none"> Development of energy-saving systems and improvement of energy efficiency. Reduction of industrial injuries. Reducing the negative impact on the environment. Development of the HR management system with the help of a differentiated payroll system (grading). Improvement of the system of HR assessment and development of the motivational key performance indicators. 	<ul style="list-style-type: none"> Implementation of the Action Plan on energy saving and energy efficiency for 2016-2019 - reduction of fuel and energy consumption in physical volumes by 378 TOE, which corresponds to 39.76 million KZT. Monitoring of behavioral safety - the goal is at least 6 000 observations; Putting into operation of the installation for recuperation of vapor at OPS “663 km”. Creation of the register of significant environmental aspects; Implementation of the system of job evaluation (grading). 	

To monitor the implementation of strategic tasks on 1 February 2017, the Board of Directors approved the key performance indicators for 2017 and their target values.

CORPORATE KPIS OF “KAZTRANSOIL” JSC FOR 2017

KPI name	Unit of measurement	Goal for 2017
Return on the average capital employed during the period, (ROACE)	%	7.0%
Unit cost of oil transportation (separately for “KazTransOil” JSC)	thousand KZT / million tons-km	1,860
Oil turnover (consolidated)	million tons-km	42,520
Lost time injury frequency rate per million man-hours (LTIR)* (separately for “KazTransOil” JSC)	%	15%

* included in the list of corporate KPIs since 2017

TRANSFORMATION AND OPTIMIZATION OF BUSINESS PROCESSES OF THE COMPANY

In 2016, the Company participated in the Transformation Program of JSC NC “KazMunayGas”, which studies the global best practices, reviews the asset management principles, and improves approaches to performance management. The Company Representatives participated in the functional

committees for transformation of 9 auxiliary business functions:

- Human resource management;
- Strategic planning and performance management;
- Budgeting and business planning;
- Financial and tax accounting;
- Treasury;
- Procurement and supply system management;
- Investments and projects management.

- Protection of labor, environment and industrial safety;
- Information technology.

In the process of this work, the experts discussed the functions of the common service centers (CSCs), HR (human resources) IT (information technologies), financial and tax accounting, treasury.

During this work, the Company has signed contracts with the limited liability company “KMG Global Solutions B. V.” represented by its Kazakh branch (subsidiary of the limited liability company “KMG Global Solutions B. V.”) (CSC for IT functions) on SAP support and maintenance for the corporate portal. “KazTransOil” JSC was included in the list of pilot companies, which introduced a shared services center for HR

functions based on private institution “Corporate University “Samruk-Kazyna”.

Besides, to reduce the operating costs, in 2016 the Company developed its own initiatives aimed at streamlining the operations and improving the performance of the Company.

Thus, in particular, the experts analyzed non-core functions of the Company which are subject to outsourcing to the competitive environment, namely, the services of IT, office administration, catering, cleaning, maintenance of buildings, warehouse management, and transport services. During this work, the optimized headcount amounted to 346 people (205 regular employees, 141 freelance employees).

2017

In 2017, the Company continued participating in the implementation of transformation projects for JSC NC “KazMunayGas”, aimed at improving business processes, and in further cost optimization of the Company. In particular, it is planned to implement the following initiatives:

- outsourcing of the support personnel of the Company (cleaning, catering);
- outsourcing of the personnel transportation function of the Company;
- optimization of the logistics of inventory assets and warehouses;
- transfer of the operational main oil pipelines management to the main dispatcher department in Astana;

Also, in 2017, it is planned to create a limited liability company with 100% stake belonging to the Company’ for separation of water supply services through the main pipeline from the scope of “KazTransOil” JSC.

It should be noted that all the above activities will be carried out taking into account the social factor.

1.3

ORGANIZATIONAL STRUCTURE

The Company's existing organizational structure allows managing and monitoring production processes in the entire chain of oil transportation via the main pipelines, the length of which is 5,377 km.

The Company also has two representative offices in the Russian Federation in the cities of Samara and Omsk. In March 2016, the Board of Directors decided to shut down the Representative Office of "KazTransOil" JSC in Moscow (Russian Federation).

The Company has four branches: Western and Eastern branches, Main Information and Computing Center, Scientific Technical Center.

WESTERN BRANCH

The Western Branch is a structural unit of the Company created in 1997 on the basis of the Production Association "Yuzhnefteprovod". Central office of the Western Branch of the Company is located in the city of Atyrau.

Currently the Western branch is:

System of main oil pipelines with a length of
2,626
km

system of water pipelines with a length of
1,975
km

4,860
employees

- Mangystau, Atyrau, Kulsary, Ural (from 1 January 2017 – LPDS "Uralsk"), Aktobe oil pipeline departments, LPDS "Kigach", as well as the Operator Department of the Western Branch of the Company;
- Base of production and technical supply and equipment procurement.
- Training and course combine of the Western branch of the Company.



EASTERN BRANCH

The Eastern Branch is a structural unit of the Company created in 1997 on the basis of the Production Association "Main Oil Pipelines of Kazakhstan and Central Asia". The Head Office of the Eastern branch of the Company is located in the city of Pavlodar.

Currently, the Eastern branch is:

System of main oil pipelines with a length of
2,715
km

2,647
employees

- Pavlodar, Karaganda, Zhezkazgan, Shymkent Oil Pipeline Departments, as well as Pipeline Operation Control Station "Peterfeld", as well as the Department for operator services of the Eastern branch of the Company;
- Base of production and technical supply and equipment procurement.



MAIN INFORMATION AND COMPUTING CENTER

The MICC Branch is a structural unit of the Company, whose main purpose is to ensure reliable and efficient operation of the information systems, automated systems of control of technological processes and production-technological communications related to the transportation of oil via the main pipelines of the Company. The MICC branch is located in the city of Astana.

Currently, the MICC branch is:

46
employees

- Departments: systems of electronic documentation, user support, including SAP users, technology maintenance, production and technological communication support, automated control systems support, service-desk, energy and technological equipment sector, etc.



SCIENTIFIC TECHNICAL CENTER

The STC Branch is a separate unit of the Company, the main purpose of which is to ensure the sustainable development of the company on the basis of scientifically proven innovation and technology development program, aimed at improving the reliability and performance of the Company due to the introduction of advanced engineering technologies, reliability and efficiency in project implementation, creation and use of the Company's base for design and research, scientific research and development, automation of technological processes, upgrade and development of the Company facilities, as well as technical regulation of development and improvement of the regulatory framework of "KazTransOil" JSC and its harmonization with the international requirements.

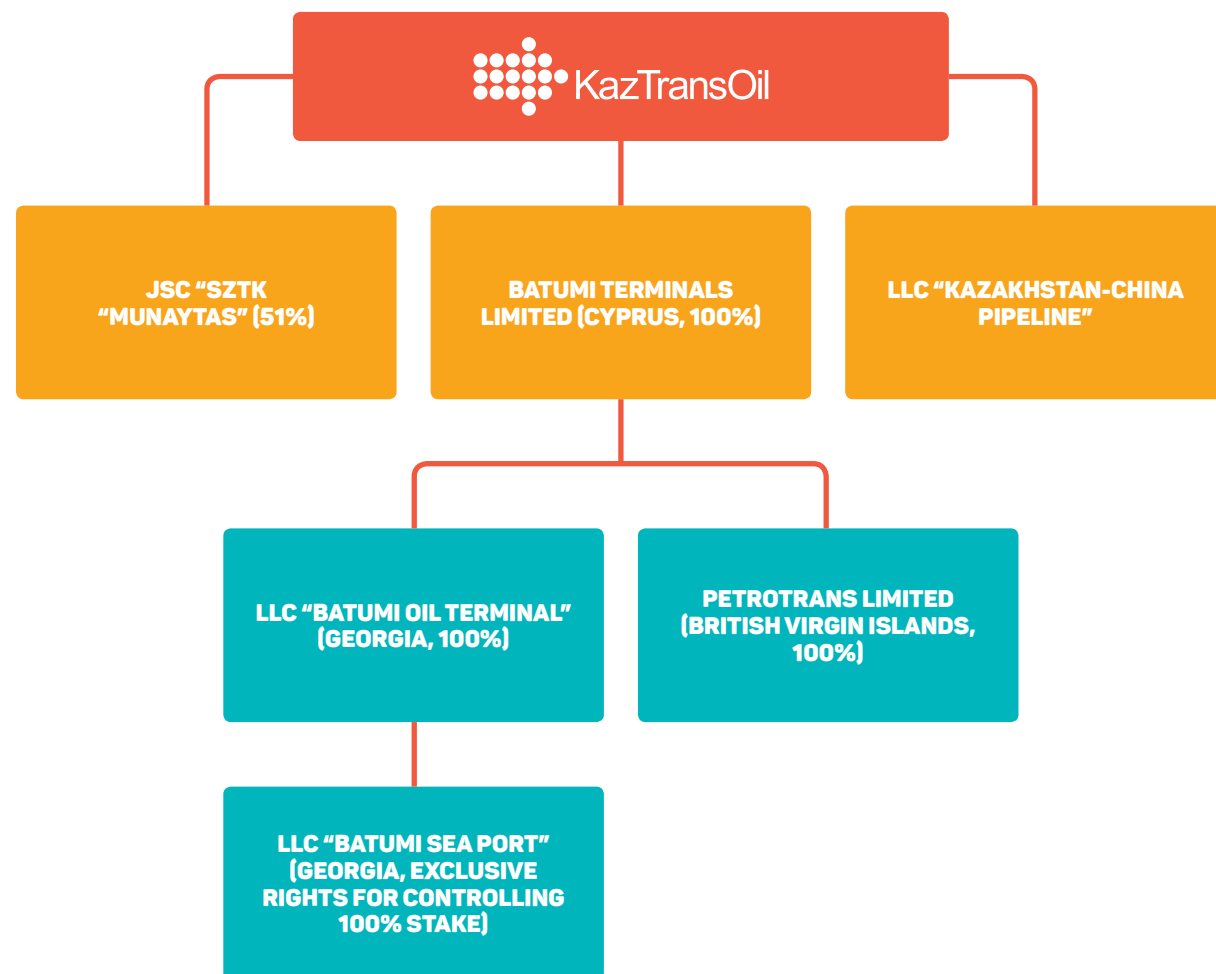
Currently, the STC Branch is:

70
employees

- Scientific technical unit, consisting of three laboratories:
 - Laboratory for the problems of pipeline transport;
 - Laboratory for physical/chemical analysis and environment;
 - Laboratory for protection from corrosion.
- Production unit consisting of 13 groups;
- Department for scientific and technical documentation;
- Department for innovations;
- Metrology service, etc.



SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES OF THE COMPANY



RESTRUCTURING OF THE COMPANY'S ASSETS

In accordance with the Development Strategy of "KazTransOil" JSC until 2025, the Company will strive to create an efficient and transparent structure of SJCE, which is able to improve the economic performance of the Company and meet the requirements of shareholders.

In November 2015, the Company, being the sole

shareholder, adopted a decision on voluntary liquidation of BTL. After the liquidation completion, the Company will directly own LLC "Batumi oil terminal and Petrotrans Limited", which will to optimize the activities of these companies.

In 2016, "KazTransOil" JSC has conducted the procedure on voluntary liquidation BTL, in the framework of which the liquidator made payments to creditors and debtors of BTL, the tax authorities.

2017

The completion BTL liquidation is scheduled for 2017.

OPERATIONS OF SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES OF THE COMPANY

JSC "NWPC-MUNAYTAS"

The Company – 51%
CNPC Exploration and Development Company Ltd. – 49%

448.9 km

Main oil pipeline "Kenkiyak-Atyrau", length



40 thousand m³

Storage tanks

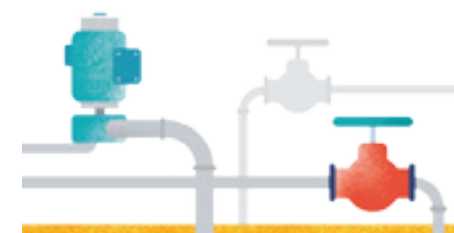
	2016	2015	2014
Net income, million KZT	4,581	5,365	1,443
Volume of transportation, thousand tons	4,620	3,744	3,026
Commodity turnover, million tons-km	1,843	1,467	1,159

LLC "KCP"

The Company – 50%
China National Oil and Gas Exploration and Development Corporation – 50%

794.3 km

The main oil pipeline "Kenkiyak-Kumkol", length



965.1 km

Main oil pipeline "Atasu-Alashankou", length

4 units

Oil pumping stations

	2016	2015	2014
Net loss, million KZT		89,143	13,972
Net income, million KZT	12,292		
"Kenkiyak-Kumkol": Volume of transportation, thousand tons	4,887	6,232	6,112
"Atasu-Alashankou": Volume of transportation, thousand tons	10,058	11,782	11,812
"Kenkiyak-Kumkol": Commodity turnover, million tons-km	3,403	4,293	4,165
"Atasu-Alashankou": Commodity turnover, million tons-km	9,708	11,731	11,400

BATUMI TERMINALS LIMITED

Company – 100%

Batumi oil terminal

Batumi sea port



	2016	2015	2014
Consolidated net loss, million KZT			5,916
Consolidated net income, million KZT	18	2,698	
Volume of transshipment, thousand tons	6,641	6,799	7,657

1.4

STATE REGULATION AND TARIFFS

In accordance with the legislation of the Republic of Kazakhstan, the Company is a natural monopoly in the following areas:

- Transportation services of oil and/or oil products via the main pipelines, with the exception of transportation for the purpose of transit through the territory of the Republic of Kazakhstan and export outside the Republic of Kazakhstan;
- Services of transmission and/or distribution of electric energy;
- Services of production, transmission, distribution and/or supply of thermal energy;
- Water supply and/or sewerage.

In June 2016, the Board of Directors approved the Methods of Tariff Calculation for the Services of “KazTransOil” JSC related to oil transportation via main pipelines for export outside the Republic of Kazakhstan and transit through the territory of the Republic of Kazakhstan.

Before 1 January 2016, the tariff for oil pumping in the local market was 3 225.04 KZT for 1 ton per 1 000 km without VAT.

TARIFFS FOR WATER SUPPLY SERVICES VIA THE MAIN PIPELINE

Validity period	Tariff in KZT for 1 ton per 1 000 km without VAT		
	for export	for internal market	for transit
from 1 January 2016	5,817.20	3,547.46	1,727.10

TARIFFS FOR WATER SUPPLY SERVICES VIA THE MAIN PIPELINE

Groups of consumers	Tariff in KZT/m ³ without VAT			
	technical		drinking	
	on sites			
	“0-449 km”	“449 km-end consumers”	“Kulsary-Salamys”	LPDS “Kigach”
Population, budgetary and non-profit organizations, as well as public utility enterprises, budgetary and non-profit organizations	18.72	20.92	39.08	39.08
Agricultural producers	67.38	151.49	95.56	-
Industrial enterprises and other commercial organizations	247.12	386.5	353.89	-
Oil and gas producing enterprises	338.54	522.85	495.15	-

2017

In 2017, the authorized state body plans to approve the new cost of Russian oil transportation in the amount of up to 10 million tons (previously up to 7 million tons) along the route “Priirtyshsk-Atasu-Alashankou”, which will increase the revenues of the Company and LLC “KCP” from this activity. Also, it is planned to develop the Rules for tariff regulation of “KazTransOil” JSC.

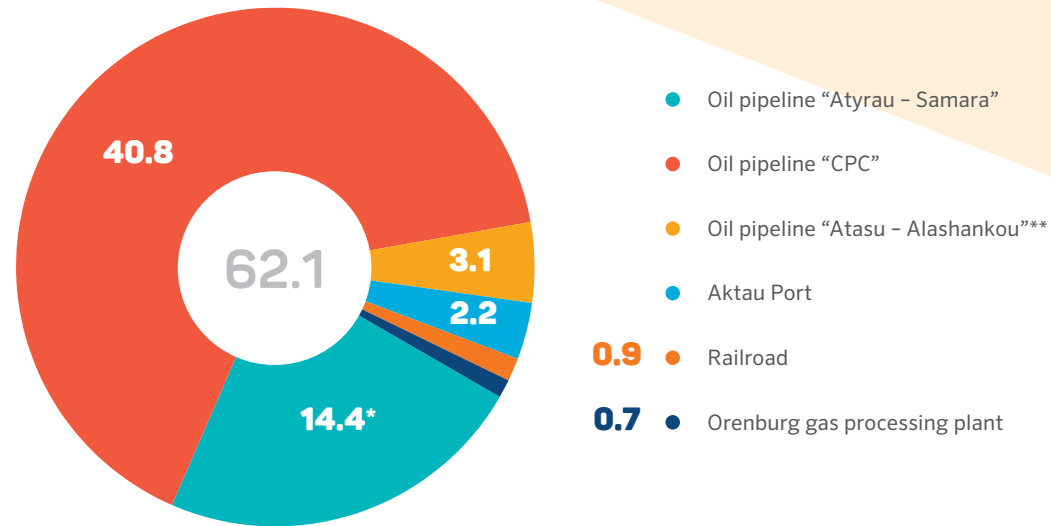
1.5

THE COMPANY'S POSITION ON THE MARKET

In 2016, Kazakhstan produced 78.0 million tons of oil and gas condensate, for which exported – 62.1 million tons. To date, the main export directions of oil transportation from

Kazakhstan are oil pipelines – “CPC”, “Atyrau – Samara” and “Atasu – Alashankou”.

VOLUMES OF EXPORT OF KAZAKH OIL AND GAS CONDENSATE IN 2016, MILLION

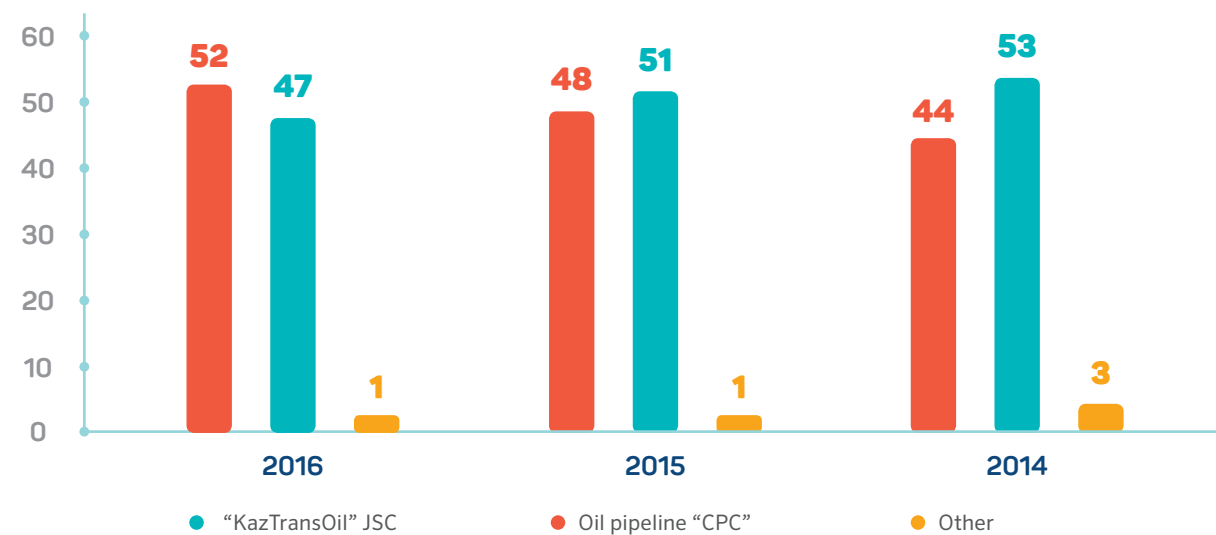


* Besides, it supplied 0.7 million tons to PPCP in transit through the territory of the Russian Federation along the route "Samara - TON-2 - Priirtyshsk" - PPCP";
 ** The volume of transportation amounted to 10.1 million tons, including transit deliveries to China in the volume of 7.0 million tons.
 Source: JSC "Information-Analytical Center of Oil and Gas".

Through its system of main oil pipelines, in 2016, the Company transported 43.8 million tons of oil, including 7.0 million tons of Russian transit oil. The company transports around 47% of Kazakh oil (excluding the transit volumes

of Russian oil). The share of the Kazakh oil transportation via the pipeline "CPC", which is the main competitor of the Company, increased to 52 %.

THE SHARE OF THE COMPANY IN THE TRANSPORTATION OF KAZAKH OIL, IN %



The main fact which negatively affects the Company's share on the market is the decline in the oil production and delivery to the system of main oil pipelines from oil producers and transportation of oil from large fields to the oil pipelines system "CPC".

In 2017, it is planned to complete of the project of CPC expansion. Due to the fact that some participants of the Agreement on sharing the production in the North Caspian area have priority rights for the throughput capacity in the pipeline "CPC", it is forecasted that most of the oil extracted at the Kashagan field will be transported via the pipeline "CPC".

Moreover, in the next few years, there will be a surplus of pipeline export capacity.

According to the Forecast of oil production in the Republic of Kazakhstan for 2017-2030, the volume of oil production in a scenario of 50 USD per barrel will increase to 87.0 million tons in 2020 in connection with the expected growth of oil production at Kashagan. The volume of exports will increase to 68.5 million tons per year, and the domestic consumption will be around 18.5 million tons.

In total, the throughput capacity of export pipeline routes, taking into account the capacity of the pipeline "CPC" (given the extension of up to 52.5 million tons for

Kazakh oil), "Atyrau-Samara" and "Kazakhstan-China" (given the extension to 20 million tons per year), will be approximately 90 million tons per year. The above factors will result in a surplus of export pipeline capacity, which will enable the extraction companies in Kazakhstan to choose the transportation directions and re-orientation to more favorable pipeline routes.

At the same time, the Company will continue working on the project of expansion of the pipeline system "Kazakhstan-China" to provide access to oil from the fields in Western Kazakhstan for local refineries (PKOP and PPCP), and to ensure exports through the pipeline "Atasu-Alashankou" in the direction of the People's Republic of China.

Besides, to attract partners from the Kashagan project, the Company and PJSC "Transneft" agreed in 2016 on shared transportation of light Kazakh oil via the oil pipeline "Atyrau-Samara" for further transportation via the system of main oil pipelines of JSC "Transneft" mixed with low-sulfur light oil with its shipment via the port of Novorossiysk. In 2017, the volume of supply will amount to 1 million tons of oil with a further increase in the following years.

Given the above, for a timely response to possible market changes, the Company will take measures to improve the production efficiency, competitiveness and improve the quality of its services.



2. RISK MANAGEMENT

COMMERCIAL OIL
METERING STATION



2.1

RISK MANAGEMENT SYSTEM

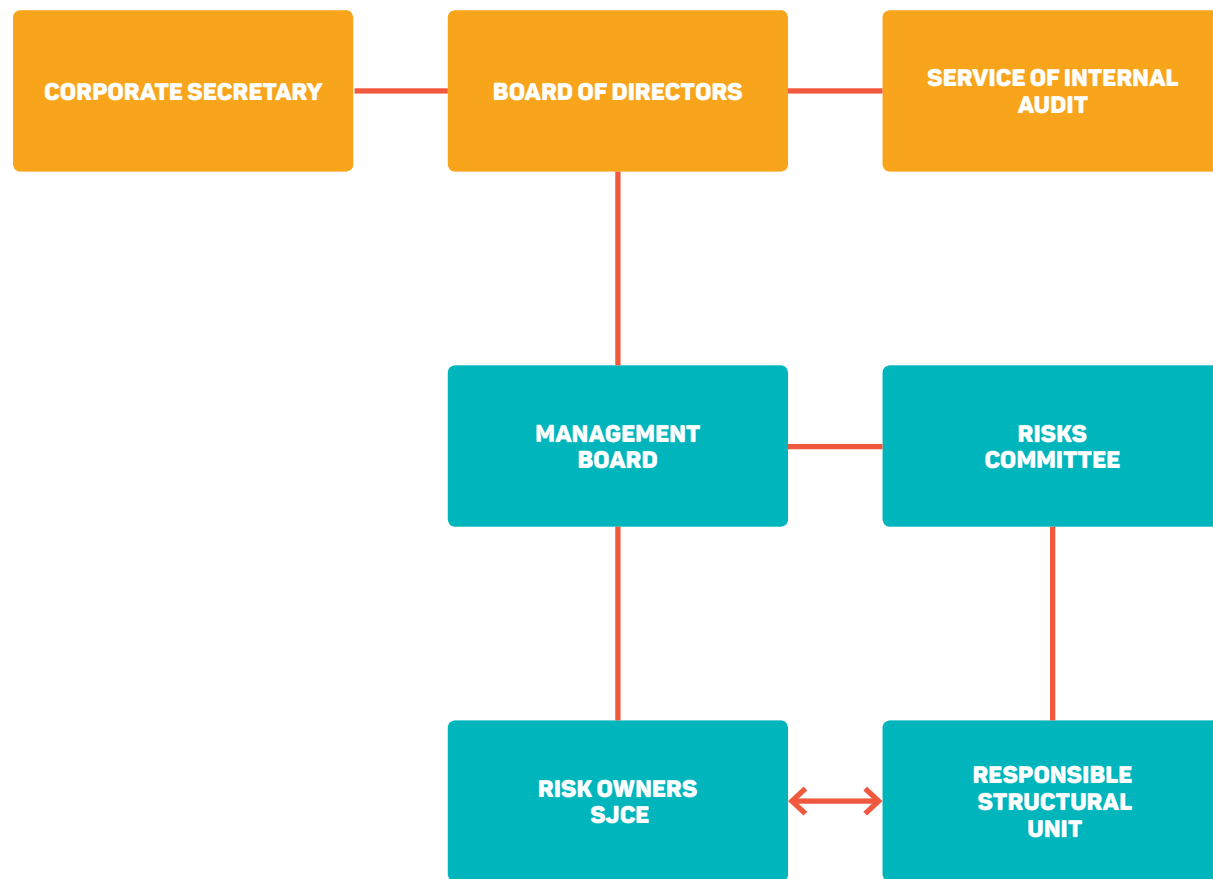
The operations of the Company involves various risks, the occurrence of which may lead to significant consequences for the Company. In order to manage these risks effectively, the Company established a risk management process, which allows timely prevention of and response to adverse events in the course of production activities.

The risk management system of the Company combines

corporate risk management system (CRMS) and internal control system (ICS).

The objectives of CRMS is timely identification, evaluation, monitoring and reduction of the likelihood of occurrence and consequences of potential risk events that may adversely affect the achievement of strategic and operational objectives of the Company.

ORGANIZATIONAL CHART OF CRMS OF THE COMPANY



In addition to the CRMS, the Company organized an ICS, which is aimed at timely identification and analysis of process risks inherent in the activities of the Company, as well as identification and analysis of control procedures to manage these risks in three key areas: operating activities, preparation of financial statements and compliance with legal and regulatory requirements.

The Company has approved the Risk Management Policy which formalizes the main risk management principles:

1. **Recognition and control of risks:** the Company acknowledges the existence of risks related to its activities, evaluates their impact on the activities of the Company; when making managerial decisions, the Company management must ensure that risks are within the risk appetite of the Company;
2. **Awareness:** the risk-management process involves every employee of the Company and is accompanied by objective, reliable and relevant information;
3. **Continuity of the risk management process:** the Company continuously identifies and assesses risks associated with its activities, generates corporate risk management system, evaluates the system effectiveness, adjusts the corporate risk management system through identification and assessment of new risks, and reviews the previously identified risks;
4. **Centralized approach to risk management:** a. the Company defines the list of managed and taken risks of SJCE based on corporate-level risk appetite and risk priorities of the Company as a whole, and also defines uniform methods, approaches, reporting forms, which is included in consolidation under the corporate risk management system;
5. **Openness and honesty** when reporting on the risks and identifying new risks;
6. **Rationality:** the Company rationally uses the resources for the implementation of risk management measures;
7. **Active participation of the management:** the Company's management actively participates and provides support in implementing and improving the corporate risk management system in the Company.

In the framework of the risk management policy, the Company has also identified the main aspects related to the Company's approach to risk management, responsibility of the CRMS participants. The modalities for implementation of this system are enshrined in other internal risk management documents of the Company.

The risk management process involves the following main stages on an annual basis:

1. Risk identification.
2. Risks assessment.
3. Monitoring and control of risks.
4. Development of risk management measures aimed at reducing the likelihood and consequences of risk events occurrence.

All the information on the identified risks is documented in the risk register of the Company, which is annually approved by the Board of Directors and includes data on the names of risks, risk factors, possible consequences from the risk event occurrence, assessment of the inherent risk, current control procedures, residual risk assessment and indication of risk owners. The Risk Register is a tool that contains information on all the risks of the Company at the current time, classified according to the key risk categories.

Identification and assessment of risks is carried out by the unit responsible for risk management and with the help of written and oral surveys of the risk owners, using a conservative approach with qualitative and quantitative evaluations of risks.

The results of the risk assessment are shown in the Risk Map of the Company, which reflects the significance of each risk, determined on the basis of assessment of its impact and likelihood of the risk event occurrence. Following the assessment, the Company generates a list of the key risks and defines measures to control these risks.

On a quarterly basis, the Company monitors and analyzes the dynamics of the key risks and monitors the implementation of measures for their control.

The information on the key risks of the Company and the stage of measure implementation to manage such risks on a regular basis is brought to the attention of the Supreme body of the Company management. The Board of Directors of the Company endorses a Risk Management Program for three years, and an annual Risk Management Action Plan that contains descriptions of preventive measures (influencing risk factors) and corrective actions (influencing the impacts), information on the responsible employees and deadlines for measures.

The necessary strategic and operating decisions on key risks management of the Company are taken by the Company leadership, based on the results of the CRMS within the approved risk appetite. The risk appetite characterizes the internal level of risk retention, under which the Company can achieve its strategic goals.

The company is interested in developing a risk-oriented culture of doing business. The unit responsible for risk

management continuously provides methodologies to support the process of identification and assessment of risks by involved functional units, and organizes regular corporate seminars in the field of risk management involving third-party organizations and internal forces. When being recruited, all the employees pass the standard procedure of self-familiarization with the CRMS and ICS principles.

The following measures were implemented for improving the risk management system and internal control system in 2016:

- The company updated the classifier of business processes of the Central office;
- it developed and approved flowcharts and matrices of risks and controls for key business processes of the Central Office;
- it developed and approved flowcharts and matrices of risks and controls for key business processes of the management offices of the Western and Eastern Branches of the Company, MICC and STC Branches.

2017

In the framework of further improvement of the CRMS in 2017, the Company plans to update the methodological documents for the risk management system, which will include high standards of risk management, including the introduction and use of the vertical process for managing production and non-production risks, starting from the top level down to the line level (production units of the Company).

2.2



THE COMPANY'S KEY RISKS

According to the results of identification and assessment of risks, in 2016, the Company created a list of key risks of the Company, which may contribute to the successful achievement of new strategic objectives defined in the Development Strategy.



The planned work on key risks management of the Company for 2016 was fully accomplished. The Company also took appropriate response measures by implementing several key risks in the reporting year to minimize/prevent possible financial losses.





THE COMPANY'S KEY RISKS



N°	Name of risk	Risk factors	Possible consequences of risk event occurrence	Risk management measures	Risk event occurrence in 2016	
Production risks (risks associated with the production process):						
1	 <p>Accidents (manmade)</p>	<ul style="list-style-type: none"> Violation of the legislation of the Republic of Kazakhstan in the field of fire safety. 	<ul style="list-style-type: none"> 1 Occurrence of costs for eliminating the environmental impact, fire, production restoration. Payment of fines for excess impact on the environment and for violations of fire safety rules. Personnel injuries or deaths. Loss or failure of equipment. 	<ul style="list-style-type: none"> Maintenance of the automatic fire alarm and firefighting systems. Regular fire drills and training. Timely training on fire safety measures in order to comply with fire safety rules. Procurement of services for protection of industrial facilities of the Company from the fires. Independent fire examination and independent evaluation of risks in the field of fire safety at the production facilities of the Company. 		
		<ul style="list-style-type: none"> Violation of the technical operation rules on the main oil pipelines. 			<ul style="list-style-type: none"> Training sessions on technical operation of the main oil pipelines. Testing knowledge of rules of technical operation, production instructions and certification of the personnel (admission). Increasing the technical knowledge of the maintenance personnel at work. 	
		<ul style="list-style-type: none"> Failure to comply with the technical requirements for safe operation of the main oil pipelines. 			<ul style="list-style-type: none"> Planned briefing on technical regulations of safe operation of the main oil pipelines. Testing knowledge of the requirements of the technical regulations of safe operation of the main oil pipelines and certification of the personnel (admission). Increasing the technical knowledge at work. 	
2	 <p>Accidents associated with the production and resulting in disability or death</p>	<ul style="list-style-type: none"> Increased technological cycle risk. 	<ul style="list-style-type: none"> Material damage resulting from subrogation payments. Deterioration of the Company reputation. 	<ul style="list-style-type: none"> Implementation of organizational and technical measures to ensure safe operations, such as issuing permits (written orders). Continuous monitoring of the compliance with the established work procedures. Internal control in the field of safety and labor protection. Development and timely update of safety and labor protection regulations. The risk assessment in the field of safety and labor protection and development of measures for their management. 	<p>7 September 2016, an air accident occurred with the employees of the Zhezkazgan oil pipeline department of the Eastern Branch, in which 4 employees of the Company were injured.</p> <p><i>For more details, see Sections 4.3. "Occupational health and safety"</i></p>	
		<ul style="list-style-type: none"> Poor organization of work. 			<ul style="list-style-type: none"> Development and implementation of the plan of organizational-technical, sanitary-hygienic and medical-preventive measures for improvement of working conditions, prevention of industrial injuries and occupational diseases. Provision of production facilities of the Company with visual tools (billboards), with social orientation and promotion of compliance with safety and labor protection regulations among the employees of the Company. Timely trainings, briefings and examinations on safety and labor protection issues. Presence of supervisors and responsible officials at the places of work. 	
		<ul style="list-style-type: none"> Gross negligence by the victims themselves, violation of labor and production discipline and work duties. 				<p>26 January 2016. a road accident occurred with the bus of the Pavlodar oil pipeline department of the Eastern Branch, resulting in the injury of 10 employees of the Company.</p> <p><i>For more details, see Sections 4.3. "Occupational health and safety"</i></p>

THE COMPANY'S KEY RISKS (continued)

N°	Name of risk	Risk factors	Possible consequences of risk event occurrence	Risk management measures	Risk event occurrence in 2016
Production risks (risks associated with the production process):					
3	 <p>Environmental risks (claims and administrative fines)</p>	<ul style="list-style-type: none"> Untimely development of draft standards for emissions into the environment. Untimely obtaining of the conclusion from the State Ecological Expertise for emission standards applied in projects. Defective formation of an application for a permit for emissions into the environment (incompleteness and unreliability of data, mismatch between the nature use conditions and the requirements). Non-observation of the deadlines established by the authorized body for filing an application for a permit for emissions. Emissions into the environment without permits. Increase of limits for emissions into the environment. Emergencies and incidents at the facilities of the main oil pipelines (including unauthorized taps in oil pipelines), resulting in environmental harm. 	<ul style="list-style-type: none"> Disruption of production. Loss of income. Deterioration of the Company business reputation. Environmental penalties. Environmental pollution (land, air, water). Deterioration of the Company reputation. 	<ul style="list-style-type: none"> Ensuring timely development of draft standards for emissions into the environment. Control over of the timely receipt of the conclusion from the State Ecological Expertise for emission standards applied in projects. Control over the quality of formation of the application for a permit for emissions into the environment. Control over the timeliness of filing the application for a permit for emissions. Control over the timely receipt of permits for emissions in the full declared volume. Control over the compliance with the limits for emissions into the environment. Control over the compliance with the rules of equipment operation. Development of technological modes of operation of equipment and facilities. See the risk of "Deliberate theft or destruction of assets of the Company". See risk of "Accidents (manmade)". 	
Non-production risks (risks related to non-production business processes):					
4	 <p>Risk of intentional theft or destruction of assets</p>	<ul style="list-style-type: none"> Taps and siphoning of oil from the main oil pipelines of the Company. Actions of third parties causing harm/damage to the assets of the Company. Ineffective system of protecting the facilities of the Company (technical strength of the facilities, guard forces, etc.). 	<ul style="list-style-type: none"> Harm to the environment. Penalties. Disruption of production. Loss of income. 	<ul style="list-style-type: none"> Assignment of security duties and responsibilities for occurrence of tie-ins and unauthorized siphoning of oil under an agreement for protection services at the facilities of Company. Development of joint plans with a security organization, law enforcement agencies and branches of the Company on organizational-preventive measures for countering criminal taps, theft of oil and inventories at the facilities of the Company. Introduction and operation of technical systems and protection means on the main oil pipelines. Participation in the work of the Coordinating Council of the Republic of Kazakhstan to ensure the legality, order and counteraction to crime. Ensuring an effective system of physical protection of the Company assets (technical strengthening of facilities, high-quality security services by contractors). Development/update of internal documents of the Company on the protection of the Company facilities. 	<p>3 cases of illegal taps in oil pipelines of the Company, from which one with the theft of oil.</p> <p><i>For more details, see Sections 3.4. "Improvement of the performance of production processes"</i></p>

THE COMPANY'S KEY RISKS (continued)

N°	Name of risk	Risk factors	Possible consequences of risk event occurrence	Risk management measures	Risk event occurrence in 2016
External environment (external risks, uncontrolled / poorly controlled by the Company):					
5	 Accident (natural)	External factors (floods, earthquakes, fires)	<ul style="list-style-type: none"> • Stoppage of the main oil pipelines. • Pollution of the environment. • Loss of income. 	Voluntary insurance of property against damage (accidental destruction, loss or harm) resulting from accidental and unforeseen direct physical impacts (excluding breakage/failure of equipment and interruption in the production).	
6	 Risks of strategic partners	<p>External factors (long endorsement of the budget for operation services for the main oil pipelines belonging to other legal entities by a participant/shareholder LLC "KCP" and JSC "NWPC - MunayTas").</p> <p>External factors (long endorsement of the contract for operation services for the main oil pipelines belonging to other legal entities by a participant/shareholder LLC "KCP" and JSC "NWPC - MunayTas").</p> <p>External factors (decline of profitability of the operator services in connection with the deterioration of the financial and economic situation of the oil pipeline owners (returns from these services is below 15%).</p> <p>External factors (unilateral termination of contracts for transportation of Kazakh oil by oil transport companies of other countries).</p> <p>External factor (lack of approved schedules for access to transportation of the Caspian oil through the territory of the Russian Federation).</p>	Decrease in the income of the Company	<ul style="list-style-type: none"> • Negotiations at the level of the representatives of the participant/shareholder LLC "KCP" and JSC "NWPC - MunayTas"). • Conclusion of long term contracts for operation services for the main oil pipelines belonging to other legal entities. <p>Conclusion of long-term contracts.</p>	

N°	Name of risk	Risk factors	Possible consequences of risk event occurrence	Risk management measures	Risk event occurrence in 2016
External environment (external risks, uncontrolled / poorly controlled by the Company):					
7	 Reduction or termination of oil supplies	External factors (decline of oil production at the fields that make up the resource base for transportation through the system of the main oil pipelines).	Decrease in the income of the Company	<ul style="list-style-type: none"> • Conclusion of long-term contracts with shippers. • Attracting new shippers 	Reduction in the volumes of oil transportation in connection with the natural depletion of the fields that make up the traditional resource base of the Company, and increase in the competition from the CPC, given its expansion. <i>For more details, see Sections 1.5. "The Company's position on the market" and Section 3.1. "Oil transportation and water supply"</i>
		External factor (reduction or termination of Russian oil supplies).			
		External factor (deterioration of the competitive position of the Company (emergence of competitors, declining market share): <ul style="list-style-type: none"> • expansion of "CPC" pipeline; • railway transportation; • reorientation of volumes to other directions. 			
		External factor (reduction of oil demand from the main consumers of the Kazakh oil).			
8	 Currency risk	External factor (increase of LIBOR interbank interest rates).	Loss from the recalculation of fair value of the accrued interest per the financial statements.	<ul style="list-style-type: none"> • Monitoring of the currency position. • Placement of temporarily available funds on deposits in foreign currency (for production needs and in accordance with the requirements of the Corporate Standard for Treasury Operations of JSC "Samruk-Kazyna"). • Diversification of the temporarily disbursed free cash. • Monitoring of financial risk through the generation and sending of the following quarterly statements to JSC NC "KazMunayGas": <ul style="list-style-type: none"> • Report on compliance with the limits for counterparty banks (1R); • Report on country risks (2R); • Report on the exposure to foreign currency risk (3R); • Report the percentage gaps (4R). 	
		External factor (devaluation / speculation on the foreign exchange market / intervention of the National Bank of the Republic of Kazakhstan).	Loss from exchange rate difference		
		Excessive share of long-term loans in foreign currency.			

