

KazTransOil JSC

Separate financial statements

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



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Independent auditor's report

Separate financial statements

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Independent auditor's report

To the Shareholders of KazTransOil JSC

Opinion

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

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

Basis for opinion

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

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
Impairment of investment in Batumi Oil Terminal LLC	
<p>Investment in Batumi Oil Terminal LLC (BOT), a subsidiary of the Company, makes up approximately 3.4% of the total assets of the Company as at 31 December 2018. We considered this matter to be one of the most significance in the audit due to the high level of subjectivity in respect of assumptions underlying the impairment analysis and significant judgements and estimates made by management in the assessment of the recoverable amount of the investment in BOT. In addition, the decrease in transshipment volumes of BOT, increased inflation and uncertainty about future economic growth affect BOT's business prospects and therefore trigger potential impairment of the Company's investment in BOT.</p> <p>Management performed impairment test as at 31 December 2018.</p> <p>Significant assumptions included discount rates, forecasted tariffs, inflation rates, transshipment volumes, future capital expenditure and operating expenses.</p> <p>Information on assessment of the recoverable amount of the investment in BOT is disclosed in Note 7 to the separate financial statements.</p>	<p>We involved our business valuation specialists in the testing of impairment analysis and calculation of recoverable amount of the investment in BOT performed by management as at 31 December 2018. We involved the component auditor to analyze the assumptions underlying management forecasts of cash flows from the investment in BOT and to compare them with existing external information and with actual results. We compared the discount rates and long-term growth rates used in assessment of the investment's recoverable amount to general market indicators and other available evidence. We compared forecasted transshipment in the model with business plan. We tested the mathematical integrity of the impairment model and assessed the sensitivity analysis.</p> <p>We assessed the analysis made by management and factors that could indicate that the investment in BOT may be impaired as at 31 December 2018. We compared budgeted transshipment volume, EBITDA and revenue for 2018 with actual figures.</p>

Other Information included in the Company's 2018 Annual report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young LLP



Gulmira Turmagambetova
Auditor / General Director
Ernst & Young LLP



Auditor Qualification Certificate
No. 0000374 dated 21 February 1998

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

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4 March 2019

SEPARATE STATEMENT OF FINANCIAL POSITION

<i>In thousands of Tenge</i>	Notes	31 December 2018	31 December 2017
Assets			
Non-current assets			
Property, plant and equipment	5	597,851,442	566,836,632
Intangible assets	6	1,511,705	1,489,927
Investments in subsidiaries	7	57,260,238	28,208,864
Investments in joint ventures	8	7,404,945	7,404,945
Advances to suppliers for property, plant and equipment	9	110,135	272,246
Bank deposits	15	2,778,076	3,948,692
Investments in bonds	18	828,437	748,962
Other non-current assets		12,585	13,100
		667,757,563	608,923,368
Current assets			
Inventories	10	4,027,652	3,152,484
Trade and other accounts receivable	11	4,242,779	6,197,900
Advances to suppliers	12	538,150	373,858
Prepayment for income tax		941,945	3,489,707
VAT recoverable and other prepaid taxes	13	726,283	3,027,649
Other current assets	14	7,799,318	5,786,633
Bank deposits	15	25,424,203	28,356,520
Cash and cash equivalents	16	30,325,124	36,011,198
		74,025,454	86,395,949
Non-current assets held for sale	17	2,406,231	2,848,498
		76,431,685	89,244,447
Total assets		744,189,248	698,167,815

The accounting policy and explanatory notes on pages 7 through 55 form an integral part of these separate financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION (continued)

<i>In thousands of Tenge</i>	Notes	31 December 2018	31 December 2017
Equity and liabilities			
Equity			
Share capital	19	61,937,567	61,937,567
Treasury shares repurchased from shareholders	19	(9,549)	(9,549)
Asset revaluation reserve		198,867,282	182,956,116
Other capital reserves	19	(71,795)	(622,717)
Retained earnings		322,323,211	304,506,370
Total equity		583,046,716	548,767,787
Non-current liabilities			
Employee benefit obligations	20	12,939,771	12,740,751
Deferred tax liabilities	33	68,003,798	63,299,288
Provision for asset retirement and land recultivation obligation	24	21,109,397	15,347,322
Deferred income		6,843	3,655
		102,059,809	91,391,016
Current liabilities			
Employee benefit obligations	20	660,420	600,175
Trade and other accounts payable	21	11,919,760	16,725,180
Advances received	22	20,518,169	17,915,831
Other taxes payable	23	1,170,165	1,224,538
Provisions	24	1,088,119	41,125
Other current liabilities	25	23,726,090	21,502,163
		59,082,723	58,009,012
Total liabilities		161,142,532	149,400,028
Total equity and liabilities		744,189,248	698,167,815
Book value per ordinary share (in Tenge)	19	1,512	1,423

Signed and approved for issue on 4 March 2019.

General Director (Chairman of the Management Board)



Dossanov D.G.

Chief Accountant



Sarmaganbetova M.K.

The accounting policy and explanatory notes on pages 7 through 55 form an integral part of these separate financial statements.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

<i>In thousands of Tenge</i>	Notes	For the year ended 31 December	
		2018	2017
Revenue	26	212,519,885	208,606,879
Cost of sales	27	(139,040,319)	(134,081,624)
Gross profit		73,479,566	74,525,255
General and administrative expenses	28	(13,858,932)	(12,037,532)
Other operating income	29	2,158,138	2,397,469
Other operating expenses	30	(2,915,613)	(987,477)
Operating profit		58,863,159	63,897,715
Net foreign exchange gain/(loss)		2,588,085	(597,171)
Dividends income	34	4,338,250	–
Finance income	31	2,595,767	4,869,730
Finance costs	32	(2,591,256)	(3,082,198)
Impairment of investments in bonds	18	–	(3,639,607)
Profit before income tax		65,794,005	61,448,469
Income tax expense	33	(13,981,295)	(15,793,678)
Net profit for the year		51,812,710	45,654,791
Earnings per share (in Tenge)	19	135	119
Other comprehensive income			
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</i>			
Revaluation and impairment of property, plant and equipment, net	5	57,472,625	15,136,760
Income tax effect	33	(11,494,525)	(3,027,352)
		45,978,100	12,109,408
Charge of provision for asset retirement and land recultivation obligation	24	(3,102,220)	(30,162)
Income tax effect	33	620,445	6,033
		(2,481,775)	(24,129)
Actuarial gain from employee benefit obligations	20	688,653	279,191
Income tax effect	33	(137,731)	(55,838)
		550,922	223,353
Write-off of deferred tax assets on employee benefit obligations	19, 33	–	(150,746)
		–	(150,746)
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods, net		44,047,247	12,157,886
Total other comprehensive income for the year, net of tax		44,047,247	12,157,886
Total comprehensive income for the year, net of tax		95,859,957	57,812,677

Signed and approved for issue on 4 March 2019.

General Director (Chairman of the Management Board)



Dossanov D.G.

Chief Accountant



Sarmagambetova M.K.

The accounting policy and explanatory notes on pages 7 through 55 form an integral part of these separate financial statements.

SEPARATE STATEMENT OF CASH FLOWS

<i>In thousands of Tenge</i>	Notes	For the year ended 31 December	
		2018	2017
Cash flows from operating activities			
Profit before income tax		65,794,005	61,448,469
Non-cash adjustment to reconcile profit before tax to net cash flows			
Depreciation and amortization	27, 28	47,996,231	45,976,094
Finance costs	32	2,591,256	3,082,198
Finance income	31	(2,595,767)	(4,869,730)
Unrealized foreign exchange (gain)/loss		(2,588,085)	597,171
Gain on disposal of non-current assets held for sale, net	29	(1,513,663)	–
Revision of estimates on provision on asset retirement and land reclamation obligation	29, 30	1,162,914	(1,239,714)
Loss on disposal of property, plant and equipment and intangible assets, net	30	1,066,126	710,923
Charge of other current provisions	28	1,046,994	–
Employee benefit obligations, current service costs	27, 28	564,099	559,185
Gain from disposal of inventory, net		(210,650)	(44,668)
Impairment of property, plant and equipment	30	292,293	37,682
Impairment of non-current assets held for sale	30	283,956	–
Charge/(reversal) of expected credit losses, net	28	217,662	(43,573)
Expenses on liquidation of idle production facilities	30	106,084	56,275
Actuarial (gain)/loss	29, 30	(70,352)	39,943
Write-off of VAT recoverable		43,191	36,283
Impairment of investments in bonds	18	–	3,639,607
Others		(4,225)	8,801
Operating cash flows before working capital changes		114,182,069	109,994,946
(Increase)/decrease in operating assets			
Inventories		(1,967,308)	(1,751,897)
Trade and other accounts receivable		(1,823,151)	(1,018,251)
Advances to suppliers		(163,674)	(6,073)
VAT recoverable and other prepaid taxes		1,599,436	(1,861,559)
Other current assets		(6,346,657)	(171,371)
Increase/(decrease) in operating liabilities			
Trade and other accounts payable		1,082,470	893,948
Advances received		2,602,338	1,726,033
Other taxes payable		(466,463)	(479,011)
Other current and non-current liabilities and employee benefit obligations		1,513,463	143,011
Cash generated from operating activities		110,212,523	107,469,776
Income taxes paid		(17,328,744)	(15,031,420)
Interest received		2,713,885	4,657,133
Net cash flows from operating activities		95,597,664	97,095,489

The accounting policy and explanatory notes on pages 7 through 55 form an integral part of these separate financial statements.

