

Kazakhstan-China Pipeline LLP

Financial statements

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

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Independent auditor's report

To Participants and Management of Kazakhstan-China Pipeline LLP

Opinion

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

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the 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.

Emphasis of matter

We draw attention to *Note 5* to the financial statements, which discloses a significant concentration of the Company's transactions with related parties. Our opinion is not modified in respect of this matter.

Responsibilities of management for the financial statements

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

In preparing the 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.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, 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.

Ernst & Young LLP

Paul Cohn
Audit Partner



Aigerim Nurkenova
Auditor



Gulmira Turmagambetova
General Director
Ernst & Young LLP

Auditor qualification certificate No. 0000115
dated 21 September 2012

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

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

5 February 2018

STATEMENT OF FINANCIAL POSITION

<i>In thousands of Tenge</i>	Note	31 December 2017	31 December 2016
Assets			
Non-current assets			
Property, plant and equipment	6	221,774,424	215,828,475
Long-term value added tax recoverable	7	3,931,503	5,460,339
Deferred tax asset	21	–	357,700
Other non-current assets		122,536	125,904
Total non-current assets		225,828,463	221,772,418
Current assets			
Inventories		326,504	247,237
Prepaid income tax		10,873	43,491
Accounts receivable from related parties	5	10,710	217
Trade accounts receivable		5	71
Other current assets	8	1,887,445	1,447,087
Bank deposits	9	11,466,128	2,347,686
Cash and cash equivalents	10	8,684,487	12,518,919
Total current assets		22,386,152	16,604,708
Total assets		248,214,615	238,377,126
Equity			
Charter capital		13,000,000	13,000,000
Asset revaluation reserve		46,462,731	31,962,454
Other capital reserves		(1,265)	–
Accumulated deficit		(30,798,241)	(45,979,104)
Total equity		28,663,225	(1,016,650)
Liabilities			
Non-current liabilities			
Loans and borrowings	11	166,769,752	195,797,446
Provision for asset retirement and land recultivation obligation	12	4,679,349	3,039,232
Deferred tax liability	21	7,305,348	–
Other long-term liabilities		8,754	6,940
Total non-current liabilities		178,763,203	198,843,618
Current liabilities			
Loans and borrowings	11	32,115,042	32,540,110
Trade accounts payable	13	513,840	248,355
Accounts payable to related parties	5	2,240,806	2,375,333
Advances received for oil transportation from related parties	5	2,009,441	2,606,601
Advances received for oil transportation from third parties	14	2,558,215	1,613,121
Income tax payable		22,202	10,495
Other accounts payable and accrued liabilities	15	1,328,641	1,156,143
Total current liabilities		40,788,187	40,550,158
Total liabilities		219,551,390	239,393,776
Total liabilities and equity		248,214,615	238,377,126

Approved for issue and signed on behalf of Management on 5 February 2018:

Tanatarov A.B.
General Director



Kochergova A.V.
Acting Deputy General Director – Chief Accountant

The accounting policies and explanatory notes on pages 5 through 33 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

<i>In thousands of Tenge</i>	Note	For the year ended 31 December	
		2017	2016
Revenue	16	63,232,609	53,486,201
Cost of services rendered	17	(29,951,023)	(29,308,599)
Gross profit		33,281,586	24,177,602
General and administrative expenses	18	(3,049,107)	(2,897,995)
Other operating income, net	19	550,505	1,170,522
Loss from impairment of property, plant and equipment, net	6	(3,377,209)	–
Operating profit		27,405,775	22,450,129
Finance income	20	1,094,354	2,534,956
Finance costs	20	(12,661,958)	(12,835,273)
Profit before taxes		15,838,171	12,149,812
Income tax (expense)/benefit	21	(3,387,684)	499,663
Profit for the period		12,450,487	12,649,475
Other comprehensive income			
Revaluation of property, plant and equipment	6	22,837,345	–
Income tax effect	21	(4,567,470)	–
		18,269,875	–
(Provision) / reversal of provision for asset retirement and land reclamation obligation	12	(1,299,027)	819,914
Income tax effect	21	259,805	(163,983)
		(1,039,222)	655,931
Actuarial loss from employee benefit liabilities		(1,582)	–
Income tax effect	21	317	–
		(1,265)	–
Total other comprehensive income for the period		17,229,388	655,931
Total comprehensive income for the period		29,679,875	13,305,406

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Acting Deputy General Director – Chief Accountant

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STATEMENT OF CASH FLOWS

<i>In thousands of Tenge</i>	Note	For the year ended 31 December	
		2017	2016
Cash flows from operating activities			
<i>Cash flows from operating activities</i>			
Rendering of transportation services		61,656,482	49,517,433
Advances received		4,567,656	4,219,722
Interest received		156,227	162,901
Other proceeds		136,346	922,815
<i>Cash outflows from operating activities</i>			
Payments to suppliers and contractors for goods and services		(15,202,192)	(12,769,294)
Advances paid		(63,524)	(3,537)
Payments to employees		(1,490,309)	(1,583,474)
Interest paid	11	(11,196,934)	(12,267,550)
Income tax		(20,099)	(26,420)
Other payments to the budget		(4,978,395)	(4,085,008)
Other payments		(417,114)	(401,804)
Net cash generated from operating activities		33,148,144	23,685,784
Cash flows from investing activities			
Purchase of property, plant and equipment		(447,392)	(1,244,420)
Placement of short-term bank deposits		(18,136,150)	(8,977,869)
Purchase of intangible assets		(4,500)	(24,000)
Sale of other non-current assets		4,018	14,907
Withdrawal of short-term bank deposits		9,228,415	9,922,425
Net cash used in investing activities		(9,355,609)	(308,957)
Cash flows from financing activities			
Repayment of loans and borrowings	11	(27,894,700)	(30,178,125)
Net cash used in financing activities		(27,894,700)	(30,178,125)
Net decrease in cash and cash equivalents		(4,102,165)	(6,801,298)
Effect of exchange rate changes on cash and cash equivalents in foreign currency		267,733	1,345,604
Cash and cash equivalents, at the beginning of the year		12,518,919	17,974,613
Cash and cash equivalents, at the end of the year	10	8,684,487	12,518,919

Approved for issue and signed on behalf of Management on 5 February 2018:

Tanatarov A.B.
General Director



Kochergova A.V.
Acting Deputy General Director – Chief Accountant

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STATEMENT OF CHANGES IN EQUITY

<i>In thousands of Tenge</i>	Charter capital	Asset revaluation reserve	Other capital reserves	Accumulated deficit	Total
At 1 January 2016	13,000,000	34,048,562	-	(61,370,618)	(14,322,056)
Profit for the period	-	-	-	12,649,475	12,649,475
Other comprehensive income	-	655,931	-	-	655,931
Total comprehensive income for the period	-	655,931	-	12,649,475	13,305,406
Realised asset revaluation reserve	-	(2,742,039)	-	2,742,039	-
At 31 December 2016	13,000,000	31,962,454	-	(45,979,104)	(1,016,650)
At 1 January 2017	13,000,000	31,962,454	-	(45,979,104)	(1,016,650)
Profit for the period	-	-	-	12,450,487	12,450,487
Other comprehensive income	-	17,230,653	(1,265)	-	17,229,388
Total comprehensive income for the period	-	17,230,653	(1,265)	12,450,487	29,679,875
Realised asset revaluation reserve	-	(2,730,376)	-	2,730,376	-
At 31 December 2017	13,000,000	46,462,731	(1,265)	(30,798,241)	28,663,225

Approved for issue and signed on behalf of Management on 5 February 2018:

Tanatarov A.B.
General Director



Kochergova A.V.
Acting Deputy General Director – Chief Accountant

The accounting policies and explanatory notes on pages 5 through 33 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2017**

1. GENERAL

Kazakhstan-China Pipeline LLP (the "Company") was established as a limited liability partnership on 6 July 2004 in accordance with the legislation of the Republic of Kazakhstan. The Company is owned by two founders: China National Operating and Development Company (CNODC), the subsidiary of China National Petroleum Corporation (CNPC), and KazTransOil Joint Stock Company (KazTransOil), the subsidiary of "National Company "KazMunayGas" Joint Stock Company (KazMunayGas); share of each founder in the charter capital of the Company equals to 50%. The Company is jointly controlled by KazTransOil and CNODC on an equal basis. KazTransOil is owned by the Government of the Republic of Kazakhstan through "Samruk-Kazyna National Welfare Fund" JSC holding company (90%) and the National Bank of the Republic of Kazakhstan (10%), and CNODC is fully owned by Chinese government through CNPC state-owned company.

On 17 May 2004, the Government of the People's Republic of China and the Government of the Republic of Kazakhstan signed the Framework Agreement on Development of Overall Cooperation in oil and gas sector. In addition, on 17 May 2004, CNPC and KazMunayGas entered into the Agreement for main construction principles of 965.1 km Atasu-Alashankou oil pipeline, and on 20 December 2006 CNPC and KazMunayGas entered into the Agreement for main construction principles of the second phase of Kazakhstan-China oil pipeline, as well as Additional agreement No. 1 thereon dated 18 August 2007.

The Company is treated as a monopolist, and therefore is subject to regulation by the Committee of the Republic of Kazakhstan for Regulation of Natural Monopolies and Protection of Competition of the Ministry of National Economy (the "Committee for the Regulation of Natural Monopolies"). The Committee for Regulation of Natural Monopolies approves tariff rates for oil transportation based on reimbursement of costs on assets used. On 20 August 2015, according to *Order No. 343-OI of the Chairman of the Committee for Regulation of Natural Monopolies*, tariff for domestic market was approved in the amount of 5,915.71 Tenge per ton per 1,000 km (net of VAT) for 2017 (2016: 5,377.92 Tenge per ton).

On 5 May 2015, the Law of the Republic of Kazakhstan *On Introducing Amendments to Some Legislative Acts of the Republic of Kazakhstan on the Issues of Natural Monopolies and Regulated Markets* was issued, according to which services for transportation of oil and oil products through main pipelines for transit purposes through the Republic of Kazakhstan and export outside the Republic of Kazakhstan are not related to matters of natural monopolies in the Republic of Kazakhstan. After the entry of this Law into force, the Company has the right for independent approval of tariff rates for oil transportation for the above mentioned purposes. On 28 December 2016, the Company approved a tariff for export purposes outside the Republic of Kazakhstan for 2017 through Atasu-Alashankou and Kenkiyak-Kumkol pipelines in the amount of 6,561.71 Tenge per ton per 1,000 km (net of VAT) and 5,400.19 Tenge per ton per 1,000 km (net of VAT), respectively. On 29 May 2017, the Company approved temporary tariff on service of oil delivery through Kenkiyak-Kumkol for export outside the Republic of Kazakhstan from 1 June till 31 December 2017 in the amount of 3,591.70 Tenge per ton per 1,000 km (net of VAT).

On 17 November 2005, the Company received a patent for investment, construction, operation and repair of Atasu-Alashankou oil pipeline in China for a period until 16 November 2025. Therefore, the Company registered its branch in China.

The Company constructed Atasu-Alashankou oil pipeline with capacity of 7 million tons per year and put it into operation on 28 July 2006. In 2008 the Company put into operation additional equipment for increase in capacity of the oil pipeline up to 10 million tons per year.

Process oil for pipeline filling in the amount of 401,449 metric tons was provided by PetroChina International Kazakhstan LLP (PetroChina). Process oil is owned by PetroChina.

On 8 May 2008, the Company received an approval for performing installation and construction works for Kenkiyak-Kumkol oil pipeline issued by the Committee for Construction and Housing and Utilities Infrastructure of the Ministry of Industry and Trade of the Republic of Kazakhstan, and signed contracts with OGCC KazStroyService and China Petroleum Pipeline Engineering Kazakhstan LLP for project development, delivery of materials and construction of 794.263 km Kenkiyak-Kumkol oil pipeline with rated annual capacity of first stage of second phase around 10 million tons.

On 1 July 2009, construction of the line section of the oil pipeline Kenkiyak-Kumkol was completed. On 27 June 2009, the Company filled the Kenkiyak-Kumkol oil pipeline with process oil in the amount of 411,915 metric tons provided by CNPC Aktobemunaygas JSC according to the agreement No. 02-2009 dated 12 February 2009. Process oil is owned by CNPC Aktobemunaygas JSC. The process oil shall be returned to CNPC Aktobemunaygas JSC upon completion of Kenkiyak-Kumkol oil pipeline operation.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. GENERAL (continued)

On 7 October 2009, the Company put into operation the first commissioning and start-up complex of Kenkiyak-Kumkol oil pipeline with rated capacity at the first phase of 10 million tons per year.

