

Kazakhstan-China Pipeline LLP

Financial statements

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

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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 2018, 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 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the 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 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 regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP


Dinara Malayeva
Auditor



Auditor qualification certificate
No. МФ-0000323 dated 25 February 2016

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

5 February 2019


Gulmira Turmagambetova
General Director
Ernst & Young LLP



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

STATEMENT OF FINANCIAL POSITION

<i>In thousands of Tenge</i>	Note	31 December 2018	31 December 2017
Assets			
Non-current assets			
Property, plant and equipment	6	212,641,356	221,774,424
Long-term value added tax recoverable	7	3,444,458	3,931,503
Other non-current assets		32,005	122,536
Total non-current assets		216,117,819	225,828,463
Current assets			
Inventories		428,941	326,504
Prepaid income tax		2,718	10,873
Accounts receivable from related parties	5	6,583	10,710
Trade accounts receivable		8,234	5
Other current assets	8	1,497,644	1,887,445
Bank deposits	9	16,995,106	11,466,128
Cash and cash equivalents	10	17,508,911	8,684,487
Total current assets		36,448,137	22,386,152
Total assets		252,565,956	248,214,615
Equity			
Charter capital		13,000,000	13,000,000
Asset revaluation reserve		43,496,769	46,462,731
Other capital reserves		(572)	(1,265)
Accumulated loss		(35,468,991)	(30,798,241)
Total equity		21,027,206	28,663,225
Liabilities			
Non-current liabilities			
Loans and borrowings	11	178,800,794	166,769,752
Provision for asset retirement and land recultivation obligation	12	5,350,776	4,679,349
Deferred tax liability	21	6,187,798	7,305,348
Other non-current liabilities		9,578	8,754
Total non-current liabilities		190,348,946	178,763,203
Current liabilities			
Loans and borrowings	11	30,823,721	32,115,042
Trade accounts payable	13	520,495	513,840
Accounts payable to related parties	5	990,206	2,240,806
Advances received for oil transportation from related parties	5	2,797,534	2,009,441
Advances received for oil transportation from third parties	14	2,885,880	2,558,215
Income tax payable		19,826	22,202
Other accounts payable and accrued liabilities	15	3,152,142	1,328,641
Total current liabilities		41,189,804	40,788,187
Total liabilities		231,538,750	219,551,390
Total liabilities and equity		252,565,956	248,214,615

Approved for issue and signed on behalf of Management on 5 February 2019:

Uzykanov Y.K.
Acting General Director



Lang Jing
Deputy General Director – Chief Accountant

The accounting policies and explanatory notes on pages 5 through 34 form an integral part of these financial statements.

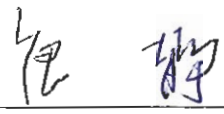
STATEMENT OF COMPREHENSIVE INCOME

<i>In thousands of Tenge</i>	Note	For the year ended 31 December	
		2018	2017
Revenue	16	60,886,186	63,232,609
Cost of services rendered	17	(28,105,791)	(29,951,023)
Gross profit		32,780,395	33,281,586
General and administrative expenses	18	(3,541,761)	(3,049,107)
Other operating income, net	19	2,379,058	550,505
Loss from impairment of property, plant and equipment		-	(3,377,209)
Operating profit		31,617,692	27,405,775
Finance income	20	223,910	1,094,354
Finance costs	20	(40,336,806)	(12,661,958)
(Loss) / profit before taxes		(8,495,204)	15,838,171
Income tax benefit / (expense)	21	1,043,122	(3,387,684)
(Loss) / profit for the period		(7,452,082)	12,450,487
Other comprehensive income			
Revaluation of property, plant and equipment		-	22,837,345
Income tax effect	21	-	(4,567,470)
		-	18,269,875
Changes in estimations on provisions for asset retirement and land reclamation obligation	12	(221,179)	(1,299,027)
Income tax effect	21	44,236	259,805
		(176,943)	(1,039,222)
Actuarial gain / (loss) from employee benefit liabilities		866	(1,582)
Income tax effect	21	(173)	317
		693	(1,265)
Total other comprehensive (loss) / income for the period		(176,250)	17,229,388
Total comprehensive (loss) / income for the period		(7,628,332)	29,679,875

Approved for issue and signed on behalf of Management on 5 February 2019:


Uzykanov Y.K.
Acting General Director





Yang Jing
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	
		2018	2017
Cash flows from operating activities			
<i>Cash flows from operating activities</i>		65,235,049	66,516,711
Rendering of transportation services		59,037,489	61,656,482
Advances received		5,683,414	4,567,656
Interest received		210,552	156,227
Other proceeds		303,594	136,346
<i>Cash outflows from operating activities</i>		(36,069,113)	(33,368,567)
Payments to suppliers and contractors for goods and services		(17,489,433)	(15,202,192)
Advances paid		(12,866)	(63,524)
Payments to employees		(1,513,959)	(1,490,309)
Interest paid on loans	11	(11,032,305)	(11,196,934)
Income tax		(32,556)	(20,099)
Other payments to the budget		(5,505,658)	(4,978,395)
Other payments		(482,336)	(417,114)
Net cash generated from operating activities		29,165,936	33,148,144
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,503,408)	(447,392)
Purchase of intangible assets		(6,651)	(4,500)
Sale of intangible assets		618	4,018
Withdrawal of bank deposits		18,629,035	9,228,415
Placement of bank deposits		(22,585,728)	(18,136,150)
Net cash used in investing activities		(5,466,134)	(9,355,609)
Cash flows from financing activities			
Loan received, net of organizational fees paid	11	190,040,533	-
Repayment of loans and borrowings	11	(205,973,858)	(27,894,700)
Net cash used in financing activities		(15,933,325)	(27,894,700)
Net increase / (decrease) in cash and cash equivalents		7,766,477	(4,102,165)
Effect of exchange rate changes on cash and cash equivalents in foreign currency		1,057,947	267,733
Cash and cash equivalents, at the beginning of the period	10	8,684,487	12,518,919
Cash and cash equivalents, at the end of the period		17,508,911	8,684,487

Approved for issue and signed on behalf of Management on 5 February 2019:


Uzykanov Y.K.
Acting General Director




Tang Jing
Deputy General Director – Chief Accountant

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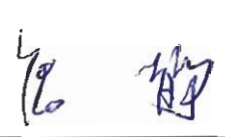
STATEMENT OF CHANGES IN EQUITY

<i>In thousands of Tenge</i>	Charter capital	Asset revaluation reserve	Other capital reserves	Accumulated loss	Total
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
At 1 January 2018	13,000,000	46,462,731	(1,265)	(30,798,241)	28,663,225
First-time adoption of IFRS 9	–	–	–	(7,687)	(7,687)
Balance as at 1 January 2018, restated in accordance with IFRS 9	13,000,000	46,462,731	(1,265)	(30,805,928)	28,655,538
Loss for the period	–	–	–	(7,452,082)	(7,452,082)
Other comprehensive loss	–	(176,943)	693	–	(176,250)
Total comprehensive loss for the period	–	(176,943)	693	(7,452,082)	(7,628,332)
Realised asset revaluation reserve	–	(2,789,019)	–	2,789,019	–
At 31 December 2018	13,000,000	43,496,769	(572)	(35,468,991)	21,027,206

Approved for issue and signed on behalf of Management on 5 February 2019:


Uzykanov Y.K.
Acting General Director




Tang Jing
Deputy General Director – Chief Accountant

The accounting policies and explanatory notes on pages 5 through 34 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 government of Chinese’s People’s Republic 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, Protection of Competition and Consumer rights 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-ОД of the Chairman of the Committee for Regulation of Natural Monopolies, tariff for domestic market was approved in the amount of KZT 6,507.28 per ton per 1,000 km (net of VAT) for 2018 (2017: KZT 5,915.71 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 2018 in the amount of KZT 6,799 per ton per 1,000 km (net of VAT) (2017: KZT 6,799 per ton).

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.

Technological oil for pipeline filling in the amount of 401,449 metric tons was provided by PetroChina International Kazakhstan LLP (PetroChina). Technological 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 technological 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. Technological oil is owned by CNPC Aktobemunaygas JSC. The technological oil shall be returned to CNPC Aktobemunaygas JSC upon completion of Kenkiyak-Kumkol oil pipeline operation.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. GENERAL (continued)

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 2018 and 2017, the Company transported 1,383 thousand tons of oil and 2,299 thousand tons of oil, respectively, through Atasu-Alashankou oil pipeline. Moreover, during 2018 and 2017, the Company transported 9,979 thousand tons of transit oil and 9,989 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 2018 and 2017, the Company transported 4,939 thousand tons of oil and 5,213 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 approved for issue by Management of the Company on 5 February 2019.

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.

The financial statements are presented in Tenge, and all monetary amounts are rounded to the nearest thousand, except when otherwise indicated. The 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 spot rates 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 year ended 31 December 2018 and 2017 were:

<i>Tenge</i>	2018	2017
US Dollars	344.90	326.08
Russian Roubles	5.50	5.59
Euro	406.77	368.52
Chinese Yuan	52.11	48.29

At 31 December 2018 and 2017, the exchange rates established at KASE were as follows:

<i>Tenge</i>	31 December 2018	31 December 2017
US Dollars	384.20	332.33
Russian Roubles	5.50	5.77
Euro	439.37	398.23
Chinese Yuan	55.88	51.09

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.

The principal or the most advantageous market must be accessible by the Company.

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.3 Fair value measurement (continued)**

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 techniques 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 or disclosed in the financial statements are categorised 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 at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (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 remeasured 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, in conjunction with the Company's external valuers, also compares the change 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 progress) and impairment losses recognised after the date of the revaluation, if any.

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.

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation reserve in equity, which is included to the capital, 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 other vehicles	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 profit or loss when the asset is derecognised.

Residual values, useful lives and methods of depreciation of property, plant and equipment are analyzed at each reporting 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 during 7-10 years. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognised in the 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 CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account (if such exist). 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 companies or other available fair value indicators.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. 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 of inventories) are recognised in the statement of other comprehensive income in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to other comprehensive income. For such properties, the impairment is recognised in other comprehensive income up to the amount of any previous revaluation.