SEPARATE STATEMENT OF CASH FLOWS (continued)

<i>In thousands of Tenge</i>	Notes	For the year ended 31 December	
		2018	2017
Cash flows from investing activities			
Withdrawal of bank deposits		33,037,782	62,412,730
Proceeds from disposal of property, plant and equipment		31,491,443	15,400
Dividends received		4,670,625	–
Proceeds from bonds redemption	18	43,457	–
Purchase of property, plant and equipment		(54,758,405)	(47,722,657)
Contributions to the share capital of a subsidiary	7	(27,694,677)	–
Placement of bank deposits and bonds		(27,090,320)	(79,808,900)
Purchase of intangible assets		(27,895)	(701,553)
Net cash flows used in investing activities		(40,327,990)	(65,804,980)
Cash flows from financing activities			
Dividends paid	19	(61,540,496)	(59,617,355)
Net cash flows used in financing activities		(61,540,496)	(59,617,355)
Net change in cash and cash equivalents		(6,270,822)	(28,791,148)
Net foreign exchange difference		601,826	(464,302)
Change in allowance for expected credit losses		(17,078)	–
Cash and cash equivalents at the beginning of the year		36,011,198	64,802,346
Cash and cash equivalents at the end of the year	16	30,325,124	36,011,198

Signed and approved for issue on 4 March 2019.

General Director (Chairman of the Management Board)



Dossanov D.G.

Chief Accountant



Sarmagambetova M.K.

The accounting policy and explanatory notes on pages 7 through 55 form an integral part of these separate financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY

<i>In thousands of Tenge</i>	Share capital	Treasury shares repurchased from shareholders	Asset revaluation reserve	Other capital reserves	Retained earnings	Total
As at 31 December 2017	61,937,567	(9,549)	182,956,116	(622,717)	304,506,370	548,767,787
Changes in accounting policy (Notes 11, 15 and 16)	-	-	-	-	(40,532)	(40,532)
As at 1 January 2018 (restated)	61,937,567	(9,549)	182,956,116	(622,717)	304,465,838	548,727,255
Net profit for the year	-	-	-	-	51,812,710	51,812,710
Other comprehensive income	-	-	43,496,325	550,922	-	44,047,247
Total comprehensive income for the year	-	-	43,496,325	550,922	51,812,710	95,859,957
Amortization of revaluation reserve for revalued property, plant and equipment	-	-	(27,585,159)	-	27,585,159	-
Dividends (Note 19)	-	-	-	-	(61,540,496)	(61,540,496)
As at 31 December 2018	61,937,567	(9,549)	198,867,282	(71,795)	322,323,211	583,046,716
As at 31 December 2016	61,937,567	(9,549)	192,430,443	(695,324)	296,909,328	550,572,465
Net profit for the year	-	-	-	-	45,654,791	45,654,791
Other comprehensive income	-	-	12,085,279	72,607	-	12,157,886
Total comprehensive income for the year	-	-	12,085,279	72,607	45,654,791	57,812,677
Amortization of revaluation reserve for revalued property, plant and equipment	-	-	(21,559,606)	-	21,559,606	-
Dividends (Note 19)	-	-	-	-	(59,617,355)	(59,617,355)
As at 31 December 2017	61,937,567	(9,549)	182,956,116	(622,717)	304,506,370	548,767,787

Signed and approved for issue on 4 March 2019.

General Director (Chairman of the Management Board)



Dossanov D.G.

Sarmagambetova M.K.

Chief Accountant

The accounting policy and explanatory notes on pages 7 through 55 form an integral part of these separate financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL

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

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

As at 31 December 2018 10% of shares of the Company are owned by minority shareholders who acquired them within the “People’s IPO” program. The major shareholder of the Company, who owns the controlling interest of the Company (90%) is National Company “KazMunayGas” JSC (hereinafter – “KMG” or “Parent Company”). 90% of KMG shares are owned by Sovereign Wealth Fund “Samruk-Kazyna” JSC (hereinafter – “Samruk-Kazyna”), controlled by the Government of the Republic of Kazakhstan. 10% of KMG shares are owned by the National Bank of the Republic of Kazakhstan.

As at 31 December 2018 and 2017 the Company had ownership interest in the following companies:

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

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

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

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

The Company is the national operator of the Republic of Kazakhstan on the main oil pipeline. The Company operates network of main oil pipelines of 5,378 km and water pipelines of 1,945 km. Also the Company is engaged in storage, loading, transshipment and transfer of crude oil to other related pipeline systems. The Company’s joint ventures MunaiTas and KCP own Kenkiyak-Atyrau, Kenkiyak-Kumkol, and Atasu-Alashankou pipelines mainly used for transportation of Kazakhstani crude oil, and also for transit of Russian oil to China.

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

According to the Law of the Republic of Kazakhstan *On Natural Monopolies* transit of crude oil through the pipelines on the territory of the Republic of Kazakhstan and export from the Republic of Kazakhstan is excluded from the regulation of natural monopolies.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

1. GENERAL (continued)

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

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

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

Starting from 1 April 2018 tariffs for pumping oil on the export from the Republic of Kazakhstan equals to 6.398,92 Tenge per ton for 1,000 kilometers without VAT.

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

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

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

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

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

2. BASIS OF PREPARATION

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

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

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

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

These separate financial statements were issued in addition to the consolidated financial statements of the Company and its subsidiary. These consolidated financial statements were approved by internal audit committee of the Company’s Board of Directors and signed by the General Director (Chairman of the Management Board) and the Chief Accountant of the Company on 4 March 2019. Consolidated financial statements are available on the Company’s corporate internet resource.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****3.1 Investment in a subsidiary**

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

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

3.2 Interest in joint ventures

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

3.3 Foreign currency translation

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

Transactions and balances

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

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

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

Exchange rates

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

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

<i>Tenge</i>	For the year ended 31 December	
	2018	2017
US dollar	345.04	326.08
Russian ruble	5.50	5.59
Euro	406.88	368.65

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

<i>Tenge</i>	2018	2017
US dollar	384.20	332.33
Russian ruble	5.52	5.77
Euro	439.37	398.23

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

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

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Company classifies all other liabilities as non-current.

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

3.5 Fair value measurement

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

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

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

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

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

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

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

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

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

3.6 Non-current assets held for sale and discontinued operations

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

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

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

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

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

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

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

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

3.7 Property, plant and equipment

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Property, plant and equipment (continued)

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

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

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

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Further information about the asset retirement and land recultivation obligation disclosed in *Notes 4 and 24*.

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

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

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

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

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

3.8 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as finite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization is provided on a straight-line basis over the estimated useful economic life of the assets. Intangible assets are generally amortized over seven-ten years. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**3.9 Impairment of non-financial assets**

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

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

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

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

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

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

Such reversal is recognized through profit or loss, unless the asset is carried at revalued amount. In the latter case the reversal is treated as a revaluation increase.

3.10 Financial assets***Initial recognition and measurement***

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

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

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

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

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

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

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value.

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

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

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

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

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

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

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

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

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

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

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

Derecognition

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

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

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

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

3.11 Impairment of financial assets

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

- Disclosures for significant assumptions (*Note 4*);
- Trade and other accounts receivable (*Note 11*);
- Bank deposits (*Note 15*);
- Cash and cash equivalents (*Note 16*).

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**3.11 Impairment of financial assets (continued)**

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

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

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

3.12 Financial liabilities***Initial recognition and measurement***

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

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

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

Subsequent measurement

The measurement of financial liabilities depends on their classification:

Trade and other accounts payable

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

Derecognition

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

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

3.13 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the separate statement of financial position if, 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.