On 10 December 2010, the Company completed commissioning of facilities of first stage of second phase of Kenkiyak-Kumkol oil pipeline construction.

In 2011 and 2013 the Company put into operation additional equipment for increase in capacity of Atasu-Alashankou oil pipeline up to 20 million tons per year.

During 2013 and 2014, the Company performed construction works to connect pump station (“NPS”) No. 8 to the open distribution unit 35kV to the Agadyr substation 500 kV, including the construction, installation, commissioning activities and start-up operation of the equipment with the capacity of 40,000 kVA.

On 2 March 2015, route roads in the Eastern Kazakhstan region of total distance of 50,055 km were put into operation, including reconstruction of two road sections of total length of 30,516 km.

During 2017 and 2016, the Company transported 2,299 thousand tons of oil and 3,073 thousand tons of oil, respectively, through Atasu-Alashankou oil pipeline. Moreover, during 2017 and 2016, the Company transported 9,989 thousand tons of transit oil and 6,986 thousand tons of transit oil, respectively, according to the agreement between the Governments of the Republic of Kazakhstan and the Russian Federation on cooperation in the field of Russian oil transportation through the territory of the Republic of Kazakhstan to People’s Republic of China, which came into force on 1 January 2014. The tariff on oil transportation under this agreement is determined in accordance with the contract entered into between the Company, KazTransOil and Oil Company “Rosneft” OJSC.

During 2017 and 2016, the Company transported 5,213 thousand tons of oil and 4,887 thousand tons of oil, respectively, through Kenkiyak-Kumkol oil pipeline.

The Company’s registered office is located at the following address: 109B Abay Ave, Almaty, 050008, Republic of Kazakhstan.

These financial statements were signed and approved for issue by Management of the Company on 5 February 2018.

2. BASIS OF PREPARATION

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

These 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 financial statements.

The financial statements are presented in Tenge and all values are rounded to the nearest thousands, except when otherwise indicated. Functional currency of the Company is Tenge.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**3.1 Foreign currency translation***Transactions and balances*

Transactions in foreign currencies are initially recorded by the Company at its functional currency rates prevailing at the date of the transaction first qualified for recognition.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.1 Foreign currency translation (continued)***Exchange rates*

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

Weighted average exchange rates for the twelve-month periods ended 31 December 2017 and 2016 were:

<i>Tenge</i>	2017	2016
US Dollars	326.08	341.76
Russian Roubles	5.59	5.12
Euro	368.52	378.32
Chinese Yuan	48.29	51.5

At 31 December 2017 and 31 December 2016, the exchange rates established at KASE were as follows:

<i>Tenge</i>	31 December 2017	31 December 2016
US Dollars	332.33	333.29
Russian Roubles	5.77	5.43
Euro	398.23	352.42
Chinese Yuan	51.09	48.02

3.2 Current versus non-current classification of assets and liabilities

The Company presents assets and liabilities in the 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.

3.3 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**3.3 Fair value measurement (continued)**

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 financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

For assets and liabilities that are recognised in the 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.

3.4 Property, plant and equipment

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

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 in order to ensure that fair value of the revalued asset does not significantly differ from its book value.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.4 Property, plant and equipment (continued)**

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to significant accounting judgments, estimates and assumptions and provisions for further information about the asset retirement and land recultivation obligation (Notes 4 and 12).

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, 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.

3.5 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as finite.

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

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

3.6 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**3.6 Impairment of non-financial assets (continued)**

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 reserves) are recognized in the 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.

3.7 Financial assets***Initial recognition and measurement***

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

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

The Company's financial assets include cash and short-term bank deposits, loans given, trade and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows.

Loans and receivables

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

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

The EIR amortization is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs for loans and in general and administrative expenses for accounts receivable.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**3.7 Financial assets (continued)***Subsequent measurement (continued)**Held-to-maturity investments*

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

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

Derecognition

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

3.8 Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the Note – Disclosures for significant accounting judgements, estimates and assumptions (*Note 4*).

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

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

Financial assets carried at amortized cost

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**3.8 Impairment of financial assets (continued)***Financial assets carried at amortized cost (continued)*

If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of comprehensive income.

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

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

3.9 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 may include trade and other payables, loans and borrowings.

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**3.10 Offsetting of financial instruments**

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

3.11 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.

3.12 Cash and cash equivalents

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

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

3.13 Provisions

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

The Company records a provision on asset retirement and land reclamation obligation. Asset retirement and land reclamation obligation costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the provisions for asset retirement and land reclamation obligation.

The unwinding of the discount is expensed as incurred and recognised in the statement of comprehensive income as a finance cost. The estimated future costs of asset retirement and land reclamation are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset (*Note 4*).

3.14 Revenue and other income recognition

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

Rendering of transportation services

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

Rendering of other services

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

Interest income

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**3.15 Taxes***Income tax*

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

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

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

Deferred tax

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**3.15 Taxes (continued)***Value added tax (hereinafter – “VAT”)*

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

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

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

3.16 Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as at 1 January 2017.

New and amended standards and interpretations applied by the Company

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2017. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Although these new standards and amendments applied for the first time in 2017, they did not have a material impact on the financial statements of the Company. The nature and the impact of each new standard or amendment are described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Company has provided the information for both the current and the comparative period in *Note 23*.

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

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

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

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

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

These amendments does not affect the Company’s financial statements as at 31 December 2017 since the Company does not have interest in a joint venture or an associate classified as held for sale.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**3.16 Changes in accounting policies and disclosures (continued)****Standards issued but not yet effective**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

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

The Company plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Company has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018 when the Company will adopt IFRS 9. Overall, the Company expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9.

(a) Classification and measurement

The Company does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9.

(b) Impairment

IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Company will apply the simplified approach and record lifetime expected losses on all trade receivables.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date using the full retrospective method. During 2016, the Company performed a preliminary assessment of IFRS 15, which was continued with a more detailed analysis completed in 2017.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.16 Changes in accounting policies and disclosures (continued)

Standards issued but not yet effective (continued)

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

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

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

IFRS 16 Leases

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

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

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

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

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

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

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**3.16 Changes in accounting policies and disclosures (continued)****Standards issued but not yet effective (continued)***Transfers of Investment Property – Amendments to IAS 40*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. This standard is not applicable to the Company.

