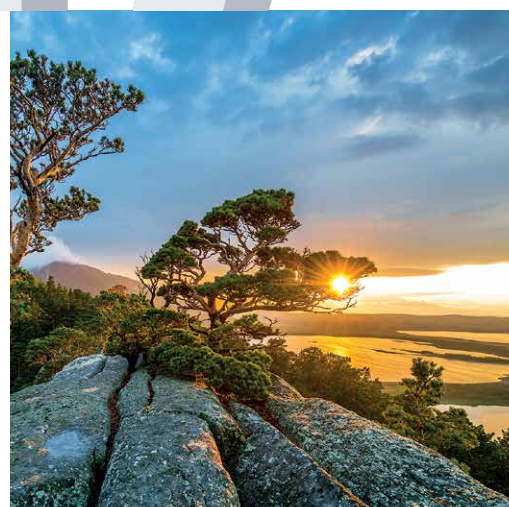
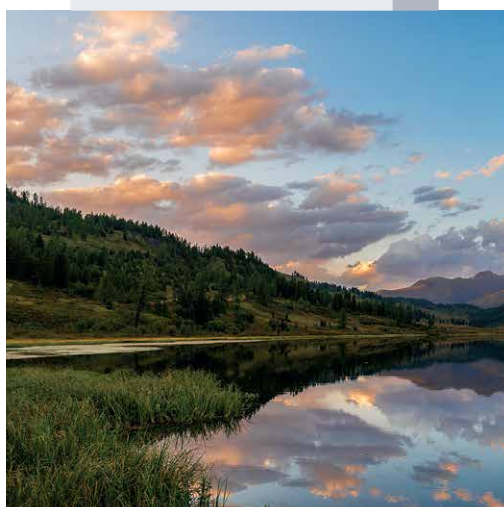




PROUD OF OUR PAST &
CONFIDENT OF OUR FUTURE

2017



ANNUAL REPORT

2017



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MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS



Daniyar Berlibayev

Chairman of the Board of Directors
of KazTransOil JSC

DEAR SHAREHOLDERS, PARTNERS AND COLLEAGUES,

In the reporting year, KazTransOil JSC celebrated its 20th anniversary. During this period, the Company management has done a tremendous job at turning KazTransOil JSC into the country's largest oil transport company.

The Company has acquired a reputation of a reliable partner to large domestic and foreign oil companies that transport oil through its system of main oil pipelines.

Currently, KazTransOil JSC provides transportation to 42% of all oil produced in the country and about 99% of oil supplies to domestic refineries. More than 80 oil companies use the services annually.

In recent years, the Company has achieved significant positive results in many areas of activity, and 2017 was no exception.

Important achievements in the past year were an increase in the transit of Russian oil to the People's Republic of China from 7 to 10 million tons per year and an increase in the transit tariff. Also, in 2017 transit of Russian oil to Uzbekistan begun under the signed Framework Agreement between the Governments of the Republic of Kazakhstan and the Republic of Uzbekistan On Certain Matters of Cooperation in the Energy Sector.

In the reporting year, the reorganization of the management structure of Batumi assets was completed.

In 2017, the Company successfully implemented the measures covered in the KazTransOil JSC Transformation and Business Processes Optimization Program. For example, in the reporting year, the Company's management worked on performance efficiency, reviewed business processes, cut management levels, and approved the new organizational structure of the Company.

For 5 years KazTransOil JSC has been consistently increasing dividend payments to its shareholders. In 2017, the Company paid record high dividend since the IPO; the total amount of dividend payments for the period of 2016 was KZT 59.6 billion.

Being a publically listed company, KazTransOil JSC adheres to high standards in corporate governance exercises the principles and recommendations of the KazTransOil JSC Corporate Governance Code, takes measures to improve the corporate governance system on an annual basis, hereby ensuring the long-term and sustainable development of the Company, and protecting the interests of its shareholders.

I would like to note the active involvement of the Company's Board of Directors in taking key decisions that improve KazTransOil's performance. During the year, the Board of Directors reviewed

130 issues in various areas of the Company's activities, and held 11 face-to-face meetings.

It is safe to say that in 2018, the Board of Directors and the management of KazTransOil JSC will make every effort to further develop and grow the Company's value, as well as continue increasing the Company's transparency in accordance with the best international practice.

A balanced development strategy, high efficiency, competence and employee involvement allow KazTransOil JSC to face the future with confidence and continue a stable path to achieve the set goals and objectives. **102-14**

59.6
billion KZT
the total amount of
dividend payments
for period of 2016

MESSAGE FROM GENERAL DIRECTOR (CHAIRMAN OF MANAGEMENT BOARD)



Dimash Dossanov

KazTransOil JSC General Director
(Chairman of Management Board)

DEAR READERS,

We are glad to welcome you to the pages of the Integrated Annual Report of KazTransOil JSC for 2017.

This reporting year is an anniversary year for KazTransOil JSC, and we can summarize some of the results of the Company's twenty years of operation. First and foremost, I would like to mention that we are surrounded by professionals and an efficient team of likeminded people who are genuinely interested in the development of the Company and in achieving the best performance results. Largely owing to this, we have celebrated our 20th anniversary with significant key events and effective results of the Company's activities.

The key result of the Company's performance in the reporting year was an increase in production and financial indicators. For example, in 2017, the consolidated volume of oil transportation was 58.5 million tons, which is 3.5% higher than in 2016. The consolidated oil turnover increased by 12.1% compared to the indicator of the previous year and amounted to 48.4 billion tons-km. The supply volume of water from the Volga to the Astrakhan-Mangyshlak waterline amounted to 26.2 million m³, which is 4.3% more than in 2016.

The consolidated net profit of the Company increased by 12.6% compared to indicators for 2016 and amounted to KZT 50.1 billion, which was due to the growth of the Company's revenue from its core business.

The Company makes stable payments to its shareholders annually. The total amount of dividends paid in 2017 for 2016 was KZT 59.6 billion, or KZT 155 per one common share.



The key result of our activities in the reporting year was an increase in the transit of Russian oil to the People's Republic of China along the Priirtyshsk-Atasu-Alashankou route from 7 to 10 million tons per year. Now the parties are discussing the matter of increasing transit to 13 million tons per a year.

In accordance with the Framework Agreement between the Government of the Republic of Kazakhstan and the Republic of Uzbekistan on Certain Matters of Cooperation in the Energy Sector, the transportation of Russian oil to Uzbekistan via the Company's system of main oil pipelines started in November 2017. In addition, the matter of transportation of Russian oil to the Kyrgyz Republic is also being considered.

In order to optimize the asset management structure of the Company, in 2017 Batumi Terminals Limited was dissolved, resulting in the Company becoming an owner of Batumi Oil Terminal LLC and Petrotrans Limited.

In September 2017 in Astana, during the International Specialized Exhibition Astana EXPO-2017, on the initiative of the Company the 8th meeting of the International Association of Oil Transporters was held, which was attended by all members of the Association.

In the reporting year, we performed much work on the implementation of the KazTransOil JSC Transformation and Business Processes Optimization Program. We completed extensive work on outsourcing non-core functions of the Company to the competitive environment; thus, the personnel kept their jobs and we gave support to small and medium-sized businesses. Since 2017, we have moved to a two-tier management system. Decisions to close the Main Information Computing Center and the Eastern and Western Branches were made, and Oil Transportation Management was completely centralized to the Main Dispatch Office in Astana. In addition, in 2017, a decision was made to outsource water supply service from the main Company's activities by establishing Main Waterline LLC as a wholly-owned subsidiary of the Company.

The Transformation Program with regard to structure optimization has now been completed; subsequently, we will set new objectives for qualitative improvements of the Company's processes.

Alongside production achievements, a key priority in the Company's activities is to create proper conditions for the occupational health and safety of employees. Due to ongoing systemic work to reduce the level of industrial injuries, the Lost Time Injury Frequency Rate (LTIFR) has dropped fourfold and was the lowest for previous several years. This was made possible by the implementation of comprehensive measures aimed at the protection of health and occupational safety in the workplace. We are committed to ensuring that the entire team of KazTransOil JSC, which numbers over 7,000 employees, strictly follows safety principles in the workplace.

KazTransOil JSC is a socially responsible company, which performs all of its social obligations, and takes active part in the development of the talent pool, improvement of the education system, advanced development of corporate culture, and work with personnel reserves and young specialists.

Under the Program "The 20th Anniversary of KazTransOil JSC – 20 Good Deeds", the following social events of various levels were held by the Company: professional and creative contests, honoring veteran pipeline operators, social and charity campaigns, environmental, cultural and sporting events. The events held in this regard not only covered all categories of the Company's stakeholders, but also contributed to their effective and beneficial interaction.

Having mentioned only a small part of the outcomes achieved in 2017, I would like to express my gratitude to all shareholders and partners for their constructive cooperation, high degree of trust and assistance, and to all the personnel of the Company for their great contribution to the development and strengthening of the Company and for their high level of professionalism and commitment to their work.

I have every confidence that, guided by the principles of responsibility and respect, we will be able to maintain the same successful and dynamic development of the Company for the benefit of an independent Kazakhstan. **102-14**



KEY INDICATORS FOR 2017

Oil transportation and water supply

Consolidated indicators	2017 plan	2017 actual	2016 actual	2015 actual	Change*, %
Transportation volume, thousand tons	59,679	58,538	56,575	61,001	3.5
Oil turnover, million tons-km	46,659	48,360	43,130	45,446	12.1
Volume of water supply, thousand m ³	24,500	26,225	25,133	24,998	4.3

* Hereinafter in the text of the Report, the change, shown by the quantitative indicators, is calculated as the ratio of the actual value for the reporting period to the actual value for the previous year.

Financial indicators

Consolidated indicators	2017 plan	2017 actual	2016 actual	2015 actual	Change, %
Revenue, KZT million	212,192	222,450	207,108	213,162	7.4
EBITDA*, KZT million	91,331	108,796	102,467	110,234	6.2
Cost of sales, KZT million	155,925	146,599	129,862	124,064	12.9
Net profit for the year, KZT million	36,037	50,118	44,528	44,713	12.6

* The indicator is calculated in accordance with the Regulations for development, coordination, approval, adjustment, execution and monitoring of the implementation of the Development Plans for the subsidiaries of Samruk-Kazyna JSC.

Non-financial performance indicators

Indicators separately for the Company	2017 plan	2017 actual	2016 actual	2015 actual	Change, %
Personnel headcount	-	7,152	7,914	8,129	-9.6
Total number of accidents related to production	-	3	2	5	50.0
Pollutant emission, tons	-	31,100	27,760	25,403	12.0
Payments for emissions, KZT thousand	-	87,855	77,994	70,782	12.6
Energy output of oil, TOE /thousand tons	-	4.67	5.49	5.71	14.9
The share of local content in the total volume of purchases of goods, works and services, %	55	68	61.2	60	11.1

MAIN PIPELINES OF KAZTRANSOIL JSC



Administrative centers

POPS (Principal oil pump stations)

OPS (Oil pumping station)

OIL loading/unloading overpasses

WPS (Water pumping stations)

WTF (Water treatment facility)

HPT (Head treatment plants)

Other (OHS, ADP etc.)

Acting main water pipelines

Acting main oil pipelines

Acting main oil pipelines, consisting of two or more threads.

DEVELOPMENT HISTORY

1997

To meet the interests of the Republic of Kazakhstan in the field of oil transportation, export and import of oil and oil products, National Oil Transportation Company KazTransOil Closed Joint Stock Company (NOTC KazTransOil CJSC) was created by the Decree of the Government of the Republic of Kazakhstan dated April 2, 1997, No. 461, with 100% of the State participation.

1998

In December, the Company was included into the Republic Section of the State Register of Natural Monopolies in respect of several provided services, related to the scope of natural monopolies, including oil transportation via main oil pipelines, and water supply services via main water pipelines.

2001

The State-owned shares of NOTC KazTransOil CJSC (renamed to KazTransOil CJSC) were transferred to the Charter Capital of the NC Transport of Oil and Gas CJSC, created in accordance with the Decree of the Government of the Republic of Kazakhstan dated May 2, 2001 No. 591.

2002

By the decree of the President of the Republic of Kazakhstan dated February 20, 2002, No.811 on the basis of closed joint stock companies, National Oil and Gas Company Kazakhoil and National Company Transport of Oil and Gas, reorganized by means of merger, the National Company KazMunayGas Closed Joint Stock Company was created and became the sole shareholder of KazTransOil CJSC.

2003

In June, the Kenkiyak-Atyrau main pipeline was commissioned.

2004

In May, KazTransOil CJSC was renamed to KazTransOil JSC. **102-1, 102-5**

In July, the Company received stake from NC KazMunayGas JSC in the amount of 51% of shares of MunaiTas NWPC JSC.

The Company and CNODC established KCP LLP on a parity basis.

2006

In July KCP LLP put into operation the Atasu – Alashankou main pipeline.

In addition, in July, the Company put into operation the Northern Buzachi – Karazhanbas oil pipeline with a length of 25 km and a rated capacity of 3.5 million tons per year.

2007

In January, the Company acquired a 50% share in the Batumi Capital Partners Limited company. As a result, the Company acquired the assets of Batumi Oil Terminal LLC and the exclusive right for the Batumi Sea Port LLC management for 49 years.

2008

In February, the Company acquired 100% share of the Batumi Industrial Holdings Limited company.

2009-2011

In September 2009, KCP LLP put into operation the Kenkiyak-Kumkol pipeline.

In June 2011 the Company received from NC KazMunayGas JSC the Kazakh section of the TON-2 main oil pipeline as payment for the placed shares of the Company for a total amount of KZT 1,700 million.



2012

In September, under the sales contract, the Company sold 100% of shares of KazTransOil – Service JSC to KazMunayGas – Service LLC.

In accordance with the decree of the Government of the Republic of Kazakhstan dated October 8, 2012 No.1273 the Company was appointed as the national operator of the main oil pipeline.

In December 2012, the Kazakhstan Stock Exchange started trading the Company's common shares on the secondary market. Thus, the Company became the first company in Kazakhstan which placed its shares under the People's IPO program. During the subscription, the Company's common shares were acquired by 10 pension funds and 33,989 citizens of the Republic of Kazakhstan. The number of applications was 2.1 times higher than the volume of placement.

2013

In December, the process of restructuring was completed in the companies Batumi Industrial Holdings Limited, Batumi Capital Partners Limited and Batumi Services Limited by their merger with the company Batumi Terminals Limited (BTL). As a result of the reorganization, the Company became the owner of 100% shares in the company Batumi Terminals Limited (Cyprus), which provides direct ownership and management of the production assets in Georgia – Batumi Oil Terminal and Batumi Sea Port.

On December 25, 2013, the merger process was completed for the companies Batumi Oil Base LLC and Batumi Oil Terminal LLC.

2014

In January, the Company began transporting Russian oil through the territory of the Republic of Kazakhstan to the PRC in the amount of up to 7 million tons per year.

In August, within the framework of non-core assets restructuring, the Company sold 0.88% of shares of the Accumulative Pension Fund of Halyk Bank of Kazakhstan JSC.

2015

In May, according to amendments in the Law of the Republic of Kazakhstan "On natural monopolies" services on oil transportation in transit through the territory of the Republic of Kazakhstan and export outside the Republic of Kazakhstan were excluded from the sphere of natural monopolies.

In September, the Company became a member of the International Association of Oil Transporters.

2016

In August, according to the completed overhaul of 185.6 km-long Kazakh section of TON-2 main oil pipeline with the full replacement of the pipeline, the capacity increased from 7.0 to 11.0 million tons of oil per year.

In October, KazTransOil JSC began receiving oil from Kashagan field into its main oil pipeline network.

In December, "663 km" OPS (OPS named after N.Shmanov) was put into operation.

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KEY EVENTS IN 2017

FEBRUARY

Awarding certificates

KazTransOil Joint Stock Company (KazTransOil JSC or Company) was successfully audited for compliance with the requirements of international standards ISO 9001, ISO 14001, OHSAS 18001, ISO 50001 and was certified in advance for conformity with new versions of the international standards ISO 9001:2015 and ISO 14001:2015.

MARCH

Tariff regulation

Cost of the Russian oil transportation in quantities up to 10 million tons per a year along the route from the Republic of Kazakhstan to the People's Republic of China (PRC) was approved for the period 2017-2018 by the Order No.80 of the Minister of Energy of the Republic of Kazakhstan dated March 1, 2017 in the amount of \$11.36 for 1 ton without VAT.

Kazakhstan-China Pipeline

100 million tons of oil have been transported via Alashankou delivery and acceptance point of the Atasu-Alashankou main oil pipeline since oil pipeline commissioning.

Petrotrans Limited

As a result of «Batumi Terminals Limited» liquidation process KazTransOil JSC became the owner of 100% Petrotrans Limited shares.

MAY

Annual General Meeting

The Annual General Meeting of KazTransOil JSC shareholders devoted to the consideration of 2016 performance was held in Astana.

Branch closing

The Board of Directors of the Company decided to close the branch "Main Information and Computing Center" (MICC).

JUNE

Dividends

According to the 2016 outcomes the Company paid dividends on common shares in the amount of KZT 59.6 billion. The dividend rate per one common share of KazTransOil JSC was KZT 155.

Batumi Terminals Limited

The subsidiary company, Batumi Terminals Limited (Cyprus) was voluntarily dissolved by KazTransOil JSC to optimize the structure of assets management.

AUGUST

Credit rating

The international rating agency Moody's Investors Service confirmed the Company's rating at Baa3 having changed previous outlook from "negative" to "stable".

Batumi Oil Terminal LLC

The Company has become an owner of Batumi Oil Terminal LLC as a result of dissolution of Batumi Terminals Limited.



SEPTEMBER

International cooperation

VIII meeting of the International Association of Oil Transporters was held in Astana. The members of meeting - executives of the largest oil transportation companies of Kazakhstan, Belarus, Hungary, China, Russia, Slovakia, Ukraine and Czech Republic discussed issues of the economic cooperation and agreed activity plan for 2018.

Anniversary stamp "20 Years of KazTransOil JSC"

The anniversary stamp "20 Years of KazTransOil JSC" was officially presented within the framework of the XI Eurasian Energy Forum.

Credit rating

The international rating agency "Standard & Poor's Global Ratings" confirmed the Company's credit rating at "BB" with a "negative" outlook.

OCTOBER

First Youth Forum of Oil Managers

KazTransOil JSC Young Specialists Council organized their first 'Youth Forum' in Almaty.

NOVEMBER

Status of process oil in the main oil pipelines

The Government of the Republic of Kazakhstan and the Russian Federation signed the agreement on the determination of the process oil status in the "Tuimazy-Omsk-Novosibirsk-2" and "Omsk-Pavlodar" main oil pipelines.

Memorandum of cooperation

KazTransOil JSC and Transneft PJSC signed a Memorandum on Cooperation. The subject of the Memorandum is cooperation in the field of possible supply of pumps and pumping equipment, electric drives, devices for the bottom sediment wash out, electric motors and other equipment produced at the Transneft PJSC plants and central production support bases.

Tariff regulation

By the order No.186 dated November 10, 2017 the General Director (Chairman of the Management Board) of KazTransOil JSC approved tariffs and services cost of the Russian oil transportation for transit purposes via the territory of the Republic of Kazakhstan to the Republic of Uzbekistan for the period until December 31, 2017.

Pumping of Russian oil in the direction of Uzbekistan

The Russian oil entered the system of KazTransOil JSC main oil pipelines on route Omsk-Pavlodar-Shymkent - via the oil loading platform Shagyr (filling in the railway tank).

Credit rating

The international rating agency "Standard&Poor's Global Ratings" has downgraded the long-term corporate credit rating of KazTransOil JSC from BB to BB- with a stable outlook.

DECEMBER

Oil pipelines management

A project on centralizing dispatch management of oil transportation through the company's oil pipelines has been successfully completed by transferring dispatch functions to the Main Dispatch Office in Astana city.

Tariff rating

The Acting General Director (Chairman of the Management Board) of KazTransOil JSC issued an order No.223 dated December 22, 2017 on approval of tariffs and services cost of the Russian oil transportation for transit purposes via the Republic of Kazakhstan to the Republic of Uzbekistan.

Main Waterline LLP

Main Waterline Limited Liability Partnership was registered on December 28, 2017 with 100% equity share of the Company.



1. ABOUT THE COMPANY



5,377 km

Length of main pipeline

1,950 km

Length of
water main
pipelines

7,152 employees

Headcount



Freedom and greatness.
Magnitude and large-scale business.



1.1. BUSINESS MODEL

CAPITAL

MAIN PROCESSES

RESULTS OF OPERATION

FINANCIAL

KZT 61,937.5 million
Share capital
(own shares purchased from
shareholders – KZT 9.5 million)

KZT 278,922.6 million
Retained earnings

NATURAL

29,076 thousand m³
Volume of water intake

130,799 TOE
Natural gas
consumption

PRODUCTION

5,377.3 km
Length of main pipeline

1,950.1 km
Length of water
main pipelines

**36 oil pumping
stations**

**5 water pumping
stations**

HUMAN

7,152 employees
Headcount

59 people
Talent pool

- Operation of Western Branch training center

INTELLECTUAL

Operation of:

- STC Branch
- Operation of the integrated management system

SOCIAL AND REPUTATIONAL

- List of stakeholders – 9 key groups
- Corporate Governance Code, Corporate Ethics Code of KazTransOil JSC
- Active Hotline presence

EXTERNAL ENVIRONMENT

OIL TRANSPORTATION

- Provision of services for oil transportation via main pipelines;
- Organization of transportation of Kazakh oil via the pipeline systems of other countries
- Transshipment and storage of hydrocarbons via the Batumi Oil Terminal and transshipment at the Batumi Sea Port

WATER SUPPLY

Water supply services via main pipelines

OPERATOR SERVICES

Operation and maintenance
of main oil pipelines owned
by third parties

IMPROVEMENT OF
MANAGEMENT
EFFICIENCY

- Cost optimization and business processes transformation
- SJCE management
- Management of production assets
- Corporate governance
- Sustainable development


 KazTransOil

STAKEHOLDERS

BUSINESS MODEL

KZT 222,450 million
Revenues

KZT 59,617 million
Dividends for 2016

KZT 50,118 million
Total profit

KZT 15,824 million
Income tax expenses

31,100 tons
emissions of pollutants
into the atmosphere

11,037 thousand tons
wastes

918 thousand m³
wastewater discharges

4.9%
reduction of energy
consumption

85 contracts
for oil transportation

KZT 10,599 million
Revenue from
operator services

183 contracts
for water supply via
main pipeline

68%
share of local content

681
training sessions
and development
programs

0
production – related
deaths

KZT 395 million
training and education
cost

0,39
Accidents frequency
rate per 1,000 people

- Implementation of Innovative and Technological Development Program for 2017-2021
- Certification in compliance with the requirements of ISO 9001, ISO 14001, OHSAS 18001, ISO 50001
- 98% employees passed testing in IMS

64%
Employee
involvement index

12
Number of hotline
inquiries

The Company's customers in oil transportation services are the oil companies of the Republic of Kazakhstan, Russian Federation and Republic of Uzbekistan and Kyrgyzstan, with whom the Company has signed 85 oil transportation contracts.

Oil transportation and transshipment via the main pipeline is provided by 36 oil pumping stations, 67 oil preheating furnaces, oil storage tank farm with the total storage volume of 1,351 thousand m³. Oil transshipment to other transportation modes is provided by 4 loading/unloading railway overpasses, appropriate equipment for loading oil into tankers installed on the berths of the marine oil terminal in Aktau port.

Also, the Company provides water supply services via the main pipelines to oil and gas producers, industrial and utility companies, as well as agricultural producers of Atyrau and Mangystau regions, all amounting to 183 contracts with 23 oil and gas producers and 41 industrial enterprises, 20 utility companies, public organizations, and 99 agriculture producers.

Water supply is provided by the 1st and 2nd water-lifting pumping stations of Kigach LOCS, water pumping stations of WPS-8 (Kulsary), WPS Karazhanbas, WPS 667 and waste-water treatment facility of Kulsary WTF, as well as water storage tanks with a total capacity of 136 thousand m³.

The Company provides services for production, transmission and distribution of thermal power and transmission of electrical power. Today, the Company has signed 83 contracts for electrical power transmission and 12 contracts for production, transmission and distribution of thermal power.

The Company also provides operation and maintenance services for the oil pipelines owned by KCP LLP, MunaiTas NWPC JSC, Karachaganak Petroleum Operating B. V. and Turgai Petroleum JSC. **102-2**



PRODUCTION CAPACITIES OF THE COMPANY IN 2017



1.2. COMPANY'S DEVELOPMENT STRATEGY UP TO 2025

MISSION, VISION, AND VALUES

Mission:

To ensure maximum benefits for KazTransOil JSC shareholders by providing high quality, timely, efficient, safe and competitive services of oil transportation through the main oil pipelines while providing equal conditions of access to the consumers of the services of the Company.

Vision:

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

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

Corporate values

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

Occupational health and safety.

The Company strives to ensure an accident-free mode of operation at its production facilities, creates and maintains safe working conditions and cares about the health of its employees. In its work, the Company seeks to prevent environmental pollution, use energy and natural resources in a responsible manner.

Efficiency. The Company is aware of its responsibility to the state, shareholders, employees and society. In this regard, profitability, efficiency, and achievement of high results are

undeniably valuable. The stable and sustainable functioning of the Company is ensured through continuous improvements of business processes, cost optimization, equipment upgrading and production investment.

Sustainable development. The Company is committed to ensuring the proper and high-quality implementation of the sustainable development principles set out in the Corporate Governance Code. In its work, the Company strives to prevent environmental pollution and to ensure the economical and rational use of energy and natural resources.

Professionalism. With regards to its employees, whilst the Company values knowledge of the Company's specifics, timely and high-quality execution of tasks. It also strives to ensure continuous improvement of professional knowledge and skills of its employees.

Mutual assistance and teamwork. The Company is aware that achieving high performance is possible through well-coordinated work throughout the Company. Work in the Company is based on trust, mutual assistance, accountability and the joint collaboration and implementation of goals and objectives.



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

In December 2016, the Board of Directors approved the Development Strategy of KazTransOil JSC up to 2025 (hereinafter – the Development Strategy), which aims to increase the market value (capitalization) of the Company and ensure compliance with the strategic interests of the state in the field of oil transportation through the main oil pipeline. The Development Strategy was created in accordance with the recommendations of NC KazMunayGas JSC and changes in the internal and external environment in 2015–2016 which had a significant impact on the operations of the Company.

In 2017, the Company continued to pursue the goals and objectives of the Development Strategy by remodeling the organization structure and undergoing a large transformation.





Strategic development directions of KazTransOil JSC up to 2025

Strategic directions	Targets within strategic directions	Strategic initiatives up to 2025	Main activities planned for 2017 and their performance	Main activities planned in 2018
 Oil transportation	<ul style="list-style-type: none"> Ensuring quality, reliable, uninterrupted and efficient oil transportation. Increase in oil transportation and turnover volumes by attracting new oil shippers. 	<ul style="list-style-type: none"> Increase of oil turnover (>50 billion tons-km to 2025). Attraction of additional volume from Tengiz, Kashagan and Karachaganak fields for transportation of oil via Atyrau-Samara pipeline. Reverse and expansion of the Kenkiyak-Atyrau pipeline, increase of the Kazakhstan-China pipeline's capacity. Ensuring a more flexible and effective tariff policy, which considers the dynamics of industry development and investment needs of the Company. 	<p>Completed</p> <ul style="list-style-type: none"> Supply of Kazakh light oil via the Atyrau-Samara pipeline for further transportation mixed with low-sulfur Siberian light oil for transshipment at Novorossiysk port. <p>In 2017, the volume of such supplies amounted to 800 thousand tons</p> <p>Pending</p> <ul style="list-style-type: none"> Completion of the Kenkiyak POPS construction <p>Due to results received from the Republican State Enterprise "State expertise", amendments were introduced into the design and estimate documentation (DED) resulting in delivery time being postponed to 30 June 2018.</p> <p>Completed</p> <ul style="list-style-type: none"> Review of implementation issues of 1st stage of reverse project of Kenkiyak-Atyrau pipeline section with an increase in capacity in reverse mode to 6 million tons per year. <p>The project's DED was updated.</p> <p>Completed</p> <ul style="list-style-type: none"> Reconstruction of the Karazhanbas – Aktau section of Kalamkas – Karazhanbas – Aktau main oil pipeline. <p>The facility was commissioned in December 2017.</p>	<ul style="list-style-type: none"> Ensuring implementation of the planned volume of oil transportation and turnover for 2018: <ul style="list-style-type: none"> consolidated volume of oil transportation – 57,329 thousand tons (separately for Company – 44,911 thousand tons); consolidated volume of freight turnover – 45,391 million tons-km (separately for Company – 37,514 million tons-km). Continuing to pump "light" oil separately via Atyrau-Samara pipeline for further transportation mixed with low-sulfur Siberian light oil with transshipment at the Novorossiysk port. Redirection of supply of own resources by light oil producers from CPC pipeline to Atyrau-Samara direction up to 1.0 million tons. Joint work with concerned participants on increase in transit transportation of the Russian oil via the system of main pipelines through the territory of the Republic of Kazakhstan to PRC up to 13 million tons a year, as well as to the Republic of Kazakhstan and Kyrgyz Republic. Commissioning of Kenkiyak POPS. Approval of 2018 tariffs and costs for transit transportation of Russian oil through the Republic of Kazakhstan into the Republic of Uzbekistan and Kyrgyz Republic.
 Water supply	<ul style="list-style-type: none"> Improving the efficiency of water supply and developing the existing system of main water pipelines if there is an economic efficiency. 	<ul style="list-style-type: none"> Increase of main pipeline capacity; Increase of water supply profitability (setting investment tariffs, use of public grants, other measures). 	<p>Completed</p> <ul style="list-style-type: none"> The implementation of measures for the establishment of a limited liability company with 100% of Company participation for outsourcing the services of water supply through the main pipeline from the main activities of the Company. <p>Main Waterline LLC was registered in December 2017.</p> <p>Pending</p> <ul style="list-style-type: none"> Completion of the project of WPS-5 reconstruction to increase the water supply via the Astrakhan-Mangyshlak water pipeline. <p>Project implementation is postponed to 30 June 2018.</p>	<ul style="list-style-type: none"> Completion of WPS-5 reconstruction project to increase the water supply via the Astrakhan-Mangyshlak water pipeline.



Strategic development directions of KazTransOil JSC up to 2025 (continued)

Strategic directions	Targets within strategic directions	Strategic initiatives up to 2025	Main activities planned for 2017 and their performance	Main activities planned in 2018
 Operator services	<ul style="list-style-type: none"> The increase of revenues from operation and maintenance of main pipelines owned by third parties. 	<ul style="list-style-type: none"> Improving performance and increasing competitiveness of equipment maintenance and repair with the purpose of extending the scope of operator services. 	<p>Completed</p> <ul style="list-style-type: none"> Participation in tender for provision of maintenance, repair and emergency response services for CPC oil pipeline facilities on the territory of the Republic of Kazakhstan in 2018-2022. <p>In 2017, the Company was awarded with the above mentioned contract</p>	<ul style="list-style-type: none"> Conclusion of long-term contract for operation and maintenance of Karachaganak-Atyrau transportation system. The maintenance, repair and emergency response services for CPC oil pipeline facilities on the territory of the Republic of Kazakhstan in 2018-2022.
 Improving management efficiency	<ul style="list-style-type: none"> Increase in Company market value and provision of competitive services considering the interests of the state and shareholders. 			
Cost optimization and business processes transformation	<ul style="list-style-type: none"> Measures for optimization, improvement and increases of business processes performance and cost optimization. 	<ul style="list-style-type: none"> Implementation of measures under the KazTransOil JSC Cost Management Program for 2017-2021 (Cost Management Program). Implementation of KazTransOil JSC transformation and business processes optimization Program. 	<p>Completed</p> <ul style="list-style-type: none"> Implementation of Cost Management Program measures scheduled for 2017. <p>The result of curbing cost escalation under the Cost Management Program constituted KZT 4.0 billion.</p> <p>Completed</p> <ul style="list-style-type: none"> Implementation of Action Plan on operation optimization and performance improvement for 2017. 	<ul style="list-style-type: none"> Implementation of Action Plan on KazTransOil JSC operation optimization and performance improvement for 2018. Separation of core and auxiliary production.
Corporate governance	<ul style="list-style-type: none"> Improvement of Corporate Governance system and adherence to world's best practice 	<ul style="list-style-type: none"> Ensuring a high level of corporate governance; Maintaining stable dividend payments; Improving measures on countering corruption and settlement of conflict of interests. 	<p>Completed</p> <ul style="list-style-type: none"> Compliance assurance with international IMS standards ISO 9001:2015, ISO 14001:2015, OHSAS 18001:2007, ISO 50001:2011. <p>Completed</p> <ul style="list-style-type: none"> Independent evaluation of Board of Directors performance and its Committees in 2016 with the participation of independent external consultants. <p>Completed</p> <ul style="list-style-type: none"> Updating internal Company documents in accordance with the approved Corporate Governance Code. <p>Completed</p> <ul style="list-style-type: none"> Adoption of KazTransOil JSC anti-corruption standards. <p>Completed</p> <ul style="list-style-type: none"> Organizing the 8th meeting of the International Association of Oil Transporters in Astana. 	<ul style="list-style-type: none"> Compliance assurance with international IMS standards ISO 9001:2015, ISO 14001:2015, OHSAS 18001:2007, ISO 50001:2011. Independent assessment of Board of Directors performance and its Committees for 2017 with the participation of independent external consultants. Update and modification of internal Company documents due to switching to two-tier Company management system. Participation in meetings of associations, expert groups, exhibitions and other events, as well as engagement on other issues. Increasing the efficiency of anti-corruption efforts within the Company. Approval the Regulations of anti-corruption monitoring and internal analysis of corruption risks in KazTransOil JSC.



Strategic development directions of KazTransOil JSC up to 2025 (continued)

Strategic directions	Targets within strategic directions	Strategic initiatives up to 2025	Main activities planned for 2017 and their performance	Main activities planned in 2018
Asset management	<ul style="list-style-type: none"> Ensuring the effectiveness efficiency and improving Company asset management 	<ul style="list-style-type: none"> Improving the asset management system, including the Company and SJCE assets. 	<p>Completed</p> <ul style="list-style-type: none"> Completion of the Batumi Terminals Limited (BTL) liquidation. <p>In June 2017, BTL was voluntary dissolved.</p>	<ul style="list-style-type: none"> Reorganization of MunaiTas NWPC JSC into MunaiTas LLP.
Sustainable development	<ul style="list-style-type: none"> Business development, environment preservation and protection, creation of favorable working conditions, ensuring safety in the workplace and contribution to the development of local communities where the Company operates. 	<ul style="list-style-type: none"> Development of energy-saving systems and improvement of energy efficiency. Reduction of industrial injuries. Reducing the negative impact on the environment. Improvement of the personnel assessment system through development of key performance indicators. 	<p>Partially completed</p> <ul style="list-style-type: none"> Implementation of the KazTransOil JSC Action Plan on energy saving and energy efficiency for 2016–2019 – achieved 378 TOE volume reduction of fuel and energy consumption, equivalent to KZT 39.76 million. <p>Achieved 212.1 TOE volume reduction of fuel and energy resources consumption of, equivalent to KZT 27.1 million.</p> <p>Completed</p> <ul style="list-style-type: none"> Monitoring of behavioral safety – the goal is at least 6,000 observations. <p>12,477 behavioral safety observations were made in 2017.</p> <p>Completed</p> <ul style="list-style-type: none"> Commissioning of vapor recovery unit at OPS named after N.Shmanov. <p>Completed</p> <ul style="list-style-type: none"> Creation of the register of significant environmental aspects. <p>Partially completed</p> <ul style="list-style-type: none"> Implementation of job assessment system (grading). <p>The carried out job assessment was based on the analysis of the operating model. The implementation of job assessment system has been postponed.</p>	<ul style="list-style-type: none"> Implementation of the KazTransOil JSC Action Plan on energy saving and energy efficiency for 2016–2019 – achieved 703.93 tons volume reduction of fuel and energy consumption, equivalent to KZT 64.8 million in 2018. Development of the standard on “Unified management system for Occupational Health and Safety of KazTransOil JSC and Code of leadership and commitment to the Occupational Health and Safety, Environmental Protection of KazTransOil JSC”. Establishment and organizing a crisis management team. Development new concepts of KazTransOil JSC reserve personnel Program. Development of KazTransOil JSC Rules of payroll system for production staff. Implementation of assessment of managers in structural units and separate subdivisions of the Company within the approved framework of personal (business) competencies and 360-degree assessment.



KEY PERFORMANCE INDICATORS OF THE COMPANY

In order to monitor the implementation of strategic goals and objectives, the Company has introduced a system for defining and monitoring key performance indicators (KPIs).

The corporate KPI system provides for:

- focus on implementation of the Development Strategy and Business Plan of the Company for a 5-year period;
- focus on ensuring the safe and trouble-free performance of the Company;
- focus on the constant improvement of the financial and production results of the Company's performance;
- cascading and decomposition of performance indicators according to the "top-down" principle.

The Company's KPI system includes:

- KPIs of the Company (Corporate KPIs);

- KPIs of executives (members of the Management Board);
- KPIs of managers;
- KPIs of the heads of departments and services of the Central Office and the heads of branches and agencies.

Corporate KPIs and KPIs of executives are approved by the Company's Board of Directors. The remaining KPIs are approved by the Management Board of the Company.

Implementation of corporate and executive KPIs is monitored based on the results of 6 and 9 months of the reporting period. Actual KPI values of all levels are calculated after the end of the reporting year.

On February 1, 2017 the Company's Board of Directors approved the corporate KPIs and their target values, which provide for financial and economic indicators and production indicators of the Company's performance and indicators in the field of occupational health and safety. By the end of 2017, all corporate KPIs had been fulfilled.

Implementation of the corporate KPIs of KazTransOil JSC for 2017

KPI	Unit of measurement	Actual 2017	Target for 2017
Return on average capital employed during the period (ROACE)	%	8.4%	7.0%
Unit cost of oil transportation (separately for KazTransOil JSC)	KZT thousand / million tons-km	1,625	1,860
Oil turnover (consolidated) *	million tons-km	49,254	42,520
Lost time injury rate per million man-hours (LTIR)* (separately for KazTransOil JSC)	%	76 %	15%

* Taking into account the undeclared and/or undelivered minimum volume.

In order to improve the effectiveness of the consolidated indicators of the Company's performance in 2017, the KPI system was introduced at SJCEs of the Company. The relevant Rules for Performance Assessment of KCP LLP, MunaiTas NWPC JSC and Batumi Oil Terminal were approved.

In accordance with the Company's Business Plan indicators for 2018–2022 and the approved NC KazMunayGas JSC corporate KPIs for 2018, as well as pursuant to the recommendations of NC KazMunayGas JSC on the introduction of the new KPI named "Productive operation ratio for main



Corporate KPIs of KazTransOil JSC for 2018

KPI	Unit of measurement	Target
Economic value added (EVA) (consolidated)	KZT million	-39,368
Available funds for development and dividends	KZT million	40,420
Oil turnover (consolidated)	million tons-km	45,845
Lost time injury rate per million man-hours (LTIR)* (separately for KazTransOil JSC)	number/million man-hours	0.23
Productive operation ratio for main oil transportation	ratio	0.56

oil transportation" into the list of Company's corporate KPIs, on February 23, 2018 the KazTransOil JSC Board of Directors approved the corporate KPIs and their target values for 2018.

In 2018, the Company plans to expand the KPI system by including employees of the Central Office and managers of oil pipeline departments and other industrial structural units in its perimeter. This is due to the fact that the process of reorganizing the management structure and transitioning to a 2-tier management system has essentially been completed, in connection with which the responsibility of the personnel of the Central Office will increase and the need to involve the heads of the oil pipeline departments in the KPI system will arise.

TRANSFORMATION AND BUSINESS PROCESSES OPTIMIZATION OF THE COMPANY

According to the Development Strategy, one of the main strategic areas for the Company's development is improving the effectiveness of management.

For the purposes of implementing the planned measures, the Company approved the following documents in 2017:

- KazTransOil JSC Transformation and Business Process Optimization Program;
- Action Plan for optimizing the performance and improving the effectiveness of KazTransOil JSC for 2017.

The key goal is to improve the effectiveness of business processes and consequently to increase the market value of the Company.

To evaluate the effect from the implementation of transformation projects, all projects were conditionally divided into 2 categories:

- Quick wins;
- Sustainable transformation projects.

Quick wins include measures for outsourcing of non-core activities and optimization of IT functions, as well as optimization of inventory logistics and warehouses of the Company.

Sustainable transformation projects include the reorganization of the Company's management structure, including reduction of management levels, separation of core and auxiliary production, centralized management of the main oil pipelines and outsourcing of water supply.

Thus, in 2017, the Company's management worked on improving performance, business processes were revised, management levels were reduced, and the new organizational structure of the Company was approved.

In 2018, there are plans to complete measures for optimizing inventory logistics and reorganizing the management structure, and also to continue improving performance and optimizing the Company's business processes.

Furthermore, in February 2018, the Company started the procedure for the division of main and auxiliary production, which will improve the efficiency of equipment operation and staff work, including through the creation of a "customer-contractor" mechanism based on internal regulations and the division of responsibilities between main and auxiliary production units.



TRANSFORMATION PROJECTS

QUICK WINS

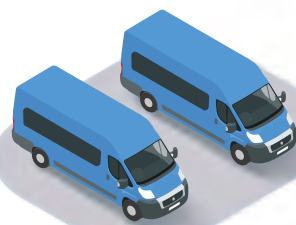
February - September
2017
Outsourcing of support personnel (catering and cleaning services)



Elimination of the non-core functions of catering and cleaning of facilities and adjusting territory. Contracts for catering and cleaning services were concluded with external contractors.

The reduction of headcount amounted to 450 people. The released employees were hired by contracting entities.

February - June
2017
Outsourcing of the function of transportation of the Company's personnel



The functions associated with personnel transportation were eliminated at the Central Office and STC, as well as at Karaganda and Shymkent oil pipeline departments of the Company.

The reduction of headcount amounted to 61 people. The released employees were hired by contracting entities.

In January 2018, this work was completed along all structural units. 92 people were released.

January - July
2017
Optimization of IT functions



The MICC Branch was liquidated.

Part of IT functions were outsourced. IT Service Agreements were concluded with contractors.

The reduction of headcount amounted to 61 people.

July - December
2017 - 2018
Optimization of the logistics of inventory assets



This project is aimed at removing little-used bases of production-technical services and marketing (BPTS&M) from the Company's asset structure.

A positive effect is expected as a result of focusing on core business and staff optimization, as well as the sale of BPTS&Ms in Atyrau and Pavlodar.

SUSTAINABLE TRANSFORMATION

May - December
2017
Transfer of the trunk pipeline directorate to the Main Dispatch Office in Astana



Implementation of this initiative made it possible to centralize the dispatch management of oil transportation in Astana and manage oil flows in 11 regions of Kazakhstan.

July - June
2017 - 2018
Reduction of management levels



Under this project, the management system is to transition from a 3-tier to a 2-tier management system by closing the Western and Eastern Branches of the Company.

Reduction of management levels was actually completed at the end of 2017, and the Central Office has been interacting with oil pipeline departments directly since the beginning of 2018.

The headcount was reduced by 135, and 45 positions were out-staffed.

April - May
2017 - 2018
Outsourcing the function of water supply to a Limited Liability Partnership that is a wholly-owned subsidiary of the Company



The project is aimed at implementation of the Development Strategy in terms of improving the profitability of water supply.

Implementation of this project will make it possible to eliminate low-margin activities.

In December 2017, Main Water Line LLP was registered as a wholly-owned subsidiary of the Company.



1.3. ORGANIZATIONAL STRUCTURE

The Company's existing organizational structure allows managing and monitoring production processes in the entire chain of oil transportation via the main pipelines, the length of which is 5,377.3 km.