3.14 Inventories

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

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

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

Cost of inventories is determined by using of FIFO basis.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Cash and cash equivalents

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

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

3.16 Provisions

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

The Company records a provision on asset retirement and land reclamation obligation. 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 and land reclamation obligation. The unwinding of the discount is expensed as incurred and recognised in the separate statement of comprehensive income as a finance cost. The estimated future costs 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 (*Notes 4 and 24*).

3.17 Employee benefits

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

The expected costs of the benefits associated with one-off retirement payments are accrued over the period of employment using the same accounting methodology as used for defined benefit post-employment plans with defined payments on the end of labor activity. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred. Other movements are recognised in the current period, including current service cost, any past service cost and the effect of any curtailments or settlements. The most significant assumptions used in accounting for defined benefit obligations are discount rate and mortality rate. The discount rate is used to determine the net present value of future liabilities and each year the unwinding of the discount on those liabilities is charged to the separate statement of comprehensive income as interest cost. The mortality assumption is used to project the future stream of benefit payments, which is then discounted to arrive at a net present value of liabilities.

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

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

Net interest is calculated by applying the discount rate to the net defined benefit obligation or asset. The Company recognises the following changes in the net defined benefit obligation under 'cost of sales', 'administration expenses' and 'finance expenses' in separate 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**3.18 Revenue and other income recognition**

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

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

In the separate financial statements, the Company generally recognizes revenue for the following types:

Rendering of transportation services

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

Rendering of pipeline operation and maintenance services

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

Rendering of other services

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

Interest income

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

Dividends

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

Fees for undelivered oil volumes

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

3.19 Taxes*Current income tax*

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

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

Current income tax relating to items recognized in other comprehensive income is recognised in equity and not in the statement of comprehensive income. Management of the Company 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

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

Value added tax (hereinafter – “VAT”)

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

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

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

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

Receivables and payables are stated including VAT.

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

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

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

Treasury shares repurchased from shareholders

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

Dividends

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

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

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

3.21 Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as at 1 January 2018.

New and amended standards and interpretations applied by the Company

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

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

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

The Company's activities mainly relates to the transportation of oil through main pipelines on the territory of the Republic of Kazakhstan.

a) Rendering of services

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**3.21 Changes in accounting policies and disclosures (continued)****New and amended standards and interpretations applied by the Company (continued)***IFRS 15 Revenue from Contracts with Customers (continued)**a) Rendering of services (continued)*

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

(i) Variable consideration

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

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

(ii) Principal versus agent considerations

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

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

(iii) Advances received from customers

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

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

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

b) Presentation and disclosure requirements

In accordance with the requirements for the separate financial statements, the Company has detailed information on revenue recognized under contracts with customers in categories reflecting how economic factors influence the nature, size, timing and uncertainty of revenue and cash flows. Disclosure of detailed revenue is discussed in *Note 26*.

c) Other adjustments

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

The recognition and measurement requirements in IFRS 15 are also applicable for recognition and measurement of any gains or losses on disposal of non-financial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business. However, on transition, the effect of these changes is not expected to be material for the Company.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.21 Changes in accounting policies and disclosures (continued)****New and amended standards and interpretations applied by the Company (continued)***IFRS 9 Financial Instruments*

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

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

- The comparative information on financial assets and liabilities is disclosed in accordance with classification and measurement requirements of IAS 39 (*Notes 11, 15, 16 and 21*);
- The adjustment to the opening balance of retained earnings as at 1 January 2018 is recognized in the separate statement of changes in equity for year ended 31 December 2018. The information on this adjustment is disclosed as follows:

<i>In thousands of Tenge</i>	Adjustments	1 January 2018
Assets		
Non-current assets		
Bank deposits (<i>Note 15</i>)	(b)	(31,251)
Total non-current assets		(31,251)
Current assets		
Trade and other accounts receivable (<i>Note 11</i>)	(b)	(8,680)
Bank deposits (<i>Note 15</i>)	(b)	(264)
Cash and cash equivalents (<i>Note 16</i>)	(b)	(337)
Total current assets		(9,281)
Total assets		(40,532)
Equity		
Retained earnings	(b)	(40,532)
Total equity		(40,532)

a) Classification and measurement

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

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**3.21 Changes in accounting policies and disclosures (continued)****New and amended standards and interpretations applied by the Company (continued)***IFRS 9 Financial Instruments**a) Classification and measurement (continued)*

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

(b) Impairment

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

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

The adoption of the expected credit loss requirements of IFRS 9 resulted in increase in impairment allowances of the Company's debt financial assets. The increase in allowance resulted in adjustment to Retained earnings as at 1 January 2018. The effect of the adjustment is as follows: decreases in Trade and other receivables, Cash and cash equivalents, Bank deposits and Retained earnings amounting to 8,680 thousand Tenge, 337 thousand Tenge, 31,515 thousand Tenge and 40,522 thousand Tenge, respectively.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

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

Amendments to IAS 40 Transfers of Investment Property

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

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

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

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met.

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**3.21 Changes in accounting policies and disclosures (continued)****New and amended standards and interpretations applied by the Company (continued)***Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

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

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

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

These amendments do not have any impact on the Company's separate financial statements.

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

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

Standards issued but not yet effective

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

IFRS 16 Leases

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

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

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Standards issued but not yet effective (continued)***IFRS 16 Leases (continued)*

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

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

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

At the reporting date, the Company performed a preliminary analysis of the impact of IFRS 16, which is expected to have an impact on the separate financial statements of the Company for the period beginning 1 January 2019, including an increase in right-of-use assets, an increase in lease obligations and a decrease in retained earnings. The Company expects to complete a detailed analysis by 31 March 2019 and reflect its results as of 1 January 2019 in the separate financial statements as at 30 June 2019.

IFRS 17 Insurance Contracts

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

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

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

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

Amendments to IFRS 9: Prepayment Features with Negative Compensation

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**3.21 Changes in accounting policies and disclosures (continued)****Standards issued but not yet effective (continued)***Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Company will apply these amendments when they become effective.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

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

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

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

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

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

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**3.21 Changes in accounting policies and disclosures (continued)****Standards issued but not yet effective (continued)***Annual Improvements 2015-2017 Cycle (issued in December 2017)*

These improvements include:

IFRS 3 Business Combinations

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

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

IFRS 11 Joint Arrangements

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

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

IAS 12 Income Taxes

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

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

IAS 23 Borrowing Costs

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

- Financial risk management and policies (*Note 36*);
- Sensitivity analyses disclosures (*Note 36*).

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

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

Revaluation of property, plant and equipment

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

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

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

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

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

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

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

Revaluation of technological oil

Technological oil is annually revalued, due to the fact that fluctuations are quite frequent and significant. Technological oil was revalued on 31 December 2018.

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

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

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

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

Taking into account all these factors as at 31 December 2018 the fair value of the Company's technological oil was determined based on the price of 63,015 Tenge per ton (31 December 2017: 41,175 per ton). The effect of the change in fair value of the technological oil was equal to 54,541,851 thousand Tenge (31 December 2017: 13,353,217 thousand Tenge), in addition as at 31 December 2018 the revaluation of technological oil surplus in the amount 3,678,627 thousand Tenge (31 December 2017: 2,167,946 thousand Tenge) was recognized; the overall effect of revaluation is equal to 58,220,478 thousand Tenge (31 December 2017: 15,521,163 thousand Tenge) (*Note 5*).

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

Impairment of assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. Impairment exists when the carrying value of an asset or cash generating units (hereinafter – "CGU") exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. If no such transactions can be identified, an appropriate valuation model is used. The value in use calculation is based on a discounted cash flow model. The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which individual assets are allocated. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

Impairment of investments in subsidiaries

Due to the existence of impairment indicators the management of the Company at the current reporting period performed impairment tests of investments in subsidiaries to identify recoverable amount of the investments. The recoverable amount of investment in BOT has been determined based on the value of the business of BOT and BSP using discounted cash flow model under the income approach.

Impairment of investments in subsidiaries

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

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

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

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

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

As at 31 December 2018, the Company recognized impairment for inactive and non-specialized property, plant and equipment in the amount of 1,040,146 thousand Tenge, including 292,293 thousand tenge through profit and loss and 747,853 thousand Tenge through decrease in the asset revaluation reserve, due to the fact that their carrying amount exceeded the recoverable amount (*Note 5*)

Useful lives of items of property, plant and equipment

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

Asset retirement and land reclamation obligation

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

Asset retirement and land reclamation obligation is estimated based on the value of the work to decommission and rehabilitate calculated by the Company in accordance with the technical regulations of the Republic of Kazakhstan (pipeline decommission expense is equal to 5,671 thousand Tenge per kilometer (2017: 4,278 thousand Tenge).