*Annual improvements cycle – 2014-2016 (issued in December 2016)**IFRS 1 First-time Adoption of International Financial Reporting Standards – deletion of short-term exemptions for first-time adopters*

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018. This amendment is not applicable to the Company.

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

The amendments clarify that:

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

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

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

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. The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. These amendments are not applicable to the Company.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.16 Changes in accounting policies and disclosures (continued)

Standards issued but not yet effective (continued)

Annual improvements cycle – 2014-2016 (Issued in December 2016) (continued)

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

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

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

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. These amendments are not applicable to the Company.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's 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 23*);
- Sensitivity analyses disclosures (*Note 23*).

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 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.

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

The Company recognizes property, plant and equipment at revalued amount. During 2017 the Company engaged independent external appraiser to perform valuation of its property, plant and equipment.

Input data for determining the fair value of property, plant and equipment 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 approach"). Cost approach is used if the valuation object is new or is under construction, it relates to objects with a limited market (specialized assets), for which it is not possible to obtain information on sales prices (in the absence of an active market).

As part of the valuation the appraiser also performed a test for adequate profitability using the income approach with analysis of economic depreciation of specialized 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	15.44%
Long-term growth rate	5.58%
Remaining useful life of the primary asset	21.2 years

Depreciated replacement cost was below the resulting value in use and hence was recorded as fair value of the Company property, plant and equipment.

After revaluation the carrying amount of property, plant and equipment increased by 19,460,197 thousand Tenge.

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*. These estimates may have a material impact on the amount of the carrying values of property and equipment and intangible assets and on depreciation and amortization expenses recognized in the statement of comprehensive income.

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 for 1 km during 2017 and 2016 equaled to 5,496 thousand Tenge and 2,863 thousand Tenge per km).

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:

«Kenkiyak – Kumkol» pipeline:

	2017	2016
Discount rate	9.48%	9.97%
Inflation rate	5.5%	5.4%
Period of fulfillment of obligations	21.93 years	22.67 years

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

«Atasu – Alashonkou» pipeline:

	2017	2016
Discount rate	9.22%	9.45%
Inflation rate	5.5%	5.4%
Period of fulfillment of obligations	18.93 years	19.67 years

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

As at 31 December 2017 the carrying amount of the asset retirement and land reclamation obligation was 4,679,349 thousand Tenge (as at 31 December 2016: 3,039,232 thousand Tenge) (Note 12).

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 the such obligations will be due.

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

<i>In thousands of Tenge</i>	(Decrease)/ increase in rate	Increase/ (decrease) in liability
Discount rate	-0.5%	457,079
	+0.5%	(414,394)
Inflation rate	-0.5%	(431,244)
	+0.5%	472,925

5. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Definition of related parties is presented in IAS 24 *Related Party Disclosures*. The parties are considered to be related if one party has the ability to control the other party, is under common control, or may exercise significant influence over the other party in making financial or operational decisions, or exercises general control over it.

In considering each possible related party relationship, attention is directed to the nature of the relationship, and not merely the legal form. Information about immediate parent companies and parties exercising ultimate control over the Company is disclosed in Note 1.

Related party transactions were made on agreed terms between the parties that may not necessarily be at market rates.

For the purposes of these financial statements, related parties of the Company include owners and their subsidiaries.

Balances on transactions with related parties as at 31 December 2017 comprise as follows:

<i>In thousands of Tenge</i>	Joint control (founders)	Associates	Total
Accounts receivable from related parties	2,332	8,378	10,710
Advances received for oil transportation from related parties	–	2,009,441	2,009,441
Accounts payable to related parties	1,966,929	273,877	2,240,806

NOTES TO THE FINANCIAL STATEMENTS (continued)**5. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)**

The income and expense items on transactions with related parties for the year ended 31 December 2017 are as follows:

<i>In thousands of Tenge</i>	Joint control (founders)	Associates	Total
Revenue	7,506	32,586,504	32,594,010
Expenses:			
- Oil-pipeline servicing	7,767,037	616,429	8,383,466
- Security services	-	1,058,666	1,058,666
- Other services	2,841	276,292	279,133

Balances on transactions with related parties as at 31 December 2016 are as follows:

<i>In thousands of Tenge</i>	Joint control (founders)	Associates	Total
Accounts receivable from related parties	-	217	217
Advances received for oil transportation from related parties	-	2,606,601	2,606,601
Accounts payable to related parties	2,109,621	265,712	2,375,333

The income and expense items on transactions with related parties for the twelve months ended 31 December 2016 are as follows:

<i>In thousands of Tenge</i>	Joint control (founders)	Associates	Total
Revenue	4,877	32,692,938	32,697,815
Other income	-	519,162	519,162
Expenses:			
- Oil-pipeline servicing	6,935,857	642,518	7,578,375
- Security services	-	1,136,323	1,136,323
- Other services	2,948	307,114	310,062

Remuneration to members of the Management Board

Remuneration paid to six members of the Management Board for their services in full-time executive management positions comprises the contractual salary and bonuses. Total amount of remuneration included in general and administrative expenses in the statement of comprehensive income for the year ended 31 December 2017 amounted to 159,187 thousand Tenge (for the year ended 31 December 2016: 156,471 thousand Tenge).