2.3 INTEGRATED MANAGEMENT SYSTEM

Risk management is an integral part of the Company's IMS. Since 2004, the Company has been using, developing and conducting annual IMS certification based on four international standards: ISO 9001, ISO 14001, OHSAS 18001 and ISO 50001.

In 2016, the Company successfully passed the inspection audit for compliance of the Company's ISM with international standards ISO 9001, ISO 14001, OHSAS 18001 and ISO 50001.

The international certification body "SGS" (Société Générale de Surveillance SA) conducted audit and confirmed the compliance of Company's IMS with international standards.

The SGS auditors also decided to conduct early certification of "KazTransOil" JSC under the new versions of the standards ISO 9001:2015 and ISO 14001:2015, the transition to which is planned for 2018, due to the fact that the quality management system and environmental management system of the Company already meets the requirements of the new versions of the standards.

In the work process, the SGS auditors noted the high level of qualification, engagement and awareness of the personnel in all the audited structural units, the high qualification of risk management and IMS experts, and energy management services.

The following measures were implemented for improving the Company's IMS in the reporting period:

- the management organized and conducted ISM analysis, during which an analytical report was prepared on the IMS functioning for 2015 and decisions were made to improve the IMS;
- the Company organized briefings and internal training for IMS employees in structural units of the Company with the aim of increasing their awareness about the IMS;
- the Company organized and conducted a seminar for the senior management of the Company and explained the standards ISO 9001; ISO 14001; OHSAS 18001, ISO 50001;
- internal audit of IMS was conducted in accordance with IMS audit program for 2016 in all structural

units of the Company, after which IMS corrective and improvement measures were developed;

- IMS objectives were approved;
- the Company updated its business processes classifier and register;

In the framework of the annual analysis of the integrated management system, in 2016, the management also approved the Plan of measures for improving the integrated management system of "KazTransOil" JSC for 2016-2018, which describes measures to ensure compliance with the IMS requirements of the standard ISO 9001:2015, ISO 14001:2015. In 2016, the Company scheduled 24 events, 21 of which were completed. The implementation of the remaining 3 events was planned for 2017.

2017

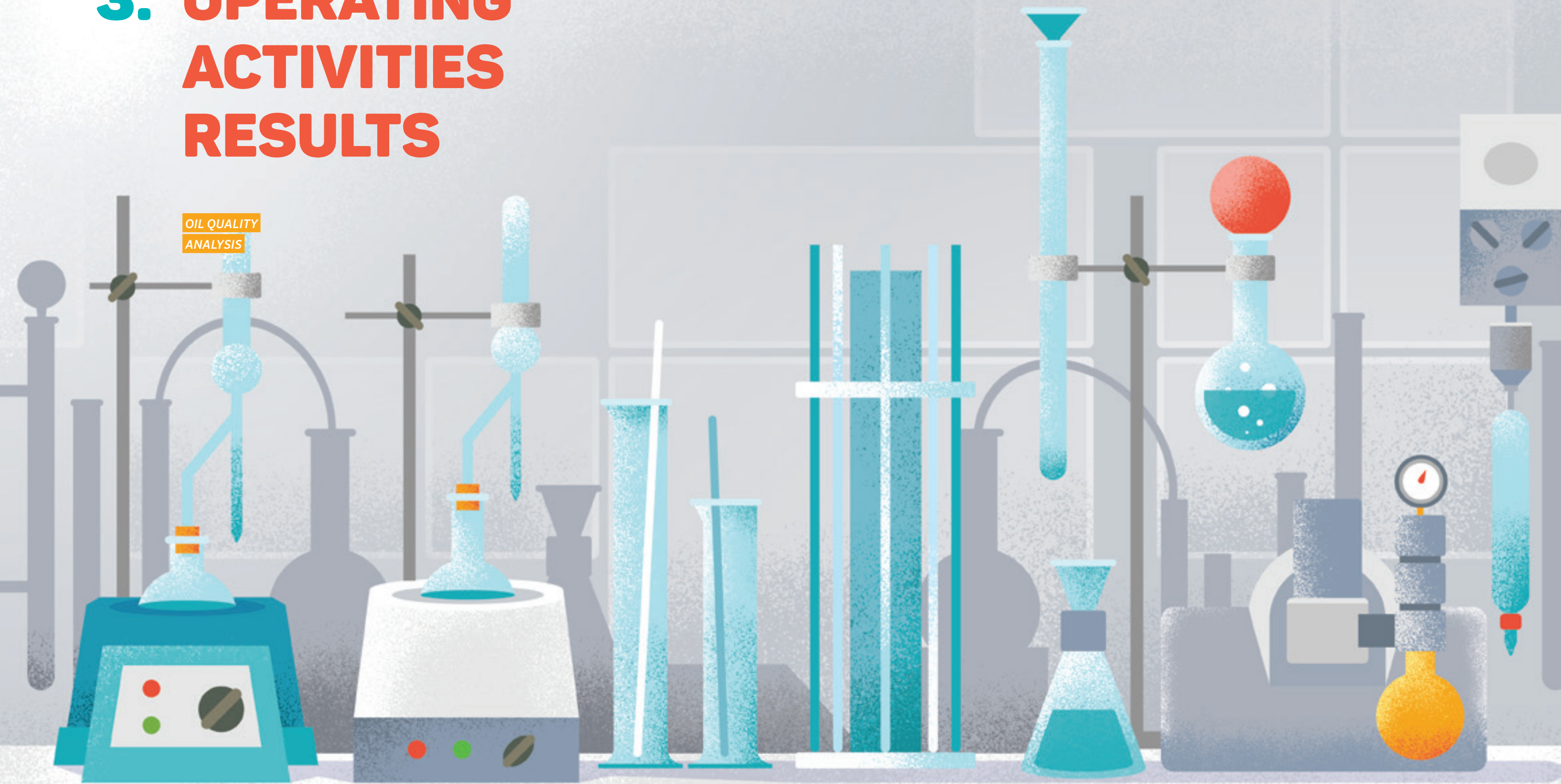
The focus of work in improving the ISM effectiveness for 2017, in addition to keeping the system in full compliance with the requirements of international standards, will be the continued integration of the management system processes into other business processes of the Company, including strategic management.

In 2017, the Company will conduct training sessions to raise awareness of employees of the Company in the field of IMS (at least 50% of the employees trained by the Company).

It is planned to create database on the corporate portal of the Company for accounting all identified nonconformities, observations and incidents, as well as corrective and preventive actions addressing them.



3. OPERATING ACTIVITIES RESULTS



3.1

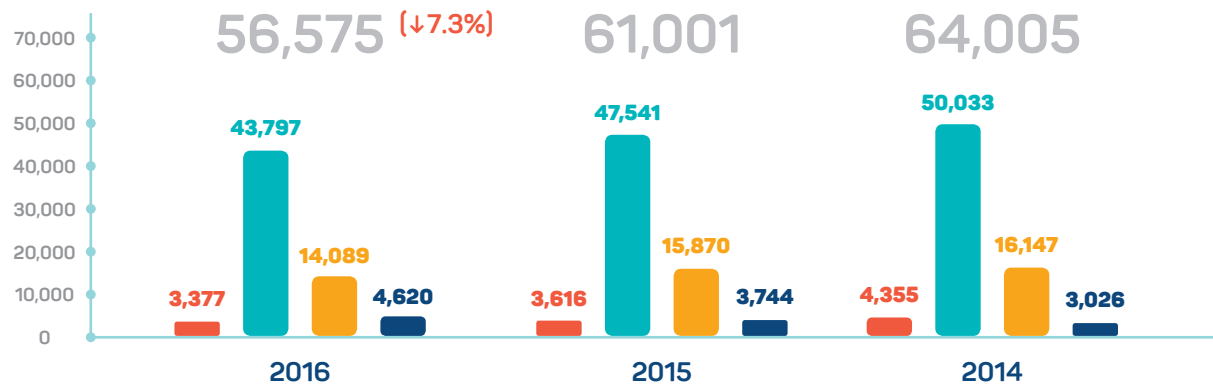
OIL TRANSPORTATION AND WATER SUPPLY

Transportation of oil is the main strategic direction of development and a key profit center, ensuring its stable operation.

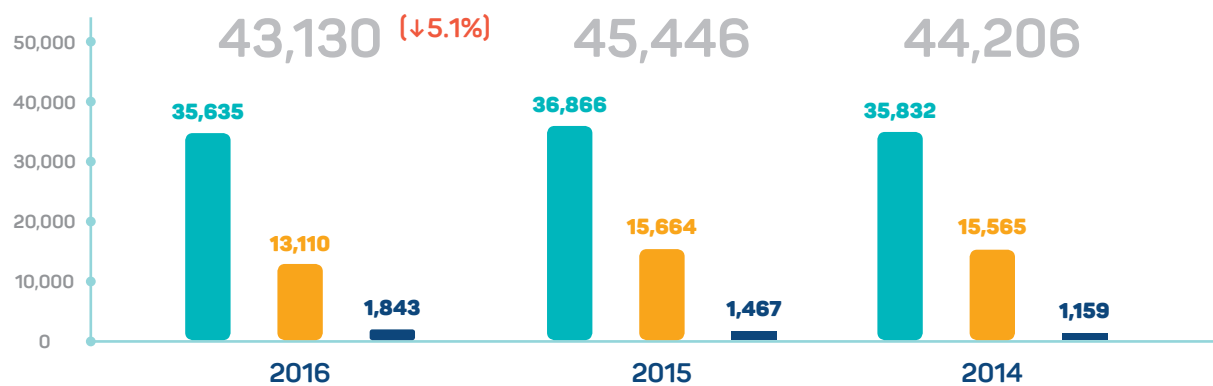
In 2016, the consolidated volume of oil transportation amounted to 56,575 thousand tons. Transportation volume decreased by 7.3% compared to last year – 61,001 thousand tons. The consolidated oil turnover in 2016 fell by 5.1% as

compared to this indicator of the last year and amounted to 43,130 million tons - km. The main reason is the decline of oil delivery to the system of main oil pipelines from oil producers and transportation of oil from large fields (Kashagan, Tengiz, and Karachaganak) via the pipelines “CPC”.

VOLUME OF OIL TRANSPORTATION*, THOUSAND TONS



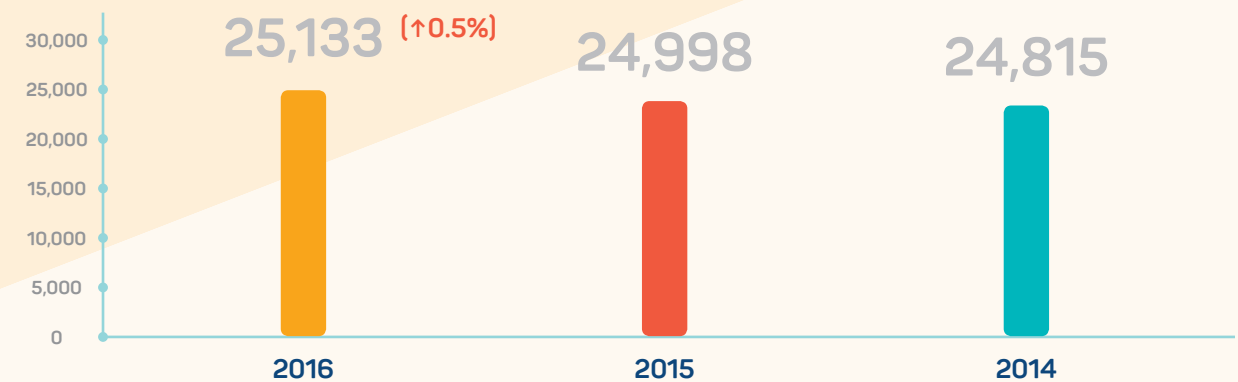
OIL TURNOVER* MILLION TONS - KM



● Batumi Terminals Limited (including oil products) ● "KazTransOil" JSC ● LLC "KCP" ● JSC "NWPC - MunayTas"

* taking into account the share of the Company: LLC "KCP" – 50%; JSC "NWPC - MunayTas" – 51%.

VOLGA WATER SUPPLY, THOUSAND M³



THE OIL TRANSPORTATION VOLUMES VIA THE SYSTEM OF "KAZTRANSOIL" JSC, IN THOUSAND TONS

Direction	2016	2015	2014	Change, %
LLC "Atyrau Refinery"	4,666	4,767	4,789	-2.1
LLC "PetroKazakhstan oil products"	4,497	4,449	4,790	1.1
JSC "Pavlodar petrochemical plant"	4,599	4,805	4,861	-4.3
Oil pipeline "Atyrau - Samara"	15,024	15,702	14,641	-4.3
Shipment to the tankers in POPS Aktau	2,196	2,881	5,195	-23.8
Transshipment to the oil pipeline "Atasu - Alashankou"	10,068 (incl. transit 6,992)	11,794 (incl. transit 6,992)	11,824 (incl. transit 6,992)	-14.6
Transshipment to the oil pipeline "CPC"	3,023	2,779	2,948	8.8

In 2016, the supply of oil via the pipeline "Atyrau - Samara" was 15,024 thousand tons, which is 4.3% lower than in 2015. This reduction is associated with an overall reduction of oil delivery to the main oil pipeline system.

Oil loaded in tankers in the port of Aktau amounted to 2,196 thousand tons, which is 23.8% lower than in 2015. The decrease in loading compared to the same indicator of the last year is associated with the redistribution of oil from LLC

"Buzachi Oil" in the direction of Samara and termination of the delivery of the drain oil from LLC "Tengizchevroil", LLC "Karakudukmunay" and LLC "CaspiOilGas".

The volume of water supply in 2016 was 25,133 thousand m³ and rose by 0.5% in comparison with the last year indicators – 24,998 thousand m³. The main factor for the increase in water supply via the main water pipelines is the growth of water consumption by utility companies.

3.2

OPERATION OF MAIN OIL PIPELINES OWNED BY THIRD PARTIES

The Company provides operator services for operation of the main oil pipelines for the following companies: LLP “KCP”, JSC “NWPC - MunayTas”, “Karachaganak petroleum operating B. V.”, JSC “Turgay Petroleum”; the total length of the operated pipelines is 2,858.1 km with a total personnel headcount of the Company – 965 people. In 2016, additional jobs were created in the amount of 38 places. In 2016, additional jobs were created in the amount of 38 places.

The revenues of the Company from the operator services in 2016 increased by 7% in comparison to last year and amounted to 9,519 million KZT.

9,519 million KZT

the revenues of the Company from the operator services

2017

In 2017, the Company is planning to participate in the tender for provision of services for maintenance, repair and emergency response at the facilities of the CPC pipeline system on the territory of the Republic of Kazakhstan.

3.3

INVESTMENT ACTIVITY

In order to preserve competitiveness and development, in 2016, the Company continued implementing the investment program aimed at implementing the promising investment projects and sustaining the current production level.

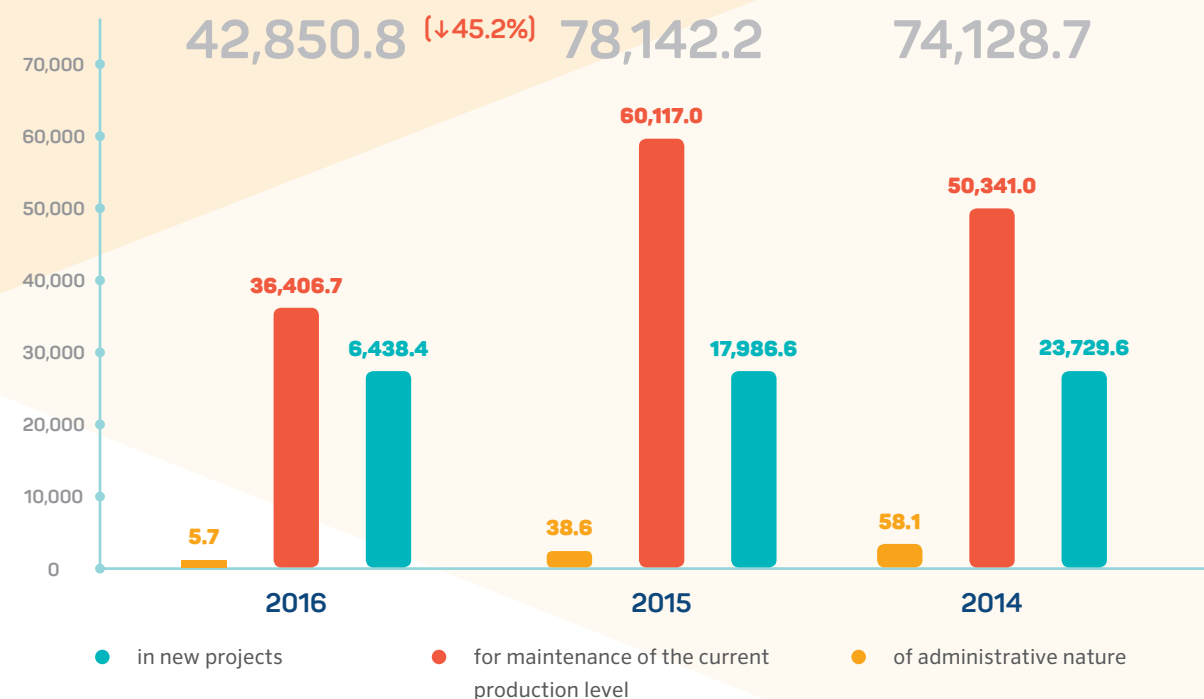
The implementation of investment projects is carried out in various areas:

- Construction of new production facilities;
- Reconstruction, extension and upgrading of existing production with improvement of the design characteristics of the production facilities in the pipeline system;
- Overhaul of existing production facilities, which does not result in a change of their design capacity.

Each investment project initiated by the Company or its subsidiary and jointly-controlled entity passes a thorough examination at each stage. Decisions on the project are taken by the Investment Committee in accordance with the statutory requirements and corporate procedures of the Company.

Investment projects are financed from the Company’s own funds without incurring debts and use of public funds.

THE TOTAL AMOUNT OF CAPITAL INVESTMENTS, MILLION KZT



RESULTS OF IMPLEMENTATION OF INVESTMENT PROJECTS OF THE COMPANY IN 2016

Extension of the pipeline “Kazakhstan-China”

One of the largest and strategically important investment projects not only for the Company but also for Kazakhstan as a whole is the project “The Second Phase of the Second Stage of Construction of the Pipeline “Kazakhstan-China”. Improvement of the performance to 20 million tons per year”. This project is aimed at diversification of oil supplies for export, as well as ensuring the possibility of provision of domestic raw materials to oil refineries of the Republic of Kazakhstan in the framework of the country’s energy security.

Project participants: “KazTransOil” JSC, “JSC NWPC - MunayTas” and LLC “KCP”, each of which is the owner of its corresponding section of the pipeline “Kazakhstan-China”.

In 2016, in the framework of the project implementation, the Company completed the reconstruction and extension of the OPS “663 km”, which will serve as the lead OPS of the oil pipeline “Kenkiyak-Atyrau” in the reverse mode.

In 2016, the project totally disbursed 4,506 million KZT, including the facilities of “KazTransOil” JSC – 4,491 million KZT, the expenditures of LLC “KCP” were 15 million KZT for allocation

of land plots for facilities of LLC “KCP”.

Reconstruction of main oil pipelines with pipe replacement

To ensure reliable and safe operation of the production facilities in 2016, the Company implemented the following measures:

- Replacement of the pipe at the section “Karazhanbas-Aktau” of the pipeline “Kalamkas-Karazhanbas-Aktau” with a total length of 129.5 km. In 2016, the project disbursed 12,175 million KZT without VAT. In 2017, the Company will continue working on this facility;
- In August 2016, the Company completed the overhaul of the Kazakh section of the main oil pipeline “TON-2” with a length of 185.6 km with full replacement of the pipeline.

The overhaul of “TON-2” was done to ensure reliable transportation of oil via the Kazakh section for further delivery of the West Kazakhstan oil to the PPCP via the territory of the Russian Federation and to increase the volume of the Russian oil transit to China.

As a result of repair work throughput of the Kazakh section of the pipeline increased from 7 to 11 million tons of oil per year, which will significantly increase the transit potential.

The cost of the project amounted to more than 32 billion KZT. The Act of putting into operation was signed on 29 August 2016.

Development of foreign assets

In 2016, LLC “Batumi Sea Port” completed the investment project “Expansion of the throughput capacity at LLC “Batumi Sea Port” for transshipment of general cargoes to 1.8 million tons per year”.

This project significantly improved the technical and operational transshipment capacity for dry cargoes in the port.

The project disbursed about 2.2 billion KZT from the own funds of the group of companies “Batumi Terminals Limited” (14.4 million USD without VAT).

Besides, in December 2016, LLC “Batumi Oil Terminal”, a subsidiary organization of the Company, completed the investment project “Reconstruction of Overpass No. 2 to improve the effectiveness of draining dark oil from railway tank wagons”.

This project increased the effectiveness of the railroad overpass No. 2 after the upgrade of technological equipment for drainage operations and ensured the technical feasibility of the planned volumes of transshipment of dark oil products, especially in autumn and winter. The project disbursed about 2.2 billion KZT (3.6 million USD) from the own funds of the group of companies “Batumi Terminals Limited”.

3.4

IMPROVEMENT OF THE PERFORMANCE OF PRODUCTION PROCESSES

The company is set to improve the performance of its production processes as one of its strategic development directions, which is necessary for maintaining stable operating results. For this purpose, the Company continuously strives to ensure the highest level of reliability and security of its assets and to implement measures in the field of innovation and technological development, energy and resource saving.

In addition to the successful implementation of the annual plans for the preparation of production facilities for the autumn-winter and spring periods, in 2016, the Company implemented regular events aimed at ensuring trouble-free production, including was performed diagnostics, repair and reconstruction of production buildings, structures and equipment.

2,188.6 km

of the pipelines and 33 tanks diagnosed

Thus, in the reporting year, the Company diagnosed 2,188.6 km of the pipelines and 33 tanks, replace and 131.7 km of pipeline sections, with which it eliminated more than 40,000 defects.

2017

In the framework of investments for 2017, the Company has planned the following activities:

- *Completion of the construction of POPS “Kenkiyak” in the framework of the investment project “The Second Phase of the Second Construction Stage of the Oil Pipeline Kazakhstan-China. Improvement of the performance to 20 million tons of oil per year”;*
- *Update of the design and estimate documentation for the project of reverse section of the pipeline “Kenkiyak-Atyrau”, increase in throughput capacity in the reverse mode to 6 million tons per year.*
- *Completion and commissioning of the facility under the project “Reconstruction of WPS-5 for increase of water supply through the water pipeline “Astrakhan - Mangyshlak”, with the aim of increasing the water supply via the water pipeline “Astrakhan-Mangyshlak” to 150 thousand m³ per day, with subsequent pumping of 116.5 thousand m³ per day to WPS-8 and for the needs of the Integrated Gas Chemical Complex in the volume of 33.5 thousand m³ per day;*
- *Achievement of effect due to restraining the expenditure growth in accordance with the Program of Cost Management for 2017-2021 in the amount of 3,993 million KZT in 2017.*

2017

For 2017, the Company has planned to take similar measures to ensure trouble-free operation of production facilities.

INDUSTRIAL AND FIRE SAFETY OF ASSETS

Over the past years, the Company has successfully ensured stable functioning of all production systems.

Another important achievement of the Company in this area in 2016 was the absence of man-made accidents and fires in the process of operation of main oil pipelines and other production facilities.

The trouble-free operation of the Company is ensured with the help of a whole set of continuous measures in the field of reliability and safety in accordance with the current Declaration of industrial safety of facilities operated by “KazTransOil” JSC.

A significant component of the capital investments to maintaining the current level of production is the investment in upgrading the fire alarm systems and firefighting equipment.

2,181 employees

trained on fire-technical basic aspects

To ensure fire safety, in 2016, the Company trained 2,181 employees on fire-technical basic aspects, held 18,296 introductory briefings on fire safety measures, trained 910 members of voluntary fire-fighting units, elaborated 592 instructions on fire safety measures.

The Company regularly verifies foam extinguishing installations and the technical condition of fire alarms. It also verifies external fire water supply, internal fire hydrants, fire shields, fire equipment, and fire-technical equipment available at the facilities.

To acquire practical and theoretical skills for cases of possible fire, in 2016 the Company conducted 14 fire drills and 1 tactical fire exercise.

SAFETY OF ASSETS

Measures related to the protection of the economic interests of “KazTransOil” JSC and service consumers are an

important priority for the Company and are related to the key risks inherent in the business.

For prompt detection of unauthorized influences and intrusions into the protected pipeline zone, the Central Office of the Company (Astana) conducts centralized and 24-hour monitoring of the detection and protection systems of the pipeline.

To coordinate the activities of all the systems of protection and resources and to prevent illegal attempts to break in the pipelines, the Company organized an interaction between the oil pipeline monitoring service, the main dispatcher department, the control centers of the Company branches and the operator of the security firm LLC “KMG-Security”.

Locally, the specified scheme engages the law enforcement bodies of the local communities, mobile security groups and emergency services of the Company.

In 2016, there were 3 cases of illegal tie-ins, of which 1 case resulted in theft of oil from the main pipelines of the Company. The resulting total damage amounted to 11.5 million KZT. The security company LLC “KMG-Security” reimbursed the damage from the illegal tie-in of the pipeline in the amount of 8.1 million KZT.

In addition, in 2016, there were 4 thefts of assets committed on the territory of the Company facilities protected by LLC “KMG-Security” amounting to 1.4 million KZT.

Also, to increase the performance of the physical protection of the facilities in the branches of the Company, along with the increase in the security personnel, in 2016, the

Company began introducing engineering technical security means (hereinafter – ETSM). In this connection, with the purpose of developing and equipping the facilities with ETSM, the Company branches developed and presented ETSM proposals for the facilities of the branches, which comply with the requirements of the law of the Republic of Kazakhstan on countering terrorism.

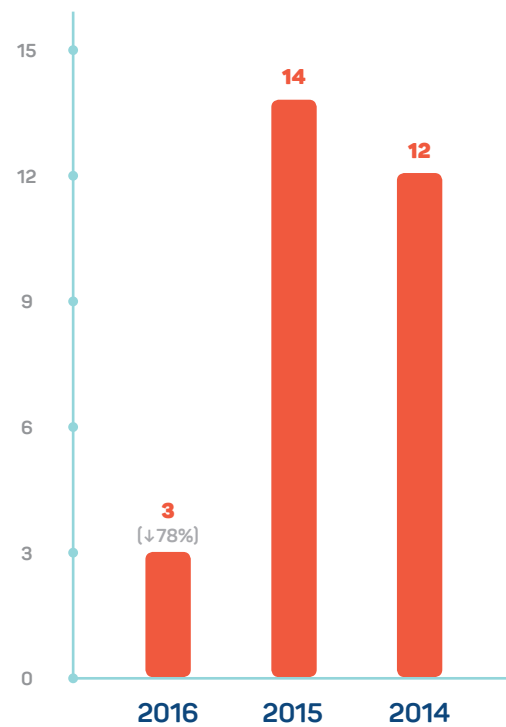
Despite the facts of illegal actions committed against the Company, such cases in general become less frequent, which is the result of the years of systematic work of the security services of the Company.

2017

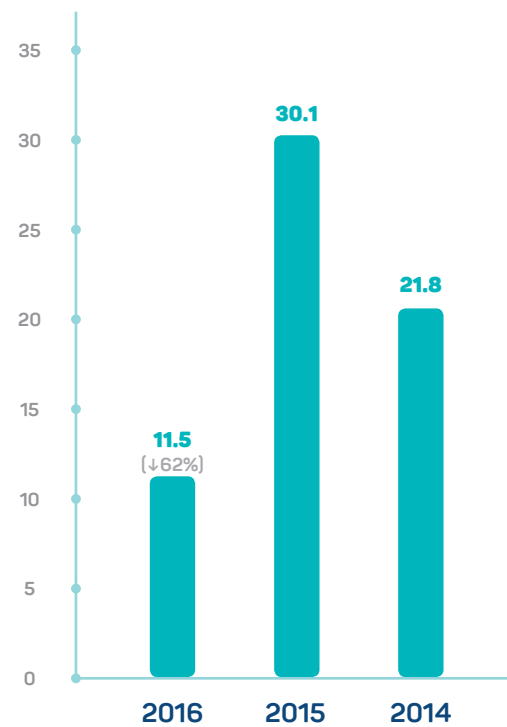
The company aims at further improvement of the local pipeline security system. For that purpose, it is planned in 2017:

- Provision of production and technological equipment to the facilities of ETSM branches;
- Interaction with JSC “NWPC - MunayTas” and LLC “KCP” on the issues of security at the facilities of the mentioned companies;
- Interaction at all levels with structural power and law enforcement agencies on countering terrorist threats, theft of oil and commodity assets at the facilities of “KazTransOil” JSC.

NUMBER OF UNAUTHORIZED TIE-INS



TOTAL DAMAGE, MILLION KZT



PROTECTION OF INFORMATION

The company sets high requirements for protection of information. To maintain an adequate level of information protection, the Company follows the requirements of the legislation of the Republic of Kazakhstan, regulating information security, and the international standard ISO/IEC 27001.

The information security management system (hereinafter, the ISMS) of the Company is regulated by a number of internal documents, which are continually updated and revised. In addition, the Company develops new provisions, which ensure an adequate level of information security.

Thus, in 2016, the Company updated the Policy of “KazTransOil” JSC in the field of information security to ensure compliance with the international standard ISO 27001 “Information technologies – Security Methods – Information Security Management – Requirements”, as well as several other internal documents.

Development of the Company’s equipment with information technologies and improvement of the information protection ensure stable operations. To ensure

information security, the Company continuously monitors the compliance with the information security requirements in all the existing and implemented IT systems. In 2016, the Company developed several internal documents regulating the information security issues in process of using IT systems.

The Company keeps records of information security violations. By the end of 2016, no information security incidents with high and medium criticality levels were registered.

In August 2016, the Company successfully passed a supervisory audit conducted by the international certification body – British Standards Institute (BSI Management Systems). According to the audit report, the existing internal processes in the field of information protection are effective. The audit revealed 5 minor nonconformities, which are subject to corrective and preventive measures for 2017-2018.

Also, in 2016, the private limited liability company “KMG Global Solutions B. V.” surveyed the software information security issues as part of the development of the Concept for information security systems of the Group of Companies JSC “NC “KazMunayGas”. The survey confirmed a high level of protection of the facilities of the Company.

2017

In addition, the Company plans for 2017:

- to conduct a supervisory audit of the ISMS regarding its compliance with the requirements of the International Standard ISO/IEC 27001;
- to develop and expand the ISMS in the SJCEs, in particular, in JSC “SZTK” MunayTas”, LLC “KKT”, LLC “Batumi Oil Terminal”;
- to raise awareness of the Company employees on information security;
- to develop and update normative and methodological documentation related to the ISMS of the Company regulating the information security, in particular, to elaborate guidelines on information security management system, information security risk management rules, email and Internet rules, information categorization rules.
- to implement deeper control over observance of information security requirements in all existing and implemented information technologies and systems.

INNOVATIVE TECHNOLOGICAL DEVELOPMENT

To achieve the goals and objectives of the scientific-technical and innovation policy, the Company has developed a comprehensive Program for innovative-technological development of “KazTransOil” JSC for 2012-2020, as well as the Plan of Measures for Technology and Equipment Transfer to the facilities of “KazTransOil” JSC for 2016-2020.

The main objectives of the implementation of the above documents are:

- cost reduction;
- improvement of the reliability of the main pipelines system;
- improvement of the competitiveness and flexibility of operating costs;
- introduction of energy-saving and resource-saving technologies;
- transition to the unfrequented technology with modernization of the automation systems and security facilities.

The work related to design and survey, scientific research and experimental design is conducted by the STC Branch. The work of the STC Branch is conducted in two directions: issue of innovation data sheets and preparation of technical reports for scheduled and unscheduled work.

In 2016, innovation data sheets were designed and elaborated for a number of projects. These projects resulted in the reduction of energy costs and elimination of downtimes of the pipelines during reparation, as well as reduction of the voltage on the line and sustainable uninterrupted power

supply, increase of energy savings due to using renewable energy sources etc.

In 2016, the STC Branch also prepared 9 reports on scheduled and unscheduled work with the description of technology and their implementation.

ENERGY CONSUMPTION AND ENERGY SAVING

One of the ways of increasing the efficiency of production processes is optimizing and adjustment of energy use. For this purpose, “KazTransOil” JSC organized and introduced a system of energy management which corresponds to requirements of the international standard ISO 50001.

According to the results of the inspection audit of the integrated management system conducted in October 2016, “KazTransOil” JSC confirmed the Company’s operations compliance with all requirements of international standards, including ISO 50001.

In 2016, the Company revised and updated its Energy policy, defined its goals and objectives for 2016, scope and boundaries of energy management system, starting from the level of structural units of the Central Office of the Company to structural units of the branches – pipeline department and oil pumping stations.

During the reporting period, the Company quarterly monitored the implementation of the energy goals and objectives at all organizational levels. By the end of the work, the energy goals of the Company for 2016 were fully accomplished.

Since 2015, the Company has been implementing the Plan of energy saving and energy efficiency measures of “KazTransOil” JSC for 2015-2019.

In accordance with the Plan, in 2016 the Company implemented the following production process energy efficiency measures:

- The Company replaced power transformers with energy efficient transformers type “Oil, hermetic transformer”;
- Renovated the office building of the Pavlodar Oil Pipeline Department of the Eastern Branch of the Company;
- Applied economic modes for oil transportation in the Eastern Branch of the Company at the technological section POPS “Pavlodar” - POPS “Atasu”, the main oil pipeline “Pavlodar-Shymkent”, the main oil pipeline “Pavlodar-PPCP”;
- In all the branches of the Company, conducted

systematic replacement of incandescent bulbs with energy saving led bulbs;

- Installed thermostats on the radiators in the administrative and functional buildings of the Company branches;
- Supplied and installed precision air conditioners with free-cooling system in the MICC Branch.

In its production, the company uses different types of energy, the most important of which are gas and electricity.

In 2016, the share of natural gas used by the Company amounted to 68.0% of the total energy consumption. The high share of gas consumption is due to the desire of the Company to use the most environmentally friendly types of energy.

ENERGY CONSUMPTION DISAGGREGATED BY TYPES OF PRIMARY SOURCES, TOE

	2016		2015		2014	
	TOE	%	TOE	%	TOE	%
Natural gas	143,452	68.0	154,591	68.0	163,775	69.5
Electricity	47,108	22.4	51,486	22.6	49,860	21.1
Diesel fuel	9,328	4.4	9,371	4.1	8,818	3.7
Crude oil	5,564	2.8	5,671	2.5	6,910	2.9
Thermal energy	3,020	1.5	3,982	1.8	4,204	1.8
Gasoline for engines	1,848	0.9	2,268	1.0	2,247	1.0
Total	210,320	100	227,369	100	235,814	100

* For reference: TOE – Ton of oil equivalent

Reduction of energy consumption in 2016 by 7.5% or 17,049 TOE due to the reduction of natural gas consumption by 7.2% or 11,139 TOE, as well as crude oil by 1.9% or 107 TOE. The reduction of energy consumption respectively resulted in a reduction of the Company’s energy intensity:

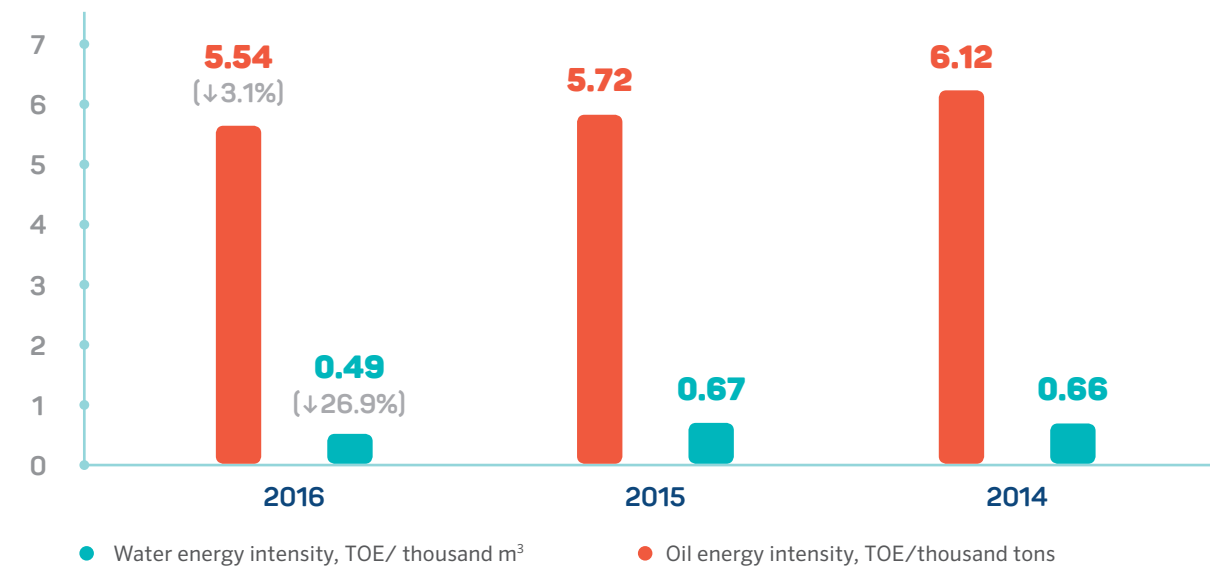
17,049 TOE

(↓7,5%) reduction of energy consumption

CHANGE OF ENERGY INTENSITY, SEPARATELY FOR THE COMPANY

	Unit of measurement	2016	2015	2014	Change,%
Volume of total consumption of energy resources for pumping oil	TOE	197,949	210,707	219,394	-6.1
Volume of total consumption of energy resources for pumping water	TOE	12,371	16,661	16,420	-25.7
Oil turnover	million tons - km	35,635	36,866	35,832	-3.3
Volumes of water pumping	thousand m ³	25,133	24,998	24,815	0.5

CHANGE OF ENERGY AND OIL INTENSITY INDICATOR



As a baseline indicator for calculation of energy intensity, the Company adopted oil turnover and water supply volume in “KazTransOil” JSC. The calculation takes into account all forms of energy consumed by the Company, including natural gas, electricity and others.