For assets an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A 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 exceed 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 of asset is treated as increase in value from revaluation.

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

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

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

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

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

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

Financial assets of the Company include cash and cash equivalents, bank deposits, trade and other accounts receivable.

Subsequent measurement

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.7 Financial assets (continued)***Subsequent measurement (continued)**Financial assets at amortised cost (debt instruments)*

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

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

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

The Company's financial assets at amortised cost includes trade accounts receivables.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., 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 Company continues to recognise the transferred asset to the extent of its continuing involvement. 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 recognises an allowance for expected credit losses for all debt instruments not held at fair value through profit or loss. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**3.8 Impairment of financial assets (continued)**

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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, trade accounts payable, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

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

Subsequent measurement*Loans and borrowings*

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised 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 amortisation is included as finance costs in the statement of comprehensive income.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to *Note 11*.

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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit and loss.

3.10 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is 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, 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.12 Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise of cash on hand, cash at banks, short-term deposits and other highly liquid investments 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 asset revaluation reserve.

3.14 Revenue from contracts with customers

The Company's activities are mainly related to the transportation of oil through main pipelines on the territory of the Republic of Kazakhstan. Revenue from contracts with customers is recognised when control of the services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services. The Company has generally concluded that it is the principal in its revenue arrangements, except cases of rendering agent services, because it typically controls services before transferring them to the customer.

Transportation of oil

The Company recognizes the proceeds from the provision of oil transportation services based on actual volumes over time of transportation route. Customers make 100% advance payment in 10 days prior the date of oil transportation.

(i) Variable consideration

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

(ii) Significant financing component

Generally, the Company receives short-term advances from its customers. Using the practical expedient in IFRS 15, Company does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

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 equity 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.15 Taxes (continued)***Deferred tax*

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

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

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

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

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

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

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

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

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

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 unless it is recognised in profit or loss.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**3.16 Changes in accounting policies and disclosures**

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018.

New and amended standards and interpretations

The Company applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 15 Revenue from Contracts with Customers

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

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

The Company applied IFRS 15 retrospectively with the recognition of the cumulative effect of the initial application of this standard as an adjustment to the balance of retained earnings at the beginning of the annual reporting period that includes the date of initial application.

Adoption of IFRS 15 did not have significant effect on the financial statements of the Company.

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

(a) Rendering of services

The Company fulfills the obligation to execute on a monthly basis and recognizes the proceeds from the provision of oil transportation services over time of transportation route. The application of IFRS 15 to service contracts did not affect the Company's revenue and profit or loss.

In adopting IFRS 15, the Company is considering the following:

(i) Variable consideration

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

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

(ii) Principal versus agent considerations

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

The Company determined that it acts as a principal for all contracts under which revenue is recognized (since it controls the promised service before it is transferred to customer).

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.16 Changes in accounting policies and disclosures (continued)****New and amended standards and interpretations (continued)***IFRS 15 Revenue from Contracts with Customers (continued)**(a) Rendering of services (continued)**(iii) Advances received from customers*

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

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

(b) Presentation and disclosure requirements

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

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

(c) Other adjustments

On adoption of IFRS 15 based on analysis made the Company will not adjust other items of the financial statements such as deferred taxes, profit or loss after tax. The recognition and measurement requirements in IFRS 15 are also applicable for recognition and measurement of any gains or losses on disposal of non-financial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business. On transition, the effect of these changes did not impact on financial statements of the Company.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The Company has applied IFRS 9 retrospectively with the recognition of the cumulative effect of the initial application of this standard as an adjustment to the balance of retained earnings at the beginning of the annual reporting period that includes the date of initial application.

Impact on the statement of financial position as at 1 January 2018, as follows:

<i>In thousands of Tenge</i>	As at 31 December 2017	Effects of adoption of IFRS 9	As at 1 January 2018
Assets			
Accounts receivable from related parties	10,710	(7,088)	3,622
Bank deposits	11,466,128	(564)	11,465,564
Cash and cash equivalents	8,684,487	(35)	8,684,452
Total current assets	20,161,325	(7,687)	20,153,638
Equity			
Accumulated loss	(30,798,241)	(7,687)	(30,805,928)
Total equity	(30,798,241)	(7,687)	(30,805,928)

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.16 Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations (continued)

IFRS 9 Financial Instruments (continued)

(a) Classification and measurement

The Company continues to measure all financial assets at fair value. Loans, as well as trade and other receivables are held by the Company to collect contractual cash flows and are expected to result in cash flows that are solely payments to principal and interest. The Company analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9.

(b) Impairment

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

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

Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The Company considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

The adoption of the expected credit losses requirements of IFRS 9 resulted in increases in impairment allowances of the Company's financial assets. The increase in allowance resulted in adjustment to accumulated deficit in the amount of KZT 7,687 thousand.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

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

Amendments to IAS 40 Transfers of Investment Property

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

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

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Company's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Company has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.16 Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations (continued)

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

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

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

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

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

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

Standards issued but not yet effective

The new and amended 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 new and amended standards and interpretations, if applicable, when they become effective.