NOTES TO THE FINANCIAL STATEMENTS (continued)**6. PROPERTY, PLANT AND EQUIPMENT**

The movements in property, plant and equipment for the years ended 31 December 2017 and 2016 were as follows:

<i>In thousands of Tenge</i>	Land	Buildings and const- ructions	Machinery and equipment	Pipeline	Other vehicles	Other	Const- ruction in progress	Total
Revalued value as at 31 December 2015	60,732	45,156,285	62,390,533	139,248,788	444,355	835,064	1,913,775	250,049,532
Accumulated depreciation and impairment	–	(3,082,970)	(8,014,618)	(7,751,064)	(98,904)	(169,274)	(419,372)	(19,534,202)
Carrying amount as at 31 December 2015	60,732	42,073,315	54,375,915	131,497,724	347,451	665,790	1,494,403	230,515,330
Additions	–	–	20,022	131,862	–	43,962	531,447	727,293
Transfer from one category into another	–	4,742,600	(4,400,571)	(46,061)	–	(253)	(295,715)	–
Disposals	–	–	(167)	(5,457)	–	(8,832)	(519,160)	(533,616)
Depreciation charge for the period	–	(2,576,417)	(5,824,981)	(5,039,597)	(77,252)	(122,422)	–	(14,440,669)
Impairment losses	–	–	–	–	–	–	(439,863)	(439,863)
Carrying amount as at 31 December 2016	60,732	44,239,498	44,170,218	125,738,471	270,199	578,245	771,112	215,828,475
Revalued value as at 31 December 2016	60,732	49,898,885	58,009,817	139,329,132	444,355	869,941	1,630,347	250,243,209
Accumulated depreciation and impairment	–	(6,659,387)	(13,839,599)	(13,590,661)	(174,156)	(291,690)	(859,235)	(34,414,734)
Carrying amount as at 31 December 2016	60,732	44,239,498	44,170,218	125,738,471	270,199	578,245	771,112	215,828,475
Additions	–	5,811	220,474	50,480	–	16,769	438,411	731,945
Transfer from one category into another	–	–	29,586	(27,043)	35	(2,578)	–	–
Deduction of residual value for revaluation	–	(7,981,276)	(17,915,450)	(18,423,540)	(237,399)	(400,346)	–	(44,958,011)
Transfer from construction in progress to property, plant and equipment	–	1,032,394	–	–	–	–	(1,032,394)	–
Deduction of accumulated amortization and impairment upon revaluation	–	7,981,276	17,915,450	10,423,540	237,399	400,346	–	44,958,011
Disposals	–	–	(4,362)	(6,023)	(4,845)	(959)	–	(16,189)
Depreciation charge for the period	–	(2,702,540)	(5,265,430)	(5,927,105)	(78,427)	(139,578)	–	(14,103,080)
Impairment recognized in the income statement as a result of revaluation	–	(2,701,165)	(796,061)	66,851	30,025	23,141	–	(3,377,209)
Impairment recognized in the income statement	–	–	–	–	–	–	(126,863)	(126,863)
Revaluation	14,405	9,149,227	4,122,607	9,159,615	170,230	221,261	–	22,837,345
Carrying amount as at 31 December 2017	75,137	49,023,225	42,487,032	129,055,246	387,217	696,301	50,266	221,774,424
Revalued value as at 31 December 2017	75,137	49,403,876	43,668,611	130,149,472	402,401	727,229	1,036,364	225,461,090
Accumulated depreciation and impairment	–	(380,651)	(1,179,579)	(1,094,226)	(15,184)	(30,928)	(986,098)	(3,686,666)

NOTES TO THE FINANCIAL STATEMENTS (continued)**6. PROPERTY, PLANT AND EQUIPMENT (continued)****Depreciation charges**

<i>In thousands of Tenge</i>	Note	2017	2016
Cost of sales	17	13,999,075	14,343,281
General and administrative expenses	18	104,005	97,388
Total depreciation charges		14,103,080	14,440,669

Below is the information on property, plant and equipment if carried at historical cost:

<i>In thousands of Tenge</i>	Buildings and constructions	Machinery and equipment	Pipeline	Other vehicles	Other	Total
At 31 December 2016						
Cost	52,386,971	59,708,155	138,886,980	829,228	1,181,020	252,992,354
Accumulated depreciation	(15,060,203)	(27,825,895)	(35,745,454)	(545,935)	(644,537)	(79,822,024)
Net book value	37,326,768	31,882,260	103,141,526	283,293	536,483	173,170,330
At 31 December 2017						
Cost	53,425,176	59,972,354	140,185,285	829,228	1,197,559	255,609,602
Accumulated depreciation	(17,353,713)	(31,158,532)	(40,521,959)	(622,306)	(759,502)	(90,416,012)
Net book value	36,071,463	28,813,822	99,663,326	206,922	438,057	165,193,590

7. LONG-TERM VALUE ADDED TAX RECOVERABLE

Value added tax ("VAT") represents VAT on purchases. As at 31 December 2017, the Company recorded VAT recoverable in the amount of 3,931,503 thousand Tenge (31 December 2016: 5,460,339 thousand Tenge) as a non-current asset, because management of the Company believes that VAT will be offset against future VAT payments during the period exceeding 12 months after 31 December 2017.

8. OTHER CURRENT ASSETS

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

<i>In thousands of Tenge</i>	31 December 2017	31 December 2016
VAT recoverable	1,512,843	1,031,911
Prepaid taxes	212,023	298,949
Advances paid	62,231	3,537
Deferred expenses	10,333	6,812
Other	90,015	105,878
Total other current assets	1,887,445	1,447,087

9. BANK DEPOSITS

Bank deposits as at 31 December of 2017 and 2016 were as follows:

<i>In thousands of Tenge</i>	31 December 2017	31 December 2016
Time deposits with maturity of less than 12 months	11,451,867	2,339,510
Short-term benefits receivable	14,261	8,176
Total bank deposits	11,466,128	2,347,686

As at 31 December 2017 and 2016 time deposits are placed in US Dollars.

NOTES TO THE FINANCIAL STATEMENTS (continued)**10. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents as at 31 December of 2017 and 2016 were as follows:

<i>In thousands of Tenge</i>	31 December 2017	31 December 2016
Cash with bank in foreign currency	7,442,239	6,110,600
Cash on saving accounts in Tenge	990,872	2,427,785
Cash with bank in Tenge	247,424	2,343,380
Cash on corporate cards	3,952	4,030
Cash on hand	–	3
Cash on saving accounts in foreign currency	–	1,633,121
Total cash and cash equivalents	8,684,487	12,518,919

Cash in foreign currency is denominated in the following foreign currencies:

<i>In thousands of Tenge</i>	31 December 2017	31 December 2016
US Dollar	7,397,717	7,714,923
Chinese Yuan	44,522	28,798
Total cash with bank in foreign currency	7,442,239	7,743,721

11. LOANS AND BORROWINGS

Loans and borrowings as at 31 December of 2017 and 2016 were as follows:

<i>In thousands of Tenge</i>	31 December 2017	31 December 2016
Current portion of loans	32,115,042	32,540,110
Non-current portion of loans	166,769,752	195,797,446
Total loans and borrowings	198,884,794	228,337,556

<i>In thousands of Tenge</i>	31 December 2017	31 December 2016
Industrial and Commercial Bank of China and ING Bank N.V.	138,428,552	156,166,509
Industrial and Commercial Bank of China and Industrial and Commercial Bank of China in Almaty JSC	60,456,242	72,171,047
Total loans and borrowings	198,884,794	228,337,556

Industrial and Commercial Bank of China and ING Bank N.V.