Reserve on liquidation of landfills and waste management is also reflected within the asset retirement and land 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:

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

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

As at 31 December 2018 the carrying amount of the asset retirement and land reclamation obligation was 21,109,397 thousand Tenge (31 December 2017: 15,347,322 thousand Tenge) (*Note 24*).

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

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

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

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

Impairment of advances to suppliers

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

As at 31 December 2018 and 2017 these reserves have been created for the amount of 53,905 thousand Tenge and 54,523 thousand Tenge (*Notes 9 and 12*).

Allowances for financial assets

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

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

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

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

Thus, as at 31 December 2018 and 2017 allowance for expected credit losses was created in the amount of 900,830 thousand Tenge and 605,818 thousand Tenge, respectively (*Notes 11, 15 and 16*). Changes in the economy, industry, or specific customer conditions would have impact to these allowance recorded in the separate financial statements.

Tax provision

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of inspections by the tax authorities.

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

The amount of such provisions is based on various factors, such as experience of previous tax inspections and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the country.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised.

Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The amount of recognized deferred tax assets as at 31 December 2018 was 6,588,821 thousand Tenge (31 December 2017: 5,422,906 thousand Tenge) (Note 33). As at 31 December 2018 and 2017 the Company did not have unrecognized deferred tax assets.

Employee benefits

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

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

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

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

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

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

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

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

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

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

Property, plant and equipment as at 31 December 2018 and 2017 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 2017	6,057,069	227,862,264	10,519,904	85,464,187	144,214,874	102,839,808	17,509,489	35,052,454	629,520,049
Additions	–	40,974	6,548,753	41,517	4,819,108	–	2,149,714	37,081,752	50,681,818
Additions of asset retirement and land reclamation obligation (Note 24)	–	106,229	–	–	–	–	–	–	106,229
Transfers from non-current assets held for sale (Note 17)	–	–	22,498	–	–	–	–	–	22,498
Disposals	(134,166)	(1,173,251)	(106,752)	(970,256)	(837,029)	(85,792)	(619,631)	(66,547)	(3,993,424)
Revaluation (through revaluation reserve)	–	–	–	–	–	58,220,478	–	–	58,220,478
Transfers to non-current assets held for sale (Note 17)	(698,845)	(14,670)	(708,880)	(8,796,535)	(20,366,938)	–	(899,489)	(1,041,486)	(32,526,843)
Transfers from construction-in-progress	3,468	8,321,832	2,803,906	4,390,043	18,889,560	–	1,455,873	(35,864,682)	–
Contribution to the share capital of a subsidiary	(48,149)	–	(141,515)	(158,722)	(282,254)	–	(37,010)	(310,150)	(977,800)
Transfers to intangible assets (Note 6)	–	–	–	–	–	–	–	(725,094)	(725,094)
Transfers and reclassifications	–	(204,274)	(873,802)	(11,671)	1,061,493	–	28,254	–	–
At revalued amount as at 31 December 2018	5,179,377	234,939,104	18,064,112	79,958,563	147,498,814	160,974,494	19,587,200	34,126,247	700,327,911
Accumulated depreciation and impairment as at 31 December 2017	–	(20,559,375)	(2,284,801)	(6,570,464)	(27,082,673)	–	(6,128,463)	(57,641)	(62,683,417)
Depreciation charge	–	(15,644,714)	(1,919,407)	(4,887,806)	(19,998,828)	–	(4,874,250)	–	(47,325,005)
Disposals	–	780,353	95,716	209,238	631,579	59,180	604,743	2,181	2,382,990
Impairment (through expenses)	–	(2,185)	(21,567)	(549)	(10,174)	(8,586)	–	(249,232)	(292,293)
Impairment (through revaluation reserve)	–	(2,457)	(16,008)	(672,848)	(5,946)	(50,594)	–	–	(747,853)
Transfers to non-current assets held for sale (Note 17)	–	1,333	197,593	892,284	4,524,342	–	422,421	–	6,037,973
Contribution to the share capital of a subsidiary	–	–	80,200	9,448	54,066	–	7,422	–	151,136
Transfers and reclassifications	–	8,128	708	3,426	(10,857)	–	(1,405)	–	–
Accumulated depreciation and impairment as at 31 December 2018	–	(35,418,917)	(3,867,566)	(11,017,271)	(41,898,491)	–	(9,969,532)	(304,692)	(102,476,469)

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

<i>In thousands of Tenge</i>	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
At revalued amount as at 31 December 2016	5,930,619	202,402,253	10,401,644	75,299,876	133,165,450	88,061,076	15,070,260	37,663,609	567,994,787
Additions	226,722	173,793	558,622	7,791,516	1,355,741	1,165	1,050,851	39,596,498	50,754,908
Additions of asset retirement and land reclamation obligation (Note 24)	-	265,812	-	-	-	-	-	-	265,812
Disposals	(13,170)	(232,689)	(39,520)	(30,188)	(230,889)	(743,596)	(202,331)	(29,162)	(1,521,545)
Revaluation (through revaluation reserve)	-	-	-	-	-	15,521,163	-	-	15,521,163
Transfers to non-current assets held for sale (Note 17)	(87,865)	-	(170,247)	(2,810,480)	(292,648)	-	(61,471)	-	(3,422,711)
Transfer from construction-in-progress	763	25,221,954	26,683	5,075,525	9,760,841	-	1,476,262	(41,562,028)	-
Transfer to intangible assets (Note 6)	-	-	-	-	-	-	-	(72,365)	(72,365)
Transfers and reclassifications	-	31,141	(257,278)	137,938	456,379	-	175,918	(544,098)	-
At revalued amount as at 31 December 2017	6,057,069	227,862,264	10,519,904	85,464,187	144,214,874	102,839,808	17,509,489	35,052,454	629,520,049
Accumulated depreciation and impairment as at 31 December 2016	-	(5,664,218)	(717,047)	(1,766,980)	(7,682,042)	(199,540)	(1,827,230)	(57,641)	(17,914,698)
Depreciation charge	-	(14,995,566)	(1,668,519)	(4,795,774)	(19,689,927)	-	(4,484,622)	-	(45,634,408)
Disposals	-	116,811	35,432	25,152	173,684	199,540	162,942	-	713,561
Impairment (through revaluation reserve) (Accrual)/reversal of impairment (through profit and loss)	(2,100)	(12,255)	-	(349,844)	(17,221)	-	(2,983)	-	(384,403)
Transfers to non-current assets held for sale (Note 17)	-	(1,597)	4,462	(39,222)	(1,212)	-	(113)	-	(37,682)
Transfers and reclassifications	2,100	-	57,480	360,045	123,378	-	31,210	-	574,213
Transfers and reclassifications	-	(2,550)	3,391	(3,841)	10,667	-	(7,667)	-	-
Accumulated depreciation and impairment as at 31 December 2017	-	(20,559,375)	(2,284,801)	(6,570,464)	(27,082,673)	-	(6,128,463)	(57,641)	(62,683,417)

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

<i>In thousands of Tenge</i>	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
As at 31 December 2018									
At revalued amount	5,179,377	234,939,104	18,064,112	79,958,563	147,498,814	160,974,494	19,587,200	34,126,247	700,327,911
Accumulated depreciation and impairment	-	(35,418,917)	(3,867,566)	(11,017,271)	(41,898,491)	-	(9,969,532)	(304,692)	(102,476,469)
Net book value	5,179,377	199,520,187	14,196,546	68,941,292	105,600,323	160,974,494	9,617,668	33,821,555	597,851,442
As at 31 December 2017									
At revalued amount	6,057,069	227,862,264	10,519,904	85,464,187	144,214,874	102,839,808	17,509,489	35,052,454	629,520,049
Accumulated depreciation and impairment	-	(20,559,375)	(2,284,801)	(6,570,464)	(27,082,673)	-	(6,128,463)	(57,641)	(62,683,417)
Net book value	6,057,069	207,302,889	8,235,103	78,893,723	117,132,201	102,839,808	11,381,026	34,994,813	566,836,632

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

<i>In thousands of Tenge</i>	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
As at 31 December 2018	1,051,439	156,700,193	11,451,769	55,732,528	88,572,346	30,409,142	7,554,325	34,157,267	385,629,009
As at 31 December 2017	1,166,941	154,356,744	4,226,890	58,494,020	87,880,003	30,429,638	7,066,085	35,649,795	379,270,116

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

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

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

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

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

As at 31 December 2018:

- The initial cost and corresponding accumulated depreciation of fully depreciated property, plant and equipment still in use were 745,490 thousand Tenge (31 December 2017: 2,027,373 thousand Tenge);
- Construction in progress included materials and spare parts in the amount of 3,915,956 thousand Tenge (as at 31 December 2017: 4,977,784 thousand Tenge), which were acquired for construction works.