IFRS 16 Leases

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

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

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

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

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)

Transition to IFRS 16

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

The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application.

During 2018, the Company has performed a preliminary impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be, as follows: increase of right-of-use assets in the amount of KZT 1.6 bln, increase in lease liability in the amount of KZT 2.3 bln and decrease of retained earnings in the amount of KZT 0.7 bln. Quantitative information, disclosed in this note, may be changed during 2019.

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.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019. This Interpretation is not applicable for 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)

Amendments to IFRS 9: Prepayment Features with Negative Compensation

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

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

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

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

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

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

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

Amendments to IAS 28: Long-term interests in associates and joint ventures

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

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

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. 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 2015-2017 Cycle (issued in December 2017)*

These improvements include the following amendments:

IFRS 3 Business Combinations

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

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are not applicable to the Company.

IFRS 11 Joint Arrangements

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

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

IAS 12 Income Taxes

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

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. These amendments are not applicable to the Company.

IAS 23 Borrowing Costs

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

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

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*).

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

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.

Revaluation of property, plant and equipment

The Company recognizes property, plant and equipment at revalued amount. Last valuation of its property, plant and equipment was performed by the Company during 2017. For this purpose, the Company engaged independent professional appraisers.

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. The revaluation results of the value of the use are sensitive to forecasts of the sales volumes and to the tariff levels of the services provided and the size of capital and current costs.

After revaluation conducted in 2017 the carrying amount of property, plant and equipment increased by KZT 19,460,197 thousand.

The Company assesses at each reporting date whether the carrying amount of its property, plant and equipment does not differ materially from that, which would be determined using estimated fair value at the balance sheet date. On 31 December 2018, the management of the Company revised its assessments with respect to the fair value of its property, plant and equipment. As a result, management concluded that there were no significant changes in the fair value of the Company's property, plant and equipment as at 31 December 2018 from the date of last revaluation during 2017. As a result, the fair value of the Company's property, plant and equipment approximated their carrying amount.

Useful lives of items of property, plant and equipment and intangible assets

The Company assesses the remaining useful lives of items of property, plant and equipment and intangible assets 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 profit and loss.

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 2018 and 2017 equaled to KZT 5,825 thousand and KZT 5,496 thousand, respectively).

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

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:

	2018	2017
Discount rate	9.01%	9.48%
Inflation rate	5.5%	5.5%
Period of fulfillment of obligations	20.97 years	21.93 years

«Atasu – Alashonkou» pipeline:

	2018	2017
Discount rate	9.01%	9.22%
Inflation rate	5.5%	5.5%
Period of fulfillment of obligations	17.93 years	18.93 years

The discount rate is based on the risk-free US treasury bonds, adjusted on long-term inflation rate and country risk.

As at 31 December 2018 the carrying amount of the asset retirement and land recultivation obligation was KZT 5,350,776 thousand (as at 31 December 2017: KZT 4,679,349 thousand) (*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 recultivation obligation for the change in significant assumptions as at 31 December 2018 is as follows:

<i>In thousands of Tenge</i>	(Decrease)/ increase in rate	Increase/ (decrease) in liability
Discount rate	-0.5% +0.5%	492,245 (448,570)
Inflation rate	-0.5% +0.5%	(460,337) 501,704

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*.

For the purposes of these financial statements, related parties of the Company include owners, their subsidiaries and entities under common control / significant influence of the owners.

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

Balances on transactions with related parties as at 31 December 2018 comprise as follows:

<i>In thousands of Tenge</i>	Owner (KazTransOil)	Entities under common control / significant influence of KazMunayGas	Entities under common control / significant influence of CNODC	Total
Accounts receivable from related parties	5,225	1,358	–	6,583
Advances received for transportation of oil from related parties	–	984,262	1,813,272	2,797,534
Accounts payable to related parties	742,424	120,033	127,749	990,206

The income and expense items on transactions with related parties for the year ended 31 December 2018 are as follows:

<i>In thousands of Tenge</i>	Owner (KazTransOil)	Entities under common control / significant influence of KazMunayGas	Entities under common control / significant influence of CNODC	Total
Revenue	2,057	10,173,549	18,853,544	29,029,150
Expenses:				
- Oil-pipeline servicing	7,937,208	–	642,375	8,579,583
- Security services	–	994,359	–	994,359
- Other services	2,201	338,222	1,339	341,762

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

<i>In thousands of Tenge</i>	Owner (KazTransOil)	Entities under common control / significant influence of KazMunayGas	Entities under common control / significant influence of CNODC	Total
Accounts receivable from related parties	2,332	1,294	7,084	10,710
Advances received for transportation of oil from related parties	–	1,081,691	927,750	2,009,441
Accounts payable to related parties	1,966,929	162,193	111,684	2,240,806

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>	Owner (KazTransOil)	Entities under common control / significant influence of KazMunayGas	Entities under common control / significant influence of CNODC	Total
Revenue	7,506	11,239,336	21,347,168	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

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 2018 amounted to KZT 239,235 thousand (for the year ended 31 December 2017: KZT 159,187 thousand).