In the future, the Company plans to continue working on the development of corporate energy management systems, including through the implementation of the Plan of measures for energy saving and energy efficiency for 2016-2019.

2017

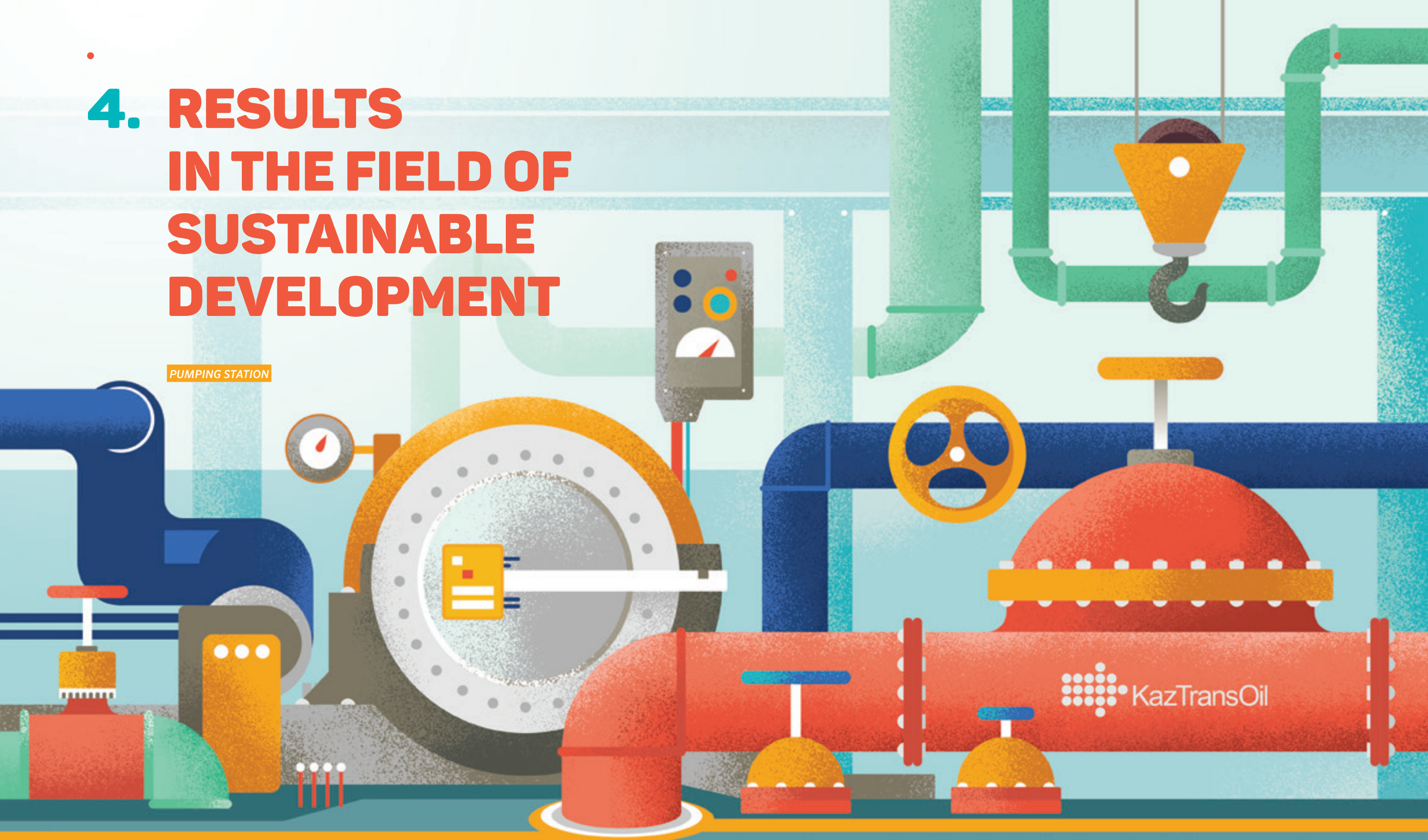
In 2017, it is planned to reduce the consumption of the fuel and energy resources in physical volumes by 378 TOE, or in monetary terms for 39.76 million KZT due to the following measures:


- Reduction of fuel and energy resources use through the improvement of the energy supply and consumption of the Company;
- Inclusion of energy efficiency indicators as part is the KPIs for heads of respective structural units of the Central Office, heads of branches and their divisions.



4. RESULTS IN THE FIELD OF SUSTAINABLE DEVELOPMENT

PUMPING STATION



 KazTransOil

4.1

THE SYSTEM OF SUSTAINABLE DEVELOPMENT MANAGEMENT

Sustainable development of “KazTransOil” JSC is one of the fundamental strategies of development of the Company. The sustainable development of “KazTransOil” JSC is one of the basic directions of the Company’s development strategy. The basic principles of sustainable development include effective business development, while preserving and protecting the environment, ensuring comfortable and safe working conditions, providing possibilities for professional growth, taking care of the health of workers and members of their families and contribution to the development of local communities in which the Company operates.

The Company consistently integrates these principles of sustainable development and social responsibility in its business. The Company considers adherence to these principles as one of the key factors of long-term sustainability and competitiveness.

The Development Strategy defines key strategic initiatives for sustainable development:

- Reducing the negative impact on the environment.
- Reduction of industrial injuries.
- Development of staff management system and social policy improvement;
- Effective interaction with stakeholders, including consumers, suppliers and partners of the Company.

The Company has a developed system of corporate control, built in accordance with the requirements of the national legislation and international practice taking into account the sustainable development management at organizational levels.

The Company’s governance bodies regularly review and analyze the key performance indicators, including those in terms of personnel management, environmental protection, integrated management system and internal documents approval regulating the Company’s activities in certain areas of sustainable development.

Within the framework of its operating activities, the sustainable development management is provided by:

- the Department for Risk Management, Energy Management and IMS, the competences of which includes the issues of energy consumption and energy saving;

- the Department for industrial safety and labor protection, responsible for industrial and fire safety, protection of labor and environment;
- the Department for management of human resources and payroll, responsible for accounting the personnel, organization of labor and payroll, development of human resources and social support.

At the level of industrial branches and oil pipeline offices of the Company, there are services and departments responsible for separate areas in the field of sustainable development. Their work is coordinated and approved at the level of the Central Office of the Company.

The operations of the Company in the sphere of sustainable development are based on the principles and provisions, enshrined in:

- The UN Global Compact;
- The standard ISO 26000 “Guidelines on social responsibility”;
- The standard AA1000 AccountAbility Principles Standard and the standard AA1000 Stakeholders Engagement Standard, including the principles of engagement, materiality, response;
- Other internal documents related to certain areas of sustainable development activities, which are in public access on the corporate website of the Company.

INTERACTION WITH STAKEHOLDERS

In its activities the Company strives to provide a high level of openness and transparency by implementing the principle of active dialog with stakeholders.




The company is committed to having relations with stakeholders which are based on partnership, trusting and mutually beneficial relations, and regular and constructive dialog. The company maintains active communications with all stakeholders providing timely and relevant information about its activity and responding to requests of stakeholders.

When determining the key groups of stakeholders and methods of interaction with them, the Company takes into account the influence of stakeholders on the Company’s activities and vice versa.

For identification and selection of stakeholders, the Company annually analyzes internal and external environment. Thus, the Company analyzes relationships between the

Company and individuals (groups of individuals) with an interest in the activities of the Company, who have or believe that they have the right of legal claims in relation to certain aspects of the Company. The Company regularly reviews and updates the list of stakeholder groups based on a thorough analysis.

INTERACTION WITH STAKEHOLDERS IN 2016

Stakeholders	Principles of interaction	Forms of interaction	Main measures for interaction in 2016
 Shareholders	<ul style="list-style-type: none"> • Respect and protection of the rights and interests of shareholders; • Ensuring informational and financial transparency; • Collegiality in decision-making; • Respect of ethics and business communication standards 	<ul style="list-style-type: none"> • General Meeting of Shareholders; • Publication of the annual report; • Publication of financial results; • Contacts from shareholders (via telephone and email); • Hotline for reception of complaints of shareholders 	<ul style="list-style-type: none"> • On 27 May 2016, the Company held its annual General Meeting of Shareholders; • On 14 January, 29 January and 20 October 2016, the Company held an extraordinary General Meeting of Shareholders; • The Company prepared answers to the inquiries of shareholders; • The Company prepared and disclosed public materials.
 State authorities	<ul style="list-style-type: none"> • Compliance with the legislation of the Republic of Kazakhstan. • Establishing and maintaining constructive relations with the state authorities, based on the principles of responsibility, honesty, and respect of mutual interests. 	<ul style="list-style-type: none"> • Participation in the process of improving the legislation; • Participation in working groups, meetings, roundtables, conferences, forums; • Reporting and provision of information to state authorities; • Correspondence and responses to government inquiries. 	<ul style="list-style-type: none"> • Participation in the work on normative legal acts affecting the interests of the Company; • Tax liabilities; • Correspondence with the state authorities on issues of oil transportation, water supply etc.
 Personnel (management, employees and trade unions)	<ul style="list-style-type: none"> • Safe and comfortable working conditions; • Maintaining a healthy lifestyle by the employees of the Company; • Support to veterans and pensioners; • Equal rights and opportunities in pay and promotion; • The Company does not use child and forced labor; • Creation of conditions for professional and career growth of employees; • Respect of ethics and business communication standards 	<ul style="list-style-type: none"> • Collective and personal meetings of the management with the employees of the Company; • Corporate social programs; • Collective agreement; • Training and qualification improvement; • Questionnaires and a staff survey; • Hotline for receiving complaints of the personnel; • Publication of materials in mass media (hereinafter, mass media). 	<ul style="list-style-type: none"> • Training of employees; • Survey of employees on issues of satisfaction of the personnel with the administrative and economic issues (in 2016 – 95%), index of employee engagement (in 2016 – 66%); • The Company established trade unions for its employees; • Signing of the Collective agreement; • The Company conducted cultural-mass and sporting events; • Following complaints, the Company conducted inspection and sent formal responses; • The Company created 3 new channels of internal communications: <ul style="list-style-type: none"> • Corporate e-newsletter “Nefteprovodchik” – 14 issues; • Corporate information portal of the Company; • Common e-mail newsletter from the email address (KTO info).

INTERACTION WITH STAKEHOLDERS IN 2016 (continued)

Stakeholders	Principles of interaction	Forms of interaction	Main measures for interaction in 2016
 Service consumers and partners	<ul style="list-style-type: none"> • Transparency in relationships with customers and partners; • Ensuring high level of service. 	<ul style="list-style-type: none"> • Questionnaires and consumer surveys; • Publication of financial and non-financial reports of the Company, and other materials in the mass media and on the website of the Company, press releases; • Hot line for receiving complaints. 	<ul style="list-style-type: none"> • The Company prepared responses to the inquiries of customers and suppliers; • Negotiations with customers on issues of oil transportation and tariffs; • In March 2016, the Company held a meeting between the management, customers and other stakeholders, where it presented a report on the activities of the Company for 2015; • The degree of satisfaction with the quality of services rendered in 2016 was 100 % (incl. oil transportation services – 100%; operator services – 100%; water supply services – 99 %)
 SJCE	<ul style="list-style-type: none"> • Provision of accurate and complete information; • Close cooperation on all the activities of SJCE; • Compliance with the standards of conduct. 	<ul style="list-style-type: none"> • Participation in management bodies; • Meetings with the representatives of SJCE; • Audits. 	<ul style="list-style-type: none"> • Issues of implementation of investment projects; • Approval and appointment of senior officials in SJCE; • Consideration and approval of budgets and reports of SJCE
 Public and media (local population, public organizations and mass media)	<ul style="list-style-type: none"> • Informational openness; • Truthful and timely mass media coverage of the Company's financial and production performance; • Close cooperation with local communities on mutually beneficial terms. 	<ul style="list-style-type: none"> • Information on the activities of the Company on the website of the Company, the Kazakhstan Stock Exchange; • Interviews with the managers of the Company; • Publication of press releases; • Briefings, press conferences; • Comments and answers to mass media queries; • Participation in the work of commissions and public associations; • Organization of public events and participation in them. 	<ul style="list-style-type: none"> • 219 information and image materials in national and regional newspapers; • 10 analytical materials in Kazakh and Russian mass media; • 11 stories on the national and regional TV; • 3 shows in the series "Our Heritage"; • Participation in the international conference and exhibition KIOGE-2016
 Financial organizations	<ul style="list-style-type: none"> • Ensuring informational and financial transparency; • Respect of ethics and business communication standards 	<ul style="list-style-type: none"> • Publication of financial statements, annual report of the Company; • Negotiations with second tier banks and opening accounts; • Meetings and presentations with representatives of rating agencies 	<ul style="list-style-type: none"> • Quarterly disclosure of financial results; • Holding meetings and negotiations with second-tier banks on issues of tariffs and remuneration rates; • Opening current accounts of the Company in second-tier banks; • Meetings with the rating agencies: Fitch, Moody's, Standard&Poor's.
 Suppliers and Contractors	<ul style="list-style-type: none"> • Prevention of corruption; • Informational openness, equality, equity and competition restrictions; • Priority of import-substituting procurements; • Selection of the winner by conducting public procurement procedures. 	<ul style="list-style-type: none"> • Procurements and contracts; • Answers to queries; • Participation in specialized exhibitions, forums and other events; • Work meetings; • Business correspondence. 	<ul style="list-style-type: none"> • Answers were prepared to queries of suppliers, including questions about the upcoming tenders; • The Company received and reviewed commercial offers from potential suppliers and contractors.

In order to protect its own interests and promote its own initiatives at the industry, national and international levels, the Company also participates in various professional and industry level events and initiatives.

THE COMPANY'S MEMBERSHIP IN ASSOCIATIONS (INDUSTRY AND INTERNATIONAL LEVEL) AND OTHER UNIONS IN 2016

Name	Description of participation
Kazakhstan Association of Oil, Gas and Energy Sector Organizations "KAZENERGY"	The Company was appointed as the national operator of the main oil pipeline. The Company representatives are the members of the Coordination Council for the Development of the Oil and Gas Industry of the Republic of Kazakhstan in this Association
Association of Taxpayers of Kazakhstan	The main task of the Taxpayer Association of Kazakhstan is to promote the protection of the legitimate rights and interests of taxpayers, timely informing on the changes in the tax laws. The Company's representatives participate in working groups of this Association and ensure the participation of the Company in introducing the above changes and additions to the tax legislation.
International Association of Oil Transporters	The International Association of Oil Transporters was created with the purpose of coordinating the efforts on effective development of oil transportation systems of the participating companies and increasing the stability of international oil transportation. The Company is a member of the Association, which is its supreme management body. In addition, the representatives of this Association established a working group on energy efficiency for exchange of information on benchmarking in the sphere of energy efficiency and accidents
The National Chamber of Entrepreneurs of Kazakhstan "Atameken"	The National Chamber of Entrepreneurs of Kazakhstan "Atameken" was created to improve the business and investment climate, stability, development of business environment in the country, for both national and foreign investors. Participation in this organization protects the rights and interests of the businesses, ensuring wide coverage and involvement of all entrepreneurs in the process of elaboration of legislative and other regulatory rules for businesses.

Besides, in its activities, the Company follows the principles of the UN Global Compact related to human rights, labor, environment, and countering corruption.

The Appendix "Principles of the UN Global Compact" provides information on the compliance with the principles of the UN Global Compact in the activities of the Company.

4.2 ENVIRONMENTAL PROTECTION

Environmental protection and ecological safety are among the priorities of the Company in the framework of the Development Strategy.

"KazTransOil" JSC pays great attention to measures for minimizing the negative impact of its activities on the environment and implementing the principles of rational use

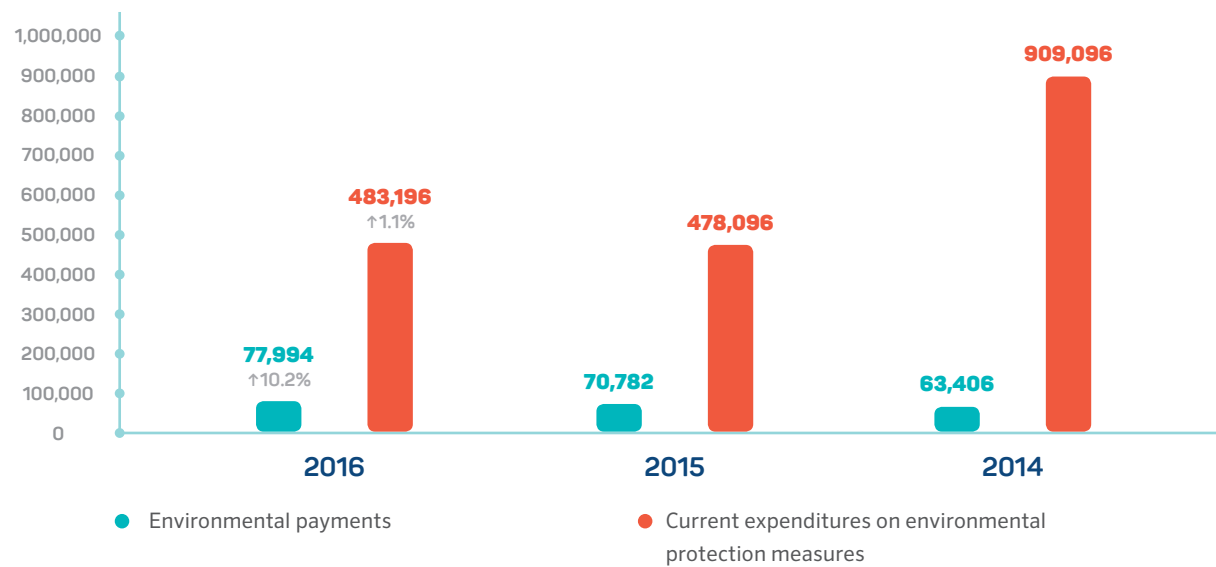
of natural resources.

The company strictly adheres to the requirements of the Environmental Code of the Republic of Kazakhstan, advanced international standards, the provisions of the Policy of “KazTransOil” JSC related to the field of safety and labor protection, environmental protection and other internal corporate documents, conducting identification and assessment of environmental risks, providing transparency and openness of its measures in the field of environmental protection.

For effective management of environmental risks, the Company constantly improves approaches to environmental management and allocates the necessary resources for environmental protection.

In all its branches, the company has organized and implemented a system of environmental management as part of the IMS. In 2016, following the results of the IMS audit, the international certification body SGS confirmed the certificate of compliance with ISM requirements of the international standard ISO 14001.

EXPENSES ON THE ENVIRONMENT PROTECTION, IN THOUSAND KZT



In 2016, the investments to the environmental protection measures constituted 483,2 million KZT, which is 1.1% more than the same indicator of 2015. The company also paid environmental fees in the amount of more than 77.9 million KZT in the reporting period.

In 2016, 2 fines were paid for soil contamination resulting from unauthorized tipping of the main oil pipeline in the amount

of 424.2 thousand KZT, and 36 KZT for exceeding the norms for iron content in discharges.

There were no accidents, which could cause suspension of production or environmental damage during oil transportation, in 2016.

2017

In 2017, the Company will continue implementing its regular measures in the field of environmental protection, including the plans to conclude contracts on industrial environmental control (air, water and soil monitoring) of the production facilities and removal / disposal of wastes of production and consumption by specialized independent organizations.

IMPACT ON THE ATMOSPHERIC AIR

The main sources of pollutant emissions in the production process are oil heating furnaces, boilers and oil storage tanks.

To reduce the negative impact on the atmospheric air, the Company optimized the combustion process in oil heating furnaces and hot water boilers. The company constantly monitors and controls emissions of pollutant into the atmosphere, including such measures as sampling.

EMISSIONS TO THE ATMOSPHERE*, IN TONS

Indicators	2016	2015	2014	Change, %
Volume of emissions of pollutants into the atmosphere including:	27,760	25,403	25,687	9.3
NOx	804	709	682	13.4
SOx	104	121	132	-14.1
COx	313	452	488	-30.8
other categories of emissions	26,539	24,121	24,385	10.0

* In the process of checking the data on the volume of pollutant emissions for 2015, the Company revealed inaccuracies and the current Report was adjusted.

In the context of branches, most emissions fall on the Western Branch - 22,276 tons or 80.2%, and the Eastern branch accounts for 5,484 tons, or 19.8%.

In 2016, the total volume of harmful emissions into the atmosphere increased by 9% in comparison with last year. This is due to the increase in gas flow rate in the oil heating furnaces at the OPS “Bolshoi Chagan” and OHS “Sakharniy”.

27,760 tons
(↑9.3%) volume of emissions of pollutants into the atmosphere

2017

In 2017, it is planned to commission the installation for vapor recovery at the commissioned OPS “663 km” in order to reduce emissions of harmful substances into the atmosphere.

* In accordance with the Law of the Republic of Kazakhstan dated 8 April 2016 “On amendments and additions to some legislative acts of the Republic of Kazakhstan on environmental issues”, the processes of managing greenhouse gas emissions were suspended until 2018. In this connection, the Company is not describing this process in the Annual Report for 2016.

WATER RESOURCES

In its operations, the Company uses water for its own needs (business needs, drinking, fire-fighting systems, heating systems, process consumption, such as displacement of oil from pipelines, tank cleaning). Water is also used for the needs of third-party organizations (oil

and gas producers, municipal enterprises, agricultural producers, and the population).

The main Company performs water intake from the river Kigach located in the delta of the river Volga for its further transportation via the main water pipeline “Astrakhan – Mangyshlak”. Other sources need very small water intake and are needed for the needs of the Company units.

VOLUME OF WATER INTAKE IN THE CONTEXT OF SOURCES, IN THOUSAND M³

Name of the indicator	2016	2015	2014	Change, %
Volumes of water intake, including:	27,911	28,023	28,183	-0.4
surface water (river Kigach)	27,577	27,695	27,849	-0.4
underground water (artesian wells)	215	223	215	-3.6
municipal and other water supply systems (purchase from third-party organizations)	119	105	119	13.3

The main pipeline is used to transport technical water to utility companies, which, in turn, process it to drinking quality and provide it to such settlements as the towns of Zhanaozen, Akkistau, Beineu and other towns and cities, the population of which increases every year (in the city of Kulsary, the Company supplies drinking water).

The main volume of water, after use in the production processes and subsequent purification and filtration, is discharged to pond evaporators and adsorption fields.

27,911 thousand m³

(↓0.4%) volume of water intake

VOLUME OF WASTEWATER DISCHARGES, IN THOUSAND M³

Name of the indicator	2016	2015	2014	Change, %
The volume of wastewater discharges	1,128	939	944	20.1

The volume of wastewater discharges in 2016 amounted to 1,128 thousand m³ and did not exceed the limit permitted for the Company. The increase in the volume of wastewater discharges by 20.1% compared with the previous year is due to the use of water for displacing oil in the sections of the main oil pipeline “TON-2”.

In 2016, the Western branch discharged waste water in the amount of 880 thousand m³ (78% of the total discharge) and the Eastern branch discharged 248 thousand m³ or 22% of the total discharge.

The company also constantly monitors underground, surface and waste water using laboratory tests of water and monitors the level of effluent treatment.

waste is oil containing soil, oil sludge and solid domestic (municipal) waste.

The company observes environmental and sanitary-epidemiological requirements in terms of recycling and safe treatment of all types of waste. The generated wastes of production and consumption are disposed of by specialized contractors in the process of their generation.

In 2016, the Company's approach to the management of production and consumption waste was specified in the procedures of waste accounting in connection with the entry into force of the amendments to the Environmental Code of the Republic of Kazakhstan.

FORMATION OF WASTE

In the process of production, the Company generates around 16 types of waste, which are the residues of raw materials, goods and products. Given the specifics of the Company, the main share of waste in the total generated

1,128 thousand m³

(↑20.1%) volume of wastewater discharges

VOLUME OF WASTE GENERATION, IN THOUSAND TONS

Name of the indicator	2016	2015	2014	Change, %
Volume of waste generation, including	6,207	6,309	10,422	-1.6
soil containing oil	466	260	169	79.2
oil sludge	1,006	1,524	6,489	-34.0
solid domestic (municipal) waste	3,053	2,500	2,602	22.1
other waste	1,682	2,025	1,162	-16.9

The total volume of waste generation in 2016 amounted to 6,207 thousand tons, which is 1.6% less compared to the previous year. Reduction in waste for 2016 is due to a

decrease in the generation of sludge resulting from the use of cleaning facilities (scrapers) and cleaning the bottom sediments in the tanks of the Company.

In the context of branches, 56% (3,477 thousand tons) of waste was generated by the West branch, while the Eastern branch generated - 44% (2,730 thousand tons).

LAND RESOURCES AND RE-CULTIVATION

The Company bears responsibility for the preservation of land resources in their original form and monitors the contamination of soil with the involvement of third-party independent accredited organizations. The land resources are used in strict accordance with the legislation of the Republic of Kazakhstan.

In 2016, the Company continued work on the elimination of historically contaminated lands along the oil pipeline "Uzen - Atyrau - Samara". From 2010 to 2014, the Company restored more than 13 ha of ground. In 2016, the Company disposed of 4,000 m³ of oil contaminated soil. The elimination of historical soil pollution will also continue in 2017. The elimination of historical soil pollution will also continue in 2017.

6,207 thousand tons

(↓1.6%) volume of waste generation

In its production, the Company may have spillages of oil resulting from illegal taps of the oil pipelines.

In the reporting period, due to unauthorized tie-in into the pipeline, an oil leakage happened at the point of 604.3 km of the main pipeline "Pavlodar-Shymkent". The polluted area was 600 m². The volume of the oil contaminated soil amounted to 160 m³. With respect to that fact, an unscheduled inspection was held by the authorized body in the field of environmental protection. After the inspections, the Company paid an administrative fine of 424.2 thousand KZT and re-cultivated the polluted areas.

An important result of this work was the start of the development of the Code of "KazTransOil" JSC in the field of safety and labor protection "Golden Rules", which will include the description of the key requirements for safe execution of works within the framework of the production process.

The Golden Rules are the key requirements for the safe execution of work that contribute to compliance with the requirements of the legislation of the Republic of Kazakhstan, international standards and internal documents of the Company and are aimed at improving the corporate culture in terms of health and safety, personal interests of each worker in the prevention of occupational accidents and occupational diseases, accidents and incidents.

Despite all the efforts in 2016, the Company recorded 2 group accidents associated with the production, in which 14 people suffered.

On 26 January 2016, there was a road incident with the bus of the Pavlodar oil Pipeline Department of the Eastern Branch transporting the shift workers to the POPS "Pavlodar". The road traffic accident happened due to gross negligence of the bus driver of the Company, when he was performing a U-turn and drove into a truck.

All the employees who were on the bus were sent to a specialized medical facility Pavlodar for examination. The examination showed that 2 workers were seriously injured and 8 employees had light injuries. By now, all the injured workers have returned to work without medical restrictions. This case was investigated and following the investigation results, measures were developed to prevent similar incidents in the future.

On 7 September 2016, an air-transport accident happened to the MI-8 helicopter of the Zhezkazgan Branch of JSC "Airline "Euro-Asia Air", which carried the workers of the Zhezkazgan Oil Pipeline Department of the Eastern Branch of the Company. This helicopter carried the shift workers of

0.25

(↓62.7%) accidents frequency rate per 1000 people

the POPS "Kumkol". The Helicopter rose from the ground, overturned on the right side and fell down.

All the Company employees who were in the helicopter were examined in the medical facility of POPS "Kumkol". The examination revealed that 4 workers required medical care in a specialized medical institution, where it was determined that 2 employees were seriously injured, and 2 had light injuries. Currently, all the victims work without any medical restrictions.

In accordance with the Rules for investigation of accidents and incidents, approved by the Resolution of the Government of the Republic of Kazakhstan dated 18 July 2011 No. 828, the Department of Investigation of Transport Accidents and Incidents of the Ministry of Investments and Development of Kazakhstan created a committee. As of 1 January 2017, the work of the Technical Committee has not yet finished, and the black box is being decoded.

In accordance with the Labor Code of the Republic of Kazakhstan, the Order of "Department of Labor Inspection of Karaganda Region" dated 9 September 2016, a special Committee was created to investigate the fact of injuries inflicted on the Company employees.

Currently, the work of the special Committee has been suspended until the Report of Technical Investigation is received.

4.3

OCCUPATIONAL HEALTH AND SAFETY

The health and safety of workers is a key priority in the activities of "KazTransOil" JSC in accordance with its Development Strategy. In the framework of this activity, the Company aims to ensure a no-accident mode of operation at its production facilities, preventing accidents and lower level of professional diseases.

In its activities, the Company strictly follows the requirements of the legislation of the Republic of Kazakhstan

in the sphere of health and safety, international and national standards, the provisions of the Policy of "KazTransOil" JSC related to the field of health and safety, environmental protection and other internal documents of the Company.

To achieve the set goals, in all its branches, the company has organized and implemented a system of environmental management as part of the IMS. **In 2016, following the results of IMS audit, the international certification body "SGS" confirmed the certificate of compliance with ISM requirements of the international standard OHSAS 18001.**

In 2016, the Company began large-scale work on revising and updating its internal normative documents in the field of occupational health and safety. During the reporting period, the Company systematically analyzed the existing processes in the field of occupational health and safety management to verify their compliance with the best international practices.

0 accidents

deaths due to occupational injuries

TOTAL NUMBER OF ACCIDENTS ASSOCIATED WITH THE PRODUCTION

Indicators	2016	2015	2014	Change
Total number of accidents associated with the production	2	5	0	-60%
Total number of injured people	14	5	0	by 2.8 times
number of light injuries	10	2	0	by 5 times
number of serious injuries	4	2	0	by 2 times
number of deaths due to occupational injuries	0	1	0	-100%
Accidents frequency rate per 1000 people	0.25	0.67	0	-62%
Lost Time Injury Frequency Rate (LTIFR)	0.19	0.06	-	by 3.2 times

0.19 (↑ in 3.2 times)

LTIFR

The Company regularly holds events for risk assessment, and prevention of accidents, all types of briefings on labor protection. The employees of the Company are provided

with the necessary specialized clothing, footwear and other personal protective means. In addition, during the year, the Company implemented number of other initiatives, including preventive health measures, trainings and briefings. The Company systematically conducts trainings on evacuation of employees of the Central Office from the administrative building.

In addition, in 2016, in the structural units of the Company, JSC NC “KazMunayGas” carried out checks on the corporate KPI “Transparency of reporting in the field of health, safety and environment”, which established the due execution of KPI.

2017

In 2017, the Company will continue work on updating internal documentation. Thus, the Company is planning to finalize the Code “Golden rules” and its approval, to rework the standard of the Company’s “Unified system of management of safety and labor protection” and to bring other documentation in line with the best international practices in this sphere.

In 2017, the plans include a complete overhaul of the standard of the Company regulating the rules for wearing special clothing, special footwear and means of individual protection. There will be changes in the list of positions and professions for which they will be issued.

It is planned to conduct observations of the behavioral safety at the production facilities of the Company (the goal is to conduct 6 000 observations).

4.4 PERSONNEL MANAGEMENT

The employees are the main value and the main capital of “KazTransOil” JSC. The priorities of the personnel policy of the Company are decent wages and creation of a social support system, providing opportunities for professional development and career growth, rise in the level of satisfaction with the working conditions and standards of living.

The Company has a personnel management system based on the principles of fairness, respect, equal opportunities, continuous dialogue between the management and employees.

THE COMPANY’S PERSONNEL HEADCOUNT AND STRUCTURE

The Company is among the largest employers in the Republic of Kazakhstan. As at 31 December 2016, the headcount of the Company amounted to 7,914 people, including the Central Office- 249 people, branches - 7,623 people and representative offices of the Company in the cities of Samara and Omsk - 42 people. The share of workers

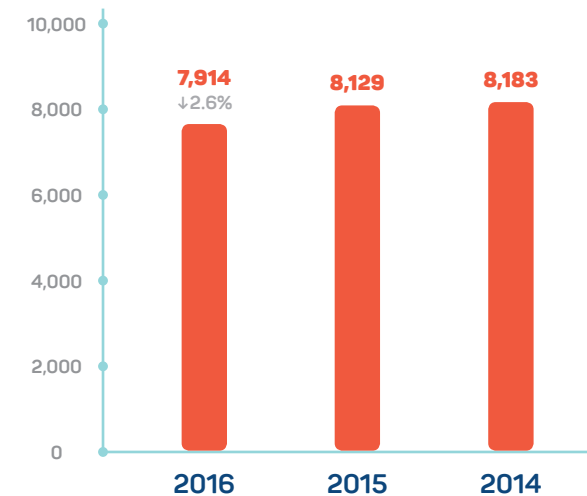
occupied full-time in the reporting period was 100%.

The recruitment procedure in the Company is carried out in accordance with the Rules of competitive selection for vacant positions and adaptation of new employees in “KazTransOil” JSC. The Company conducts the search and selection of qualified specialists, maintains a database of candidates, uses transparent competitive procedures in the selection of personnel for vacant positions, including with the use of elements of testing. In 2016, the Company hired 424 employees.

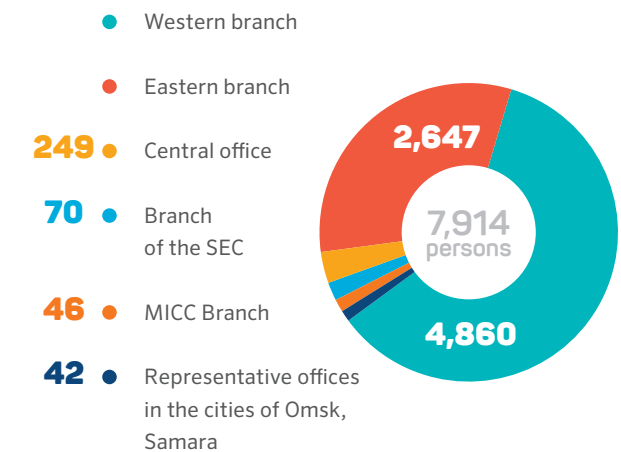
The structure of the personnel of the Company has remained stable in recent years. The Company maintains an optimal combination of the energy and imitativeness of young employees, as well as experience and professionalism of honored employees of the Company. In connection with its industrial specifics, in key production areas, the Company involves male employees, whose share in the total headcount in 2016 was 76.3%.

The major share of the Company’s personnel is employees aged 30-50 years old (59.9%). The average age of the Company personnel in 2016 was 43 years old.

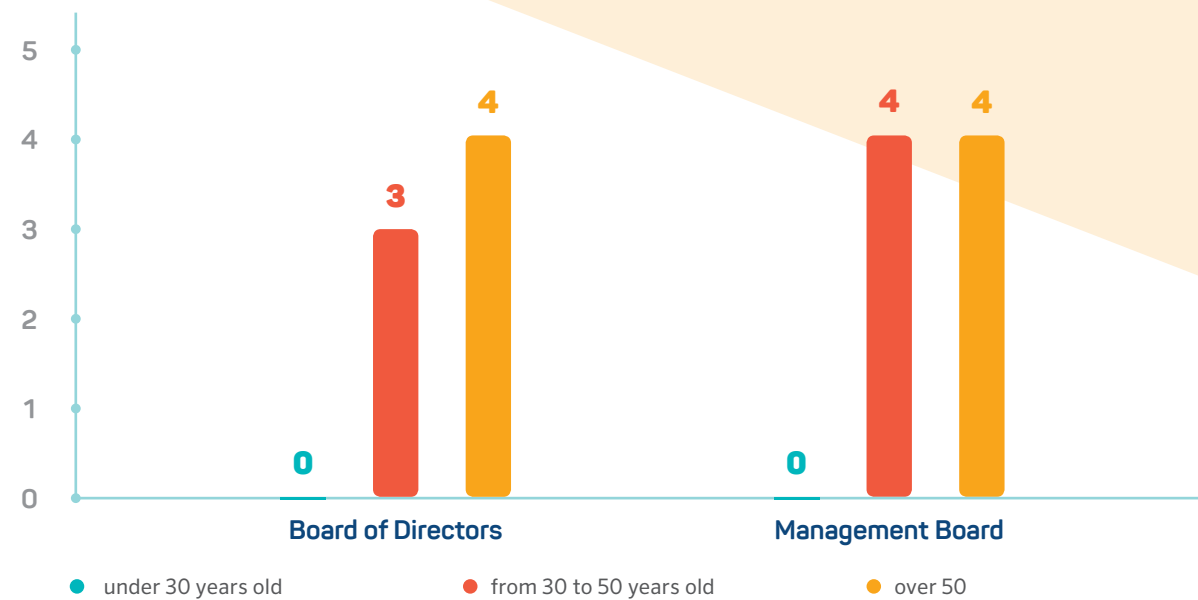
CHANGES OF PERSONNEL HEADCOUNT, PERSONS



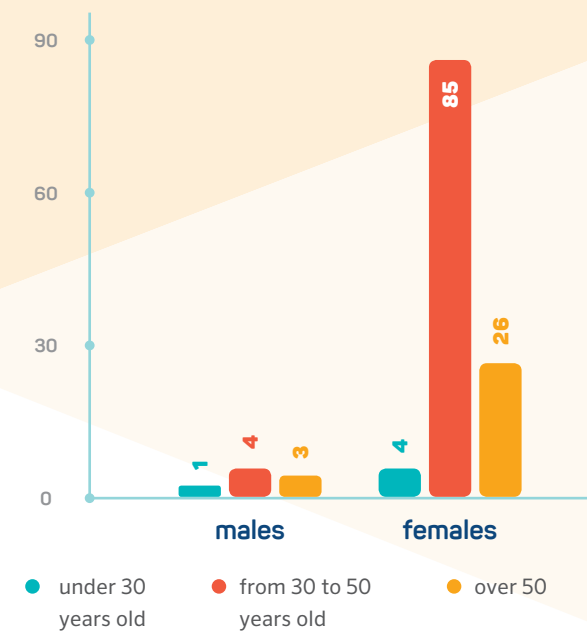
HEADCOUNT BY BRANCHES IN 2016, PERSONS



COMPOSITION OF THE GOVERNING BODIES OF THE COMPANY IN 2016, PERSONS



Personnel engaged in the social sphere



High level of compensation, comfortable working conditions, training opportunities and career growth helps to keep the turnover rate low. In 2016, the turnover rate was 1.94%, which slightly exceeded the same index of 2015.