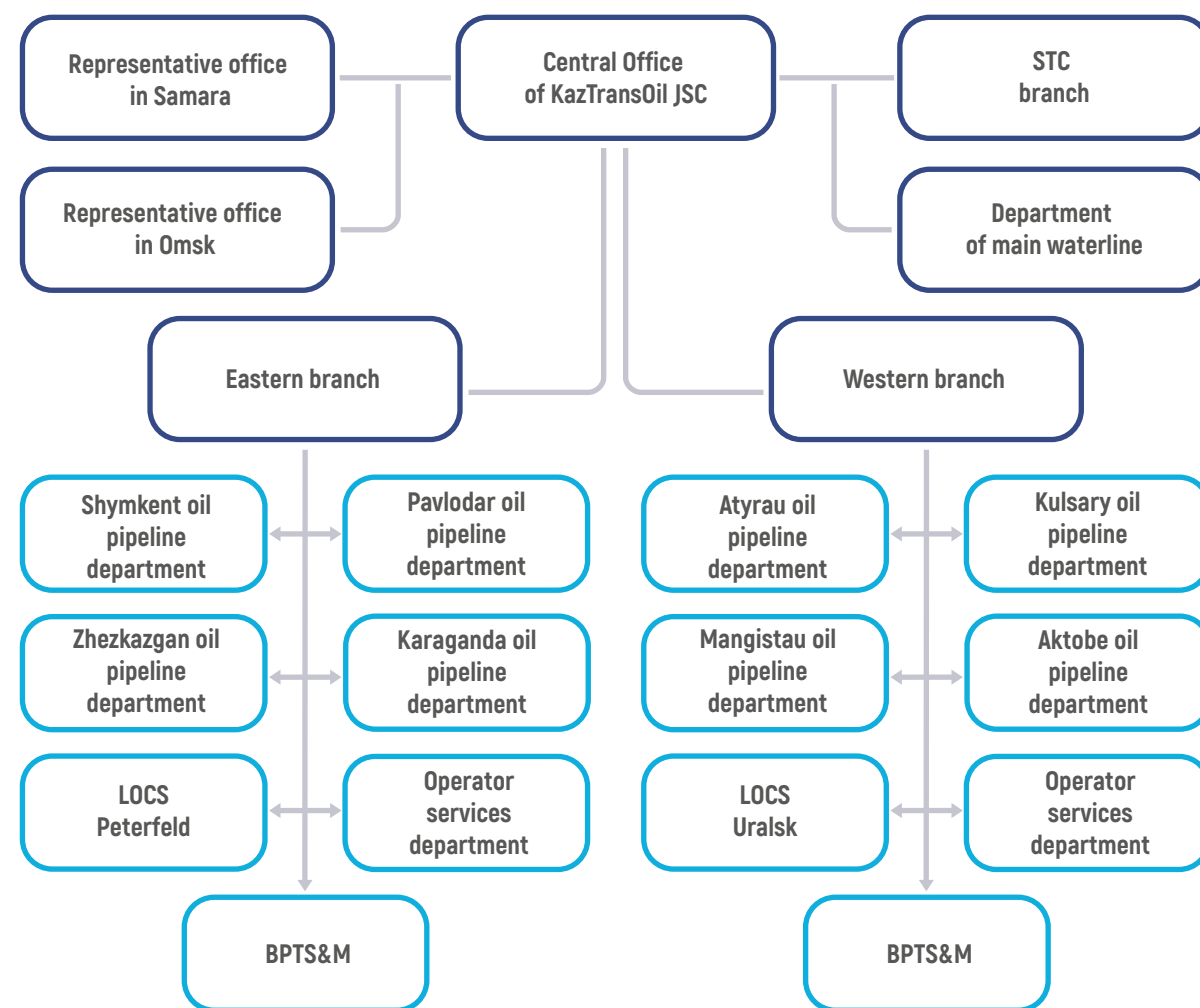
As for December 31, 2017 the Company had three branches – Western, Eastern branches and the branch "Scientific-Technical Center", as well as

Department of main waterline. In May 2017 the Board of Directors resolved to close the branch "Main Information and Computing Center".

Furthermore, the Company has two representative offices in the Russian Federation in Samara and Omsk. **102-3**

In the reporting period the Company had three-tier management system with linear structural units at a level "Central Office-production branches-oil pipeline departments", which led to duplication of certain production processes.

The Company's structure as of December 31, 2017

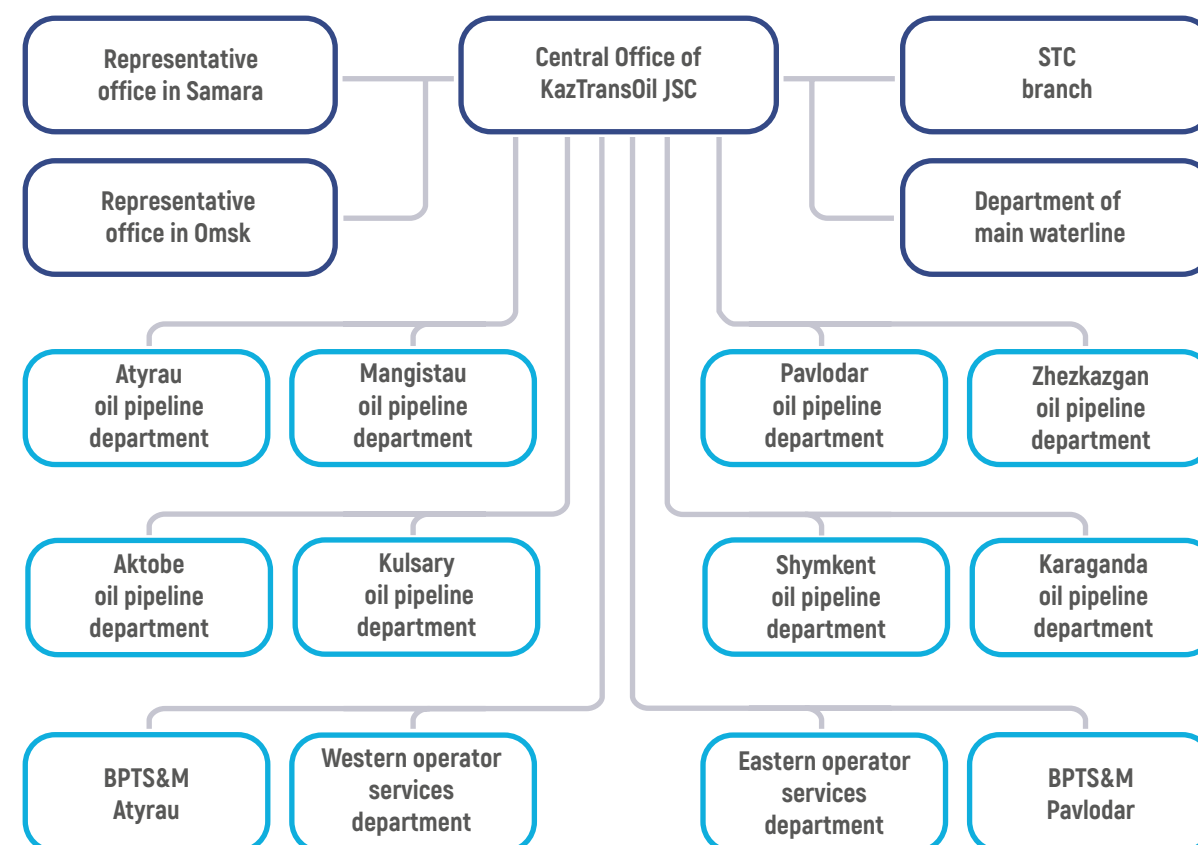


In this regard, in 2017 the Company proceeded to implement measures for transition to 2-tier management system stipulating direct interrelation of the Company's Central Office with oil pipeline departments. This system will allow to manage the Company efficiently, to optimize costs, as well as to upgrade the quality of Company's production processes management.

The new organizational structure of the Company was approved by the resolution of the Board of Directors of the Company dated October 19, 2017 with date of validity on January 3, 2018. **102-7**

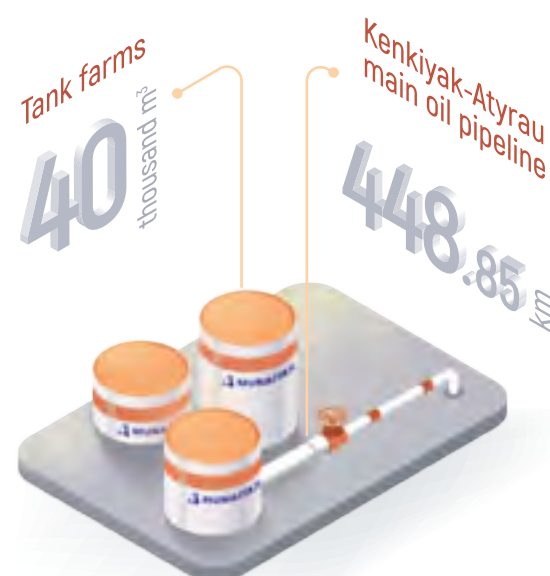
In 2018, the Company intends to complete arrangements associated with branches closing legal procedures.

The Company's structure in 2-tier management system



SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES OF THE COMPANY 102-4

MunaiTas NWPC JSC (Kazakhstan)



51%

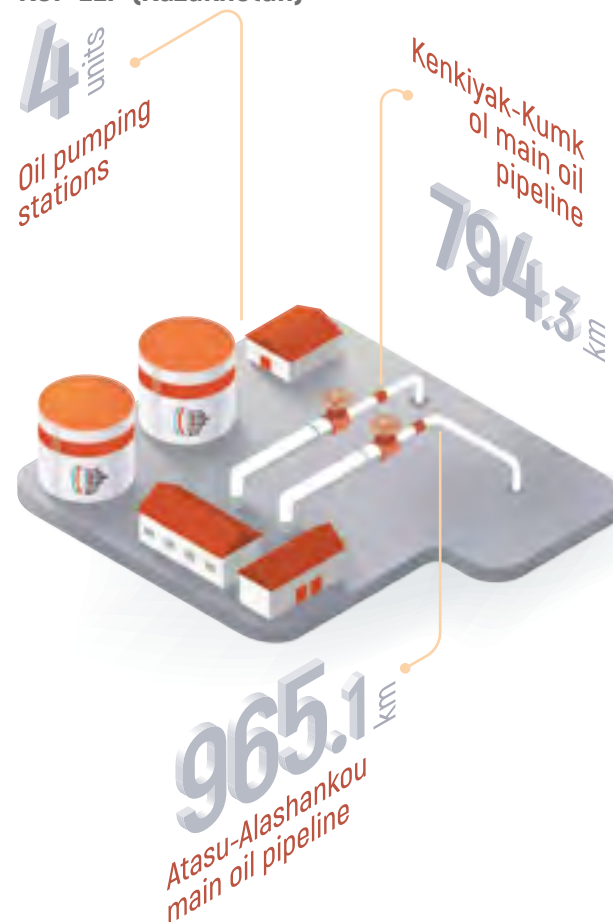
Company

49%

CNPC Exploration and Development Company Ltd.

	2017	2016	2015
Net income, million	3,358	4,581	5,365
Transportation volume, thousand tons	3,660	4,620	3,744
Oil freight turnover, million tons-km	1,437	1,843	1,467

KCP LLP (Kazakhstan)



50%

Company

50%

China National Oil and Gas Exploration and Development Corporation

	2017	2016	2015
Net loss, million KZT			89,143
Net income, million KZT	12,450.5	12,649.5	
Transportation volume, thousand tons	16,538	14,089	15,870
Oil freight turnover, million tons-km	15,609	13,110	15,664
including production indicators by directions:			
Kenkiyak-Kumkol main oil pipeline:			
Transportation volume, thousand tons	5,210	4,887	6,232
Oil freight turnover, million tons-km	3,761	3,402	4,293
Atasu-Alashankou main oil pipeline:			
Transportation volume, thousand tons	12,277	10,058	11,782
Oil freight turnover, million tons-km	11,849	9,707	11,371

Batumi Oil Terminal LLC

(Georgia)

Batumi Sea Port LLC

(exclusive right for 100% share management) (Georgia)



100%

Company

	2017	2016	2015
Net income, million KZT		543	2,545
Net loss, million KZT	4,248		
Oil and oil products transshipment volume, thousand tons	2,109	3,377	3,616

Petrotrans Limited (Abu Dhabi Global Market)



100%

Company

	2017	2016	2015
Net income, million KZT	1,139	573	864
Transshipment volume, thousand tons	999	481	2,947

Main Waterline LLP (Kazakhstan)



100%

Company

No activities were performed in 2017



ASSET RESTRUCTURING

Pursuant to the Development Strategy, the Company has performed a great deal of work on restructuring Company's assets to create an efficient and transparent structure of SCJEs which will improve the economic performance of the Company to meet shareholders' requirements.

1. In November 2015, the Company, as the sole shareholder, decided to voluntarily dissolve Batumi Terminal Limited (BTL).

BTL was dissolved on June 28, 2017. As part of BTL's liquidation, the Company received a 100% stake in Petrotrans Limited (PTL) in March 2017, and in August 2017 the right to a 100% participatory interest in Batumi Oil Terminal (BOT) was registered, through which the Company owns and manages production assets in Georgia directly. BOT has exclusive rights to manage a 100% participatory interest in Batumi Sea Port LLC (BSP). 102-10

2. As a part of the ongoing de-offshorization of the group of companies, PTL was transferred from the jurisdiction of the British Virgin Islands to the "Abu-Dhabi Global Market" Special Economic Zone of the United Arab Emirates on November 26, 2017. This economic zone is not included in the list of offshore zones for the purposes of the Law of the Republic of Kazakhstan on countering the legalization (laundering) of criminally-obtained income and the financing of terrorism or in the list of states with preferential taxation approved in the Republic of Kazakhstan. 102-10

3. In order to focus its resources on the core business of oil transportation, the Company resolved to outsource services for water supply via main pipelines from the Company's core business by establishing a Limited Liability Partnership with a 100% participatory share. 102-10

In this regard, on December 28, 2017 Main Waterline LLP was registered in Atyrau with a 100% share belonging to the Company.

The main business of Main Waterline LLP is to render services for water supply via main pipelines; production, transfer and distribution of thermal energy; and transmission of electrical energy to municipal enterprises, agricultural producers, oil and gas producers and industrial enterprises.

4. As part of the improvement of the asset management system of the Company, the Annual General Meeting of MunaiTas NWPC JSC decided to reorganize MunaiTas NWPC JSC into a limited liability partnership on December 30, 2017. This reorganization will simplify the management of the Company in general and have a significant effect on improving overall productivity and efficiency. In 2018, completion of the abovementioned reorganization is planned. 102-10

1.4. STATE REGULATION AND TARIFFS

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

- transportation services of oil and/or oil products via the main pipelines, excluding transportation for transit purposes through the territory of the Republic of Kazakhstan and export outside the Republic of Kazakhstan;
- services of transmission and/or distribution of electrical energy;
- services of production, transmission, distribution and/or supply of thermal energy;
- water supply and/or sewerage.



TARIFFS FOR OIL TRANSPORTATION SERVICES VIA MAIN PIPELINES SYSTEM OF THE COMPANY

In accordance with the Law of the Republic of Kazakhstan on natural monopolies, tariffs for regulated services should not be lower than the cost of expenses necessary to provide such services and consider possibility of gaining profit ensuring efficient operation of the natural monopoly holder.

Tariffs for oil transportation on the local market are approved by the authorized body in the field of natural monopolies.

To calculate oil transportation tariffs for local market of the Republic of Kazakhstan, the tariff (price, rate, fee) calculation Methodology are applied regarding regulated services of the natural monopoly holders for oil transportation via main pipelines approved by the authorized body.

The tariffs for oil transportation for export outside the Republic of Kazakhstan and transit through the territory of the Republic of Kazakhstan are approved by the Company independently.

In order to calculate tariffs for oil transportation for export and transit purposes, the Company has developed and applies the tariff calculation Methodology for the KazTransOil JSC services of related to oil transportation via main pipelines for export outside of the Republic of Kazakhstan and for transit through the territory of the Republic of Kazakhstan.

Cost of the Russian oil transportation for transit purposes through the Republic of Kazakhstan to PRC is approved by the Ministry of Energy of the Republic of Kazakhstan.

Tariffs for oil pumping via main oil pipelines

Directions	Units of measurement	2017	2016	2015
Local market of the Republic of Kazakhstan	KZT/1000 tons-km	3,902.13	3,547.46	3,225.04
Export outside the Republic of Kazakhstan	KZT/1000 tons-km	5,817.2	5,817.2	5,817.2
Transit through the Kazakh section of the main pipeline TON-2	KZT/1000 tons-km	1,727.1	1,727.1	1,727.1
Transit to PRC*	\$/tons	3.11	2.63	2.63
Transit to the Republic of Uzbekistan**	\$/tons	22.9	-	-

* Cost of the Russian oil transportation in the amount up to 10 million tons per year through the Republic of Kazakhstan to the People's Republic of China was approved by the Order of the Minister of Energy of the Republic of Kazakhstan No.80 dated March 1, 2017 at the rate of \$11.36 per 1 ton exclusive of VAT (including the section-border of the Russian Federation - border of the Republic of Kazakhstan (Priirtyshsk) -Atasu (Republic of Kazakhstan), including oil transshipment at Atasu POPS - \$3.11 per 1 ton exclusive of VAT).

** Tariffs and cost of services of KazTransOil JSC for Russian oil transportation for transit purposes through the Republic of Kazakhstan to the Republic of Uzbekistan exclusive of VAT were approved for the period to December 31, 2017 by the Order of the General Director (Chairman of Management Board) of KazTransOil JSC No.186 dated November 10, 2017.

In December 2017, the KazTransOil JSC tariff regulation Rules were approved by the Management Board to set requirements for the tariff regulation process of the Company's activities.

In 2018, the Company plans to raise tariffs for oil pumping to export outside the Republic of

Kazakhstan and for transit purposes along the Kazakhstani segment of TON-2 main pipeline, as well as to approve tariffs for 2019 for the transport transit of Russian oil through the Republic of Kazakhstan to the Republic of Uzbekistan and Kyrgyz Republic.



TARIFFS FOR WATER SUPPLY SERVICES VIA THE MAIN PIPELINE

Tariffs for the regulated services related to water supply via the KazTransOil JSC main pipelines were

approved by the Order of acting chairman of the Committee for Regulation of Natural Monopolies and Protection of Competition of the Ministry of National Economy of the Republic of Kazakhstan No.418-OD dated October 23, 2015.

Tariffs for water supply services via the main pipeline

Groups of consumers	Tariff in KZT/m³ (exclusive of VAT)			
	technical		drinking	
	On sites			
	0-449 km	449 km-end-consumers	Kulsary-Sargamys	Kigach LOCS
Households, budgetary and non-profit organizations, as well as other public utility enterprises, budgetary and non-profit organizations	18.72	20.92	39.08	39.08
Agricultural producers	67.38	151.49	95.56	-
Industrial enterprises and other commercial organizations	247.12	386.5	353.89	-
Oil and gas producing enterprises	338.54	522.85	495.15	-

Under the Order of acting chairman of the Committee for Regulation of Natural Monopolies and Protection of Competition of the Ministry of National Economy of the Republic of Kazakhstan

dated No.128-OD June 19, 2017, temporary compensative tariffs were approved for regulated service related to water supply via KazTransOil JSC main pipeline (reduced by 2.9%).

Compensated tariffs for water-supply services on main pipelines

Groups of consumers	Compensative tariff, KZT/m ³ (exclusive of VAT)			
	technical		drinking	
	On sites			
	0-449 km	449 km-end-consumers	Kulsary-Sargamys	Kigach LOCS
Households, budgetary and non-profit organizations, as well as other public utility enterprises, budgetary and non-profit organizations	18.17	20.31	37.94	37.94
Agricultural producers	65.41	147.07	92.77	-
Industrial enterprises and other commercial organizations	239.90	375.21	343.55	-
Oil and gas producing enterprises	328.65	507.58	480.69	-



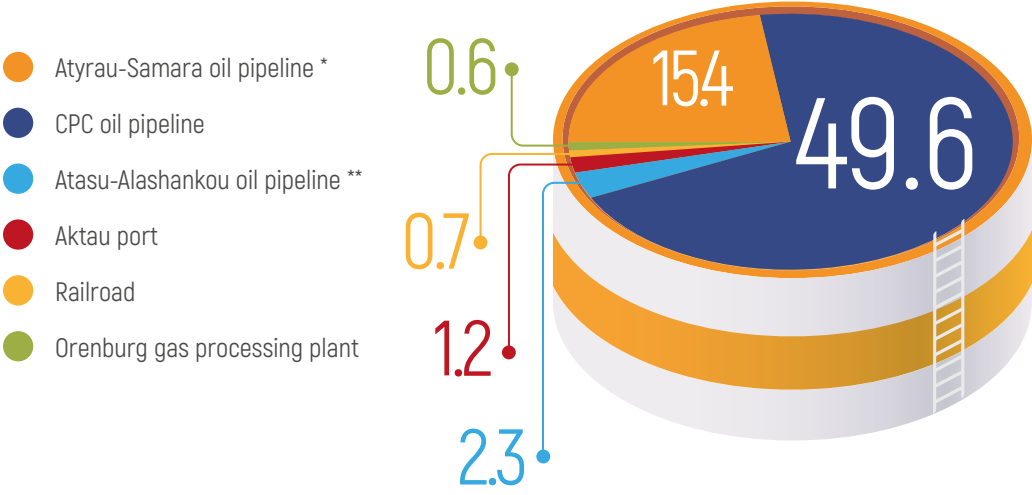
1.5. THE COMPANY'S MARKET POSITION

Over the last three years, starting in 2014, the volume of oil and gas condensate production has decreased in Kazakhstan. For example, production volumes decreased by 1.2% in 2014, by 1.6% in 2015 and by 1.9% in 2016 to 78.0 million tons. The reduction was primarily observed on mature oil fields, located mainly in the Aktobe and Kyzylorda regions.

However, commencement of commercial extraction at the Kashagan field in late 2016 contributed to an increase in the total production of oil and gas condensate. Based on the results of 2017, Kazakhstan produced 86.2 million tons of oil and gas condensate, which is 11% higher than in 2016.

In connection with this, the volume of exports of Kazakh oil increased as well, and constituted 69.8 million tons, which is 12% higher than in 2016.

Volume of exports of Kazakh oil and gas condensate in 2017, million tons



million tons, the volume of exports of Kazakh oil increased as well, and constituted

* Furthermore, it supplied 0.5 million tons to POGR in transit through the territory of the Russian Federation along the Samara – TON-2 – Priirtyshsk* – POGR route;
** The volume of transportation amounted to 12.3 million tons, including transit deliveries to the People's Republic of China in the volume of 10.0 million tons.
Source: Information and Analytical Center of Oil and Gas JSC.

Traditionally, all oil produced in Kazakhstan is exported through the territory of the Russian Federation, and in 2017 about 95% of Kazakh oil exports were transported through the Russian Federation via the CPC and Atyrau-Samara oil pipelines, as well as by rail.

produced at the Karachaganak, Tengiz and Kashagan fields is exported via the CPC pipeline. In 2017, CPC accounted for more than 70% of the total exports of Kazakh oil.

It should be mentioned that in October 2017, CPC completed work under the Project for Expanding the Throughput Capacity of the CPC Pipeline on the territory of the Republic of Kazakhstan, which increased the throughput capacity of the Kazakh section to 53.7 million tons of oil per year. In connection with this, the greater part of the oil

Thus, redirection of oil from the biggest fields of Kazakhstan to the CPC oil pipeline system is a key factor that has a negative effect on the Company's position on the market.

Furthermore, the Company's position on the market is affected by the decline of production at fields that form the main resource base of the Company. In recent years, there has been



a decline in the volume of transportation of Kazakh oil via the Atasu-Alashankou oil pipeline, which provides oil exports to the PRC. For example, in 2017, the volume of exports for this pipeline amounted to 2.3 million tons of oil per year, which is 26% lower than in 2016. The resource base of this oil pipeline is composed of the production volumes of the Kumkol and Aktobe regions, which are currently declining.

It is expected that further production growth will be mainly due to Tengiz and Kashagan fields, which are oriented on the CPC oil pipeline. Considering the greatest economic attractiveness of oil exports via the CPC system, the remaining Kazakh extraction companies with access to the capacities of this pipeline will strive to use it. In this connection, the further decline of the Company's share in the volumes of Kazakh oil exports is expected in the long run.

The Company is working actively to develop transit capacity and create alternatives for oil exports.

Work on exports is being performed in two areas:

- In 2016, the Company and Transneft PJSC agreed on separate transportation of light Kazakh oil via the Atyrau-Samara pipeline for further transportation via the system of Transneft JSC main oil pipelines mixed with low-sulfur light oil, to be shipped via the port of Novorossiysk in the volume up to 1 million tons of oil. In 2017, the volume of such supplies amounted to about 800 thousand tons of oil. The work on this area will be further developed; **102-4**
- Furthermore, the Company is working on a project to reverse the Kenkiyak-Atyrau oil pipeline, which is a part of the Kazakhstan-China oil pipeline. The implementation of this project provides access to oil from the fields in Western Kazakhstan for local refineries (PKOP and POOR), as well as for export to the People's Republic of China along the Atyrau-Kenkiyak-Kumkol-Atasu-Alashankou route. The Company and the Chinese side are discussing the matter of increasing the attractiveness of this route for Kazakh extraction companies. **102-4**

In order to improve the transit potential of the Republic of Kazakhstan, the Company has been performing the following work.

- Since January 2014, the Company has been performing the transit transportation of Russian oil to the PRC in a volume of up to 7 million tons per year along the route Priirtyshsk-Atasu-Alashankou. In 2017, the transit volume increased to 10 million tons per year. In addition, the parties are discussing the matter of increasing it to 13 million tons per year; **102-4**
- Since December 2015, delivery of Kazakh oil to the refineries of the Republic of Kazakhstan has been performed through the Russian Federation along the route Atyrau-Samara-TON-2-Priirtyshsk-Refineries of the Republic of Kazakhstan; **102-4**
- In 2017, a Framework Agreement was signed between the Government of the Republic of Kazakhstan and the Republic of Uzbekistan on certain matters of cooperation in the energy field which provides for the possibility of delivery of Russian and Kazakh oil to Uzbekistan starting in 2021 in a volume of up to 5 million tons. This project provides for the use of the Company's current oil pipeline system along the route Priirtyshsk-Atasu-Shymkent – OLP Shagyr (after expansion), as well as the construction of a new Shymkent-Jizak oil pipeline. Transit transportation of Russian oil to Uzbekistan started in November 2017, amounting to 68 thousand tons of oil by the end of the year; **102-4**
- In 2018, the matter of the transit of Russian oil to the Kyrgyz Republic in a volume of up to 0.5 million tons is being considered. **102-4**

Given the above, the Company plans to work on attracting additional oil volumes from the Tengiz, Kashagan and Karachaganak fields, and will take measures to improve the production efficiency, competitiveness and quality of its services.



2. OPERATING ACTIVITIES RESULTS



the consolidated volume of oil transportation

58,538 thousand tons

48,360 million tons-km

The consolidated oil turnover

10,599 KZT million

Revenues from operator services



Heights and vastness.
Goals and achievements.



2.1. OIL TRANSPORTATION AND WATER SUPPLY

Transportation of oil is the main strategic area of development and the Company's key profit center, ensuring its stable operation.

Oil transportation via the system of main oil pipelines of the Company is performed in accordance with the Oil Delivery Schedule approved by the Ministry of Energy of the Republic of Kazakhstan and under contracts with consumers in the following areas:

- delivery of oil to the local market: Atyrau Refinery LLP, PetroKazakhstan Oil Products LLP (PKOP), Pavlodar Oil Chemistry Refinery LLP (POCR) and CASPI BITUM LLP (bitumen plant);
- oil delivery via the Atyrau-Samara oil pipeline;
- shipment of oil to tankers at the port located in Aktau, as well as oil transshipment to CPC-K JSC, MunaiTas NWPC JSC and KCP LLP;

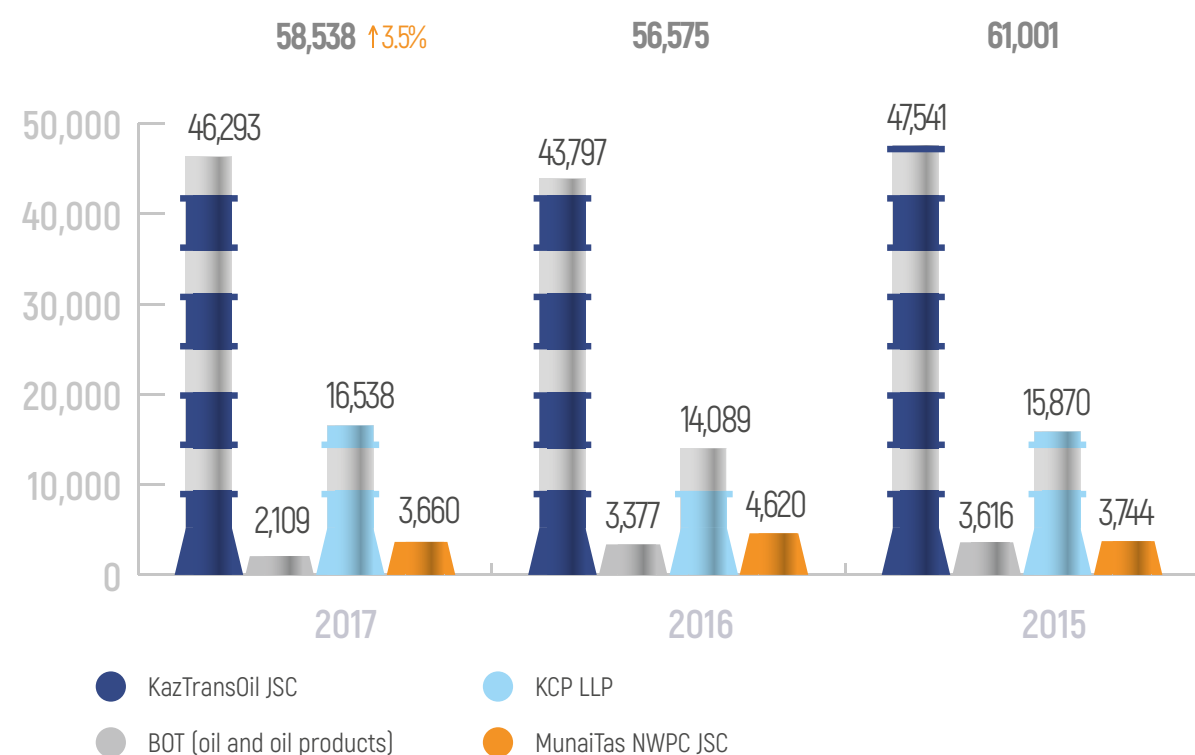
- loading of oil into tanks at the railway overpass of Shagyr OLP. **102-6**

In 2017, the consolidated volume of oil transportation amounted to 58,538 thousand tons. Transportation volume increased by 3.5% compared to last year and amounted to 56,575 thousand tons. The consolidated oil turnover in 2017 increased by 12.1% as compared to the previous year's indicator and amounted to 48,360 million ton-km.

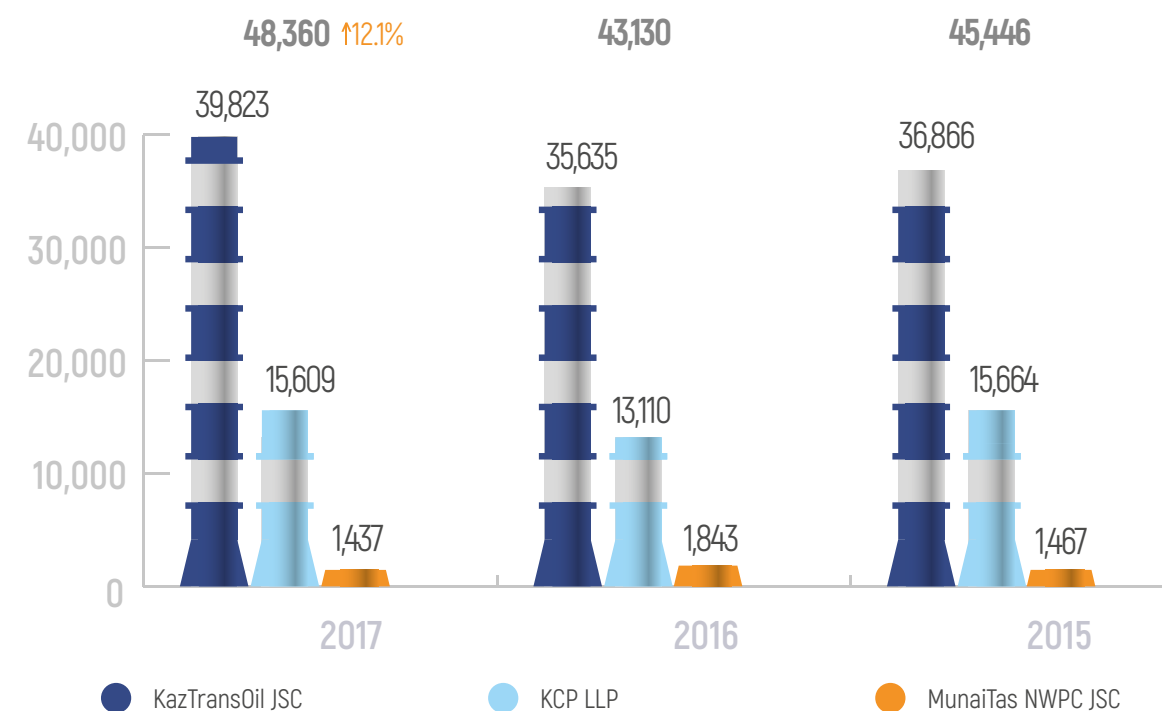
The main growth of oil delivery to the Company's main oil pipeline system was associated with an increase in the transit transportation of Russian oil under a Supplemental Agreement to the Oil Transportation Contract already in force signed with NC Rosneft CJSC for the purposes of increasing the total volume of Russian oil transit through the territory of the Republic of Kazakhstan to the PRC to 10 million tons per year.

The increase in supply via the Atyrau-Samara oil pipeline is associated with the start of oil delivery to the main oil pipelines system from the Kashagan field and a separate transportation of light Kazakh oil.

Volume of oil transportation, thousand tons



Oil turnover, million tons-km



Volumes of oil transportation by direction and consumers under the system of KazTransOil JSC, thousand tons

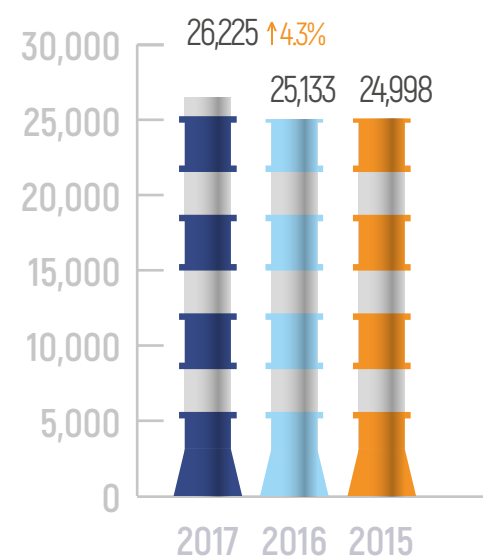
Direction	2017	2016	2015	Change, %
To Refineries				
Atyrau Refinery LLP	4,629	4,666	4,767	-0.8
PetroKazakhstan Oil Products LLP	4,686	4,497	4,449	4.2
Pavlodar Oil Chemistry Refinery LLP	4,732	4,599	4,805	2.9
CASPI BITUM LLP	718	624	373	15.1
Transit through the territory of the Russian Federation				
Atyrau-Samara oil pipeline	15,913	15,024	15,702	5.9
Shipment via Aktau port				
Loading into tankers at Aktau HOPS	1,192	2,196	2,881	-45.7
Oil transshipment to pipeline companies*				
	12,289	10,068	11,794	
	(incl. transit	(incl. transit	(incl. transit	
KCP LLP (Atasu-Alashankou oil pipeline)	9,989]	6,992]	6,992]	22.1
CPC-K JSC (CPC oil pipeline)	2,884	3,023	2,779	-4.6
MunaiTas NWPC JSC	3,306	4,233	3,337	-21.9
KCP LLP (Kenkiyak-Kumkol oil pipeline)	4,683	4,215	5,323	11.1
Railway overpass at Shagyr OLP				
Railway overpass at OLP Shagyr	261	210	-	24.2

* with consideration for the Company's share



The delivery of transit Russian oil through the territory of the Republic of Kazakhstan with loading to rail tanks at Shagyr OLP for further delivery to the Republic of Uzbekistan also started in 2017.

Supply of Volga Water, thousand m³



The volume of water supply in 2017 was 26,225 thousand m³ and increased by 4.3% compared to the indicator of the previous year – 25,133 thousand m³. The main factor for the increase in water supply volumes via main water pipelines is the growth of water consumption by utility and oil extraction companies.

2.2. OPERATION AND MAINTENANCE OF MAIN OIL PIPELINES OWNED BY THIRD PARTIES

Operation and maintenance of main oil pipelines owned by third parties (hereinafter referred as operator services) is one of the main areas of the Company's activity.

The Company provides operator services for the following companies: KCP LLP, MunaiTas NWPC JSC, Karachaganak Petroleum Operating B.V., and Turgai Petroleum JSC; the total length of the

operated oil pipelines is 2,858.2 km, and the total personnel headcount of the Company is 963 people.

The revenues of the Company from operator services in 2017 increased by 11.3% in comparison to the previous year and amounted to KZT 10,599 million.

Annually the Company carries out measures for the preparation of production facilities belonging to third parties for the autumn–winter and spring periods, as well as arrangements aimed at ensuring trouble-free production. In 2017, as a result of in-line inspection of the Kenkiyak–Atyrau main oil pipeline, the Operator Services Department of the Western Branch removed 2 illegal tappings.

At the same time, there were no occurrence of breakdowns, accidents and incidents of the operated main pipelines in the reporting period.

In 2017, the Company concluded long-term contracts for the operation and maintenance of the Kenkiyak–Atyrau, Kenkiyak–Kumkol and Atasu–Alashankou main oil pipelines for 2017–2021.

During a survey conducted in 2017 to determine the satisfaction level of consumers with operator services in accordance with the requirements of ISO 9001:2015, the satisfaction level of consumers was 95%.

The Company will continue to improve the effectiveness and competitiveness of operator services in 2018 in order to increase consumers' satisfaction level.

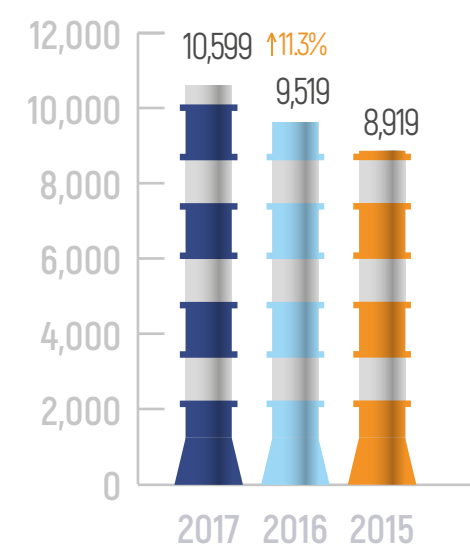
PROVISION OF SERVICES AT THE FACILITIES OF THE CPC OIL PIPELINE SYSTEM

In 2017, the Company participated in the tender to render services for maintenance, repair and emergency response at the facilities of the CPC oil pipeline system in the Republic of Kazakhstan in 2018–2022. In October 2017, CPC informed KazTransOil JSC of the decision of the CPC tender commission to declare the Company the winner.

Starting 1 July 2018, the Company plans to render services for maintenance, repair and emergency response at the facilities of the CPC oil pipeline system on the territory of the Republic of Kazakhstan. Thus, the total length of operated oil pipelines will increase to 3,310.2 km, and the number of involved personnel will reach 1,218 people.

In 2018, the Company intends to take measures to conclude a long-term agreement for the operation and maintenance of the Karachaganak–Atyrau transportation system.

Company revenues from operator services, KZT million



2.3. INVESTMENT ACTIVITY

The KazTransOil JSC Investment program for 2015–2019 (The Investment program) was approved in August 2015 by the Joint Order of the Ministry of Energy of the Republic of Kazakhstan and Committee for regulation of natural monopoly, protection of competition and consumer rights of the Ministry of National Economy of the Republic of Kazakhstan with annual amendments.

The Investment program is formed on the basis of the main plan of capital investments, production program and decisions of the Investment Committee of the Company.

The main goals of the Investment program are to implement perspective investment projects and maintenance of the current level of production.

The implementation of the investment projects is performed in various areas:

- construction of new production facilities;
- reconstruction, extension and upgrading of existing production with improvement of the design characteristics of the production facilities in the oil pipeline system;
- overhaul of existing production facilities, which does not result in a change of their rated capacity.

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

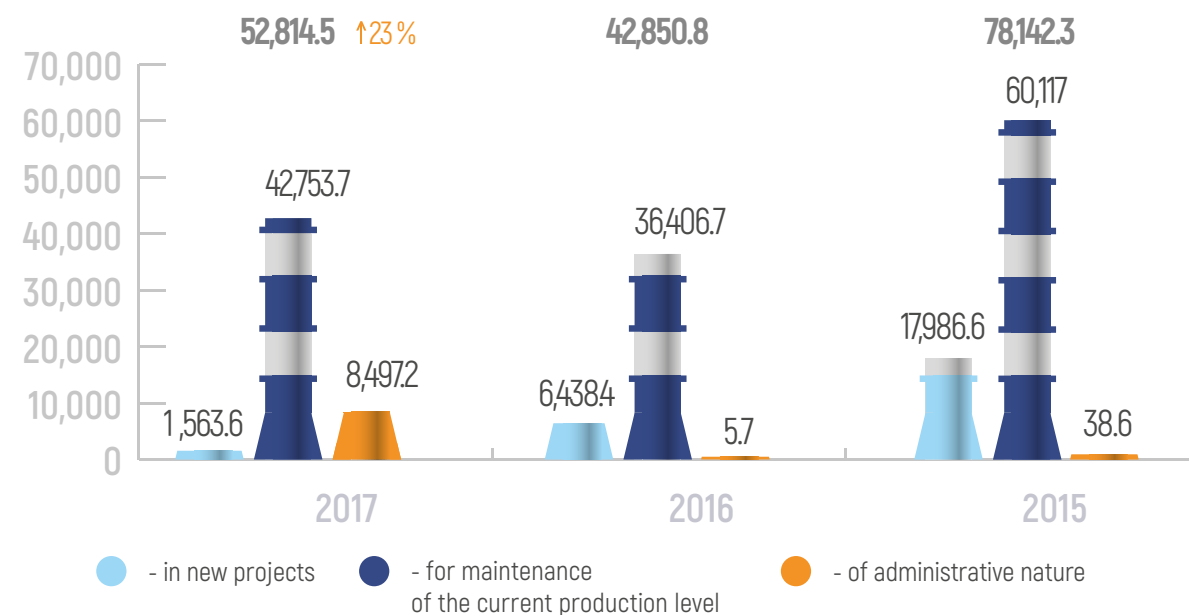
Total volume of the scheduled investments for 2015–2018 is about KZT 190 billion. It is stipulated to finance the investment programs for the indicated period at the expense of own means without borrowing or using public funds.

The investment program stipulates a plain distribution of investment expenses in five years, which allows the Company to keep balanced structure of the financing resources.

KZT billion of capital investment in 2017



Aggregate investments in 2017, KZT million



RESULTS OF IMPLEMENTATION OF COMPANY'S INVESTMENT PROJECTS IN 2017

Extension of the Kazakhstan-China oil pipeline

One of the largest and strategically important investment projects not only for the Company but also for Kazakhstan as a whole is the project named "The Second Phase of the Second Stage of the Kazakhstan-China oil pipeline construction. Improvement of capacity to 20 million tons per year". This project is aimed to diversify the export oil supplies, as well as to ensure the possible provision of domestic raw materials to oil refineries of the Republic of Kazakhstan in the framework of the country's energy security.

Project participants are KazTransOil JSC, MunaiTas NWPC JSC and KCP LLP, each of which is the owner of its corresponding section in Kazakhstan-China oil pipeline.

Within this project Kenkiyak POPS is reconstructed. In June 2017, it was planned to complete this work, however, due to the terms breached by the contractor, the reconstruction was not finished. The expected term of Kenkiyak POPS commissioning is June 30, 2018.

The design and estimation documentation under the project named "Increase of the Kazakhstan-China oil pipeline capacity. The first stage of the Kenkiyak-Atyrau oil pipeline section reverse with capacity to 6 million tons per year" was updated. By now, the comprehensive extradepartmental expertise is in the progress, after which the MunaiTas NWPC JSC shareholders will make an investment decision on the beginning of construction process.

In 2017, the total charges under the project on extension of Kazakhstan-China oil pipeline amounted to KZT 1,328 million.