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

Property, plant and equipment as at 31 December 2018 and 2017 are as follows:

In thousands of Tenge	Land	Buildings and const- ructions	Machinery and equipment	Pipeline	Other vehicles	Other	Const- ruction in progress	Total
Revalued value at 31 December 2017	75,137	49,403,876	43,081,908	130,120,180	402,366	727,023	1,036,364	224,846,854
Additions	—	—	232,328	—	1,490	84,894	2,674,565	2,993,277
Transfer from one category into another	—	(750)	73,802	(71,960)	—	(1,092)	—	—
Transfer from construction in progress to property, plant and equipment	—	435,017	493,423	1,526,441	—	—	(2,454,881)	—
Disposals	—	(25,648)	(80,459)	(59,190)	—	(15,405)	—	(180,702)
Revalued value at 31 December 2018	75,137	49,812,495	43,801,002	131,515,471	403,856	795,420	1,256,048	227,659,429
Accumulated depreciation and impairment at 31 December 2017	—	(380,651)	(594,876)	(1,064,934)	(15,149)	(30,722)	(986,098)	(3,072,430)
Depreciation charge for the period	—	(2,360,627)	(3,584,168)	(5,759,054)	(90,951)	(189,669)	—	(11,984,469)
Transfer from one category into another	—	154	(19,609)	19,140	—	315	—	—
Disposals	—	1,668	20,869	2,461	—	13,828	—	38,826
Accumulated depreciation and impairment at 31 December 2018	—	(2,739,456)	(4,177,784)	(6,802,387)	(106,100)	(206,248)	(986,098)	(15,018,073)
Revalued value at 31 December 2016	60,732	49,898,885	57,413,683	139,311,725	449,421	875,580	1,630,347	249,640,373
Additions	—	5,811	220,474	50,480	—	16,769	438,411	731,945
Transfer from one category into another	—	—	44,146	(42,057)	(35)	(2,054)	—	—
Transfer from construction in progress to property, plant and equipment	—	1,032,394	—	—	—	—	(1,032,394)	—
Deduction of residual value for revaluation	—	(7,981,276)	(17,915,450)	(18,423,540)	(237,399)	(400,346)	—	(44,958,011)
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)
Disposals	—	—	(7,491)	(2,894)	(9,876)	(7,328)	—	(27,589)
Revaluation	14,405	9,149,227	4,122,607	9,159,615	170,230	221,261	—	22,837,345
Revalued value at 31 December 2017	75,137	49,403,876	43,081,908	130,120,180	402,366	727,023	1,036,364	224,846,854
Accumulated depreciation and impairment at 31 December 2016	—	(5,659,387)	(13,243,464)	(13,573,254)	(179,187)	(297,371)	(859,235)	(33,811,898)
Depreciation charge for the period	—	(2,702,540)	(5,255,430)	(5,927,105)	(78,427)	(139,578)	—	(14,103,080)
Transfer from one category into another	—	—	(11,757)	11,516	35	206	—	—
Deduction of accumulated amortization and impairment upon revaluation	—	7,981,276	17,915,450	18,423,540	237,399	400,346	—	44,958,011
Impairment recognized in the income statement	—	—	—	—	—	—	(126,863)	(126,863)
Disposals	—	—	325	369	5,031	5,675	—	11,400
Accumulated depreciation and impairment at 31 December 2017	—	(380,651)	(594,876)	(1,064,934)	(15,149)	(30,722)	(986,098)	(3,072,430)
At 31 December 2018								
Revalued value	75,137	49,812,495	43,801,002	131,515,471	403,856	795,420	1,256,048	227,659,429
Accumulated depreciation and impairment	—	(2,739,456)	(4,177,784)	(6,802,387)	(106,100)	(206,248)	(986,098)	(15,018,073)
Carrying amount	75,137	47,073,039	39,623,218	124,713,084	297,756	589,172	269,950	212,641,356
At 31 December 2017								
Revalued value	75,137	49,403,876	43,081,908	130,120,180	402,366	727,023	1,036,364	224,846,854
Accumulated depreciation and impairment	—	(380,651)	(594,876)	(1,064,934)	(15,149)	(30,722)	(986,098)	(3,072,430)
Carrying amount	75,137	49,023,225	42,487,032	129,055,246	387,217	696,301	50,266	221,774,424

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

<i>In thousands of Tenge</i>	Note	2018	2017
Cost of sales	17	11,837,252	13,999,075
General and administrative expenses	18	147,217	104,005
Total depreciation charges		11,984,469	14,103,080