The minimum period of notice to employees upon termination of employment contracts, including termination of employment in case of reduction of number or staff of workers, is one month in accordance with the Labor code of the Republic of Kazakhstan.

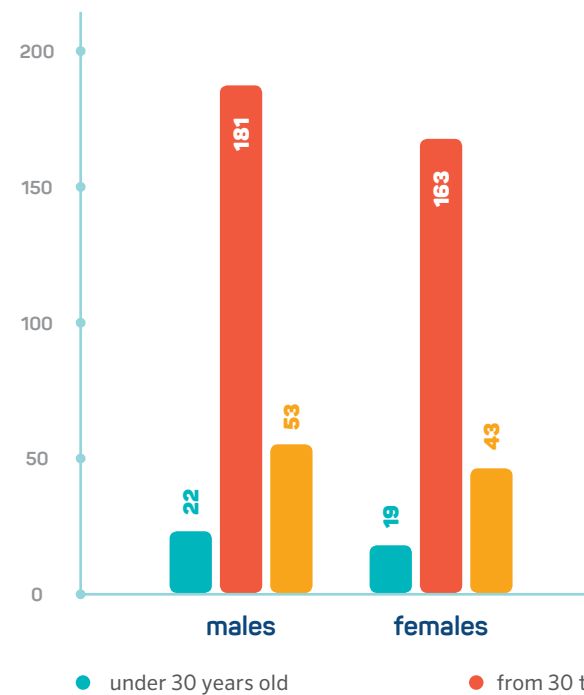
1.94%

(↑7.2%) turnover rate

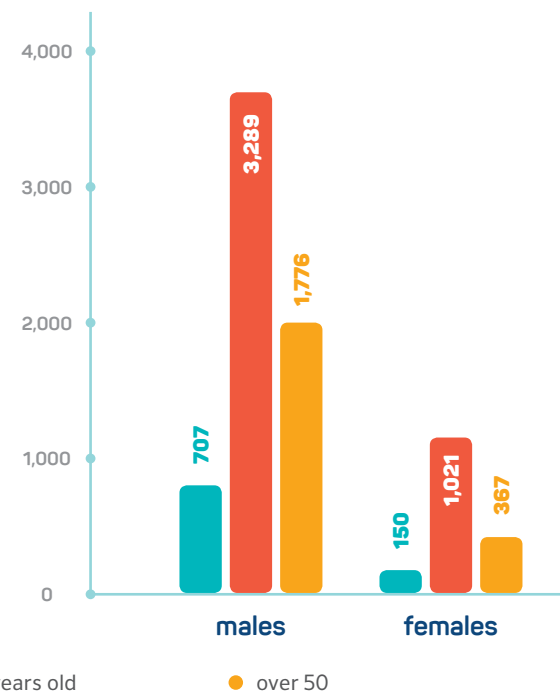
*The index of personnel turnover is calculated as the ratio of the number of workers dismissed at their own initiative and due to negative motives to the average headcount of the Company in a year.

THE MAIN CATEGORIES OF THE COMPANY PERSONNEL IN 2016, PERSONS

Administrative and managerial personnel



Production personnel



REMUNERATION OF EMPLOYEES

The company is continuously improving the system of remuneration of employees. The company regularly monitors the external market and provides decent remuneration to its

employees, which is an advantage in the formation of human resources. In the reporting period, the average monthly salary in the Company exceeded the average salary in the regions where the Company operates.

RATIO OF WAGES OF THE STARTING LEVEL EMPLOYEES AND THE MINIMUM SALARY IN THE REGIONS WHERE THE COMPANY OPERATES, IN THOUSAND KZT*

Indicator	2016	2015	2014	Change, %
The minimum wage in the regions where the Company operates, in thousand KZT	45.3	42.3	39.5	7.0
Wages of the starting level employee in the Company, thousand KZT	94.5	98.3	92.2*	-3.9
Ratio, times	2.1	2.3	2.3	-

*In the Integrated Annual Report for 2014, this index is listed at 43.1 thousand KZT and takes into account only the basic salary of the employee of starting level. The indices shown above represent the wages, including the salary, its variable part, the regional coefficient and other accruals paid to a base level employee.

The Company has a two-component wage system, which helps to combine the protection and motivation of the staff. The wages of employees consist of fixed part (base salary/wage rate, coefficients, taking into account the heavy and adverse climatic conditions in the regions, coefficients for living in ecologically unfavorable conditions, extra payment for harmful working conditions, and other regular payments) and variable (bonus) part.

In order to maintain and retain qualified personnel, the Company annually indexes wages of the staff in production

units on the basis of the inflation level in Kazakhstan.

Once in three years, the employees of the Company are certified for compliance with their position, with the definition of training needs and appropriate level of remuneration of employees according to their skill level and further promotion to higher positions. The latest certification of the Company employees was conducted in 2013. In the reporting period, the certification of the workers was not conducted due to optimization of business processes in the sphere of human resource management occurring in the Company.

2017

In 2017, the Company is planning to conduct such measures as introduction of a differentiated wage system (grading of positions) and reduction in the personnel by outsourcing non-core activities and support services to a competitive environment. It is also planned to update the methodology for staff appraisal by incorporating relevant tools, such as professional testing and competency evaluation.

PERSONNEL TRAINING AND DEVELOPMENT

The high level of professional training is the main factor of reliability and efficiency of the Company operation.

The Company considers staff training as a holistic project that helps to ensure the level of workers skills needed to solve the problems of production, promotes growth, loyalty of employees, creates a favorable social climate in the collective and has a direct impact on the development of corporate culture. In this connection, the Company invests heavily in training and staff development.

The main directions of the Company in the field of vocational training are:

- Training aimed at developing professional skills and competences;
- Training on labor protection, industrial and fire safety, conducted in accordance with the requirements of the legislation of the Republic of Kazakhstan.

In 2016, 797 events were conducted under the program of personnel training and development. The total cost of training in 2016 amounted to more than 342 million KZT (324 million KZT – 2015).

The existing corporate system of training provides annual continuous learning process to the employees of the Company, as well as training and certification.

The Company has a Training Course Complex in the Western branch of the Company (hereinafter, the TCC), which is the coordinator of the vocational training system, providing the basis and conditions for implementation of educational programs. In 2016, 5,981 employees (including 4,737 functional full-time workers) from the total production personnel were retrained in the TCC.

YOUTH POLICY

An important direction in the personnel policy of “KazTransOil” JSC is work with young professionals. The Company implements an integrated approach in the work with the young professionals and attraction of young specialists to work in the Company, which is enshrined in Youth policy of “KazTransOil” JSC.

The Company has created conditions for professional and personal development of young specialists, development of leadership, professional and managerial competencies. In 2016, the Company employed 903 young experts at the age of 30.

797 events

Under the program of personnel training and development

In the reporting period, the Company created the Young Specialists Council, the goal of which is the elaboration and implementation of the common youth policy in the Company, generation of active life position in young professionals, their association for implementation of their own potential and ensuring the leading position of the Company.

On 28 December 2016, the Company approved the Regulation on the Young Specialists Council, which determines the purpose, tasks, functions, structure and composition of the Council, the mode of its operation.

In addition, the Company strives to attract talented young people, helping them to start a career in the Company. The Company supports training of the best students in specialized universities of Kazakhstan. Students are given the opportunity to pass paid internship at the production facilities of structural units of the Company. Each student is assigned a mentor from among experienced employees.

Company collaborates with leading national universities such as the Kazakh-British Technical University, Kazakh National Technical University named after K. I. Satpayev, etc. The main area of cooperation is organization of industrial and pre-graduation practice of students.

During the reporting period, internship at the Company was provided to 263 students.

903 young experts

at the age of 30

PERSONNEL RESERVE

The Company created a personnel reserve, which aims to ensure the process continuity and preparation of the Company's own managerial personnel. In 2016, the personnel reserve of the Company contained 65 people across the Company, including 20 people for the Central Office.

The Company implements a policy of internal rotation and consistent assignment of workers to leadership positions. The company strives to make the mechanism of employee promotion within the Company as transparent as possible, creating equal conditions for all employees, based on the evaluation results, experience, as well as business and personal qualities. The employees included in the personnel reserve are considered on a priority basis when there are vacancies for managerial positions.

SHARE OF WORKERS THAT RETURNED TO WORK AT THE END OF THE CARE LEAVE FOR A CHILD UNDER THREE YEARS OLD IN 2016. (RATE OF RETURN TO WORK)

Name	Total number of employees, who took maternity / paternity leave		Total number of employee, who returned to work after maternity / paternity leave		Share of employees that returned to work at the end of the maternity / paternity leave
	male	female	male	female	
Central office	0	20	0	4	20%
Western branch	2	76	0	15	19,2%
Eastern branch	1	54	0	11	20%
MICC Branch	0	4	0	4	100%
Branch of the SEC	0	5	0	0	0
Representative offices in the cities of Omsk, Samara	0	2	0	1	50%
TOTAL	3	161	0	35	
Total number	164		35		21.9%

4.5

SOCIAL POLICY

SOCIAL SUPPORT OF EMPLOYEES

In December 2016, the Central Office and all the four branches of the Company created trade unions of employees, elected the chairmen of trade union committees. The activities of trade unions are aimed at protection and representation of interests of employees of the Company.

Also, in the reporting period, the Company signed a new Collective agreement between the Company and the employees of the Company for 2017-2019. The Collective agreement regulates social and labor relations in the Company and is aimed at ensuring social support for employees, maintaining an optimal balance of interests in the framework of social partnership between the employer and employees, enhancement of efficiency in the operations of "KazTransOil" JSC with respect to its social policy.

In the framework of the Collective agreement, the employees of the Company are provided with guarantees that include an enhanced package of social benefits aimed at improving the living conditions of workers and their families. 100% of the Company personnel are covered by the Collective agreement (except employees of representative offices).

The social package of the Company includes: social leave such as leave without pay, study leave, leave in connection with birth of child (children), adoption of a newborn child (children) as well as short-term paid leave, including the leave upon marriage of the employees, in connection with the birth of employee's child (becoming a father), in connection with the death of the employee's immediate family members (parents, spouse, children, brothers/sisters). The Company provides a monthly payment of benefits to the employees who are on leave for child care until the child reaches the age of 1.5 years.

Women are provided with additional support by the Company. In addition to legislated initiatives, the Company provides flexible work schedule to women with young children.

For support of a child (children) aged 1.5 to 6 years old, the company monthly pays 15 thousand KZT.

The Company has a tradition of presenting Christmas gifts to the children of the employees, as well as greetings and gifts for children who go to the 1st form.

CORPORATE CULTURE AND INTERNAL COMMUNICATIONS

The corporate culture is the foundation that unites and consolidates the teamwork. The corporate culture of the Company is based on core values such as safety and labor protection, team spirit, efficiency, professionalism, sustainable development, solidarity and teamwork, which are reflected in the Development Strategy of the Company.

To assess the corporate culture development level, the Company annually conducts the study of the employee engagement. This study demonstrates the degree of the personnel loyalty to the Company, awareness and understanding by employees of the corporate goals and objectives, trust of the staff to its leadership, and helps to identify material and psychological incentives that have the

greatest influence on the staff satisfaction.

The Company's employee engagement index in 2016 amounted to 66% (decrease as compared to previous year by 1%). According to the employee engagement index scale adopted by "Samruk-Kazyna", this result of the study is in the positive zone, which is an important indicator of understanding by employees of the Company's development goals.

100%

of the Company personnel are covered by the Collective Agreement

66%

(↓1%)

The Company's employee engagement index in 2016

The corporate culture is being created and developed through the use of a variety of communication tools, including the use of the network of internal information channels, holding corporate events for employees, management meetings for the employees of the Company, sporting events, etc.

The Company's management regularly holds meetings with employees. During these meetings, the employees learn about the Company's developments and pose various questions. Such meetings help to maintain an effective interaction between the management and employees, promote openness and participation of employees in the discussion of the Company's key issues.

In 2016, the Company organized meetings of its employees with the management to discuss the Company's results for 2016, the presentation materials on labor protection and safety, the issues of transformation and optimization of business processes, etc.

In December 2016, the Company approved the Manual of Internal Communications of "KazTransOil" JSC, which

defines the main channels of internal communications to be the web site of the Company, the corporate news bulletin "Nefteprovodchik", the electronic corporate newsletter (from the single e-mail address - of KTO info), the internal corporate portal. The purpose of the Manual is establishing a unified system of feedback between the management of the Company and the employees for improving the socio-psychological climate in the collective.

Since May 2016, the Company has been publishing an electronic newsletter called "Nefteprovodchik", in which the employees can read news and information about important events happening in the Company and in the industry as a whole, about production and social programs, as well as achievements of the employees. In the reporting period, the Company made 14 publications.

The internal communication projects implemented in 2016 confirm that the attention and additional measures of care in addition to those provided for in the Collective and labor agreements are positively perceived by the employees.

- The team of the Eastern branch took third team place in the basketball and table tennis 4th city Spartakiad among the production teams in Pavlodar;
- In September 2016, the athletes from among the employees of our Company won the greatest number of prizes, both in individual and team competitions in the first industry Spartakiad JSC NC «KazMunayGas».

In October 2016, the Company began a project of physical exercises called "Office Warm-ups", which was initiated by the staff and supported by the Company management. The collective of the Central Office and Branches of the Company do a physical warm-up exercise twice a day at workplaces to improve their health, mood and vitality. The project takes into account the progressive world experience of many countries and leading corporations, where physical warm-ups are an integral part of the corporate culture.

481 workers of the Company and its SJCE

were awarded in 2016

CONTEST AND REWARD POLICY

For a significant contribution to the development of the pipeline transport in the Republic of Kazakhstan, the employees of the Company receive state awards, awards of the Ministry of Energy of the Republic of Kazakhstan,

2017

In 2017, the Company will continue work on the development of corporate culture and improvement of internal communication channels. In particular, it is planned:

- to conduct a regular research of employee engagement in the Company;
- to increase the number and volume of published materials in the "Nefteprovodchik" bulletin, to open additional sections and to create a platform for the forum on the internal portal, to restructure the corporate website;
- in the framework of celebration of the 20th anniversary of "KazTransOil" JSC, the Company is planning to hold a number of activities aimed at external and internal audience of the Company;
- in the framework of the reputation promotion, the Company focuses on coverage by the local and foreign media about the social responsibility of the Company, care about the working collective, their family members, contribution to regional development.

HEALTHY LIFESTYLE

The Company considers a healthy lifestyle and sports as one of the priority directions of its social policy. Sporting events do not only create conditions for maintaining and improving physical fitness, but also develop qualities such as teamwork, mutual assistance, and promote the acquisition of teamwork skills.

The employees of the Company take part in different sporting activities: football, volleyball, basketball, table tennis, swimming, chess, checkers, billiards, etc. The

Company is proud that in 2016 its team won in the following competitions:

- The team of the Eastern Branch of "KazTransOil" JSC took the second prize in the 20th volleyball tournament held with the teams from Kyrgyzstan, Russia, Uzbekistan and Kazakhstan;
- The team of "KazTransOil" JSC took the third place in mini-football tournament among the enterprises of the oil and gas industry of the Russian Federation and the CIS countries for the Cup of Natural Resources held in Moscow;



"KAZTRANSOIL" JSC

JSC “Samruk-Kazyna”, JSC NC “KazMunayGas”, Kazakhstan Association of Oil-gas and Energy Complex “KAZENERGY” and the Company. In 2016, 481 workers of the Company and its SJCE received awards.

The Company also annually holds the competition “Best in the Profession”, which is attended by the branch employees. The main goal of this competition is to increase the production efficiency, encourage the best professionals, share experiences and motivate employees in their professional development.

In 2016, over 80 employees from the Eastern and Western branches attended the competition. The final of the competition was held in Pavlodar. The greater number of prizes went to the Eastern Branch employees. The winners of the contest “Best in the Profession” took part in the competition of professional excellence held by the group of companies “KazMunayGas” in the city of Aktau. All employees of the Company who took part were winners in their respective categories in the competition held by the group of companies JSC NC “KazMunayGas”.

PENSIONS

The company cares about its employees, who contributed a lot of effort and knowledge to the development and success of the Company and are now retired. In the framework of the Rules for social support of unemployed pensioners and disabled people in the Company, in addition to providing the mandatory financial aid at the retirement, the Company does not forget about its former employees and provides

monthly payments and memorial gifts to them in honor of the celebration of national, state, and professional holidays.

HOUSING PROGRAM

The Program of accommodation provision to employees occupies a special place in the social policies of the Company and focuses on improving the housing conditions of employees. From the launch of the program, preferential credits for acquisition of housing or improvement of the existing housing were received by 275 employees of the Company.

LOCAL COMMUNITIES IN THE REGIONS WHERE THE COMPANY OPERATES

“KazTransOil” JSC interacts with local communities in the regions where the Company operates. The Company’s efforts are aimed at creating favorable social conditions and maintaining the status of a socially responsible corporate member of the society. The Company is involved in economic and social development of regions, promoting the development of infrastructure, education and sports.

In September 2016, the Company, the Akimat of South Kazakhstan region and the representatives of local executive bodies and partner companies held an opening ceremony of a new kindergarten built at the expense of the Company’s sponsorship (charity) in the village of Sholakkorgan in Suzak District, South Kazakhstan region.

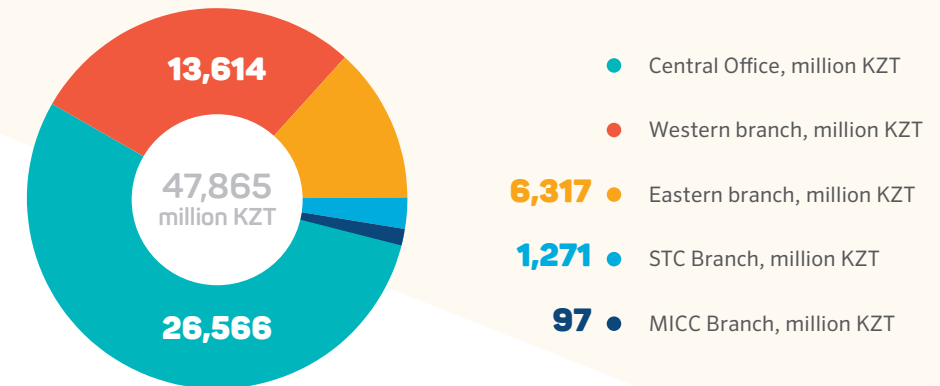
Conclusion and execution of procurement contracts. When selecting suppliers, the Company follows the Rules of Procurement of Goods, Works and Services of the Joint Stock Company “National Welfare Fund “Samruk-Kazyna” and the organizations, fifty and more percent of voting shares (participation shares) of which directly or indirectly belong

to “Samruk-Kazyna”, on the rights of ownership or trust management (hereinafter, the Procurement Rules).

More information on the procurement system can be found at the corporate website of the Company.

In 2016, the Company signed contracts for the amount of 47,865 million KZT, of which.

PROCUREMENT STRUCTURE AT THE BRANCHES, MILLION KZT



More information on procurements of 2016 is provided in Appendix “Report on procurements of 2016”.

In the framework of the unified policy of the state on supporting domestic producers, in the reporting period, the Company continued ensuring the share of local content in the total volume of services procurements. **By the end of 2016, contracts were signed with local producers in the amount of 40.1 billion KZT (including long-term contracts).**

61.2%

The share of local content in the contracts for 2016

2017

In 2017, the Company plans to maintain the local content share in contracts with local producers at least 55%.

4.6 PROCUREMENT SYSTEM AND LOCAL CONTENT

For sustainable development of its business, given its scale, “KazTransOil” JSC places great importance on effective procurement system and timely provision to the Central Office and branches of the Company with

high quality goods, works and services.

The procurement process of the Company includes:

- Development and approval of procurement plans;
- Selection of the supplier of goods and services;

5. CORPORATE GOVERNANCE

OIL HEATING
INSTALLATION



5.1 CORPORATE GOVERNANCE SYSTEM

“KazTransOil” JSC considers corporate management as a key factor for increasing the value of the company, its competitiveness, investment attractiveness and the Company pays special attention to the improvement of the corporate governance system and respecting the interests of the Shareholders. It is important for the Company’s corporate standards to contribute to the achievement of strategic goals, increase corporate value and strengthen the trust to the Company.

“KazTransOil” JSC is building up a system of corporate governance of the Company in accordance with the legislation of the Republic of Kazakhstan, the KASE requirements, the Company’s Charter and corporate governance code.

On 27 May 2016, by the decision of the General Meeting of Shareholders of “KazTransOil” JSC, changes and additions to the Charter of “KazTransOil” JSC and the new Code of Corporate Governance was approved.

The Code of Corporate Governance determines the key principles of good corporate governance, such as sustainable development, rights of shareholders and equitable treatment of shareholders, professional Board of Directors and executive body, risk management and internal control, transparency. These principles are important for enhancing the long-term value and sustainable development and improving the investment attractiveness of the Company as a whole.

Report on the compliance of “KazTransOil” JSC with the principles and provisions of the Corporate Governance Code in 2016 is in Appendix 6.

The main Corporate Governance bodies of the Company, making decisions on key issues of the Company’s operations and exercising general management are: the General Meeting of Shareholders, the Board of Directors and the Management Board.

The General Meeting of Shareholders is the Company’s supreme management body, which operates in accordance with the Law of the Republic of Kazakhstan “On joint stock companies”, the Charter and the Company’s Regulation on the General Meeting of Shareholders. The exclusive competence of the General Meeting of Shareholders is defined by paragraph 1 of article 10 of the Charter of the Company.

The Board of Directors established three committees, which are designed to improve the efficiency of the work of the Board of Directors in matters requiring special competencies: Committee for strategic planning, Committee for personnel and remuneration, Committee for internal audit.

The Board organized the Committee for risks, the aim of which is to consider the issues related to the CRMS operation of and to elaborate recommendations for the Management Board.

The management of sustainable development issues is integrated into the existing structure of Corporate Governance of the Company and is provided at the level of the Central Office of the Company and at the level of branches.

The details on the documents regulating the goals and functions of individual bodies of the corporate governance system can be found on the corporate website in the section “Corporate Governance”.

Following the best international practices, to determine the performance of existing Corporate Governance of the Company, the Corporate Governance system underwent internal diagnostics in the fourth quarter of 2016.

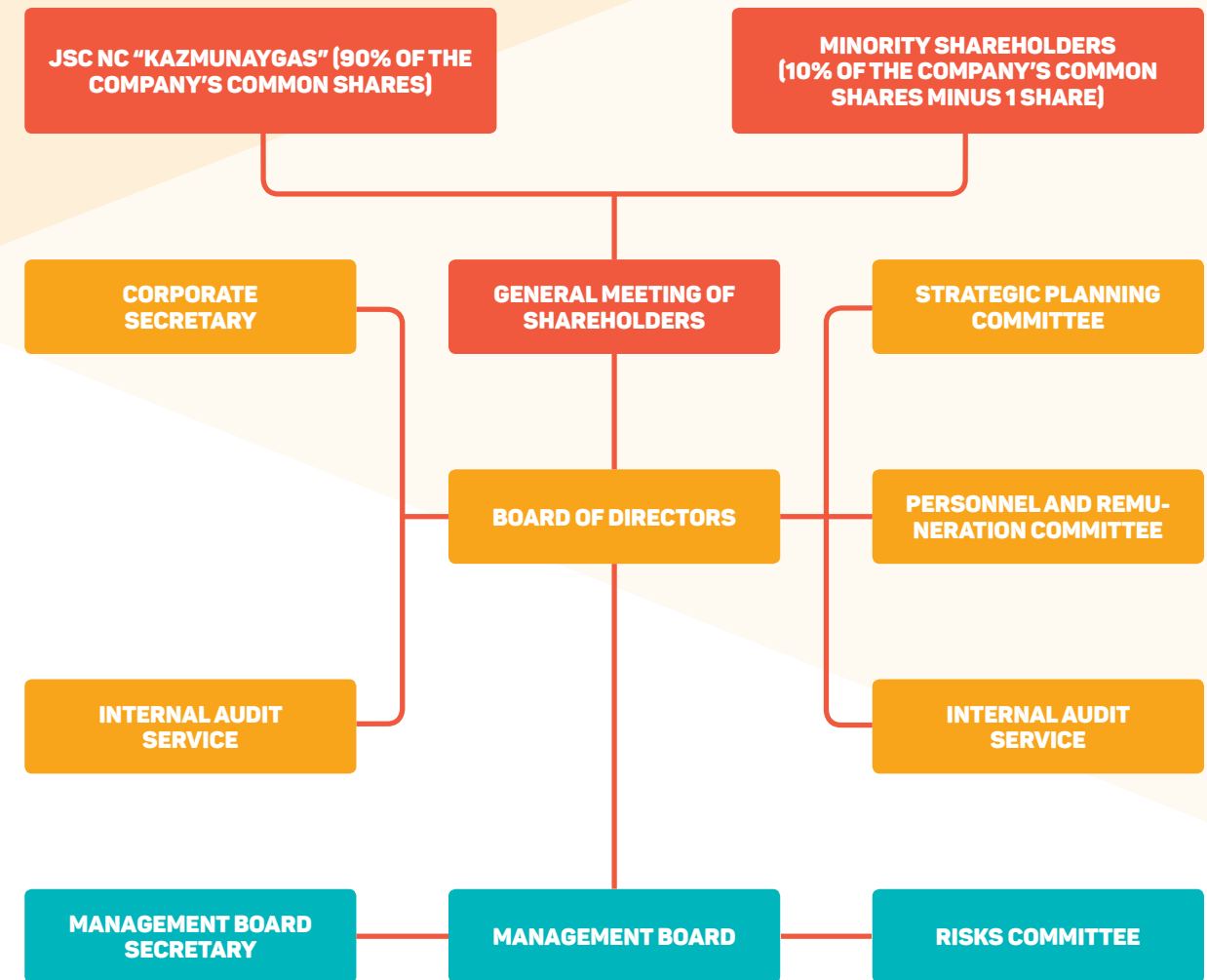
For the evaluation, the Company used the Corporate Governance Diagnostics Methodology for Legal Entities, more than fifty percent of the voting shares of which directly or indirectly belong to JSC “Samruk-Kazyna”. This Methodology is approved by Decision of the Board of JSC “Samruk-Kazyna” dated 19 June 2012. Additionally, the provisions laid down in the new Code were used.

According to the results of the internal diagnosis, the Corporate Governance rating of the Company was 82.4% in 2016 (63.7% in 2013). During the diagnostics, the strengths of Corporate Governance of the Company and the areas requiring improvement were revealed.

The internal audit service provided recommendations for such areas as: sustainable development; effectiveness of the Board of Directors and Executive Body; risk management, internal control and audit; transparency.

Following the diagnostics results, the Board of Directors developed and approved the Plan of Measures for improving the Corporate Management system of “KazTransOil” JSC.

CORPORATE GOVERNANCE SYSTEM



2017

For further development of the corporate governance system, the following activities have been scheduled for 2017:

- bringing the internal documents of “KazTransOil” JSC in line with the approved Corporate Governance Code: Regulations on General Meeting of Shareholders of “KazTransOil” JSC and Regulations on the Board of Directors of “KazTransOil” JSC and others.
- independent evaluation of the work of the Board of Directors of “KazTransOil” JSC and its committees in 2016 with the assistance of independent external consultants.
- adoption of anti-corruption standards of “KazTransOil” JSC.

5.2

GENERAL MEETING OF SHAREHOLDERS

STRUCTURE OF THE SHARE CAPITAL

As of 31 December 2016, 384,635,599 (three hundred eighty-four million six hundred thirty-five thousand five hundred ninety-nine) common shares were issued and paid, of which:

- 346,172,040 (three hundred forty-six million one hundred seventy-two thousand forty) common shares, or 90% of the total number of the issued and outstanding shares belong to JSC NC “KazMunayGaz”;
- 38.463.559 (thirty-eight million four hundred sixty-three thousand five hundred fifty-nine) common

shares, or 10% minus one share, were placed by the method of subscription at the Kazakhstan Stock Exchange, including 7,500 (seven thousand five hundred) common shares were repurchased by the Issuer at the request of the Shareholder.

1 (one) common share of the Company was not placed.

GENERAL MEETING OF SHAREHOLDERS HELD IN 2016

One annual and three extraordinary General Meetings of Shareholders were held in 2016.

RESULTS OF GENERAL MEETINGS OF SHAREHOLDERS HELD IN 2016

<p>Annual General Meeting of Shareholders of “KazTransOil” JSC 27 May 2016</p>	<p>At the annual General Meeting of Shareholders, “KazTransOil” JSC approved the annual financial statements and consolidated annual financial statements of the Company for 2015, the distribution order of the net income of the Company for 2015, and the undistributed profits of previous years, the decision on payment of dividends by common shares and approval of dividend size per one common share of the Company, the meeting also approved the Annual Report of the Company for 2015, the Annual Report of the Board of Directors of the Company on the work done in 2015, amendments to the Charter, the Corporate Governance Code, changes and additions to the Method of determining the value of shares for their repurchase by the Company on unorganized securities market.</p>
<p>(Minutes No. 3/2016)</p>	
<p>Extraordinary General Meeting of Shareholders of “KazTransOil” JSC 14 January 2016</p>	<p>The meeting adopted a decision on the audit organization to audit the Company for 2016 - 2018, the size of payment to the auditing organization for the audit of the financial statements and procurement of its services from one source.</p>
<p>(Minutes No. 1/2016)</p>	
<p>Extraordinary General Meeting of Shareholders of “KazTransOil” JSC 29 January 2016</p>	<p>Decisions were made on early termination of the powers of members of the Board of Directors of the Company, on determining the number of members, term of powers of the Board of Directors of the Company, election of its members, including the Chairman of the Board of Directors, on determining the amount and conditions of remuneration and compensation of expenses to Independent Directors when they perform their duties.</p>
<p>(Minutes No. 2/2016)</p>	
<p>Extraordinary General Meeting of Shareholders of “KazTransOil” JSC 20 October 2016</p>	<p>Decisions were made on determining the number of members of the Board of Directors of the Company and election of its members, on assigning a member of the Board of Directors of the Company as the shareholder’s representative.</p>
<p>(Minutes No. 4/2016)</p>	

DIVIDEND POLICY

The dividend policy of “KazTransOil” JSC approved in July 2012 is designed to balance the interests of the Company

and its shareholders and to provide greater transparency for shareholders and all stakeholders in determining the size of dividends and their payment procedures.

DIVIDEND PAYMENTS DYNAMICS

Period	2015	2014	2013
Dividends accrued per share, KZT	133.0	120.71	109.0
Dividend yield, %	18.34	16.65	15
Total amount of accrued dividends, KZT	51,156,534,667	46,429,363,155	41,925,280,291
Share of consolidated net income, %	100	99.9	66
Date of compiling the list of persons entitled to receive dividends	11.06.2016	27.05.2015	13.06.2014
Payment was made	in June	in June	in July

The total amount of dividend payments in 2016 at the end of 2015 amounted to 51,156,534,667 KZT or 133 KZT per common share of the Company. The payment of dividends was made in the amount of 44,712,936,000 KZT, which is 100% of the Company’s net profit, and the retained earnings from previous years in the amount of 6,443,598,667 KZT. The payment of dividends for 2015 started on 27 June 2016.

extent necessary to make an informed decision. In order to provide better information, the Company holds meetings with shareholders, and the required information is posted on the websites of the Company, KASE and the depository of financial statements.

The Board of Directors of the Company guarantees equal treatment of all shareholders, providing them the opportunity to participate in the management of the Company through the General Meeting of Shareholders, to receive information on the Company activities and to exercise their right to receive dividends.

The Company has a service for investor relations, main task of which is to organize effective communication between the management of the Company and the investment community (potential investors, minority shareholders and professional securities market participants) for the purpose of maintaining and strengthening its reputation as an investment-attractive company.

In 2016, no complaints were received from the Company’s shareholders about the actions of the Company and its officials.

INTERACTION WITH SHAREHOLDERS AND INVESTORS

The company is committed to building an open and effective dialog with the shareholders of the Company.

The fundamental rights of shareholders are implemented in accordance with the legislation of the Republic of Kazakhstan and the Charter of the Company.

The company attaches great importance to cooperation with current and potential shareholders. It promptly and regularly provides information so that the persons concerned about its performance are informed of all its activities to the

5.3

BOARD
OF DIRECTORS

The Board of Directors provides strategic management of the Company, oversees the activities of the Management Board of the Company within its competence and responds to the General Meeting of Shareholders regarding the effective management and proper control over the activities of the Company in accordance with the current decision-making system.

The Board of Directors is guided by the Law of the Republic of Kazakhstan “On Joint Stock Companies”, the Company’s Charter, Corporate Governance Code, Regulations on the Board of Directors, as well as Decisions of the General Meeting of Shareholders, the legislation of the Republic of Kazakhstan and the internal documents of the Company.

In accordance with its competence, the Board of Directors determines the development strategy, priority development directions of the Company, including those in the sphere of corporate governance, risk management and internal control, sustainable development, implementation of major investment projects and other key strategic projects within the competence of the Board of Directors, setting key performance indicators in the Company’s development plan for other areas, and supervises their implementation.

THE COMPOSITION OF THE BOARD OF DIRECTORS AND CHANGES IN 2016

The Board of Directors of the Company consists of seven people. The following changes occurred in the composition of the Board of Directors of the Company in 2016:

- On 12 January 2016 and 28 January 2016, Kaigeldy Kabyldin and Daniel Mihalik resigned from the Board of Directors of the Company, in connection with their

filing of a written notification on early termination of their powers as members of the Board of Directors.

- On 29 January 2016, the extraordinary General Meeting of Shareholders terminated the powers of members of the Board of Directors, determined the composition of the Board of Directors consisting of six persons and their term of office, and elected the members of the Board of Directors, including the Chairman of the Board of Directors;
- On 20 November 2016, the extraordinary General Meeting of Shareholders determined the composition of the Board of Directors consisting of seven people and elected the member of the Board of Directors, Dimash Dossanov, as the General Director (Chairman of the Board) of the Company.

In accordance with the structure of the Share Capital (90% of the total number of common shares are owned by JSC NC “KazMunayGaz”), three members of the Board of Directors are representatives of the major shareholder – JSC NC “KazMunayGaz”. Three members of the Board of Directors of the Company are Independent Directors, ensuring the protection of the rights and interests of minority shareholders in accordance with the best corporate governance practices. The General Director (Chairman of the Board) is also a member of the Board of Directors.

The chairman of the Board of Directors is Daniyar Berlibayev, who is the representative of JSC NC “KazMunayGaz”. The representatives of the major shareholder are Nurtas Shmanov and Ardak Mukushov.

All members of the Board of Directors have a high professional reputation and significant work experience in the industry.





**DANIYAR
BERLIBAYEV**

*Chairman of the Board of Directors of "KazTransOil" JSC
Representative of JSC NC "KazMunayGas"*

Citizenship: Republic of Kazakhstan.

Born on 21 December 1968 in Zhambyl.

Graduated from the Kazakh State University named after al-Farabi majoring in "Law", qualification - lawyer.

- Chairman of the Board of Directors of KMG International N. V.
- Holder of the Company's 9,655 shares or 0.00251% of the total number of outstanding shares.
- No SJCE shares held.
- No shares of suppliers and competitors of the Company are held.
- No transactions with the shares of the Company were carried out.

EXPERIENCE:

- 2005-2007 – First Deputy General Director of JSC "KazTransGas" - General Director of JSC "Intergas Central Asia".
- 2007-2009 – Vice President for Transportation and Refining of JSC NC «KazMunayGas».
- 2009-2011 – Managing Director for Gas Projects in JSC NC "KazMunayGas" and General Director of JSC "KazMunayGas - Refining and Marketing".
- 2011-2012 – General Director of JSC "KazTransGas", later Managing Director for Gas Projects of JSC NC "KazMunayGas".
- 2012-2015 – First Deputy Chairman of the Management Board of JSC NC «KazMunayGas».
- 2015-2016 – Deputy Chairman of the Management Board for Corporate Development of JSC NC "KazMunayGas".
- from 1 August 2016 Executive Vice-President of JSC NC "KazMunayGas" for Transportation, Refining and Marketing;
- From 29 January 2016 to current – Chairman of the Board of Directors of "KazTransOil" JSC, representative of JSC NC "KazMunayGas".



**DIMASH
DOSSANOV**

*Member of the Board of Directors of "KazTransOil" JSC
General Director (Board Chairman) of "KazTransOil" JSC*

Citizenship: Republic of Kazakhstan.

Date and place of birth: 2 November 1981, Alma-Ata

Graduated from the Kazakh National University named after Al-Farabi, majoring in International Relations, qualification: specialist in international relations, geographers with knowledge of two foreign languages, Kazakh Economic University named after T. Ryskulov, majoring in Finance and Credit, qualification - economist. Master's degree in business administration (Executive MBA), Georgetown University Washington, USA.

- Chairman of the Supervisory Board of LLC "Batumi Oil Terminal".
- No SJCE shares of the Company are held.
- No shares of suppliers and competitors of the Company are held.
- No transactions with the shares of the Company were carried out.

EXPERIENCE:

- 2006-2010 – Deputy Director of the Department for Development of Kazakh Content in major oil and gas projects of JSC NC "KazMunayGas"
- 2010-2014 – Deputy General Manager for Service, General Manager for Service in North Caspian Operating Company (NCOC).
- 2014-2016 – First Deputy General Director, General Director of LLC "Kazakhstan-China Pipeline".
- From 15 January to 5 August 2016 – First Deputy General Director of "KazTransOil" JSC.
- From 6 August 2016 – General Director (Board Chairman) "KazTransOil" JSC;
- From 20 October 2016 to current – member of the Board of Directors of "KazTransOil" JSC.