Reconstruction of the main oil pipelines with pipe replacement

To ensure reliable and safe operation of the production facilities in 2017, the Company implemented the following measures:

- the pipe replacement at the Karazhanbas-Aktau section of the Kalamkas-Karazhanbas-Aktau oil pipeline with a total length of 129.5 km. In 2017, the project disbursed KZT 4,234 million without VAT. In December 2017 the object was commissioned;
- the pipe replacement at the 645-677 km section of the Uzen-Atyrau-Samara oil



pipeline with a total length 32 km. The object was commissioned in December 2017.

The connection of these newly constructed sections to the existing main oil pipelines is planned in 2018.

Construction of unattended automatic communication centers

In 2017, the Company completed the investment project named "Construction of maintenance-free automatic communication centers" which led to update the life system of communication equipment such as climate control system, fire extinguishing systems, video surveillance, and will allow to operate this equipment in the conditions suitable for work.

The Company plans to fulfill the following arrangements in 2018:

1) for investment activity:

- finishing construction and commissioning of Kenkiyak POPS under the investment project named "The Second Phase of the Second Stage of the Kazakhstan-China oil pipeline construction. Improvement of capacity to 20 million tons per year";

2) for provision of reliable and safe operation of production facilities:

- completing the pipe replacement at the 1031-1065 km section of the Uzen-Atyrau-Samara oil pipeline with the length of 34 km;
- completion of the 2nd stage of Kazakh site of the main oil pipeline TON-2 overhaul with the length of 186.2 km;
- completion and commissioning of the facility under the project named "Reconstruction of WPS-5 to increase the water supply through the Astrakhan-Mangyshlak water pipeline" with the aim of increasing the water supply via the Astrakhan-Mangyshlak water pipeline up to 150 thousand m³ per day, with subsequent pumping of 116.5 thousand m³ per day to WPS-8 and for the needs of the Integrated Gas Chemical Complex in the volume of 33.5 thousand m³ per day.

2.4. INNOVATIVE TECHNOLOGICAL DEVELOPMENT

KazTransOil JSC considers an innovative technological development as one of the main elements of improvement of the Company's efficiency and development of the sectorial science.

To achieve the goals and objectives of the scientific-technical and innovation policy, in 2017 the Company has developed and implements a comprehensive Program of KazTransOil JSC for R&D, new equipment transfers and innovative-technological approach for 2017-2021 (R&D Program), as well as the Action Plan on technology and equipment transfer at the KazTransOil JSC facilities for 2016-2020 (Action Plan).

R&D program is aimed to implement the following goals:

- cost reduction;
- improving the main pipelines system's reliability;
- improving the competitiveness and flexibility of operation costs;
- introduction of energy-saving and resource saving technology;
- transition to limited manning with updating the automation systems and security facilities.

The work related to design and survey, R&D is conducted by STC Branch.

The Company's activities in the field of innovative technological development are carried out in the following main directions:

- organization and coordination of R&D, new equipment transfer and innovative-technological approach at the Company's facilities;
- organization of off-schedule work and R&D results and innovative technologies pilot testing at the Company's facilities;



- preparation of research articles and submitting applications for innovative and scientific inventions related to oil transport and water supply sectors;
- coordination of work on optimization of highly viscos and high pour point oil transportation and water supply.

The main activities for 2017 under the Action Plan are the following:

- development of SmartTran software system together with specialists of the scientific laboratory named "Mathematical Modeling of Technological Processes in Petroleum Industry" and the Company's specialists SmartTran software system is designed for monitoring, modeling and optimization of operating modes of oil pipeline sites and systems, designing new ones and forecasting operating modes of existing oil pipelines;
- introduction of the "Randep-5102" pour-point depressant in the Kumkol POPS – POPS named after B. Jumagaliyev – Shymkent PSP oil pipeline;
- KazTransOil JSC recommendations on application of DRA-11 drag-reducing agent (DRA) made in Kazakhstan (by NomadSupply Company) instead of foreign-made DRA (LP TM Arctic Grade).

In addition, the Company constantly issues scientific reference and data books, research articles in the leading magazines related to Company's business profile. Within the last years more than 40 innovative patents and the Republic of Kazakhstan patents have been acquired in the field of midstream operations.

Under the KazTransOil JSC Program for development of technical documentation for 2018–2022 the Company performs the constant work on development and updating technical documentation in the field of midstream operations.

In October 2017, KazTransOil JSC officially held the V International Scientific Practical Conference devoted to the KazTransOil JSC 20th anniversary with attendance of the leading oil and

gas companies and experts of Kazakhstan, CIS countries and countries of far abroad. During the conference, the participants exchanged the best practices, information and offers on reliable and safe operation, maintenance and increasing the capacity of main oil pipelines, introduction of modern technologies on main oil pipelines monitoring and diagnostics.

In 2017, in order to cooperate in the field of R&D, the Company concluded Memorandums of cooperation with 4 Russian and Kazakhstani research centers: The Pipeline Transport Institute LLC (Moscow) and the Research Institute of Oil Transport (Ufa), KBTU JSC (Almaty); KazNRTU (Almaty); Research and Design Institute of Oil and Gas JSC (Aktau).

R&D and innovations work were 100% complete in 2017.

In 2018, the Company will implement the Program of KazTransOil JSC for R&D, new equipment transfers and innovative-technological approach for 2018–2022.

2.5. IMPROVEMENT OF THE PERFORMANCE OF PRODUCTION PROCESSES

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

In addition to the successful implementation of annual plans for the preparation of production facilities for the autumn-winter and spring periods, in 2017 the Company took measures aimed at ensuring trouble-free production on regular basis; among other things, diagnostics, repair and reconstruction of production buildings, structures and equipment were performed.



To increase the efficiency of production processes in 2017, the Company performed the following work:

- 156.6 km of pipelines were inspected;
- 2,435 defects were eliminated using the Company's own resources (344 of which were eliminated above and beyond the plan);
- technical inspection of 12 main and charging pumps that have fulfilled their standard service life was performed;
- 76 tank foundations were inspected. Based on the inspection results, the overall condition of the tank foundations was evaluated as acceptable;
- corrosion protection work on tanks was performed. An external anticorrosion coating was applied to 12 tanks, and an internal anticorrosive coating was applied to 6 tanks.
- corrosion protection work was performed on 10 oil heating furnaces.
- technical diagnostics and expert inspection of 10 oil heating furnaces.

In 2018 the Company plans:

- to conduct regular activities to ensure trouble-free operation of production facilities;
- replacement of 10 units of main pumping equipment.

INDUSTRIAL AND FIRE SAFETY OF ASSETS

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

In the process of operating main oil pipelines and other production facilities, in 2017 the Company had no man-made accidents or fires.

In 2017, the Company applied an advanced method for hazard and operability studies (HAZOP) when designing and installing SIL-2 shut-off valves.

Trouble-free operation is ensured by continuously taking an entire set of measures in the field of reliability and safety in accordance with the current Declaration of Industrial Safety of the facilities operated by KazTransOil JSC.

The Company has regularly inspected foam extinguishing installations and the technical condition of fire alarms. It also inspects the external fire water supply, internal fire hydrants, fire shields, firefighting supplies, and firefighting equipment available at the facilities.

To acquire practical and theoretical skills for cases of possible fire, in 2017 the Company conducted 9 fire drills and 980 tactical fire exercises, held 20,187 introductory briefings on fire safety measures, trained 837 members of voluntary fire-fighting units, and elaborated 498 instructions on fire safety measures. **403-4**

Regular training of employees on fire safety basics and industrial safety contributed to the achievement of a zero level of fires and accidents at the Company's facilities in 2017.

SAFETY OF ASSETS

Measures related to the protection of the economic interests of KazTransOil JSC and service consumers are an important priority for the Company.

For prompt detection of unauthorized influences and intrusions into the protected pipeline zone, the Central Office of the Company conducts centralized twenty-four-hour monitoring.

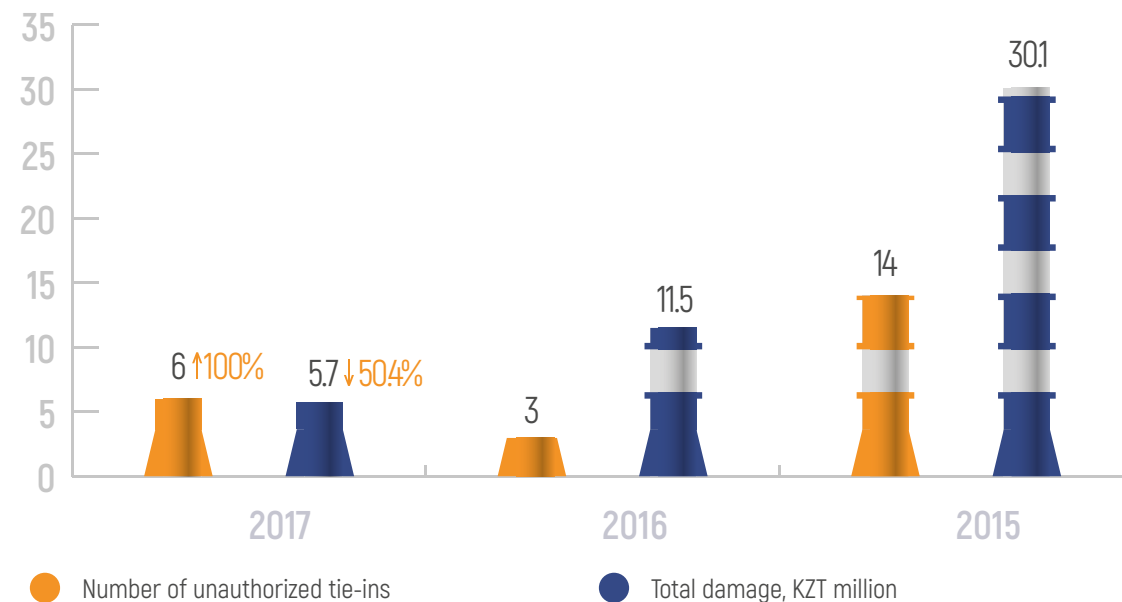
To coordinate the activities of all protection systems and resources and to prevent illegal attempts to break into pipelines, the Company has organized interaction between the oil pipeline monitoring service, the main dispatching department, control centers of the Company branches and the operator of the security company KMG-Security LLC.

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

tactical fire exercises



Number of unauthorized tie-ins and total damage



In 2017, there were 6 cases of illegal tie-ins resulting in total damage in the amount of KZT 5.7 million. The security company KMG-Security LLC reimbursed the damage from the illegal tie-in to the pipeline in the amount of KZT 4.6 million.

In addition, in 2017, there were 6 thefts of assets committed on the territory of Company facilities protected by KMG-Security LLC amounting to KZT 3.9 million, KZT 1.7 million of which was covered by the security firm.

Despite the increase of illegal acts against the Company, KazTransOil JSC strives to improve pipeline security system. In order to increase the effectiveness of the physical protection of the facilities of the Company, along with an increase in security personnel, the Company began introducing technical-engineering safety features (hereinafter – TESH). In 2017 The Company approved a Plan for equipping facilities with TESH with due regard for the requirements of the law of the Republic of Kazakhstan on countering terrorism.

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

According to the indicated plan, the Company is introducing perimeter security alarm and surveillance systems at the production and technological facilities of the Company. In addition, there are plans to introduce pipeline security and leak detection systems at certain sites.

In 2018 the Company plans:

- the further provision of production and technological facilities of the Company with TESH;
- interaction with MunaiTas NWPC JSC, KCP LLP, and Main Waterline LLC on security issues at the sites of the mentioned companies;
- interaction at all levels with defense and law enforcement agencies on the issues of countering terrorist threats and the theft of oil and goods and materials at the facilities of KazTransOil JSC;
- further continuation of activities for the collection of information on possible labor conflicts and negative trends, taking measures to localize them to prevent economic damage to the Company;

- Conclusion of Memorandums of Cooperation and Interaction between the Regional Departments of Internal Affairs, KMG-Security LLP and oil pipeline departments of the Company.

INFORMATION SECURITY

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

Development of the provision of the Company with information technologies and improvement of information protection ensure stable operations. To ensure information security, the Company continuously monitors compliance with information security requirements in all existing IT systems and those being implemented.

The Company keeps records of information security violations. As of the end of 2017, no information security incidents with high or medium criticality levels had been registered.

As part of ensuring a high level of information security, the Company monitors internal documents on a continual basis. For example, in 2017 the Company updated several internal documents: The KazTransOil JSC Policy for Management of Information Security Risk, the KazTransOil JSC Guidelines on Information Security Management, the KazTransOil JSC Regulations on E-mail and Internet Use and the KazTransOil JSC Guidelines on Information Classification.

The Company has adopted various methods for raising the awareness of employees, including introductory, thematic and full briefings. The Company conducted introductory briefings for 192 employees and third parties in the reporting period. As part of thematic briefings, a mailing is sent out on developments and amendments to internal documents regulating information security.

In 2017 the Company also launched a series of screensavers on information security to raise employees' awareness.

In August 2017, the Company successfully passed a recertification audit conducted by the international certification body British Standards Institute (BSI Management Systems). According to the audit report, existing internal processes in the field of information protection are effective. The audit revealed 3 minor nonconformities, for which corrective and preventive measures have been elaborated for 2018.

In addition, in 2018 the Company plans:

- to conduct a supervisory audit of the ISMS regarding its compliance with the requirements of the International Standard ISO/IEC 27001;
- to develop and expand the ISMS in oil pipeline departments and SCJEs, in particular, in MunaiTas NWPC JSC, KCP LLP, Main Waterline LLP and BOT;
- to raise the awareness of Company employees on information security;
- to further monitor the observance of information security requirements in all existing information technologies and systems and those being implemented/developed.

2.6. ENERGY CONSUMPTION AND ENERGY SAVING

One of the ways to increase the efficiency of production processes is to optimize the use of all types of energy resources. For this purpose, KazTransOil JSC organized a system of energy management which meets the requirements of the international standard ISO 50001. **MAD**

Compliance with the said requirements was confirmed as a result of a surveillance audit performed in September 2017.

In June 2017, the Company approved the Energy Policy, defined its goals and objectives for 2017 and the scope and boundaries of the energy management system, starting from the level of structural units of the Central Office to the structural units of the industrial structural subdivisions of the oil pipeline departments and OPS.



During the reporting period, the Company monitored the implementation of energy goals and objectives at all organizational levels. As a result of the work, the energy goals of the Company for 2017 were not accomplished in full; this was due to the fact that the target values of consumption of all types of energy were calculated for oil turnover equal to 34,605 million ton-km (separately for Company) and water supply in the amount of 24,500,000 m³. In fact, these figures amounted to 39,823 million ton-km (15% more than the plan) and 26,225,000 m³ (7% more than the plan), respectively. The target value of gas consumption for oil heating was achieved and decreased by 7.3%.

Since 2015, the Company has been implementing the KazTransOil JSC Action Plan on Energy Saving and Energy Efficiency Measures for 2015–2019, and in 2017 the following main measures were implemented in the field of improving the energy efficiency of production processes:

- replacement of power transformers with energy efficient TMG-12 transformers;
- replacement of main pumping units No. 1 and 2 of the Northern Buzachi OPS, with an installed electric motor capacity of 315 kW, with energy-saving 75 kW electric motors of the Mangistau oil pipeline department;
- development and application of the optimal mode of oil transportation for each technical site of the main oil pipeline;

- in all the branches of the Company, systematic replacement of incandescent bulbs with energy saving LED bulbs was conducted;
- thermostats are being systematically installed on the radiators in the administrative and functional buildings of the Company branches;
- overhaul of on-site heating networks of OPS-3 and Kulsary WTF of the Kulsary oil pipeline department;
- reconstruction of the boiler house of the production service base of the Shymkent oil pipeline department with replacement of boilers and the transition of fuel to natural gas;
- commissioning of a power-factor correction unit at HOPS named after B. Jumagaliyev and Chulak-Kurgan HOPS.

The company uses various types of energy in its production activities, the most important of which are gas and electricity. All energy sources used are non-renewable.

In 2017, the share of natural gas used by the Company amounted to 65.7% of the total energy consumption. The high share of gas consumption is due to the desire of the Company to use the most environmentally friendly types of energy. **302-1**

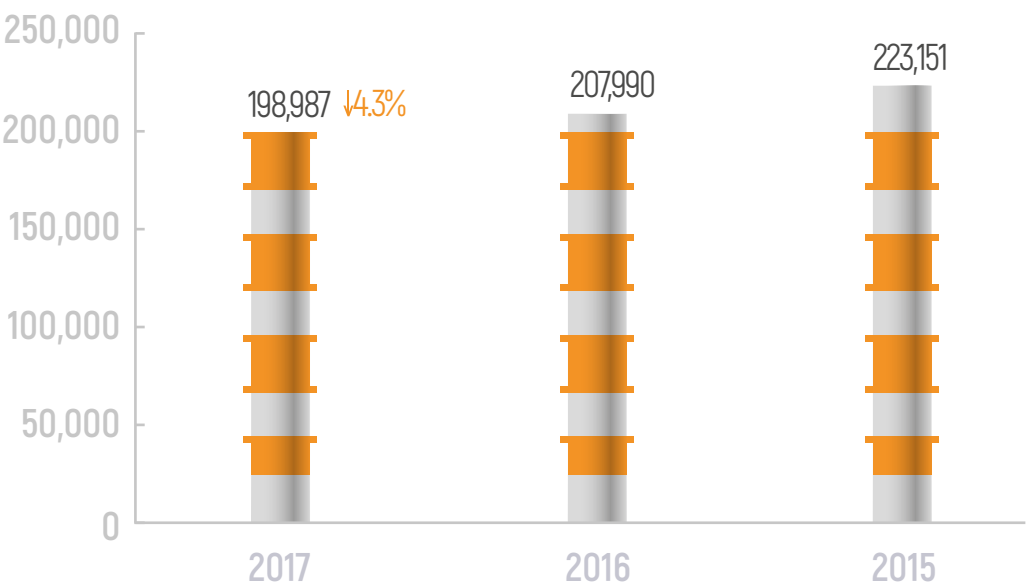


Energy consumption broken down by types of primary sources **302-1**

Energy source	2017		2016		2015	
	TOE	%	TOE	%	TOE	%
Natural gas	130,799	65.7	143,553	69.0	153,708	68.9
Electricity	50,763	25.5	46,899	22.5	51,170	22.9
Diesel fuel	7,788	3.9	8,291	4.0	8,222	3.7
Crude oil	4,874	2.5	4,515	2.2	4,919	2.2
Thermal energy	3,381	1.7	3,235	1.6	3,263	1.5
Gasoline for engines	1,356	0.7	1,492	0.7	1,869	0.8
Automotive gas	26	0.0	5	0.0	-	0.0
Total:	198,987	100	207,990	100	223,151	100

* For reference: TOE – Ton of oil equivalent

Company energy consumption, TOE





The reduction in energy consumption in 2017 by 4.9%, or 9,682 TOE, was due to a reduction in natural gas consumption by 8.9%, or 12,754 TOE, diesel fuel by 6.1%, or 503 TOE, and gasoline for engines by 9.1%, or 136 TOE.

The increase in electrical power consumption by 7.2%, or -3,655 TOE, is associated with an increase

in turnover by 11.8% compared to 2016 (separately for the Company): actual for 2017 – 39,823 million ton-km; actual for 2016 – 35,635 million tons-km). Reduction in energy consumption led to a reduction in the energy intensity of the Company by 14.9%. **302-3, 302-4**

Change in energy intensity, separately for the Company

Indicator	Units of measurement	2017	2016 *	2015*	Change, %
Volume of total consumption of energy resources for pumping oil	TOE	185,993	195,675	210,649	-4.9
Volume of total consumption of energy resources for pumping water	TOE	12,995	12,316	12,502	5.5
Oil turnover	million tons-km	39,823	35,635	36,866	11.8
Volume of water pumping	thousand m³	26,225	25,133	24,998	4.3
Energy intensity of oil pumping	TOE/million tons-km	4.67	5.49	5.71	-14.9
Energy intensity of water pumping	TOE/thousand m³	0.50	0.49	0.50	1.1

reduction in the energy intensity

* - due to a change in the methods of calculating energy resource consumption, the indicators of energy intensity of oil and water were changed for 2015 and 2016.

As a baseline indicator for the calculation of energy intensity, the Company adopted oil turnover and water supply volume for KazTransOil JSC. The calculation takes into account all forms of energy consumed by the Company, including natural gas, electricity and others. The above table shows that in 2017 the total volume of energy resource consumption and the energy intensity indicator decreased, while oil turnover increased. This suggests that the planned measures for energy saving and increased energy efficiency are being carried out and are leading to a decrease in consumption of energy resources in the Company.

In the future, the Company plans to continue working on the development of the corporate energy management system through:

- the implementation of the Action Plan on Energy Saving and Increased Energy Efficiency for 2016–2019;
- conducting an energy analysis of fuel and energy resource consumption and ensuring the achievement of goals and objectives for all management levels of the Company;
- inclusion of energy efficiency indicators into the KPI structure of managers of the relevant structural units of the central office and managers of separate structural units.

3. RESULTS ON SUSTAINABLE DEVELOPMENT



KZT thousand
669.4

Current expenses for environmental
protection measures

2.4
KZT billion

Costs for
social support
of employees

395
KZT million

Total cost
of training



An inexhaustible force of life.
Responsibility and stability.



3.1. SUSTAINABLE DEVELOPMENT MANAGEMENT

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

The Company consistently integrates these principles of sustainable development and social responsibility into its business which is one of the key factors of long-term sustainability and competitiveness. The Development Strategy defines key strategic initiatives for sustainable development:

- reduction of negative impact on the environment.
- reduction of industrial injuries.
- development of the staff management system and improvement of social policy;
- effective interaction with stakeholders, including consumers, suppliers and partners of the Company.

For each initiative measures have been outlined, responsible bodies have been defined, and ongoing work is being performed on their implementation.

The Company's governance bodies regularly review, analyze and make decisions on matters associated with the sustainable development of the Company, including in terms of personnel management and environmental protection; the functioning of the integrated management system; and approval of internal documents regulating the Company's activities in certain areas of sustainable development.

The structural unit responsible for systemic matters of the sustainable development of the Company is the Department of Strategic Development.

As part of operating activities, sustainable development management is provided by:

- the department of industrial safety and labor protection, responsible for industrial and fire safety and protection of labor and the environment;
- the department of operating practices and energy management, which is authorized to consider matters of energy saving and increased energy efficiency;
- the department for management of human resources and payroll, responsible for personnel records, organization of labor and payroll, development of human resources and social support.

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

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

- the standard ISO 26000 "Guidance on social responsibility";
- the standard AA1000 AccountAbility Principles Standard and the standard AA1000 Stakeholder Engagement Standard, including the principles of engagement, materiality, and response;
- GRI standards on reporting in the field of sustainable development;
- Other internal documents related to certain areas of sustainable development activities which are publicly accessible on the corporate website of the Company. **102-12**

In addition, in its operations the Company complies with the UN Global Compact in the field of

human rights, labor relationship, environmental protection and countering corruption. **102-12**

Further details on compliance with the UN Global Compact are given in the [Appendix 3](#) to the Report.

STAKEHOLDERS ENGAGEMENT

Effective interaction with stakeholders is an integral part of the Company's performance. In its activities the Company strives to provide a high level of openness and transparency; mutual trust, respect and responsibility are important principles for regular and constructive dialog between the Company and stakeholders.

The general principles of the Company's interaction with stakeholders are formalized in the Corporate Governance Code, the Corporate Ethics Code, the Corruption Control Policy and other internal documents of the Company.

Considering emerging trends and best practices of business conduct, the Company pays great attention to interaction with own stakeholders. Such interaction is built on an ongoing basis and calls for:

- identification of stakeholders, as a result of which the list of stakeholders is updated;

- evaluation of the importance of stakeholders;

- definition of methods and forms of interaction with stakeholders, as well as separate action plans. **102-42**

In 2017, the Board of Directors approved the updated KazTransOil JSC Stakeholder Map, which is the main tool for building quality dialog between the Company and stakeholders, as well as establishing balanced and beneficial relations with them. **102-43**

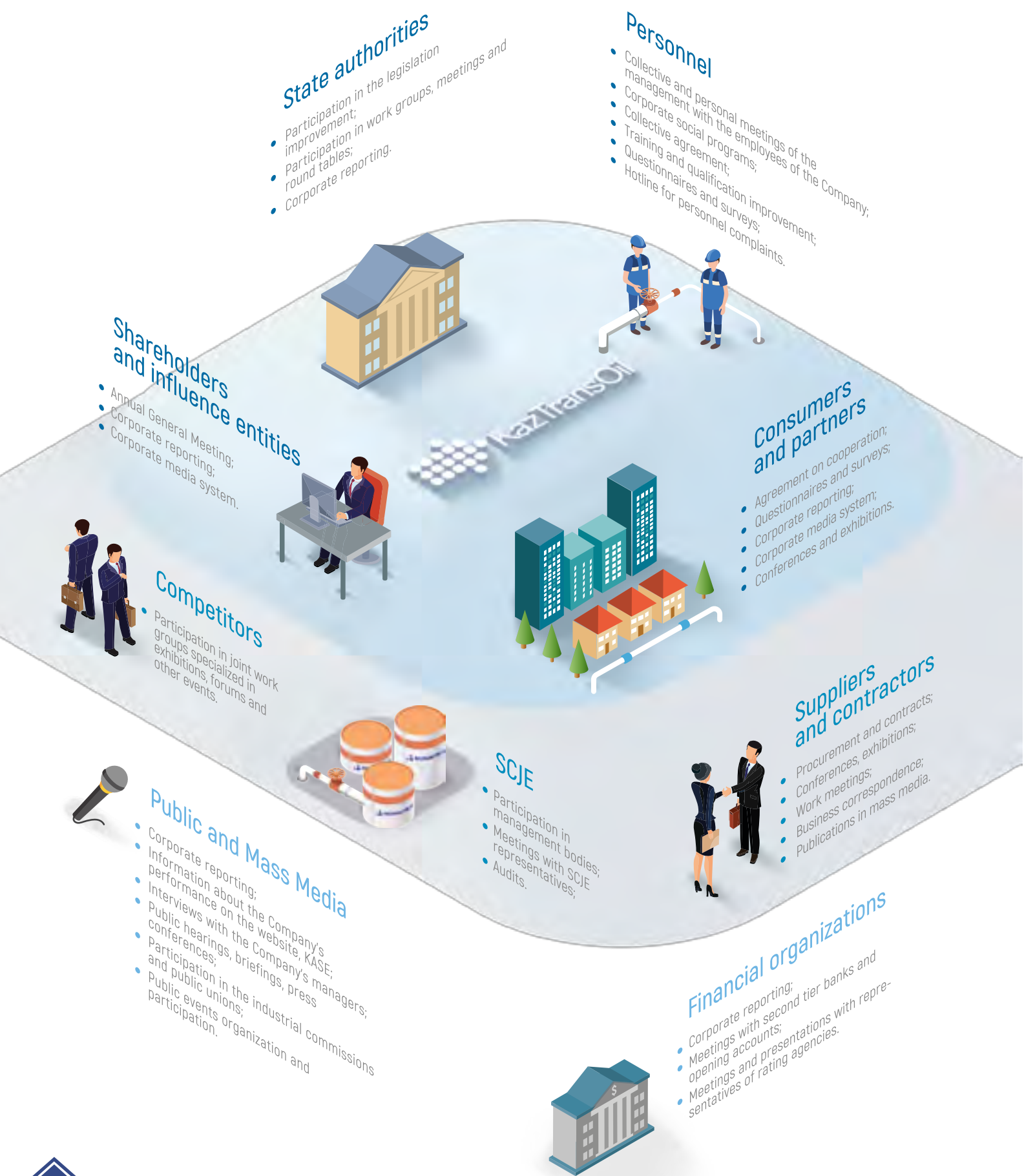
The Company is committed to having relations with stakeholders based on partnership, trust, mutual benefit, and regular and constructive dialog.

The Company maintains active communications with all stakeholders, providing timely and relevant information about its activity and responding to the requests of stakeholders. **102-44**

In order to protect its own interests and advocate own initiatives at the industry, national and international level, the Company also participates in various professional and industry level events and initiatives. **102-13**



STAKEHOLDERS ENGAGEMENT 102-40



Company's membership in associations (industry and international level) and other unions in 2017 102-13

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

VIII MEETING OF THE INTERNATIONAL ASSOCIATION OF OIL TRANSPORTERS

In September 2017 in Astana, VIII meeting of the IAOT was held at the Company's initiative.

All members of the Association participated in the meeting: Transneft CJSC (Russian Federation); CNPC (PRC); Mero ČR JSC (Czech Republic); Transpetrol JSC (Slovakia); Gomeltransneft Druzhba JSC (Belarus); MOL JSC (Hungary); KazTransOil JSC (Kazakhstan); Ukrtransnafta PJSC (Ukraine); Caspian Pipeline Consortium (CPC) as an observer.

During the meeting, the Association members discussed issues on the economic cooperation, agreed budget and activity plans for 2018. In addition, the permanent expert group shared with the results of activities on the legal issues, issues on oil supply and energy efficiency, results of the contest "Best in the Profession-2017" where specialists from Czech Republic, Slovakia, Hungary and China participated for the first time, and other issues. **102-13**

3.2. ENVIRONMENTAL PROTECTION

The environmental protection and ecological safety are the fundamentals of the sustainable development of the Company and the harmonious balance of production interests and the rights of the next generation to a favorable environment.

The Company pays great attention to measures for minimizing the negative impact of its activities on the environment and implementing the principles of the rational use of natural resources.

The Company strictly adheres to the requirements of national legislation, advanced international standards, the provisions of the Policy of KazTransOil JSC in the field of safety, labor protection, and environmental protection and other internal corporate documents, conducts identification and assessment of environmental risks,

and ensures the transparency and openness of its measures in the field of environmental protection.

For effective management of environmental risks, the Company constantly improves approaches to environmental management and allocates the necessary resources for environmental protection. Specialized professionals of the Company undergo advanced training on amendments in the legislation of the Republic of Kazakhstan and have access to all necessary standards.

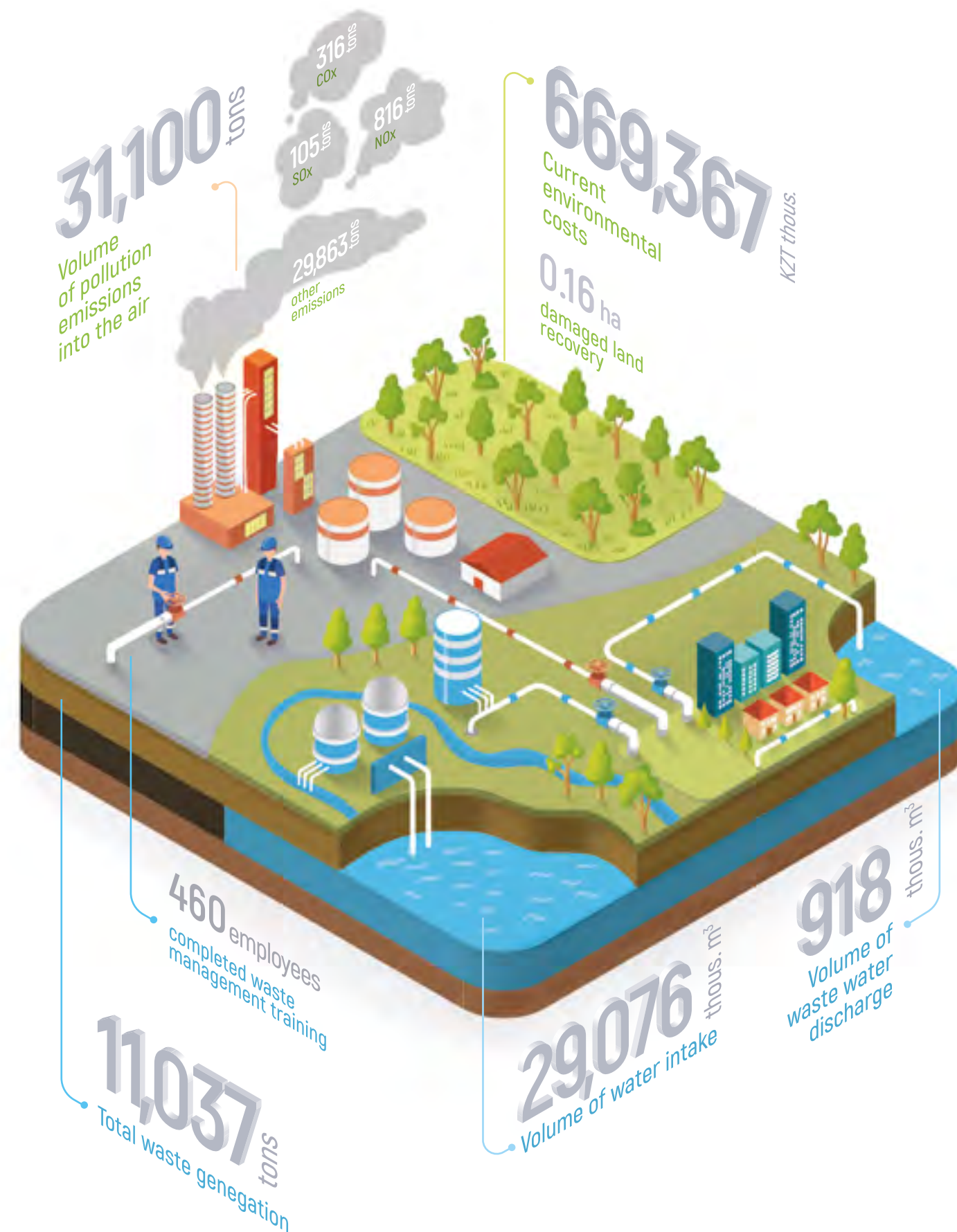
The Company has introduced an environment management system (ISO 14001:2015) in all industrial structural units as a part of the IMS. In 2017, the international certification body SGS (Societe Generale de Surveillance) confirmed the compliance of KazTransOil JSC with the requirements of the international standard ISO 14001:2015.

In accordance with the requirements of environmental legislation, the Company conducts production environmental control by engaging contractors (laboratories) with an accreditation certificate. Environmental assessment of the production process in the framework of production environmental control is performed on the basis of measurements and/or calculations of the level of emissions into the environment and harmful production factors, as well as the actual volume of consumption of natural, energy and other resources.

Pursuant to the requirements of the Environmental Code of the Republic of Kazakhstan, the Company annually concludes contracts for obligatory environmental insurance in order to compensate for harm caused to the environment as a result of accidental pollution.

The Company is committed to reconsidering its relation to environmental aspects at all levels, from the structural units and separate services to each individual employee. Any work, even that not directly related to environmental protection, must bear high ecological culture.

KEY INDICATORS ON ENVIRONMENTAL PROTECTION



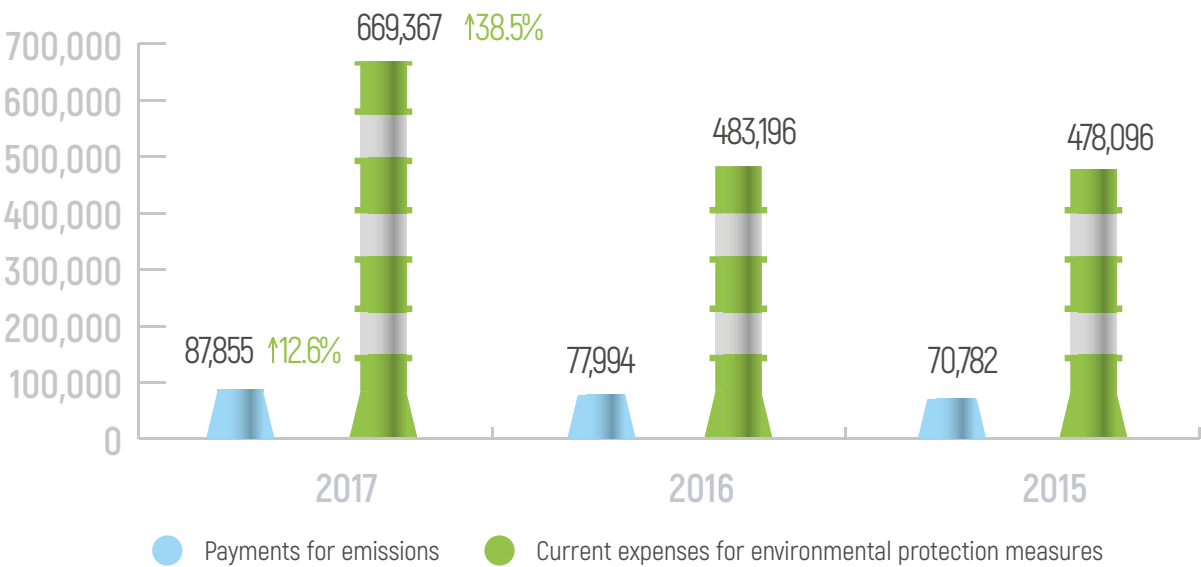
ENVIRONMENTAL PAYMENTS

The Company's environmental costs consist of two main articles:

- Payments for emissions (atmospheric emissions, discharge of sewage, waste management);

- Expenses for environmental protection measures which are initiated by the Company and aimed at the improvement of the environment of Kazakhstan. **MAD**

Expenses for environment protection, KZT thousand **307-1**



In 2017, investments in environmental protection measures amounted to KZT 669.4 million which is 38.5% more than the same indicator in 2016. The Company also paid environmental fees in the amount of more than KZT 87.8 million in the reporting period. The increase of such fees in 2017 was due to an increase in production load and volumes of oil transportation, and current expenses for environmental protection measures were increased by the implementation of measures to restore disturbed lands along the Uzen – Atyrau – Samara oil pipeline. **307-1**

In 2017, breaches of ecological requirements and environmental quality standards were identified as a result of which the total amount of penalties imposed by public bodies amounted to KZT 826,000. **307-1**

There were no accidents which caused suspension of production or environmental damage during oil transportation in 2017.

IMPACT ON THE ATMOSPHERE

The main sources of pollutant emissions in production processes are oil heating furnaces, boilers and oil storage tanks. **MAD**

To prevent and reduce negative impact on the atmosphere, the Company has optimized the combustion process in oil heating furnaces and hot water boilers, and monitors and controls emissions of pollutants into the atmosphere.



Emissions into the atmosphere, tons 305-7

Indicators	2017	2016	2015	Change, %
Volume of emissions of pollutants into the atmosphere, including:	31,100	27,760	25,403	12.0
NOx	816	804	709	1.5
SOx	105	104	121	1.0
COx	316	313	452	1.0
other categories of emissions	29,863	26,539	24,121	12.5

In 2017, the total volume of harmful emissions into the atmosphere did not exceed the specified standards, although it increased by 12% in comparison with the previous year. This is due to the increase in oil delivery volume by 5.7%.

In 2017, a vapor recovery unit was commissioned at OPS named after N. Shmanov, which reduced of pollutant emissions by 80% due to the use of a special carbon canister, for the subsequent cleaning of which a vacuum and blowing air are used. In addition, this installation has positively affected the explosion safety of the facility by reducing the concentration of explosive hydrocarbon vapors and improving the profitability of the installation in the long term.

WATER RESOURCES

Water is one of the main resources necessary for performing production and technological processes, as well as for the daily needs of the Company (drinking needs, fire-fighting systems, heating systems, process consumption when displacing oil from pipelines or cleaning tanks). Water is also used for the needs of third parties (oil and gas producers, municipal enterprises, agricultural producers, and the population). MAD

The Company's main water intake is from the river Kigach, located in the delta of the river Volga, for subsequent transportation via the Astrakhan-Mangyshlak main water pipeline. Other sources account for a very small share

Volume of water intake by sources, thousand m³ 303-1

Indicators	2017	2016	2015	Change, %
Volume of water intake, including:	29,076	27,911	28,023	4.5
surface water (river Kigach)	28,719	27,577	27,695	4.5
groundwater (artesian wells)	264	215	223	22.8
municipal and other water supply systems (purchase from third-party organizations)	93	119	105	-21.8

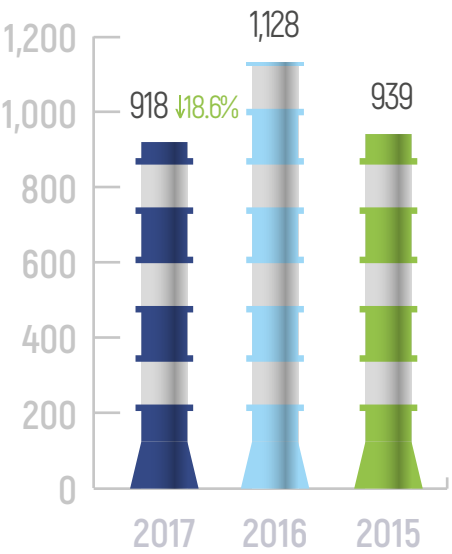


of water intake and are intended for the needs of the Company's units.

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

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

Volume of wastewater discharges, thousand m³ 306-1



The volume of wastewater discharges in 2017 amounted to 918,000 m³ and did not exceed the limit permitted for the Company. 306-1

At the same time, in 2017 the Western branch discharged waste water in the amount of 784,000 m³, or 85% of the total discharge, and the Eastern branch discharged 134,000 m³, or 15% of the total discharge. 306-1

In order to control environmental impact, the Company monitors underground, surface and waste water using laboratory tests of the water and monitors the level of effluent treatment.

WASTE MANAGEMENT

In the process of production, the Company generates around 16 types of waste, which are the residues of raw materials, goods and products. Given the specifics of the Company, the main share of waste in the total generated waste is oil-containing soil, oil sludge and solid domestic (municipal) waste. MAD

Pursuant to the Environmental Code of the Republic of Kazakhstan, the Company observes the established environmental and sanitary-epidemiological requirements in terms of recycling and safe treatment of all types of waste.

For defining hazard level and waste coding, the national waste classifier is used. The waste coding considers formation area, storage (burial) method, method of utilization or regeneration, potentially dangerous components, level of danger, and the field of the economy in which waste is generated.

Waste management includes the following stages: formation, collection, sorting, marking, certification and transfer under a contract to specialized contracting entities, which meets the requirements of the Environmental Code of the Republic of Kazakhstan. A Waste Management Program is introduced for each oil pipeline department of the Company.

The total volume of waste generation in 2017 is by 77.8% more than a level of last year. The waste volume increased due to cultivation of historically contaminated lands and disposal of oil contaminated ground at 1,034 and 1,016.3 km of the Uzen-Atyrau-Samara LOCS Uralsk main oil pipeline. 306-2

From all of waste volume generated, 81% (8,931 tons) of the waste, was generated by the Western branch and 19% (2,107 tons) by the Eastern branch. 306-2

In 2017, 460 employees took a training course on waste management. The training costs were KZT 30,982,000.



Volume of waste generation, tons 306-2

Indicator	2017	2016	2015	Change, %
Volume of waste generation, including	11,037	6,207	6,309	77.8
Oil-containing soil	5,790	466	260	12-fold increase
oil sludge	1,029	1,006	1,524	2.3
solid domestic (municipal) waste	2,486	3,053	2,500	-18.6
Other waste	1,732	1,682	2,025	3

LAND RESOURCES

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

In 2017, the Company continued work on the elimination of historically contaminated lands along the Uzen-Atyrau-Samara oil pipeline. In the expired year, the Company restored 0.16 hectares of oil-contaminated soil. The elimination of historical soil pollution will continue in 2018. 306-3

In 2018, the Company plans to continue detecting, evaluating and managing (minimizing) possible negative factors of the influence of the Company's performance on the environment. One of the new directions and initiatives of the Company in the field of environmental protection may be evaluation of the impact level of the Company's activities on environment, particularly on the biodiversity in places of presence.

3.3. OCCUPATIONAL HEALTH AND SAFETY

Safe working conditions and minimization of risks associated with operational activities are key areas of the Company's Development Strategy. MAD

As part of this activity, the Company aims to ensure a trouble-free mode of operation at its production facilities, prevent accidents and reduce the level of professional diseases, as well as ensuring the safe and ergonomic organization and sanitary-hygienic conditions of all workplaces.

In its activities, the Company strictly follows the requirements of the legislation of the Republic of Kazakhstan in the sphere of health and safety, international and national standards, the provisions of the Policy of KazTransOil JSC related to the field of health, safety and environmental protection and other internal documents of the Company.

The Company has introduced and organized an Occupational Health and Safety Management System at all industrial structural units as a part of the IMS. In 2017, the international certification body SGS (Societe Generale de Surveillance) confirmed the compliance of KazTransOil JSC with the requirements of the international standard OHSAS 18001:2007.