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

<i>In thousands of Tenge</i>	Land	Buildings and const- ructions	Machinery and equipment	Pipeline	Other vehicles	Other	Const- ruction in progress	Total
At 31 December 2017								
Cost	5,361	53,425,176	59,969,174	140,175,234	813,070	1,183,813	1,036,364	256,608,192
Accumulated depreciation	–	(17,353,713)	(31,155,352)	(40,512,259)	(606,148)	(745,404)	(986,098)	(91,358,974)
Net book value	5,361	36,071,463	28,813,822	99,662,975	206,922	438,409	50,266	165,249,218
At 31 December 2018								
Cost	5,361	53,840,183	60,640,324	141,650,457	814,560	1,233,678	1,256,048	259,440,611
Accumulated depreciation	–	(19,101,971)	(33,651,436)	(44,566,913)	(653,770)	(828,073)	(986,098)	(99,788,261)
Net book value	5,361	34,738,212	26,988,888	97,083,544	160,790	405,605	269,950	159,652,350

7. LONG-TERM VALUE ADDED TAX RECOVERABLE

Value added tax (“VAT”) represents VAT on purchases. As at 31 December 2018, the Company recorded VAT recoverable in the amount of KZT 3,444,458 thousand (31 December 2017: KZT 3,931,503 thousand) 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 2018.

8. OTHER CURRENT ASSETS

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

<i>In thousands of Tenge</i>	31 December 2018	31 December 2017
VAT recoverable	1,052,227	1,512,843
Prepaid taxes	308,664	212,023
Deferred expenses	88,290	10,333
Advances paid	11,508	62,231
Other	36,955	90,015
Total other current assets	1,497,644	1,887,445

9. BANK DEPOSITS

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

<i>In thousands of Tenge</i>	31 December 2018	31 December 2017
Term deposits with maturity of less than 12 months	16,965,889	11,451,867
Short-term interest receivable	29,217	14,261
Total bank deposits	16,995,106	11,466,128

As at 31 December 2018 and 2017 term 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 2018 and 2017 are as follows:

<i>In thousands of Tenge</i>	31 December 2018	31 December 2017
Cash with bank in foreign currency	14,170,088	7,442,239
Cash with bank in Tenge	1,831,280	247,424
Cash on saving accounts in Tenge	1,117,467	990,872
Cash on saving accounts in foreign currency	384,200	–
Cash on corporate cards	5,876	3,952
Total cash and cash equivalents	17,508,911	8,684,487

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

<i>In thousands of Tenge</i>	31 December 2018	31 December 2017
US Dollar	14,519,176	7,397,717
Chinese Yuan	35,112	44,522
Total cash in foreign currency	14,554,288	7,442,239

11. LOANS AND BORROWINGS

Loans and borrowings as at 31 December of 2018 and 2017 are as follows:

<i>In thousands of Tenge</i>	31 December 2018	31 December 2017
Current portion of loans	30,823,721	32,115,042
Non-current portion of loans	178,800,794	166,769,752
Total loans and borrowings	209,624,515	198,884,794

<i>In thousands of Tenge</i>	31 December 2018	31 December 2017
Industrial and Commercial Bank of China and Industrial and Commercial Bank of China in Almaty JSC	209,624,515	60,456,242
Industrial and Commercial Bank of China and ING Bank N.V.	–	138,428,552
Total loans and borrowings	209,624,515	198,884,794

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

On 27 June 2018 the Company signed a loan agreement with the Industrial and Commercial Bank of China and Industrial and Commercial Bank of China in Almaty JSC, acting as an agent. The loan amount was US Dollar 540 million (equivalent to KZT 191,756,400 thousand) for 6 years with the possibility of early repayment. The loan purpose was to refinance the loans received from Industrial and Commercial Bank of China and ING Bank N.V. and Industrial and Commercial Bank of China and Industrial and Commercial Bank of China in Almaty JSC. The Company has incurred cost on loan arrangement in the amount of KZT 1,715,867 thousand (equivalent of US Dollar 5,010 thousand).

On 11 September 2018 The Company fully repaid principal and accrued interest on loan received in 2013 within the loan agreement signed with Industrial and Commercial Bank of China and Industrial and Commercial Bank of China in Almaty JSC, acting as an agent, in the amount of KZT 65,360,500 thousand and KZT 3,345,330 thousand, respectively.

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

On 12 August 2018 The Company fully repaid principal and accrued interest on loan in the amount of KZT 140,613,358 thousand and KZT 7,686,975 thousand, respectively.

NOTES TO THE FINANCIAL STATEMENTS (continued)**12. PROVISION FOR ASSET RETIREMENT AND LAND RECULTIVATION OBLIGATION**

Provision for asset retirement and land recultivation obligation as at 31 December of 2018 and 2017 is as following:

<i>In thousands of Tenge</i>	2018	2017
Carrying amount at 1 January	4,679,349	3,039,232
Changes in estimates	221,179	1,299,027
Amortisation of discount (Note 20)	450,248	341,090
Carrying amount at 31 December	5,350,776	4,679,349

13. TRADE ACCOUNTS PAYABLE

Trade accounts payable as at 31 December of 2018 and 2017 are as following:

<i>In thousands of Tenge</i>	31 December 2018	31 December 2017
Tenge denominated	436,044	216,587
Foreign currency denominated	84,451	297,253
Total trade accounts payable	520,495	513,840

14. ADVANCES RECEIVED FOR OIL TRANSPORTATION FROM THIRD PARTIES

Advances received for oil transportation from third parties as at 31 December 2018 mainly include advances received for the transportation of transit oil from Petroleum Company "Rosneft" OJSC in the amount of KZT 2,679,566 thousand (as of 31 December 2017: KZT 2,354,561 thousand).