On 12 August 2008, the Company entered into a loan agreement with Industrial and Commercial Bank of China and ING Bank N.V. The credit line amounted to 1,180 million US Dollars for 10 years with the possibility for extension up to five years. The loan purpose was to finance the Kenkiyak-Kumkol oil pipeline construction. The loan was drawn down by tranches under the disbursement requests.

Within the framework of this loan agreement, the Company received four tranches in the total amount of 950 million US Dollars. The Company incurred costs for loan organisation in the amount of 3,003,382 thousand Tenge (or 23.15 million US Dollars).

The interest rate for each interest period is the annual rate, which includes 6 month LIBOR and the bank margin. The interest capitalisation period, which was 36 months from the loan agreement execution date, terminated in 2011. Since the interest capitalisation period ended, the loan agreement principal amount was fixed at 153,311,743 thousand Tenge or 1,033,098 thousand US Dollars.

During 2011-2013, the Company extended the grace period for the principal repayment up to 54 months. In 2013, upon expiry of 54 months from the date of the agreement, the lending-bank margin increased from 2% to 4%.

Under the loan agreement, the Company has accounts with Industrial and Commercial Bank of China in Almaty, which are used for receipts of funds from the oil transportation by Kenkiyak-Kumkol oil pipeline. The Company may subsequently use these funds either for payment of interest and the principal amount, or for the operating costs associated with Kenkiyak-Kumkol oil pipeline.

NOTES TO THE FINANCIAL STATEMENTS (continued)**11. LOANS AND BORROWINGS (continued)****Industrial and Commercial Bank of China and ING Bank N.V. (continued)**

On 13 July 2016, the Company signed addendum to the loan agreement with Industrial and Commercial Bank of China and ING Bank N.V. on prolongation of loan repayment terms from 2018 to 2023. The addendum came into force from the date of insurance certificate issued by Chinese Export and Credit Insurance Corporation ("Sinosure") on 29 September 2016. This addendum revised maturities for principal debt that allowed decreasing current contractual volumes of principal debt repayment in 2017 from 243,993 thousand US Dollars to 50,000 thousand US Dollars. As a result of agreement terms review, the effective rate on loan increased from 4.96% to 5.08%.

The Company conducted an analysis of the significance of these changes and their impact on the carrying value of the loan, and concluded that changes in the terms should not trigger loan derecognition. The present value of cash flows under the modified terms discounted using the original effective interest rate does not differ by more than 10% from the discounted present value of cash flows in accordance with the original terms.

During the year ended 31 December 2017, the Company paid interest in the amount of 7,700,182 thousand Tenge and made repayment of the principal in the amount of 16,379,000 thousand Tenge.

Industrial and Commercial Bank of China and Industrial and Commercial Bank of China in Almaty JSC

On 2 August 2013, the Company signed a loan agreement with the Industrial and Commercial Bank of China jointly with Industrial and Commercial Bank of China in Almaty JSC, acting as an agent. The loan amount was 300 million US Dollars for 6 years with the possibility of early repayment. The loan purpose was to refinance the obligations on bonds issued on 22 September 2005. The interest rate is the annual rate which includes six-month LIBOR plus bank margin of 3.75%. The Company incurred expenses for loan organisation in the amount of 829,398 thousand Tenge (or 5.44 million US Dollars).

According to collection account agreement related to the loan agreement dated 2 August 2013, the Company has collection accounts with Industrial and Commercial Bank of China in Almaty, which are used for receipts of funds from the oil transportation by Atasu – Alashankou oil pipeline. The Company should later use these funds for the payment of interest and principal amount of the loan.

During the year ended 31 December 2017, the Company paid interest in the amount of 3,496,752 thousand Tenge and made repayment of the principal in the amount of 11,515,700 thousand Tenge.

12. PROVISION FOR ASSET RETIREMENT AND LAND RECULTIVATION OBLIGATION

Provision for asset retirement and land recultivation obligation as at 31 December of 2017 and 2016 was as following:

<i>In thousands of Tenge</i>	2017	2016
Carrying amount at 1 January	3,039,232	3,552,598
Changes in estimate	1,299,027	(819,914)
Amortisation of discount (Note 20)	341,090	306,548
Carrying amount at 31 December	4,679,349	3,039,232

13. TRADE ACCOUNTS PAYABLE

Trade accounts payable as at 31 December of 2017 and 2016 were as following:

<i>In thousands of Tenge</i>	31 December 2017	31 December 2016
Foreign currency denominated	297,253	50,866
Tenge denominated	216,587	197,489
Total trade accounts payable	513,840	248,355

14. ADVANCES RECEIVED FOR OIL TRANSPORTATION FROM THIRD PARTIES

Advances received for oil transportation from third parties as at 31 December 2017 mainly include advances received for the transportation of transit oil from Petroleum Company "Rosneft" OJSC in the amount of 2,354,561 thousand Tenge (as of 31 December 2016: 1,406,155 thousand Tenge).

NOTES TO THE FINANCIAL STATEMENTS (continued)**15. OTHER ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Other accounts payable and accrued liabilities as at 31 December of 2017 and 2016 were as follows:

<i>In thousands of Tenge</i>	31 December 2017	31 December 2016
Income tax for non-resident	605,337	655,634
Estimated liabilities on payables to suppliers	455,862	245,710
Taxes other than income tax	53,011	60,040
Other accounts payable	214,431	194,759
Total other accounts payable and accrued liabilities	1,328,641	1,156,143

Other accounts payable as at 31 December 2017 and 2016 include mainly liabilities on tender guarantee and warranty liabilities on contracts in the amount of 55,084 thousand Tenge and 44,093 thousand Tenge accordingly.