To increase the independence and effectiveness of measures in the field of occupational health and safety in all industrial structural units, the Company has developed Industrial Councils on occupational health and safety, which are advisory councils for the branches whose composition is approved by the joint resolution of the Company and representatives of its employees. 403-1

The Industrial Council on occupational health and safety organizes the joint work of the Company with its employees on ensuring compliance with labor protection requirements and preventing occupational injuries and diseases, and inspects conditions and labor protection at the workplaces. The decisions made by the Industrial Council on occupational health and safety are obligatory and apply to all employees of the Company. 403-1

In 2017, the KazTransOil JSC Occupational Health and Safety Management System was changed due to the transition to a 2-tier management system. At the same time, it was a year of commitment of the first leaders to the issues of safety and labor protection and the expansion of workers' rights in terms of stopping work, which, in their opinion, is being performed in an unsafe manner. In 2017, extensive work was carried out to review, update and renew internal regulatory documents in the field of occupational health and safety. An important result of this work was the development and adoption of the KazTransOil JSC Code on occupational health and safety, the Golden Rules, which includes a description of key requirements for the safe performance of work within the framework of the production process.

In addition, in July 2017 KazTransOil JSC approved the Health, Safety and Environmental Policy. Pursuant to this Policy, the management of the Company assumed obligations, including:

- compliance with the requirements of legislation in the field of health, safety and environment;
- ensuring safe working conditions for the Company's employees and contracting entities;
- reduction and prevention of negative impacts on employees and the environment;

- introduction of safe and resource-saving technologies;
- involvement and motivation of employees at every level of the Company in the implementation of programs and activities in the field of health, safety and environment;
- timely instruction and advanced training of the Company's employees on the issues of health, safety and the environment. 403-4

Since 2017, the Company has been conducting health, safety and environment monthly meetings with employees. 403-1

The Company also approved the new Procedure for conducting "safety minutes" in the reporting year, which is held by the head of production facility every day; each shift starts with talks on different themes in the field of industrial and fire safety, prevention and liquidation of emergencies, environmental legislation, requirements for occupational health and safety, and road transport safety. 403-4

Despite all the efforts to increase the safety level, in 2017 the Company recorded 3 production accidents, in which 3 men were injured. 403-4

According to the accident analysis, a significant role in accidents is played by the human factor (neglect of safety requirements by those performing the work, personal imprudence, etc.)

On 6 March 2017 when trying to pick up the pump during the cleaning of the production space, there was an accident with a main equipment repairman of the HOPS named after B.Jumagaliyev in Zhezkazgan oil pipeline department. The reason was the negligence of the injured person, who did not comply with safety measures when lifting objects. 403-2

On 20 October 2017, an accident occurred with a chemical analysis laboratory specialist of the Akshabulak DAP of the Zhezkazgan oil pipeline department; when walking through the territory of the Akshabulak field, he fell and hit a metal construction and broke his right collarbone. The reason is the negligence of the injured person. 403-2

LTIFR



On 29 November 2017, an accident happened with a repair and maintenance technician of the technological vehicle shop of the Aktoobe oil pipeline department during vehicle maintenance on the hydraulic lift. The reason – poor work organization and gross negligence of the injured person. **403-2**

To prevent such cases in the future, the Company held unscheduled briefings with the employees.

Information on accidents is marked with a “danger arrow” and placed in visible locations. Pathways in the production sites, and all lifting mechanisms, jacks and pits were inspected for compliance with safety requirements.

In 2017, the Company had no cases of occupational diseases.

Total number of accidents associated with the production process **403-2**

Indicators	2017	2016	2015	Change
Total number of accidents associated with production	3	2	5	50%
Total number of injured people, including	3	14	5	4.6-fold decrease
number of light injuries	2	10	2	5-fold decrease
number of serious injuries	1	4	2	4-fold decrease
Number of deaths due to occupational injuries	0	0	1	0
Accident frequency rate per 1,000 people	0.39	0.25	0.67	56%
Lost Time Injury Frequency Rate (LTIFR)	0.05	0.19	0.06	3.80-fold decrease

In 2017, during the assessment of the corporate KPI named “Transparency of reporting on health, safety and environment” NC KazMunayGas JSC has pointed the right execution of this KPI in the Company’s structural units.

In the reporting period 12,747 behavior-based safety observations at the production facilities were conducted, which is 2 times greater than the planned indicator (plan – 6,000 observations). The observations showed that about 98% of work is performed safely. Discussions with employees were conducted for all facts of unsafe and poor organized work, indicating the occurred inconsistencies. **403-4**

The Company regularly takes measures for risk assessment and prevention of accidents and compliance of briefings on occupational health and safety.

The employees of the Company are provided with necessary specialized clothing, footwear and other personal protective means.

In addition, during the year, the Company implemented a number of other initiatives, including preventive health measures, trainings and briefings. The Company systematically conducts drills on the evacuation of employees in case of emergency.

In 2018, the Company plans to perform a set of activities aimed at the improvement of occupational health and safety management system:

- implementation of measures ensuring proper working conditions for the employees of the Company during operations;
- establishment and organization of a crisis management team in order to respond



promptly to possible emergencies and crises;

- bringing the Company’s internal documents into line with the best international practices on health, safety and the environment, including approval of the KazTransOil JSC Code of leadership and commitment to the health, safety and environment.

HEALTHCARE

To minimize the risk of diseases, the Company promotes a healthy lifestyle and preventive care among the employees. The Company understands the importance of healthcare and compliance by its employees with industrial safety.

In accordance with the Labor Code of the Republic of Kazakhstan and the Code of the Republic of Kazakhstan “On the nation’s health and the healthcare system”, the following medical services are provided in the Company:

- urgent medical aid in the form of medical aviation and ambulance;
- pre-doctor care at the daytime medical center;
- qualified medical aid at a medical aid post with a rotating schedule;
- mandatory medical check-up of employees, including every day before a shift and annual periodic examinations. **403-4**

In 2017 6,739 of employees underwent a mandatory medical examination, as a result of which it was found that 1,064 people needed follow-up care. In connection with this, the Company developed plans for treatment and prevention measures coordinated with the territorial city departments of public health. All employees have been registered for follow-up care at their place of residence under the guaranteed volume of free medical care. In addition, medical records were started for them at the production facilities, in which data on their health condition during the work shift is recorded. **403-4**

In 2018, there are plans to take a wide range of measures aimed at improving the quality of work

on healthcare and prevention of occupational diseases:

- approval of the Policy on substance abuse;
- trainings on emergency medical aid for basic life support (BLS) and pre-hospital trauma life support (PHTLS);
- approval of the Regulations for organizing emergency medical aid;
- acquisition and placement of automatic defibrillators at medical aid posts.

3.4. PERSONNEL MANAGEMENT

Our employees are the main asset of the Company. KazTransOil JSC is committed to create the most favorable conditions for the personnel development, raise the labor safety level, and provide social support to employees and members of their family.

Priorities of the HR Policy of the Company are:

- recruitment of highly qualified specialists and their development and settlement into work teams;
- introduction of advanced methods of HR Management;
- social protection of employees, observance of their interests and rights to the full extent, and workplace safety;
- talent pool management;
- support of innovations and transformations;
- establishment and implementation of an effective reward system contributing to the improvement of performance and labor quality.

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



THE COMPANY'S PERSONNEL HEADCOUNT AND STRUCTURE

The Company is one of the largest employers in the Republic of Kazakhstan. As of December 31, 2017, the headcount of the Company amounted to 7,152 people. A decrease by 9.6% in comparison with 2016 results is due to personnel optimization via outsourcing non-core activities and support services to the competitive environment (catering and cleaning services, personnel transportation). The share of full-time employees in the reporting period was 100%. **102-7, 102-8, 401-1**

The recruitment procedure in the Company is carried out in accordance with the Rules for competitive selection of new employees for vacant positions in KazTransOil JSC with the use of testing methods and adherence to principles of transparency and meritocracy. **MAD**

During implementation of existing procedures for the search and selection of the personnel, as well as the day-to-day practice of HR management, the Company follows the principles of fair and equal treatment of employees. The Company strictly observes the interests and rights of employees, and provides the employees with equal opportunities regardless of race, nationality, language, attitude to religion, beliefs, place of residence or any other circumstances. The Company provides the maximum assistance in preventing any form of discrimination, use of child or forced labor, and recruits and promotes personnel solely on the basis of professional abilities, knowledge and skills. **MAD**

The structure of the personnel of the Company has remained stable in recent years. Due to the peculiarities of production, the Company engages male employees in the main production sites, whose share in the total headcount in 2017 was 81.4%.

The main share of the Company's personnel is employees aged 30-50 years (55.8%). The average age of the Company's personnel in 2017 was 43 years old. Average length of service in the Company is 12 years.

In 2017, the turnover rate was 3.6%. The increase of the turnover rate by 85.6% compared to 2016 is due to personnel optimization. **401-1**

The minimum period of notice to employees upon termination of employment contracts in the case of reduction of number or staff is one month, in accordance with the Labor Code of the Republic of Kazakhstan. In 2017, there were no suits from employees claiming non-compliance with the labor legislation by the Company. **402-1**

REMUNERATION AND MOTIVATION OF EMPLOYEES

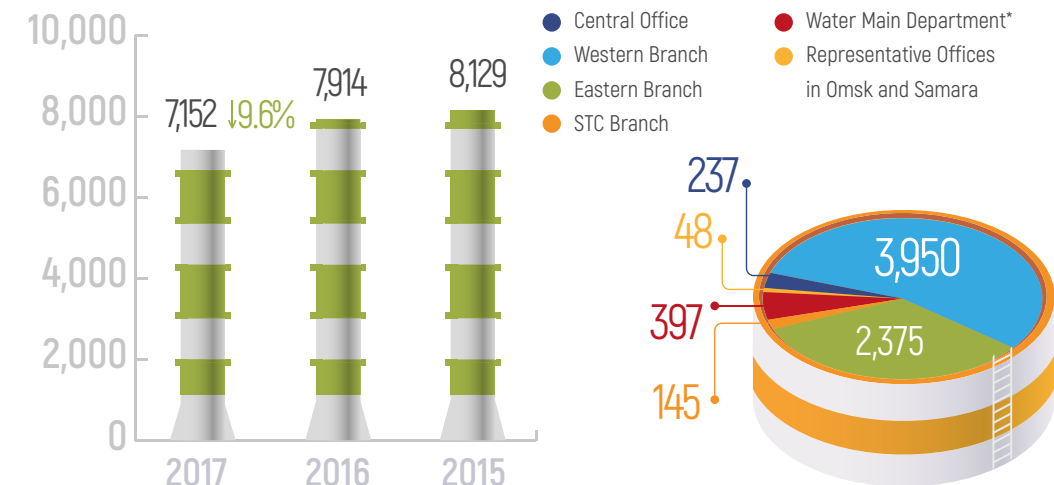
Employee incentive is one of the main principles of the HR Policy of the Company. Creation of an effective incentive system for employees will contribute to keeping highly qualified specialists and motivating them to be more productive. **MAD**

The Company is continuously improving the system of remuneration of employees, performing regular monitoring of the external market and ensuring decent remuneration to its employees, which is an advantage in the formation of human resources. In the reporting period, the average monthly salary in the Company exceeded the average salary in the regions of presence.

The existing wage system in the Company provides:

- a decent level of remuneration to its employees in line with level of remuneration in the best companies in Kazakhstan;
- a two-component wage system consisting of a permanent part (salary/wage rate, coefficients for severe and unfavorable climatic conditions in the regions, coefficients for living in environmentally unfavorable conditions, additional payments for harmful working conditions and other permanent payments) and a variable (bonus) part.
- indexation of wages of the production unit personnel based on the level of inflation in Kazakhstan.

Personnel headcount, persons **102-8** Dynamics of headcount by branches, persons **102-7, 102-8**



Gender composition of personnel, persons **102-8**

Branch	2017		2016		2015	
	male	female	male	female	Male	female
1 Central Office	132	105	134	115	128	113
2 Western Branch	3,256	694	3,688	1,172	3,733	1,226
3 Eastern Branch	2,036	339	2,133	514	2,154	556
4 MICC Branch**	0	0	25	21	53	34
5 STC Branch	69	76	37	33	44	44
6 Water Main Department*	310	87	-	-	-	-
7 Representative Offices in Omsk and Samara	23	25	19	23	16	28
Total	5,826	1,326	6,036	1,878	6,128	2,001

*In 2017, the headcount is given including the Water Main Department.

**In 2017, the headcount is given without MICC.

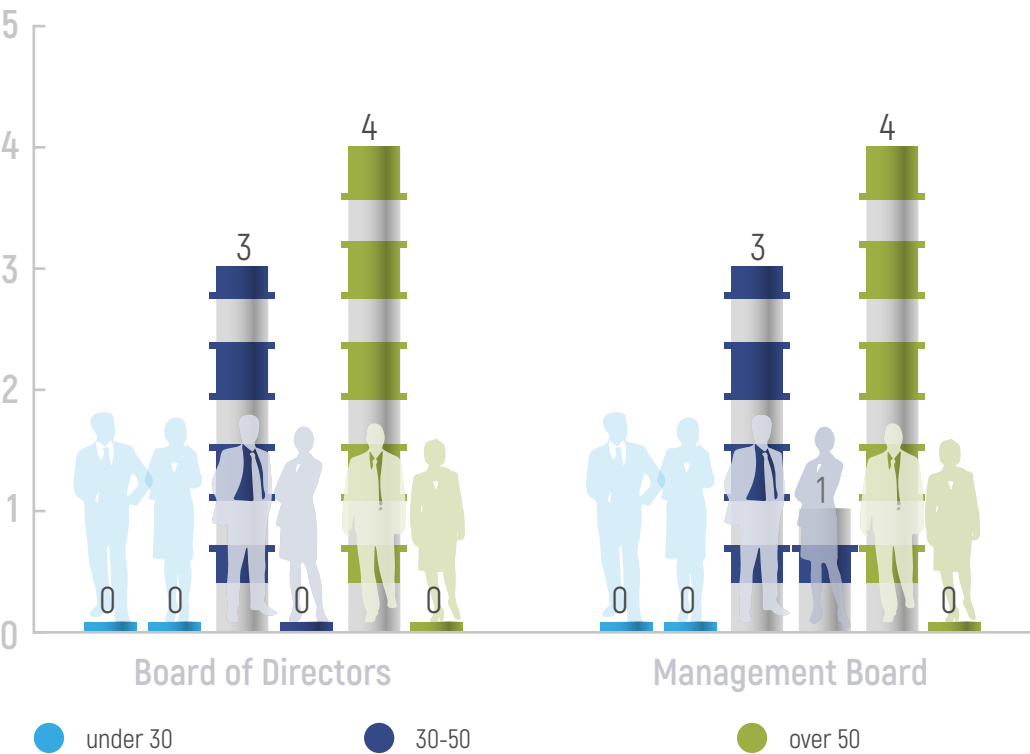
Gender composition of permanent and temporary employees, persons **102-8**

	2017	
	male	female
Total headcount, including	5,826	1,326
permanent	5,775	1,265
temporary*	51	61

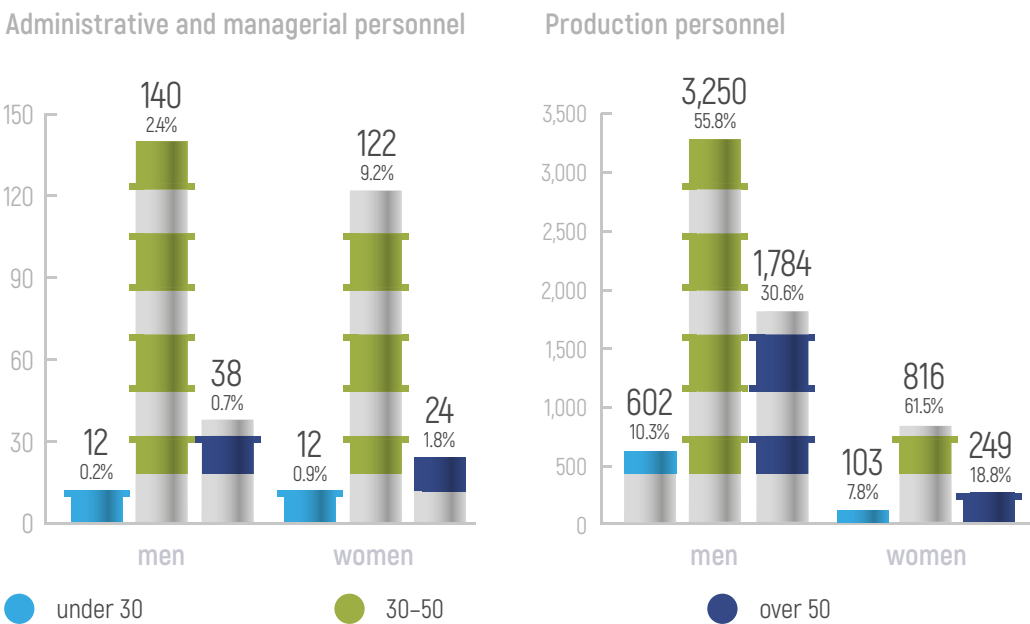
* Temporary employees include employees with whom an employment agreement was concluded for the period of temporary replacement of absent employees.



Composition of the governing bodies of the Company in 2017, persons 405-1



The main categories of the Company's personnel in 2017 405-1



* The share by age is calculated from the total number of each category of employees of each gender.

Ratio of the wages of entry level employees to the minimum salary in the regions of presence, KZT thousand 202-1

Indicator	2017	2016	2015	Change, %
Minimum wages in the regions of presence *	24.46	22.86	21.36	7.0
Wages of an entry level employee in the Company, KZT thousand (men)**	57.00	49.79	46.53	14.5
Ratio, times	2.33	2.18	2.18	6.9
Wages of an entry level employee in the Company, KZT thousand (women)**	49.30	49.30	46.10	-
Ratio, times	2.02	2.16	2.16	-6.5%

* In the previous Report, the minimal salary of the Company's employees without allowances was used as the minimum wage in the presence regions, while the minimum wage in the Republic of Kazakhstan was used in this Report.

** Data for 2015-2016 for men contained information on the wages of a janitor, who has been outsourced since July 2017. In 2017, data on the boiler room operator was listed.

In 2017, as part of the Company's transition to a 2-tier management system, the professional knowledge and skills of employees of the administrative and management departments of the Company were assessed. The main objective of the assessment was not only to define the level of professional knowledge and skills of employees, but also to determine the employees' potential in order to predict the success of their development in the Company.

In total, the assessment of professional knowledge and skills was carried out for 261 employees of the Company; the average total score for all evaluation stages was 78% out of 100% possible.

YOUTH POLICY

An important area in the personnel policy of KazTransOil JSC is work with young specialists. The Company implements an integrated approach to work with young professionals and the engagement of young specialists for work in the Company, which is enshrined in the Youth Policy of KazTransOil JSC.

The Company has created conditions for the professional and personal development of young specialists, and the development of leadership, professional and managerial competencies.

In 2017, the Company employed 1,761 young experts under the age of 32. The increase of this indicator in almost 2 times-fold is due to the increase in age category from 29 to 32 years.

As part of the events held in 2017 in honor of the creation of KazTransOil JSC and the implementation of the program "20th anniversary of KazTransOil JSC – 20 good deeds", young specialists of the Company took active part in environmental, cultural, and sporting events. In reporting period, the Young Specialists Council initiated and conducted more than 50 charity events, including for veterans, low-income families, orphanages, schoolchildren under the statement "The Road to School", etc.

Young specialists of the Usharal oil pipeline department and Peterfeld LOCS won the contests among employees of the structural units of the Company for the best slogan and logo devoted to "The 20th anniversary of KazTransOil JSC – 20 good deeds".

In October 2017, during Youth Forum (the Forum) in Almaty the Company's employees brought their talents to light during the games of the Humor Club held as part of the Forum, and showed solidarity and teamwork ability in team building sessions.



CONTEST FOR THE BEST STUDENT'S WORK

In 2017, the Company organized a contest in honor of its 20th anniversary for the gifted students of the Satbayev Kazakh National Technical University (Satbayev University) for the best student paper on "Perspectives of the development of main oil pipelines of the Republic of Kazakhstan as exemplified by KazTransOil JSC". Thanks to the contest, future pipe operators, 3rd course students of Satbayev University, had the opportunity come into the spotlight and share ambitious ideas with jury members from among the instructors of the Transportation Department of KazNRTU and leading specialists of KazTransOil JSC. Participation in the contest involved writing a student paper and undergoing a paid internship in the Company's facilities. The contest winner won the main prize – a job offer at one of the structural units of KazTransOil JSC.

TALENT POOL

The Company has created a talent pool whose purpose is to ensure continuity and the preparation of the Company's own managerial personnel. In 2017, the talent pool of the Company contained 59 people, including 18 people are the Central Office's employees.

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

Since the formation of the talent pool (2010), 27 employees have been appointed to managerial positions from the talent pool, including 10 employees in 2017.

3.5. SOCIAL POLICY

SOCIAL SUPPORT OF EMPLOYEES

KazTransOil JSC provides its employees with a guaranteed package of social benefits aimed at improving the living conditions of workers and their families, stipulated in the Collective Agreement, by which 100% of the Company's personnel are covered (except employees of representative offices). **102-41**

The social package of the Company includes: social leaves such as leave without pay, study leave, and leave in connection with the birth of a child (children) or adoption of a newborn child (children), as well as short-term paid leave, including leave upon the marriage of an employee, in connection with the birth of an employee's child (becoming a father), or in connection with the death of an employee's immediate family members (parents, spouse, children, siblings). **MAD**

In 2017, the Company performed all obligations stipulated in the Collective Agreement. For example, in the reporting year, more than 6,000 employees received various types of financial aid and social benefits provided for by the Collective Agreement, and more than 20,000 people, including employees and their families, were covered by voluntary medical insurance. In total, the Company's costs for social support of its employees and their families amounted to almost KZT 2.4 billion. **401-2**

In addition to the main social benefits and payments, the Company also provides the following:

- Monthly payment of benefits to the employees who are on leave for child care until the child reaches the age of 1.5 years;
- Additional support is provided to women. In addition to the legislated initiatives, the Company provides a flexible work schedule to women with young children;
- Monthly payment in the amount of KZT 15,000 for the support of a child (children) aged 1.5 to 6 years old;
- New Year's gifts to employees' children up to 12 years old. **401-2**



The Company has a high rate of employees who return from such leave.

In addition to the said benefits and guarantees, the Company implements a Program for providing housing to employees under preferential loan terms.

Since the launch of the Program, preferential loans for the acquisition of housing or the improvement of existing housing have been received by 300 employees of the Company.

Share of workers that returned to work at the end of leave to care for a child under three years old in 2017, people (Rate of return to work) **401-3**

Name	Total number of employees who took maternity/paternity leave		Total number of employees who returned to work after maternity/paternity leave		Share of employees that returned to work at the end of the maternity/paternity leave, %
	men	women	men	women	
Central Office		25		8	32.0
Western branch	2	123		59	47.2
Eastern branch	1	69		33	47.1
MICC Branch		4		0	0
STC Branch		11		2	18.2
Main Waterline Department		7		3	42.9
Representative offices in Omsk and Samara		1		0	-
TOTAL	3	240		105	
Total number	243		105		43.2

PERSONNEL TRAINING AND DEVELOPMENT

One of the priorities of the Company's HR Policy is to provide broad opportunities for training and development of personnel.

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

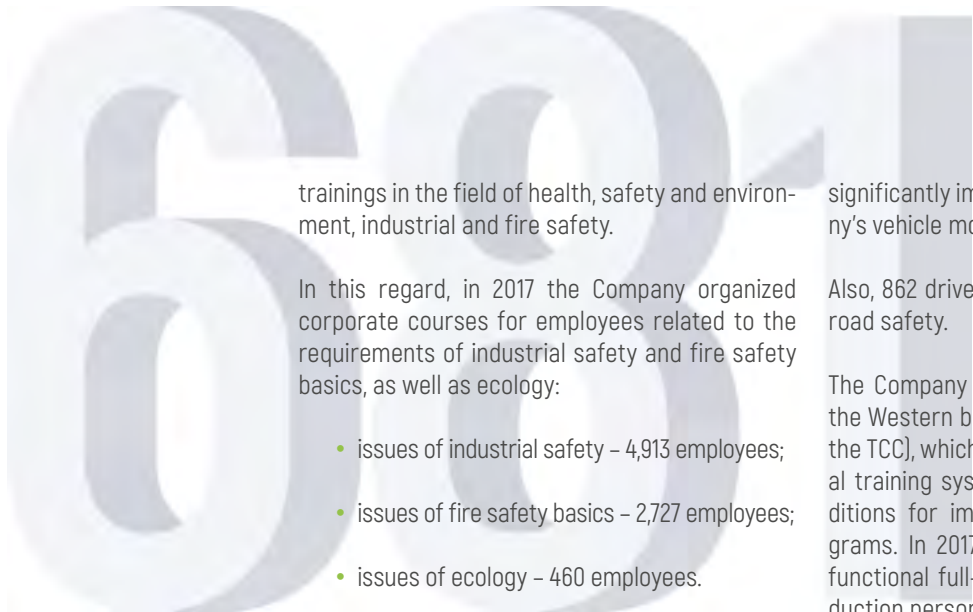
The main areas of the Company in the field of vocational training are:

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

In 2017, 681 events were held under the personnel training and development program. The total cost of training in 2017 amounted to KZT 395 million, which is 15.5% higher than in 2016.

Considering production specifics of the activities, the Company pays a great attention to the





events under the
personel training
and development
program

trainings in the field of health, safety and environment, industrial and fire safety.

In this regard, in 2017 the Company organized corporate courses for employees related to the requirements of industrial safety and fire safety basics, as well as ecology:

- issues of industrial safety – 4,913 employees;
- issues of fire safety basics – 2,727 employees;
- issues of ecology – 460 employees.

In May 2017, the employees of the structural units responsible for road safety visited the Schlumberger Siberian Training Center (Tyumen), where they received training in safe driving of motor vehicles (DriveSmart) and studied the system of trip control and management “Quest”, “E-Journey” and “Mix-Telematics-DynaMix”. The gained knowledge and experience made it possible to significantly reduce road accidents in the Company (in the Eastern branch to zero incidence rate) and

significantly improve the operation of the Company’s vehicle monitoring system.

Also, 862 drivers of the Company were trained in road safety.

The Company has a Training Course Complex in the Western branch of the Company (hereinafter, the TCC), which is the coordinator of the vocational training system, providing the basis and conditions for implementation of educational programs. In 2017, 6,925 employees, including 5,663 functional full-time workers, from the total production personnel were retrained in the TCC.

Retraining of employees in the Company is aimed not only at raising the employees’ qualification, but also at their acquisition of related professions to improve the likelihood of further employment in the case of transfer to another job, personnel optimization or staff reduction. Such social support is favorable to social stability in the presence regions. **404-2**

Financing of training programs and advanced trainings, KZT million

	2017	2016	2015	Change, %
Total amount	395	342	324	15.5

The Company cooperates with the best national universities, like the Kazakh-British Technical University, KazNRTU, etc. The main area of cooperation is the organization of field and pre-diploma practice of students. In addition, the Company supports the training of the best students at specialized universities of Kazakhstan.

The students are given opportunities to undergo paid internships at production sites of the Company. Each student has a mentor from among the experienced employees of the Company.

91 students went through academic and field practice in the Company for the reporting period.

CORPORATE CULTURE AND INTERNAL COMMUNICATIONS

Over the 20 years of the establishment and development of KazTransOil JSC, a unique corporate culture has been formed which is based on core values of the Company such as health and safety, team spirit, efficiency, professionalism, sustainable development, solidarity and teamwork, which are reflected in the Development Strategy of the Company.

To assess the development level of the corporate culture, the Company conducts an annual study of employee engagement. This study demonstrates the degree of the personnel’s loyalty to the Company, awareness and understanding by employees of the corporate goals and objectives, and



a degree of personnel trust toward its management, and helps to identify material and psychological incentives that have the greatest influence on the personnel satisfaction.

The Company’s employee engagement index in 2017 amounted to 64%. According to the employee engagement index scale adopted by Samruk-Kazyna JSC, this result of the study is in the positive zone, which is an important indicator of understanding by employees of the Company’s development goals.

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

In 2017, the Company’s management held monthly meetings with employees to discuss the results of the Company’s work in 2016, interim outcomes of financial and economic activity for 2017, presentations on health and safety, transformation and business processes optimization, etc. As a part of the celebration of the 20th anniversary of the Company, 11 projects for internal communications were implemented with the participation of thousands of employees of the Company, including:

- a contest for the best logo and slogan conducted among employees for the 20th anniversary of KazTransOil JSC;
- an essay contest for employees’ children on the topic: “My parents are oil-industry workers”;
- the project “My work – my pride!”;
- the project “Gift of Life”;
- the project “History of one photo”;
- “General Director’s Business letters”;
- “Labor contemporaries of the Company”;
- the release of the anniversary book “Stream energy”;

- the creation of the anniversary movie “20 years of creation and success”;
- the project “A day in the life of a station”;

- the creation of 2 videos with congratulations from executives in the energy industry and partners and 3 image-building clips on the Company’s activities with subsequent showings at image-building events and on national TV channels.

In 2017, the Company continued to issue an electronic newsletter called “Nefteprovodchik”. During the year, 22 issues of the publication were distributed among employees.

In addition, the Company’s official website was redesigned in a long-read format, which improved visualization and navigation.

It is worth mentioning the increase in the creativeness of the Company’s employees. Many employees became authors of articles, which were published on the corporate portal and in the “Nefteprovodchik” newsletter.

HEALTHY LIFESTYLE

The Company considers a healthy lifestyle and sports to be one of the priority areas of its social policy. It promotes a healthy lifestyle and encourages employees to engage in sporting activities for harmonious development, improvement of health and maintenance of labor activity.

In 2017, more than 250 employees of the Company took part in 6 Spartakiads, in which, they won in the following competitions:

- The KazTransOil JSC volleyball team won 1st place in the Spartakiad conducted by Samruk-Kazyna JSC between members of the holding and was awarded a trip to Italy; the mini-football team took third place in the competition;
- The KazTransOil JSC team won 1st place in the mini-football tournament devoted to the 15th anniversary of NC KazMunayGas JSC.
- In August in Aktau, more than 130 strongest KazTransOil JSC athletes competed in



"Nefteprovodchik"
newsletter issues

mini-football, volleyball and basketball, had demonstrated their agility in competitions of mixed relay, table tennis and tug-of-war, showed their strength in kettlebell lifting, etc.

CONTEST AND REWARD POLICY

The Company has developed internal remuneration and recognition Rules for KazTransOil JSC employees, its SCJEs, and industry veterans. These Rules are aimed to increase the interest of the employees of the Company and its SCJEs in achieving high performance indicators, encouraging professional performance, public recognition of the merits of employees and veterans.

In 2017, for a significant contribution to the development of pipeline transport in the Republic of Kazakhstan, 528 employees of the Company and its SCJEs received state awards and awards of the Ministry of Energy of the Republic of Kazakhstan, Samruk-Kazyna JSC, NC KazMunayGas JSC, Kazakhstan Association of Oil, Gas and Energy Complex "KAZENERGY" and the Company.

"Best in the Profession" Contest

In 2017, the "Best in the Profession" annual competition obtained a new format. The changes were in the number of participants, which was increased to 294 employees of the oil pipeline departments, and the reduction of the number of rounds from three to two. In addition, there was a significant increase in the size of awards for the contest winners and their mentors, who received corresponding monetary prizes and diplomas.

The winners of the "Best in the Profession" competition were included in the Company's team for subsequent participation in the international competition of professional excellence held in August 2017 in Omsk, where participants from 7 IAOT participating countries showed their professional skills and knowledge.

At the competition, KazTransOil JSC took an honorable 2nd team place.

Also in 2017, the Company held the "Best structural unit" competition for the first time in honor of the 20th anniversary of KazTransOil JSC in order to reveal leaders among the production structural units of the Company. The winners of the this competition were:

"Best structural unit" Contest

group 1

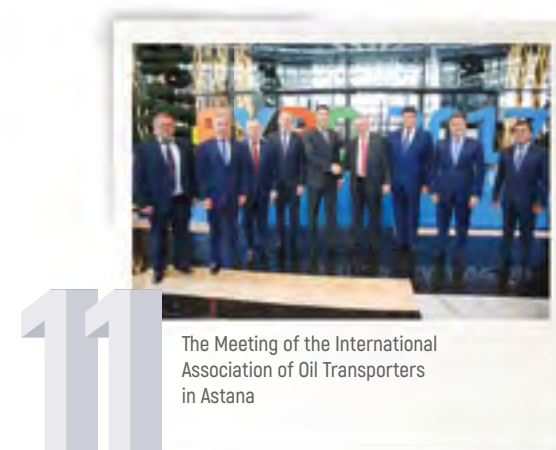
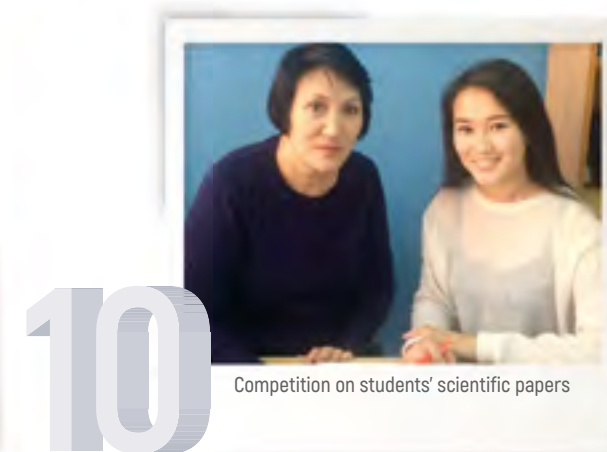
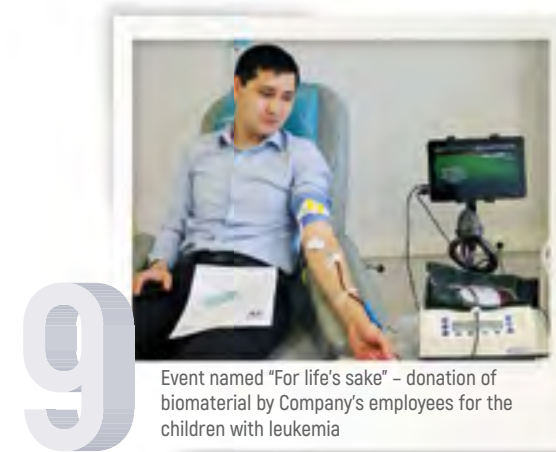
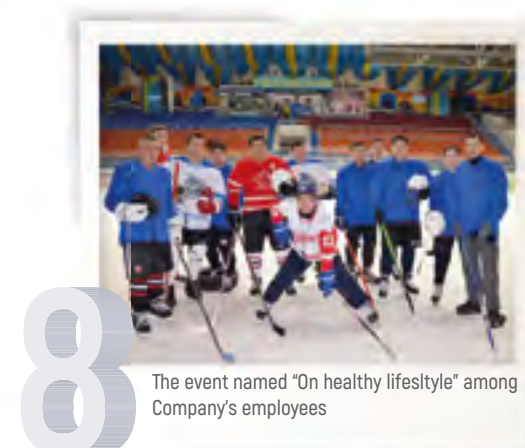
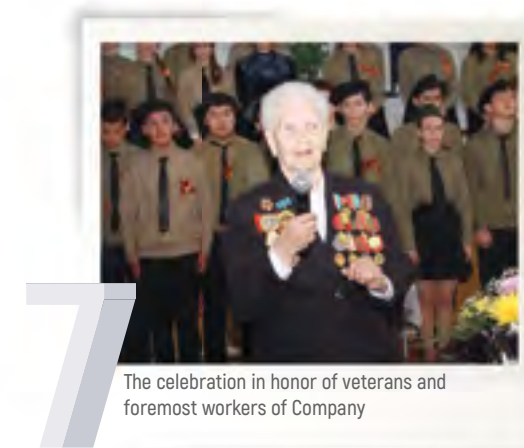


group 2



20th ANNIVERSARY OF KAZTRANSOIL JSC GOOD DEEDS

As part of the celebration of 20th anniversary of the Company, 20 projects were implemented with the participation of thousands of Company's employees



13



"Best in the Profession" Contest

14



Presentation of the anniversary stamp "20 Years of KazTransOil JSC"

15



"Best in the Profession 2017" Contest on professional competencies among IAOT members

16



Publication of book "The energy on stream" about Company's development history

17



"The best oil pipeline structural unit"

18



The centralizing the Company's dispatch management system in Astana city

19



The first youth forum of oil transporters

20



The corporate film "20 years of creation and success"

PENSIONS

The Company cares about its retired veterans. In the framework of the Rules for social support of unemployed pensioners and disabled people in the Company, in addition to providing mandatory financial aid at retirement, the Company does not forget about its former employees and provides monthly payments and memorial gifts to them in honor of the celebration of national, state, and professional holidays. **404-2**

In addition, in 2017 all structural units held official meetings in celebration of the 20th anniversary of the Company where veteran pipeline operators were honored. For their significant contribution to the establishment of the Company and the pipeline industry of the Republic of Kazakhstan, all veteran pipeline operators received Letters of Gratitude from the General Director (Chairman of the Board) of KazTransOil JSC.

Also in honor of the 20th anniversary of the Company, the veteran pipeline operators were awarded with "Honored employee of the main pipeline transport" medals of the Ministry of Energy of the Republic of Kazakhstan.

LOCAL COMMUNITIES IN THE REGIONS OF PRESENCE

In the framework of the Program "The 20th anniversary of KazTransOil JSC-20 good deeds" carried out in 2017, employees of all regions of presence of the Company, with the participation of the Young Specialists Council, conducted a wide range of social events, such as:

- A national "Green Relay" – planting seedlings in cities and towns, as a result of which more than 2,200 trees were planted.
- The charitable campaign "Let's inspire children for a better future". About 200 children from orphanages in Akkol, Uryupinsk, Sandyktau and Yessil had excursions and visited professional workshops;
- The "Gift of Life" campaign, free donation of blood by employees of the Central Office to people who need transplantation of blood-forming stem cells;

- A charitable campaign for preparing orphans and foster children for school;
- The "Clean Friday" campaign, initiated by the Astana City Municipality within the framework of preparation of the Capital for the International Specialized Exhibition "Astana EXPO-2017";
- Repair of the pedestrian bridge in the state national park "Sairam-Su" and other events.

The Company's plans for 2018:

- Development of new concept for the "Talent pool" Program of KazTransOil JSC;
- Development of the Rules of the payroll system of the production personnel of KazTransOil JSC;
- Implementation of projects for assessment of the heads of structural units of the Central Office and industrial structural units of the Company under the approved standard model of personal (business) competencies and 360-degree assessment;
- Program development for line managers rotation (oil pipeline departments, oil pumping stations, line operations control stations).

3.6. PROCUREMENT SYSTEM AND LOCAL CONTENT

For sustainable development of KazTransOil JSC business, given its scale, it is very important to have an effective procurement system to provide the Company's Central office and branches with high quality goods, works and services on a timely basis. **MAD**

The main principles and tasks of the Company's procurement system are the following:

• openness

the procurement system optimization based on the best practice;

• competitiveness

reduction of the Company's costs due to economy of funds in procurement of goods, work and services, including minimization of intermediary services;



- **reasonability**

providing the Company with goods, work and services of the required quality, at low price, and on a timely basis.

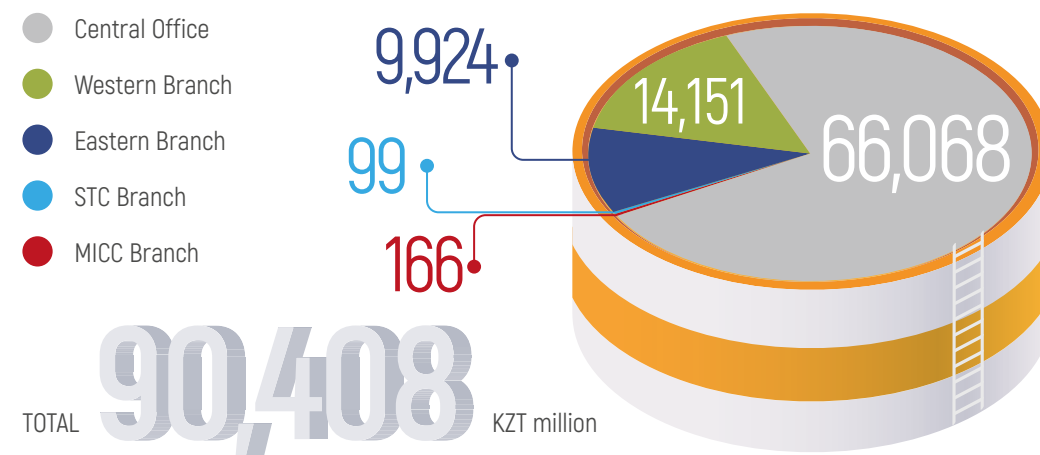
The Company's procurement process includes the following:

- development and approval of procurement plans;
- selection of goods and services suppliers;
- conclusion and execution of procurement contracts. **102-9**

Company's procurement procedures are performed in accordance with the Rules of procurement of goods, work and services of the National Welfare Fund Samruk-Kazyna Joint Stock Company and the organizations, fifty and more percent of voting shares (participation shares) of which directly or indirectly belong to Samruk-Kazyna JSC on the rights of ownership or trust management (hereinafter, the Procurement Rules). Procurement procedures are performed on the Samruk-Kazyna Contract LLP electronic platform.

Total savings for 2017 due to competitive procurement procedures amounted to KZT 2,788 million.

In 2017, the Company concluded contracts, KZT million



More detailed information on the 2017 procurement is given in [Appendix 4](#).

LOCAL CONTENT DEVELOPMENT

In the framework of State's unified policy on supporting domestic commodity producers the Company annually increases the number of procurement contracts concluded with Samruk-Kazyna JSC commodity producers, thereby expanding the volume of the procured goods from the domestic commodity producers.

As a result of procurement activity, long-term 2017-2019 contracts were concluded with domestic commodity producers for the amount of KZT 15 billion. Additionally, the one-year contracts with

domestic commodity producers were concluded for KZT 10.4 billion in 2017 and 100% executed. **204-1**

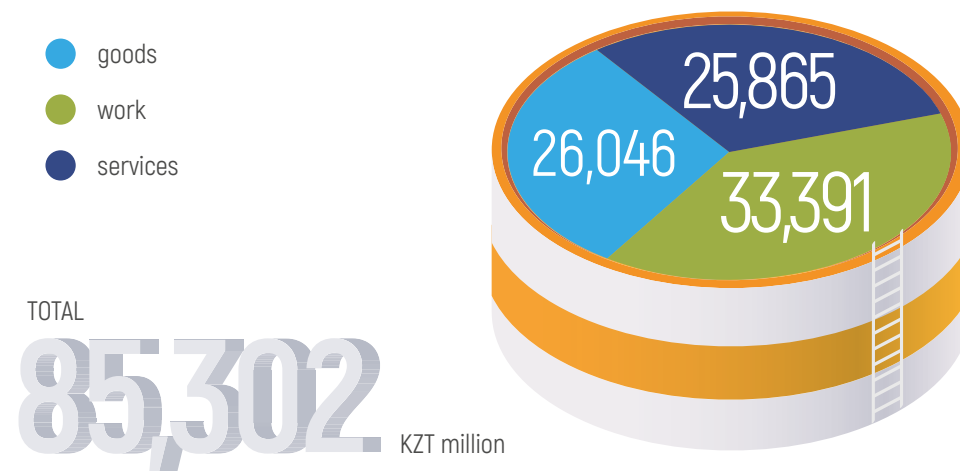
Local content share in the KazTransOil JSC procurements in 2017 was 68%, including goods – 52%, work – 67% and services – 86%.

Local content is defined as the percentage of the remuneration cost of Republic of Kazakhstan citizens involved in the procurement contract implementation from the total wage fund under this contract and/or the value of local origin share (shares) established for goods in accordance within the criteria of sufficient processing or full production by the Republic of Kazakhstan residents from the total cost of goods under the procurement contract.

The local content share monitoring process in the procurement of goods, work and services is carried out on the Samruk-Kazyna JSC authorized

body's portal – «Monitoring card of Kazakhstani content in procurement» on the <http://www.kmks.kz> website.