15. OTHER ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Other accounts payable and accrued liabilities as at 31 December of 2018 and 2017 are as follows:

<i>In thousands of Tenge</i>	31 December 2018	31 December 2017
Estimated liabilities on payables to suppliers	1,845,181	455,862
Income tax for non-resident	687,720	605,337
Taxes other than income tax	56,641	53,011
Other accounts payable	562,600	214,431
Total other accounts payable and accrued liabilities	3,152,142	1,328,641

Other accounts payable as at 31 December 2018 and 31 December 2017 include mainly liabilities on tender guarantee and warranty liabilities on contracts in the amount of KZT 243,003 thousand and KZT 55,084 thousand, respectively.

16. REVENUE

Set out below is the disaggregation of the Company's revenue from contracts with customers for the year ended 31 December 2018 and 2017:

<i>In thousands of Tenge</i>	2018 год	2017 год
Type of services		
Transit oil transportation	28,047,811	26,888,035
Domestic oil transportation	22,697,921	19,117,387
Export oil transportation	10,140,454	17,227,187
Total revenue from contracts with customers	60,886,186	63,232,609
Geographical markets		
Kazakhstan	60,886,186	63,232,609
Total revenue from contracts with customers	60,886,186	63,232,609
Timing of revenue recognition		
Services transferred over time	60,886,186	63,232,609
Total revenue from contracts with customers	60,886,186	63,232,609
Revenue		
Sales to residents	32,838,375	36,344,574
Sales to non-residents	28,047,811	26,888,035
Total revenue from contracts with customers	60,886,186	63,232,609

NOTES TO THE FINANCIAL STATEMENTS (continued)**17. COST OF SERVICES RENDERED**

Cost of services rendered for the years ended 31 December of 2018 and 2017 comprise the following:

<i>In thousands of Tenge</i>	2018	2017
Depreciation of property, plant and equipment (Note 6)	11,837,252	13,999,075
Operational and technical maintenance	8,994,708	9,173,273
Taxes other than income tax	2,922,480	2,890,558
Security services	1,011,397	1,058,666
Electricity expenses	644,902	802,784
Salaries	317,343	281,160
Inspection services	172,270	159,377
Other	2,205,439	1,586,130
Total cost of services rendered	28,105,791	29,951,023

18. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 December of 2018 and 2017 comprise the following:

<i>In thousands of Tenge</i>	2018	2017
Salaries	1,697,812	1,570,812
Salaries of hired administrative personnel (outsourcing)	449,395	265,765
Taxes other than income tax	292,499	301,619
Consulting services	187,537	66,584
Business trip expenses	167,345	173,210
Depreciation of property, plant and equipment (Note 6)	147,217	104,005
Insurance	55,900	56,169
Transportation expenses	43,198	84,873
Lease expenses	31,569	46,803
Communication	23,749	19,771
Fines and penalties	853	1,715
Other	444,687	357,781
Total general and administrative expenses	3,541,761	3,049,107

19. OTHER OPERATING INCOME, NET

Other operating income and expenses for the years ended 31 December of 2018 and 2017 comprise the following:

<i>In thousands of Tenge</i>	2018	2017
Foreign exchange gain other than on loans and borrowings, net	2,403,400	470,226
Loss on impairment of construction in progress	-	(126,863)
Loss on disposal of property, plant and equipment	-	(5,195)
Other	(24,342)	212,337
Total other operating income, net	2,379,058	550,505

20. FINANCE COSTS AND INCOME

Finance costs and income for the years ended 31 December of 2018 and 2017 comprise the following:

<i>In thousands of Tenge</i>	2018	2017
Foreign exchange loss on loans and borrowings, net	27,740,666	-
Interest on loan from Industrial and Commercial Bank of China and Industrial and Commercial Bank of China in Almaty JSC	7,614,556	4,161,478
Interest on loan from Industrial and Commercial Bank of China and ING Bank N.V.	3,469,752	7,012,648
Withholding tax	996,545	1,145,894
Amortization of discount on asset retirement and land reclamation obligation (Note 12)	450,248	341,090
Other finance costs	65,039	848
Total finance costs	40,336,806	12,661,958
Foreign exchange gain on loans and borrowings, net	-	932,649
Other finance income	223,910	161,705
Total finance income	223,910	1,094,354

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

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

<i>In thousands of Tenge</i>	2018	2017
Current income tax expense	30,365	31,983
Deferred income tax (benefit) / expense	(1,073,487)	3,355,701
Income tax	(1,043,122)	3,387,684

Reconciliation between income tax expense and accounting profit multiplied by tax rate for 2018 and 2017:

<i>In thousands of Tenge</i>	2018	2017
(Loss) / profit before income tax	(8,495,204)	15,838,171
Official tax rate	20%	20%
Income tax (benefit) / expense on accounting profit	(1,699,041)	3,167,634
Tax effect of non-deductible expenses	655,919	220,050
Income tax (benefit) / expense	(1,043,122)	3,387,684