16. REVENUE

Revenue for the years ended 31 December of 2017 and 2016 comprised the following:

<i>In thousands of Tenge</i>	2017	2016
Transit oil transportation	26,888,035	17,157,052
Domestic oil transportation	19,117,387	16,374,507
Export oil transportation	17,227,187	19,954,642
Total revenue	63,232,609	53,486,201

17. COST OF SERVICES RENDERED

Cost of services rendered for the years ended 31 December of 2017 and 2016 comprised the following:

<i>In thousands of Tenge</i>	2017	2016
Depreciation of property, plant and equipment (Note 6)	13,999,075	14,343,281
Operational and technical maintenance	9,173,273	8,401,245
Taxes other than income tax	2,890,558	2,952,192
Security services	1,058,666	1,136,323
Electricity expenses	802,784	541,090
Salaries	281,160	284,196
Inspection services	159,377	169,246
Other	1,586,130	1,481,026
Total cost of services rendered	29,951,023	29,308,599

18. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 December of 2017 and 2016 comprised the following:

<i>In thousands of Tenge</i>	2017	2016
Salaries	1,570,812	1,571,594
Taxes other than income tax	301,619	259,407
Salaries of hired administrative personnel (outsourcing)	265,765	281,330
Business trip expenses	173,210	144,422
Depreciation of property, plant and equipment (Note 6)	104,005	97,388
Transportation expenses	84,873	69,983
Consulting services	66,584	69,059
Insurance	56,169	53,551
Lease expenses	46,803	49,150
Communication	19,771	20,747
Fines and penalties	1,715	4,065
Other	357,781	277,299
Total general and administrative expenses	3,049,107	2,897,995

NOTES TO THE FINANCIAL STATEMENTS (continued)**19. OTHER OPERATING INCOME, NET**

Other operating income and expenses for the years ended 31 December of 2017 and 2016 comprised the following:

<i>In thousands of Tenge</i>	2017	2016
Foreign exchange gain other than on loans and borrowings, net	470,226	1,577,459
Loss on impairment of construction in progress	(126,863)	(439,863)
Loss on disposal of fixed assets	(5,195)	(16,949)
Other	212,337	49,875
Total other operating income, net	550,505	1,170,522

20. FINANCE COSTS AND INCOME

Finance cost and income for the years ended 31 December of 2017 and 2016 comprised the following:

<i>In thousands of Tenge</i>	2017	2016
Interest on loan from Industrial and Commercial Bank of China and ING Bank N.V.	7,012,648	6,540,241
Interest on loan from Industrial and Commercial Bank of China and Industrial and Commercial Bank of China in Almaty JSC	4,161,478	4,728,413
Withholding tax	1,145,894	1,260,071
Amortization of discount on asset retirement and land reclamation obligation (Note 12)	341,090	306,548
Other finance expenses	848	–
Total finance costs	12,661,958	12,835,273
Foreign exchange gain on loans and borrowings, net	932,649	2,382,427
Other finance income	161,705	152,529
Total finance income	1,094,354	2,534,956

21. INCOME TAX EXPENSE

For the years ended 31 December 2017 and 2016 income tax expense comprise:

<i>In thousands of Tenge</i>	2017	2016
Current income tax expense	31,983	22,020
Deferred income tax expense/(benefit)	3,355,701	(521,683)
Income tax expense	3,387,684	(499,663)

Reconciliation between income tax expense and accounting profit multiplied by tax rate for 2017 and 2016:

<i>In thousands of Tenge</i>	2017	2016
Profit before income tax	15,838,171	12,149,812
Official tax rate	20%	20%
Income tax expense on accounting profit	3,167,634	2,429,962
Tax effect of non-deductible expenses	220,050	415,787
Change in unrecognized deferred income tax assets	–	(3,345,412)
Income tax expense/(benefit)	3,387,684	(499,663)

NOTES TO THE FINANCIAL STATEMENTS (continued)**21. INCOME TAX EXPENSE (continued)**

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

<i>In thousands of Tenge</i>	1 January 2017	Charged to profit or loss	Charged to other compre- hensive income	31 December 2017
Deferred tax assets				
Loans and borrowings	731,344	(122,300)	–	609,044
Provision for pipeline retirement and land reclamation obligation	607,846	68,219	259,805	935,870
Provision for unused vacation	9,391	687	–	10,078
Employee benefits obligations	–	1,812	317	2,129
Taxes payables	4,038	563	–	4,601
Tax losses carried forward	22,964,848	(4,761,205)	–	18,203,643
	24,317,467	(4,812,224)	260,122	19,765,365
Deferred tax liabilities				
Property, plant and equipment and intangible assets	(23,959,767)	1,456,523	(4,567,469)	(27,070,713)
	(23,959,767)	1,456,523	(4,567,469)	(27,070,713)
Tax deferred income tax assets/(liabilities), net	357,700	(3,355,701)	(4,307,347)	(7,305,348)

<i>In thousands of Tenge</i>	1 January 2016	Charged to profit or loss	Charged to other compre- hensive Income	31 December 2016
Deferred tax assets				
Loans and borrowings	1,124,331	(392,987)	–	731,344
Provision for pipeline retirement and land reclamation obligation	711,170	60,659	(163,983)	607,846
Provision for unused vacation	12,252	(2,861)	–	9,391
Taxes payables	6,255	(2,217)	–	4,038
Tax losses carried forward	25,583,398	(2,618,550)	–	22,964,848
	27,437,406	(2,955,956)	(163,983)	24,317,467
Unrecognized deferred tax assets	(3,345,412)	3,345,412	–	–
Deferred tax liabilities				
Property, plant and equipment and intangible assets	(24,091,994)	132,227	–	(23,959,767)
	(24,091,994)	132,227	–	(23,959,767)
Tax deferred income tax assets, net	–	521,683	(163,983)	357,700

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

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

The National Bank of the Republic of Kazakhstan shifted to inflation targeting policy. Starting from 20 August 2015 the National Bank of the Republic of Kazakhstan decided to cease the support of Tenge exchange rate against US Dollar and other main currencies in order to decrease the volume of currency interventions and to reduce the influence on establishing the Tenge exchange rate. Official exchange rate before devaluation amounted to 188.38 Tenge per 1 US Dollar. As at 31 December 2017 the exchange rate amounted to 332.33 Tenge per 1 US Dollar.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

22. 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 unusual, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe.

Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued as at 31 December 2017.