Information on 2017 Company's local content share in procurement*, KZT million



* Data from Samruk-Kazyna Contract LLP

In 2017, the Company concluded long-term contracts with the following Samruk-Kazyna JSC commodity producers:

- Kainar-AKB LLP, batteries supply;
- SHEBER Clothing Factory LLP, uniform supply;
- Sagan Colour LLP, paint and varnish products supply;
- KazSPO-N LLP, safety shoes supply ;
- DosMunayKhim LLP, chemical products supply;
- High Industrial Lubricants & Liquids Corporation LLP, lube oil supply;
- Kazenergokabel JSC, cabling and wiring products supply;
- Pavlodar plant of welding equipment "SVAR-KO" LLP, welding electrodes supply;
- Ust-Kamenogorsk reinforcement factory JSC, shut-off valves supply;

- TEMIRMASH Pavlodar factory LLP, motor and heavy equipment supply;
- Semipalatinsk Lube Oil Factory LLP, lube oil supply;
- Kazakh specialized repair and adjustment plant LLP, abrasive materials supply;
- Electrode SK LLP, welding electrodes supply;
- Zhezkazgan energosbyt LLP, electric power supply;
- Mangistau NPP-Kazatomprom LLP, electric power;
- Dormash-CHTZ LLP, bulldozers supply;
- RauanNalko LLP, polyphosphate-based corrosion inhibitors supply. **204-1**

In 2018, the Company plans to maintain the local content share in the procurement of goods at 52%, work and services at 75%.



4. CORPORATE GOVERNANCE



59.6

KZT billion

The total amount of dividend payments in 2016

100%

Attendance of
meetings of Board
of Directors

12

inquiries
on
Company's
hotline



Merging of elements.
Synthesis of correct solutions.



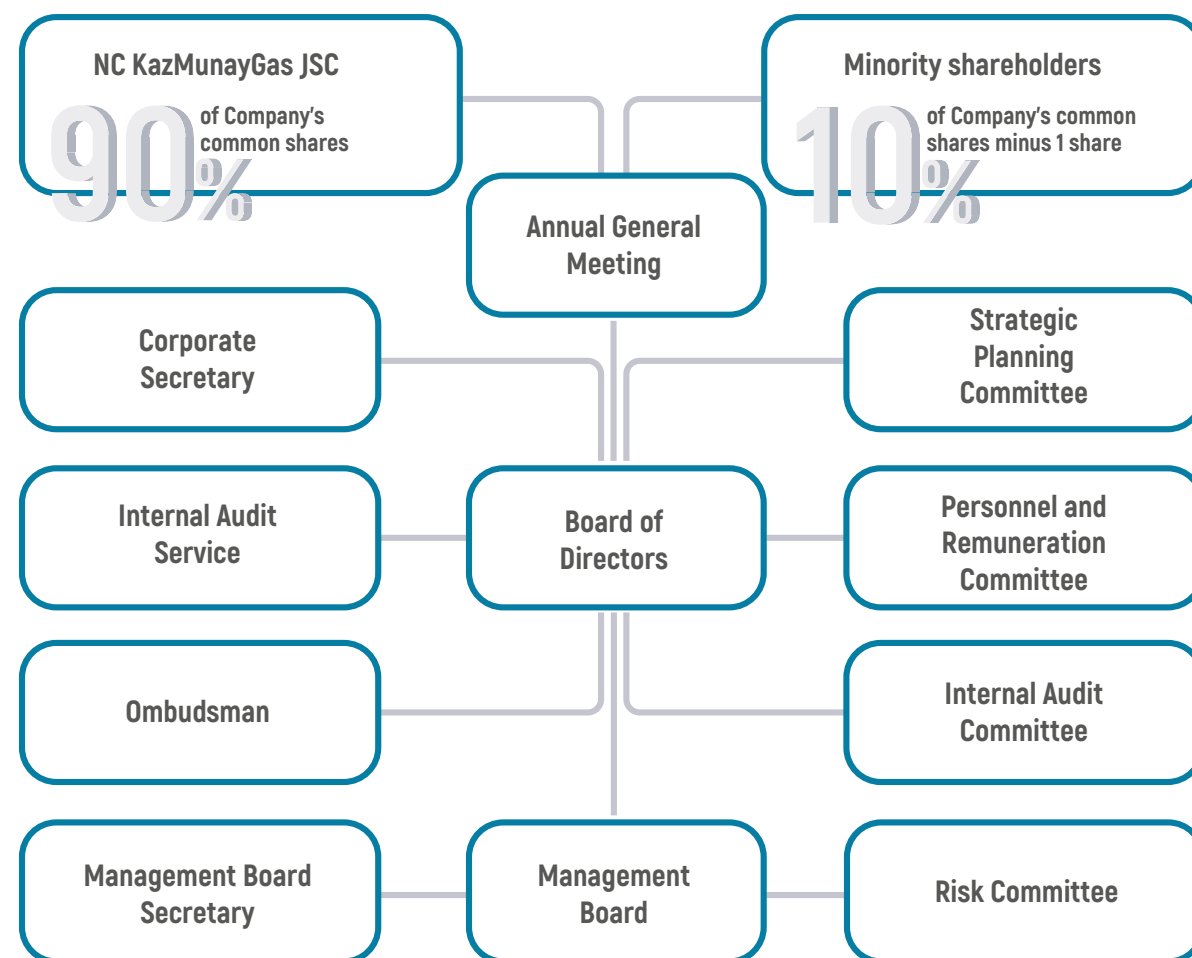
KazTransOil JSC considers corporate management as a key factor for increasing the Company's value, its competitiveness, investment attractiveness and pays special attention to the improvement of the corporate governance system and respecting the interests of its shareholders. It is important for the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

KazTransOil JSC is building up a corporate governance system in accordance with the Laws of the Republic of Kazakhstan, KASE requirements, Company's Charter and Corporate Governance Code.

The Code of Corporate Governance determines the key principles of good corporate governance, such as sustainable development, rights and equitable treatment to shareholders, professional Board of Directors and Management Board, risk management and internal control, transparency. These principles are important for enhancing the long-term values, sustainable development and improving the investment attractiveness of the Company as a whole. **102-18**

Report on KazTransOil JSC compliance with the principles and provisions of the Corporate Governance Code in 2017 is given in [Appendix 6](#).

Company's Corporate Governance System



4.1. ANNUAL GENERAL MEETING

The Governance Board of the Company makes decisions on key issues of the Company's operations and exercising general management consists of Annual General Meeting (supreme body), Board of Directors (management body) and Management Board (executive body).

Annual General Meeting is a Company's supreme management body, which operates in accordance with the Law of the Republic of Kazakhstan on Joint Stock Companies, Charter and Company's Regulations on Annual General Meeting. The exclusive competence of the Annual General Meeting is defined by paragraph 1 of Article 10 of the Company's Charter.

The main method of exercising own rights by Shareholders is to participate in Annual General Meeting and extraordinary meetings.

The procedure of Annual General Meeting is aimed at ensuring compliance with shareholders' rights

and meets all requirements of applicable legislation, as well as the corporate governance best practices.

The Company strives to ensure a fair and equitable treatment of all shareholders during the participation in the Company's management.

STRUCTURE OF THE SHARE CAPITAL

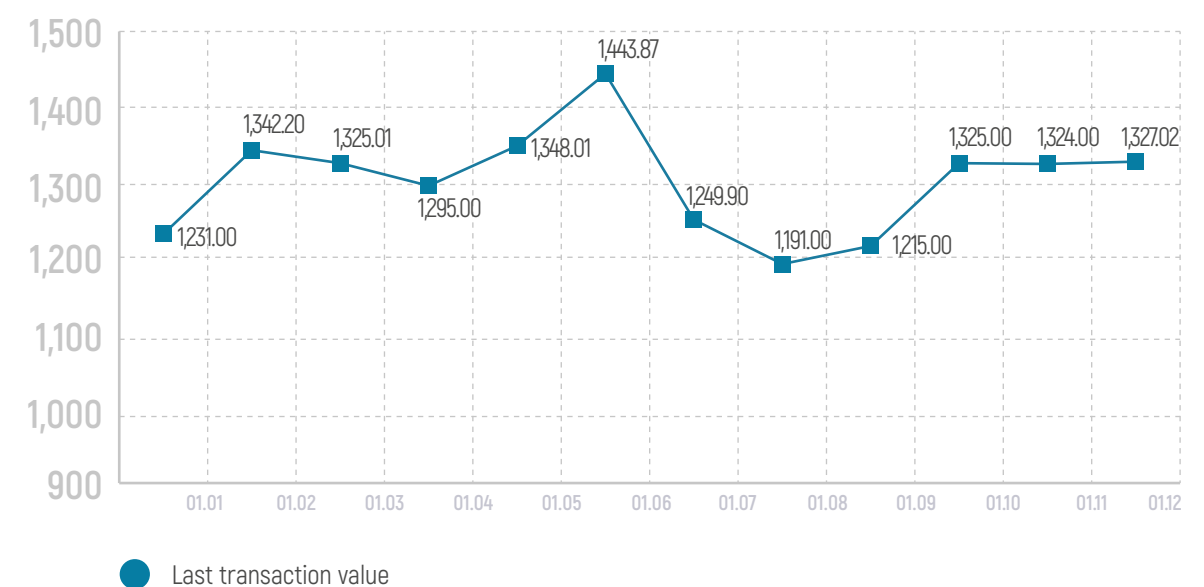
As of December 31, 2017, 384,635,599 common shares were issued and paid, where:

346,172,040 common shares or 90% of total number of the issued and outstanding shares belong to NC KazMunayGas JSC;

38,463,559 common shares, or 10% except one share, were placed by the method of subscription at the KASE, including 7,500 common shares were repurchased by the Company at the request of Shareholders.

1 (one) common share of the Company was not placed. **102-5**

Change in the share's market value in 2017



Information on Annual General Meeting held in 2017

The Annual General Meeting of the Company was held on May 25, 2017 where the following issues were considered:

- approval of the annual financial statement and KazTransOil JSC consolidated annual financial statement for 2016;
- approval of the distribution order of net income of KazTransOil JSC for 2016, and undistributed profits of previous years, decision on payment of dividends on common shares and approval of the dividend size per one common share of the Company;
- approval of the Annual Report of the KazTransOil JSC Board of Directors on the work performed in 2016;
- complaints of the Company's shareholders on actions of the Company and its officials made in 2016 and results of their consideration;
- early resignation of some members and election of new members of the KazTransOil JSC ballot committee.

Dividend Payments Dynamics

Period	2016	2015	2014
Dividends accrued per share, KZT	155.0	133.0	120.71
Dividend yield, %	21.38	18.34	16.65
Total amount of accrued dividends, KZT	59,617,355,345	51,156,534,667	46,429,363,155
Share of consolidated net income directed to dividends payment, % (dividends payment ratio)	100	100	99.9
Date of compiling the list of bodies entitled to receive dividends	14.06.2017	11.06.2016	27.05.2015
Dividends were paid	in June 2017	in June 2016	in June 2015

DIVIDEND POLICY

KazTransOil JSC Dividend Policy approved in July 2012 (the Policy) is designed to balance interests of the Company and its shareholders and provide the greater transparency for shareholders and all stakeholders in determining the dividends' size and their payment procedures.

The Policy determines a dividend payment amount at least 40% of the Company's net income. The dividends' actual size can reach or exceed 100% of the Company's net income if it corresponds with the Company's liabilities. The greatest value of the consolidated or separate net income is applied to calculate dividends. The Company's Management Board reserves the right to offer the dividend payment level below 40% of standard based on the actual Company's outcomes for the corresponding fiscal year, industry-wide development dynamics and the program of capital (investment) costs.

The total amount of dividend payments in 2017 at the end of 2016 amounted to KZT 59,617,355,345 or KZT 155 per common share of the Company. The dividends payment was made in the amount of 44,527,918,000 KZT which is 100% of the Company's net profit and retained earnings from previous years in the amount of 15,089,437,345 KZT. The payment of 2016 dividends started on June 27, 2017.



SHAREHOLDERS AND INVESTORS ENGAGEMENT

The Company is committed to build an open and effective dialog with the Company's shareholders. The fundamental rights of shareholders are implemented in accordance with the legislation of the Republic of Kazakhstan and the Company's Charter.

The Company attaches a great importance to cooperation with current and potential shareholders. The Company promptly and regularly provides information so that the persons concerned about its performance are informed of all its activities to the extent necessary to make an informed decision. To provide better information, the Company holds meetings with shareholders, and the required information is posted on the Company's website, KASE and the depository of financial statements.

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

The Company has a service for investor relations, the main task of which is to organize effective communication between the Company's management and the investment community (potential investors, minority shareholders and professional securities market participants) for maintaining and strengthening its reputation as an investment-attractive company. In 2017, there were no complaints from the Company's Shareholders about the actions of the Company and its officials.

4.2. BOARD OF DIRECTORS

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

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

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

THE COMPOSITION OF THE BOARD OF DIRECTORS IN 2017

The Board of Directors of the Company consists of seven people.

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

The Chairman of the Board of Directors is Daniyar Berlibayev, who is the representative of NC KazMunayGas JSC. The representatives of the major shareholder are Nurtas Shmanov and Ardak Mukushov.

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

face-to-face meetings of Board of Directors





Daniyar Berlibayev

Chairman of the Board of Directors of KazTransOil JSC.
Representative of NC KazMunayGas JSC



Citizenship: Republic of Kazakhstan

Date and place of birth: December 21, 1968, Zhambyl.
Graduated from the Al-Farabi Kazakh State University, major – Law, qualification – Lawyer.



EXPERIENCE:

2012 – 2015

First Deputy Chairman of the NC KazMunayGas JSC Management Board.

2015 – 2016

Deputy Chairman of the NC KazMunayGas JSC Management Board for Corporate Development.

2016 – 2017

NC KazMunayGas JSC Executive Vice President for transportation, processing and marketing.

From November 2017

Advisor to the Chairman of the NC KazMunayGas JSC Management Board.

Since January 29, 2016 to present

Chairman of the Board of Directors of KazTransOil JSC, Representative of NC KazMunayGas JSC.

Chairman of the Board of Directors of KMG International N. V.

Holder of the Company's 9,655 shares or 0.00251% of the total number of outstanding shares.
No SJCE shares held.
No shares of suppliers and competitors of the Company are held.
No transactions with the shares of the Company were carried out.



Citizenship: Republic of Kazakhstan

Date and place of birth: November 2, 1981, Almaty. Graduated from the Al-Farabi Kazakh National University, major – International Relations, qualification – Specialist in International Relations, country expert with knowledge of two foreign languages, T. Ryskulov Kazakh Economic University, majoring in Finance and Credit, qualification – Economist. Master's degree in Business Administration (Executive MBA), Georgetown University Washington, USA.



EXPERIENCE:

2014 – 2016

First Deputy of General Director, General Director of Kazakhstan-China Pipeline LLP.

January to August 2016

First Deputy General Director of KazTransOil JSC.

Since August 6, 2016

General Director (Chairman of Management Board) of KazTransOil JSC.

Since October 20, 2016 to present –

Member of the Board of Directors of KazTransOil JSC.

No membership in the management bodies of other organizations.

No SJCE shares of the Company are held.
No shares of suppliers and competitors of the Company are held.
No transactions with the shares of the Company were carried out.



Dimash Dossanov

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



Ardak Mukushov

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



Citizenship: Republic of Kazakhstan.

Date and place of birth: March 4, 1978, Akmola region.
Graduated from the Eurasian University named after L. N. Gumilev, major – Law and Methodology of Legal Education, qualification – Lawyer. In 2007, graduated from the T. Ryskulov Kazakh Economic University, major – Economics, qualification – Economist.



EXPERIENCE:

2014 – 2017

Director of the Department of International Contracts in NC KazMunayGas JSC.

Since 18 January 2017

NC KazMunayGas JSC Vice President for Legal Support.

Since 28 May 2014 to present –

Member of the KazTransOil JSC Board of Directors, Representative of NC KazMunayGas JSC.

Member of the Management Board of NC KazMunayGas JSC, member of the Board of Directors of KazTransGas JSC and member of the Board of Directors of KazMunayGas EP JSC.

No SJCE shares of the Company are held.
No shares of suppliers and competitors of the Company are held.
No transactions with the shares of the Company were carried out.



Citizenship: Republic of Kazakhstan.

Date and place of birth: December 24, 1956, Atyrau. Graduated from the Ufa Oil Institute, major – Design and operation of oil and gas pipelines, gas storage facilities and tank farms, qualification – Mechanical Engineer; Eurasian Market Institute, major – Finance and credit, qualification – Economist. In 1994, received a MBA degree from the University of Massachusetts, Boston, special course for managers of oil and gas industry, Boston, USA.



EXPERIENCE:

2013 – 2015

Deputy Chairman of the Management Board for Service Projects (member of the Management Board) of the NC KazMunaygas JSC.

2015 – 2016

General Director (Chairman of Management Board) of KazTransOil JSC, part-time Deputy Board Chairman for Oil Transportation of NC KazMunayGas JSC.

Since August 1, 2016

Senior Vice President for Oil Transportation of NC KazMunayGas JSC.

Since January 29, 2016 to present –

Member of the Board of Directors of KazTransOil JSC, Representative of NC KazMunayGas JSC.

Chairman of the Supervisory Board of Kazmorttransflot NMSC LLP, KMG Systems & Services LLP, member of the Board of Directors of KTK-R JSC.

Holder of the Company's 9 655 shares or 0.00251% of the total number of outstanding shares.
No SJCE shares held.
No shares of suppliers and competitors of the Company are held.
No transactions with the shares of the Company were carried out.



Nurtas Shmanov

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

INDEPENDENT DIRECTORS

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

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

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

The independence criteria are defined by the legislation of the Republic of Kazakhstan, the Charter and the Company's Regulations on the Board of Directors, according to which, the independent director:

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

for three years before their election to the Board of Directors;

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

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



Citizenship: the Portuguese Republic.

Date of birth: July 15, 1958.
Graduated from the University of Massachusetts – Bachelor of Science in Mechanical Engineering; University of Michigan – Master of Business Administration.



EXPERIENCE:

He has more than 30 years of international experience in the field of trade, marine transportation, supply system control in the refining sector and business development with constant great results and high performance in Chevron Corporation and South Petroleum SA.

Since January 29, 2016 – to present –
The Independent Director of KazTransOil JSC.

No membership in the management bodies of other organizations.

No SJCE shares of the Company are held.
No shares of suppliers and competitors of the Company are held.
No transactions with the shares of the Company were carried out.



Luis Coimbra

Independent Director





Serik Primbetov

Independent Director



Citizenship: the Republic of Kazakhstan.

Date of birth: September 17, 1948

Graduated from the Alma-Ata Institute of National Economy, major – Economics, qualification – Economist, graduated from the Moscow State University named after M. V. Lomonosov, Candidate of Economic Sciences. Academic degree and title: Doctor of Economic Sciences, Professor, Academician of the "Eurasia" International Economic Academy. Honorary Member of the International Academy of Business Leaders and Administration (USA).



EXPERIENCE:

Extensive leadership experience in state structures in the field of international cooperation. He was adviser to the President of the Republic of Kazakhstan, Deputy Secretary General of EurAsEC, Ambassador Extraordinary and Plenipotentiary of the Republic of Kazakhstan in the Republic of Azerbaijan, Adviser to the Chairman of the Board of the Eurasian Development Bank. He is currently Director of the Representative Office of the Eurasian Development Bank in Bishkek.

From May 28, 2014 to present –
The Independent Director of KazTransOil JSC.

No membership in the management bodies of other organizations.

No SJCE shares of the Company are held.
No shares of suppliers and competitors of the Company are held.
No transactions with the shares of the Company were carried out.



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

Date of Birth: November 7, 1956.

Graduated from the University of Wisconsin – Bachelor of Science in Chemical Engineering; University of Utah – Master of Business Administration.



EXPERIENCE:

35-year experience in the oil industry and experience in successful development of joint ventures, marketing and logistics of commodity-oil industry, export infrastructure in complex business and political environments. For 25 years, he worked at Chevron Corporation. Since 2005, he has been the President of Oteko Group and manager for development of the largest private railway access complex in Russia.

From January 29, 2016 to present –
The Independent Director of KazTransOil JSC.

No membership in the management bodies of other organizations.

No SJCE shares of the Company are held.
No shares of suppliers and competitors of the Company are held.
No transactions with the shares of the Company were carried out.



Fernando Machinena

Independent Director

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

The criteria for selection and election of members of the Board of Directors including the independent directors and the Chairman of the Board of Directors are defined in the Law of the Republic of Kazakhstan on Joint Stock Companies, the Company's Charter, Corporate Governance Code and Regulation of the Company's Board of Directors.

The Annual General Meeting elects the members of the Board of Directors based on clear and transparent procedures, considering competencies, skills, achievements, business reputation and professional experience of candidates. Their

contribution to the performance of the Board of Directors of the Company is considered during the reelection of individual or all members of the Board of Directors for a new term.

The Board of Directors and its committees should have balanced skills, experience and knowledge to ensure independent, objective and effective decisions in the interests of the organization and the shareholder and ensuring the growth of long-term value and sustainable development of the Company. Additional information on the procedure of election to the Board of Directors is available on Company's website in the "Corporate Governance" page.

PERFORMANCE RESULTS OF THE BOARD OF DIRECTORS

Attendance at the meetings of the Member of Board of Directors in 2017

Member of Board	Attendance of meetings	Period of being a member of the Board during the reporting period
Daniyar Berlibayev	11 of 11	01.01.2017 – 31.12.2017
Dimash Dossanov	11 of 11	01.01.2017 – 31.12.2017
Luis Coimbra	11 of 11	01.01.2017 – 31.12.2017
Fernando Machinena	11 of 11	01.01.2017 – 31.12.2017
Ardak Mukushov	11 of 11	01.01.2017 – 31.12.2017
Serik Primbetov	11 of 11	01.01.2017 – 31.12.2017
Nurtas Shmanov	11 of 11	01.01.2017 – 31.12.2017

11 face-to-face meetings of the Board of Directors were conducted in 2017 where participants reviewed and made decisions on 130 issues by following Company key performance directions:

Strategic development:

- review of the Report on 2016 business plan performance;
- approval of the Business Plan for 2018–2022 on revalued and historical value of fixed assets;

- review of the Report for 2016 on implementation of the Company Development Strategy up to 2025;
- approval of the on KazTransOil JSC Transformation and Business Processes Optimization Program;
- establishment of Main Waterline LLP;
- review of KazTransOil JSC operational model.



Financial and economic activity:

- convocation of the Annual General Meeting of KazTransOil JSC;
- preliminary approval of the Company's annual financial statements and consolidated annual financial statements for 2016;
- proposal of the Board of Directors to the Annual General Meeting on modalities of distribution on the net income of the Company for 2016, retained profits from previous years and the dividend size for 2016 per Company's common share;
- conclusion of transactions in commission of which the Company has a stake.

Corporate governance:

- approval of the KazTransOil JSC 2016 Annual Report;
- approval of motivational key performance indicators for executives, Corporate Secretary and head of the Company's Internal Audit Service for 2017 and their target value;
- determination of the number of members of the Company's Management Board;
- decision on closing the KazTransOil JSC Branch "Main Information and Computing Center";
- review of the Report on performance of the Action Plan on improvement of KazTransOil JSC Corporate Governance System;
- review of the Report on performance assessment of the KazTransOil JSC Board of Directors for 2016 and approval of updated Action Plan on performance improvement of the KazTransOil JSC Board of Directors.
- approval of the Report for 2016 on the Company's compliance with principles and provisions of the Corporate Governance Code;
- review of the Report on KazTransOil JSC transparency and effectiveness of information disclosure processes for 2016;

- approval of job assessment results for executives, officials of the KazTransOil JSC's Internal Audit Service, Corporate Secretary and Ombudsman.

Internal Audit:

- approval of annual auditor plan of the Company's Internal Audit Service for 2018;
- approval of provisions on KazTransOil JSC's Internal Audit Service;
- approval of the budget of the Company's Internal Audit Service for 2018;
- hearing of reports of the Internal Audit Service.

Risk management and internal control:

- analysis of key risks dynamics and performance of action plan on improvement of KazTransOil JSC corporate risk management system and internal control system;
- approval of KazTransOil JSC Policy for corporate risk management system, KazTransOil JSC Rules for organizing management processes of production and nonproduction risks, methods of identification and risk assessment, selection of risk management methods of KazTransOil JSC;
- approval of results of identification and assessment of production and nonproduction risks of KazTransOil JSC and its subsidiaries and jointly-controlled entities for 2018.

In the field of sustainable development:

- approval of the KazTransOil JSC Stakeholder Map;
- approval of official wages of the Company's Central Office employees;
- approval of personnel size and structure of the Company's Central Office.

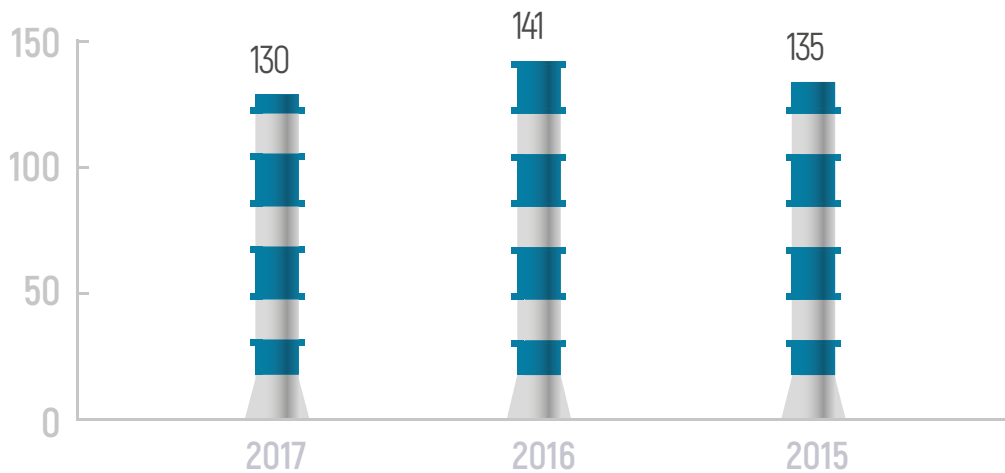


The Board of Directors also considered a number of issues related to the competence of the Annual General Meeting of subsidiaries and jointly-controlled entities of the Company:

- approval of SJCEs annual financial statements for 2016;
- approval of the SJCEs budget for 2018;
- determination of temporary tariff to KCP LLP for oil pumping service via Kenkiyak-Kumkol main pipeline to export outside of the Republic of Kazakhstan;
- determination of composition, term of office, and a member election of the Board of Directors of MunaiTas NWPC JSC;
- determination of size and terms of remuneration payment to independent directors of MunaiTas NWPC JSC;
- approval of the procedure of distribution of MunaiTas NWPC JSC net income for 2016, decision on payment of dividends on common shares and approval of dividend size per common share of MunaiTas NWPC JSC;
- voluntarily reorganization of MunaiTas NWPC JSC through its transformation into MunaiTas LLP, order and terms of transformation, procedure for determination of participation interest of members of MunaiTas LLP.

Additional information on the decisions of the Board of Directors made in 2017 is available on the Company's website in the "Corporate Governance" page.

Number of the issues considered at the meetings of the Board of Directors



PERFORMANCE APPRAISAL OF THE COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has established three committees, which are designed to improve the efficiency of the Board of Directors in matters requiring special competence: Strategic Planning Committee, Personnel and Remuneration Committee, Internal Audit Committee.

The Committee members are appointed by the Company's Board of Directors.

Procedure for establishment and organization of Committees is stipulated by the relevant provisions on such committees.

In 2017, 6 face-to-face meetings were conducted by the Strategic Planning Committee, 9 face-to-face meetings were held by Internal Audit



Committee, including 2 meetings by absentee voting and 5 face-to-face meetings were held by Personnel and Remuneration Committee.

Strategic Planning Committee

The main task of the Strategic Planning Committee is preliminary review and preparation of recommendations for the Board of Directors on strategy development matters, including identification of priority activity directions.

The Committee consists of the members of the Board of Directors and experts who have necessary professional knowledge needed for work in the Committee. The Company's Board of Directors determines the number of the members of the Committee. The Chairman of the Committee is an independent director.

Composition of the Strategic Planning Committee (elected by the decision of the Board of Directors of the Company as of January 30, 2016);

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

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

Main issues considered

In 2017, 6 face-to-face meetings were held by the Strategic Planning Committee during which the following main issues were considered, and respective recommendations were elaborated:

- review of KazTransOil JSC Business Plan for 2018–2022;
- choice of an optimal jurisdiction for Petrotrans Limited;
- proposal of the Board of Directors to the Annual General Meeting on distribution of net income of the Company for 2016,

retained earnings of previous years and dividend size for 2016 at a rate per common share of KazTransOil JSC;

- review of the Report for 2016 on implementation of updated KazTransOil JSC Development Strategy for 2012–2022;
- approval of the KazTransOil JSC Transformation and Business Processes Optimization Program;
- review of KazTransOil JSC operational model;
- review of information on engineering status of KazTransOil JSC oil pipelines.

Personnel and Remuneration Committee

The main task of Personnel and Remuneration Committee is to assist the Board of Directors in the implementation of its powers related to the selection, appointment (election), assessment and remuneration of the members of the Board of Directors, General Director (Chairman of the Management Board), members of the Management Board and Corporate Secretary.

Majority of the Committee members, including the Chairman of the Committee must be independent directors. The Chairman of the Board of Directors and General Director (Chairman of the Management Board) must not be members of the Committee.

Composition of the Personnel and Remuneration Committee (elected by the decision of the Board of Directors dated January 30, 2016):

- Luis Coimbra – Independent Director, Chairman;
- Fernando Machinena – Independent Director;
- Ardak Mukushov – Representative of NC KazMunayGas JSC;
- Serik Primbetov – Independent Director.

The Committee is conducted when necessary, but not less than twice a year.



Main issues considered

In 2017, 5 face-to-face meetings were held by the Personnel and Remuneration Committee where the following main issues were considered, and relevant recommendations were elaborated:

- approval of motivational key performance indicators of executives for 2017 and their target values;
- review of the Report on performance outcomes of the KazTransOil JSC Board of Directors for 2016 and approval of updated Action Plan on performance improvement of the KazTransOil JSC Board of Directors;
- remuneration payment to the Company's executives according to the performance results in 2016;
- review of interim report on event implementation under the Transformation and Business Processes Optimization Program in terms of personnel optimization;
- determination of the member composition of the Company's Management Board;
- approval of job assessment results of executives, Corporate Secretary and the Ombudsman;
- review of the Report on implementation of motivational KPIs of the Company's executives due to the results for six and nine months of 2017;
- review of the Report on implementation of motivational KPIs of the Company's Corporate Secretary due to the results of six months of 2017;

Internal Audit Committee

The task of the Internal Audit Committee is to assist the Board of Directors on issues of external and internal audit, financial reporting, internal control and risk management, assets evaluation, compliance with the legislation of the Republic of Kazakhstan, as well as other issues on behalf of the Board of Directors of the Company.

The members of the Board of Directors who are members of the Committee, including the Chairman of the Committee must be independent directors.

Composition of the Internal Audit Committee (elected by the decision of the Company's Board of Directors dated January 30, 2016):

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

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

The Committee meetings are held with the obligatory invitation of an auditor from Ernst&Young LLC for a joint review of the audit results.

Main issues considered

In the reporting period, the Internal Audit Committee held 9 face-to-face meetings and 2 meetings by correspondence, which reviewed and elaborated recommendations on the following issues:

- preliminary approval of the Company's annual financial statements and consolidated annual financial statements for 2016;
- review of performance reports of the Company's Internal Audit Committee;
- preliminary approval of provisions on KazTransOil JSC Internal Audit Committee;
- preliminary approval of the Annual Audit Plan of the Company's Internal Audit Service for 2018;
- preliminary approval of the Internal Audit Service budget for 2018;
- approval of composition of the commission which is designed to select an auditing organization for passing an audit of MunaiTas NWPC JSC financial statements;



- review of the Report on compliance with the KazTransOil JSC internal control rules on disposal and use of insider information for 2016.

Additional information on requirements to composition, tasks and competence of the Committees of the Board of Directors and modalities of holding the meetings of the Committees is available on the website in the "Corporate Governance" page.

PERFORMANCE APPRAISAL OF THE BOARD OF DIRECTORS

The Company regularly performs a comprehensive appraisal of the efficiency of the Board of Directors and its Committees, individual assessment of the directors in accordance with the best international practices.

In 2017, the performance of the Board of Directors was assessed by an independent consultant – consortium consisting of Olympex Advisers LLC (Republic of Kazakhstan) and TopCompetence LLC (the Russian Federation) who have a significant experience in assessment of the Board of Directors performance in international public companies.

The assessment included analysis of internal documents and minutes of the Board of Directors and reports of the Board of Directors Committees, individual interviews of independent consultants with the members of the Board of Directors about role and functions of the Board of Directors, composition, structure of the Board of Directors and its Committees, interaction with the Company's management, priorities of the Board of Directors and its Committees.

The assessment results led to the conclusion that the Board of Directors effectively performs its role in the protection of the rights and legitimate interests of shareholders, strategy formation, control over the SCJEs performance, and interacts effectively with the Company's management.

The important role of the Chairman of the Board of Directors in ensuring the open, constructive work of the Board of Directors was noted, also an active professional work of the Committees of the Board of Directors, quality work of the

Corporate Secretary, who effectively provides communication between members of the Board of Directors and management and other employees of the company, as well as representatives of shareholders.

The high quality of materials submitted to the review of the Board of Directors and its committees was pointed out. The extended professional experience of the members of the Board of Directors ensures a rational interest balance and required competence in the Board of Directors. The work of all Committees headed by independent directors makes a significant contribution to the efficiency of the Board of Directors.

The assessment results showed that the performance of the Board of Directors and committees in most aspects corresponds to the recommendations of best international and national corporate governance practices. At the same time, recommendations on performance improvement were given. The assessment results were discussed at a face-to-face meeting of the Board of Directors. According to the discussion results, it was decided to update the Action Plan on improvement of the Board of Directors and its Committees approved by the decision of the Board of Directors dated June 30, 2017.

REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS

The process of remuneration payment and expenses compensation for the independent directors is regulated by the Rules of remuneration payment and expenses compensation of Independent Directors of NC KazMunayGas JSC joint stock companies.

Representatives of NC KazMunayGas JSC, as well as General Director (Chairman of the Management Board), who are members of the Board of Directors, receive no remuneration.

For the performance of their duties, the members of the Board of Directors, independent directors receive an annual fixed remuneration and additional remuneration for participation in face-to-face meetings of the Committees of the Board of Directors.



- fixed remuneration in the amount of \$80,000 per year;
 - additional remuneration for participation in the face-to-face meetings of the Committees of the Board of Directors in the amount of \$1,000.
- outside the place of permanent residence of the independent director.

The total amount of accrued remuneration paid to the independent directors in accordance with the performance results for 2017 was KZT 107,716 thousand including taxes.

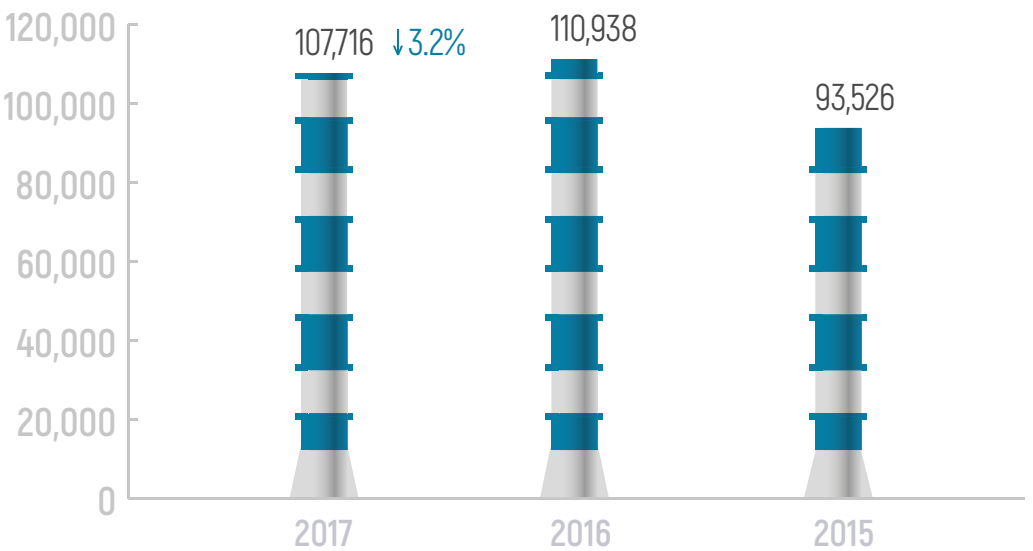
The independent directors receive compensation for their expenses (travel, accommodation, per diem) associated with arrival to the meetings of the Board of Directors and its Committees held

Additional information on remuneration terms to the members of the Board of Directors is available on the Company's website in the "Corporate Governance" page.

Remuneration to Independent Directors of the Company in 2017, KZT thousand

Independent Director	Annual remuneration	Committees meetings	Total, after taxes	Total, with taxes
Luis Coimbra	26,514	5,838	32,352	35,936
Fernando Machinena	26,514	5,838	32,352	35,936
Serik Primbetov	26,431	5,839	32,270	35,844
Total	79,459	17,515	96,974	107,716

Dynamics of remuneration size of independent directors of the Company, KZT thousand



4.3. MANAGEMENT BOARD

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

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

The Management Board is guided by the legislation of the Republic of Kazakhstan, Charter, Corporate Governance Code, Regulations on the

Management Board and other internal documents of the Company.

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

The Management Board is responsible for the allocation of financial and human resources to implement the objectives set by the Annual General Meeting and the Board of Directors. The Management Board reports to the Board of Directors on the performance of Company's objectives achievements.

Additional information about the powers and performance of the Company's Management Board is available on the Company's website in the "Corporate Governance" page.

COMPOSITION OF THE MANAGEMENT BOARD

As for December 31, 2017 the Management Board consisted of eight members (since June 1, 2017).

Name	Position
Dimash Dossanov	General Director (Chairman of Management Board)
Aleksey Pirogov	First Deputy General Director
Zhaiyk Makhin (since December 20, 2017)	Deputy General Director for Economics and Finance
Bolat Otarov	Deputy General Director for Transportation
Oral Idyryssov (since June 1, 2017)	Deputy General Director for Transformation
Chingiz Seisekenov	Deputy General Director for Business Support
Shara Tanatarova	Deputy General Director for Corporate Development and Assets
Zhaidarman Issakov	Managing Director for Legal Support





Dimash Dossanov

General Director (Chairman of Management Board) of KazTransOil JSC



Citizenship: Republic of Kazakhstan

Date and place of birth: November 2, 1981, Almaty. Graduated from the Al-Farabi Kazakh National University, major – International Relations, qualification – Specialist in International Relations, country expert with knowledge of two foreign languages, T. Ryskulov Kazakh Economic University, major – Finance and Credit, qualification – Economist. MBA degree, Georgetown University Washington, USA.



EXPERIENCE:

2014 – 2016

First Deputy of General Director, General Director of Kazakhstan-China Pipeline LLP.

January to August 2016

First Deputy General Director of KazTransOil JSC.

Since August 6, 2016

General Director (Chairman of the Management Board) of KazTransOil JSC.

Since August 6, 2016 to present –

Chairman of the Management Board of KazTransOil JSC

Since October 20, 2016 to present –

Member of the Board of Directors of KazTransOil JSC.

No membership in the management bodies of other organizations.

No SJCE shares of the Company are held.
No shares of suppliers and competitors of the Company are held.
No transactions with the shares of the Company were carried out.



Citizenship: Republic of Kazakhstan.

Date and place of birth: March 26, 1961, Russian Federation. Graduated from Kazakh Polytechnic Institute named after V.I. Lenin, major – Mining Engineering, qualification – Mining Engineer. In 2005, he was awarded with a degree of Doctor of Technical Studies.



EXPERIENCE:

2012 – 2016

Director of Industrial Assets, Deputy General Director of Assets Management of Samruk Kazyna JSC.

Since August 6, 2016

First Deputy General Director of KazTransOil JSC

Since August 8, 2016 to present –

Member of Management Board of KazTransOil JSC.

No membership in management bodies of other organizations.

No SJCE shares of the Company are held.
No shares of suppliers and competitors of the Company are held.
No transactions with the shares of the Company were carried out.



Aleksey Pirogov

First Deputy General Director of KazTransOil JSC





Zhaiyk Makhin

Deputy General Director
of KazTransOil JSC,
Economics and Finance



Citizenship: Republic of Kazakhstan.

Date and place of birth: June 30, 1982, Almaty
Graduated from the Moscow State Institute of International Relations (University) of the Ministry of Foreign Affairs of the Russian Federation with Bachelor's degree in Economics. In 2005 he got Master's degree in Economics with knowledge of foreign languages in the field of World Economy. In 2014, he graduated from the Russian Presidential Academy of National Economy and Public Administration under the President of the Russian Federation majoring in MBA: Management – International Business, qualification – Master of Business Administration (MBA).



EXPERIENCE:

2013 – 2015

Deputy General Director, Economics and Finance of JV KazGerMunay LLP.

2015

Advisor to General Director of E&P KazMunayGas JSC.

2016

Managing Director, Economics and Finance, ALMEX PLUS Firm LLP.

2016 – 2017

Deputy General Director for Economics, Kazakhstan-China Pipeline LLP.

Since December 20, 2017

Deputy General Director of KazTransOil JSC, Economics and Finance.

Since 20 December 2017 to present –

Member of the Management Board of KazTransOil JSC.

Member of the Supervisory Board of Main Waterline LLC.

No SJCE shares of the Company are held.

No shares of suppliers and competitors of the Company are held.

No transactions with shares of the Company were carried out.



Citizenship: Republic of Kazakhstan

Date and place of birth: February 23, 1966, Atyrau region.

Graduated from Kazakh Polytechnic Institute named after V.I.Lenin, major – Technology of Mechanical Engineering, Metal Cutting Machines and Tools, qualification – mechanical Engineer.



EXPERIENCE:

Since May 2007

Deputy General Director of KazTransOil JSC, Transportation

Since February 20, 2008 to present –

Member of Management Board of KazTransOil JSC.

No membership in the management bodies of other organizations.

Holder of the company shares in the amount of 135 shares or 0.00004% of the total number of outstanding shares.

No SJCE shares held.

No shares of suppliers and competitors of Company are held.

No transactions with shares of the Company were carried out.



Bolat Otarov

Deputy General Director of
KazTransOil JSC, Transportation





Oral Idyryssov

Deputy General Director of
KazTransOil JSC, Transformation



Citizenship: Republic of Kazakhstan.

Date and place of birth: February 12, 1959,
Semipalatinsk region.
Graduated from the Alma-Ata Institute of National
Economics, qualification Labor Economist.



EXPERIENCE:

2014 – 2016

Director of HR Policy of the Kazakhstan-China
Pipeline LLP.

2016 – 2017

Director of HR and Payroll Management of
KazTransGas JSC

Since June 12 2017

Deputy General Director of KazTransGas JSC,
Transformation

Since June 1, 2017 to present –

member of Management Board of KazTransOil JSC.

No SJCE shares of the Company are held.

Shares of E&P KazMunayGas JSC are held in the
amount of 4 shares or 0,00000538% of the total
number of outstanding shares.

No shares of suppliers and competitors of the
Company are held.

No transactions with shares of the Company
were carried out.



Citizenship: Republic of Kazakhstan.

Date and place of birth: April 11, 1981, Almaty.
Graduated from Kazakh Economic University
named after T. Ryskulov major – International
Economic Relations, International Monetary
Relations, qualification – International Monetary
and Financial Relations. In 2005, finished a
postgraduate course at the Kazakh Economic
University named after T. Ryskulov major –
Finance, Monetary Circulation and Credit.
Academic degree: Candidate of Economic
Sciences.



EXPERIENCE:

2015 – 2016

Deputy General Director for Commerce of
Kazakhstan-China Pipeline LLP.

Since February to October 2016

Managing Director of KazTransOil JSC, Business
Support.

Since October 24, 2016

Deputy General Director of KazTransOil JSC,
Business Support.

Since October 24, 2016 to present –

Member of Management Board of KazTransOil JSC.

Member of Supervisory Board of Batumi Oil
Terminal LLC.

No SJCEs shares are held.

No shares of suppliers and competitors of the
Company are held.

No transactions with the shares of the Company
were carried out.



Chingiz Seisekenov

Deputy General Director of
KazTransOil JSC, Business Support



Shara Tanatarova

Deputy General Director of KazTransOil JSC, Corporate Development and Assets



Citizenship: Republic of Kazakhstan.