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

6. INTANGIBLE ASSETS

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

<i>In thousands of Tenge</i>	Licenses	Software	Other	Total
Net book value as at 31 December 2017	169,562	1,290,053	30,312	1,489,927
Additions	5,518	725	22,768	29,011
Transfers from construction in progress (Note 5)	133,827	591,267		725,094
Amortization charge	(53,909)	(646,933)	(3,550)	(704,392)
Transfer to non-current assets held for sale (Note 17)	(1,840)	(5,024)	(18,549)	(25,413)
Contribution to the share capital of a subsidiary	(1,948)	(574)	–	(2,522)
Net book value as at 31 December 2018	251,210	1,229,514	30,981	1,511,705
Net book value as at 31 December 2016	66,254	1,087,480	27,723	1,181,457
Additions	103,256	503,436	5,945	612,637
Transfers from construction in progress (Note 5)	28,925	43,440	–	72,365
Amortization charge	(28,857)	(344,272)	(3,356)	(376,485)
Disposals	(21,367)	(44,766)	(1,909)	(68,042)
Accumulated amortization on disposals	21,367	44,719	1,909	67,995
Transfers and reclassifications	(16)	16	–	–
Net book value as at 31 December 2017	169,562	1,290,053	30,312	1,489,927
As at 31 December 2018				
At cost	718,946	5,469,393	93,105	6,281,444
Accumulated amortization and impairment	(467,736)	(4,239,879)	(62,124)	(4,769,739)
Net book value	251,210	1,229,514	30,981	1,511,705
As at 31 December 2017				
At cost	601,840	5,034,201	88,887	5,724,928
Accumulated amortization and impairment	(432,278)	(3,744,148)	(58,575)	(4,235,001)
Net book value	169,562	1,290,053	30,312	1,489,927

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**7. INVESTMENTS IN SUBSIDIARIES**

As at 31 December 2018 and 2017 investments in subsidiaries are as follows:

<i>In thousands of Tenge</i>	31 December 2018	31 December 2017
Main Waterline	29,051,374	–
BOT	25,387,978	25,387,978
PTL	2,820,886	2,820,886
Total	57,260,238	28,208,864

In order to separate water transportation services from the Company's activities on 28 December 2017, a subsidiary "Main Waterline" LLP was established and registered. During 2018, the Company contributed to the share capital of the Main Waterline for a total of 29,051,374 thousand Tenge, including in cash in the amount of 27,694,677 thousand Tenge.

8. INVESTMENTS IN JOINT VENTURES

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

<i>In thousands of Tenge</i>	31 December 2018	31 December 2017
KCP	6,500,000	6,500,000
MunaiTas	904,945	904,945
Total	7,404,945	7,404,945

9. ADVANCES TO SUPPLIERS FOR PROPERTY, PLANT AND EQUIPMENT

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

<i>In thousands of Tenge</i>	31 December 2018	31 December 2017
Advances to third parties for property, plant and equipment and construction services	147,275	278,577
Advances to related parties for property, plant and equipment and construction services (Note 34)	16,118	46,927
	163,393	325,504
Less: impairment	(53,258)	(53,258)
Total	110,135	272,246

10. INVENTORIES

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

<i>In thousands of Tenge</i>	31 December 2018	31 December 2017
Spare parts	2,040,449	1,846,954
Fuel	722,822	530,647
Overalls	343,169	173,167
Construction materials	309,632	244,394
Chemical reagents	126,741	87,826
Goods	97,645	81,554
Other	387,194	187,942
Total	4,027,652	3,152,484

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

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

<i>In thousands of Tenge</i>	31 December 2017	31 December 2016
Trade accounts receivable from third parties	2,352,187	2,573,175
Trade accounts receivable from related parties (Note 34)	1,971,613	3,507,303
Other accounts receivable from third parties	725,594	716,947
Other accounts receivable from related parties (Note 34)	19,761	509
	5,069,155	6,797,934
Less: allowance for expected credit losses	(826,376)	(600,034)
Total	4,242,779	6,197,900

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

<i>In thousands of Tenge</i>	2018	2017
As at 1 January	600,034	643,607
Changes in accounting policy (Note 3)	8,680	-
Charge/(reversal) for the year, net (Note 28)	217,662	(43,573)
As at 31 December	826,376	600,034

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

<i>In thousands of Tenge</i>	31 December 2018	31 December 2017
Tenge	4,240,874	6,196,180
Foreign currencies	1,905	1,720
Total	4,242,779	6,197,900

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

<i>In thousands of Tenge</i>	Trade and other accounts receivable				
	Past due payments				
	Less than 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total
As at 31 December 2018					
Estimated total gross carrying value at default	3,971,078	134,001	178,609	785,467	5,069,155
Expected credit losses	(2,944)	(19,054)	(29,241)	(775,137)	(826,376)

<i>In thousands of Tenge</i>	Trade and other accounts receivable				
	Past due payments				
	Less than 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total
As at 31 December 2017					
Estimated total gross carrying value at default	6,170,005	69,722	56,056	502,151	6,797,934
Expected credit losses	(70,318)	(23,935)	(3,630)	(502,151)	(600,034)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**12. ADVANCES TO SUPPLIERS**

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

<i>In thousands of Tenge</i>	31 December 2018	31 December 2017
Advances to third parties	312,998	170,661
Advances to related parties (Note 34)	225,799	204,462
	538,797	375,123
Less: impairment	(647)	(1,265)
Total	538,150	373,858

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

<i>In thousands of Tenge</i>	2018	2017
As at 1 January	1,265	38
(Reversal)/charge for the year (Note 28)	(618)	1,264
Used in write-off of advances	-	(37)
As at 31 December	647	1,265

13. VAT RECOVERABLE AND OTHER PREPAID TAXES

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

<i>In thousands of Tenge</i>	31 December 2018	31 December 2017
VAT recoverable	363,990	2,751,956
Other taxes prepaid	362,293	275,693
Total	726,283	3,027,649

14. OTHER CURRENT ASSETS

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

<i>In thousands of Tenge</i>	31 December 2018	31 December 2017
Due for oil transportation coordination services	7,653,717	5,678,717
Prepaid insurance	128,906	65,716
Due from employees	11,357	42,195
Deferred expenses from third parties	5,333	-
Deferred expenses from related parties (Note 34)	5	5
Total	7,799,318	5,786,633

15. BANK DEPOSITS

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

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

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

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

<i>In thousands of Tenge</i>	2018	2017
As at 1 January	-	-
Changes in accounting policy (Note 3)	264	-
Charge for the year, net (Note 32)	27,198	-
As at 31 December	27,462	-

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

<i>In thousands of Tenge</i>	2018	2017
As at 1 January	-	-
Changes in accounting policy (Note 3)	31,251	-
Reversal for the year (Note 32)	(7,121)	-
As at 31 December	24,130	-

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

- US dollar denominated deposits with maturity from 3 to 12 months, with interest from 0.5% to 0.7% per annum (as at 31 December 2017: from 0.5% to 1% per annum), maturing from January to June 2019 (as at 31 December 2017: from June to August 2018);
- Restricted long-term bank deposits with interest from 2% to 3.5% per annum maturing in 2029 and in 2027, respectively (as at 31 December 2017: from 2% to 3.5% per annum maturing in 2029 and in 2027, respectively), arranged for the purpose of preferential lending rates for the Company's employees for the purchase of residential property.

16. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2018 and 2017 are as follows:

<i>In thousands of Tenge</i>	31 December 2018	31 December 2017
Time deposits with banks – Tenge	27,107,538	35,566,876
Current accounts with banks – US dollar	2,226,640	207
Current accounts with banks – Tenge	960,416	419,768
Current accounts with banks – Russian ruble	31,447	16,926
Other current accounts with banks	21,567	13,093
Cash in hand	378	112
Less: allowance for expected credit losses	(22,862)	(5,784)
Total	30,325,124	36,011,198

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

<i>In thousands of Tenge</i>	2018	2017
As at 1 January	5,784	5,443
Changes in accounting policy (Note 3)	337	-
Charge for the year, net (Note 32)	16,901	-
Foreign currency translation	(160)	341
As at 31 December	22,862	5,784

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

Interest for current accounts placed in US dollars by 0.25% per annum (as at 31 December 2017 by 0.25% per annum).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

17. NON-CURRENT ASSETS HELD FOR SALE

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

Based on the supply and demand in the real estate market, in the current reporting period the management of the Company recognized impairment of the administrative- residential building in Pavlodar in the amount of 283,956 thousand Tenge (*Note 30*).