**ARDAK
MUKUSHOV**

Member of the Board of Directors of "KazTransOil" JSC Representative of JSC NC "KazMunayGas"

Citizenship: Republic of Kazakhstan.

Date and place of birth: 4 March 1978, Akmola region.

Graduated from the Eurasian University named after L. N. Gumilev, majoring in "law and methodology of legal education", qualification - lawyer.

In 2007, graduated from the Kazakh Economic University named after T. Ryskulov, majoring in "Economics", qualification - economist.

- Member of the Board of Directors of JSC "KazTransGas".
- No SJCE shares of the Company are held.
- No shares of suppliers and competitors of the Company are held.
- No transactions with the shares of the Company were carried out.

EXPERIENCE:

- 2003-2010 – Chief specialist, head of division, head of Department, Deputy Director of the Department of Legal Service of the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan.
- 2010-2013 – Director of the Department of Legal Service of the Ministry of Oil and Gas of the Republic of Kazakhstan.
- 2013-2014 – Advisor to the Chairman of the Board of JSC NC "KazMunayGas".
- 2014-2017 – Director of the Department of International Contracts of JSC "KazMunayGas".
- From 18 January 2017 – Vice President for Legal Support of JSC NC «KazMunayGas»;
- From 28 May 2014 to current – member of the Board of Directors of "KazTransOil" JSC, representative of JSC NC "KazMunayGas".



**NURTAS
SHMANOV**

Member of the Board of Directors of "KazTransOil" JSC Representative of JSC NC "KazMunayGas"

Citizenship: Republic of Kazakhstan.

Date and place of birth: 24 December 1956, Atyrau.

Graduated from the Ufa Oil Institute, majoring in "Design and operation of oil and gas pipelines, gas storage facilities and tank farms", qualification - engineer-mechanic, Eurasian Market Institute, majoring in "Finance and credit", qualification - economist. In 1994, received a master's degree in business administration from the University of Massachusetts, Boston, special course for managers of oil and gas industry, Boston, USA.

- Chairman of the Supervisory Board of LLP "NMSC "Kazmortransflot",
- LLP "KMG Systems & Services", member of the Board of Directors of JSC "KTK-R".
- Holder of the Company's 9 655 shares or 0.00251% of the total number of outstanding shares.
- No SJCE shares held.
- No shares of suppliers and competitors of the Company are held.
- No transactions with the shares of the Company were carried out.

EXPERIENCE:

- 2006-2007 – Deputy General Director for General Issues JSC "KTK – R".
- 2007-2009 – General Director (Board Chairman) "KazTransOil" JSC.
- 2009-2012 – Managing Director for Oil Transportation (member of the Management Board) of JSC NC "KazMunayGas".
- 2012-2013 – Deputy Chairman of the Management Board for Transport Infrastructure of JSC NC "KazMunayGas".
- 2013-2015 – Deputy Chairman of the Management Board for Service Projects (member of the Management Board) of JSC NC "KazMunayGas".
- 2015-2016 – General Director (Board Chairman) of "KazTransOil" JSC, part-time Vice-Chairman of the Management Board for Oil Transportation in JSC "KazMunayGas".
- from 1 August 2016 – Senior Vice-President of JSC NC "KazMunayGas" for Oil Transportation;
- From 29 January 2016 to current – member of the Board of Directors of "KazTransOil" JSC, representative of JSC NC "KazMunayGas".

INDEPENDENT DIRECTORS

The presence of Independent Directors in the Board of Directors is conditioned by Company's aspiration to achieve the best balance of experience, skills and qualifications among the members of the Board of Directors.

Independent Directors bring experience in international management, strategic vision, knowledge of the Company's specific sector, corporate governance and risk management. At the same time, all the Directors possess knowledge of financial reporting and auditing, business planning and project management.

Independent Director chair the Committees of the Board of Directors, actively participate in their work and ensure the elaboration of objective decisions to meet the interests of all shareholders.

The independence criteria are defined by the legislation of the Republic of Kazakhstan, the Charter and the Regulations on the Board of Directors of the Company, according to which, the Independent Director:

1. was not affiliated with the Company for three years before his/her election to the Board of Directors (with the exception of his tenure as Independent Director of the Company);
2. is not affiliated to the affiliates of the Company;
3. does not have subordination relationships with the officials of the Company or organizations, which are affiliated to the Company, and did not have

subordination relationships with these persons or organizations for three years before their election to the Board of Directors;

4. is not a public servant;
5. is not a representative of the shareholder at the meetings of the Company bodies and was not in function for the past three years before their election to the Board of Directors;
6. is not involved in the audit of the Company as an auditor working in the audit organization and did not participate in such audit for the past three years before their election to the Board of Directors;
7. has not been an employee of the Company or its subsidiaries for the past five years;
8. did not receive and does not receive additional remuneration from the Company except for the remuneration as a member of the Board of Directors;
9. occupying a similar position in other organizations or bodies, does not have significant connections with other Directors through such participation in other organizations or bodies;
10. is not a representative of the shareholder or state authorities;
11. has not been a member of the Board of Directors of the Company for more than nine consecutive years.

The Independent Director of the fully complied with the independence criteria of Company in the reporting period.

EXPERIENCE:

- He has more than 30 years of international experience in the field of trade, marine transportation, supply system control in the refining sector and business development with always great results and high performance in Chevron Corporation and South Petroleum SA.
- From 29 January 2016 to current - Independent Director of "KazTransOil" JSC.
- No membership in the management bodies of other organizations.
- No SJCE shares of the Company are held.
- No shares of suppliers and competitors of the Company are held.
- No transactions with the shares of the Company were carried out.



**LUIS
COIMBRA**

*Independent
Director*

Citizenship: the Portuguese Republic.

Date of birth: 15 July 1958

Graduated from the University of Massachusetts - bachelor of science in mechanical engineering; University of Michigan - master of business administration.



**SERIK
PRIMBETOV**

*Independent
Director*

Citizenship: Republic of Kazakhstan.

Date of birth: 17 September 1948.

Graduated from the Alma-Ata Institute of National Economy majoring in "Economics", qualification - economist, graduate of the Moscow State University named after M. V. Lomonosov, candidate of economic sciences.

Academic degree and title: Doctor of Economic Sciences, Professor, Academician of the International Economic Academy "Eurasia". Honorary Member of the International Academy of Business Leaders and Administration (USA).

EXPERIENCE:

- Extensive leadership experience in state structures in the field of international cooperation. He was adviser to the President of the Republic of Kazakhstan, Deputy Secretary General of EurAsEC, Ambassador Extraordinary and Plenipotentiary of the Republic of Kazakhstan in the Republic of Azerbaijan, Adviser to the Chairman of the Board of the Eurasian Development Bank. He is currently Director of the Representative Office of the Eurasian Development Bank in Bishkek.
- From 28 May 2014 to current - Independent Director of "KazTransOil" JSC.
- No membership in the management bodies of other organizations.
- No SJCE shares of the Company are held.
- No shares of suppliers and competitors of the Company are held.
- No transactions with the shares of the Company were carried out.



**FERNANDO
MACHINENA**

*Independent
Director*

Citizenship: the United Kingdom of Great Britain and Northern Ireland.

Date of birth: 7 November 1956.

Graduated from the University of Wisconsin - bachelor of science in chemical engineering; University of Utah - master of business administration.

EXPERIENCE:

- 35-year experience in the oil sector and experience in successful development of joint ventures, marketing and logistics of commodity-oil sector, export infrastructure in complex business and political environments. For 25 years, he worked at Chevron Corporation. Since 2005, he has been the President of Oteko Group and manager for development of the largest private railway access complex in Russia.
- From 29 January 2016 to current - Independent Director of "KazTransOil" JSC.
- No membership in the management bodies of other organizations.
- No SJCE shares of the Company are held.
- No shares of suppliers and competitors of the Company are held.
- No transactions with the shares of the Company were carried out.

CRITERIA FOR SELECTION AND ELECTION TO THE BOARD OF DIRECTORS OF THE COMPANY

The criteria for the selection and election of members of the Board of Directors, including the independent directors and the Chairman of the Board of Directors are defined in the Law of the Republic of Kazakhstan “On joint stock companies”, the Company’s Charter, Corporate Governance Code and Regulation on the Board of Directors of the Company.

The General Meeting of Shareholders elects the members of the Board of Directors on the basis of clear and transparent procedures, taking into account competencies, skills, achievements, business reputation and professional experience of candidates. Their contribution to the performance of the Board of Directors of the Company is taken into account during the re-

election of individual or all members of the Board of Directors for a new term.

The Board of Directors and its committees should have balanced skills, experience and knowledge to ensure independent, objective and effective decisions in the interests of the organization and the shareholder, and ensuring the growth of long-term value and sustainable development of the Company.

Additional information on the procedure of election to the Board of Directors is available on the website in the section “Corporate Governance”.

RESULTS OF THE WORK OF THE BOARD OF DIRECTORS

There have been 13 meetings of the Board of Directors in 2016.

In 2016, there were 13 meetings of the Board of Directors, during which the meeting participants reviewed and made decisions on 141 issues in the following key areas of the Company operation:

Strategic development:

- Review of the Report on the Implementation of the Business Plan for 2015;
- Adoption of the Business Plan for 2017-2021 on revalued and historical value of fixed assets;
- Review of the Report for 2015 on the implementation of the Company Development Strategy for 2012-2022;
- Approval of Development Strategy of “KazTransOil” JSC until 2025;
- Approval of the Methodology for Calculation of Tariffs for Services of “KazTransOil” JSC of oil transportation through main pipelines for export outside the Republic of Kazakhstan and transit through the territory of Kazakhstan.

Financial and economic activity:

- Convocation of the annual General Meeting of Shareholders;
- Preliminary approval of the annual financial statements and consolidated annual financial statements of the Company for 2015;
- Proposal of the Board of Directors to the General Meeting of Shareholders of the Company on the modalities of distribution of the net income of the Company for 2015, retained profits from previous years and the dividend size for 2015 per common share of the Company;
- Conclusion of transactions in which the Company has an interest.

Corporate governance

- Approval of the motivational key performance indicators for executives, Corporate Secretary and head of the Internal Audit Service of the Company for 2016 and their target values;
- Determination of the number of the members in the Management Board of the Company;
- Approval of the Corporate Governance Code;
- Decision on the closure of a representative office of “KazTransOil” JSC in Moscow;

- Approval of the Plan of measures on improvement of the performance of the Board of Directors of the Company;
- Review of the Report on the evaluation of the Board of Directors of the Company for 2015;
- Approval of the Plan of measures on improvement of the performance of the Board of Directors of the Company;
- Review of the Report for 2015 on the Company compliance with the principles enshrined in the Corporate Governance Code of “KazTransOil” JSC;
- Review of the Report on the transparency of “KazTransOil” JSC and effectiveness of information disclosure processes for the second half of 2014 and for 2015.

Internal audit

- Determining the number of auditors, term of powers of Internal Audit Service of the Company, appointment of its head and other employees, determining the amount and conditions of remuneration and bonuses of the Internal Audit Service of the Company;
- Approval of the annual audit plan of the Internal Audit Service of the Company for 2017;
- The Board of Directors heard receives quarterly reports of the Internal Audit Service.

Risk management and internal control

- The Board of Directors conducted quarterly analysis of the risks dynamics and implementation of the action plan for improvement of corporate risk management system and improvement of the internal control system of “KazTransOil” JSC;
- Approval of the Risk Management Program of “KazTransOil” JSC for 2016-2018.

In the field of sustainable development:

- Approval of official salaries for the employees of the Central Office of the Company;
- Approval of the structure of the Central Office of the Company;
- Approval of the new version of the Regulations on branches and representative offices of “KazTransOil” JSC.

ATTENDANCE AT THE MEETINGS OF THE BOARD OF DIRECTORS IN 2016

Director	Attendance of meetings	%	Period of being a member of the Board during the reporting period
Ardak Kassymbek	1 of 1	100	01.01.2016 – 29.01.2016
Daniel Mihalik	1 of 1	100	01.01.2016 – 28.01.2016
Daniyar Berlibayev	12 of 12	100	29.01.2016 – 31.12.2016
Luis Coimbra	12 of 12	100	29.01.2016 – 31.12.2016
Fernando Machinena	12 of 12	100	29.01.2016 – 31.12.2016
Ardak Mukushov	13 of 13	100	01.01.2016 – 31.12.2016
Serik Primbetov	13 of 13	100	01.01.2016 – 31.12.2016
Nurtas Shmanov	12 of 12	100	29.01.2016 – 31.12.2016
Dimash Dossanov	2 of 2	100	20.10.2016 – 31.12.2016

The Board of Directors also considered a number of issues related to the competence of the General Meetings of Participants/Shareholders of subsidiaries and jointly controlled entities of the Company:

- On appointment of the General Director of LLC “Kazakhstan-China Pipeline” and election of its Chairman of the Board of LLC “Kazakhstan-China Pipeline”;
- On approval of annual financial statements of SJCE for 2015;
- On approval of budgets of SJCE for 2017;
- On review of the Plan of measures aimed at ensuring the financial sustainability of LLC “Kazakhstan-China Pipeline” in order to prevent a default;
- On the need to change the tariff for oil pumping

services via the trunk pipeline system of LLC “Kazakhstan-China Pipeline” with the purpose of exportation outside the Republic of Kazakhstan;

- On Approval of the procedure of distribution of the net income of JSC “NWPC - MunayTas” for 2015, decision on payment of dividends on common shares and approval of dividend size per common share of JSC “NWPC - MunayTas”;
- On early termination of powers and election of the members of the Board of Directors of JSC “NWPC - MunayTas”, etc.

Additional information on the discussions of the Board of Directors adopted in 2016 is available on the website in the section “Corporate Governance”.

STRATEGIC PLANNING COMMITTEE

The main task of the Committee is preliminary review and preparation of recommendations for the Board of Directors on matters of the development strategy of the Company, including identification of priorities.

The committee consists of the members of the Board of Directors and experts having necessary professional knowledge for the work in the Committee, the number of whom is determined by the Board of Directors of the Company. The Chairman of a committee must be an Independent Director.

The composition of the Committee for strategic planning (elected by the Decision of the Board of Directors of the Company dated 30 January 2016):

- Fernando Machinena – Independent Director, Chairman;
- Luis Coimbra – Independent Director;
- Serik Primbetov – Independent Director;
- Nurtas Shmanov – representative of JSC NC “KazMunayGas”.

The Committee is convened when necessary, but not less than once in six months.

Main issues considered

In 2016, the Committee for Strategic Planning held six in presentia meetings, during which the participants reviewed the following issues and elaborated respective recommendations:

- Review of the Business Plan of “KazTransOil” JSC for 2017-2021;
- Proposal of the Board of Directors to the General Meeting of Shareholders on distribution of the net income of the Company for 2015, retained earnings of previous years and dividend size for 2015 at a rate per common share of “KazTransOil” JSC;
- Review of the Risk Management Program of “KazTransOil” JSC for the years 2016-2018;
- Review of the tariff policy of LLC “KCP”;
- Review of the Risk Management Program of “KazTransOil” JSC for the years 2016-2018;
- Review of the Development Strategy of “KazTransOil” JSC until 2025.

COMMITTEE FOR PERSONNEL AND REMUNERATION

The main task of the Committee for Personnel and

Remunerations is to assist the Board of Directors in the implementation of its powers relating to the selection, appointment (election), evaluation and remuneration of the members of the Board of Directors, General Director (Chairman of the Management Board), members of the Management Board and Corporate Secretary.

The majority of the members of the Committee, including the Chairman of the Committee must be Independent Directors. The Chairman of the Board of Directors and General Director (Chairman of the Board) of the Company must not be members of the Committee.

The Composition of the Committee for Personnel and Remuneration (elected by the Decision of the Board of Directors of the Company dated 30 January 2016):

- Luis Coimbra – Independent Director, Chairman;
- Fernando Machinena – Independent Director;
- Ardak Mukushov – representative of JSC NC “KazMunayGas”;
- Serik Primbetov – Independent Director;

Main issues considered

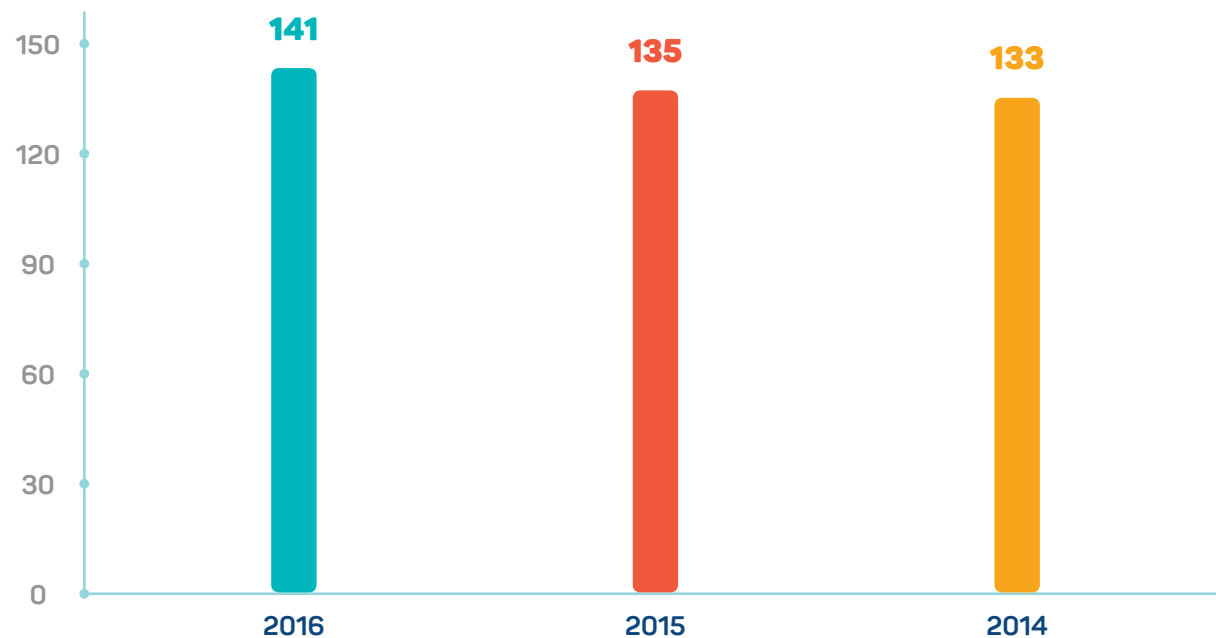
In 2016, the Company held 7 in presentia meetings of the Committee for Personnel and Remuneration, which reviewed and elaborated recommendations on the following issues:

- Approval of the qualification requirements for candidates to the position of Independent Director of “KazTransOil” JSC and recommendations on the number of the members, term of office, formation of the list of candidates to the members of the Board of Directors of the Company;
- Size, procedure for determining the terms of payment of remunerations to Independent Directors of the Company;
- Determination of the number of members, terms of powers of the Management Board of the Company, election of the General Director (Chairman of the Management Board) and members of the Management Board of “KazTransOil” JSC;
- Appointment of the Ombudsman of the Company;
- Remuneration of the executives of “KazTransOil” JSC in accordance with the results of work done in 2015;
- Review of the Report on the Results of the Evaluation of the Board of Directors of “KazTransOil” JSC for 2015.

INTERNAL AUDIT SERVICE

The task of the Committee for Internal Audit is to assist the Board of Directors on issues of external and

NUMBER OF THE ISSUES CONSIDERED AT THE MEETINGS OF THE BOARD OF DIRECTORS



RESULTS OF THE WORK OF THE COMMITTEES OF THE BOARD OF DIRECTORS

The following Committees of the Board of Directors were established for preliminary consideration of the most important issues and preparation of recommendations for the Board of Directors the Company:

- Committee for strategic planning;
- Committee for internal audit;
- Committee for personnel and remuneration.

The members of the Committees are appointed by the Board of Directors of the Company.

The procedure for creation and organization of committees is described in the relevant provisions on the committees.

internal audit, financial reporting, internal control and risk management, valuation of assets, compliance with the legislation of the Republic of Kazakhstan, as well as other issues on behalf of the Board of Directors of the Company.

The members of the Board of Directors, who are members of the Committee, including the Chairman of the Committee must be assigned from among Independent Directors.

Composition of the Committee for internal audit (elected by the Decision of the Board of Directors of the Company as of 30 January 2016):

- Serik Primbetov – Independent Director, Chairman;
- Luis Coimbra – Independent Director;
- Fernando Machinena – Independent Director.

The meetings of the Committee for Internal Audit are held when needed, but at least once per quarter.

The committee meetings are held with the obligatory invitation of the Auditor from LLC “Ernst & Young” for joint review of the audit results.

Main issues considered

In the reporting period, the Committee for Internal Audit held 9 in presentia meetings and 1 in absentia meeting, which reviewed and elaborated recommendations on the following main issues:

- Preliminary approval of the annual financial statements and consolidated annual financial statements of the Company for 2015;
- Review of the reports on the activities of the Internal Audit Service of the Company;
- Review of the Report on the evaluation of the Board of Directors of the Company;
- The number of auditors, term of powers of Internal Audit Service of the Company, appointment of its head and other employees, determining the amount and conditions of remuneration and bonuses of the Internal Audit Service;
- Approval of the Annual Audit Plan of the Internal Audit Service of the Company for 2017;
- Review of the Report on external evaluation of the Internal Audit Service and the Action Plan for implementation of the recommendations contained in the Report on external evaluation of the Internal Audit Service of the Company.

Additional information on the requirement to the composition, tasks and competences of the Committees of

the Board of Directors and modalities of holding the meetings of the Committees is available on the website in the section “Corporate Governance”.

EVALUATION OF THE WORK OF THE BOARD OF DIRECTORS

In accordance with the Regulations on the Board of Directors of “KazTransOil” JSC, the evaluation of the work of the Board of Directors, committees of the Board of Directors, members of the Board of Directors, Management Board, Internal Audit Service and its head, and following global best practices of Corporate Governance, “KazTransOil” JSC regularly carries out comprehensive assessment of the effectiveness of the Board of Directors and its committees, and individual assessment of the members of the Board of Directors.

In 2016, the work of the Board of Directors was evaluated with the assistance of independent external consultants: LLC “TopCompetence” (Russian Federation) and LLC “Olympex Advisers” (Republic of Kazakhstan), who have significant experience in evaluation of activities performed by Boards of Directors in international public companies.

The evaluation was conducted using the approved methodology for evaluating the activities of the Board of Directors, taking into account the requirements of the Corporate Governance Code and global best practices in Corporate Governance.

The evaluation included analysis of internal documents and minutes of the Board of Directors and reports of the committees of the Board of Directors, surveys of the members of the Board of Directors, individual interviews of independent consultants with the Chairman of the Board of Directors, members of the Board of Directors, Chairman of the Management Board and Corporate Secretary on such matters as the role and functions of the Board of Directors, the composition and structure of the Board of Directors and its committees, conduct of business, interaction with the management and other bodies of the Company, priorities of the Board of Directors and its committees.

The independent evaluation noted the important role of the Board of Directors in balancing the interests of the shareholders of the Company, defining the development priorities, the significant contribution of Independent Directors to work of the Board of Directors, the important role of the Chairman in ensuring constructive working style of the Board of Directors, good work of the Corporate Secretary.

The evaluation showed steady improvement of the quality and effectiveness in many aspects of the activities of the Board of Directors the Board of Directors, which is also confirmed, in particular, by the growth of the Corporate Governance rating of the Company.

The evaluation results were discussed at the meeting of the Board of Directors. Following the discussion of the results, priority areas were determined for improvement, in particular: updating internal documents of the Company in connection with the adoption of the new Corporate Governance Code, streamlining the involvement of the Board and its relevant committees in the discussion of policies of remuneration, further improvement of the internal control system, development of a program for professional development of the members of the Board of Directors.

Following the results of the evaluation of work of the Board of Directors, the Board of Directors developed and approved the Action Plan for improving the activities of the Board of Directors dated 27 June 2016.

REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS

The payment of remuneration and compensation of expenses to the Independent Directors is regulated by the

Rules of payment of remuneration and compensation of expenses of independent Directors of joint stock companies of JSC NC “KazMunayGaz”.

The representatives of JSC NC “KazMunayGaz” and the General Director (Chairman of the Board), who are members of the Board of Directors, receive no remuneration for the work in this body.

For the performance of their duties, the members of the Board of Directors, Independent Directors receive an annual fixed remuneration and additional remuneration for participation in the in presentia meetings of the committees of the Board of Directors.

- Fixed remuneration in the amount of 80 000 (eighty thousand) US dollars per year;
- Additional remuneration for participation in the in presentia meetings of the committees of the Board of Directors in the amount of 1000 (one thousand) US dollars.

The Independent Directors receive compensation for their expenses (travel, accommodation, per diem) associated with arrival to the meetings of the Board of Directors and committees of the Board of Directors held outside the place of permanent residence of the Independent Directors.

The total amount of accrued remuneration paid to the Independent Directors in accordance with the results of their work for 2016 was 110 938 thousand KZT, including taxes.

REMUNERATION TO INDEPENDENT DIRECTORS OF THE COMPANY IN 2016, THOUSAND KZT

Independent Director	Annual remuneration	For participation at the in presentia meetings of the Committees	Total, less taxes	Total, including taxes
Luis Coimbra	24,830	7,067	31,897	35,441
Fernando Machinena	24,830	7,109	31,939	35,487
Serik Primbetov	26,769	7,113	33,882	37,647
Daniel Mihalik	-	2,126	2,126	2,363
Total	76,429	23,415	99,844	110,938

Additional information on remuneration to the members of the Board of Directors is available on the Company website in the section “Corporate Governance”.

5.4

MANAGEMENT BOARD

The management of current activities of the Company is carried out by the collegial executive body – the Management Board, which provides effective accomplishment of the Company’s objectives and implementation of the development strategy.

The main principles of the Management Board are honesty, integrity, intelligence, diligence, regularity, as well as the maximum rights and interests of the Shareholders and accountability on the decisions of the General Meeting of Shareholders and the Board of Directors.

The Management Board is guided in its activity by the legislation of the Republic of Kazakhstan, Charter, Corporate Governance Code, Regulations on the Management Board and other internal documents of the Company.

The Management Board is headed by the General Director, who organizes and coordinates its work.

The Management Board is responsible for the allocation of financial and human resources to implement the objectives set by the General Meeting of Shareholders and the Board of Directors. The Management Board reports to the Board of Directors on the work done to achieve the objectives of the Company.

Additional information about the powers and performance of the Management Board of the Company is available on the website in the section “Corporate Governance”.

COMPOSITION OF THE MANAGEMENT BOARD

In 2016, the Management Board consisted of eight members.

MANAGEMENT BOARD OF THE COMPANY AS OF 31 DECEMBER 2016

Name	Position
Dimash Dossanov	General Director (Board Chairman)
Aleksey Pirogov	First Deputy General Director of
Madiyar Berlibayev	Deputy General Director for Economics and Finance
Bolat Otarov	Deputy General Director for Transportation
Murat Mukashev	Deputy General Director for Transformation
Chingiz Seisekenov	Deputy General Director for Business Support
Shara Tanatarova	Deputy General Director for Corporate Development and Assets
Zhaidarman Issakov	Managing Director for Legal Support



DIMASH DOSSANOV

General Director (Chair of the Management Board) of “KazTransOil” JSC

Citizenship: Republic of Kazakhstan.

Date and place of birth: 2 November 1981, Alma-Ata.

Graduated from the Kazakh National University named after Al-Farabi, majoring in International Relations, qualification: specialist in international relations, geographers with knowledge of two foreign languages, Kazakh Economic University named after T. Ryskulov, majoring in Finance and Credit, qualification - economist. Master’s degree in business administration (Executive MBA), Georgetown University Washington, USA.

EXPERIENCE:

- 2006-2010 – Deputy Director of the Department for development of Kazakh content in major oil and gas projects of JSC NC “KazMunayGas”.
- 2010-2014 – Deputy General Manager for Service and General Manager for Service at North Caspian Operating Company (NCOC).
- 2014-2016 – First Deputy General Director, General Director of LLC “Kazakhstan-China Pipeline”.
- From 15 January to 5 August 2016 – First Deputy General Director of JSC “KazTransOil”.
- From 6 August 2016 – General Director (Management Board Chairman) of “KazTransOil” JSC.
- From 6 August 2016 – Chairman of the Board of “KazTransOil” JSC.
- Chairman of the Supervisory Board of LLC “Batumi Oil Terminal”.
- No SJCE shares of the Company are held.
- No shares of suppliers and competitors of the Company are held.
- No transactions with the shares of the Company were carried out.



ALEKSEY PIROGOV

First Deputy General Director of “KazTransOil” JSC

Citizenship: Republic of Kazakhstan.

Date and place of birth: 26 March 1961, Russian Federation.

Graduated from the Kazakh Polytechnic Institute named after Lenin, majoring in “Mining engineering”, qualification - mining engineer. In 2005, awarded the degree of doctor of technical Sciences.

EXPERIENCE:

- 2004-2006 – Deputy Director of the Department of Oil Industry, Director of Department of Gas Industry of the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan.
- 2006-2012 – Technical Director and Production Director, Deputy General Director for Production of “KazTransOil” JSC.
- 2012-2016 – Director for Industrial Assets Management, Deputy General Director for Asset Management, JSC NWF “Samruk-Kazyna”.
- From 6 August 2016 – First Deputy General Director of “KazTransOil” JSC.
- From 8 August 2016 to current – member of the Management Board of “KazTransOil” JSC.
- No membership in the management bodies of other organizations.
- No SJCE shares of the Company are held.
- No shares of suppliers and competitors of the Company are held.
- No transactions with the shares of the Company were carried out.



MADIYAR BERLIBAYEV

Deputy General Director of "KazTransOil" JSC for Economy and Finance

Citizenship: Republic of Kazakhstan.

Date and place of birth: 20 August 1973, Jambyl region.

Graduated from Karagandy Labor Red Banner Polytechnic Institute majoring in "Energy Supply", qualification - electrical engineer, received the academic degree Bachelor of Economics of the Kazakh Economic University named after T. Ryskulov.

EXPERIENCE:

- 2004-2009 - Deputy Director of the Department of Budgeting and Economic Analysis and Deputy General Director for Economics in LLC "Kazakhstan-China Pipeline".
- 2009-2012 - Deputy Chairman of the Board in LLC "United Chemical Company".
- 2012-2016 - Deputy General Director for Economics LLC "Kazakhstan-China Pipeline".
- From 21 September 2016 - Deputy General Director of "KazTransOil" JSC for Economics and Finance.
- From 21 September 2016 to current - member of the Management Board of "KazTransOil" JSC.

- No membership in the management bodies of other organizations.
- No SJCE shares of the Company are held.
- No shares of suppliers and competitors of the Company are held.
- No transactions with the shares of the Company were carried out.

EXPERIENCE:

- 2003-2006 - Executive Director for Commodity and Transport Operations of "KazTransOil" JSC.
- 2006-2007 - Executive Director for transportation of "KazTransOil" JSC.
- From May 2007 - Deputy General Director "KazTransOil" JSC for Transportation.
- From 20 February 2008 to current - member of the Management Board of "KazTransOil" JSC.

- No membership in the management bodies of other organizations.
- Holder of the company shares in the amount of 135 shares or 0.00004% of the total number of outstanding shares.
- No SJCE shares held.
- No shares of suppliers and competitors of the Company are held.
- No transactions with the shares of the Company were carried out.



MURAT MUKASHEV

Deputy General Director "KazTransOil" JSC for Transformation

Citizenship: Republic of Kazakhstan.

Date and place of birth: 13 March 1966, the city of Kulsary, Atyrau region.

Graduated from Moscow State University named after Lomonosov majoring in "Physics", qualification - physicist. Master's Degree in Business Administration (GEMBA), Georgetown University, ESADE Business School, Washington, USA.

EXPERIENCE:

- 2004-2006 - Deputy General Director for Development LLC "TenizService".
- 2006-2009 - General Manager for the human resources department, member of the management team of LLC "Tengizchevroil".
- 2009-2014 - Director for corporate services in the private limited liability company "KMG Kashagan B. V.", seconded to "North Caspian Operating Company B. V.".
- 2015-2016 - Deputy General Director LLC "KMG Systems & Services".
- From 24 October 2016 - Deputy General Director for Corporate Development, Deputy General Director for Transformation of "KazTransOil" JSC.
- From 22 February 2016 to current - member of the Management Board of "KazTransOil" JSC.

- No membership in the management bodies of other organizations.
- No SJCE shares of the Company are held.
- No shares of suppliers and competitors of the Company are held.
- No transactions with the shares of the Company were carried out.

EXPERIENCE:

- 2007-2015 - Managerial positions in LLC "Kazakhstan-China Pipeline", LLC "Kazakhstan Petrochemical Industries", LLC "Gas Pipeline Beineu-Shymkent".
- 2015-2016 - Deputy General Director for Commerce LLC "Kazakhstan-China Pipeline".
- From February to October 2016 - Managing Director of "KazTransOil" JSC for Business Support.
- From 24 October 2016 - Deputy General Director "KazTransOil" JSC for Business Support.
- From 24 October 2016 to current - member of the Management Board of "KazTransOil" JSC.

- Member of the Supervisory Board of LLC "Batumi Oil Terminal".
- No SJCE shares of the Company are held.
- No shares of suppliers and competitors of the Company are held.
- No transactions with the shares of the Company were carried out.



CHINGIZ SEISEKENOV

Deputy General Director "KazTransOil" JSC for Business Support

Citizenship: Republic of Kazakhstan.

Date and place of birth: 11 April 1981, Alma-Ata.

Graduated from the Kazakh Economic University named after T. Ryskulov majoring in "International Economic Relations, International Monetary Relations", with the qualification - international monetary and financial relations. In 2005, finished the postgraduate course at the Kazakh Economic University named after T. T. Ryskulov majoring in "Finance, Monetary Circulation and Credit". Academic degree: Candidate of Economic Sciences.



**SHARA
TANATAROVA**

*Deputy General Director
“KazTransOil” JSC for
Corporate Development and
Assets*

Citizenship: Republic of Kazakhstan.

Date and place of birth: 30 November 1978 in the town of Zhanaozen, Mangystau region.

Graduated from the University of Massachusetts, majoring in “Accounting, Finance”. In 2002, received a Master’s Degree in Business Administration from the University of Massachusetts, majoring in Finance. In 2009, graduated from the International School of Management, majoring in Finance, received the degree of Doctor of Economic Sciences (PhD).

EXPERIENCE:

- 2004-2011 – Manager, Chief Manager, Director of the Corporate Finance Department of JSC NC “KazMunayGaz”
- 2011-2012 – Managing Director for corporate development of JSC “KazMunayGaz – Refining and Marketing”.
- 2012-2016 – Director for Corporate Finance and Asset Management, Director of Asset Management Department of JSC “KazMunayGas”.
- 2015-2016 – Deputy General Director for Business Support “KazMunayGaz Global Solutions” (part time).
- From 24 October 2016 – Deputy General Director for Corporate Development and Assets of “KazTransOil” JSC.
- From 24 October 2016 to current – member of the Management Board of “KazTransOil” JSC.
- Member of the Board of Directors JSC “Bayterek Venture Fund”; Member of the Supervisory Board LLC “Batumi Oil Terminal”; Member of the Board of Directors of JSC “NWPC - MunayTas”.
- No SJCE shares of the Company are held.
- No shares of suppliers and competitors of the Company are held.
- No transactions with the shares of the Company were carried out.

EXPERIENCE:

- 2002-2014 – Director of the Legal Department in “KazTransOil” JSC.
- From 4 May 2014 – Managing Director for Legal Support “KazTransOil” JSC.
- From 12 May 2003 to current – member of the Board “KazTransOil” JSC.
- Member of the Supervisory Board of LLC “Batumi Oil Terminal”.
- No SJCE shares of the Company are held.
- No shares of suppliers and competitors of the Company are held.
- No transactions with the shares of the Company were carried out.



**ZHAIDARMAN
ISSAKOV**

*Managing Director of
“KazTransOil” JSC for Legal
Support*

Citizenship: Republic of Kazakhstan.

Date and place of birth: 29 October 1965, Zhambyl region.

Graduated from the Kazakh State University named after S. M. majoring in “Jurisprudence”, qualification – lawyer. In 2003, he was trained at the Academy of National Economy under the Government of the Russian Federation, majoring in “Lawyer oil and gas industry”.



THE RESULTS OF THE WORK OF THE MANAGEMENT BOARD IN 2016

In 2016, the Management Board of the Company did not conduct in absentia meetings, and held 33 in presentia meetings.

The Management Board of the Company adopted decisions on 205 considered issues, issued 222 instruction; all the instructions were accomplished. At the same time, the Management Board considered 75 questions, which were submitted for consideration to the Board of Directors, and 6 were submitted to the General Meeting of Shareholders of the Company.

Corporate Governance:

- Approval of the Corporate Governance Code;
- Approval of the Report for 2015 on the compliance of “KazTransOil” JSC with the principles enshrined in the Corporate Governance Code of “KazTransOil” JSC;
- Approval of corporate and functional key performance indicators for the heads of structural divisions of the central office, heads of branches and representative offices of “KazTransOil” JSC for 2016 and their target values;
- Review of the Plan of Measures on Improving Corporate Governance system of “KazTransOil” JSC,
- Approval of the Annual Report of “KazTransOil” JSC for 2015.

- Approval of the Work Plan of the Risks Committee of “KazTransOil” JSC for 2016,
- Approval of the quarterly Report on the dynamics of the key risks and the implementation of the Action Plan for key risks management,
- Approval of the Risk Matrix and Controls of “KazTransOil” JSC for individual business processes,
- Approval of the Risk Management Program of “KazTransOil” JSC for 2016-2018.

Issues related to the competence of General Meetings of Participants/Shareholders of subsidiaries and jointly controlled entities of the Company.

Approval of the internal documents of the Company, including:

- Program for cost management of “KazTransOil” JSC for 2017-2021;
- Rules for planning and organizing the work on capital construction, technical re-equipment and reconstruction of facilities of “KazTransOil” JSC;
- Regulations on the production control over the observance of industrial safety requirements at hazardous production facilities of “KazTransOil” JSC;
- Rules of competitive selection for vacant posts and adaptation of new employees in “KazTransOil” JSC;
- Regulations on the Council of Young Specialists of “KazTransOil” JSC and others.

Financial and economic activity:

- Approval of the annual financial statements and consolidated annual financial statements of the Company for 2015;
- Approval of the annual financial statements and consolidated annual financial statements of LLC “KKT”, JSC “NWPC - MunayTas”, “BTL” in 2015,
- Approval of the Business Plan of “KazTransOil” JSC for 2017-2021;
- Conclusion of transactions in which the Company has an interest with the organizations belonging to the group of companies JSC “Samruk-Kazyna”.