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 2018	Charged to profit or loss	Charged to other compre- hensive income	31 December 2018
Deferred tax assets				
Loans and borrowings	609,044	(645,885)	–	(36,841)
Provision for asset retirement and land recultivation obligation	935,870	90,049	44,236	1,070,155
Provision for unused vacation	10,078	(1,504)	–	8,574
Employee benefit liabilities	2,129	176	(173)	2,132
Taxes payables	4,601	(919)	–	3,682
Tax losses carried forward	18,203,643	1,613,097	–	19,816,740
	19,765,365	1,055,014	44,063	20,864,442
Deferred tax liabilities				
Property, plant and equipment and intangible assets	(27,070,713)	18,473	–	(27,052,240)
	(27,070,713)	18,473	–	(27,052,240)
Deferred tax liabilities, net	(7,305,348)	1,073,487	44,063	(6,187,798)

<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 asset retirement and land recultivation obligation	607,846	68,219	259,805	935,870
Provision for unused vacation	9,391	687	–	10,078
Employee benefit liabilities	–	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)
Deferred tax assets / (liabilities), net	357,700	(3,355,701)	(4,307,347)	(7,305,348)

NOTES TO THE FINANCIAL STATEMENTS (continued)**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 KZT 188.38 per 1 US Dollar. As at 31 December 2018 the exchange rate amounted to KZT 384.20 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.

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 1.25. 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 2018.

As of 31 December 2018 the Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Company's tax positions will be sustained, except as provided for or otherwise disclosed in these 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 accounts payable, loans and borrowings. The main purpose of these financial liabilities is to raise funds for the Company's operations. The Company has trade accounts receivable 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**23. FINANCIAL RISK MANAGEMENT (continued)****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 of the trade accounts receivable. 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.

The table below shows the balances of bank accounts and cash and cash equivalents as at 31 December 2018 and 2017 using the "Moody's" credit ratings.

Banks	Location	Ratings		31 December 2018	31 December 2017
		2018	2017		
Halyk bank of Kazakhstan JSC	Kazakhstan	Ba1	Ba1	18,887,262	12,462,585
Industrial and Commercial Bank of China in Almaty JSC	Kazakhstan	A1	A1	15,581,598	7,640,751
Bank of China in Alashankou JSC	China	A1	A1	35,112	44,521
JSC Bank of China in Kazakhstan	Kazakhstan	A1	A1	45	2,758
				34,504,017	20,150,615

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., trade accounts receivable, other financial assets) and projected cash flows from operations.

As of 31 December 2018 and 2017 current liabilities exceeded current assets by KZT 4,741,667 and KZT 18,402,035 thousand, respectively. Current assets of the Company mainly include bank deposits in the amount of KZT 16,995,106 thousand and cash and cash equivalents in the amount of KZT 17,508,911 thousand. Current liabilities mainly include loans and borrowings in the amount of KZT 30,823,721 thousand and trade accounts payable to related parties in the amount of KZT 990,206 thousand, including payables to KazTransOil JSC in the amount of KZT 742,424 thousand. In order to improve liquidity, the Company obtained new refinancing loan with larger term of repayment that led 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 2018 and 2017 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 2018					
Loans and borrowings	36,637,509	35,568,600	128,010,758	43,846,103	244,062,970
Trade and other payables	1,510,701	–	–	–	1,510,701
Total	38,148,210	35,568,600	128,010,758	43,846,103	245,573,671
<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

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 2018				
US Dollars	31,514,282	(209,624,515)	–	(178,110,233)
Chinese Yuan	35,112	–	(250,407)	(215,295)
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)

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 exchange rate	Effect on profit before tax
2018		
US Dollars	+ 14.00%/-10.00%	(24,935,433)/17,811,023
Chinese Yuan	+ 14.00%/-10.00%	(30,141)/21,530
2017		
US Dollars	+10.00%/-10.00%	18,003,521/(18,003,521)
Chinese Yuan	+10.00%/-10.00%	36,383/(36,383)

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 2018 and 2017.

Fair value of financial instruments

The carrying amount of cash, bank deposits, trade and other accounts receivable, trade and other accounts payable and other financial 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.

Changes in liabilities arising from financing activities

Changes in financial liabilities for the year ended 31 December 2018 are as follows:

<i>In thousands of Tenge</i>	As of 1 January 2018	Cash flows	Interest expense	Foreign exchange loss	Withholding tax	As of 31 December 2018
Loans and borrowings	198,884,794	(26,965,630)	11,084,308	27,740,666	(1,119,623)	209,624,515
Total	198,884,794	(26,965,630)	11,084,308	27,740,666	(1,119,623)	209,624,515

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

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

<i>In thousands of Tenge</i>	As of 1 January 2017	Cash flows	Interest expense	Foreign exchange gain	Withholding tax	As of 31 December 2017
Loans and borrowings	228,337,556	(39,091,634)	11,174,126	(932,649)	(602,605)	198,884,794
Total	228,337,556	(39,091,634)	11,174,126	(932,649)	(602,605)	198,884,794