During 2018, the Company classified as non-current assets held for sale and subsequently sold the property of the main water pipeline Astrakhan – Mangyshlak” and property of administrative building in Astana, including property, plant and equipment with the carrying amount of 26,488,870 thousand Tenge (*Note 5*) and intangible assets with the carrying value of 25,413 thousand Tenge (*Note 6*). In addition, during the reporting period, the Group sold certain vehicles with the carrying value of 135,813 thousand Tenge, which were recognized as non-current assets held for sale as at 31 December 2017. Net income from the sale of the above assets amounted to 1,513,663 thousand (*Note 29*).

With that, the management of the Company decided to cancel the sale of certain assets in the amount of 22,498 thousand Tenge and transfer them back to property, plant and equipment to continue their use (*Note 5*).

18. INVESTMENTS IN BONDS

In December 2017, in accordance with the Decision of the Government of the Republic of Kazakhstan dated 7 November 2017, the Group purchased bonds of “Special Financial Company DSFK” LLP (hereinafter – “DSFK bonds”) using the funds placed with RBK Bank JSC. The nominal amount of the bonds was 5,019,520 thousand tenge, the number of bonds is 5,019,520 thousand units. DSFK bonds carry coupon interest of 0.01% per annum and mature in 15 years. The above mentioned bonds are secured by a financial guarantee of “Kazakhmys Corporation” LLP of 1,379,913 thousand Tenge. The guarantee is exercisable upon request of the Company not earlier than the fifth anniversary after the inception of the bonds. As at 31 December 2017 the Company recognized impairment loss for non-guaranteed bonds in the amount of 3,639,607 thousand Tenge, as well as expenses for discounting of these long-term investments held to maturity in the amount of 630,951 thousand Tenge (*Note 32*).

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

19. EQUITY**Share capital**

As at 31 December 2018 and 2017 the Company’s share capital comprised of 384,635,600 common shares authorized, issued and fully paid in the amount of 62,503,284 thousand Tenge, except for 1 share, which was authorized but not issued and not paid.

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

Treasury shares repurchased from shareholders

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**19. EQUITY (continued)****Other capital reserves**

As at 31 December 2018 other capital reserves represent a loss amounted to 71,795 thousand Tenge (31 December 2017: 622,717 thousand Tenge). Change in given reserve is due to accrual of actuarial gain from employee benefit obligations in the amount of 688,653 thousand Tenge (Note 20), income tax effect of which amounted to 137,731 thousand Tenge (Note 33) (31 December 2017: actuarial gains in the amount of 297,191 thousand Tenge, income tax effect of which amounted to 55,838 thousand Tenge) (Note 33). Also in 2017 the Company wrote off deferred tax assets of 150,746 thousand Tenge related to change in estimates of long-term employee benefit obligations (Note 33).

Dividends

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

Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period. As the Company does not issue convertible financial instruments, basic earnings per share of the Company are equal to diluted earnings per share.

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

<i>In thousands of Tenge</i>	2018	2017
Net profit for the period attributable to ordinary equity holders of the Company	51,812,710	45,654,791
Weighted average number of ordinary shares for the year for basic earnings per share	384,628,099	384,628,099
Basic earnings per share, in relation to profit for the year attributable to ordinary equity holders of the Company (in Tenge)	135	119

Book value per ordinary share

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

<i>In thousands of Tenge</i>	31 December 2018	31 December 2017
Total assets	744,189,248	698,167,815
Less: intangible assets (Note 6)	(1,511,705)	(1,489,927)
Less: total liabilities	(161,142,532)	(149,400,028)
Net assets for calculation of book value per ordinary share	581,535,011	547,277,860
Number of ordinary shares	384,628,099	384,628,099
Book value per ordinary share (in Tenge)	1,512	1,423

20. EMPLOYEE BENEFIT OBLIGATIONS

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

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

<i>In thousands of Tenge</i>	31 December 2018	31 December 2017
Current portion of employee benefit obligations	660,420	600,175
Non-current portion of employee benefit obligations	12,939,771	12,740,751
Total	13,600,191	13,340,926

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**20. EMPLOYEE BENEFIT OBLIGATIONS (continued)**

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

<i>In thousands of Tenge</i>	2018	2017
Employee benefit obligations at the beginning of the year	13,340,926	12,538,017
Interest cost (Note 32)	1,163,566	1,182,271
Current services cost (Notes 27, 87)	564,099	559,185
Actuarial (gain)/loss through profit and loss (Notes 29, 30)	(70,352)	39,943
Actuarial gain through other comprehensive income (Note 19)	(688,653)	(279,191)
Benefits paid	(709,395)	(699,299)
Employee benefit obligations at the end of the year	13,600,191	13,340,926

21. TRADE AND OTHER ACCOUNTS PAYABLE

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

<i>In thousands of Tenge</i>	31 December 2017	31 December 2016
Accounts payable to third parties for goods and services	8,018,198	15,234,298
Accounts payable to related parties for goods and services (Note 34)	3,215,782	1,142,698
Other accounts payable to third parties	682,590	345,994
Other accounts payable to related parties (Note 34)	3,190	2,190
Total	11,919,760	16,725,180

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 5,251,686 thousand Tenge (as at 31 December 2017: 12,509,741 thousand Tenge). The decrease in trade and other accounts payable as at 31 December 2018 is associated with the repayment of debt on capital services and the acquisition of construction in progress and property, plant and equipment.

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

<i>In thousands of Tenge</i>	31 December 2018	31 December 2017
Tenge	11,867,720	16,675,818
US dollar	29,816	18,062
Euro	18,454	16,726
Russian ruble	3,770	14,574
Total	11,919,760	16,725,180

22. ADVANCES RECEIVED

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

<i>In thousands of Tenge</i>	31 December 2017	31 December 2017
Advances received from related parties (Note 34)	13,139,519	10,919,781
Advances received from third parties	7,378,650	6,996,050
Total	20,518,169	17,915,831

23. OTHER TAXES PAYABLE

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

<i>In thousands of Tenge</i>	31 December 2018	31 December 2017
Personal income tax	611,394	593,794
Social tax	522,585	568,570
VAT payable	9,787	8,075
Property tax	439	33,271
Other taxes	25,960	20,828
Total	1,170,165	1,224,538

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**24. PROVISIONS****Short-term provisions**

Short-term reserves as at 31 December 2017 and 2016 included other reserves in the amount of 41,125 thousand tenge. In accordance with the order of the CRNMPCandCR and the subsequent decision of the judicial authorities, the Company accrued a provision on the compensating tariff in the amount of 1,046,994 thousand Tenge as at 31 December 2018, as there is a high probability of outflow of financial resources of the Company.

As a result, as at 31 December 2018, the carrying value of short-term reserves amounted to 1,088,119 thousand tenge.

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

As at 31 December 2018 and 2017, the Company revised the long-term provisions considering current best estimate. Assumptions used and the sensitivity to changes in the discount rate are reflected in *Note 4*.

<i>In thousands of Tenge</i>	2018	2017
As at 1 January	15,347,322	15,022,086
Charge for the year through asset (<i>Note 5</i>)	106,229	265,812
Revision of estimates through other comprehensive loss	3,102,220	30,162
Revision of estimates through profit and loss (<i>Note 29, 30</i>)	1,162,914	(1,239,714)
Unwinding of discount on asset retirement and land reclamation obligation (<i>Note 32</i>)	1,390,712	1,268,976
As at 31 December	21,109,397	15,347,322

25. OTHER CURRENT LIABILITIES

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

<i>In thousands of Tenge</i>	31 December 2018	31 December 2017
Salaries and other compensations	10,034,627	9,911,112
Accounts payable for oil transportation coordination services to related parties (<i>Note 34</i>)	8,437,279	6,589,984
Accounts payable for oil transportation coordination services to third parties	4,319,474	4,118,923
Accounts payable to pension fund	784,099	741,564
Other accruals	150,611	140,580
Total	23,726,090	21,502,163

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

26. REVENUE

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

<i>In thousands of Tenge</i>	2018	2017
Crude oil transportation	189,600,250	184,818,487
Pipeline operation and maintenance services	13,541,838	10,598,775
Fees for undelivered oil volumes	4,852,920	5,198,277
Water transportation	3,644,628	7,046,075
Oil transportation coordination services	691,347	697,652
Oil storage services	77,375	100,327
Other	111,527	147,286
Total	212,519,885	208,606,879

Timing of revenue recognition

At a point in time	198,978,047	-
Over time	13,541,838	-
Total revenue under contracts with customers	212,519,885	-

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**26. REVENUE (continued)**

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

Decrease in revenue from water transportation in the reporting period is related to the transfer of Company's water transportation activity to the Main Waterline from 1 July 2018.