Risk management and internal control:

- Review of the Report on the activities of the Risks Committee in 2015;

ATTENDANCE OF THE MANAGEMENT BOARD MEETINGS IN 2016

Board Member	Attendance of meetings	%	Period of being a member of the Board during the reporting period
Nurtas Shmanov	19 of 19	100	01.01.2016 – 05.08.2016
Dimash Dossanov	28 of 31	90	15.01.2016 – 31.12.2016
Sisengali Utegaliev	2 of 2	100	01.01.2016 – 14.01.2016
Aleksey Pirogov	13 of 14	93	08.08.2016 – 31.12.2016
Yerken Aymurzayev	11 of 11	100	19.02.2016 – 22.10.2016
Assem Nusupova	19 of 19	100	01.01.2016 – 20.09.2016
Madiyar Berlibayev	11 of 11	100	21.09.2016 – 31.12.2016
Ruslan Mestoyev	3 of 3	100	01.01.2016 – 05.02.2016
Chingiz Seisekenov	8 of 8	100	24.10.2016 – 31.12.2016
Bolat Otarov	26 of 33	79	01.01.2016 – 31.12.2016
Bulat Zakirov	19 of 19	100	01.01.2016 – 14.10.2016
Murat Mukashev	25 of 26	96	22.02.2016 – 31.12.2016
Shara Tanatarova	8 of 8	100	24.10.2016 – 31.12.2016
Almas Ungarsynov	1 of 1	100	01.01.2016 – 12.01.2016
Zhaidarman Issakov	30 of 33	91	01.01.2016 – 31.12.2016

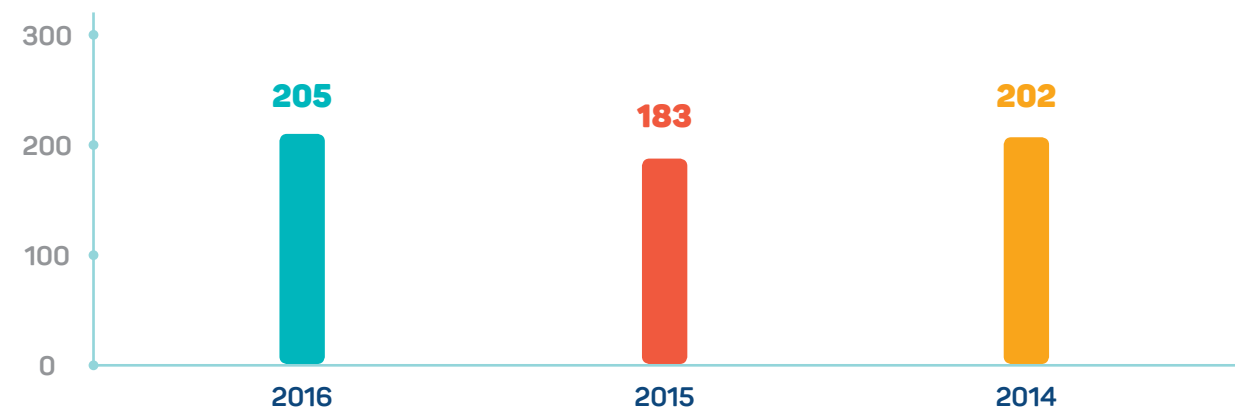
During these meetings, the participants reviewed the following key issues, inter alia, and adopted respective decisions:

Strategic development:

- Approval of the report for 2015 on implementation of the Company Development Strategy for 2012-2022;

- Approval of Action Plan for 2015 for Implementation of Development Strategy for 2012-2022;
- Report on Implementation of the Business Plan of the Company for 2015;
- Preliminary review of the draft Development Strategy of “KazTransOil” JSC until 2025.

NUMBER OF THE ISSUES CONSIDERED AT THE MEETINGS OF THE MANAGEMENT BOARD OF THE COMPANY



RESULTS OF THE WORK OF THE COMMITTEE FOR RISKS

The Risks Committee was established for the purpose of preliminary consideration of the risk management issues and proposing recommendations to the Management Board of the Company.

This Committee is a consultative body operating in accordance with the Regulations on Risk Committee of “KazTransOil” JSC and other internal documents of the Company in the field of CRMS and ICS.

The main objectives of the Committee are:

- Assistance to the Management Board of the Company in making decisions in the field of risk management of the Company;
- Preparing recommendations and proposals for organization and maintenance of an effective corporate risk management system of the Company;
- Development of processes designed to identify, measure, monitor and control risks of the Company;
- Preparing recommendations and proposals on the control over the coordination of the risk management of the Company.

The Chairman of the Committee is the General Director (Chairman of the Management Board).

During the reporting period, the Committee work was conducted in accordance with the Work Plan of the Risk Committee of “KazTransOil” JSC for 2016, approved by decision of the Management Board of the Company dated 23 February 2016.

In the reporting period, the Risk Committee of the Company held 6 meetings, including 5 full-time and 1 part-time, aimed at further improvement of the corporate risk management and internal control systems of the Committee, during which the following events happened:

- Approval of quarterly Reports on the Dynamics of Key Risks and Implementation of the Action Plan on key risks management of the Company;
- Approval of the draft Work Plan of the Risk Committee of the Company for 2016;
- Review of the draft Matrix of Risks and Controls and Flowcharts for the Business Processes of the Company;
- Approval of the draft Classifier of Business Processes of the Company for 2016;
- Review of the draft Risk Management Program of the Company for 2016-2018.

All the matters considered by the Risk Committee of the Company in the reporting period were submitted in the prescribed manner for further consideration and/or approval to the relevant bodies of the Company.

standards and improving policies and practices in the field of Corporate Governance;

- Ensuring effective operation of the Board of Directors and its committees;
- Ensuring the conduct of the General Meetings of Shareholders;
- Ensuring the storage, disclosure and provision of significant information on “KazTransOil” JSC, as well as maintaining a high level of information transparency;
- Ensuring clear and effective communication between

Company and shareholders, as well as between the Company bodies.

By the decision of the Board of Directors of “KazTransOil” JSC, from July 2015, the Corporate Secretary of “KazTransOil” JSC was appointed Shmanov Ayrat Makhambetovich.

The tasks, functions, rights, duties and responsibilities of the Corporate Secretary of the Company are stated in the Corporate Governance Code and the Regulation on Corporate Secretary of “KazTransOil” JSC. The Regulations on the Corporate Secretary can be found on the website of Company in the section “Corporate Governance”.

5.5

ROLE AND ACTIVITIES OF THE CORPORATE SECRETARY OF THE COMPANY

The Corporate Secretary acts in accordance with the legislation of the Republic of Kazakhstan, Company Charter, Corporate Governance Code, Regulations on the Corporate Secretary of “KazTransOil” JSC, other internal documents of the Company and decisions of the General Meeting of Shareholders and the Board of Directors of the Company.

The Company Corporate Secretary is accountable and reports on the activities to the Board of Directors.

The main tasks of the Corporate Secretary include the following:

- Ensuring the compliance of the bodies and officials of the Company with the Corporate Governance

5.6

INTERNAL AUDIT SERVICE

The internal audit service of the Company was established on 8 August 2013 by the decision of the Board of Directors of the Company and is the body of the Company that is directly subordinate and accountable to the Board of Directors.

The mission of the Service is to provide the necessary assistance to the Board of Directors and the Management Board of the Company in the performance of their duties to achieve the strategic goals of the Company, to provide independent and objective guarantees and consultations aimed at creating additional positive value for the Company.

The main goal of the Service is to provide the Board of Directors with independent and objective information intended to ensure effective management of the Company by applying a systematic approach to the improvement of risk management processes, internal control and corporate governance.

The Service is guided in its activity by the Regulation on the Internal Audit Service of “KazTransOil” JSC and Regulations on Duties of Employees of the Service.

The head and employees of Internal Audit Service are appointed by the Board of Directors of the Company. The activity of the Service is supervised by the Committee for Internal Audit of the Board of Directors of the Company.

In 2016, the actual number of employees in the Service was 5 people.

The service operates in accordance with the Annual Audit Plan approved by the Board of Directors of the Company.

In the reporting year, the Service carried out 5 audits of individual business processes of the Company, assessment of the Corporate Governance system of the Company, as well as individual audits of production, operational and financial processes of LLC “Batumi Oil Terminal”, LLC “Batumi Sea Port”, Petrotrans Ltd and JSC “NWPC - MunayTas”.

During the audit in 2016, the Service identified 87 inconsistencies and issued 158 recommendations. All the recommendations of the Service were used to elaborate and approve the Plans of Corrective Actions on Detected Inconsistencies.

In 2016, the Audit Service was evaluated against the international professional standards of internal auditing of the Institute of Internal Auditors by the external consultant LLC “KPMG Tax and Advisory”. According to the evaluation, the Service was estimated as 96% compliant, which meets the Standards and their practical recommendations.

2017

In 2017, the following activities are planned as the activities of the Internal Audit Service:

- Evaluation of the effectiveness of business processes, policies, procedures for the main activities of the Company;
- Monitoring of execution of the recommendations issued by the Internal Audit Service of the Company, JSC NC “KazMunayGaz” and the external auditor of the Company.

5.7

EXTERNAL AUDITOR

To confirm the correctness of the financial statements, the Company involves an independent audit organization.

By the decision of the Board of Directors dated 17 May 2013, the Company approved the Policy of “KazTransOil” JSC in the sphere of attracting auditing companies. The aim of this policy is to organize effective activities for attracting services of audit organizations (including non-audit services provided by audit organizations), introduction of unified procedures for their selection, ensuring the preservation of the independence status by the auditors of AO “KazTransOil” when providing audit and non-audit services and to prevent conflicts of interest.

The main criteria for selection of an auditing firm are:

- Quality of services.
- Speed and timeliness of service delivery;
- Cost of services.
- The quality of auditing firm services is determined as follows:
- Qualification of the auditing firm specialists;
- Experience of the auditing firm specialists, both in Kazakh and international markets;
- Knowledge of the auditing firm specialists of the oil and gas industry;
- Access to a specialized technical support group (experts in the area of accounting in accordance with the IFRS for the oil and gas sector) in Kazakhstan or

provision by the auditing firm of the commitment to create such a group.

In accordance with the Charter of “KazTransOil” JSC, the exclusive competence of the General Meeting of Shareholders includes determining in the prescribed manner of an auditing firm to perform the audit of the Company, and the size of payment for its services of auditing the financial statements.

At the extraordinary General Meeting of Shareholders of “KazTransOil” JSC dated 14 January 2016, it was decided to assign LLC “Ernst & Young” as the auditing firm to audit “KazTransOil” JSC for 2016-2018 and the payment for its services of auditing the financial statements of “KazTransOil” JSC in the amount of 223 558 062 (two hundred twenty-three million five hundred fifty-eight thousand sixty-two) KZT including the VAT.

The size of the remuneration for the services of auditing the financial statements is established in accordance with the contract. The sizes of annual remuneration, including VAT, for 2016, 2017 and 2018, paid to the auditing firm for the services of auditing the financial statements are 70 221 781 KZT, 74 435 088 KZT, and 78 901 193 KZT, respectively.

LLC “Ernst & Young” did not provide consulting services, which are unrelated to the audit of the financial statements, in the reporting period.

More detailed information on the external auditor of the Company is provided on the website of the Company.

5.8

COUNTERING CORRUPTION

In the framework of implementation of the anti-corruption policy of the Republic of Kazakhstan and in accordance with the Law of the Republic of Kazakhstan “On countering corruption”, the Company is working on the prevention of corruption, formation of anti-corruption culture, prevention and resolution of conflicts of interest. Countering involvement in corrupt practices is one of the fundamental principles of Corporate Governance of the Company.

The anti-corruption procedures laid down in the corporate documents of the Company, such as the Corporate Ethics Code of “KazTransOil” JSC, Policy for Managing the Risk of Violations in “KazTransOil” JSC, Policy on Settlement of Conflict of Interests of the Officials and Employees of “KazTransOil” JSC.

In 2016, work was begun on developing anti-corruption standards for “KazTransOil” JSC, which is planned for adoption in 2017.

The Company developed internal communications, through which any employee can inform the management of the Company on the impending or emerged corruption. The Company is working on filling the official corporate website sections that contain information on the main activities; current projects; procurement of goods, works and services. Also, the website of the Company has a blog of the General Director (Chairman of the Management Board) and the phone number of the hotline that will provide any necessary information.

When contractual relations are concluded with partners and contractors, the degree of their rejection of corruption in the implementation of their activities is taken into account.

The staff is regularly informed on the existing anti-corruption procedures.

In 2016, no corruption or fraud events were detected in the Company.

0 facts

of corruption or fraud events were detected in 2016

5.9

CORPORATE ETHICS, SETTLEMENT OF CORPORATE CONFLICTS AND CONFLICTS OF INTEREST

In its activities and relationships with stakeholders, the Company follows high ethical standards and values enshrined in the Corporate Ethics Code. The Company has an effective system of monitoring the compliance with the provisions of the Code.

The fundamental corporate values, which form the basis for the activities of the Company, are decency, reliability and professionalism of its employees, effectiveness of their work, mutual assistance, mutual respect, as well as respect to stakeholders and to the society as a whole.

Procedures to prevent conflicts of interest are regulated by such documents as Policy for managing the risk of violations in “KazTransOil” JSC and Policy on settlement of the conflict of interests of the officials and employees of “KazTransOil” JSC.

These documents are aimed at combating the violations and monitoring their risks in the Company, as well as ensuring fair, objective and independent decision-making in the interests of the employees and officers of the Company. The Company employees follow the principles and procedures laid down by those Policies in all their activities.

An officer of the Company must immediately inform the Chairman of the Board of Directors in writing through the Corporate Secretary on the presence or emergence of a conflict of interest, so the Board of Directors adopts a decision to settle this conflict.

An employee of the Company must immediately inform their immediate supervisor on the presence or emergence of a conflict of interest to resolve such a conflict.

The General Director (Chairman of the Board) must on behalf of the Company settle corporate conflicts on all issues, decisions on which are not within the competence of the Board of Directors, and must determine the procedures to settle the corporate conflicts.

By the decision of the Board of Directors dated 26 May 2016, B. Kirgizbayev was appointed Ombudsman. The main functions of the Ombudsman are to assist the officials and employees of the Company in the prevention and resolution of conflicts of interest, to stakeholders in ethical issues arising in the course of interaction, and to clarify the provisions of the Code of conduct and the Policy for managing the risks of violations in the Company.

The officers, employees and other stakeholders may contact the Ombudsman via the hotline:

- By telephone;
- In writing via the electronic trust system doverie@kaztransoil.kz;
- via a personal appeal.

In 2016, 6 inquiries were received, including 3 via the telephone hotline and 3 in the form of personal contact. All

of them concerned the employment relationship between the Company and employees. Personal meetings were held on all the inquiries and clarification provided. All initiators of these inquiries were satisfied with the results of decisions made on their issues.

In 2016, the Company also had the Service for compliance monitoring, which focused on the implementation of the internal control over in Company’s compliance with the legislation of the Republic of Kazakhstan on securities market and joint-stock companies, as well as internal documents of

JSC “Kazakhstan Stock Exchange” and the Company with the aim of identifying potential threats to activities implemented in violation of the requirements applicable to the Company as a listed company.

In 2016, the Central Office staff participated in a workshop for the Company insiders.

Annually, the Board of Directors receives a report on the transparency of “KazTransOil” JSC and effectiveness of information disclosure in the reporting period.



6 inquiries

Were received via the telephone hotline in 2016

6. FINANCIAL AND ECONOMIC PERFORMANCE

MANAGERIAL REPORT

MAIN OIL PIPELINE

UZEN-ATYRAU-SAMARA

This section is based on the results of discussion and analysis by the management of the Company and is aimed at disclosing the information on the current financial status of “KazTransOil” JSC, the impact of the Company operations and external environment changes on the financial performance of the Company.

This review is based on the audited annual consolidated financial statements of the Company prepared in accordance with International financial reporting standards and should be read together with the annual consolidated financial statements and the accompanying notes, and

together with the other information presented in other sections of the Report.

The consolidated profit and loss statement includes the profits and expenses of “KazTransOil” JSC and BTL. The financial performance of the jointly-controlled entities - LLP “KCP” and JSC “NWPC - MunayTas” are reported with aggregations based on their shares in the Company under the Section “Profit/loss share of jointly controlled entities”.

MAIN CONSOLIDATED FINANCIAL INDICATORS

In 2016, the changes in the consolidated financial results of the Company as compared to 2015 were caused by the following factors:

- Formation in 2015 of a large positive exchange rate difference on the current and deposit accounts in foreign currency amounting to 24.9 billion KZT;
- Increase in the consolidated expenses by 23.3 billion KZT, mainly due to the impairment of fixed assets and increase in operating expenses;
- Decrease in the sales revenues due to the decrease in the revenues from transshipment for export by 12.6 billion KZT due to the decrease in the export turnover. The decrease in the services of oil replacement is due to the partial delivery of oil to the PPCP through the “TON-2”;
- A significant increase in revenues from the transit of the Russian oil to China by 2.4 billion KZT, which is due to the USD exchange rate growth. The increase in revenues from crude oil transshipment to the domestic market by 7.4 billion KZT is due to the tariff increase by 21% and turnover increase by 5%.

Thus, by the end of 2016, the consolidated net profit of the Company amounted to 44.5 billion KZT. In comparison with 2015, the net consolidated profit declined by 185 million KZT, which is due to the reduction in the revenues, increase in the operating costs and other expenses due to impairment of fixed assets. At the same time, there was a significant increase in the profits of jointly-controlled entities and decrease in the income tax expenses.

In 2016 “KazTransOil” JSC paid dividends to shareholders at the end of 2015 in the total amount of 51.2 billion KZT.

CONSOLIDATED FINANCIAL PERFORMANCE INDICATORS OF THE COMPANY, MILLION KZT

Consolidated Indicators	2016	2015	Change, %
Revenues	207,108	213,162	-2.8
Cost of sales	-129,862	-124,064	4.7
Gross profit	77,246	89,098	-13.3
General and administrative expenses	-15,653	-12,092	29.4
Other operating profit	3,940	1,659	137.5
Other operating expenses	-868	-1,734	-49.9
Loss from of fixed assets	-14,213	-1,331	967.8
Profit from operating activities	50,452	75,600	-33.3
Income from exchange rate differences, net	-1,612	25,544	-106.3
Financial profits	6,191	3,027	104.5
Financial expenses	-2,460	-2,177	13.0
Share of losses of jointly controlled entities	2,336	-34,674	-106.7
Income tax expenses	-10,380	-22,607	-54.1
Net profit for the period	44,528	44,713	-0.4

INCOME

Total consolidated income in the reporting period amounted to 217,238 million KZT, which is 10.7% less than the

total income in 2015 (243,392 million KZT).

In 2016, the share of profits in the total revenues amounted to 95.3% and amounted to 207,108 million KZT, while in 2015 the share of profits amounted to 87.6%.



STRUCTURE OF INCOME, %

Consolidated Indicators	2016	2015
Revenues	95.3	87.6
Financial profits	2.8	1.2
Other profits	1.8	11.2

STRUCTURE OF REVENUES, MILLION KZT

Consolidated Indicators	2016	2015	Change, %
Revenues	207 108	213,162	-2.8
Transportation of crude oil*	171,762	176,037	-2.4
Pipeline operation and maintenance services	9,519	8,919	6.7
Transshipment of oil and oil products and transportation by rail	8,089	14,562	-44.5
Transportation of water	7,157	6,604	8.4
Services of oil freight forwarding and sea port	6,176	4,244	45.5
Payments for under-delivered oil	2,507	1,295	93.6
Other	1,898	1,502	26.4

* Section "Oil transportation and water supply" describes pumping, loading, unloading and transshipment of oil via the system of main oil pipelines of "KazTransOil" JSC.

The Company's consolidated revenues in 2016 were 2.8% lower than in 2015. The decrease in revenues was mostly due to the decrease in revenues from oil transportation by 4 275 million KZT and decrease in revenues from oil transshipment and oil products transportation by rail by 6 473 million KZT.

The decline in transportation as compared to the last year is due to the decrease of oil delivery to the main oil pipelines from the oil companies LLC "Tengizchevroil", JSC "CNPC - Aktobemunaygas", "Karachaganak Petroleum Operating B. V.", JSC "Turgay Petroleum", JSC "PetroKazakhstan Kumkol

Resources", LLC "South Oil".

At the same time, there was an increase in revenues from the operation of main oil pipelines belonging to third parties. This increase is primarily due to the rising cost of services in connection with the indexation of wages of the production personnel by the rate of inflation.

The consolidated financial income in 2016 was 6 191 million KZT, which is 104.5% higher than in 2015. This increase

was due to higher remunerations on current bank accounts and deposits by 2 560 million KZT.

EXPENSES

The total cost (excluding the share of losses of jointly controlled entities) for 2016 was 163 056 million KZT, which is 15.3% higher than in 2015.

STRUCTURE OF EXPENSES, %

Consolidated Indicators	2016	2015
Cost of sales	79.6	87.7
General and administrative expenses	9.6	8.6
Loss from of fixed assets	8.7	0.9
Financial expenses	1.5	1.6
Other expenses	0.5	1.2



The major share in the Company's total expenses is the cost of sales. In 2016, the share of the cost of sales was 79.6 percent, while in 2015 it amounted to 87.7%. At the same time, it should be noted that the share of cost in the structure

of total expenses in 2016 declined due to the expenses connected with the impairment of fixed assets, the share of which amounted to 8.7%.

STRUCTURE OF THE COST OF SALES, %

Consolidated Indicators	2016	2015
Personnel costs	37.1	35.2
Depreciation and amortization	30.6	26.1
Fuels and materials	6	6.2
Electricity	5.2	5.6
Taxes other than corporate income tax	4.9	4.4
Fixed assets repair and maintenance costs	3.9	3.8
Security services	3,2	3.4
Gas costs	2.2	2.1
Air patrol services	1.2	1.3
Railway services	0.9	6.5
Other	4.8	5.4

The cost increase in 2016 compared to 2015 was mainly influenced by the following factors:

- increase in the production personnel expenses of "KazTransOil" JSC in connection with indexation of wages by the rate of inflation;
- Increase in depreciation and amortization due to fixed assets revaluation;
- Increase of gas costs of "KazTransOil" JSC due to the increase in the cost of procurements because of the dollar exchange rate increase.

The consolidated general and administrative expenses in 2016 were 15,653 million KZT, which is 29.4% higher than in 2015.

The share of general and administrative expenses in total expenses in 2016 was 9.6%.

STRUCTURE OF GENERAL AND ADMINISTRATIVE EXPENSES, %

Consolidated Indicators	2016	2015
Personnel costs	58.4	62.7
Provision for bad debts	10.7	0.9
Depreciation and amortization	6.9	7.0
Consulting services	4.6	5.3
Office maintenance	3.1	4.0
Travel expenses	1.9	2.3
Taxes other than corporate income tax and VAT	1.7	1,9
Repair and maintenance	1.4	1.6
Training	1	1.2
Insurance and safety	0.9	1.0
Charity expenses	0.9	0.1
Materials and fuel	0.8	1.2
VAT expenses, which are not subject to offset	0.7	2.0
Communication services	0.7	0.9
Banking services	0,7	1.1
Advertising expenses	0.6	0.1
Information support	0.6	0.8
Other	4.4	5.9

The decrease in the consolidated general and administrative expenses in 2016 as compared to the same period in 2015 was due to increase in the expenses on the administrative employees of the branches and representative

offices of “KazTransOil” JSC by 1 560 million KZT (as compared to 2015) in connection with indexation of wages by the inflation rate and accrual of reserves for doubtful debts and depreciation of fixed assets.

STRUCTURE OF LOSS FROM IMPAIRMENT OF FIXED ASSETS, MILLION KZT

Consolidated Indicators	2016	2015	Change, %
Transport assets	359	0	100.0
Other	272	-5	-5,540.0
Pipelines	170	-952	-117.9
Technological oil	0	-74	-100.0
Buildings and structures	-1,103	-69	1,498.5
Machines and equipment	-2,894	-101	2,765.3
Land	-4,345	0	100.0
Construction in progress	-6,672	-130	5,032.3
Total	-14,213	-1,331	967.8

The significant increase in impairment losses at the end of 2016 as compared to 2015 was due to the depreciation of the value of fixed assets during the revaluation held in 2016.

SHARE OF PROFITS FROM JOINTLY CONTROLLED ENTITIES

The recognized share of “KazTransOil” JSC in the financial results of jointly controlled entities for 2016 was 2 336 million

KZT. At the same time, the Company’s share in the net income of the LLC “KCP” for 2016 was 6 325 million, which was not recognized in the consolidated financial statements of the Company because its full amount was used to repay the share of the unrecognized loss of the jointly controlled entity for 2015.

The total loss from equity shared participation in 2015 was 34 674 million KZT. This change was mainly due to the share in the total loss of LLC “KCP” for 2015, which amounted to 44 571 million KZT, which is mainly due to the negative exchange rate difference on foreign currency loans. In 2015,

the Company recognized the loss of LLC “KCP” in the amount of the investments face value equaling to 37 410 million KZT. The remaining share of unrecognized loss as of 31 December 2015 amounted to 7 161 million KZT.

FINANCIAL RESULTS OF JOINTLY CONTROLLED ENTITIES, MILLION KZT

Indicators	2016	2015
LLC “KCP”	-	- 37,410
JSC “NWPC - MunayTas”	2,336	2,736
Profit/loss from equity participation	2,336	- 34,674

In the consolidated statement of total income for 2015, “KazTransOil” JSC recognized a loss from the equity participation in LLC “KCP” in the amount of the investment face value equaling to 37.4 billion KZT. The difference of 7.2 billion KZT was accounted as an unrecognized loss and, as a result, the profit share of LLC “KCP” was not recognized in 2016.

INCOME TAX

The income tax expense in 2016 was 10 380 million KZT, which is 54.1% higher than in 2015, due to the reduction of taxable profit.

EXPENSES ON CORPORATE INCOME TAX, MILLION KZT

Consolidated Indicators	2016	2015	Change, %
Current income tax expenses	17,222	23,844	-27.8
Deferred tax savings (-) / expenses (+)	- 6,842	- 1,237	453.1
Income tax	10,380	22,607	-54.1

ASSETS, EQUITY AND LIABILITIES

ASSETS, CAPITAL AND LIABILITIES, MILLION KZT

Consolidated Indicators	For the year ending 31 December		Change, %
	2016	2015	
Assets	744,976	619,263	20.3
Long-term assets	632,093	512,071	23.4
Current assets	112,883	107,192	5.3
Equity and liabilities	744,976	619,263	20.3
Equity	587,975	472,932	24.3
Long-term liabilities	95,605	85,863	11.3
Current liabilities	61,396	60,468	1.5

In 2016, the assets of the Company increased by 20.3%, from 619 billion KZT to 745 billion KZT. This increase was mainly due to increase in balance sheet value of fixed assets by 126 billion KZT resulting from the revaluation of fixed assets.

The consolidated equity increased from 473 billion KZT to 588 billion KZT, mainly due to the growth of asset reserves based on the revaluation of fixed assets.

STRUCTURE OF FIXED ASSETS, MILLION KZT

Consolidated Indicators	2016 actual	2015 actual	Change, %
Pipelines	196,738	155,181	26.8
Machines and equipment	137,428	96,078	43.0
Buildings and structures	94,932	67,212	41.2
Technological oil	87,862	69,061	27.2
Construction in progress	40,371	52,710	-23.4
Land	19,804	19,907	-0.5
Other	13,560	8,783	54.4
Transport assets	13,460	9,573	40.6
Total	604,155	478,505	26.3

The increase in long-term liabilities resulted from the increase in deferred income tax liabilities. However, in other long-term liability items, there is a downside trend (liabilities relating to the remuneration of employees, deferred income and provisions for withdrawal of assets from operation).

PERFORMANCE INDICATORS

Below is the calculation of the key performance indicators of the Company on a consolidated basis.

KEY PERFORMANCE INDICATORS OF THE COMPANY

Key financial indicators	2016	2015	Change
EBITDA, million KZT	108,611	110,234	-1.5%
EBITDA margin (EBITDA to revenues ratio), %	52.4	51.7	0.7 p.p.
Gross profit margin (gross profit to revenues ratio, %)	37.3	41.8	-4.5 p.p.
Net profit margin (net profit to revenues ratio, %)	21.5	21	0.5 p.p.

The following table presents data on the components of the operating EBITDA indicator based on the profit for the reporting year.

CALCULATION OF EBITDA, MILLION KZT

Indicators	2016	2015	Change, %
Profit in the reporting year	44,528	44,713	-0.4
plus income tax expenses	10,379	22,607	-54.1
Profit before tax	54,907	67,319	-18.4
minus foreign exchange profit	1,612	-25,544	-106.3
plus financial costs	2,460	2,177	12.9
less financial income	-6,191	-3,027	104.5
less the share of income / (loss) of jointly controlled entities	-2,336	34,674	-106.7
Operating profit	50,452	75,600	-33.3
plus depreciation and amortization	40,874	33,228	23.0
plus other operating expenses	3,940	1,734	127.2
less other operating profits	-868	-1,659	-47.7
plus impairment of the fixed and intangible assets	14,213	1,331	967.8
EBITDA	108,611	110,234	-1.5

KEY PERFORMANCE INDICATORS, %

Name	2016	2015
ROA (net profit/average total assets)	6.5	7.4
ROE (net profit / average annual equity)	8.4	9.6

The decline in ROA (Return on assets) by 0.9 basis points is associated with the increase in the average annual amount of assets by 13.2%. ROE (Return on Equity) fell by 1.2 basis points due to growth in the average amount of equity by 14%.

INDICATORS OF LIQUIDITY AND FINANCIAL STABILITY

The main source of liquidity and financial stability of the Company are the cash received from the operating activities. The liquidity indicator characterizes the Company's

ability to meet its short term obligations depending on its current assets. The total (current) liquidity ratio characterizes the extent to which current liabilities are covered by current assets. As can be seen from Table XX, on average, 1 KZT of current liabilities is covered by 1.84 KZT of current assets.

LIQUIDITY RATIOS

Consolidated Indicators	Standard criteria	2016	2015
Total liquidity ratio (Current assets / Current liabilities)	1.5 - 2.5	1.84	1.77
Quick liquidity ratio ((Current assets - Inventories) / Current Liabilities)	1.5 - 2.5	1.77	1.71

The quick liquidity ratio characterizes the part of current liabilities that can be repaid not only with the available funds, but also with the expected revenues from rendered services (cash and cash equivalents and short-term receivables). Thus, during the reporting period, the quick liquidity ratio shows that 1 KZT of the current liabilities is covered by 1.77 KZT of easily cashable assets.

The decline of liquidity in 2016 as compared to 2015 is due to the increase in current liabilities.

CASH AND CASH EQUIVALENTS

The cash and cash equivalents of the group of companies of "KazTransOil" JSC as of December 31, 2016 amounted to 69 294 million KZT.

CASH TURNOVER, MILLION KZT

Consolidated Indicators	Cash Turnover, million KZT		
	2016	2015	Change, %
Net cash flows generated from operating activities	90,977	122,002	-25.4
Net cash flows from investing activities	-20,217	-58,586	65.5
Net cash flows from financing activities	-51,166	-46,429	10.2
Impact of exchange rate difference	-719	-8,741	91.8
Net change in cash and cash equivalents	18,874	8,246	128.9
Cash and cash equivalents at beginning of period	50,420	42,175	19.5
Cash and cash equivalents at end of period	69,294	50,420	37.4

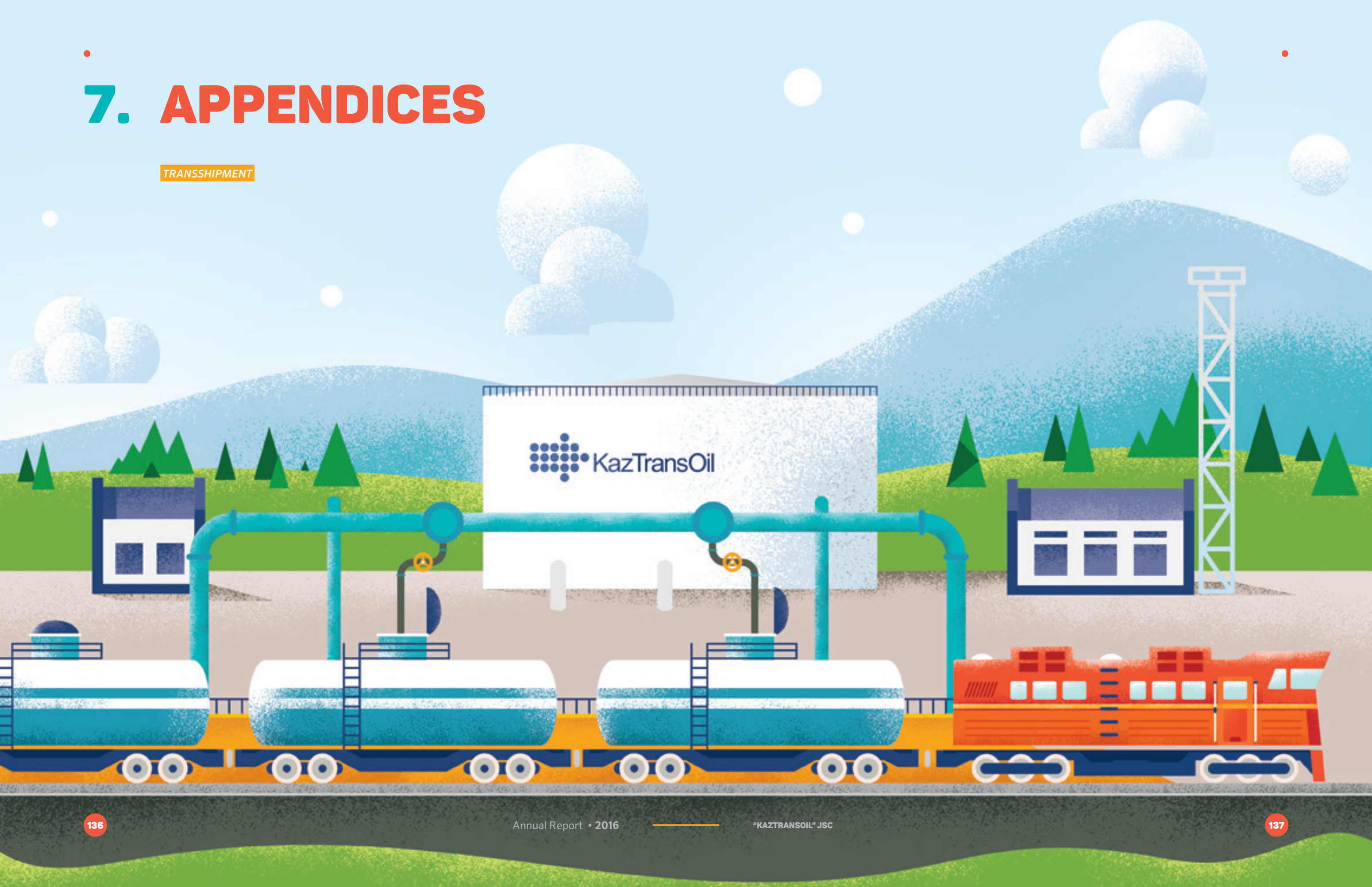
Net positive cash flows generated from operating activities in 2016 were 90 977 million KZT, which is 25.4% lower than in 2015. These changes are primarily related to the decrease in revenues.

Net negative cash flows from investment activities in 2016 were 20 217 million KZT, which is 65.5 % lower than in 2015. These changes are mainly associated with the return of the financial assistance provided to JSC NC "KazMunayGas".

Net cash flows from financing activities in 2016 were 51 166 million KZT, which is 10.2% higher than in 2015, which was equal to 46 429 million KZT. These changes are due to the payment of dividends. In 2016, the amount of dividends paid for 2015 exceeded the amount of dividend paid for 2014 by 10.2%.

7. APPENDICES

TRANSHIPMENT



APPENDIX 1. ABOUT THE REPORT

APPROACH TO THE PREPARATION OF THE REPORT

“KazTransOil” JSC believes it is necessary to disclose the results of its activities regularly, thus demonstrating its openness and commitment to maintain responsible dialog with the stakeholders on a wide range of issues.

The Integrated Annual Report of “KazTransOil” JSC for 2016 is the fourth Report that comprehensively reveals the operational and non-financial indicators of the Company.

The Company has adopted an annual reporting cycle. This Report reflects the results of the Company operations from 1 January 2016 to 31 December 2016, and contains a description of the Company’s plans for 2017. The previous Report was published in May 2016. The electronic versions of reports are available on the website of the Company.

This Report was prepared in accordance with the “Core” version of compliance requirements of the Guide on reporting in the sphere of sustainable development G4 (hereinafter, GRI G4), while some aspects of the Company activities were disclosed more in detail than necessary.

The goal of the Report is traditionally informing a wide range of stakeholders on the company strategy, mission, and values, corporate governance and risk management, as well as on key events and achievements as part of the production-economic activities of the Company, in the field of sustainable development and interaction with stakeholders.

PREPARATION OF THE REPORT AND DETERMINATION OF SIGNIFICANT ASPECTS

When the Report was prepared, the Company followed the recommendations of the Guide GRI G4 and Industry Appendix of GRI for oil and gas companies. In the process of writing the Report, the reporters also followed the principles of International integrated reporting standard developed by the International Integrated Reporting Council, the requirements of the Kazakhstan Stock Exchange, the provisions of the Corporate Governance Code and other internal documents of the Company.

The description of the results in the area of the financial and economic activities of the Company is prepared in accordance with the recommendations Practical Guide of the IFRS “Management Commentary”.

As it was in the past reporting period, to make up the content of this Report, the Company evaluated the materiality of the disclosed issues. The preliminary list of material aspects of the Company was compiled on the basis of the results of analysis of the best practices of information disclosure applied in local and international oil and gas companies, as well as, the analysis of key events in the Company during the reporting period and provisions of internal documents.

Further, we conducted a series of additional discussions and consultations with the management and employees of the Company structural units.

Based on the results of the discussions and the strategic development vision, the Company defined the final list of the material aspects.