Date and place of birth: November 30, 1978, Zhanaozen, Mangistau region. Graduated from the University of Massachusetts, major – Accounting, Finance. In 2002, received MBA from the University of Massachusetts, major – Finance. In 2009 graduated from the International School of Management, major – Finance, has a PhD in Economic Sciences.



EXPERIENCE:

2012 – 2016

Director of Corporate Finance and Assets Management, Director of Assets Management, NC KazMunayGas JSC.

2015 – 2016

Deputy General Director of Business Support, KazMunayGas Global Solutions (part-time).

Since October 24, 2016

Deputy General Director of KazTransOil JSC, Corporate Development and Assets.

Since 24 October 2016 to present –

member of the Management Board of KazTransOil JSC.

Member of the Supervisory Board of Batumi Oil Terminal LLC; member of the Board of Directors of MunaiTas NWPC JSC.

No SJCE shares are held.
No shares of suppliers and competitors of the Company are held.
No transactions with shares of the Company were carried out.



Citizenship: Republic of Kazakhstan.

Date and place of birth: October 29, 1965, Zhambyl region. Graduated from Kirov Kazakh State University, major – Law, qualification – Lawyer. In 2003 he was trained at the Academy of National Economy under the Government of the Russian Federation, received a specialization – Lawyer in oil and gas industry.



EXPERIENCE:

2002 – 2014

Director of Law Department of KazTransOil JSC

Since May 4, 2014

Managing Director of KazTransOil JSC, Legal Support

Since May 12, 2003 to present –

member of Management Board of KazTransOil JSC.

Member of the Supervisory Board Batumi Oil Terminal LLC.

No SJCE shares are held.
No shares of suppliers and competitors of the Company are held.
No transactions with shares of the Company were carried out.



Zhaidarman Issakov

Managing Director of KazTransOil JSC, Legal Support

PERFORMANCE APPRAISAL OF THE MANAGEMENT BOARD IN 2017

In 2017, the Company's Management Board did not conduct any meetings by correspondence and held 39 face-to-face meetings.

Attendance of the Management Board Meetings in 2017

Board Member	Attendance of meetings	%	Period of being a member of the Board during the reporting period
Dimash Dossanov	37 of 39	95	01.01.2017 – 31.12.2017
Aleksey Pirogov	33 of 39	85	01.01.2017 – 31.12.2017
Bolat Otarov	30 of 39	77	01.01.2017 – 31.12.2017
Madiyar Berlibayev	35 of 38	92	01.01.2017 – 20.12.2017
Zhaiyk Makhin	1 of 1	100	20.12.2017 – 31.12.2017
Murat Mukashev	10 of 15	67	01.01.2017 – 28.04.2017
Oral Idyryssov	19 of 20	95	01.06.2017 – 31.12.2017
Chingiz Seisekenov	33 of 39	85	01.01.2017 – 31.12.2017
Shara Tanatarova	36 of 39	93	01.01.2017 – 31.12.2017
Zhaidarman Issakov	36 of 39	93	01.01.2017 – 31.12.2017



The Company's Management Board adopted decisions on 209 considered issues, issued 208 instructions; all the instructions were accomplished. At the same time, the Management Board considered 88 questions, which were submitted for consideration to the Board of Directors, and 4 were submitted to the Annual General Meeting.

During the meetings, the participants reviewed the following key issues and adopted respective decisions.

Strategic development:

- approval of the Report for 2016 on implementation of the Company's Development Strategy for 2012-2022;
- approval of the Report on KazTransOil JSC Business Plan Performance for 2016;
- approval of the Action Plan for 2017 on implementation of KazTransOil JSC Development Strategy up to 2025.

Corporate Governance:

- approval of key performance indicators for the heads of structural units of the KazTransOil JSC Central Office, heads of branches and representative offices for 2017 and their target values;
- preliminary review of projects of the KazTransOil JSC key performance indicators for 2017 and their target values;
- preliminary review of projects of motivational key performance indicators of KazTransOil JSC executives for 2017 and their target values;
- preliminary review of projects of motivational key performance indicators of KazTransOil JSC managers for 2017 and their target values;
- review of the Action Plan on improvement of KazTransOil JSC corporate governance system;
- approval of the KazTransOil JSC Annual Report 2016;

- preliminary review of an issue on establishment of Main Waterline LLC;
- preliminary review of the KazTransOil JSC Transformation and Business Processes Optimization Program.

Financial-economic performance:

- approval of the KazTransOil JSC annual financial statements and consolidated annual financial statements for 2016;
- approval of the updated KazTransOil JSC Business Plan for 2017-2021 in terms of the 2017 budget;
- approval of the SCJEs annual financial statements and consolidated annual financial statements;
- conclusion of transactions in which the Company has a share with entities which are the members of Samruk-Kazyna JSC group of companies.

Risk Management and Internal Control:

- review of the Performance Report of the Risk Committee for 2016;
- approval of the Work Plan of the KazTransOil JSC Risk Committee for 2017;
- approval of quarterly Report on dynamics of key risks and implementation of the Action Plan on key risks management;
- approval of KazTransOil JSC business processes classifier for 2017;
- approval of KazTransOil JSC Risk Management Program for 2017-2021;
- approval of KazTransOil JSC Quality Policy and KazTransOil JSC Energy Policy.

Issues, related to the competence of the Meetings of Participants/Shareholders of Company's SCJEs.

Approval of the Company's internal documents, including:

Considered issues by Management Board



- Company's Code for occupational health and safety "Golden Rules";
- KazTransOil JSC Rules of behavioral safety observation;
- Rules for conducting a contest "Best in the Profession" in KazTransOil JSC;
- List of position and profession categories in KazTransOil JSC;
- Rules of production program creation of KazTransOil JSC;
- Action Plan on KazTransOil JSC performance optimization and upgrade for 2017;
- KazTransOil JSC Rules of employee certification;
- Regulations on KazTransOil JSC Young Specialists Council;
- Procedure for employee incentives and bonuses of KazTransOil JSC and its subsidiaries and jointly-controlled entities, veterans of KazTransOil JSC;
- The List of KazTransOil JSC operating secret information and the list of KazTransOil JSC trade secret information;
- Rules on protection of KazTransOil JSC operating and trade secret information;
- KazTransOil JSC Policy on health, safety and environment.

PERFORMANCE APPRAISAL OF RISK COMMITTEE

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

The Committee is an advisory and consultative body established for preliminary consideration of risk management issues of the Company and SCJE and preparation of recommendations to the Management Board.

- In its operations, the Risk Committee is guided by the legislation of the Republic of Kazakhstan, the Charter, Corporate Governance Code, Procedure for Company's Risk Committee and other internal documents of the Company.
- The Procedure says that the Risk Committee meetings are held under the Company's work plan approved by the Company's Management Board.
- The main tasks of the Committee are:
- assistance to the Management Board of the Company in making decisions on Company's risk management;
 - preparing recommendations and proposals for organization and maintenance of an effective Company's corporate risk management system;
 - development of processes designed to identify, measure, monitor and control the Company's risks;
 - preparing recommendations and proposals on the control over the coordination of the risk management in the Company.
- The Chairman of the Risk Committee is General Director (Chairman of the Management Board).
- During the reporting period, the Risk Committee conducted 7 meetings, including 4 face-to-face meeting and 3 meetings in correspondence, where the Committee:
- approved quarterly Reports on the Dynamics of Key Risks and Implementation of the Action Plan on key risk management of the Company;
 - approved the draft of Company's business processes classifier for 2017;
 - approved the draft of the KazTransOil JSC Policy for corporate risk management system, draft of the Rules of production and nonproduction risk management in KazTransOil JSC, draft of Methods of risks identification and assessment, choice of risk management methods in KazTransOil JSC;



- approved the draft of Risks and Control Matrices and Flowcharts for the Company's business processes;
- approved the draft of KazTransOil JSC Central Office's Risk Coordinators Register, the draft of KazTransOil JSC Production Equipment Register;
- approved the draft of results of identification and assessment of Company's production and nonproduction risks for 2018.

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

REMUNERATION OF THE MEMBERS OF THE MANAGEMENT BOARD

- Procedure for incentives and rewards of the members of the Management Board is defined by the following documents:
- Provisions on the KazTransOil JSC Management Board;
 - Rules of assessment the performance of KazTransOil JSC executives and managers and Corporate Secretary;
 - Rules of remuneration payment to KazTransOil JSC executives and managers, head of Internal Audit Service and Corporate Secretary.

Payroll system of the Chairman and members of the Management Board includes an official post salary and remuneration according to the annual performance results. In 2017 the remuneration in the amount of 479,269 thousand KZT were paid to the members of the KazTransOil JSC Management Board.

The remuneration based on the annual performance results is paid to the executives of KazTransOil JSC within the funds stipulated for such purpose in the KazTransOil JSC budget after approval of the consolidated annual financial report.

The main terms for remuneration payment for the annual performance are the following:

- presence of consolidated total profit for the reporting year;
- performance of motivational KPIs for remuneration payment based on the annual performance;
- compliance with executive and labor discipline.

During the assessment of the executives' performance, motivational KPI are applied, they include corporate and functional KPIs developed by using top down approach in strategic goals of NC KazMunayGas JSC and KazTransOil JSC.

The remuneration amount for the annual performance of the executive may not exceed 3-fold annual amount of the official salary of the executive for the actual time worked during the reporting period.

The actual performance of KPIs by the executives is confirmed by the Board of Directors regarding to the agreement and data validation procedures.

4.4. ROLE AND ACTIVITIES OF COMPANY'S CORPORATE SECRETARY

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

The Company's Corporate Secretary is accountable and reports to the Board of Directors.

The Corporate Secretary performs the following main tasks:

- ensuring the compliance of the Company's bodies and officials with the corporate governance standards and improving corporate governance policies and practices;
- ensuring effective operation of the Board of Directors and its committees;



- conducting the Annual General Meetings;
- storage, disclosure and provision of significant information, as well as maintaining a high level of information transparency;
- ensuring clear and effective communication between Company and shareholders, as well as between the Company bodies.

By the decision of the KazTransOil JSC Board of Directors as of July 2015 Shmanov Ayrat Makhambetovich was appointed as a KazTransOil JSC Corporate Secretary.

The tasks, functions, rights, duties and responsibilities of the Company's Corporate Secretary are determined in the Corporate Governance Code and the KazTransOil JSC Regulations on Corporate Secretary.

The Regulations on the Corporate Secretary can be found on the Company's website in the "Corporate Governance" page.

4.5. RISK MANAGEMENT

RISK MANAGEMENT SYSTEM

The prerequisite for achieving KazTransOil JSC its strategic and operational goals is an efficient functioning of risk management system. The Company

continues to improve the risk management system which allows to identify the risks on a timely basis, analyze and develop effective measures to minimize them.

To manage these risks effectively, the Company established a risk management process which allows to prevent and response to unfavorable events during production on time.

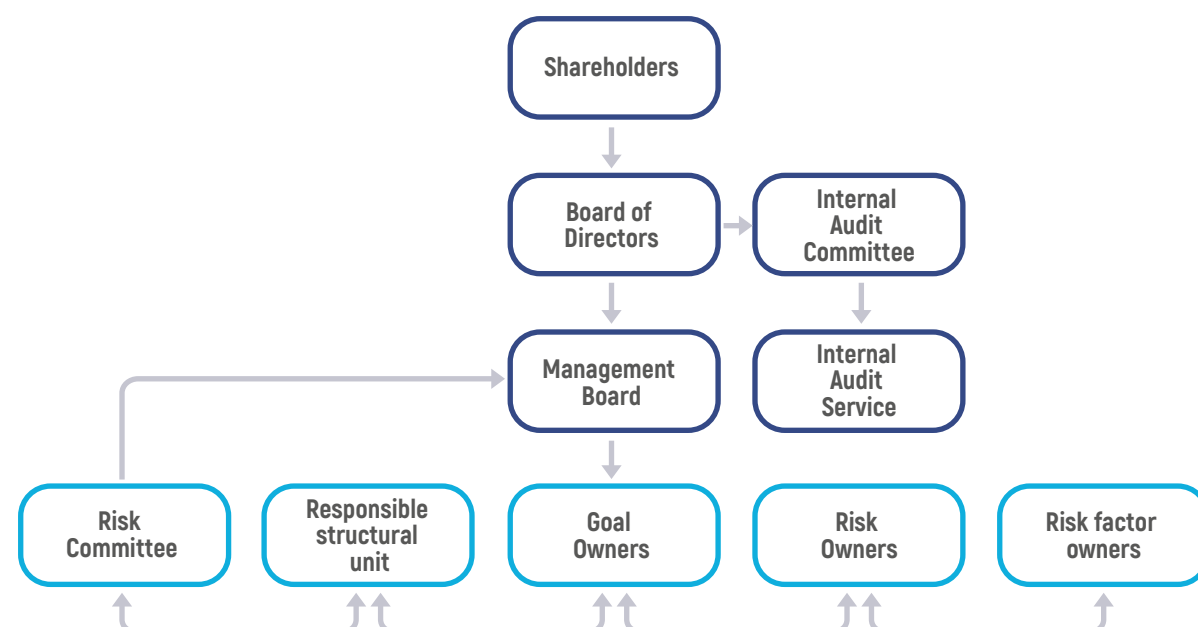
The Company's risk management system combines corporate risk management system (CRMS) and internal control system (ICS).

The objectives of CRMS is to identify, assess, monitor and reduce on a timely basis the likelihood of occurrence and consequences of potential risk events that may negatively affect the achievement of Company's strategic and operational objectives.

Except for CRMS, the Company organized an ICS aimed to identify and analyze the process risks related to Company's activities on a timely basis, as well as to identify and analyze the control procedures to manage these risks in three key areas: operating activities, preparation of financial statements and compliance with legal and regulatory requirements.

The Company is interested in developing a risk-oriented culture of running business. The department responsible for risk management continuously

Organizational chart of Company's CRMS



provides methodologies to support the functional units involved in process of risks identification and assessment and organizes regular corporate risk management related seminars with help of third-party organizations or Company's specialists. When being recruited, all the employees pass the standard procedure of self-familiarization with the CRMS and ICS principles.

In 2017 for further ICS improvement the following events were implemented:

- The business processes classifier of the Company's Central office and oil pipeline departments was updated;
- The flowcharts and risk and control matrices for Central Office's key business processes were developed;
- The flowcharts and matrices of risks and controls for key business processes of the Company's oil pipeline departments were developed and approved.

In 2017, the Company introduced new CRMS methodology initiated by NC KazMunayGas JSC for the entire group of NC KazMunayGas JSC. The main difference of new CRMS system is to introduce a vertical process of risk management affecting the achievement of production (nonproduction) goals according to the whole functional chart of managing production (nonproduction) risks, starting from the line level (OPS) down to the top level (Central Office) and SCJE.

Under the introduction of new methodology by the decision of the Company's Board of Directors dated November 20, 2017 the following Company's CRMS documents were developed and approved:

- KazTransOil JSC policy for corporate risk management system;
- KazTransOil JSC rules of production and nonproduction risk management;
- Methodology of identification and evaluation of risks, choice of risk management methods of KazTransOil JSC.

Herewith, one of the main CRMS tasks under new methodology is to introduce into Company and SCJE a vertical process of managing production and nonproduction risks starting from the top to the line level, as

well as integration of risk management process with Company and SCJE's key business processes.

In accordance with the abovementioned methodology, the identification and assessment of Company's production and nonproduction risks for 2018 were performed in 2017 in all of the Company's oil pipeline departments and SCJE.

COMPANY'S KEY RISKS

As part of risk dynamics monitoring at the end of 2017, the key Company's risks which could affect the successful achievement of strategic aims determined in the Development Strategy were the risks defined in the Table Company's key risks.

According to the results of risk identification and assessment in 2017 for the planned period (2018) under new CRMS methodology, the Company's critical key factors which may contribute to the successful achievement of new strategic objectives defined in the Development Strategy, the Company developed registers of production and nonproduction risks, where the critical risk factors are the following:

- decrease in demand for services/production of the BOT and PTL group of companies;
- untimely return of receivables of the BOT and PTL group of companies;
- growth of exchange rate regarding KZT on KCP LLP loans.

Due to the risk identification and assessment in 2018, personal responsibility for risk factors management was assigned to its owners, preventive actions with an identification of responsible bodies were developed, and corrective actions to reduce consequences of its implementation were developed. The Company and its SCJE will be able to manage the defined risks that threaten the achievement of strategic and operational objectives, reduce the likelihood and consequences of their possible offensive by timely carrying out planned activities.

Planned work on management of key risks of the Company in 2017 was performed in full. The Company also performed corresponding response measures due to several key risks materialized in the reporting year with the purpose to minimize/prevent possible financial losses.



Company's key risks

No	Risk	Risk factors	Possible consequences of risk event occurrence	Risk management measures	Risk event occurrence in 2017
1	Production oriented accidents resulting in disability or death of the Company's employees	<p>1. Increased hazard of technological cycle work</p> <hr/> <p>2. Poor level of work management</p> <hr/> <p>3. Gross negligence by the victims themselves, violation of occupational and production discipline and work duties</p>	<p>1. Material damage resulting from subrogation payments.</p> <p>2. Deterioration of the Company's reputation.</p>	<p>1. Implementation of organizational and technical measures to ensure safe operations, such as issuing permits (written orders).</p> <p>2. Continuous monitoring of the compliance with the established work procedures.</p> <p>3. Internal control in the field of occupational health and safety.</p> <p>4. Development and timely update of safety and labor protection regulations.</p> <p>5. The risk assessment in the field of occupational health and safety and development of measures for their management.</p> <hr/> <p>1. Development and implementation the plan of organizational-technical, sanitary-hygienic and medical-preventive measures to improve working conditions and prevent occupational injuries and diseases.</p> <p>2. Provision of Company's production facilities with visual tools (billboards) having social orientation and promotion of compliance with occupational health and safety regulations among the Company's employees.</p> <p>3. Timely trainings, briefings and examinations on occupational health and safety issues.</p> <p>4. Presence of supervisors and responsible officials at the work place.</p>	<p>On March 6, 2017, an accident occurred to main equipment repairman of the HOPS named after B. Jumagaliyev in Zhezkazgan oil pipeline department</p> <p>On October 20, 2017, the accident occurred to chemical laboratory specialist of Akshabulak DAP in Zhezkazgan oil pipeline department</p> <p>On November 29, 2017, the accident occurred to motor-road transport department repairman of Aktobe oil pipeline department.</p> <p>For more details, see section 3.3 "Occupational health and safety".</p>



No	Risk	Risk factors	Possible consequences of risk event occurrence	Risk management measures	Risk event occurrence in 2017
2	Production-oriented accidents resulting in disability or death when rendering operator service	1. Increased hazard of technological cycle work		1. Implementation of organizational and technical measures to ensure safe operations, such as issuing permits (written orders). 2. Continuous monitoring of the compliance with the established work procedures. 3. Internal control in the field of occupational health and safety. 4. Development and timely update of safety and labor protection regulations.	
		2. Poor level of work management 3. Gross negligence by the victims themselves, violation of occupational and production discipline and work duties	1. Material damage resulting from subrogation payments. 2. Deterioration of the Company's reputation.	1. Development and implementation the plan of organizational-technical, sanitary-hygienic and medical-preventive measures to improve working conditions and prevent occupational injuries and diseases. 2. Provision of Company's production facilities with visual tools (billboards) having social orientation and promotion of compliance with occupational health and safety regulations among the Company's employees. 3. Timely trainings, briefings and examinations on occupational health and safety issues. 4. Presence of supervisors and responsible officials at the work place.	
3	Financial stability risks	1. Failure to perform/improper performance of own obligations by the BOT and PTL group of companies.		1. Control and monitoring of running contracts provisions, performance of contractual obligations, legislation requirements on a timely basis.	
		2. Pending potential litigations against the BOT and PTL group of companies. 3. Undisputed claims and sanctions against the BOT and PTL group of companies. 4. External factor (see Risk of reduction the crude oil, oil products, liquid gas and dry (general) cargo transshipment volume by BOT)	See Risk of reduction the crude oil, oil products, liquid gas and dry (general) cargo transshipment volume by BOT (section 7).	2. Settlement of disputes, disarrangements via negotiations.	See Risk of reduction the crude oil, oil products, liquid gas and dry (general) cargo transshipment volume by BOT (0-48)



No	Risk	Risk factors	Possible consequences of risk event occurrence	Risk management measures	Risk event occurrence in 2017
4	Untimely and low-quality execution of contracts by counterparties (risks of untimely and low-quality execution of contracts by BOT counterparties)	1. External factor (amendments into the legislation of Georgia). 2. Internal factor (Deterioration of the counterparty's financial and economic position) 3. Termination of contracts by the counterparty in unilateral manner.	1. Unplanned financial costs. 2. Loss of BOT assets (fixed assets) pledged as collateral guarantee of TBC bank issued by Georgian Transit Ltd (Petrotrans Limited counterparty) to Georgian Railways JSC (GR) if Georgian Transit Ltd. doesn't execute its consolidated obligations to ensure the transportation of oil cargo volumes by GR.	1. Monitoring of amendments into the legislation of Georgia. 2. Analysis of contracts for the absence of BOT obligations for execution of obligations by third party.	
5	Risks of strategic partners (partnership relations of the Company within the terms of rendering services on operation of main oil pipelines belong to other legal entities (operator services))	1. External factor (long lasting process of approval the budget for services on operation of main oil pipelines belonging to other legal entities by KCP LLP and MunaiTas NWPC JSC participants/ shareholders). 2. External factor (long lasting process of approval the contract for services on operation of main oil pipelines belonging to other legal entities by KCP LLP and MunaiTas NWPC JSC participants/ shareholders). 3. External factor (profitability reduction of operator services within the financial and economic position deterioration of oil pipeline owners (profit of operator services is below 15%).	1. Breach of requirements in the Republic of Kazakhstan legislation about natural monopolies and regulated markets (income gained by the object of natural monopoly from other activity shall cover charges necessary for its operation) 2. Subsidizing expenses by using the operating income.	1. Conducting negotiations with representatives of the KCP LLP and MunaiTas NWPC JSC participant/shareholder. 2. Conclusion of long-term contracts for operation and maintenance services of main oil pipelines belonging to other legal entities.	
6	Risks of strategic partners (partner relations with foreign oil transportation companies)	1. External factor (The termination of contracts for Kazakhstani oil transportation by foreign oil transportation companies in unilateral manner). 2. External factor (absence of approved schedules for access of Kazakhstani oil transportation on Russian Federation territory).	Decrease in the Company's income.	Conclusion of long-term contracts.	



No	Risk	Risk factors	Possible consequences of risk event occurrence	Risk management measures	Risk event occurrence in 2017
7	Decline or termination of oil supply (risk of reduction the crude oil, oil products, liquid gas and dry (general) cargo transshipment volume by BOT)	<p>1. Reduction in oil extraction and oil products, liquid gas production volumes in relation to the expected level.</p> <p>2. Occurrence of alternative pipeline routes.</p> <p>3. Change in market conditions.</p> <p>4. Political, transit, reputational risk factors.</p>	<p>1. Reduction in total income of the BOT group of companies.</p> <p>2. Impairment of the BOT group of companies' assets.</p> <p>3. Application of penalties under the contract on obtaining the exclusive rights for 100% BOT shares management</p> <p>4. Loss of exclusive rights for 100% BOT share management due to reduction in volumes of cargo transshipment (less than 4 million tons a year within 2 (two) consecutive years</p>	<p>1. Attraction of new cargo volumes.</p> <p>2. Constant monitoring of BOT business plan indicators for the reporting period and ensuring the timely correction of business plan in accordance with the BOT Rules of business planning.</p> <p>3. Participation in Coordination Committee for Trans-Caspian International transport route development, negotiations on attraction new volumes of oil and dry (general) cargoes with cargo shippers and forwarding agencies.</p>	<p>According to 2017 results, there is a reduction in the volumes of cargo transshipment through BOT terminal.</p> <p>For more details, see section 1.4 "Organizational structure"</p>
8	Decline or termination of oil supply (decline or termination of oil supply by the Company)	<p>1. External factor (decline of oil production at the main resource based fields for transportation through the main oil pipelines system).</p> <p>2. External factor (decline or termination of Russian oil supply).</p> <p>3. External factor (deterioration of the Company's competitive advantage (emergence of competitors, declining market share)</p> <p>- CPC expansion;</p> <p>- railway transportation;</p> <p>- volumes redirection.</p> <p>4. External factor (reduction of oil demand from the main Kazakhstani oil consumers).</p>	<p>Decrease in the Company's income</p>	<p>1. Conclusion of long-term contracts with cargo shippers.</p> <p>2. Attracting new shippers.</p>	



No	Risk	Risk factors	Possible consequences of risk event occurrence	Risk management measures	Risk event occurrence in 2017
9	Decline or termination of oil supply (decline or termination of oil supply by KCP LLP)	<p>1. External factor (decline of oil production at the main resource based fields for transportation through the KCP LLP main oil pipelines system).</p> <p>2. External factor deterioration of the KCP LLP competitive advantage (emergence of competitors, declining market share)</p> <p>3. External factor (downside in oil demand from the main Kazakhstani oil consumers).</p>	Decrease in the KCP LLP income	<p>1. Conclusion of long-term contracts with cargo shippers.</p> <p>2. Attracting new cargo shippers.</p> <p>3. Introduction the methods of flexible tariff regulation.</p>	
10	Currency risk of KCP LLP	<p>1. External factor (devaluation/ speculation on the foreign exchange market/intervention of the National bank of the Republic of Kazakhstan).</p> <p>2. Excessive share of long-term loans in foreign currency</p>	Loss from exchange rate difference	<p>1. Monitoring of currency position.</p> <p>2. Restructuring of long-term loans in foreign currency.</p>	
11	Default on banks' obligations	1. External factor (Deterioration of the financial and economic position in the country)	Absence of free cash to fulfill the Company's obligations.	<p>1. Compliance with the requirements of the Samruk-Kazyna JSC Corporate Standard for Treasury Operations.</p> <p>2. Investing in banks-counterparties with a high credit score rating.</p> <p>3. Compliance with the Rules of setting limits on balance and off-balance sheet liabilities on banks-counterparties.</p> <p>4. Diversification of temporary free cash.</p> <p>5. Monitoring of financial risks through quarterly reporting to NC KazMunayGas JSC on following:</p> <p>1) Report on compliance with the limits on banks-counterparties (1R);</p> <p>2) Report on Country risk (2R);</p> <p>3) Report on currency risk amount (3R);</p> <p>4) Report on percentage gaps (4R).</p>	



4.6. INTEGRATED MANAGEMENT SYSTEM

An Integrated Management System (IMS) functions in the Company which corresponds with the requirements of international standards ISO 9001:2015, ISO 14001:2015, OHSAS 18001:2007 and ISO 50001:2011.

In 2017, the Company was successfully audited and the SGS (Societe Generale de Surveillance) international certification body confirmed the compliance of the Company's IMS with international standards ISO 9001:2015, ISO 14001:2015, OHSAS 18001:2007 and ISO 50001:2011.

In the work process, the SGS auditors noted the high level of qualification, engagement and awareness of the personnel in all the audited structural units.

In order to improve the Company's IMS the following measures were implemented in the reporting period:

- the management has organized and conducted IMS analysis, prepared analytical report on the IMS functioning for 2016 and made decisions to improve the IMS, and also has approved the Action Plan on the Company's IMS improvement for 2017-2018 which reflects measures to comply the Company's IMS with the requirements of ISO 9001:2015, ISO 14001:2015 standards;
- training certification on the requirements of all four international standards within the terms of employees' awareness improvement in the IMS field was conducted. 98% of the Central Office's employees and 99% of branches and structural units' employees participated in the certification, and showed a high level of IMS knowledge.
- Internal audit of IMS in accordance with IMS audit program for 2017 was conducted in all Company's structural units, and corrective and improvement measures on IMS were developed;
- Company's process register was formed;

- The Company continues to work on update of IMS documents with the purpose of compliance with the requirements of ISO 9001:2015, ISO 14001:2015 standards;
- Company's corporate portal maintains the updating database for non-conformities and recommendations on IMS improvement.

In addition to the IMS maintenance and compliance with the main work direction for IMS improvement for 2018 is to continue the integration of the management system process into the Company's business process. Also it is planned to conduct trainings sessions to raise awareness of the Company's employees and upgrade their competence on IMS.

4.7. INTERNAL AUDIT SERVICE

The Company's Internal Audit Service (the Service) was established on August 8, 2013 by the decision of the Company's Board of Directors and is directly subordinate and accountable to the Board of Directors.

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

The Service carries out own activities based on the core principles of the International standards for the professional practice of internal auditing and Code of ethics developed by the Institute of Internal Auditors.

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

The Service's heads and employees are appointed by the Company's Board of Directors. The Service's



activity is supervised by the Internal Audit Committee of the Company's Board of Directors.

In 2017, according to the approved Annual Audit Plan the following target goals were achieved and assigned tasks were performed:

- the Service carried out 5 audits of Company's individual business processes, which covered complex audits of the Company's branches, financial statements, procurement, risk management, IT, projects, etc.;
- Production, operational and financial processes of KCP LLP were audited;
- Production, operational and financial processes of Batumi Oil Terminal LLC, Batumi Sea Port LLC and Petrotrans Limited were audited;
- The Service identified 123 non-conformities and issued 166 recommendations. All of the Service's recommendations were used to elaborate and approve the Plans of Corrective Actions on Detected Non-conformities.

In 2018, the Internal Audit Service plans to perform the following activities:

- Assessment of effectiveness of the Company's main business processes, policies and procedures;
- Monitoring of execution of the recommendations issued by the Company's Internal Audit service, NC KazMunayGas JSC and Company's external auditor.

4.8. EXTERNAL AUDITOR

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

By the decision of the Board of Directors dated May 17, 2013, the Company approved the KazTransOil JSC Policy in the sphere of attracting auditing companies. The aim of this policy is to organize effective activities for attracting services of audit organizations (including non-audit services provided by audit organizations), introduction of

unified procedures for their selection, ensuring the preservation of the independence status by the KazTransOil JSC auditors when providing audit and non-audit services and to prevent conflicts of interest.

The main criteria for selection of an auditing firm are the following:

- Quality of services;
- Speed and timeliness of service delivery;
- Cost of services.

The quality of auditing firm services is determined as follows:

- Qualification of the auditing firm specialists;
- Experience of the auditing firm specialists, both in Kazakhstani and international markets;
- Knowledge of the auditing firm specialists the oil and gas industry;
- Access to a specialized technical support group (accounting experts in accordance with the IFRS for the oil and gas sector) in Kazakhstan or provision by the auditing firm the commitment to create such a group.

At the extraordinary KazTransOil JSC Annual General Meeting dated January 14, 2016, was decided to assign Ernst & Young LLC as the auditing firm to audit KazTransOil JSC for 2016-2018 and to determine the payment for its services of in the amount of 223,558,062 KZT including the VAT.

The size of annual remuneration, including VAT, for 2016, 2017 and 2018, paid to the auditing firm for its services are 70,221,781 KZT, 74,435,088 KZT, and 78,901,193 KZT, respectively.

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

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

Employees participated in IMS examinations



4.9. CORRUPTION CONTROL

Corruption control and high ethical standards are priorities of the Company's activity and one of the fundamental principles of the Company's Corporate Governance. Under the framework of the Republic of Kazakhstan anti-corruption policy and in accordance with the Law of the Republic of Kazakhstan "On corruption control", the Company takes actions on the prevention of corruption, development of anticorruption culture, prevention and resolution of conflicts of interest. **MAD**

The anti-corruption procedures were formalized in the Company's corporate documents, such as the KazTransOil JSC Corporate Ethics Code, KazTransOil JSC Policy for Managing the Violation Risks, KazTransOil JSC Policy on Settlement the Conflict of Interests of the Officials and Employees. **102-16**

In 2017, the Company approved the KazTransOil JSC Anti-Corruption Standards aimed to achieve an atmosphere of intolerance to any demonstration of corruption among employees by creating values and moral guidelines all of the Company's employees are familiarized with.

Besides, the work on development the Rules of anti-corruption monitoring and internal analysis of Company's corruption risks has begun.

The Company developed internal communications, through which any employee can inform the Company's management on the impending or emerged corruption action.

The Company's website has a blog of the General Director (Chairman of the Management Board) and the hotline number: +7 (7172) 555-048, e-mail: doverie@kaztransoil.kz, for messages on violations and illegal actions of the Company's employees. When contractual relations are concluded with partners and contractors, the degree of their rejection of corruption in their activities is considered.

The personnel are regularly informed on the existing anticorruption procedures and the test for knowledge of the KazTransOil JSC Corporate

Ethics Code by the Company's employees is conducted. **205-1**

In 2017, no corruption or fraud events were detected in the Company. **205-3**

In 2018, the Company plans:

- to upgrade the efficiency of the Company's corruption control;
- to continue the information and explanatory work aimed to develop the intolerance of employees to the illegal actions;
- approval of the KazTransOil JSC Rules of anti-corruption monitoring and internal analysis of Company's corruption risks.

4.10. CORPORATE ETHICS, SETTLEMENT OF CORPORATE CONFLICTS AND CONFLICTS OF INTEREST

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

The fundamental corporate values creating the basis for the Company's activities are decency, reliability and professionalism of its employees, effectiveness of their work, mutual assistance and respect, as well as respect to stakeholders and to the society in general. **102-16**

Procedures to prevent conflicts of interest are regulated by such documents as KazTransOil JSC Policy for managing the violation risks and KazTransOil JSC Policy on Settlement of the Conflict of Interests of the Officials and Employees.

These documents are aimed to stand against the violations and monitor their risks in the Company, as well as to ensure fair, objective and independent decision-making regarding to the Company's employees and officials. The Company's



employees follow the principles and procedures formalized in these Policies in all their activities.

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

The Company's employee must immediately inform the supervisor on the presence or emergence of a conflict of interest to resolve such a conflict.

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

By the decision of the Board of Directors dated May 26, 2016, B. Kirgizbayev was appointed as an Ombudsman.

Establishment of Ombudsman Institute in KazTransOil JSC is aimed to improve the Company's corporate governance and comply with the best practices, designed to advance the business ethics, independent and impartial review of all ethics related violations, the requirements of the Company's internal documents and the legislation of the Republic of Kazakhstan.

In its activities, the Ombudsman is guided by the legislation of the Republic of Kazakhstan, the Company's Charter, the Statute on Ombudsman, the Code of Corporate Governance and other internal documents.

The main functions of the Ombudsman are to assist the Company's officials and employees to prevent and resolute the conflicts of interest, to assist stakeholders in ethical issues arising during interaction, and to clarify the provisions of the Code of Conduct and the Company's Policy for managing the violation risks.

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

- via hotline phone: +7 (7172) 555-048;
- via the e-mail: doverie@kaztransoil.kz;
- via a personal appeal.

In 2017, 12 inquiries were received, including 5 via the hotline phone, 6 via e-mail and 1 in the form of personal contact. All of them are related to the employment issues between the Company and employees, including the work terms change issues under the carried transformation process, compensation payment, provision of financial aid etc. All inquiries were considered in the specified terms and necessary explanations were given. The inquiries initiators were satisfied with the results of decisions made on their issues.

In addition, 40 inquiries were received via hotline, which were not associated with the Ombudsman activities. At the same time, all applicants received necessary consultations.

In 2017, the Company also had the compliance and internal control department, which focused on the internal control over Company's compliance with the Republic of Kazakhstan legislation, regulatory acts, as well as Company's internal documents in the field of Company's information disclosure, as well as in terms of insider information with the aim to identify potential threats and violation of the requirements applicable to the KazTransOil JSC as a listed company.

In 2017, 106 employees of the Central Office and 8 members of the Management Board participated in a workshop named "Legal regulation of insider information disposal".

Corruption
and fraud



5. FINANCIAL AND ECONOMIC PERFORMANCE. MANAGERIAL REPORT



50,118

KZT million

Company's consolidated net profit

222.5

KZT billion

Revenues

108.8

KZT billion

EBITDA



Majestic skylines and graceful accents.
Ambitious projects and attention to details.



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

This review is based on the audited annual consolidated financial statements of the Company prepared in accordance with international financial reporting standards and should be read together with the annual consolidated financial statements and the accompanying notes, and together with the other information presented in other sections of the Report.

The consolidated profit and loss statement includes the profits and expenses of the Company and PTL, BOT. The financial performance of the jointly-controlled entities – KCP LLP and MunaiTas NWPC JSC are reported with aggregations based on their shares in the Company under the Share in income of joint ventures section.

Consolidated financial performance indicators of the Company, KZT million

Consolidated indicators	2017	2016	Change, %
Revenues	222,450	207,108	7.4
Cost of sales	-146,599	-129,862	13
Gross profit	75,851	77,246	-1.8
General and administrative expenses	-16,021	-15,653	2.3
Other operating income	2,447	3,940	-38
Other operating expenses	-963	-868	10.9
Loss of fixed assets impairment	-38	-14,213	- 100
Profit from operating activities	61,277	50,452	21.5
Expenses from exchange rate differences, net	-652	-1,612	-60
Financial profits	4,938	6,191	-20
Financial expenses	-3,082	-2,460	25
Impairment loss of long-term investments held to maturity	-3,640	-	-
Share in income of joint ventures	7,101	2,336	204
Income tax expenses	-15,824	-10,380	52
Net profit for the period	50,118	44,528	12.6

Main consolidated financial indicators

The Company's financial results in 2017 are higher than the results achieved in 2016. This dynamic was influenced by the following factors:

- increase in the oil transportation volumes, volumes of oil transportation for transit purposes;
- increase in water supply volumes;
- increase in tariff for oil transportation on internal market;
- increase in tariff for oil transportation for transit purposes.

Thus, by the end of 2017, the Company's consolidated net profit amounted to KZT 50,118 million.



Structure of income, %

Structure of income	2017	2016
Revenues	96.8	95.3
Financial profits	2.1	2.9
Other income	1.1	1.8

In 2017, profits share in the total revenues amounted 96.8% and corresponds to KZT 222,450 million, while in 2016 the profits share amounted to 95.3% (207,108 KZT million).

Structure of revenues, KZT million

Consolidated indicators	2017	2016	Change, %
Revenues	222,450	207,108	7.4
Crude oil transportation*	184,818	171,762	7.6
Pipeline operation and maintenance services	10,599	9,519	11.3
Transshipment of oil and oil products and transportation by rail	8,201	8,089	1.4
Transportation of water	7,046	7,157	-1.5
Services of oil freight forwarding and sea port	5,376	6,176	-13.0
Payments for under-delivered oil	5,198	2,507	107.3
Other	1,212	1,898	-36.1

* Crude Oil Transportation section includes oil pumping, loading, unloading and transshipment via the KazTransOil JSC main oil pipelines system.

Revenues for 2017 constituted KZT 222,450 million which is 7.4% higher or KZT 15,342 million than the indicators of 2016.

January 1, 2017 the tariff constituted \$3.11 per ton (in 2016, the tariff was \$2.63 per ton);

Crude oil transportation

In 2017, the KazTransOil JSC income increased by 7.6% or KZT 13,056 million compared to 2016 fact, which is due to:

- increase in tariff for oil transportation on internal market: since January 1, 2017 the tariff for internal market constituted KZT 3,902.13/1,000 tons-km (in 2016, the tariff was KZT 3,547.46/1,000 tons-km);
- increase in tariff for Russian oil transportation for transit purposes along the territory of the Republic of Kazakhstan to PRC: Since

- increase in cargo turnover from 35,635 to 39,823 million tons-km or in 11.8%.

- increase in oil transportation volumes for transit purposes along the territory of the Republic of Kazakhstan to PRC from 7 to 10 million tons in 2017.

Operation and maintenance of main oil pipelines owned by third parties

Revenues from operation and maintenance of the main oil pipelines increased by 11.3% or KZT 1,080 million due to the increase in expenses associated with provision of such services. All expenses





associated with provision of services for pipeline operation and maintenance were covered by the owners of main oil pipelines.

Transshipment of oil and oil products and transportation by rail

The income growth by 1.4% or 112 million KZT has been stipulated by the increase in income from oil and oil products transportation by rail from KZT 1,544 million in 2016 up to KZT 3,761 million in 2017.

This increase of oil and oil products transportation by railway was compensated by the decrease in total volumes of transshipment of oil and oil products in BOT and PTL.

Transportation of water

Volume of water supply in 2017 was 26,225 thousand m³, in 2016 – 25,133 thousand m³. At the same time, revenues in 2017 are lower by 1.5% or KZT 111 million compared to the fact of 2016. The decline in income is mainly due to the growth in the water intake by the population and utilities. At the same time, the tariff set for the population is lower than for industrial and oil and gas producing enterprises.

Services of oil freight forwarding and sea port

Other revenues decreased by 13% or KZT 800 million. This was a result of a decrease in the volume of services provided by BSP, namely, a decrease in the volume of dry cargo handling from 862 thousand tons in 2016 to 795 thousand tons in 2017, and a decrease in the provision of services for the transport expedition.

Structure of expenses, %

Consolidated indicators	2017	2016
Cost of sales	85.7	79.6
General and administrative expenses	9.4	9.6
Loss from fixed assets impairment	-	8.7
Loss from impairment of long-term investments held to maturity	2.1	-
Financial expenses	1.8	1.5
Other expenses	1	1.5

Payments for under-delivered oil

During the reporting period, the payment for under-delivered oil volumes increased by KZT 2,691 million (by 107%) from KZT 2,507 million to 5,198 million KZT. The increase in income is due to the commencement of commercial oil production at Kashagan field and a corresponding increase in the minimum required amounts claimed by shippers in contracts concluded on the ship-or-pay terms. For the reporting year 2017, the shippers declared 2,513 thousand tons, and 2,196 thousand tons of oil were not delivered.

Other profits

In 2017, the profits decreased by 36% or KZT 686 million compared to 2016 which is associated mainly with decrease in other profits from the services provided by BOT and PTL companies.

Financial profits in 2017 constituted KZT 4,938 million and were stipulated mainly by deposit remunerations from free cash received from the Company's operational services in the amount of KZT 4,918 million for 2017.

Decrease in profits in 2017 by 20% compared to 2016 was associated with the discount depreciation on the interest-free loan (bailout) issued by the Company to NC KazMunayGas JSC in 2015 because of the repayment of this loan.

Expenses

The total expenses for 2017 constituted KZT 170,995 million which is 3.8% higher than total expenses for 2016 (KZT 164,668 million).

Cost of sales for 2017 was KZT 146,599 million which is higher 2016 indicators by 13% or KZT 16,737 million.

The indicator growth was mainly caused by:

- increase in depreciation costs (KZT 7,919 million) and property taxes (KZT 994 million) which is due to fixed assets revaluation and construction in progress commissioning in 2016;
- increase in electric energy expenses for KZT 620 million associated with increase in consumption because of increased cargo turnover, as well as an increase in the tariff for electricity in several regions;

- increase in personnel costs by KZT 3,175 million, which relates to the wages indexation of production personnel since January 1, 2017 by 7% and compensation payments related to the closure of MICC branch in Astana;

- increase in the cost of railway services in Georgia by KZT 1,602 million, due to the growth in the oil and oil products transportation volume via the Georgian railway (by PTL);

- increase in fuel and materials costs for KZT 958 million, due to the increase in the cost of materials, implementation of planned activities and ongoing maintenance of equipment, fixed assets, conducted by own forces.

Cost of sales, %

Consolidated indicators	2017	2016
Personnel costs	35.0	37.1
Depreciation and amortization	32.5	30.6
Materials and fuels	5.5	5.5
Electric energy	5.0	5.2
Taxes other than income tax	5.0	4.9
Repair and maintenance	3.9	3.9
Security services	2.9	3.2
Gas expenses	2.5	2.8
Air services	0.8	1.2
Railway services	1.9	0.9
Other	5.0	4.8

General and administrative expenses in 2017 were KZT 16,021 million, which is 2.3% higher than in 2016 (KZT 15,653 million).

The share of general and administrative expenses in total expenses in 2017 was 9.4% (in 2016-9.6%).



General and administrative expenses, %

Consolidated indicators	2017	2016
Personnel costs	54.3	58.4
Allowance for doubtful debts	10.1	10.6
Depreciation and amortization	7.8	6.9
Consulting services	3.2	2.7
Office maintenance	3.1	3
Business trip expenses	1.8	1.9
Taxes other than income tax and VAT	2.2	1.7
Repair and maintenance	1.8	1.4
Training	0.9	1.0
Insurance and security	0.8	0.9
Charity expenses	0.3	0.9
Materials and fuel	0.8	0.8
Write-off a VAT recoverable	0.6	0.7
Communication services	0.6	0.7
Bank costs	0.7	0.7
Advertising expenses	0.4	0.6
Information services	0.7	0.6
Other	9.9	6.5

Compared to 2016, the increase in expenses of fixed assets depreciation up to 7.8% and expenses for property tax up to 2.2% in 2017 is associated with fixed assets revaluation and construction in progress commissioning in the end of 2016.