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

Environmental matters

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Potential liabilities which may arise as a result of changes in legislation cannot be reasonably estimated. Under existing legislation management believes that there are no probable or possible liabilities which could have a material adverse effect on the Company's financial position or results of operations except for those described in the present financial statements (*Notes 4 and 12*).

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 and environmental damage arising from accidents on Company's property or relating to Company's operations.

23. FINANCIAL RISK MANAGEMENT

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 and foreign banks (*Notes 9 and 10*). The Company's management reviews credit ratings of these banks periodically to eliminate extraordinary credit risk exposure. The Company's management believes that recent international credit crisis and subsequent changes in credit rating of local banks does not justify extraordinary credit risk. Accordingly, no impairment provision against bank deposits is required.

NOTES TO THE FINANCIAL STATEMENTS (continued)**23. FINANCIAL RISK MANAGEMENT (continued)****Credit risk (continued)**

The table below shows the balances of bank accounts and cash and cash equivalents as at 31 December 2017 and 2016 using the “Moody’s” credit ratings.

Banks	Location	Ratings		31 December 2017	31 December 2016
		2017	2016		
Halyk bank of Kazakhstan JSC	Kazakhstan	Ba1	Ba2	12,460,953	5,661,396
Industrial and Commercial Bank of China in Almaty JSC	Kazakhstan	A1	Baa3	7,640,751	7,837,233
Bank of China in Alashankou JSC	China	A1	Aa3	44,521	28,763
JSC Bank of China in Kazakhstan	Kazakhstan	A1	Aa3	2,758	4,567
Kazkommertsbank JSC	Kazakhstan	Ba2	B2	1,632	1,334,643
				20,150,615	14,866,602*

* As at 31 December 2016 the rest of cash and cash equivalents are represented by cash on hand.

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.

As of 31 December 2017 and 2016 current liabilities exceeded current assets by 18,401,985 thousand Tenge. Current assets of the Company mainly included bank deposits in the amount of 11,466,128 thousand Tenge and cash and cash equivalents in the amount of 8,684,487 thousand Tenge. Current liabilities mainly included loans and borrowings in the amount of 32,115,042 thousand Tenge and accounts payables to related parties in the amount of 2,240,806 thousand Tenge, including payables to KazTransOil JSC in the amount of 1,960,840 thousand Tenge. In order to improve liquidity, the Company plans to refinance a loan through the receipt of the new loan with larger term of repayment that will lead to the decrease of the obligations for the period. The Company intends to repay loan obligations using cash generated from operating activity.

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

<i>In thousands of Tenge</i>	Less than 1 year	From 1 to 2 years	From 2 to 5 years	More than 5	Total
As of 31 December 2017					
Loans and borrowings	38,394,810	72,045,294	85,668,322	25,760,057	221,868,483
Trade and other payables	2,754,646	–	–	–	2,754,646
Total	41,149,456	72,045,294	85,668,322	25,760,057	224,623,129
As of 31 December 2016					
Loans and borrowings	39,620,810	38,068,875	132,179,107	53,782,795	263,651,587
Trade and other payables	2,623,688	–	–	–	2,623,688
Total	42,244,498	38,068,875	132,179,107	53,782,795	266,275,275

NOTES TO THE FINANCIAL STATEMENTS (continued)**23. FINANCIAL RISK MANAGEMENT (continued)****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>	Cash and deposits	Loans and borrowings	Trade payables	Net balance amount
As of 31 December 2017				
US Dollars	18,863,845	(198,884,794)	–	(180,020,949)
Chinese Yuan	44,522	–	(408,355)	(363,833)
Euro	–	–	(2,224)	(2,224)
As of 31 December 2016				
US Dollars	10,062,609	(228,337,556)	–	(218,274,947)
Chinese Yuan	28,798	–	(197,333)	(168,535)

The Company does not have formal arrangements to mitigate foreign exchange risks of the Company's operations. The Company also has risks related to transactions in foreign currency. Such risks occur due to loans received in US Dollars.

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar and Chinese Yuan exchange rates, 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 US Dollar rate	Effect on profit before tax
2017		
US Dollars	+10.00%/-10.00%	18,003,521/(18,003,521)
Chinese Yuan	+10.00%/-10.00%	36,383/(36,383)
2016		
US Dollars	+60.00%/-20.00%	130,964,968/(43,654,989)
Chinese Yuan	+10.00%/-10.00%	16,854/(16,854)

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. In order to maintain or change the capital structure Company can regulate amount of dividend payments, return capital to a shareholder or issue new shares.

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

Fair value of financial instruments

The carrying amount of cash, bank deposits, trade and other accounts receivable, trade and other accounts payable and other current liabilities approximates their fair value due to the short-term maturity of these financial instruments. Loans and borrowings are carried at amortized cost, which is approximately equal to their fair value.

NOTES TO THE FINANCIAL STATEMENTS (continued)**23. FINANCIAL RISK MANAGEMENT (continued)****Changes in liabilities arising from financing activities**

Changes in financial liabilities as for the year ended 31 December 2017 were as follows:

<i>In thousands of Tenge</i>	As of 1 January 2017	Transfer from non-current to current portion	Repayment of loans and borrowings and interest payments	Interest expense	Foreign exchange movement	Other	As of 31 December 2017
Non-current portion of borrowings	195,797,446	(28,235,632)	–	268,432	(1,060,494)	–	166,769,752
Current portion of borrowings	32,540,110	28,235,632	(39,091,634)	10,905,694	127,845	(602,605)	32,115,042
Total	228,337,556	–	(39,091,634)	11,174,126	(932,649)	(602,605)	198,884,794

Changes in financial liabilities as for the year ended 31 December 2016 were as follows:

<i>In thousands of Tenge</i>	As of 1 January 2016	Transfer from non-current to current portion	Repayment of loans and borrowings and interest payments	Interest expense	Foreign exchange movement	Other	As of 31 December 2016
Non-current portion of borrowings	206,193,620	(6,272,202)	–	(1,247,516)	(2,784,951)	(91,505)	195,797,446
Current portion of borrowings	56,449,928	6,272,202	(42,445,675)	12,516,170	402,524	(655,039)	32,540,110
Total	262,643,548	–	(42,445,675)	11,268,654	(2,382,427)	(746,544)	228,337,556