SIGNIFICANT ASPECTS OF THE COMPANY’S ACTIVITIES

Category	Page	Significant aspects	Within the Company	Outside the Company
<i>Economic</i>		Economic performance	✓	✓
		Presence on markets	✓	✓
		Procurement practices	✓	✓
<i>Environmental</i>		Energy	✓	✓
		Water	✓	✓
		Emissions	✓	✓
		Effluents and waste	✓	✓
		Compliance with environmental legislation	✓	✓
		Employment	✓	✓
<i>Social</i>		Relations between employees and leadership	✓	-
		Health and safety in the workplace	✓	-
		Training and education	✓	-
		Diversity and equal opportunities	✓	-
<i>Other significant aspects</i>		Countering corruption	✓	✓
		Preparedness to emergencies	✓	✓
		Safety of the production process	✓	✓
		Corporate governance	✓	✓

APPENDIX 2. TABLE OF GRI G4 INDICATORS

No.	Index of the indicator	Name of the indicator	Comment	Section and page in the report
General standard elements of the report				
Strategy and analysis				
1	G4-1	Statement from the most senior decision-maker of the organisation about the relevance of sustainability to the organisation and its strategy		Message from the Chairman of the Board of Directors, p. 6-7 Message from the General Director (Chairman of Board), p. 8-9
Organisational profile				
2	G4-3	Name of the organisation		Development history, p. 12-13
3	G4-4	Primary brands, products, and/or services		1.1 Business Model, p. 18-19
4	G4-5	Location of organisation's headquarters		1.3 Organizational structure, p. 26
5	G4-6	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report		1.3 Organizational structure, p. 26 Scheme of main pipelines of KazTransOil JSC, p. 11
6	G4-7	Nature of ownership and legal form		Development history, p. 12-13
7	G4-8	Markets served		1.5 The Company's position on the market, p. 31-33
8	G4-9	Scale of the reporting organisation		Key operating and financial indicators, p.10 1.5 The Company's position on the market, p. 31-33 3.1 Oil transportation and water supply, p. 52-53 4.4 Personnel management. The Company's Personnel Headcount and Structure, p. 77-79
9	G4-10	Total workforce by employment type, employment contract, and region, broken down by gender		4.4 Personnel management. The Company's Personnel Headcount and Structure, p. 77-79
10	G4-11	Percentage of employees covered by collective bargaining agreements		4.5 Social policy. Social support of employees, p. 82
11	G4-12	The organisation's supply chain		4.6 Procurement system and local content, p. 86-87
12	G4-13	Significant changes during the reporting period regarding size, structure, or ownership	In the reporting period, there were no significant changes in the scale and structure of the Company	

In addition to the material aspects described in the GRI G4 Guide and the reporting elements required for disclosure in accordance with the “Core” variant, the Company included detailed information in the contents of this Report about the Company’s approaches in the field of safety of production process and emergency preparedness, as well as detailed description of the existing system of corporate governance.

The information about the approaches of the management to material aspects of the Company’s activities is presented throughout the text of the Report.

When identifying material aspects for the current reporting year, we took into account the continuity with respect to the aspects and indicators disclosed in previous years.

The table containing the full list of standard disclosures and references to disclosures in the Report is contained in Appendix 2 “Table of GRI G4 indicators”.

BOUNDARIES OF THE REPORT

The report includes information on the activities of the Company and its branches, and jointly-controlled entities.

The production and financial indicators are described in the sections “Main operational and financial indicators” and “Results of financial and economic activities”. The management report is provided on a consolidated basis and includes the results of financial and economic activities of the SJCE. In other sections of the Report, information on the Company is presented separately, unless otherwise specified.

In the current reporting year, the Company has moved to system of disclosing indicators for three years. Moreover, for better disclosure of information, the Report refers to some events that occurred before and after the reporting period. At the same time, the section «Results of financial and economic activities. The management report» prepared in accordance with the Practical Guide of the IFRS

“Management Commentary» and indicators disclosed in a two-year dynamics. The objective is the comparability of the data in the relevant section of the Report and the data in the consolidated financial statements of the Company.

The Report also reflects information concerning the forecast plans for 2017. Because their implementation is influenced by a number of external factors beyond the control of the Company, the results achieved in future periods may not coincide with the targets specified in this Report.

As compared to the Integrated Annual Report of the Company for 2015, this Report has changes in respect of several indicators. Detailed explanations are given in the text of the Report.

ASSURANCE

In order to enhance the credibility of non-financial information and enhance information transparency, the Company continued the practice of external assurance of the indicators in the sphere of sustainable development by independent auditor. The independent auditor’s report can be found in Appendix 7 “Independent Opinion of LLC “KPMG Tax and Advisory”, which states limited assurance”.

The financial statements are presented in the Report in compliance with the audited consolidated financial statements of the Company for 2016, which is presented in Appendix 9 “Opinion of Independent Auditors of LLC “Ernst & Young” and the audited consolidated financial statements”.

Company’s location: 19, Kabanbay-batyr Str., Esil district, Astana, Republic of Kazakhstan, 010000.

For all questions regarding the Report, please contact the Strategic Planning Department of the Company:

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TABLE OF GRI G4 INDICATORS (continued)

No.	Index of the indicator	Name of the indicator	Comment	Section and page in the report
13	G4-14	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	The Company shares the main provisions of the precautionary principle (Principle 15 of the Rio Declaration on the protection of the environment and development, UN, 1992)	-
14	G4-15	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses		4.1 The system of sustainable development management. Interaction with stakeholders, p. 69
15	G4-16	Memberships of associations (such as industry associations) and/or national/international advocacy organisations		4.1 The system of sustainable development management. Interaction with stakeholders, p. 69
Identified material aspects and boundaries				
16	G4-17	Entities included in the organisation's consolidated financial statements or equivalent documents		Appendix 1. About the Report, p. 138-140
17	G4-18	The process for defining the report content and the Aspect Boundaries		Appendix 1. About the Report, p. 138-140
18	G4-19	Material aspects identified in the process for defining report content		Appendix 1. About the Report, p. 138-140
19	G4-20	Materials aspects' boundary within the organisation		Appendix 1. About the Report, p. 138-140
20	G4-21	Materials aspects' boundary outside the organisation		Appendix 1. About the Report, p. 138-140
21	G4-22	The effect of any restatements of information provided in previous reports, and the reasons for such restatements		Appendix 1. About the Report, p. 138-140
22	G4-23	Significant changes from previous reporting periods in the scope and aspect boundaries	In the reporting year, there were no significant changes in the aspect scope and boundaries compared to the previous reporting periods	Appendix 1. About the Report, p. 138-140
Stakeholder engagement				
23	G4-24	List of stakeholder groups engaged by the organisation		4.1 The system of sustainable development management. Interaction with stakeholders, p. 67-68
24	G4-25	The basis for identification and selection of stakeholders with whom to engage		4.1 The system of sustainable development management. Interaction with stakeholders, p. 67
25	G4-26	The organisation's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process		4.1 The system of sustainable development management. Interaction with stakeholders, p. 66-68

No.	Index of the indicator	Name of the indicator	Comment	Section and page in the report
26	G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting		4.1 The system of sustainable development management. Interaction with stakeholders, p. 67-68
General information about the report				
27	G4-28	Reporting period for information provided		Appendix 1. About the Report, p. 138-140
28	G4-29	Date of most recent previous report		Appendix 1. About the Report, p. 138-140
29	G4-30	Reporting cycle		Appendix 1. About the Report, p. 138-140
30	G4-31	Contact point for questions regarding the report or its contents		Appendix 1. About the Report, p. 138-140
31	G4-32	The 'in accordance' option the organisation has chosen and the GRI Content Index for the chosen option		Appendix 1. About the Report, p. 138-140
32	G4-33	Policy and current practice with regard to seeking external assurance for the report		Appendix 1. About the Report, p. 138-140
Governance				
33	G4-34	The governance structure of the organisation, including committees of the highest governance body		5.1 Corporate governance system, p. 90
Ethics and integrity				
34	G4-56	The organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics		5.9 Corporate ethics, settlement of corporate conflicts and conflicts of interest, p.120
35	G4-57	The internal and external mechanisms for seeking advice on ethical and lawful behaviour, and matters related to organisational integrity, such as helplines or advice lines		5.9 Corporate ethics, settlement of corporate conflicts and conflicts of interest, p.121
Applicable specific standard elements of the reporting				
Category: economic				
Aspect: economic performance				
36	G4-DMA	Generic disclosures on management approach		6. Financial and economic performance. Managerial report, p. 124-135 Appendix 8. Consolidated financial statements, p. 168-242
37	G4-EC1	Direct economic value generated and distributed		6. Financial and economic performance. Managerial report, p. 124-135 Appendix 8. Consolidated financial statements, p. 168-242

TABLE OF GRI G4 INDICATORS (continued)

No.	Index of the indicator	Name of the indicator	Comment	Section and page in the report
Aspect: market presence				
38	G4-DMA	Generic disclosures on management approach		4.4 Personnel management. Remuneration of employees, p. 80
39	G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation		4.4 Personnel management. Remuneration of employees, p. 80
Aspect: procurement practices				
40	G4-DMA	Generic disclosures on management approach		4.6 Procurement system and local content, p. 86-87
41	G4-EC9*	Proportion of spending on local suppliers at significant locations of operation		4.6 Procurement system and local content, p. 86-87
Category: environmental				
Aspect: energy				
42	G4-DMA	Generic disclosures on management approach		3.4 Improvement of the performance of production processes. Energy consumption and energy saving, p. 60-63
43	G4-EN3	Energy consumption within the organisation		3.4 Improvement of the performance of production processes. Energy consumption and energy saving, p. 61
44	G4-EN5	Energy intensity		3.4 Improvement of the performance of production processes. Energy consumption and energy saving, p. 62
45	G4-EN6	Reduction of energy consumption		3.4 Improvement of the performance of production processes. Energy consumption and energy saving, p. 62
Aspect: water				
46	G4-DMA	Generic disclosures on management approach		4.2 Environmental protection. Water resources, p. 72
47	G4-EN8	Total water withdrawal by source		4.2 Environmental protection. Water resources, p. 72
Aspect: emissions				
48	G4-DMA	Generic disclosures on management approach		4.2 Environmental protection. Impact on the atmospheric air, p. 71
49	G4-EN21*	NOX, SOX, and other significant air emissions		4.2 Environmental protection. Impact on the atmospheric air, p. 71

* This reporting element has passed the external assurance, page 164-167

No.	Index of the indicator	Name of the indicator	Comment	Section and page in the report
Aspect: effluents and waste				
50	G4-DMA	Generic disclosures on management approach		4.2 Environmental protection. Water resources, p. 72 4.2 Environmental protection. Formation of waste, p. 73
51	G4-EN22*	Total water discharge by quality and destination		4.2 Environmental protection. Water resources, p. 72
52	G4-EN23*	Total weight of waste by type and disposal method		4.2 Environmental protection. Formation of waste, p. 73
53	G4-EN24	Total number and volume of significant spills		4.2 Environmental protection. Land resources and re-cultivation, p. 74
Aspect: compliance				
54	G4-DMA	Generic disclosures on management approach		4.2 Environmental protection. p. 70
55	G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations		4.2 Environmental protection. p. 70
Category: social				
Sub-category: labour practices and decent work				
Aspect: employment				
56	G4-DMA	Generic disclosures on management approach		4.4 Personnel management. The Company's Personnel Headcount and Structure, p. 77-79 4.5 Social policy. Social support of employees, p. 82-83
57	G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	The employee turnover rate was 8.5% in accordance with the GRI calculation method	4.4 Personnel management. The Company's Personnel Headcount and Structure, p. 77-79
58	G4-LA2	Benefits provided to full-time employees that are not provided to temporary or parttime employees, by significant locations of operation	The share of personnel working on full employment conditions was 100% in 2016	4.5 Social policy. Social support of employees, p. 82
59	G4-LA3	Return to work and retention rates after parental leave, by gender		4.5 Social policy. Social support of employees, p. 83

* This reporting element has passed the external assurance, page 164-167

TABLE OF GRI G4 INDICATORS (continued)

No.	Index of the indicator	Name of the indicator	Comment	Section and page in the report
<i>Aspect: Labor/Management relations</i>				
60	G4-DMA	General information on management approaches		4.4 Personnel management. The Company's Personnel Headcount and Structure, p. 79
61	G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements		4.4 Personnel management. The Company's Personnel Headcount and Structure, p. 79
<i>Aspect: occupational health and safety</i>				
62	G4-DMA	Generic disclosures on management approach		4.3 Occupational health and safety, p. 74-76
63	G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of workrelated fatalities, by region and by gender	The rate of accidents per 1000 people *= (number of accidents related to production) / (average number of the production staff) * 1000 LTIFR = (total working time lost as a result of injuries) * 200 000 / (total time spent working))	4.3 Occupational health and safety, p. 76
64	G4-OG13	The number of activities in the field of labor protection and industrial safety		3.4 Improvement of the performance of production processes. Industrial and fire safety of assets, p. 57-58 4.3 Occupational health and safety, p. 76
<i>Aspect: training and education</i>				
65	G4-DMA	Generic disclosures on management approach		4.4 Personnel management. Personnel training and development, p. 81-82
66	G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings		4.4 Personnel management. Personnel training and development, p. 81-82

* This reporting element has passed the external assurance, page 164-167

No.	Index of the indicator	Name of the indicator	Comment	Section and page in the report
<i>Aspect: Diversity and equal opportunity</i>				
67	G4-DMA	Generic disclosures on management approach		4.4 Personnel management. The Company's Personnel Headcount and Structure, p. 77-78
68	G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	The prevailing share of men over women is traditionally stipulated by the industry specifics of the Company, which implies the need to work under heavy and hazardous working conditions.	4.4 Personnel management. The Company's Personnel Headcount and Structure, p. 77-78
<i>Sub-category: society</i>				
<i>Aspect: local communities</i>				
69	G4-DMA	Generic disclosures on management approach		5.8 Countering corruption, p. 119
70	G4-SO4	Communication and training on anti-corruption policies and procedures		5.8 Countering corruption, p. 119
71	G4-SO5	Confirmed incidents of corruption and actions taken	In 2016, there were no cases of corruption identified	5.8 Countering corruption, p. 119

* This reporting element has passed the external assurance, page 164-167

APPENDIX 3. PRINCIPLES OF THE UN GLOBAL COMPACT

Principles of the UN Global Compact	Compliance of activities of "KazTransOil" JSC with the principles	Sections of the annual report
<i>Principles in the field of human rights</i>		
Principle 1. Business community must support and respect the protection of internationally proclaimed human rights.	In the exercise of its activities, "KazTransOil" JSC ensures the observance and respect of human rights proclaimed internationally and provided by the Constitution of the Republic of Kazakhstan. According to the Company's Code of Corporate Ethics, any situation resulting in violation of human rights must be treated in accordance with the legislation of the Republic of Kazakhstan and internal documents of the Company.	5.9 Corporate ethics, settlement of corporate conflicts and conflicts of interest, p. 120-121
Principle 2. Business community must not be involved in violations of human rights.		
<i>Principles in the field of labor relations</i>		
Principle 3. Business community must uphold the freedom of association and effective recognition of the right of concluding collective agreements.	"KazTransOil" JSC provides workers with the right of organizing and participating in voluntary associations of their own choosing and concluding collective agreements. When hiring, paying remuneration, promoting and providing access to training, the Company does not tolerate discrimination on race, ethnicity, age, gender, social status, nationality, attitude to religion and public associations or other circumstances unrelated to the business qualities of the employee and the results of his/her work. The company uses no forced or child labor in its activities.	4.4 Personnel management, p. 77-82
Principle 4. Business community must uphold the elimination of all forms of forced and compulsory labor.		
Principle 5. Business community must uphold full abolition of child labor.		
Principle 6. Business community must uphold the elimination of discrimination in the sphere of employment and occupation.		

Principles of the UN Global Compact	Compliance of activities of "KazTransOil" JSC with the principles	Sections of the annual report
<i>Principles in the field of environmental protection</i>		
Principle 7. Business community must support the approach to environmental issues based on the precautionary principle.	"KazTransOil" JSC demonstrates respect and care for the environment. In 2015, the Company developed a Comprehensive Environmental Program for 2015-2019. The expected outcome from this environmental program is adherence to the principles of maximum careful and rational attitude to the environment, reduction of emissions, discharges of pollutants, waste production and consumption, greenhouse gas emissions. In 2016, the Company invested in environmental protection 483.2 million KZT. This amount was used to conduct environmental monitoring (monitoring of air, water and soil) at the facilities, removal and disposal of production and consumption waste, wastewater pumping and treatment, elimination of the historical contamination and other measures.	4.2 Environmental protection, p. 69-74
Principle 8. Business community must undertake initiatives aimed at increasing the responsibility for the environment.		
Principle 9. Business community must encourage the development and dissemination of environmentally friendly technologies.		
<i>Principles in the field of combating corruption</i>		
Principle 10. Business community must resist all forms of corruption, including extortion and bribery.	"KazTransOil" JSC in its activity operates fairly and in good faith, does not accept bribes or similar vicious business practices as well as practices of giving and receiving gifts, except for practices accepted in business. Regarding the facts of corruption and other illegal actions of the officials and employees of the Company, one can contact by the telephone number 555-210, the e-mail of trust of the Company – confidence@kaztransoil.kz for appropriate action to be taken. In 2016, no cases of violation of the anti-corruption legislation of the Republic of Kazakhstan were identified in the Company.	5.8 Countering corruption, p. 119

APPENDIX 4. PROCUREMENT REPORT FOR 2016

Structural unit	Open tender			One source			Procurement by price proposals request			Total budget	Total amount of procurement contracts	Savings on procurements
	Number	Budget	Amount of procurement contracts	Number	Budget	Amount of signed procurement contracts	Number	Budget	Amount of signed procurement contracts			
The Central Office of the Company	182 (1385 lots)	11,198,727,395	10,521,018,528	1604	12,893,673,028.69	12,800,471,437.24	38 (497 lots)	133,872,031.48	78,938,867.00	24,226,272,455.37	23,400,428,833	825,843,623
The Western Branch of the Company	359 (4350 lots)	2,834,766,931	2,324,893,495	344	8,270,409,581.68	8,167,532,516.85	166 (2219 lots)	332,956,580.47	211,242,893.72	11,438,133,093	10,703,668,905	734,464,188
The Eastern Branch of the Company	254 (1650 lots)	2,506,805,521	2,186,593,424	1896	2,217,618,498.02	2,204,956,800.18	483	54,833,654.05	38,202,532.12	4,779,257,673	4,429,752,756	349,504,917
Branch of the SEC	22 (38 lots)	77,673,032	74,280,380	85	14,193,437.00	14,156,199.00	69	37,922,557.91	32,951,673.10	129,789,027.35	121,388,251.93	8,400,775.42
MICC Branch	14	223,907,785	219,893,664	47	363,681,972.00	356,959,099.00	19 (72 lots)	14,764,810.00	9,381,875.08	602,354,567.00	586,234,637.69	16,119,929.31
TOTAL	7,437	16,841,880,665	15,326,679,490	3,976	23,759,576,517.39	23,544,076,052.27	2,316	574,349,633.91	370,717,841.02	41,175,806,816	39,241,473,384	1,934,333,432

APPENDIX 5. THE LIST OF TRANSACTIONS IN WHICH "KAZTRANSOIL" JSC IS INTERESTED AND SIGNED BY "KAZTRANSOIL" JSC IN 2016

No.	Name of the transaction	Decision of the body of "KazTransOil" JSC
JSC "Mangistaumunaygaz"		
1	Contract for provision of services for waste water drainage from the facility of the POPS "Kalamkas" of Mangistau Oil Pipeline Department of the Western branch of the Company	Decision of the Board of Directors of "KazTransOil" JSC dated 14 March 2016 (Minutes No. 4/2016)
2	Contract for provision of services on oil transportation	Decision of the Board of Directors of "KazTransOil" JSC dated 21 November 2016 (Minutes No. 12/2016)
3	Contract of Transport Freight Forwarding	Decision of the Board of Directors of "KazTransOil" JSC dated 21 November 2016 (Minutes No. 12/2016)
4	Agreement of provision and acceptance of natural gas for the needs of POPS "Kalamkas" and OPS "Karazhanbas" of Mangistau Oil Pipeline Department of the Western Branch of the Company	Decision of the Board of Directors of "KazTransOil" JSC dated 14 Document 2016 (Minutes No. 13/2016)
5	Agreement on provision of water for the needs of the POPS "Kalamkas" and OPS "Karazhanbas" of Mangistau Oil Pipeline Department of the Western Branch of the Company	Decision of the Board of Directors of "KazTransOil" JSC dated 14 Document 2016 (Minutes No. 13/2016)
LLC "Kazakhstan-China Pipeline"		
6	Agreement on operation of the main oil pipeline "Atasu-Alashankou" in 2016	Decision of the Board of Directors of "KazTransOil" JSC dated 14 March 2016 (Minutes No. 4/2016)
7	Agreement on operation of the main oil pipeline "Kenkiyak-Kumkol" in 2016	Decision of the Board of Directors of "KazTransOil" JSC dated 14 March 2016 (Minutes No. 4/2016)
8	Agreement on termination of the agreement of operation of the main oil pipeline "Kenkiyak-Kumkol" for 2016 dated 18 March 2016. No. 58-2016//OS3/2016	Decision of the Board of Directors of "KazTransOil" JSC dated 27 June 2016 (Minutes No. 8/2016)

No.	Name of the transaction	Decision of the body of "KazTransOil" JSC
9	Agreement of termination of the Contract for operation of main oil pipeline "Atasu-Alashankou" for 2016 dated 18 March 2016 No 57-2016//OS4/2016	Decision of the Board of Directors of "KazTransOil" JSC dated 27 June 2016 (Minutes No. 8/2016)
10	Agreement on operation of the main oil pipeline "Kenkiyak-Kumkol" for 2016-2020	Decision of the Board of Directors of "KazTransOil" JSC dated 27 June 2016 (Minutes No. 8/2016)
11	Agreement on operation of the main oil pipeline "Atasu-Alashankou" for 2016-2020	Decision of the Board of Directors of "KazTransOil" JSC dated 27 June 2016 (Minutes No. 8/2016)
LLC "Key Distribution"		
12	Agreement on delivery	Decision of the Board of Directors of "KazTransOil" dated 19 October 2016 (Minutes No. 11/2016)
JSC "TURGAY-PETROLEUM"		
13	Contract for provision of services on oil transportation	Decision of the Board of Directors of "KazTransOil" JSC dated 21 November 2016 (Minutes No. 12/2016)
JSC "Karazhanbasmunay"		
14	Contract for provision of services on oil transportation	Decision of the Board of Directors of "KazTransOil" JSC dated 21 November 2016 (Minutes No. 12/2016)
15	Contract of Transport Freight Forwarding	Decision of the Board of Directors of "KazTransOil" JSC dated 21 November 2016 (Minutes No. 12/2016)
LLC "JV Kazgermunay"		
16	Contract for provision of services on oil transportation	Decision of the Board of Directors of "KazTransOil" JSC dated 21 November 2016 (Minutes No. 12/2016)
LLC "Kazakhoil - Aktobe"		
17	Additional agreement No. 1 to Transport Freight Forwarding Contract dated 22 December 2015 No EX 04/2016/22CSL1Yk15	Decision of the Board of Directors of "KazTransOil" JSC dated 21 November 2016 (Minutes No. 12/2016)
LLC "Tengizchevroil"		
18	Additional agreement No. 2 to freight forwarding contract of 27 February 2015 No. EX 62/2015	Decision of the Board of Directors of "KazTransOil" JSC dated 21 November 2016 (Minutes No. 12/2016)
19	Additional Agreement No. 1 to Contract for Provision of Services on Oil Transportation dated 22 December 2015 No TR 61/2016	Decision of the Board of Directors of "KazTransOil" JSC dated 21 November 2016 (Minutes No. 12/2016)
JSC "PetroKazakhstan Kumkol Resources"		
20	Contract for provision of services on oil transportation	Decision of the Board of Directors of "KazTransOil" JSC dated 14 Document 2016 (Minutes No. 13/2016)
"PetroKazakhstan Ventures Inc."		
21	Contract for provision of services on oil transportation	Decision of the Board of Directors of "KazTransOil" JSC dated 14 Document 2016 (Minutes No. 13/2016)

THE LIST OF TRANSACTIONS IN WHICH “KAZTRANSOIL” JSC IS INTERESTED AND SIGNED BY “KAZTRANSOIL” JSC IN 2016 (continued)

No.	Name of the transaction	Decision of the body of “KazTransOil” JSC
“CNPC Kazakhstan B. V.”		
22	Contract for provision of services on oil transportation	Decision of the Board of Directors of “KazTransOil” JSC dated 14 Document 2016 (Minutes No. 13/2016)
23	Contract for provision of services on oil transportation	Decision of the Board of Directors of “KazTransOil” JSC dated 14 Document 2016 (Minutes No. 13/2016)
JSC “CNPC-AMG”		
24	Additional agreement No. 2 to Transport Freight Forwarding Contract dated 18 December 2014 No. EX 09/2015	Decision of the Board of Directors of “KazTransOil” JSC dated 14 Document 2016 (Minutes No. 13/2016)
JSC “KMK M”		
25	Additional agreement No. 1 to Transport Freight Forwarding Contract dated 17 November 2015 No. EX 06/2016	Decision of the Board of Directors of “KazTransOil” JSC dated 14 Document 2016 (Minutes No. 13/2016)
LLC “Petrokazakhstan Oil Products”		
26	Contract on water supply and sewage (wastewater) drainage at the PSP “Shymkent” of the Shymkent Oil Pipeline Department of the Eastern Branch of the Company	Decision of the Board of Directors of “KazTransOil” JSC dated 14 Document 2016 (Minutes No. 13/2016)
LLC “KMG-Security”		
27	Accommodation services contracts for residential modules for workers of LLC “KMG-Security” working in shifts at the facilities of the Western and Eastern Branches of the Company	Decision of the Management Board of “KazTransOil” JSC dated 14 January 2016 (Minutes No. 2)
28	Contract for provision of services to provide accommodation in hostels for workers of LLP “KMG-Security”, working in shifts at the facilities of the Eastern Branch of “KazTransOil” JSC	Decision of the Management Board of “KazTransOil” JSC dated 14 January 2016 (Minutes No. 2)
29	Additional agreement No. 1 to Accommodation Services Contract dated 18 January 2016 No. EUS 151/2016	Decision of the Management Board of “KazTransOil” JSC dated 17 March 2016 (Minutes No. 10)
30	Additional agreement No. 1 to Accommodation Services Contract dated 18 January 2016 No. EUS 151/2016	Decision of the Management Board of “KazTransOil” JSC dated 17 March 2016 (Minutes No. 10)
31	Accommodation services contracts for residential modules for workers of LLC “KMG-Security” working in shifts at the facilities of the Western and Eastern Branches of the Company	Decision of the Management Board of “KazTransOil” JSC dated 28 December 2016 (Minutes No. 33)
32	Accommodation Services Contract for dormitories for employees of LLC “KMG-Security” working in shifts at the facilities of the Eastern branch of the Company	Decision of the Management Board of “KazTransOil” JSC dated 28 December 2016 (Minutes No. 33)

No.	Name of the transaction	Decision of the body of “KazTransOil” JSC
JSC “NWPC - MunayTas”		
33	Agreement on procurement of services of repair/maintenance of main and local pipelines and similar networks/systems (operation of facilities and structures of the main pipeline “Kenkiyak-Atyrau”)	Decision of the Management Board of “KazTransOil” JSC dated 4 February 2016 (Minutes No. 5) of
LLC “Semser-Ort Sondirushi”		
34	Contracts for provision of accommodation in premises for workers of LLC “Semser-Ort Sondirushi” in the dormitories of the Western and Eastern Branches of the Company	Decision of the Management Board of “KazTransOil” JSC dated 23 November 2016 (Minutes No. 7)
35	Contracts for provision of catering to employees of LLC “Semser-Ort Sondirushi” at the facilities of the Western and Eastern branches of the Company	Decision of the Management Board of “KazTransOil” JSC dated 23 November 2016 (Minutes No. 7)
Joint Stock Company “Exploration and Production “KazMunayGas”		
36	Contract for provision of services on oil transportation	Decision of the Management Board of “KazTransOil” JSC dated 27 November 2016 (Minutes No. 13)
JSC “Ozenmunaygas”, JSC “Embamunaygas”, LLC MNC “KazMunayTeniz”, LLC “Kazakhturkmunay”		
37	Contract for provision of services for oil transportation	Decision of the Management Board of “KazTransOil” JSC dated 14 November 2016 (Minutes No. 26)
38	Contract of Transport Freight Forwarding	Decision of the Management Board of “KazTransOil” JSC dated 14 November 2016 (Minutes No. 26)
PLLC “KMG Kashagan B. V.”		
39	Contract for provision of services on oil transportation	Decision of the Management Board of “KazTransOil” dated 12 December 2016 (Minutes No. 31)
40	Contract of Transport Freight Forwarding	Decision of the Management Board of “KazTransOil” dated 12 December 2016 (Minutes No. 31)

APPENDIX 6. REPORT ON THE COMPLIANCE OF “KAZTRANSOIL” JSC WITH THE PRINCIPLES AND PROVISIONS OF THE CORPORATE GOVERNANCE CODE IN 2016

(APPROVED BY THE DECISION OF THE BOARD OF DIRECTORS OF “KAZTRANSOIL” JSC DATED 14 APRIL 2017 (PROTOCOL NO. 4/2017))

The Corporate Governance Code was approved by the Decision of the General Meeting of Shareholders of “KazTransOil” JSC dated 27 May 2016 (Minutes No. 3/2016). The principles of the Code are:

1. The government as the shareholder of JSC “NWF “Samruk-Kazyna”*.
2. Interaction between JSC “NWF “Samruk-Kazyna” and organizations. Role of JSC “NWF “Samruk-Kazyna” as the national managing holding.
3. Sustainable development.
4. Rights of shareholders and equitable treatment of shareholders.
5. Performance of the Board of Directors and the executive body.
6. Risk management, internal control and audit.
7. Transparency.

“KazTransOil” JSC, realizing the importance of corporate governance, pays great attention to the need for compliance with internal documents and practicing its principles in the Company.

* The first principle of the Code has a specific nature and refers to the characteristics of management of «Samruk-Kazyna» JSC, cooperation between «Samruk-Kazyna» JSC and the Government of the Republic of Kazakhstan

No	The norm of the Corporate Governance Code /principle of corporate governance	Observed / not observed	Activities performed for compliance with the norms / principles of corporate governance
1	<i>Interaction between JSC “NWF “Samruk-Kazyna” and organizations. The role of JSC “NWF “Samruk-Kazyna” as the national managing holding.</i>	Observed	The corporate governance system of “KazTransOil” JSC provides for proper management and control of its activities and is aimed at increasing long-term value and sustainable development. The company and its officials are responsible for the long-term value growth and sustainable development, and take decisions and actions/inactions in the order established by the legislation of the Republic of Kazakhstan and internal documents. One of the key elements of evaluating the performance of the executive body of the Company is KPI. The KPI lists and targets are approved by the Board of Directors. So, by the decision of the Board of Directors dated 21 November 2016 (Minutes No. 12/2016), the Company approved the adjusted corporate KPIs for 2016 and their target values and the adjusted motivational KPIs for managers of “KazTransOil” JSC for 2016 and their target values. The Company annually evaluates the KPI achievement, which determines the remuneration of the Company managers.
2	<i>Sustainable development</i>	Observed	Sustainable development is a priority in the activities of the Company, the goal of which is business development along with the preservation and protection of the environment, creation of favorable working conditions, ensuring security at workplace and contribution to the development of the local communities, where the Company operates. The authorities of “KazTransOil” JSC regularly review and analyze the key results of the Company in the field of sustainable development, including in terms of personnel management, environmental protection, functioning of the integrated management system. When implementing its activities in the field of sustainable development, the Company is guided by the principles and provisions enshrined in the UN Global compact, ISO 26000 Guidance on social responsibility, AA1000 standards “Standard of interaction with stakeholders” and is regulated by a number of internal documents of the Company for certain areas of sustainable development, which are available on the corporate website of the Company. The Board of Directors decision of December 15, 2014 (Minutes No. 13/2014), the Company approved the Map of Stakeholders of “KazTransOil” JSC, which determines the list of stakeholders that affect or may affect the Company’s operations.
2.1	<i>Environmental protection</i>	Observed	The Company pays great attention to measures for minimizing the negative impact of its activities on the environment and implementing the principles of rational use of natural resources. The company strictly adheres to the requirements of the Environmental Code of the Republic of Kazakhstan, advanced international standards, the provisions of the Policy of “KazTransOil” JSC related to the field of safety and labor protection, environmental protection and other internal corporate documents, conducting identification and assessment of environmental risks, providing transparency and openness of its measures in the field of environmental protection. In 2016, the Company carried out an audit, which confirmed the conformity of the system with the requirements of the international standard ISO 14001:2004. In addition, the international certification body SGS confirmed Company’s compliance with the requirements of the international standard ISO 14001:2015. In the reporting period, the Company invested in environmental protection 483.1 million KZT and made environmental payments of more than 77.9 million KZT. There were no accidents, which could cause suspension of the production or environmental damage during oil transportation, in 2016.

No	The norm of the Corporate Governance Code /principle of corporate governance	Observed / not observed	Activities performed for compliance with the norms / principles of corporate governance
2.2	<i>Safety and labor protection</i>	Observed	In the field of safety and labor protection, the Company strives to ensure accident-free mode of operation at its production facilities, creates and maintains safe working conditions and care about the health of its employees and strictly follows the requirements of the legislation of the Republic of Kazakhstan, international and national standards and internal documents of the Company. In 2016, the international certification body SGS confirmed Company's compliance with the requirements of the international standard OHSAS 18001:2007. In 2016, the Company recorded two group accidents, in which 14 people were injured.
2.3	<i>Human resources and social policy</i>	Observed	The current personnel policy of "KazTransOil" JSC for 2015-2019 defines a system of principles, key areas and personnel management levels. "KazTransOil" JSC is building up its personnel and social policy in accordance with the legislation of the Republic of Kazakhstan and collective agreement concluded with the collective of the Company. In the field of personnel management, the Company works in such directions as improvement of the organizational structure, quality of staff, managing productivity, implementation of the main tasks and directions of the youth policy, formation and development of corporate culture. The recruitment procedure in the Company is carried out in accordance with the Rules of competitive selection for vacant positions and adaptation of new employees approved by "KazTransOil" JSC in 2016, and adjusted in accordance with the requirements of JSC NC "KazMunayGas" in terms of conditions of transparency of the recruitment procedures and compliance with the principles of meritocracy, as well as creation of a Contest Committee in the Company. Additionally, these Rules define the procedure of adaptation of new employees in the Company. To ensure transparency, the Company conducts the search and selection of qualified specialists, maintains a database of candidates, uses transparent competitive procedures in the selection of personnel for vacant positions, including with elementary testing of the knowledge of candidates. In 2016, the Company held 797 events under the program of personnel training and development. Many employees were trained for several specialties (areas) of training, retraining and advanced training. "KazTransOil" JSC creates wide opportunities for professional and career growth of its employees. The Company created a personnel reserve, which aims to ensure the process continuity and preparation of the Company's own managerial personnel. In 2016, the personnel reserve of the Company contained 65 people, including 20 people for the Central Office. An important direction in the personnel policy of the Company is work with young professionals. The Company implements an integrated approach in the work with young professionals and attraction of young specialists to work in the Company, which is enshrined in the Youth policy of "KazTransOil" JSC. In 2016, the Company created the Young Specialists Council, the goal of which is generation of active life position in young professionals and improvement of their creative initiative, their uniting for realization of their own potential and ensuring the leading position of the Company. On 28 December 2016, the Company approved the Regulation on the Young Specialists Council, which determines the purpose, tasks, functions, structure and composition of the Council, the mode of its operation. In December 2016, the Central Office and all the four branches of the Company created trade unions of employees, elected the chairmen of trade union committees. On 27 December 2016, the Company signed a new Collective agreement between the Company and its workers for 2017-2019. The employee engagement index of the Company in 2016 was 66%.

No	The norm of the Corporate Governance Code /principle of corporate governance	Observed / not observed	Activities performed for compliance with the norms / principles of corporate governance
2.4	<i>Procurement system and local content</i>	Observed	For sustainable development of its business, given its scale, the Company places great importance on effective procurement system and timely provision to the Central Office and branches of the Company with high quality goods, works and services. When selecting the suppliers, the Company follows the Rules of Procurement of Goods, Works and Services of the Joint Stock Company "National Welfare Fund "Samruk-Kazyna" and the organizations, fifty and more percent of voting shares (participation shares) of which are directly or indirectly owned by "Samruk-Kazyna", based on the rights of ownership or trust management. In the reporting period, no significant changes occurred in corporate procurement and local content development systems. In 2016, the Company signed contracts for the amount of 47 865 million KZT. The share of local content in the contracts for 2016 was 61.2%. The electronic versions of reports on goods, works and services are available on the website of the Company.
3.	<i>Rights of shareholders and equitable treatment of shareholders</i>	Observed	One of the key principles in the Company's activity is the most transparent and effective interaction with shareholders. The fundamental rights of shareholders are implemented in accordance with the legislation of the Republic of Kazakhstan and the Charter of the Joint Stock Company "KazTransOil" (hereinafter, the Charter). The disclosure matters are regulated by legislative acts, the Charter and the Rules on disclosure of information of "KazTransOil" JSC. The Board of Directors of the Company guarantees equal treatment of all shareholders, providing them the opportunity to participate in the management of the Company through the General Meeting of Shareholders, to receive information on the Company activities and to exercise their right to receive dividends. The large shareholder of "KazTransOil" JSC is JSC NC "KazMunayGas", which owns 90% of the Company's common shares. The information affecting the interests of shareholders is timely posted on the corporate web site, Internet resources of JSC "Kazakhstan Stock Exchange" and the depository of the financial statements. The Company has a service for investor relations, the main task of which is to organize effective communication between the management of the Company and the investment community (potential investors, minority shareholders and professional securities market participants) for the purpose of maintaining and strengthening its reputation as an investment-attractive company. In 2016, the Company held the annual and three extraordinary General Meetings of Shareholders of "KazTransOil" JSC. On 27 May 2016, the annual General Meeting of Shareholders approved the annual financial statements and consolidated annual financial statements for 2015, the order of distribution of the net income for 2015, retained earnings of the previous years, the decision on payment of dividends on common shares and approval of the dividend size per common share; the meeting also approved the Annual Report of the Company for 2015, the Annual Report of the Board of Directors on the work accomplished in 2015, the changes and additions to the Charter, the Corporate Governance Code, changes and additions to the Method of determining the value of shares for their redemption by "KazTransOil" JSC on the unorganized securities market. On 14 January 2016, the extraordinary General Meeting of Shareholders adopted a decision on the audit organization to audit the Company for 2016 - 2018, the size of payment to the auditing organization for the audit of the financial statements and procurement of its services from one source. On 29 January 2016, the extraordinary General Meeting of Shareholders adopted decisions on early termination of powers of the members of the Board of Directors, number of the members, term of the powers of the Board of Directors, election of its members, including the Chairman of the Board of Directors, the amount and conditions of remuneration and compensation of expenses to Independent Directors for performance of their duties.