In addition, the share of personnel costs decreased to 54.3% in the reporting period from 58.4% compared to 2016. The decrease is associated with cost optimization process in BOT and PTL in connection with decrease in the oil and oil products transshipment total volume.

Financial expenses constituted KZT 3,082 million which 25% or KZT 622 million higher than 2016. Such influence was caused by expenses for discounting of long-term investments received in

the end of 2017, held to maturity in the amount of KZT 631 million.

Impairment of long-term investments held to maturity

As for December 31, 2017, the Company admitted a loss from impairment for the unguaranteed amount KZT 3,640 million on the bonds purchased from Special Financial Company DSFK LLC.

Share in income of joint ventures

The KazTransOil JSC recognized share in the financial results of joint ventures for 2017 was KZT 7,101 million which is more for KZT 4,765 million compared to 2016.

KazTransOil JSC share in net income of joint ventures, KZT million.

Indicators	2017	2016	Change, %
KazTransOil JSC share in net income of MunaiTas NWPC JSC	1,712	2,336	-26.7
KazTransOil JSC share in net income of KCP LLP	5,389	-	
Total	7,101	2,336	203.9

KCP LLP. Net income of KCP LLP for 2017 was KZT 12,451 million, the relevant Company's share constitutes KZT 6,225 million. However, in the reporting period the Company admitted a share in the income of KCP LLP in the amount of KZT 5,389 million by deducting withdrawal of remains of out-of-balance loss at the year beginning in the amount of KZT 836 million. The net income of KCP LLP for the 2016 amounted to KZT 12,649 million, and the Company's share in amount of KZT 6,324 million was not recognized due to the fact that it was aimed to repay the off-balance loss formed as for December 31, 2015.

MunaiTas NWPC JSC. In 2017, the share in the net income of MunaiTas NWPC JSC was KZT 1,712 million which is 26.7% below than indicators for the identical period in 2016 (KZT 2,336 million). It is associated with decrease in income because of change in oil transportation schedule approved by the Ministry of Energy of the Republic of Kazakhstan, as well as decrease in the volumes and redistribution through KCP LLP.

Income tax

The income tax expenses in 2017 was KZT 15,824.3 million, which 52.5% higher than indicators at the end of 2016 (KZT 10,379.7 million).

Income tax expense, KZT million

Consolidated indicators	2017	2016	Change, %
Current income tax expense	16,785	17,222	-2.5
Deferred income tax benefits	-961	-6,842	-86
Income tax expense	15,824	10,380	52.5



Assets, equity and liabilities

Assets, capital and liabilities, KZT million

Consolidated indicators	For the year ending December 31		Change, %
	2017	2016	
Assets	764,227	744,976	2.6
Long-term assets	662,622	632,093	4.8
Current assets	101,605	112,883	-10.0
Equity and liabilities	764,227	744,976	2.6
Equity	599,691	587,975	2.0
Long-term liabilities	98,710	95,605	3.2
Current liabilities	65,826	61,396	7.2

In 2017, the Company's assets increased by 2.6%. The increase was caused by the growth of fixed assets value for KZT 15,105 million and an increase

in investments in the joint ventures (KZT 16,009 million).

Structure of fixed assets, KZT million

Consolidated indicators	2017 actual	2016 actual	Change, %
Pipelines	207,303	196,738	5.4
Machines and equipment	128,986	137,428	-6.1
Buildings and structures	100,842	94,932	6.2
Process oil	102,840	87,862	17.0
Construction in progress	35,879	40,371	-11.1
Land	19,890	19,804	0.4
Other	11,703	13,560	-13.7
Transport assets	11,817	13,460	-12.2
Total	619,261	604,155	2.5

Increase in fixed assets value is noted in the following groups of fixed assets:

- pipeline by 5.4% or KZT 10,565 million in connection with the commissioning of capital construction in progress including reconstruction of Kalamkas-Karazhanbas-Aktau 189-264.5 km and Uzen-Atyrau-Samara 645-677 km pipeline.

- buildings and structures by 6.2% or KZT 5,910 million due to the purchase of new administrative building in Astana city;

- process oil by 17% or KZT 14,978 million due to the revaluation of oil value.

Equity capital of the Company increased by 2% or KZT 11,716 million which is due to the increase in retained earnings for KZT15,445 million.

Current liabilities of the Company for 2017 were KZT 65,826 million, compared to 2016 (KZT 61,396 million), the growth by KZT 4,430 million was caused by the increase in accounts payable by KZT 2,228 million and the received advances for

KZT 1,753 million. Such growth of the Company's debt was explained primarily by the increase in volumes of the Russian oil transportation along the Republic of Kazakhstan and increase in tariff for such services.

Performance indicators

Key performance indicators of the Company

Key financial indicators	2017	2016	Change
EBITDA, KZT million	108,796	102,467	6.2%
EBITDA margin (EBITDA to revenue ratio), %	48,9	49,5	-1.1 p.p.
Gross profit margin (gross profit to revenues ratio), %	34,1	37,3	-8.6 p.p.
Net profit margin (net profit to revenues ratio), %	22,5	21,5	4.8 p.p.

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

Calculation of EBITDA, KZT million

Indicators	2017	2016	Change, %
Profit in the reporting year	50,118	44,528	12.6
plus income tax expenses	15,824	10,380	52.5
Profit before tax	65,942	54,908	20.1
plus, negative exchange rate (net)	652	1,612	-59.5
plus financial expenses	3,082	2,460	25.3
less financial income	-4,938	-6,191	-20.2
Less the share of income of joint ventures	-7,101	-2,336	203.9
Operating profit	57,637	50,452	14.2
plus depreciation and amortization	48,966	40,875	19.8
plus other operating expenses	963	868	10.9
less other operating expenses	-2,447	-3,940	-37.9
plus, impairment of fixed assets and long-term investments held to maturity	3,677	14,213	-74.1
EBITDA	108,796	102,467	6.2



Key performance indicators, %

Name	2017	2016
ROA (net profit/average total assets)	6.6	6.5
ROE (net profit/average annual equity)	8.4	8.4

Indicators of liquidity and financial stability

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

The liquidity indicator characterizes the Company's ability to meet its short-term obligations depending on its current assets. The total (current) liquidity ratio characterizes the extent to which current liabilities are covered by current assets. As can be seen from Table XX, on average, 1 KZT of current liabilities is covered by 1.54 KZT of current assets.

Liquidity ratios

Consolidated indicators	Standard criteria	2017	2016
Total liquidity ratio (Current assets/Current liabilities)	1.5 – 2.5	1.54	1.4
Quick liquidity ratio (Current assets – Inventories) / Current liabilities)	1.5 – 2.5	1.48	1.77

The quick liquidity ratio characterizes the part of current liabilities that can be repaid not only with the available cash, but also with the expected revenues from rendered services (cash and cash equivalents and short-term receivables). Thus, during the reporting period, the quick liquidity ratio shows that KZT 1 of the current liabilities is covered by KZT 1.48 of available assets.

The liquidity decline in 2017 as compared to 2016 is due to the increase in current assets as a result of dividends payment for KZT 59,617 million.

Cash and Cash equivalents

The cash and cash equivalents of the KazTransOil JSC group of companies as of December 31, 2017 amounted to KZT 40,871 million.

Cash turnover, KZT million

Consolidated indicators	For the year ending December 31		Change, %
	2017	2016	
Net cash flows generated from operating activities	98,946	90,977	8.8
Net cash flows from investing activities	-67,271	-20,217	232.7
Net cash flows from financing activities	-59,617	-51,166	16.5
Impact of exchange rate difference	-481	-719	-33.1
Net change in cash and cash equivalents	-28,424	18,874	-250.6
Cash and cash equivalents at beginning of period	69,294	50,420	37.4
Cash and cash equivalents at end of period	40,871	69,294	-41.0

Net positive cash flows generated from operating activities in 2017 were KZT 98,946 million, which is 8.8% higher than in 2016. These changes are primarily related to the increase in revenues from services provision.

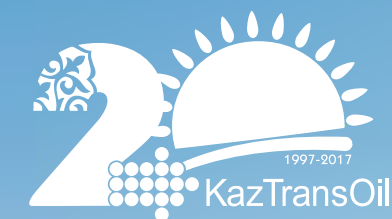
return of interest-free loans in 2016 that reduced net cash flows used in the comparative period.

Net negative cash flows from investment activities in 2017 were KZT 67,271 million, which is 232% higher than in 2016. These changes are mainly associated with disposal of bank deposits, allocation of cash for financial capital works, acquisition of fixed assets, as well as

Net cash flows from financing activities in 2017 were KZT 59,617 million, which is 16.5% higher than in 2016. These changes are due to the payment of dividends in 2017, paid due to the results of 2016 (at a rate KZT 155 per one KazTransOil JSC share). In 2016, the dividends amount paid for 2015 was KZT 51,156 million (at a rate KZT 133 per one KazTransOil JSC common share).



6. APPENDICES



5th
annual report,
prepared by
Company

17 GRI material topics,
disclosed in the
Report

14 externally
assured
disclosures



Unity driven by diversity.
A true picture from divergent angles.



APPENDIX 1. ABOUT THE REPORT

APPROACH TO THE PREPARATION OF THE REPORT

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

The Integrated Annual Report of KazTransOil JSC for 2017 (The Report) is the fifth Report that comprehensively reveals the operational and non-financial indicators of the Company.

The Report's constant goal is to inform a wide range of stakeholders on the Company strategy, mission, and values, corporate governance and risk management, as well as on key events and achievements during the Company's production-economic activities, on sustainable development and interaction with stakeholders.

The Company has adopted an annual reporting cycle. This Report reflects the results of the Company operations from January 1 to December 31, 2017 and contains a description of the Company's plans for 2018. The previous Report was published in May 2017. **102-50, 102-51, 102-52**

This Report was prepared in accordance with the Core option of GRI standards on sustainability reporting (GRI standards), while some topics of the Company's activities were more detailed. **102-54**

REPORT PREPARATION PROCESS AND SIGNIFICANT TOPICS DETERMINATION

When the Report was prepared, the Company followed the recommendations of the GRI standards. In the process of writing the Report, the reporters also followed

the principles of International integrated reporting standard developed by the International Integrated Reporting Council (IIRC), the requirements of the Kazakhstan Stock Exchange, the provisions of the Corporate Governance Code and other Company's internal documents.

The description of the results in the Company's financial and economic activities is prepared in accordance with the "Management Commentary" IFRS Practical Guide recommendations.

To comply with GRI standards, the Company defined important material topics.

The preliminary list of Company's material topics was based on the results of analysis of the information disclosure best practices applied in local and international oil and gas companies, as well as, the analysis of Company's key events during the reporting period and provisions of internal documents.

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

Information on management approaches on Company's material topics was disclosed throughout the Report.

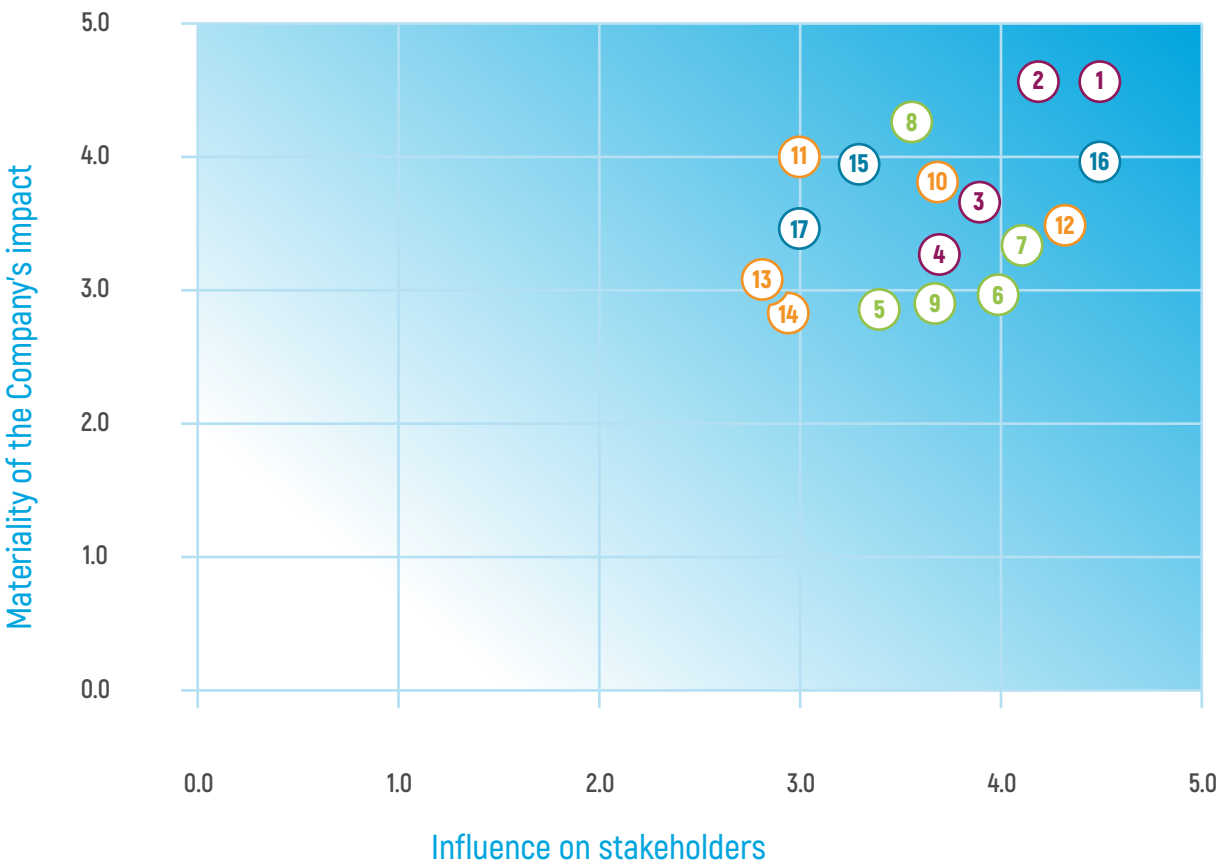
Based on the discussions results and the strategic development vision, the Company defined the Materiality Matrix and list of the material topics of the Company. **102-47**

The complete list of the topics reviewed, as well as high-lighted material topics are given in the following table.

The table containing the disclosures and references to disclosures is introduced in [Appendix 2](#) of the Report.



Materiality Matrix and list of material topics



- | | |
|----------------------------------|-------------------------------------|
| ① Economic performance | ③ Procurement practices |
| ② Market presence | ④ Anti-corruption |
| ⑤ Energy | ⑧ Effluents and waste |
| ⑥ Water | ⑨ Environmental Compliance |
| ⑦ Emissions | |
| ⑩ Employment | ⑬ Training and Education |
| ⑪ Labor/Management Relations | ⑭ Diversity and equal opportunities |
| ⑫ Occupational Health and Safety | |
| ⑮ Emergency preparedness | ⑰ Corporate Governance |
| ⑯ Production process safety | |



APPENDIX 1. ABOUT THE REPORT (continued)

Complete list of the topics reviewed

Category	Significant topics	Within the Company	Outside the Company
Economic	Economic performance	✓	✓
	Market presence	✓	✓
	Indirect economic impact	-	-
	Procurement practices	✓	✓
	Anti -corruption	✓	✓
	Anti-competitive behavior	-	-
Environmental	Materials	-	-
	Energy	✓	✓
	Water	✓	✓
	Biodiversity	-	-
	Emissions	✓	✓
	Effluents and waste	✓	✓
	Environmental compliance	✓	✓
	Suppliers environmental assessment	-	-
Social	Employment	✓	✓
	Labor/management relations	✓	-
	Occupational health and safety	✓	-
	Training and education	✓	✓
	Diversity and equal opportunity	✓	-
	Non-discrimination	✓	-
	Freedom of association and collective bargaining	✓	-
	Child labor	✓	-
	Forced or compulsory labor	✓	-
	Safety practices	✓	-
	Rights of indigenous peoples	-	-
	Human rights assessment	-	-
	Local communities	✓	✓
	Supplier social assessment	-	-
	Public policy	-	-
	Customer health and safety	-	-
	Marketing and labeling	-	-
	Customer privacy	-	-
	Socioeconomic compliance	-	-
Other significant topics	Emergency preparedness	✓	✓
	Production process safety	✓	✓
	Corporate governance	✓	✓

APPENDIX 1. ABOUT THE REPORT (continued)

THE REPORT BOUNDARIES

The Report includes information on the activities of the Company and its branches and SJCE. **102-45**

The production-financial indicators are described in the sections "Main operational and financial indicators" and "Financial and Economic Performance. Managerial report" is provided on a consolidated basis and includes the results of SJCE financial and economic activities. In other Report sections, information on the Company is presented separately, unless otherwise noted.

The Republic of Kazakhstan is defined as a main region of activity in the Report.

In the reporting year, the Company has remained to disclose indicators in three years dynamics manner. Moreover, for better information disclosure, the Report refers to some events that occurred before and after the reporting period. **102-46**

The Report also reflects information concerning the forecast plans for 2018. Because of influence by several external factors, the Company's results achieved in future periods may not coincide with the targets specified in this Report.

As compared to the 2016 Company's Integrated Annual Report, this Report has changes in several indicators, and disclosure of separate indicators. Detailed explanations are given in the Report itself. **102-48**

In the Report, the Company did not apply significant changes in Report and topics scope and boundaries. **102-49**

ASSURANCE

To enhance credibility and transparency of non-financial information, the Company continued the practice of external assurance of disclosures on sustainable development by independent consultant. The independent consultant's report can be found in [Appendix 7](#) "NURTEAM LLP external assurance report". **102-56**

The financial statements presented in the Report comply with the Company's audited consolidated financial statements for 2017, which is presented in [Appendix 8](#) "Opinion of Independent Auditors and the audited consolidated financial statements".

FURTHER IMPROVEMENTS OF REPORT PREPARATION PROCESS

The Company plans further improvement of the Report preparation process. The main directions are the following:

- Involvement of representatives of the main stakeholders, including Company's management and employees, in the report preparation process by discussing public and significant topics related to Company's activities and its further reflection in the Report;
- Application of a system to motivate stakeholders to participate in the process of identification material topics..

CONTACTS

The interactive version of the Report, as well as previous Company's reports in an electronic form can be found on the Company's website www.kaztransoil.kz. in the page "Information To Shareholders and Investors/ Information Disclosure/Annual reports".

For all questions regarding the Report and its content, please contact the Company's Strategic Planning Department:

Rauza Keldibekova, +7 (7172) 555-346,
keldibekova@kaztransoil.kz

Address: 20 Turan Avenue, Astana city,
Republic of Kazakhstan 010000
102-3, 102-53



APPENDIX 2.

GRI CONTENT INDEX

No.	Index	Name	Comment	Section and page in the Report
General disclosures				
Organizational profile				
1.	102-1	Name of the organization		1. About the Company, page 10
2.	102-2	Activities, brands, products, and services		1. About the Company, 1.1. Business model, page 18
3.	102-3	Location of headquarters		1. About the Company, page 32
4.	102-4	Location of operations		1.About the Company, page 34 1.5. Company's market position, page 40
5.	102-5	Ownership and legal form		1. About the Company, page 10 4.1. Annual General Meeting. Structure of the share capital, page 93
6.	102-6	Markets served		2. Operating activities results, page 44
7.	102-7	Scale of the organization		1. About the Company, page 33 3.4. Personnel management The Company's personnel headcount and structure, page 74-75
8.	102-8	Information on employees and other workers		3.4. Personnel management The Company's personnel headcount and structure, page 74-75
9.	102-9	Supply chain		3.6 Procurement system and local content, page 88
10.	102-10	Significant changes to the organization and its supply chain	In the reporting period, there were no significant changes in Company's organization and its supply chain	1.3. Organizational structure Asset restructuring, page 36
11.	102-11	Precautionary Principle or approach	The Company shares the main provisions of the precautionary principle [Principle 15 of the Rio Declaration on the protection of the environment and development, UN, 1992]	
12.	102-12	External initiatives		3.1. Sustainable Development Management Stakeholders engagement, page 60-61



No.	Index	Name	Comment	Section and page in the Report
13.	102-13	Membership of associations		3.1. Sustainable Development Management Stakeholders engagement, page 61, 63-64
Strategy				
14.	102-14	Statement from senior decision-maker		Message from the Chairman of the Board of Directors, page 4-5 Message from the General Director (Chairman of Board), page 6-7
Ethics and integrity				
15.	102-16	Values, principles, standards, and norms of behavior		4.9. Corruption Control, page 138 4.10. Corporate ethics, settlement of corporate conflicts and conflicts of interest, page 138
Governance				
16.	102-18	Governance structure		4. Corporate Governance, page 92
Stakeholder Engagement				
17.	102-40	List of stakeholder groups		3.1. Sustainable Development Management Stakeholders engagement, page 62
18.	102-41	Collective bargaining agreements		3.5. Social policy Social support of employees, page 78
19.	102-42	Identifying and selecting stakeholders		3.1. Sustainable Development Management Stakeholders engagement, page 61
20.	102-43	Approach to stakeholder engagement		3.1. Sustainable Development Management Stakeholders engagement, page 61
21.	102-44	Key topics and concerns raised	Information on the activities within the interaction with stakeholders is disclosed in the relevant sections of the Report	
Reporting practice				
22.	102-45	Entities included in the consolidated financial statements		Appendix 1. About the Report, page 157
23.	102-46	Defining report content and topic Boundaries		Appendix 1. About the Report, page 157
24.	102-47	List of material topics		Appendix 1. About the Report, page 154
25.	102-48	Restatements of information		Appendix 1. About the Report, page 157
26.	102-49	Changes in reporting	In the reporting year, there were no significant changes in the aspect scope and boundaries compared to the previous reporting periods	Appendix 1. About the Report, page 157



APPENDIX 2. GRI CONTENT INDEX (continued)

No.	Index	Name	Comment	Section and page in the Report
27.	102-50	Reporting period		Appendix 1. About the Report, page 154
28.	102-51	Date of most recent report		Appendix 1. About the Report, page 154
29.	102-52	Reporting cycle		Appendix 1. About the Report, page 154
30.	102-53	Contact point for questions regarding the report		Appendix 1. About the Report, page 157
31.	102-54	Claims of reporting in accordance with the GRI Standards		Appendix 1. About the Report, page 154
32.	102-55	GRI content index		Appendix 2. GRI content index, page 158
33.	102-56	External assurance		Appendix 1. About the Report, page 157
Topic-specific disclosures				
201 – Economic Performance				
34.	MAD	Management approach disclosure		5. Financial and Economic Performance. Managerial report, page 142 Appendix 8. Consolidated financial statement, page 186
35.	201-1*	Direct economic value generated and distributed	The information is represented by consolidated income and expenses, as well as paid dividends, reflected in the financial statements and disclosures thereto.	
202 – Market Presence				
36.	MAD	Management approach disclosure		3.4. Personnel management Remuneration and motivation of employees, page 74
37.	202-1*	Ratios of standard entry level wage by gender compared to local minimum wage		3.4. Personnel management Remuneration and motivation of employees, page 77
204 – Procurement Practices				
38.	MAD	Management approach disclosure		3.6. Procurement system and local content, page 87
39.	204-1*	Proportion of spending on local suppliers		3.6. Procurement system and local content, page 88-89
205 – Anti-corruption				
40.	MAD	Management approach disclosure		4.9. Corruption Control, page 138
41.	205-1*	Operations assessed for risks related to corruption		4.9. Corruption Control, page 138
42.	205-3	Confirmed incidents of corruption and actions taken		4.9. Corruption Control, page 138

* This disclosure has passed an external assurance, page 184-185

APPENDIX 2. GRI CONTENT INDEX (continued)

No.	Index	Name	Comment	Section and page in the Report
302 – Energy				
43.	MAD	Management approach disclosure		2.6. Energy consumption and energy saving, page 53
44.	302-1*	Energy consumption within the organization		2.6. Energy consumption and energy saving, page 54
45.	302-3	Energy intensity		2.6. Energy consumption and energy saving, page 57
46.	302-4	Reduction of energy consumption		2.6. Energy consumption and energy saving, page 57
303 – Water				
47.	MAD	Management approach disclosure		3.2. Environmental protection Water resources, page 68
48.	303-1*	Water withdrawal by source		3.2. Environmental protection Water resources, page 68
305 – Emissions				
49.	MAD	Management approach disclosure		3.2. Environmental protection Impact on the atmosphere, page 66
50.	305-7*	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions		3.2. Environmental protection Impact on the atmosphere, page 68
306 – Effluents and Waste				
51.	MAD	Management approach disclosure		3.2. Environmental protection, page 69
52.	306-1	Water discharge by quality and destination		3.2. Environmental protection Water resources, page 69
53.	306-2*	Waste by type and disposal method		3.2. Environmental protection Waste management, page 69
54.	306-3	Significant spills		3.2. Environmental protection Land resources, page 70
307 – Environmental Compliance				
55.	MAD	Management approach disclosure		3.2. Environmental protection, page 66
56.	307-1*	Non-compliance with environmental laws and regulations		3.2. Environmental protection, Environmental payments, page 66
401 – Employment				
57.	MAD	Management approach disclosure		3.4. Personnel management, page 73 3.5. Social policy, page 78

* This disclosure has passed an external assurance, page 184-185



APPENDIX 2. GRI CONTENT INDEX (continued)

No.	Index	Name	Comment	Section and page in the Report
58.	401-1	New employee hires and employee turnover	The personnel turnover index is calculated as the ratio of the number of workers dismissed at their own initiative and for negative reasons to the average headcount of the Company in a year.	3.4. Personnel management The Company's personnel headcount and structure, page 74
59.	401-2*	Benefits provided to full-time employees that are not provided to temporary or part-time employees		3.5. Social policy, page 78
60.	401-3	Parental leave		3.5. Social policy Social support of employees, page 79
402 – Labor/Management Relations				
61.	MAD	Management approach disclosure		3.4. Personnel management The Company's personnel headcount and structure, page 74
62.	402-1*	Minimum notice periods regarding operational changes		3.4. Personnel management The Company's personnel headcount and structure, page 74
403 – Occupational Health and Safety				
63.	MAD	Management approach disclosure		3.3. Occupational health and safety, page 70
64.	403-1*	Workers representation in formal joint management-worker health and safety committees		3.3. Occupational health and safety, page 71
65.	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	The rate of accidents per 1000 people *= (number of accidents related to production) / (average number of the production staff) * 1000 LTIFR = (total working time lost as a result of injuries) *200 000 / (total time spent working)]	3.3. Occupational health and safety, page 71-72
66.	403-4	Health and safety topics covered in formal agreements with trade unions		2.5. Improvement of the performance of production processes Industrial and fire safety of assets, page 51 3.3. Occupational health and safety, page 71, 72-73

* This disclosure has passed an external assurance, page 184-185



APPENDIX 2. GRI CONTENT INDEX (continued)

No.	Index	Name	Comment	Section and page in the Report
404 – Training and Education				
67.	MAD	Management approach disclosure		3.5. Social policy Personnel training and development, page 79
68.	404-2*	Programs for upgrading employee skills and transition assistance programs		3.5. Social policy Personnel training and development, page 80 3.5. Social policy Pensions, page 87
405 – Diversity and Equal Opportunity				
69.	MAD	Management approach disclosure		3.4. Personnel management The Company's personnel headcount and structure, page 74
70.	405-1*	Diversity of governance bodies and employees		3.4. Personnel management The Company's personnel headcount and structure, page 76

* This disclosure has passed an external assurance, page 184-185



APPENDIX 3.

PRINCIPLES OF UN GLOBAL COMPACT

Principles of UN Global Compact	Compliance of KazTransOil JSC activities with the principles	Report section and page
Human rights		
Principle 1. Businesses should support and respect the protection of internationally proclaimed human rights; and	In the exercise of its activities, KazTransOil JSC ensures the observance and respect of human rights proclaimed internationally and provided by the Constitution of the Republic of Kazakhstan. According to the Company's Code of Corporate Ethics, any situation resulting in violation of human rights must be treated in accordance with the legislation of the Republic of Kazakhstan and internal documents of the Company.	4.10. Corporate ethics, settlement of corporate conflicts and conflicts of interest, page 138
Principle 2. Businesses make sure that they are not complicit in human rights abuses.		
Labor		
Principle 3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	KazTransOil JSC provides employees with the right of organizing and participating in voluntary associations of their own and concluding collective agreements.	3.4. Personnel management, page 73
Principle 4. Businesses should uphold the elimination of all forms of forced and compulsory labor;		
Principle 5. Businesses should uphold the effective abolition of child labor	When hiring, paying remuneration, promoting and providing access to training, the Company does not tolerate discrimination on race, ethnicity, age, gender, social status, nationality, attitude to religion and public associations or other circumstances unrelated to the business qualities of the employee and the results of his/ her work.	
Principle 6. Businesses should uphold the elimination of discrimination in respect of employment and occupation.	The company don't use forced or child labor in its activities.	



Principles of UN Global Compact	Compliance of KazTransOil JSC activities with the principles	Report section and page
Environment		
Principle 7. Businesses should support a precautionary approach to environmental challenges;	<p>KazTransOil JSC demonstrates respect and care for the environment.</p> <p>In 2015, the Company developed a Comprehensive Environmental Program for 2015–2019. The expected outcome from this environmental program is adherence to the principles of maximum careful and rational attitude to the environment, reduction of emissions, discharge of effluents, production and consumption wastes, greenhouse gas emissions.</p>	3.2. Environmental protection, page 64
Principle 8. Businesses should undertake initiatives to promote greater environmental responsibility;		
Principle 9. Businesses should encourage the development and diffusion of environmentally friendly technologies.	<p>In 2017, the Company invested in environmental protection KZT 669.4 million. This amount was used to conduct environmental monitoring (monitoring of air, water and soil) at the facilities, removal and disposal of production and consumption wastes, wastewater pumping and treatment, elimination of the historical contamination and other related measures.</p>	
Anti-corruption principles		
Principle 10. Businesses should work against corruption in all its forms, including extortion and bribery.	<p>KazTransOil JSC in its activity operates fairly and in good faith, does not accept bribes or similar vicious business practices as well as practices of giving and receiving gifts, except for practices accepted in business.</p> <p>Regarding the facts of corruption and other illegal actions of the officials and employees of the Company, one can contact by the telephone number +7 (7172) 555-210, or by the Company's e-mail – doverie@kaztransoil.kz for appropriate action to be taken.</p> <p>In 2017, no cases of violation of the anticorruption legislation of the Republic of Kazakhstan were identified in the Company.</p>	4.9. Corruption Control, page 138





APPENDIX 4. PROCUREMENT REPORT FOR 2017

Structural unit	Open tender			One source			Procurement by price proposal request					
	Number	Budget	Amount of procurement contracts	Number	Budget	Amount of procurement contracts	Number	Budget	Amount of procurement contracts	Total budget	Total amount of procurement contracts	Savings on procurements
The Central Office	138	14 015 128 191,63	12 759 038 359,28	2431	53 642 281 736,63	53 219 381 600,10	52	148 168 675,39	89 492 127,84	67 805 578 603,65	66 067 912 087	1 737 666 516
The Western Branch	195	1 033 329 356,89	1 094 709 602,60	269	13 278 932 732,62	12 667 039 598,43	246	616 351 717,73	389 040 519,43	14 928 613 807,24	14 150 789 720	777 824 087
The Eastern Branch	177	1 143 269 524,68	1 230 951 368,75	468	8 607 104 707,27	8 437 405 190,82	46	425 984 274,03	255 974 183,19	10 176 358 505,98	9 924 330 743	252 027 763
The SEC Branch	12	27 170 320,00	27 170 320,00	64	55 472 521,05	53 847 712,49	75	29 958 798,52	18 551 476,58	112 601 639,57	99 569 509	13 032 131
The MICC Branch	3	81 467 585,78	80 395 005,77	21	81 467 585,78	80 395 005,77	15	10 117 403,00	5 192 267,08	173 052 574,56	165 982 279	7 070 296
TOTAL	525	16 300 364 979	15 192 264 656	3 253	75 665 259 283,35	74 458 069 107,61	434	1 230 580 868,67	758 250 574,12	93 196 205 131	90 408 584 338	2 787 620 793



APPENDIX 5.

THE LIST OF TRANSACTIONS IN WHICH KAZTRANSOIL JSC IS INTERESTED AND SIGNED BY KAZTRANSOIL JSC IN 2017

No	Name of the transaction	Decision of the body of KazTransOil JSC
Mangistaumunaigas JSC		
1.	The Contract on output (consumption) of thermal energy in hot water for the needs of HOPS Kalamkas of Mangistau Oil Pipeline Department of the KazTransOil JSC Western Branch	The decision of the Board of Directors of KazTransOil JSC from 15.03.2017. (Minute No. 3/2017)
2.	The Contract on sewage disposal at HOPS Kalamkas of Mangistau Oil Pipeline Department of the KazTransOil JSC Western Branch	The decision of the Board of Directors of KazTransOil JSC from 15.03.2017. (Minute No. 3/2017)
3.	The Supplementary Agreement No.1 to the Contract on output (consumption) of thermal energy dated April 18, 2017 No.WPP343/2017//486-13.04	The decision of the Board of Directors of KazTransOil JSC from 13.09.2017 (Minute No. 8/2017)
4.	The Oil Transportation Contract	The decision of the Board of Directors of KazTransOil JSC from 20.11.2017 (Minute No. 10/2017)
5.	The Forwarding Contract	The decision of the Board of Directors of KazTransOil JSC from 20.11.2017 (Minute No. 10/2017)
6.	The Supplementary Agreement No.1 to the Oil Transportation Contract dated December 8, 2016 No.TR 10/2017	The decision of the Board of Directors of KazTransOil JSC from 20.11.2017 (Minute No. 10/2017)
7.	The Contract on send-out and acceptance of natural gas for the needs of HOPS Kalamkas and OPS Karazhanbas of KazTransOil JSC	The decision of the Board of Directors of KazTransOil JSC from 13.12.2017 (Minute No. 11/2017)
Tengizchevroil LLP		
8.	The Agreement on cooperation in construction of «Kulsary-Tengiz» industrial waterline	The decision of the Board of Directors of KazTransOil JSC from 26.05.2017 (Minute No. 6/2017)
9.	The Supplementary Agreement No.3 to the Forwarding Contract dated February 27, 2015 No.EX 62/2015	The decision of the Board of Directors of KazTransOil JSC 20.11.2017 (Minute No. 10/2017)

No	Name of the transaction	Decision of the body of KazTransOil JSC
10.	The Supplementary Agreement No.2 to the Oil Transportation Contract dated December 22, 2015 No.TR 61/2016	The decision of the Board of Directors of KazTransOil JSC from 20.11.2017 (Minute No. 10/2017)
Kazakhstan-China Pipeline LLP		
11.	The Optic Fiber Rental Contract for the fiber optic link of Kenkiyak-Kumkol main oil pipeline	The decision of the Board of Directors of KazTransOil JSC from 13.09.2017 (Minute No. 8/2017)
12.	The Agreement on dissolution of the Contract on operation of «Kenkiyak-Kumkol» main oil pipeline for 2016-2020 dated August 1, 2016 No.173-2016//OS5/2016	The decision of the Board of Directors of KazTransOil JSC from 13.12.2017 (Minute No. 11/2017)
13.	The Agreement on dissolution of the Contract on operation of «Atasu-Alashankou» main oil pipeline for 2016-2020 dated August 1, 2016 No.172-2016//OS6/2016	The decision of the Board of Directors of KazTransOil JSC from 13.12.2017 (Minute No. 11/2017)
14.	The Contract on operation of «Kenkiyak-Kumkol» main oil pipeline for 2017-2021	The decision of the Board of Directors of KazTransOil JSC from 13.12.2017 (Minute No. 11/2017)
15.	The Contract on operation of «Atasu-Alashankou» main oil pipeline for 2017-2021	The decision of the Board of Directors of KazTransOil JSC from 13.12.2017 (Minute No. 11/2017)
KNNK Kazakhstan B.V		
16.	The Oil Transportation Contract	The decision of the Board of Directors of KazTransOil JSC from 20.11.2017 (Minute No. 10/2017)
17.	The Forwarding Contract	The decision of the Board of Directors of KazTransOil JSC from 20.11.2017 (Minute No. 10/2017)
PetroKazakhstan Kumkol Resources JSC		
18.	The Oil Transportation Contract	The decision of the Board of Directors of KazTransOil JSC from 20.11.2017 (Minute No. 10/2017)
19.	The Oil Transportation Contract	The decision of the Board of Directors of KazTransOil JSC from 20.11.2017 (Minute No. 10/2017)
Karazhanbasmunai JSC		
20.	The Forwarding Contract	The decision of the Board of Directors of KazTransOil JSC from 20.11.2017 (Minute No. 10/2017)
CNPC-AMG JSC		
21.	The Supplementary Agreement No.3 to the Forwarding Contract dated December 18, 2014 No.EX 09/2015	The decision of the Board of Directors of KazTransOil JSC from 20.11.2017 (Minute No. 10/2017)
KMK M JSC		
22.	The Supplementary Agreement No.2 to the Forwarding Contract dated November 17, 2015 No.EX 06/2016	The decision of the Board of Directors of KazTransOil JSC from 20.11.2017 (Minute No. 10/2017)



APPENDIX 5. THE LIST OF TRANSACTIONS IN WHICH KAZTRANSOIL JSC IS INTERESTED AND SIGNED
BY KAZTRANSOIL JSC IN 2017 (continued)

No	Name of the transaction	Decision of the body of KazTransOil JSC
Kazakhoil Aktobe LLP		
23.	The Supplementary Agreement No.2 to the Forwarding Contract dated December 22, 2015 No.EX 04/2016/22CSL1Yk15	The decision of the Board of Directors of KazTransOil JSC from 20.11.2017 (Minute No. 10/2017)
TURGAI-PETROLEUM JSC		
24.	The Oil Transportation Contract	The decision of the Board of Directors of KazTransOil JSC from 20.11.2017 (Minute No. 10/2017)
PSA LLP		
25.	The Oil Transportation Contract	The decision of the Management Board of KazTransOil JSC from 18.01.2017 (Minute No. 2)
26.	The Forwarding Contract	The decision of the Management Board of KazTransOil JSC from 18.01.2017 (Minute No. 2)
27.	The Supplementary Agreement No.1 to the Forwarding Contract dated April 5, 2017 No.EX 26/2017	The decision of the Management Board of KazTransOil JSC from 08.11.2017 (Minute No. 31)
Semser Ort Sondirushi LLP		
28.	The Contract on services to provide accommodation for Semser Ort Sondirushi LLP employees in the households of KazTransOil JSC Western branch	The decision of the Management Board of KazTransOil JSC from 23.02.2017 (Minute No. 7)
29.	The Contract on services to provide meal for Semser Ort Sondirushi LLP employees in the facilities of KazTransOil JSC Western branch	The decision of the Management Board of KazTransOil JSC from 23.02.2017 (Minute No. 7)
30.	The Contract on services to provide accommodation for Semser Ort Sondirushi LLP employees in the households of KazTransOil JSC Eastern branch	The decision of the Management Board of KazTransOil JSC from 23.02.2017 (Minute No. 7)
31.	The Contract on services to provide meal for Semser Ort Sondirushi LLP employees in the facilities of KazTransOil JSC Eastern branch	The decision of the Management Board of KazTransOil JSC from 23.02.2017 (Minute No. 7)
Munaitas NWPC JSC		
32.	The Contract on technical maintenance/support of main / local pipelines and similar networks / systems (operation of Kenkiyak-Atyrau main oil pipeline facilities and sites)	The decision of the Management Board of KazTransOil JSC from 10.03.2017 (Minute No. 10)
33.	The Contract on technical maintenance/support of main / local pipelines and similar networks / systems (operation of Kenkiyak-Atyrau main oil pipeline facilities and sites)	The decision of the Management Board of KazTransOil JSC from 30.06.2017 (Minute No. 22)
34.	The Contract on technical maintenance/support of main / local pipelines and similar networks / systems (operation of Kenkiyak-Atyrau main oil pipeline facilities and sites) to 2017-2021	The decision of the Management Board of KazTransOil JSC from 18.10.2017 (Minute No. 30)

APPENDIX 5. THE LIST OF TRANSACTIONS IN WHICH KAZTRANSOIL JSC IS INTERESTED AND SIGNED
BY KAZTRANSOIL JSC IN 2017 (continued)

No	Name of the transaction	Decision of the body of KazTransOil JSC
Ozenmunaigas JSC, Embamunaigas JSC , Kazakhturkmunay LTD , Kazmunayteniz OOC LLP		
35.	The Forwarding Contract	The decision of the Management Board of KazTransOil JSC from 08.11.2017 (Minute No. 31)
KMG Kashagan B.V. PCLL		
36.	The Supplementary Agreement No.1 to the Forwarding Contract dated April 13, 2016 No.EX 22/2017	The decision of the Management Board of KazTransOil JSC from 08.11.2017 (Minute No. 31)
Kazmunayteniz OOC JSC		
37.	The Oil Transportation Contract	The decision of the Management Board of KazTransOil JSC from 08.11.2017 (Minute No. 31)



APPENDIX 6. REPORT ON THE COMPLIANCE OF KAZTRANSOIL JSC WITH THE PRINCIPLES AND PROVISIONS OF THE CORPORATE GOVERNANCE CODE IN 2017

[approved by the resolution of the KazTransOil JSC Board of Directors dated April 9, 2018 Minutes No.5/2018]

In accordance with the Corporate Governance Code (the Code), approved by the resolution of the KazTransOil JSC Annual General Meeting (the Company) dated May 27, 2016 (Minutes No. 3/2016), the Company annually prepares a Report on the Compliance/Non-Compliance with principles and provisions of the Code.

The Code objectives are to improve corporate governance of the Company, to ensure management transparency, approval of the Company's commitment to follow standards of the proper corporate governance.

The principles of the Code are:

- 1. The government as the shareholder of Samruk-Kazyna JSC*.
- 2. Interaction between Samruk-Kazyna JSC and organizations. Role of Samruk-Kazyna JSC as the national managing holding.

- 3. Sustainable development.
- 4. Rights of shareholders and equitable treatment of shareholders.
- 5. Performance of the Board of Directors and the executive body.
- 6. Risk management, internal control and audit.
- 7. Transparency.