27. COST OF SALES

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

<i>In thousands of Tenge</i>	2018	2017
Personnel costs	46,935,933	48,421,084
Depreciation and amortization	46,571,484	44,898,883
Taxes other than income tax	7,797,951	6,931,850
Materials and fuel	7,137,725	7,342,287
Repair and maintenance cost	6,476,028	5,353,426
Electric energy	6,209,207	7,170,357
Security services	4,494,166	3,884,698
Gas expense	2,442,293	2,471,887
Food and accommodation	1,786,131	549,634
Transportation services	1,539,620	285,740
Air services	1,057,842	1,186,286
Environmental protection	1,033,549	473,677
Business trip expenses	965,925	896,764
Post-employment benefits (<i>Note 20</i>)	526,701	528,274
Insurance	495,503	481,785
Outstaffing services	442,744	396,876
Obligatory social medical insurance	419,769	154,997
Diagnostics of production assets	357,267	377,305
Communication services	237,221	241,790
Operating lease expenses	177,515	97,855
Other	1,935,745	1,936,169
Total	139,040,319	134,081,624

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**28. GENERAL AND ADMINISTRATIVE EXPENSES**

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

<i>In thousands of Tenge</i>	2018	2017
Personnel costs	7,173,095	7,120,393
Depreciation and amortization	1,424,747	1,077,211
Charge of provision on compensating tariff (Note 24)	1,046,994	–
Office maintenance	552,025	473,013
Repair and maintenance	392,037	247,719
Write-off of VAT recoverable	346,556	91,939
Social sphere expenses	326,233	300,851
Business trip expenses	255,556	235,471
Taxes other than income tax	245,487	276,291
Charge/(reversal) of allowance for expected credit losses, net (Note 11)	217,662	(43,573)
Outstaffing services	201,357	500,323
Training	167,065	137,253
Transportation services	160,243	118,975
Consulting services	151,770	337,386
Communication services	129,400	94,041
Information services	125,226	108,617
Materials and fuel	91,174	114,150
Advertising expenses	82,425	71,195
Bank costs	68,960	99,535
Post-employment benefits (Note 20)	37,398	30,911
Insurance	30,533	26,403
Security	30,510	88,934
Obligatory social medical insurance	30,978	9,432
Operating lease expenses	29,144	18,867
(Reversal)/charge of reserve for impairment of advances to suppliers (Note 12)	(618)	1,264
Charge of provision for obsolete inventories, net	–	9,639
Other	542,975	491,292
Total	13,858,932	12,037,532

29. OTHER OPERATING INCOME

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

<i>In thousands of Tenge</i>	2018	2017
Gain on disposal of non-current assets held for sale, net (Note 17)	1,513,663	–
Income from fines and penalties	252,833	680,220
Actuarial gain (Note 20)	70,352	–
Revision of estimates on provision on asset retirement and land recultivation obligation (Note 24)	–	1,239,714
Cost recovery from temporary structures	–	217,054
Other income	321,290	260,481
Total	2,158,138	2,397,469

30. OTHER OPERATING EXPENSES

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

<i>In thousands of Tenge</i>	2018	2017
Revision of estimates on provision on asset retirement and land recultivation obligation (Note 24)	1,162,914	–
loss from disposal of property, plant and equipment and intangible assets, net	1,066,126	710,923
Impairment of property, plant and equipment (Note 5)	292,293	37,682
Impairment of non-current assets held for sale (Note 17)	283,956	–
Expenses for liquidation of idle production facilities	106,084	56,275
Actuarial loss (Note 20)	–	39,943
Other expenses	4,240	142,654
Total	2,915,613	987,477

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

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

<i>In thousands of Tenge</i>	2018	2017
Interest income on bank deposits and current accounts	2,468,573	4,862,911
Income from revision of bond's fair value (Note 18)	122,932	–
Loans to employees: amortization of discount	2,065	4,906
Unwinding of discount on loans to employees	2,197	1,913
Total	2,595,767	4,869,730

32. FINANCE COSTS

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

<i>In thousands of Tenge</i>	2018	2017
Unwinding of discount on asset retirement and land recultivation obligation (Note 24)	1,390,712	1,268,976
Interest cost on employee benefit obligations (Note 20)	1,163,566	1,182,271
Charge of allowance for expected credit losses of cash and cash equivalents, bank deposits, net (Notes 15 and 16)	36,978	–
Discount of investments in bonds (Note 18)	–	630,951
Total	2,591,256	3,082,198

33. INCOME TAX EXPENSE

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

<i>In thousands of Tenge</i>	2018	2017
Current income tax expense	19,254,332	17,049,571
Changes in estimates of current income tax of the prior periods	1,034,264	(294,732)
Deferred income tax benefits	(6,307,301)	(961,161)
Income tax expense	13,981,295	15,793,678

A reconciliation of income tax expense on accounting profit, multiplied by income tax rate and current income tax expense for the years ended 31 December 2018 and 2017 is as follows:

<i>In thousands of Tenge</i>	2018	2017
Profit before income tax	65,794,005	61,448,469
Statutory rate	20%	20%
Income tax expense on accounting profit	13,158,801	12,289,694
Changes in estimates of current income tax of the prior periods	1,034,264	(294,732)
Decrease due to revision of estimates on taxable temporary differences related to property, plant and equipment	(1,065,393)	–
Dividends income	(867,650)	–
Gain on surplus of technological oil	788,242	433,589
Provision on compensating tariff	209,399	–
Income of foreign subsidiary in countries with preferential tax treatment	156,838	221,492
Impairment of non-depreciable property, plant and equipment	93,462	1,029,766
Reversal of deferred tax assets on long-term employee benefit obligations	44,213	1,166,108
Impairment of investments in bonds	–	727,921
Other non-deductible expenses	429,119	219,840
Income tax expense reported in the separate statement of comprehensive income	13,981,295	15,793,678

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**33. INCOME TAX EXPENSE (continued)**

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

<i>In thousands of Tenge</i>	31 December 2018	Charged to profit and loss	Charged to other comprehen- sive income	31 December 2017	Charged to profit and loss	Charged to other comprehen- sive income	1 January 2017
Deferred tax assets							
Employee benefits and other employee compensation and related costs	1,936,897	137,689	(137,731)	1,936,939	(850,797)	(206,584)	2,994,320
Reserve for impairment of advances to suppliers	10,781	(124)	-	10,905	245	-	10,660
Expected credit losses	180,165	60,159	-	120,006	(8,715)	-	128,721
Provision for obsolete and slow-moving inventories	3,353	(170)	-	3,523	(26)	-	3,549
Provision for assets retirement and land recultivation obligation	4,221,880	531,970	620,445	3,069,465	59,014	6,033	3,004,418
Taxes payable	125,916	(21,437)	-	147,353	32,555	-	114,798
Provision for environmental protection and other provisions	8,225	-	-	8,225	-	-	8,225
Fair value change and discounting of investments in bonds	101,604	(24,586)	-	126,190	126,190	-	-
	6,588,821	683,501	482,714	5,422,606	(641,534)	(200,551)	6,264,691
Deferred tax liabilities							
Investments in joint ventures	(176,032)	-	-	(176,032)	-	-	(176,032)
Property, plant and equipment	(74,416,587)	5,623,800	(11,494,525)	(68,545,862)	1,602,695	(3,027,352)	(67,121,205)
	(74,592,619)	5,623,800	(11,494,525)	(68,721,894)	1,602,695	(3,027,352)	(67,297,237)
Net deferred income tax liabilities	(68,003,798)	6,307,301	(11,011,811)	(63,299,288)	961,161	(3,227,903)	(61,032,546)

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**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 terms agreed to between the parties that may not necessarily be at market rates, except for certain regulated services, which are provided based on the tariffs available to related and third parties.

The following tables provide the total amount of transactions, which have been entered into with related parties during 2018 and 2017 and the related balances as at 31 December 2018 and 2017.