No	The norm of the Corporate Governance Code /principle of corporate governance	Observed / not observed	Activities performed for compliance with the norms / principles of corporate governance
3.	Rights of shareholders and equitable treatment of shareholders (Continued)	Observed	On 20 October, at the extraordinary General Meeting of Shareholders, decisions were made on determining the number of members of the Board of Directors of the Company and election of its members, on assigning a member of the Board of Directors of the Company as the shareholder's representative. The shareholders and stakeholders also receive information from the annual report, which includes, in particular, the reports of the Board of Directors and the audited annual financial statements. In 2016, no complaints were received from the Company's shareholders about the actions of the Company and its officials.
4.	Performance of the Board of Directors and the executive body	Observed	The Board of Directors is the governing body that determines strategic goals, priority directions of development and sets out the main activities of the Company in the long term, ensures that the necessary financial and human resources achieve objectives and considers other significant issues. The Board of Directors consists of seven persons, three of whom are independent Directors. The criteria for the selection of members of the Board of Directors, including the independent directors, are defined in the Law of the Republic of Kazakhstan "On joint stock companies", the Company's Charter, Corporate Governance Code and Regulation on the Board of Directors of the Company. The report on the activities of the Board of Directors is annually included in the Annual Report of the Company. There have been 13 in presentia meetings of the Board of Directors in 2016. In 2016, the work of the Board of Directors was evaluated with the assistance of independent external consultants: LLC "TopCompetence" (Russian Federation) and LLC "Olympex Advisers" (Republic of Kazakhstan), who have significant experience in evaluation of activities performed by Boards of Directors in international public companies. The evaluation results were discussed at the meeting of the Board of Directors. 26-27 May 2016. By the decision of the Board of Directors dated 27 June 2016 (Minutes No. 8/2016), the Company approved of the Action Plan on improving the activities of the Board of Directors. The evaluation showed steady improvement of the quality and effectiveness in many aspects of the activities of the Board of Directors the Board of Directors, which is also confirmed, in particular, by the growth of the Corporate Governance rating of the Company. The members of the Board of Directors, except for independent Directors, work free of charge. The payment of remuneration and compensation of expenses to the Independent Directors is determined by the Rules of payment of remuneration and compensation of expenses to independent Directors of the joint stock companies of JSC NC "KazMunayGaz". The Company's management Board is a collective Executive body which directs the activities of the Company and shall exercise its functions under the Charter, Regulations on the management Board of "KazTransOil" JSC and other internal documents. The Board is headed by the General Director (Chairman of the Management Board). The competence of the Management Board and powers of the General Director (Chairman of the Management Board) are determined in Article 12 of the Charter. In 2016, the Board held 33 in presentia meetings. In total, the Management Board made decisions on 205 discussed issues, 222 instructions, which were all executed. At the same time, the Management Board considered 75 questions, which were submitted for consideration to the Board of Directors, and 6 were submitted to the General Meeting of Shareholders of the Company.

No	The norm of the Corporate Governance Code /principle of corporate governance	Observed / not observed	Activities performed for compliance with the norms / principles of corporate governance
5.	Risk management, internal control and audit	Observed	An important element of the corporate governance system is the risk management system, which includes the CRMS and ICS. The objectives of CRMS is timely identification, evaluation, monitoring and reduction of the likelihood of occurrence and consequences of potential risk events that may adversely affect the achievement of strategic and operational objectives of the Company. The Board of Directors approved the Risk Management Policy of "KazTransOil" JSC, which included the definition of the main aspects related to risk management approaches in the Company, the authority and responsibility of the participants of the risk management process. The modalities for implementation of this system are enshrined in internal risk management documents of the Company. All the information about the identified risks is presented in the Risk Management Program of "KazTransOil" JSC for 2016-2018 approved by the Board of Directors. The RMP includes an updated risk register, risk map of the Company and its SJCEs, calculation of risk retention and boundaries, statement on the risk appetite, tolerance levels and key risk indicators, as well as the risk management action plan of the Company and its SJCEs. The ICS is aimed at timely identification and analysis of process risks inherent in the activities of the Company, as well as identification and analysis of control procedures to manage these risks in three key ICS areas: operations, financial reporting and compliance with legal and regulatory requirements. The Board of Directors annually endorses a Risk Management Plan of "KazTransOil" JSC that contains descriptions of preventive measures (influencing risk factors) and corrective actions (influencing the impacts), information on the responsible employees, and deadlines and costs of the measures (if necessary). The necessary strategic and operating decisions on key risks management of the Company are taken by the Company leadership, based on the results of the CRMS within the approved risk appetite. The risk appetite characterizes the internal level of risk retention, under which the Company can achieve its strategic goals. The planned work on key risks management of the Company for 2016 was fully accomplished. The Company also took appropriate response measures to key risks to reduce the likelihood of their occurrence and minimize/prevent possible financial losses. By the Decision of the Board of Directors dated 15 November 2012 (minutes No. 15/2012), to exercise control over financial and economic activities of the Company, evaluation of internal control, management of risks, execution of documents in the field of corporate governance and counseling on improvement of the activities of "KazTransOil" JSC, the Company created the Internal Audit Service. The Internal Audit Service reports directly to the Board of Directors on its work. The activity of the Service is supervised by the Committee for Internal Audit of the Board of Directors of the Company. The Internal Audit Service operates in accordance with the Annual Audit Plan approved by the Board of Directors. In 2016, in accordance with the Annual Audit Plan of the Internal Audit Service for 2016, the Company performed 5 audits of individual business processes, conducted corporate governance evaluation and executed individual audits of industrial, operational and financial processes in SJCEs. During the audit in 2016, the Service identified 87 inconsistencies and issued 158 recommendations. All the recommendations of the Internal Audit Service were used by the audited entities to elaborate and approve the Plans of Corrective Actions on detected Inconsistencies.

No	The norm of the Corporate Governance Code /principle of corporate governance	Observed / not observed	Activities performed for compliance with the norms / principles of corporate governance
6.	Transparency	Observed	<p>In the field of information disclosure, the Company is guided by:</p> <ul style="list-style-type: none"> the Law of the Republic of Kazakhstan dated 13 May 2003 “On joint stock companies”; the Law of the Republic of Kazakhstan dated 2 July 2003 “On securities market”; the Law of the Republic of Kazakhstan dated 28 February 2007 “On accounting and financial reporting”; Resolution of Management Board of the National Bank of the Republic of Kazakhstan dated 28 January 2016 No. 26 “On approval of rules of publishing in internet of the depository of financial reports, stock exchange information on corporate events, financial statements and audit reports, lists of affiliated persons of joint-stock companies, as well as information on the total remuneration of the members of the executive body for the year”; The listing rules approved by Decision of the Stock Exchange Council of JSC “Kazakhstan Stock Exchange” (Minutes dated 5 November 2009 No. 29 (z)) The Charter and the Corporate Governance Code, the Regulations on information disclosure of “KazTransOil” JSC, the Rules of internal control over the management and use of insider information of “KazTransOil” JSC and other internal documents of the Company. <p>“KazTransOil” JSC provides timely and full disclosure of information to stakeholders on all aspects of its activities, except when such information constitutes commercial, official or other secret protected by the law. The transparency report for 2016 was approved by the Management Board and reviewed by the Board of Directors on 15 March 2017.</p> <p>In General, the work on improvement of transparency of the Company through the timely disclosure of relevant information on its activities is duly carried out. In November 2016, the training seminars were organized for the insiders of the Company, which were attended by 71 employees.</p> <p>The Company did not receive any complaints from the regulatory bodies on delayed reporting or comments to the relevant content.</p> <p>Besides, in accordance with the Law of the Republic of Kazakhstan “On natural monopolies” of “KazTransOil” JSC dated 15 March 2016, the Company reported on its activities relating to the provision of regulated services to consumers and other stakeholders during the reporting period.</p> <p>The company prepares annual, semi-annual and quarterly financial statements in accordance with international financial reporting standards. The reports are timely posted on internet resources of the depository of financial statements, stock exchange and corporate website of the Company.</p> <p>The external audit of the financial statements of the Company for 2016 is executed by LLC “Ernst & Young”, which confirmed the accuracy of the financial position statement of the Company as of 31 December 2016, and the financial results and cash flows for the year ending on that date, in accordance with international financial reporting standards.</p>

APPENDIX 7. INDEPENDENT LIMITED ASSURANCE REPORT OF KPMG TAX AND ADVISORY LLC



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Independent Limited Assurance report on information in the field of sustainable development included in the Annual report of KazTransOil JSC for the year 2016

To Management of KazTransOil JSC

Introduction

We were engaged by the Management of KazTransOil JSC (“the Management”) to report on KazTransOil’s JSC (“the Company”) information in the field of sustainable development included in the Company’s Annual report for the year 2016 and the accompanying Management’s statement thereon in the form of an independent limited assurance conclusion that based on our work performed nothing has come to our attention that causes us to believe that the Management’s statement that the information in the field of sustainable development included in the Company’s Annual report for the year 2016 is prepared, in all material aspects, based on the recommendations of the Global Reporting Initiative G4 Sustainability Reporting Guidelines option “core” (“the GRI G4”), is not fairly stated.

Management’s Responsibilities

Management is responsible for preparing the information in the field of sustainable development that is free from material misstatement in accordance with the recommendations of the GRI G4 and for the Management’s statement thereon.

This responsibility includes development, implementation and maintaining of internal control system applied to preparation of the information in the field of sustainable development included in the Company’s Annual report for the year 2016 that is free

from material misstatement whether due to fraud or error. It also includes selecting the goals in sustainable development and reporting, including identifying key stakeholder groups and significant issues for them; the application of the requirements of the GRI G4 for the purpose of the preparation of the information in the field of sustainable development; for preventing and detecting fraud; for identifying and ensuring that the Company complies with laws and regulations applicable to its activities; designing, implementing and effectively operating controls to achieve the stated control objectives; selecting and applying policies; and maintaining adequate records in relation to the information in the field of sustainable development included in the Company’s Annual report for the year 2016.

Our Responsibilities and applicable standards

Our responsibility is to perform procedures to obtain evidence in respect of the information in the field of sustainable development included in the Company’s Annual report for the year 2016 and prepared by Management and to report thereon in the form of an independent limited assurance conclusion based on the evidence obtained. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (ISAE 3000) issued by the International Auditing and Assurance Standards Board.

That standard requires that we plan and perform our procedures to obtain a meaningful level of assurance about whether Management’s statement that the information in the field of sustainable development is prepared, in all material respects, in accordance with the recommendations of the GRI G4, is fairly stated .

Our independence and quality control

The firm applies International Standard on Quality Control 1, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and ethical requirements of the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Procedures Performed

The procedures selected, and our determination of the nature, timing and extent of these procedures, depend on our judgment, including the assessment of risk of material misstatement during the preparation of information in the field of sustainable development included in the Company’s Annual report for the year 2016 whether due to fraud or error, our understanding of the information in the field of sustainable development, as well as other engagement circumstances.

In making these risk assessments, we considered internal control relevant to the Company’s preparation and presentation of the information in the field of sustainable development included in the Company’s Annual report for the year 2016 in order to design procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Company’s internal control.

Our procedures are developed based on the risk assessment included, but were not limited to, the following:

- sending information requests to Management to get an overview of the process of identifying topics and issues of importance to key stakeholder groups of the Company;
- interviewing with Management representatives and Company officials to get an understanding of the processes of the Company interaction with stakeholders, the strategy of sustainable development and policies governing the key issues in this area, the degree of implementation of these policies in practice and procedures of collecting information in the field of sustainable development;
- comparison of information with data from other sources to verify completeness and absence of contradictions;
- assessment of the completeness of qualitative and quantitative information in the field of sustainable development from the point of view of compliance with the recommendations of the GRI G4;
- study and analysis of the information in the field of sustainable development included in the Company’s Annual report for the year 2016 to ascertain whether it meets our overall perception of and knowledge about the Company’s activities in the area of sustainable development
- recalculation of quantitative indicators and inspection of the supporting primary documentation.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

The criteria used

The recommendations of the Sustainable Development Reporting Guidance of Global Reporting Initiative G4, available at the link: <https://www.globalreporting.org/reporting/g4/Pages/default.aspx> were used as criteria to evaluate the information in the field of sustainable development.

Management’s statement

Management states that the information in the field of sustainable development included in the Company’s Annual report for the year 2016 has been prepared, in all material respects, in accordance with the recommendations of GRI G4.

Conclusion

Our conclusion has been formed on the basis of, and is subject to the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Based on the procedures performed, described in this report, nothing has come to our attention that causes us to believe that Management’s statement that the information in the field of sustainable development included in the Company’s Annual report for the year 2016 has been prepared, in all material respects, in accordance with the recommendations of the GRI G4, is not fairly stated.

KPMG Tax and Advisory LLC

May, 19 2017

APPENDIX 8. CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016,
WITH INDEPENDENT AUDITORS' REPORT

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Independent auditor's report

To the Shareholders of KazTransOil JSC

Opinion

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

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

Basis for opinion

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

Key audit matters

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

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

Fair value of property, plant and equipment

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

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

Other information included in the Group's 2016 Annual report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young LLP



Gulmira Turmagambetova
Auditor / General Director
Ernst & Young LLP

Auditor Qualification Certificate
No. 0000374 dated 21 February 1998

050060, Almaty, Kazakhstan
Al-Farabi Ave., 77/7

27 February 2017



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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

In thousands of Tenge	Notes	For the years ended 31 December	
		2016	2015
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods			
Revaluation/(impairment) of property, plant and equipment of the Group	6	140,245,363	(893,921)
Income tax effect	32	(25,724,217)	178,784
		114,521,146	(715,137)
Reversal of provision for asset retirement obligation and land reclamation of the Group	23	6,886,484	1,157,829
Income tax effect	32	(1,377,295)	(231,565)
		5,509,189	926,264
Reversal of deferred tax liabilities	32	865,077	–
		865,077	–
Revaluation of property, plant and equipment of joint ventures		1,111,814	69,176
Income tax effect		(222,363)	(13,835)
	8	889,451	55,341
Reversal of provision for asset retirement obligation and land reclamation of joint ventures		89,369	632,377
Income tax effect		(17,874)	(126,475)
	8	71,495	505,902
Actuarial gain/(loss) from employee benefit liabilities of the Group	18	3,897,890	(2,503,907)
Income tax effect	32	(779,578)	500,781
		3,118,312	(2,003,126)
Total other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods, net		124,974,670	(1,230,756)
Total other comprehensive income for the year, net of tax		121,681,938	18,647,998
Total comprehensive income for the year, net of tax		166,209,856	63,360,934

CONSOLIDATED STATEMENT OF CASH FLOWS

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

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of Tenge	Notes	For the years ended 31 December	
		2016	2015
Increase/(decrease) in operating liabilities			
Trade and other accounts payable		454,933	(3,311,765)
Advances received		(1,376,981)	792,292
Other taxes payable		(330,721)	(388,809)
Other current and non-current liabilities and employee benefit liabilities		2,546,514	4,260,012
Cash generated from operating activities		108,017,536	136,099,762
Income taxes paid		(21,677,968)	(16,850,829)
Interest received		4,637,042	2,753,028
Net cash flow from operating activities		90,976,610	122,001,961
Cash flows from investing activities			
Withdrawal of bank deposits		31,655,991	71,739,062
Placement of bank deposits		(35,048,671)	(41,427,048)
Purchase of property, plant and equipment		(38,263,193)	(70,523,460)
Purchase of intangible assets		(58,754)	(154,116)
Proceeds from disposal of property, plant and equipment		10,137	44,138
Repayment/(granting) of interest free loan	17	20,000,000	(20,000,000)
Dividends received		1,487,160	1,735,020
Net cash flow used in investing activities		(20,217,330)	(58,586,404)
Cash flows from financing activities			
Dividends paid	17	(51,156,535)	(46,429,363)
Treasury shares repurchased from shareholders	17	(9,549)	–
Net cash flow used in financing activities		(51,166,084)	(46,429,363)
Net foreign exchange difference		(719,055)	(8,740,626)
Net change in cash and cash equivalents		18,874,141	8,245,568
Cash and cash equivalents at the beginning of the year		50,420,288	42,174,720
Cash and cash equivalents at the end of the year	16	69,294,429	50,420,288

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

1. GENERAL

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

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

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

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

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

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

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

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

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

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

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

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

- In 2015 – 3,225.04 Tenge per tonne for 1,000 km without VAT;
- In 2016 – 3,547.46 Tenge per tonne for 1,000 km without VAT;

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

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

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

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

2. BASIS OF PREPARATION

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

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

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

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

3. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of

the investee);

- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Interest in a joint venture

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

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

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

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

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

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

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

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

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

4.2 Foreign currency translation

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

Transactions and balances

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

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

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

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

Group companies

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

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

Exchange rates

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

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

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

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

KZT	2016	2015
US Dollar	333.29	340.01
Russian Ruble	5.43	4.61
Euro	352.42	371.46
Georgian Lari	126.25	142.86

4.3 Current versus non-current classification of assets and liabilities

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

4.4 Fair value measurement

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

the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

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

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

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

4.5 Property, plant and equipment

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

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

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

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

statement of comprehensive income. A revaluation deficit is recognised as expense in the statement of comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

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

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

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

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

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

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

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are

expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income when the asset is derecognised.

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

4.6 Intangible assets

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

The useful lives of intangible assets are assessed as finite.

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

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

4.7 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an

asset's or cash generating unit's (hereinafter – "CGU") fair value less costs to sell and its value in use.

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

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

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

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

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

4.8 Financial assets

Initial recognition and measurement

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

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

The Group's financial assets include cash and short-term bank deposits, loans given, trade and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification.

Loans and receivables

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

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

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

Held-to-maturity investments

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

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs

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

Derecognition

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

4.9 Impairment of financial assets

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

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

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group

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

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

Financial assets carried at amortised cost

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

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The

interest income is recorded as part of finance income in the consolidated statement of comprehensive income. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

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

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

4.10 Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

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

Financial guarantee contracts

Financial guarantee contracts are those contracts that

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

Derecognition

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

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

4.11 Offsetting of financial instruments

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

4.12 Inventories

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

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

Cost of inventories is determined by using of FIFO basis.

4.13 Cash and cash equivalents

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

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

4.14 Provisions

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

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

4.15 Employment benefits

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

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

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

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

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

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

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

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

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

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

4.16 Revenue recognition and other income recognition

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

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

Rendering of transportation services

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

Rendering of other services

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

Interest income

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

Dividends

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

Fees for undelivered oil volumes

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

4.17 Taxes

Income tax

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

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

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

Deferred tax

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax

laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or in equity.

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

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

Value added tax (hereinafter – “VAT”)

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

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

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

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

Receivables and payables are stated including VAT.

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

4.18 Equity*Share capital*

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

Dividends

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

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

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

4.19 Changes in accounting policies and disclosures

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

New and amended standards and interpretations applied by the Group

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

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

IFRS 14 Regulatory Deferral Accounts

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

The standard requires disclosure of the nature of, and risks associated with, the entity’s rate-regulation and the effects of that rate-regulation on its financial statements. Since the Group is an existing IFRS preparer and the Group

has no regulatory deferral account balances, this standard does not affect the consolidated financial statements.

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

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

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

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

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

Amendments to IAS 27 Equity Method in Separate Financial Statements

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

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

Annual improvements 2012-2014 cycle

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

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

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

IFRS 7 Financial Instruments: Disclosures

(I) Servicing contracts

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

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

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

IAS 19 Employee Benefits

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

IAS 34 Interim Financial Reporting

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

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

Amendments to IAS 1 Disclosure Initiative

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

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

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

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

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

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

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

subsidiaries of an investment entity are measured at fair value.

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

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

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

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

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

(a) Classification and measurement

The Group does not expect a significant impact on its consolidated statement of financial position or equity on

applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

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

(b) Impairment

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

IFRS 15 Revenue from Contracts with Customers

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

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

(I) Presentation and disclosure requirements

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

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

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

IAS 7 Disclosure Initiative – Amendments to IAS 7

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

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. These amendments are effective for annual periods beginning on

or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the consolidated financial statements of the Group.

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

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

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

IFRS 16 Leases

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

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those

payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

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

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

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

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

Estimates and assumptions

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

Revaluation of property, plant and equipment

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

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

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

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

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

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

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

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

Revaluation of technological oil

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

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

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

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

Taking into account all these factors, as well as the report of an independent professional appraiser as at 30 September

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

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

Impairment of property, plant and equipment

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

Useful lives of items of property, plant and equipment

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

Asset retirement and land reclamation obligation

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

reclamation are carried out when replacing the pipelines at the end of their useful life.

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

Reserve on liquidation of landfills and waste management is also reflected within the asset retirement and land

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

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

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

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

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

Assessing the cost of rehabilitation of the environment is subject to potential changes in environmental requirements

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

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

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

Allowances for doubtful debts

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

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

Tax provisions

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

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the

amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The amount of recognized deferred tax assets as at 31 December 2016 was 6,264,690 thousand Tenge (31 December 2015: 8,336,684 thousand Tenge) (Note 32). As at 31 December 2016 and 2015 the Group did not have unrecognized deferred tax assets.

Employee benefits

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

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

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

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

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

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

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

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

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

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

6. PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT AS AT 31 DECEMBER 2016 AND 2015 ARE AS FOLLOWS:

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

6. PROPERTY, PLANT AND EQUIPMENT (continued)

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

6. PROPERTY, PLANT AND EQUIPMENT (continued)

<i>In thousands of Tenge</i>	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
As at 31 December 2016									
At revalued amount	19,803,815	202,402,253	14,258,143	96,958,727	145,295,540	88,061,076	15,398,884	40,428,912	622,607,350
Accumulated depreciation and impairment	–	(5,664,218)	(797,704)	(2,026,280)	(7,868,018)	(199,540)	(1,838,562)	(57,681)	(18,452,003)
Net book value	19,803,815	196,738,035	13,460,439	94,932,447	137,427,522	87,861,536	13,560,322	40,371,231	604,155,347
As at 31 December 2015									
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	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

The carrying value of each revalued class of property, plant and equipment that would have been recognized in the consolidated financial statements had the assets been

carried at cost less any accumulated depreciation and any accumulated impairment loss is as follows:

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

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

- Construction and reconstruction, realized as part of interstate “Kazakhstan-China” oil pipeline construction project;
- Reconstruction of main oil pipelines “Kalamkas-Karazhanbas-Aktau” on the “Karazhanbas-Aktau” route;
- Reconstruction of the VNS-5 to increase the supply of water for the water pipeline “Astrakhan-Mangyshlak”;

- Reconstruction of firefighting system, construction of acceptance points at 1,235 km of the oil pipeline “Uzen Atyrau-Samara”, construction of nonperforming automated communication centers, upgrade of hardware for automation and instrumentation systems, modernization of the existing fiber-optic network, reconstruction of firefighting systems and power supply facilities, implementation of the project for the installation of system for measurement of quantity and quality of oil for bitumen plant and others.

As at 31 December 2016:

- The initial cost and corresponding accumulated depreciation of fully depreciated property, plant and equipment were 1,482,726 thousand Tenge (31 December 2015: 4,822,436 thousand Tenge);
- The volume of oil in pipelines, included in property, plant and equipment, amounted to 2,460 thousand tonnes (31 December 2015: 2,398 thousand tonnes);
- Construction in progress included materials and spare parts in the amount of 2,432,369 thousand Tenge (31 December 2015: 1,012,567 thousand

Tenge), which were acquired for construction works. This increase is mainly due to purchases in 2016 for use in the reconstruction of Aktau MOPS as part of the production program to increase oil pumping. Depreciation for the year ended 31 December 2016 included in the cost of construction in progress amounted to 15,736 thousand Tenge (for the year ended 31 December 2015: 17,419 thousand Tenge).

7. INTANGIBLE ASSETS

INTANGIBLE ASSETS AS AT 31 DECEMBER 2016 AND 2015 ARE AS FOLLOWS:

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

8. INVESTMENTS IN JOINT VENTURES

INVESTMENTS IN JOINT VENTURES AS AT 31 DECEMBER 2016 AND 2015 ARE AS FOLLOWS:

<i>In thousands of Tenge</i>	KCP	MunaiTas	Total
As at 31 December 2015	–	13,918,006	13,918,006
Share in income of joint ventures	6,324,738	2,336,465	8,661,203
Unrecognised share in income of joint venture	(6,324,738)	–	(6,324,738)
Other comprehensive income of joint ventures	327,966	960,946	1,288,912
Unrecognised other comprehensive income of joint venture	(327,966)	–	(327,966)
Dividends	–	(1,487,160)	(1,487,160)
As at 31 December 2016	–	15,728,257	15,728,257
<i>In thousands of Tenge</i>			
As at 31 December 2014	36,982,132	12,861,202	49,843,334
Share in income/(loss) of joint ventures	(44,571,259)	2,736,090	(41,835,169)
Unrecognised share in loss of joint venture	7,161,028	–	7,161,028
Share in other comprehensive income of joint ventures	428,099	55,734	483,833
Dividends	–	(1,735,020)	(1,735,020)
As at 31 December 2015	–	13,918,006	13,918,006

8. INVESTMENTS IN JOINT VENTURES (continued)

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

In thousands of Tenge	KCP			
	31 December 2016		31 December 2015	
	50%	100%	50%	100%
Assets and liabilities of joint ventures				
Current assets	8,302,354	16,604,708	12,346,915	24,693,830
Non-current assets	110,886,209	221,772,418	118,246,077	236,492,154
Current liabilities	(20,275,079)	(40,550,158)	(32,875,443)	(65,750,886)
Non-current liabilities	(99,421,809)	(198,843,618)	(104,878,577)	(209,757,154)
Net assets	(508.325)	(1.016.650)	(7.161.028)	(14.322.056)
Unrecognised accumulated comprehensive loss	508,325	1,016,650	7,161,028	14,322,056
Net book value of investment	-	-	-	-
Additional information				
Cash and cash equivalents	6,259,460	12,518,920	8,987,307	17,974,614
Short-term financial liabilities	(16,270,055)	(32,540,110)	(28,224,964)	(56,449,928)
Long-term financial liabilities	(97,898,723)	(195,797,446)	(103,096,811)	(206,193,622)

In thousands of Tenge	MunaiTas			
	31 December 2016		31 December 2015	
	51%	100%	51%	100%
Assets and liabilities of joint ventures				
Current assets	5,808,421	11,389,061	4,414,281	8,655,453
Non-current assets	13,464,948	26,401,859	12,985,200	25,461,177
Current liabilities	(706,488)	(1,385,271)	(639,821)	(1,254,551)
Non-current liabilities	(2,838,624)	(5,565,929)	(2,841,654)	(5,571,871)
Net assets	15,728,257	30,839,720	13,918,006	27,290,208
Additional information				
Cash and cash equivalents	5,641,461	11,061,688	527,106	1,033,541
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 316,626 million Tenge).

Both loans are denominated in US Dollars and are payable in 2023 and 2019. The Company along with the

second participant of KCP did not guarantee the loans. Nevertheless, as of 31 December 2016 the Company issued a parent support letter to KCP stating that the Company will support the operating activity of the joint venture for the next twelve months.

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

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

8. INVESTMENTS IN JOINT VENTURES (continued)

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

9. ADVANCES TO SUPPLIERS FOR PROPERTY, PLANT AND EQUIPMENT

ADVANCES TO SUPPLIERS FOR PROPERTY, PLANT AND EQUIPMENT AS AT 31 DECEMBER 2016 AND 2015 ARE AS FOLLOWS:

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

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

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

10. INVENTORIES

INVENTORIES AS AT 31 DECEMBER 2016 AND 2015 ARE AS FOLLOWS:

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

11. TRADE AND OTHER ACCOUNTS RECEIVABLE

TRADE AND OTHER ACCOUNTS RECEIVABLE AS AT 31 DECEMBER 2016 AND 2015 ARE AS FOLLOWS:

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

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

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

11. TRADE AND OTHER ACCOUNTS RECEIVABLE (continued)

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

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

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

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

12. ADVANCES TO SUPPLIERS

ADVANCES TO SUPPLIERS AS AT 31 DECEMBER 2016 AND 2015 ARE AS FOLLOWS:

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

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

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

13. VAT RECOVERABLE AND OTHER PREPAID TAXES

VAT RECOVERABLE AND OTHER PREPAID TAXES AS AT 31 DECEMBER 2016 AND 2015 ARE AS FOLLOWS:

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

14. OTHER CURRENT ASSETS

OTHER CURRENT ASSETS AS AT 31 DECEMBER 2016 AND 2015 ARE AS FOLLOWS:

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

15. BANK DEPOSITS

BANK DEPOSITS AS AT 31 DECEMBER 2016 AND 2015 ARE AS FOLLOWS:

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

As at 31 December 2016 bank deposits comprised the following:

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

16. CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER 2016 AND 2015 ARE AS FOLLOWS:

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

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

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

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

17. EQUITY

Share capital

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

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

Treasury shares

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

Asset revaluation reserve

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

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

Foreign currency translation reserve

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

Other capital reserves

As at 31 December 2016 other capital reserves amounted to 695,389 thousand Tenge (31 December 2015: 3,813,701 thousand Tenge). Increase in given reserve is due to accrual of actuarial gain from employee benefit liabilities in the amount of 3,897,890 thousand Tenge (Note 18), income

tax effect of which amounted to 779,578 thousand Tenge (Note 32) (31 December 2015: loss in the amount of 2,503,907 thousand Tenge, income tax effect of which amounted to 500,781 thousand Tenge).

Other

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

Dividends

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

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

Book value per ordinary share

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

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

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:

18. EMPLOYEE BENEFIT LIABILITIES

The Company has employee benefit liabilities, mainly consisting of additional payments for pensions and jubilee

obligations, applicable to all employees. These payments are unfunded.

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

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

CHANGES IN THE PRESENT VALUE OF EMPLOYEE BENEFIT LIABILITIES FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015 ARE AS FOLLOWS:

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

19. DEFERRED INCOME

As at 31 December 2016 deferred income represents advances in the amount of 7,731,328 thousand Tenge (as

at 31 December 2015: 8,081,762 thousand Tenge), which are received by a group of BTL from Batumi International Container Terminal (hereinafter – “BICT”) based on agreement for operating lease of land.

20. TRADE AND OTHER ACCOUNTS PAYABLE

TRADE AND OTHER ACCOUNTS PAYABLE AS AT 31 DECEMBER 2016 AND 2015 ARE AS FOLLOWS:

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

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

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

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

21. ADVANCES RECEIVED

ADVANCES RECEIVED AS AT 31 DECEMBER 2016 AND 2015 ARE AS FOLLOWS:

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

22. OTHER TAXES PAYABLE

OTHER TAXES PAYABLE AS AT 31 DECEMBER 2016 AND 2015 ARE AS FOLLOWS:

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

23. PROVISIONS

MOVEMENTS IN PROVISIONS FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015 ARE AS FOLLOWS:

Short-term provisions

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

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

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

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

24. OTHER CURRENT LIABILITIES**OTHER CURRENT LIABILITIES AS AT 31 DECEMBER 2016 AND 2015 ARE AS FOLLOWS:**

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

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

25. REVENUE**REVENUE FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015 IS AS FOLLOWS:**

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

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

26. COST OF SALES

COST OF SALES FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015 ARE AS FOLLOWS:

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

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

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

significant upward revaluation during 2016.

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

27. GENERAL AND ADMINISTRATIVE EXPENSES

GENERAL AND ADMINISTRATIVE EXPENSES FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015 ARE AS FOLLOWS:

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

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

28. OTHER OPERATING INCOME

OTHER OPERATING INCOME FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015 IS AS FOLLOWS:

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

29. OTHER OPERATING EXPENSES

OTHER OPERATING EXPENSES FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015 ARE AS FOLLOWS:

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

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

30. FINANCE INCOME

FINANCE INCOME FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015 IS AS FOLLOWS:

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

31. FINANCE COSTS

FINANCE COSTS FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015 ARE AS FOLLOWS:

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

32. INCOME TAX EXPENSE

INCOME TAX EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015 IS AS FOLLOWS:

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

As at 31 December 2016 the Group wrote off the carrying value of deferred tax liabilities in the amount of 2,235,454 thousand Tenge, of which 1,370,377 thousand Tenge were written off through profit and loss and 865,077 thousand Tenge through other comprehensive income, attributable to BTL Group due to change of the tax legislation of Georgia, which represented change in the tax base for calculating income tax of resident enterprises from 1 January 2017. Based on the new tax legislation the taxable base will include distributed profits

(dividends), expenses not related to business operations, as well as gratuitous supply of goods/services/transfer of funds. Until 1 January 2017 the taxable base for the calculation of income tax is taxable income, as determined in accordance with the requirements of the existing tax legislation of Georgia.

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

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

32. INCOME TAX EXPENSE (continued)

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

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

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

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

33. SEGMENT INFORMATION

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

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

Segments that are identified, but do not separately exceed quantitative limits (amount of separate segment revenue comprises less than 10% of combined revenue) are combined in “Other segments”. Such services include transshipment of

dry cargo (sugar-airbrick, ammonium nitrate, cement, grain, sunflower and oil cake) in BSP with operation of dry cargo, ferry and container terminal, and also passenger terminal services.

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

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

Management analyses its operating segments by segment profit.

33. SEGMENT INFORMATION (continued)

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

34. RELATED PARTY TRANSACTIONS

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

Related party transactions were made on agreed terms between the parties that may not necessarily be at market rates, except for certain regulated services, which were

provided based on the tariffs available to related and third parties.

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

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

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

34. RELATED PARTY TRANSACTIONS (continued)

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

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

Advances provided to related parties are as follows:

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

Deferred expenses from related parties are as follows:

<i>In thousands of Tenge</i>	Note	31 December 2016	31 December 2015
Deferred expenses from entities under control of Samruk Kazyna Group		5,791	-
Total deferred expenses from related parties	14	5,791	-

Interest free loan to related parties is as follows:

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

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

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

Advances received from related parties are as follows:

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

34. RELATED PARTY TRANSACTIONS (continued)

Other current liabilities to related parties are as follows:

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

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

In thousands of Tenge	For the years ended 31 December	
	2016	2015
Sales to related parties		
Revenue from main activities with entities under common control of KMG Group	114,182,315	111,861,543
Revenue from main activities with joint ventures	8,108,759	7,612,064
Revenue from main activities with entities under common control of Samruk Kazyna Group	4,553,518	5,361,313
Revenue from other activities with entities under common control of KMG Group	24,878	28,096
Revenue from other activities with entities under common control of Samruk Kazyna Group	1,337	–
Total	126,870,807	124,863,016

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

In thousands of Tenge	For the years ended 31 December	
	2016	2015
Purchases from related parties		
Purchases of services from entities under common control of KMG Group	9,359,945	9,167,825
Purchases of services from entities under common control of Samruk Kazyna Group	3,004,858	2,691,546
Purchases of property, plant and equipment, intangible assets and inventory from entities under common control of Samruk-Kazyna Group	991,574	520,282
Purchases of property, plant and equipment, intangible assets and inventory from entities under common control of KMG Group	841,864	214,713
Purchases of inventory from entities under common control of KMG Group	70,860	262,611
Purchases of inventory from entities under common control of Samruk Kazyna Group	18,778	14,741
Purchases of intangible assets from entities under common control of Samruk-Kazyna Group	–	15,737
Purchases of services from joint ventures	4,877	–
Total	14,292,756	12,887,455

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

In thousands of Tenge	Note	For the years ended 31 December	
		2016	2015
Other operating income from related parties			
Amortization of deferred income from related parties	28	–	260,305
Total		–	260,305

34. RELATED PARTY TRANSACTIONS (continued)

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

In thousands of Tenge	Note	For the years ended 31 December	
		2016	2015
Finance income from related parties			
Discounting of interest free loan provided to KMG Group	30	1,264,921	379,461
Total		1,264,921	379,461

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

35. CONTINGENT LIABILITIES AND COMMITMENTS

Operating environment

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

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

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

Taxation

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

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

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

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

Transfer pricing control

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

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

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

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

Tax commitments of Georgian entities

According to the Tax Code of Georgia (hereinafter –

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

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

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

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

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

successful and assesses the probability of outflow of economic benefits as remote.

Environmental matters

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

Insurance matters

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

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

Contractual commitments

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

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

Legal proceedings

Legal proceedings with business counterparties of BTL Group

During 2015 the companies of the Group have been involved in a number of disputes in Georgia. The total amount

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

Legal proceedings with BICT

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

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

Legal proceedings with BOT

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

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

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

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

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

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

Pledged assets of BTL Group

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

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

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

Expropriation of the BSP assets

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

actual volumes of transshipment were more than 6.9 million tonnes (31 December 2015: 6.5 million tonnes).

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Credit risk

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

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

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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

Liquidity risks

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

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

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

Currency risk

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

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

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

The following table demonstrates the sensitivity to a

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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

Capital management

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

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

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

Fair value of financial instruments

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

37. SUBSEQUENT EVENTS

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

**APPENDIX 9.
LIST OF ABBREVIATIONS**

BTL	Batumi Terminals Limited
CJSC "NC "Transport of Oil and Gas"	Closed Joint Stock Company "National Company "Transport of Oil and Gas"
CJSC "NOC "KazTransOil"	Closed Joint Stock Company "National Oil and Gas Company "Kazakhoil"
CJSC "NOTC "KazTransOil"	Closed Joint Stock Company "National Company for Oil Transportation "KazTransOil"
CNODC	China National Oil and Gas Exploration and Development Corporation
Company	"KazTransOil" JSC
CPC	Caspian Pipeline Consortium
CRMS	Corporate risk management system
CSC	Common service center
ETSM	Engineering-technical safety means
GRI G4	The GRI (Global Reporting Initiative) guidelines for sustainable development reporting, version G4
ICS	Internal control system
IFRS	International financial reporting standards
IGM	Inventory of goods and materials
IMS	Integrated management system
ISMS	Information security management system
JSC "NWPC - MunayTas"	Joint Stock Company "North-West Pipeline Company "MunayTas"
JSC NC "KazMunayGas"	Joint Stock Company "National Company "KazMunayGas"
KASE	Kazakhstan Stock Exchange
KPI	Key performance indicators

LLC “KCP”	LLC “Kazakhstan-China Pipeline”
LPDS	Linear production dispatcher station
MICC	Main information and computing center
MM	Mass media
MOP	Main oil pipeline
OHS	Oil heating station
OPS	Oil pumping station
ORP	Oil refinery plant
PKOP	LLC “PetroKazakhstan oil products”
POPS	Principal oil pumping station
PPCP	Pavlodar petrochemical plant
Report	Integrated Annual Report of “KazTransOil” JSC
SGS	Societe Générale de Surveillance SA
SJCE	Subsidiaries and jointly-controlled entities
STC	Scientific Technical Center
TCC	Training and Course Combine
TON-2	Main oil pipeline “Tuimazy-Omsk-Novosibirsk-2”
UN	United Nations Organization
VAT	Value added tax
WPS	Water pumping station
WTF	Water treatment facility