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

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

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

<i>In thousands of Tenge</i>	Notes	31 December 2018	31 December 2017
Trade and other accounts receivable from related parties			
Trade accounts receivable from joint ventures		994,993	2,495,886
Trade accounts receivable from entities under common control of Samruk-Kazyna Group		816,489	3,442
Trade accounts receivable from entities under common control of KMG		160,131	1,007,975
Total trade accounts receivable from related parties	11	1,971,613	3,507,303
Other accounts receivables from entities under common control of KMG and Samruk-Kazyna Group		19,761	509
Total other accounts receivable from related parties	11	19,761	509
Less: allowance for expected credit losses		(5,177)	–
Total		1,986,197	3,507,812

Advances provided to related parties are as follows:

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

Deferred expenses from related parties are as follows:

<i>In thousands of Tenge</i>	Note	2018	2017
Deferred expenses from related parties			
Deferred expenses from entities under control of Samruk-Kazyna Group		5	5
Total deferred expenses from related parties	14	5	5

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**34. RELATED PARTY TRANSACTIONS (continued)**

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

<i>In thousands of Tenge</i>	Notes	31 December 2018	31 December 2017
Trade accounts payables to related parties for goods and services			
Trade accounts payables to entities under common control of KMG		1,875,226	910,337
Trade accounts payables to entities under common control of Samruk-Kazyna Group		1,333,398	232,361
Trade accounts payable to joint ventures		7,158	-
Total trade accounts payable to related parties for goods and services	21	3,215,782	1,142,698
Other payables to entities under common control of Samruk-Kazyna Group		2,493	2,190
Other payables to entities under common control of KMG		697	-
Total other accounts payable to related parties for goods and services	21	3,190	2,190
Total trade and other accounts payable to related parties for goods and services		3,218,972	1,144,888

Advances received from related parties are as follows:

<i>In thousands of Tenge</i>	Notes	31 December 2018	31 December 2017
Advances received from related parties			
Advances from entities under common control of KMG		12,811,346	10,560,712
Advances from entities under common control of Samruk-Kazyna Group		328,173	359,068
Advances from joint ventures		-	1
Total advances received from related parties	22	13,139,519	10,919,781

Other current liabilities to related parties are as follows:

<i>In thousands of Tenge</i>	Note	31 December 2018	31 December 2017
Accounts payable for oil transportation coordination services to related parties			
Accounts payable for oil transportation coordination services to entities under common control of KMG		8,437,279	6,589,984
Total of accounts payable for oil transportation coordination services to related parties	25	8,437,279	6,589,984
Employee benefits obligation of key management personnel			
Employee benefits obligation of key management personnel		55,559	44,502
Total employee benefits obligation of key management personnel		55,559	44,502
Total other current liabilities to related parties		8,492,838	6,634,486

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

<i>In thousands of Tenge</i>	For the year ended 31 December	
	2018	2017
Sales to related parties		
Revenue from main activities with entities under common control of KMG	117,333,681	116,967,549
Revenue from main activities with joint ventures	9,284,834	9,121,018
Revenue from main activities with entities under common control of Samruk-Kazyna Group	5,718,602	3,731,719
Revenue from main activities with subsidiary	310,031	-
Income from disposal of non-current assets held for sale, property, plant and equipment and inventories to subsidiary	1,382,673	-
Income from sale of non-current assets held for sale to KMG	372,976	-
Income from other activities with entities under common control of Samruk-Kazyna Group	57,756	16,138
Income from other activities with entities under common control of KMG	39,021	84,391
Income from other activities with joint ventures	1,238	-
Total	134,500,812	129,920,815

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**34. RELATED PARTY TRANSACTIONS (continued)**

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

<i>In thousands of Tenge</i>	For the year ended 31 December	
	2018	2017
Purchases from related parties		
Purchases of property, plant and equipment from entities under common control of Samruk-Kazyna Group	17,627,906	1,057,305
Purchases of property, plant and equipment from subsidiary	6,611,962	314,950
Purchases of services from entities under common control of KMG	5,665,308	7,376,930
Purchases of services from entities under common control of Samruk-Kazyna Group	2,913,150	2,992,827
Purchases of inventory from subsidiary	2,328,757	–
Purchases of inventory from entities under common control of KMG	1,429,260	1,071,536
Purchases of services from subsidiaries	465,191	–
Purchases of property, plant and equipment from entities under common control of KMG	190,740	785,042
Purchases of services from joint ventures	34,645	7,506
Purchases of inventory from entities under common control of Samruk-Kazyna Group	165	3,359
Total	37,267,084	13,609,455

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

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

<i>In thousands of Tenge</i>	For the year ended 31 December	
	2018	2017
Dividend income from related parties		
Dividend income from subsidiary (PTL)	4,338,250	–
Total	4,338,250	–

Cash flows to related parties is as follows:

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

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

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 Kazakhstan economy continued to be negatively impacted by a significant drop in crude oil prices and a significant devaluation of Kazakhstani Tenge that took place in 2015. The combination of the above along with other factors resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth. Management believes it is taking appropriate measures to support the sustainability of the Company’s business in the current circumstances.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)**Taxation**

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not usual, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe.

Penalties are generally 80% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years proceeding the year of review. Under certain circumstances reviews may cover longer periods.

Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued as at 31 December 2018.

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

Transfer pricing control

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

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

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

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

Environmental obligations

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Potential liabilities which may arise as a result of changes in legislation cannot be reasonably estimated. Under existing legislation management believes that there are no probable or possible liabilities which could have a material adverse effect on the Company's financial position or results of operations, except for those disclosed in these separate financial statements (*Notes 4, 24*).

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

Contractual commitments to acquire property, plant and equipment

As at 31 December 2018, the Company had contractual obligations to acquire property, plant and equipment, and construction services for the amount of 38,869,144 thousand Tenge (as at 31 December 2017: 26,440,947 thousand Tenge). These contractual commitments are part of the investment program.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****Investment program commitments**

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

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

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

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

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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Credit risk

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

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

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

Bank	Location	Rating		31 December 2018	31 December 2017
		31 December 2018	31 December 2017		
"Halyk Bank of Kazakhstan" JSC	Kazakhstan	BB/Positive	Ba1/Stable	58,517,520	68,305,097
Sberbank" SB JSC	Russia	Baa3	BBB-	9,338	724
"Sberbank Russia" SB JSC	Kazakhstan	BB+/Positive	BB+/Positive	167	12
"GasBank CJSC" JSCB	Russia	-	B3/Stable	-	10,418
"Altyn Bank" JSC	Kazakhstan	BBB-/Stable	Ba2/Stable	-	25
"Tsesnabank" JSC	Kazakhstan	B-	B/Stable	-	9
"Kazkommertsbank" JSC	Kazakhstan	-	Ba2/Stable	-	8
"ForteBank" JSC	Kazakhstan	B/Stable	B3/Positive	-	5
Total				58,527,025	68,316,298

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)**36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Liquidity risks**

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

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

<i>In thousands of Tenge</i>	On demand	More than 1 year	1 to 2 years	2 to 5 years	Less than 5 years	Total
As at 31 December 2018						
Trade and other payables	-	11,846,776	67,552	820	4,612	11,919,760
Total	-	11,846,776	67,552	820	4,612	11,919,760
As at 31 December 2017						
Trade and other payables	-	16,693,685	27,068	145	4,282	16,725,180
Total	-	16,693,685	27,068	145	4,282	16,725,180

Currency risk

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

<i>In thousands of Tenge</i>	US dollar	Russian Ruble	Euro	Other currencies	Total
As at 31 December 2018					
Assets	27,625,155	37,829	-	-	27,662,984
Liabilities	29,944	65,608	18,454	-	114,006
As at 31 December 2017					
Assets	18,046,919	13,487	-	-	18,060,406
Liabilities	18,062	85,231	16,726	-	120,019

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

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

<i>In thousands of Tenge</i>	Increase/ decrease in exchange rate	Effect on profit before tax
2018		
US dollar	+14.00%	3,863,330
	-10.00%	(2,759,521)
Russian ruble	+14.00%	(3,889)
	-9.00%	2,500
Euro	+14.00%	(2,584)
	-10.00%	1,845
2017		
US dollar	+10.00%	1,802,886
	-10.00%	(1,802,886)
Russian ruble	+16.00%	(11,479)
	-16.00%	11,479
Euro	+13.50%	(2,258)
	-9.50%	1,589

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**Capital management**

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

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

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

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

As at 31 December 2018 and 2017 the Company does not have significant debts.

Fair value of financial instruments

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

37. SUBSEQUENT EVENTS

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

In order to maintain operating activities of BOT, on 25 February 2019, the Company provided an interest-free loan to BOT based on the decision made on 31 January 2019 by the Management Board in the amount of 1,500 thousand US dollars (equivalent to 565,095 thousand Tenge), the loan term of 1 year with the possibility of prolongation to one year.