The Company, realizing the importance of corporate governance, pays great attention to the need for compliance with internal documents and practicing its principles in the Company

* The first principle of the Code has a specific nature and refers to the characteristics of management of Samruk-Kazyna JSC, cooperation between Samruk-Kazyna JSC and the Government of the Republic of Kazakhstan



No.	Regulation/ principle	Complied/ Not complied	Actions taken to comply with regulations/principles
1.	Interaction of Samruk Kazyna JSC with organizations. The role of Samruk Kazyna JSC as the national governing holding.	Complied	<p>The Company's corporate governance system provides for proper management and control of its activities and is aimed at increasing long-term value and sustainable development.</p> <p>The company and its officials are responsible for the long-term value growth and sustainable development of the Company, and take decisions and actions/inactions in the order established by the legislation of the Republic of Kazakhstan and internal documents.</p> <p>One of the key elements of evaluating the performance of the executive body of the Company is key performance indicators system (KPI). The KPI list and targets are approved by the Board of Directors.</p> <p>Thus, pursuant to the decision of the Board of Directors dated February 1, 2017 (Minutes No. 2/2017), the Company corporate indicators for 2017 and their target values were approved. On March 15, 2017 by the Decision of the Company Board of Directors (Minutes No.3/2017) motivational KPIs of the Company's executives for 2017 and their target values were approved.</p> <p>The Company annually evaluates the KPI achievement, which determines the remuneration of the Company managers.</p>
2.	Sustainable development	Complied	<p>Sustainable development is a priority in the activities of the Company, the goal of which is business development along with the preservation and protection of the environment, creation of favorable working conditions, ensuring security at workplace and contribution to the development of the local communities, where the Company operates.</p> <p>The authorities of the Company regularly review and analyze the key results of the Company in the field of sustainable development, including in terms of personnel management, environmental protection, functioning of the integrated management system.</p> <p>When implementing its activities in the field of sustainable development, the Company is guided by the principles and provisions enshrined in the UN Global Compact, ISO 26000 Guidance on social responsibility, AA1000 standards "Standard of interaction with stakeholders", reports in sustainable development GRI and is regulated by a number of internal documents of the Company for certain areas of sustainable development, which are available on the corporate website of the Company.</p> <p>The Board of Directors decision as of December 13, 2017 (Minutes No. 11/2017), the Company approved the KazTransOil JSC Stakeholders Map, which determines the list of stakeholders that affect or may affect the Company's operations.</p>

REPORT ON THE COMPLIANCE OF KAZTRANSOIL JSC WITH THE PRINCIPLES AND PROVISIONS OF THE CORPORATE GOVERNANCE CODE IN 2017 (continued)

No.	Regulation/ principle	Complied/ Not complied	Actions taken to comply with regulations/principles
2.1	Environmental protection	Complied	<p>The Company pays great attention to measures for minimizing the negative impact of its activities on the environment and implementing the principles of rational use of natural resources.</p> <p>The Company strictly adheres to the requirements of the Environmental Code of the Republic of Kazakhstan, advanced international standards, the provisions of the KazTransOil JSC Policy on health and safety and environment and other internal corporate documents, conducting identification and assessment of environmental risks, providing transparency and openness of its measures on environmental protection.</p> <p>In 2017, the international certification body SGS (Societe Generale de Surveillance) confirmed Company's compliance with the requirements of the international standard ISO 14001:2015.</p> <p>In the reporting period, the Company invested in environmental protection KZT 669.4 million and made environmental payments of more than KZT 87.8 million.</p> <p>There were no accidents, which could cause suspension of the production or environmental damage during oil transportation, in 2017.</p>
2.2	Occupational health and safety	Complied	<p>In the field of occupational health and safety, the Company strives to ensure trouble-free mode of operation at its production facilities, creates and maintains safe working conditions and care about the health of its employees and strictly follows the requirements of the legislation of the Republic of Kazakhstan, international and national standards, provisions of the KazTransOil JSC Policy on health, safety and environment and internal documents of the Company.</p> <p>In June, 2017, the KazTransOil JSC Policy on health, safety and environment was approved.</p> <p>In addition, an extensive work on reviewing, updating and renewing internal regulatory documents in the field of health and safety was performed. An important result of this work was the development and adoption of the KazTransOil JSC Code on health and safety "Golden Rules", which includes a description of key requirements for the safe performance of work, as a part of production process. During 2017, the Company registered 3 industrial accidents, in which 3 persons were injured.</p> <p>The current KazTransOil JSC HR Policy for 2015-2019 defines a system of principles, key areas and personnel management levels.</p>



REPORT ON THE COMPLIANCE OF KAZTRANSOIL JSC WITH THE PRINCIPLES AND PROVISIONS OF THE CORPORATE GOVERNANCE CODE IN 2017 (continued)

No.	Regulation/ principle	Complied/ Not complied	Actions taken to comply with regulations/principles
2.3	HR and social policy	Complied	<p>The Company is building up its personnel and social policy in accordance with the legislation of the Republic of Kazakhstan and Collective agreement of the Company.</p> <p>The Company pays special attention to ensuring social stability and creating a favorable climate in work collectives on the basis of a balanced social and personnel policy and implementing systemic measures to regulate social and labor relations.</p> <p>The Company provides its employees with a guaranteed social package aimed at improving the living conditions of employees and their families. In addition, employees are provided with an additional amount of benefits and guarantees, which are stipulated in the collective agreement. 100% of the Company's personnel are covered by the collective agreement (with the exception of employees of representative offices).</p> <p>In the field of personnel management, the Company works in such directions as improvement of the organizational structure, quality of staff, managing productivity, implementation of the main tasks and directions of the youth policy, formation and development of corporate culture.</p> <p>The recruitment procedure in the Company is carried out in accordance with the KazTransOil JSC Rules of competitive selection for vacant positions and adaptation of new employees. The Company conducts the search and selection of qualified specialists, maintains a database of candidates, uses transparent competitive procedures in the selection of personnel for vacant positions, including with elementary testing of the knowledge of candidates.</p> <p>In 2017, the Company held 681 events under the program of personnel training and development. Many employees were trained for several specialties (areas) of training, retraining and advanced training.</p> <p>The Company creates wide opportunities for professional and career growth of its employees.</p> <p>The Company created a talent pool, which aims to ensure the process continuity and preparation of the Company's own managerial personnel. In 2017, the talent pool of the Company contained 59 people, including 18 people from the Central Office.</p> <p>Since the formation of the talent pool (2010), 27 employees talent pool have received management positions, including 10 employees in 2017.</p> <p>An important direction in the Company's HR policy is the work with young professionals. The Company implements an integrated approach in the work with young professionals and attraction of young specialists to work in the Company, which is enshrined in the KazTransOil JSC Youth policy.</p> <p>The employee engagement index of the Company in 2017 was 64%.</p>



REPORT ON THE COMPLIANCE OF KAZTRANSOIL JSC WITH THE PRINCIPLES AND PROVISIONS OF THE CORPORATE GOVERNANCE CODE IN 2017 (continued)

No.	Regulation/ principle	Complied/ Not complied	Actions taken to comply with regulations/principles
2.4	Procurement system and local content	Complied	<p>For sustainable development of its business, given its scale, the Company places great importance on effective procurement system and timely provision to the Central Office and branches of the Company with high quality goods, works and services.</p> <p>When selecting the suppliers, the Company follows the Rules of Procurement of Goods, Works and Services of the Samruk-Kazyna National Welfare Fund Joint Stock Company and the organizations, fifty and more percent of voting shares (participation shares) of which are directly or indirectly owned by Samruk Kazyna JSC, based on the rights of ownership or trust management.</p> <p>In 2017, the Company signed contracts for the amount of KZT 90,408 million.</p> <p>The share of local content in the contracts for 2017 was 68%.</p> <p>The information of procurement of goods, works and services in the Company is available on the Company's website.</p>
3	Rights of shareholders (participants) and equitable treatment towards shareholders (participants)	Complied	<p>One of the key principles in the Company's activity is the most transparent and effective interaction with shareholders. The fundamental rights of shareholders are implemented in accordance with the legislation of the Republic of Kazakhstan and the Charter of the KazTransOil Joint Stock Company (the Charter).</p> <p>The disclosure matters are regulated by legislative acts of the Republic of Kazakhstan, the Charter and the KazTransOil JSC Rules on disclosure of information.</p> <p>The Board of Directors of the Company guarantees equal treatment of all shareholders, providing them the opportunity to participate in the management of the Company through the Annual General Meeting, to receive information on the Company activities and to exercise their right to receive dividends. The order and procedures for holding the Annual General Meetings ensure an equal treatment of all shareholders.</p> <p>The large shareholder of KazTransOil JSC is KazMunayGas NC JSC, which owns 90% of the Company's common shares.</p> <p>Between the Company and KazMunayGas NC JSC as its major shareholder, in connection with the initial placement of the Company's shares on the Kazakhstan Stock Exchange on October 30, 2012, a Relationship Agreement was concluded that establishes transparent market principles for interaction between the Company and its major shareholder and allows the Company to act in the interests of all its shareholders.</p> <p>The information affecting the interests of shareholders is timely posted on the corporate web site, Internet resources of Kazakhstan Stock Exchange JSC and the depository of the financial statements.</p>



REPORT ON THE COMPLIANCE OF KAZTRANSOIL JSC WITH THE PRINCIPLES AND PROVISIONS OF THE CORPORATE GOVERNANCE CODE IN 2017 (continued)

No.	Regulation/ principle	Complied/ Not complied	Actions taken to comply with regulations/principles
			<p>The Company has a service for investor relations, the main task of which is to organize effective communication between the management of the Company and the investment community (potential investors, minority shareholders and professional securities market participants) for the purpose of maintaining and strengthening its reputation as an investment-attractive company.</p> <p>On May 25, 2017, the Annual General Meeting considered the following issues:</p> <ul style="list-style-type: none">- approval of annual financial statements and consolidated annual financial statements of the Company for 2016;- order of distribution of the net income of the Company for 2016, retained earnings of the previous years, the decision on payment of dividends on common shares and approval of the dividend size per common share of the Company;- approval of the Annual Performance Report of the Board of Directors for 2016;- complaints of the Company's shareholders for actions of the Company and its officials performed by them in 2016 and the results of their review;- early termination of powers of some members of the Counting board of the Company and election of new members of the Counting board. <p>Shareholders and stakeholders also receive information from the annual report which includes, in particular, the report of the Board of Directors and the audited annual financial statements.</p> <p>In 2017, there were no complaints from the Company's shareholders about the actions of the Company and its officials.</p>



REPORT ON THE COMPLIANCE OF KAZTRANSOIL JSC WITH THE PRINCIPLES AND PROVISIONS OF THE CORPORATE GOVERNANCE CODE IN 2017 (continued)

No.	Regulation/ principle	Complied/ Not complied	Actions taken to comply with regulations/principles
4.	Performance of the Board of Directors and the executive body	Complied	<p>The Board of Directors is the governing body that determines strategic goals, controls the activities of the Company's Management Board within its competence and is responsible to the Annual General Meeting for effective management and proper control of the Company's activities in accordance with the current decision-making system.</p> <p>The Board of Directors consists of seven persons. Three of them are independent Directors. Also, a member of the Board of Directors is the General Director (Chairman) of the Company. The Chairman of the Board of Directors is Daniyar Berlibayev – the representative of Kaz-MunayGas JSC NC. And the representatives of major shareholder are Nurtas Shmanov and Ardak Mukushov.</p> <p>All members of the Board of Directors have a high professional reputation and considerable experience in the industry.</p> <p>The criteria for the selection of members of the Board of Directors, including the independent directors, are defined in the Law of the Republic of Kazakhstan on joint stock companies, the Company's Charter, Corporate Governance Code and Regulation on the KazTransOil JSC Board of Directors.</p> <p>The report on the activities of the Board of Directors is annually included in the Company's Annual Report.</p> <p>In 2017, there have been 11 face-to-face meetings of the Board of Directors, decisions on 130 issues of the Company's key activities were considered and adopted. A number of issues related to the competence of general meetings of participants/shareholders of subsidiaries and jointly controlled entities of the Company were also considered:</p> <ul style="list-style-type: none">- approval of the SJCEs annual financial statements for 2016;- approval of SJCEs budgets for 2018;- need to establish a temporary tariff for the oil transportation via Kenkiyak-Kumkol main oil pipeline for the purpose of export outside the Republic of Kazakhstan;- determination of the number of members, term of powers of the MunaiTas NWPC JSC Board of Directors and an election of its members;- determination of the amount and terms of payment of remuneration to MunaiTas NWPC JSC independent directors ;- approval of the order of the MunaiTas NWPC JSC net income distribution for 2016, the decision to pay dividends on common shares and approval of the dividend amount per one common share of MunaiTas NWPC JSC;



REPORT ON THE COMPLIANCE OF KAZTRANSOIL JSC WITH THE PRINCIPLES AND PROVISIONS OF THE CORPORATE GOVERNANCE CODE IN 2017 (continued)

No.	Regulation/ principle	Complied/ Not complied	Actions taken to comply with regulations/principles
			<ul style="list-style-type: none">- voluntary reorganization of the MunaiTas North-Western Pipeline Company Joint-Stock Company through its transformation into MunaiTas Limited Liability Company, procedure and conditions for implementation of transformation, and the procedure for determining the participation shares of participants of MunaiTas Limited Liability Company. <p>Additional information on decisions of the Board of Directors adopted in 2017 is available on the Company's website in the "Corporate Governance" page.</p> <p>For preliminary consideration of the most important issues and preparation of recommendations to the Board of Directors, the following Committees of the Board of Directors function in the Company:</p> <ul style="list-style-type: none">- Strategic Planning Committee;- Internal Audit Committee;- Personnel and Remuneration Committee. <p>Members of the Committees are appointed by the Board of Directors of the Company.</p> <p>The procedure for formation and organization of the activities of the Committees is provided for by the relevant provisions on them.</p> <p>During 2017, 6 face-to-face meetings of the Strategic Planning Committee were held, 9 internal meetings of the Internal Audit Committee, 2 meetings of which were held by absent voting and 5 meetings of the Personnel and Remuneration Committee.</p> <p>The Company regularly conducts a comprehensive assessment of the work effectiveness of the Board of Directors and its committees, an individual assessment of activities of directors in accordance with the best international experience.</p> <p>In 2017, the work of the Board of Directors was assessed with the assistance of independent external consultants: Olympex Advisers LLC (Republic of Kazakhstan) and TopCompetence LLC (Russian Federation) and, who have significant experience in evaluation of activities performed by Boards of Directors in international public companies.</p> <p>The evaluation results made it possible to conclude that the Board of Directors effectively performs its role in protecting the rights and legitimate interests of shareholders, forming a strategy, controlling the activities of subsidiaries and dependent organizations, and interacting productively with the Company's management. Also, recommendations were given for the development and improvement of work. The assessment results were discussed at the Board of Directors face-to-face meeting. As a result of the discussion, it was decided to update the plan of measures to improve the activities of the Board of Directors and its committees, approved by the Board of Directors on June 27, 2016.</p>



REPORT ON THE COMPLIANCE OF KAZTRANSOIL JSC WITH THE PRINCIPLES AND PROVISIONS OF THE CORPORATE GOVERNANCE CODE IN 2017 (continued)

Regulation/ No. principle	Complied/ Not complied	Actions taken to comply with regulations/principles
		<p>The members of the Board of Directors, except for independent Directors, work free of charge. The payment of remuneration and (or) compensation of expenses to the Independent Directors is determined by the Rules of payment of remuneration and compensation of expenses to independent directors of NC KazMunayGaz JSC joint stock companies.</p> <p>The Company's Management Board is a collective Executive body which directs the activities of the Company and shall exercise its functions under the Charter, Regulations on the KazTransOil JSC Management Board and other internal documents.</p> <p>The Management Board is headed by the General Director (Chairman of the Management Board). The competence of the Management Board and powers of the General Director (Chairman of the Management Board) are determined in Article 12 of the Charter.</p> <p>In 2017, the Management Board held 39 face-to-face meetings. In total, the Management Board made decisions on 209 discussed issues, 208 instructions, which were all executed. At the same time, the Management Board considered 88 questions, which were submitted for consideration to the Board of Directors, and 4 were submitted to the Annual General Meeting.</p>
5. Risk management, internal control and audit	Complied	<p>An important element of the corporate governance system is the risk management system, which includes the Corporate Risk Management System (CRMS) and the Internal Control System (ICS).</p> <p>The objectives of CRMS are timely identification, evaluation, monitoring and reduction of the likelihood of occurrence and consequences of potential risk events that may adversely affect the achievement of Company's strategic and operational objectives. In 2017, The Board of Directors updated and approved the KazTransOil JSC Risk Management Policy, which included the definition, determination of the goals and tasks, organizational structure and functioning of Company's CRMS. Herewith, one of the main objectives of the Company's CRMS is to introduce a vertical process of production and non-production risks management in the Company, from linear level to the top level, and likewise in the Company's SJCEs, an integration of the risk management process with key business processes of the Company initiated by KazMunayGas NC JSC throughout the group of companies. The order of works implementation within the framework of updated CRMS is fixed in internal documents of the Company in the field of risk management updated and approved by the Company's Board of Directors in 2017.</p> <p>An important element of the corporate governance system is the risk management system, which includes the Corporate Risk Management System (CRMS) and the Internal Control System (ICS).</p>



REPORT ON THE COMPLIANCE OF KAZTRANSOIL JSC WITH THE PRINCIPLES AND PROVISIONS OF THE CORPORATE GOVERNANCE CODE IN 2017 (continued)

Regulation/ No. principle	Complied/ Not complied	Actions taken to comply with regulations/principles
		<p>The ICS is aimed at timely identification and analysis of process risks inherent in the activities of the Company, as well as identification and analysis of control procedures to manage these risks in three key ICS areas: operations, financial reporting and compliance with legal and regulatory requirements.</p> <p>In 2017, for the purpose of further ICS improve, the following activities were implemented:</p> <p>1) the business process classifier of the Company's Central Office and oil pipelines has been updated;</p> <p>2) the flowcharts and risk and control matrices for the key business processes of the Company's Central Office were updated;</p> <p>3) the flowcharts and risk and control matrices for the key business processes of the Company's oil pipeline offices were developed and approved.</p> <p>By the Decision of the Board of Directors dated November 15, 2012 (minutes No. 15/2012), to exercise control over financial and economic activities of the Company, internal control assessment, management of risks, execution of documents in the field of corporate governance and counseling on improvement of the activities, the Company established the Internal Audit Service.</p> <p>On its work the Internal Audit Service reports directly to the Board of Directors.</p> <p>The activity of the Internal Audit Service is supervised by the Internal Audit Committee of the Company's Board of Directors.</p> <p>The Internal Audit Service operates in accordance with the Annual Audit Plan approved by the Board of Directors.</p> <p>In 2017, in accordance with the Internal Audit Service's Annual Audit Plan for 2017, the Company performed 5 audits of individual business processes, conducted corporate governance assessed and executed individual audits of industrial, operational and financial processes in SJCEs.</p> <p>During the audit in 2017, the Service identified 123 inconsistencies and issued 166 recommendations. All the recommendations were used by the audited entities to elaborate and approve the Corrective Actions Plan on detected inconsistencies.</p>



REPORT ON THE COMPLIANCE OF KAZTRANSOIL JSC WITH THE PRINCIPLES AND PROVISIONS OF THE CORPORATE GOVERNANCE CODE IN 2017 (continued)

No.	Regulation/ principle	Complied/ Not complied	Actions taken to comply with regulations/principles
6.	Transparency	Complied	<p>The Company provides timely and full disclosure to stakeholders of information on all aspects of its activities, except when the information is a commercial, official or other secret protected by law, guided by:</p> <ul style="list-style-type: none">· the Law of the Republic of Kazakhstan dated May 13, 2003 on joint stock companies;· the Law of the Republic of Kazakhstan dated July 2, 2003 on securities market;· the Law of the Republic of Kazakhstan dated February 28, 2007 on accounting and financial reporting;· Resolution of Management Board of the National Bank of the Republic of Kazakhstan dated January 28, 2016 No. 26 on approval of rules of publishing in internet of the depositary of financial reports, stock exchange information on corporate events, financial statements and audit reports, lists of affiliated persons of joint-stock companies, as well as information on the total remuneration of the members of the executive body for the year;· The listing rules approved by Decision of the Board of Directors of Kazakhstan Stock Exchange JSC (Minutes dated April 27, 2017 No.15 (The Listing rules)· The Charter and the Corporate Governance Code, the KazTransOil JSC Regulations on information disclosure, the KazTransOil JSC Rules of internal control over the management and use of insider information and other internal documents of the Company. <p>Information on compliance with the Internal Control Rules for the order and use of insider information of KazTransOil JSC and the report on the results of training conducted by the Company's insiders for 2017 were considered by the Internal Audit Committee of the Company's Board of Directors on February 15, 2018 (Minutes No. 1/KVA).</p> <p>In general, the work on improvement of transparency of the Company through the timely disclosure of relevant information on its activities is duly carried out.</p> <p>In November 2016, the training seminars were organized for the insiders of the Company, which were attended by 71 employees.</p> <p>The Kazakhstan Stock Exchange (KASE) awarded KazTransOil JSC with the Diploma "For commitment to transparency" following the results of 2017. The decision was made by the Board of KASE on February 6, 2018 in accordance with the KASE Rules for annual award of the listed companies.</p>



REPORT ON THE COMPLIANCE OF KAZTRANSOIL JSC WITH THE PRINCIPLES AND PROVISIONS OF THE CORPORATE GOVERNANCE CODE IN 2017 (continued)

No.	Regulation/ principle	Complied/ Not complied	Actions taken to comply with regulations/principles
			<p>During November 13-17, 2017, the Company's insiders were trained through a series of workshops named "Legal regulation of the use of insider information".</p> <p>During the training, some features of disclosure of insider information, possible risks associated with the misuse of insider information, types of liability stipulated by the legislation of the Republic of Kazakhstan for violations in this area were considered, as well as specific practical situations arising in the course of daily work were discussed.</p> <p>The total number of trained employees who are insiders of the Company was 106, including 8 members of the Company's Management Board.</p> <p>There were no facts of late submission of information or comments to relevant materials by regulatory bodies.</p> <p>The company prepares annual, semi-annual and quarterly financial statements in accordance with international financial reporting standards. The reports are timely posted on internet resources of the depositary of financial statements, stock exchange and corporate website of the Company.</p> <p>The external audit of the Company's financial statements for 2017 is executed by Ernst & Young LLC, which confirmed the accuracy of the financial position statement of the Company as of December 31, 2017, and the financial results and cash flows for the year ending on that date, in accordance with international financial reporting standards.</p>



APPENDIX 7. NURTEAM LLP EXTERNAL ASSURANCE REPORT

NURTEAM AUDIT Assurance & Advisory

NURTEAM AUDIT LLP
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Tel: +7 (727) 352-81-55
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INDEPENDENT ASSURANCE REPORT ON THE REPORT OF SUSTAINABLE DEVELOPMENT OF KAZTRANSOIL JSC FOR 2017

To the management and stakeholders of KazTransOil JSC

Audit Subject Definition and Description

On behalf of KazTransOil JSC ('the Company') we have audited qualitative and quantitative information in the field of sustainable development included in 2017 KazTransOil JSC Annual Report ('the Report') as part of a limited assurance engagement.

Identification of the audit criteria

The criteria of our engagement were the Global Reporting Initiative's Sustainability Reporting Standards ('GRI Standards').

Responsibility of the Company's Management

The Company's Management is responsible for the implementation of policies and procedures related to the sustainable development and for the preparation of the Report, as well as for information contained therein. This responsibility includes development, implementation and maintenance of such internal control system that is sufficient to prepare the Report that does not contain material misstatement due to fraud or error. The management is responsible for the choice and application of appropriate principles of reporting and use of appropriate measurement and assessment methods.

Our Responsibility

Our responsibility is to give an independent opinion on the subject of our audit.

Main audit procedures performed

We have performed the audit in accordance with the International Standard on Assurance Engagements 3000 'Assurance Engagements other than Audits or Reviews of Historical Financial Information' (ISAE3000), issued by IFAC, and accordingly included the following procedures:

- sending information enquiries to the Management in order to obtain an understanding of the processes of defining topics and issues substantially significant to key groups of the Company's stakeholders;
- interviewing managers and key specialists of the Company responsible for the preparation of information in the field of sustainable development, implementation of the Company's policies and procedures in the field of sustainable development, as well as the relevant activities and results;
- comparing the information with data from other sources in order to verify it for completeness and consistency;
- assessing the completeness of qualitative and quantitative information in the field of sustainable development in terms of compliance with GRI Standards;
- considering and reviewing information in the field of sustainable development, which is included in the Company's Report, in order to make sure that it is in line with our general understanding and knowledge of the Company's activities in the field of sustainable development;
- recalculating quantitative indicators and studying supporting documents.

INDEPENDENT ASSURANCE REPORT ON THE REPORT OF SUSTAINABLE DEVELOPMENT OF KAZTRANSOIL JSC FOR 2017 (CONTINUED)

Management's Statement

Management states that information in the field of sustainable development included in the Company's Report was prepared, in all material respects, in accordance with GRI Standards ('Core' option).

Opinion

Based on our procedures described in this opinion, nothing has come to our attention that causes us to believe that the Management's statement that information in the field of sustainable development included in the Company's Report was prepared, in all material respects, in accordance with GRI Standards, is not fairly stated.

Almaty, Kazakhstan
May 5, 2018



Kuat Zhaletov
Audit partner
NURTEAM AUDIT LLP



APPENDIX 8.

CONSOLIDATED FINANCIAL STATEMENTS

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

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS

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Independent auditor's report

To the Shareholders of KazTransOil JSC

Opinion

We have audited the consolidated financial statements of KazTransOil JSC and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

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

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



Key audit matter	How our audit addressed the key audit matter
Impairment of property, plant and equipment located in Georgia	
<p>Property, plant and equipment located in Georgia makes up approximately 9% of the total assets of the Group as at 31 December 2017. We considered this matter to be one of the most significance in the audit due to the materiality of the carrying value of property, plant and equipment located in Georgia to the consolidated financial statements, high level of subjectivity in respect of assumptions underlying the impairment analysis and significant judgements and estimates made by management in the assessment of the recoverable amount of property, plant and equipment located in Georgia.</p> <p>The impairment tests were performed by management as at 31 July 2017 by engaging independent appraisers and did not result in impairment loss. Management performed analysis of indications that assets may be impaired as at 31 December 2017 and did not identify external or internal factors triggering impairment of property, plant and equipment or a need for a significant revision of estimates and assumptions used in the 31 July 2017 impairment tests.</p> <p>Significant assumptions included discount rates, forecasted tariffs, inflation rates, transshipment volumes, future capital expenditure and operating expenses.</p> <p>Information on property, plant and equipment located in Georgia and the impairment tests performed is disclosed in Note 5 to the consolidated financial statements.</p>	<p>We involved our business valuation specialists in the testing of impairment analysis and calculation of recoverable amounts performed by management and independent appraisers engaged by them as at 31 July 2017. We involved the component auditor to analyze the assumptions underlying management forecast. We compared the discount rate and long-term growth rate to general market indicators and other available evidence. We compared forecasted transshipment in the model with business plans. We tested the mathematical integrity of the impairment models and assessed the sensitivity analysis.</p> <p>We assessed the analysis made by management and factors that could indicate that assets may be impaired as at 31 December 2017. We compared budgeted transshipment volume, EBITDA and revenue for 2017 with actual figures.</p>



Other Information included in the Group's 2017 Annual report

Other information consists of the information included in the Group's 2017 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2017 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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



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

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

Ernst & Young LLP


Gulmira Turmagambetova
Auditor / General Director
Ernst & Young LLP

Auditor Qualification Certificate
No. 0000374 dated 21 February 1998

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

16 March 2018



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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of Tenge	Notes	31 December 2017	31 December 2016
Assets			
Non-current assets			
Property, plant and equipment	6	619,260,520	604,155,347
Intangible assets	7	6,545,801	6,260,601
Investments in joint ventures	8	31,736,986	15,728,257
Advances to suppliers for property, plant and equipment	9	295,842	1,678,603
Long-term accounts receivable		71,783	71,991
Bank deposits	15	3,948,692	4,182,770
Long-term investments held to maturity	17	748,962	-
Other non-current assets		13,100	15,065
		662,621,686	632,092,634
Current assets			
Inventories	10	4,068,718	4,399,035
Trade and other accounts receivable	11	7,067,133	6,476,952
Advances to suppliers	12	504,796	375,382
Prepayment for income tax		3,489,707	4,488,440
VAT recoverable and other prepaid taxes	13	8,542,998	6,446,378
Other current assets	14	5,856,422	5,727,129
Bank deposits	15	28,356,520	15,675,618
Cash and cash equivalents	16	40,870,527	69,294,429
		98,756,821	112,883,363
Non-current assets held for sale	6	2,848,498	-
		101,605,319	112,883,363
Total assets		764,227,005	744,975,997



CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of Tenge	Notes	31 December 2017	31 December 2016
Equity and liabilities			
Equity			
Share capital	18	61,937,567	61,937,567
Treasury shares repurchased from shareholders	18	(9,549)	(9,549)
Asset revaluation reserve	18	226,395,595	230,346,658
Foreign currency translation reserve	18	33,068,230	32,918,111
Other capital reserves	18	(623,415)	(695,389)
Retained earnings		278,922,619	263,477,884
Total equity		599,691,047	587,975,282
Non-current liabilities			
Employee benefit liabilities	19	12,740,751	11,994,599
Deferred tax liabilities	33	63,123,255	60,856,513
Provision for asset retirement and land recultivation obligation	24	15,347,322	15,022,086
Deferred income	20	7,498,361	7,731,328
		98,709,689	95,604,526
Current liabilities			
Employee benefit liabilities	19	600,175	543,418
Income tax payable		1,119,287	1,246,171
Trade and other accounts payable	21	17,612,359	15,384,798
Advances received	22	18,197,647	16,444,432
Other taxes payable	23	5,565,433	5,055,666
Provisions	24	223,242	208,103
Other current liabilities	25	22,508,126	22,513,601
		65,826,269	61,396,189
Total liabilities		164,535,958	157,000,715
Total equity and liabilities		764,227,005	744,975,997
Book value per ordinary share (in Tenge)	18	1,542	1,512

Signed and approved for issue on 16 March 2018.

Acting General Director

Arynov S.A.

Chief Accountant

Sarmagambetova M.K.



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of Tenge	Notes	For the years ended 31 December	
		2017	2016
Revenue	26	222,449,954	207,107,815
Cost of sales	27	(146,598,531)	(129,861,783)
Gross profit		75,851,423	77,246,032
General and administrative expenses	28	(16,020,923)	(15,653,399)
Other operating income	29	2,446,962	3,939,775
Other operating expenses	30	(962,862)	(868,179)
Impairment of property, plant and equipment, net	6	(37,682)	(14,212,545)
Operating profit		61,276,918	50,451,684
Net foreign exchange loss		(651,952)	(1,611,563)
Finance income	31	4,937,555	6,190,905
Finance costs	32	(3,082,198)	(2,459,837)
Impairment of long-term investments held to maturity	17	(3,639,607)	–
Share in income of joint ventures	8	7,101,470	2,336,465
Profit before income tax		65,942,186	54,907,654
Income tax expense	33	(15,824,330)	(10,379,736)
Net profit for the year		50,117,856	44,527,918
Earnings per share (in Tenge)	18	130	116
Other comprehensive income			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods			
Exchange difference from translation of foreign operations of the Group		150,119	(3,292,732)
Total other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods, net		150,119	(3,292,732)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

In thousands of Tenge	Notes	For the years ended 31 December 2017	2016
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation of property, plant and equipment of the Group, net	6	15,136,760	140,245,363
Income tax effect	33	(3,027,352)	(25,724,217)
		12,109,408	114,521,146
(Charge)/reversal of provision for asset retirement and land recultivation obligation of the Group	24	(30,162)	6,886,484
Income tax effect	33	6,033	(1,377,295)
		(24,129)	5,509,189
Reversal of deferred tax liabilities	33	–	865,077
		–	865,077
Revaluation of property, plant and equipment of joint ventures		11,418,672	1,111,814
Income tax effect		(2,283,734)	(222,363)
	8	9,134,938	889,451
(Charge)/reversal of provision for asset retirement and land recultivation obligation of joint ventures		(283,806)	89,369
Income tax effect		56,760	(17,874)
	8	(227,046)	71,495
Actuarial gain from employee benefit liabilities of the Group	19	279,191	3,897,890
Income tax effect	33	(55,838)	(779,578)
		223,353	3,118,312
Actuarial loss from employee benefit liabilities of joint venture		(791)	–
Income tax effect		158	–
	8	(633)	–
Write-off of deferred tax assets on employee benefit liabilities		(150,746)	–
	18, 33	(150,746)	–
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods, net		21,065,145	124,974,670
Total other comprehensive income for the year, net of tax		21,215,264	121,681,938
Total comprehensive income for the year, net of tax		71,333,120	166,209,856

Signed and approved for issue on 16 March 2018.

Acting General Director

Arynov S.A.

Chief Accountant

Sarmagambetova M.K.



CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of Tenge	Notes	For the years ended 31 December 2017	2016
Cash flows from operating activities			
Profit before income tax		65,942,186	54,907,654
Non-cash adjustment to reconcile profit before tax to net cash flows			
Depreciation and amortization	27, 28	48,965,922	40,874,568
Charge of allowance for doubtful debts, net	28	1,622,329	1,668,566
Share in income of joint ventures	8	(7,101,470)	(2,336,465)
Finance costs	32	3,082,198	2,459,837
Finance income	31	(4,937,555)	(6,190,905)
Employee benefits, current and past service costs	27, 28	559,185	1,120,030
Actuarial loss/(gain)	29, 30	39,943	(742,441)
Charge of provisions, net	24	–	154,125
Loss on disposal of property, plant and equipment and intangible assets, net	30	741,248	239,377
Impairment charge of property, plant and equipment	6	37,682	14,212,545
Impairment of long-term investments held to maturity	17	3,639,607	–
Gain from disposal of inventory, net	29, 30	(105,876)	(13,752)
Change in estimates on asset retirement and land recultivation obligation	29	(1,239,714)	(1,556,766)
Unrealized foreign exchange loss		641,071	1,338,240
Write off of VAT recoverable		36,283	42,661
Expenses on liquidation of idle production facilities		56,275	14,688
Charge/(reversal) of provision for obsolete inventories, net		28,552	(95)
Others		(3,080)	(6,565)
Cash flows from operating activities before working capital changes		112,004,786	106,185,302
(Increase)/decrease in operating assets			
Inventories		(1,069,539)	(1,177,209)
Trade and other accounts receivable		(1,681,296)	(3,972,316)
Advances to suppliers		(128,353)	2,693,685
VAT recoverable and other prepaid taxes		(1,952,935)	2,620,189
Other current assets		(111,055)	374,140
Increase/(decrease) in operating liabilities			
Trade and other accounts payable		1,722,258	454,933
Advances received		1,753,424	(1,376,981)
Other taxes payable		(195,040)	(330,721)
Other current and non-current liabilities and employee benefit liabilities		(890,337)	2,546,514
Cash generated from operating activities		109,451,913	108,017,536
Income taxes paid		(15,218,590)	(21,677,968)
Interest received		4,712,241	4,637,042
Net cash flows from operating activities		98,945,564	90,976,610

The accounting policy and explanatory notes on pages 199 through 258 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of Tenge	Notes	For the years ended 31 December 2017	2016
Cash flows from investing activities			
Withdrawal of bank deposits		63,785,853	31,655,991
Placement of bank deposits and bonds		(81,182,023)	(35,048,671)
Purchase of property, plant and equipment		(49,192,197)	(38,263,193)
Purchase of intangible assets		(701,553)	(58,754)
Proceeds from disposal of property, plant and equipment		18,661	10,137
Repayment of interest free loan	35	–	20,000,000
Dividends received		–	1,487,160
Net cash flows used in investing activities		(67,271,259)	(20,217,330)
Cash flows from financing activities			
Dividends paid	18	(59,617,355)	(51,156,535)
Treasury shares repurchased from shareholders		–	(9,549)
Net cash flows used in financing activities		(59,617,355)	(51,166,084)
Net foreign exchange difference		(480,852)	(719,055)
Net change in cash and cash equivalents		(28,423,902)	18,874,141
Cash and cash equivalents at the beginning of the year		69,294,429	50,420,288
Cash and cash equivalents at the end of the year	16	40,870,527	69,294,429

Signed and approved for issue on 16 March 2018.

Acting General Director

Arynov S.A.

Chief Accountant

Sarmagambetova M.K.

The accounting policy and explanatory notes on pages 199 through 258 form an integral part of these consolidated financial statements



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of Tenge	Share capital	Treasury shares	Asset revaluation reserve	Foreign currency translation reserve	Other capital reserves	Retained earnings	Total
As at 31 December 2016	61,937,567	(9,549)	230,346,658	32,918,111	(695,389)	263,477,884	587,975,282
Profit for the year	-	-	-	-	-	50,117,856	50,117,856
Other comprehensive income	-	-	20,993,171	150,119	71,974	-	21,215,264
Total comprehensive income for the year	-	-	20,993,171	150,119	71,974	50,117,856	71,333,120
Depreciation transfer of revalued property, plant and equipment	-	-	(24,944,234)	-	-	24,944,234	-
Dividends (Note 18)	-	-	-	-	-	(59,617,355)	(59,617,355)
As at 31 December 2017	61,937,567	(9,549)	226,395,595	33,068,230	(623,415)	278,922,619	599,691,047
As at 31 December 2015	61,937,567	-	125,563,376	36,210,843	(3,813,701)	253,033,425	472,931,510
Profit for the year	-	-	-	-	-	44,527,918	44,527,918
Other comprehensive income/(loss)	-	-	121,856,358	(3,292,732)	3,118,312	-	121,681,938
Total comprehensive income/(loss) for the year	-	-	121,856,358	(3,292,732)	3,118,312	44,527,918	166,209,856
Depreciation transfer of revalued property, plant and equipment	-	-	(17,073,076)	-	-	17,073,076	-
Treasury shares repurchased from shareholders (Note 18)	-	(9,549)	-	-	-	-	(9,549)
Dividends (Note 18)	-	-	-	-	-	(51,156,535)	(51,156,535)
As at 31 December 2016	61,937,567	(9,549)	230,346,658	32,918,111	(695,389)	263,477,884	587,975,282

Signed and approved for issue on 16 March 2018.

Acting General Director

Arynov S.A.

Chief Accountant

Sarmagambetova M.K.

The accounting policy and explanatory notes on pages 199 through 258 form an integral part of these consolidated financial statements



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

1. GENERAL

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

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

As at 31 December 2017 10% of shares of the Company are owned by minority shareholders who acquired them within the "People's IPO" program. The major shareholder of the Company, who owns the controlling interest of the Company (90%) is National Company "KazMunayGas" JSC (hereinafter – "KMG" or "Parent Company"). 90% of KMG shares are owned by Sovereign Wealth Fund "Samruk-Kazyna" JSC (hereinafter – "Samruk-Kazyna"), controlled by the Government of the Republic of Kazakhstan. 10% of KMG shares are owned by the National Bank of the Republic of Kazakhstan.

As at 31 December 2017 and 2016 the Company had ownership interest in the following companies:

	Place of incorporation	Principal activities	Ownership	
			31 December 2017	31 December 2016
NWPC "MunaiTas" JSC (hereinafter – "MunaiTas")	Kazakhstan	Oil transportation	51%	51%
"Kazakhstan-China Pipeline" LLP (hereinafter – "KCP")	Kazakhstan	Oil transportation	50%	50%
"Batumi Terminals Limited" (hereinafter – "BTL")	Cyprus	Forwarding, transshipment and storage of oil and oil products and operating of Batumi Sea Port and Oil Terminal	-	100%
"Batumi Oil Terminal" LLC	Georgia	Forwarding, transshipment and storage of oil and oil products and operating of Batumi Sea Port	100%	-
"Petrotrans Limited"	United Arab Emirates	Forwarding of oil and oil products	100%	-

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

The Company's head office is located in Astana, Kazakhstan, 19 Kabanbay Batyr Avenue. The Company has 3 branches, which are located in Atyrau (Western branch), Pavlodar (Eastern branch), Almaty (Research and Development Centre) and representative offices in Russian Federation (Omsk and Samara). On 26 May 2017 Board of Directors decided to close branch in Astana (Main Information and Computing Center).

The Group operates network of main oil pipelines of 5,377 km and water pipelines of 1,975 km. Also the Group is engaged in storage, loading, transshipment and transfer of crude oil to other related pipeline systems. The Group's

joint ventures MunaiTas and KCP own Kenkiyak-Atyrau, Kenkiyak-Kumkol, and Atasu Alashankou pipelines mainly used for transportation of Kazakhstani crude oil, and also for transit of Russian oil to China.

In 2017 BTL was liquidated. Based on the decision of the BTL liquidator as at 7 March 2017, 100% of shares of Petrotrans Limited (hereinafter – "PTL") and 100% of ownership of "Batumi Oil Terminal" LLC (hereinafter – "BOT"), that was previously owned by BTL, were transferred to the Company. During 2017, the Company received a certificate confirming its ownership of investment in PTL and BOT. BOT has the exclusive right to manage 100% of the shares of Batumi Sea Port LLC (hereinafter – "BSP"). These changes did not affect the consolidated financial statements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. GENERAL (continued)

On 26 November 2017, PTL was re-registered in the United Arab Emirates.

In order to separate water transportation services from the Group's activities on 28 December 2017, a subsidiary "Main Waterline" LLP was established and registered with an authorized capital of 28 billion Tenge. The contribution to the authorized capital will be made by the Company during 2018.

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

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

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

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

The rate came into effect on 1 January 2017.

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

Tariff for pumping oil for transit through Kazakhstani part of main oil pipeline "Tuymazy–Omsk–Novosibirsk-2" is 1,727.10 Tenge per ton for 1,000 kilometers.

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

Tariffs for transportation of Russian oil to Republic of Uzbekistan through the territory of Republic of Kazakhstan is 22.90 US dollars per ton.

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

In accordance with the Law of the Republic of Kazakhstan On Natural Monopolies and Regulated Markets, the Company, as a subject of natural monopolies, within the approved maximum tariffs for 2015-2019, has an obligation to execute an investment program aimed at capital construction/reconstruction/overhaul/diagnostics of production facilities for 2015-2019 (approved by the joint order of the Ministry of Energy of the Republic of Kazakhstan No. 42 of 9 February 2018 and the CRNMPCandCR No. 8-OD of 15 January 2018), in the total amount of 191 billion Tenge including:

- 2015 – 57.1 billion Tenge, including on the domestic market – 18.4 billion Tenge;
- 2016 – 38.4 billion Tenge, including on the domestic market – 12.5 billion Tenge;
- 2017 – 42.9 billion Tenge, including on the domestic market – 13.5 billion Tenge;
- 2018 – 31.2 billion Tenge, including on the domestic market – 9.8 billion Tenge;
- 2019 – 21.36 billion Tenge, including on the domestic market – 6.6 billion Tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

In accordance with the above-mentioned law for failure to implementation the actions with the approved investment program, CRNMPCandCR has to apply a compensating tariff from the moment of making a decision on its application.

The actual implementation of the investment program as at 31 December 2017 is as follows:

- 2015 – 70.5 billion Tenge;
- 2016 – 37.8 billion Tenge;
- 2017 – 36.3 billion Tenge.

At the same time, in case the natural monopoly does not fulfill the activities of the investment program for reasons beyond the control of the entity of the natural monopoly, the timing of the implementation of the investment program may be postponed to the next year by adjusting the investment program until 1 March of the year following the year of implementation of the investment program. Taking into account this norm, in January 2018 the Company submitted for consideration and approval an application for adjusting the investment program for 2017, taking into account the rolling volumes of work.

It is expected that the activities of the approved investment program will be implemented in full by the Company during 5 years period in the order established by law.

These consolidated financial statements for the year ended 31 December 2017 were approved by internal audit committee and signed by the General Director and the Chief Accountant on 16 March 2018.

2. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (hereinafter – "IFRS") as issued by the International Accounting Standards Board (hereinafter – "IASB").

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

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

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

3. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.





NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. BASIS OF CONSOLIDATION (Continued)

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 INTEREST IN A JOINT VENTURE

The Group has interests in joint operations in the form of joint ventures.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Factors considered in determining joint control are similar to the factors considered in determining the existence of control of subsidiaries.

The Group's investment in its joint ventures is accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying

amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the joint venture. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The Group's share of profit or loss of a joint venture is shown on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax of the joint venture.

Financial statements of joint ventures are prepared for the same reporting period as for the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on own investments in its joint ventures. The Group determines at each reporting date whether there is any objective evidence that the investment in a joint venture is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount in consolidated statement of comprehensive income under "Share in profit or loss of joint ventures".

Upon loss of significant influence over the joint control over the joint ventures, the Group measures and recognises its remaining investment at its fair value. Any differences between the carrying amount of the former jointly controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in statement of comprehensive income.

4.2 FOREIGN CURRENCY TRANSLATION

The Group's consolidated financial statements are presented in Tenge. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

functional currency. Functional currency of the Company and the joint ventures MunaiTas and KCP is Tenge. Functional currency of BTL, PTL and BOT is US Dollar. Functional currency of BSP is Georgian Lari.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction first qualified for recognition.

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

All exchange differences arising from repayment and recalculation of monetary items, are included in consolidated profit or loss and other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item

(i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive

income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Tenge at the rate of exchange prevailing at the reporting date and their income statements are translated at weighted average currency exchange rates. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the rate of exchange at the reporting date.

Exchange rates

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

Weighted average currency exchange rates for the year ended 31 December 2017 and 2016 are as follows:

For the year ended 31 December		
Tenge	2017	2016
US dollars	326.08	341.74
Russian rubles	5.59	5.12
Euro	368.65	378.27
Georgian Lari	130.93	122.24
As at 31 December the currency exchange rates of KASE were:		
Tenge	2017	2016
US dollars	332.33	333.29
Russian Ruble	5.77	5.43
Euro	398.23	352.42
Georgian Lari	128.16	126.25



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**4.3 CURRENT VERSUS NON-CURRENT CLASSIFICATION OF ASSETS AND LIABILITIES**

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

4.4 FAIR VALUE MEASUREMENT

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

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

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

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

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

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

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

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

and liability with relevant external sources to determine whether the change is reasonable.

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

An analysis of the fair value of property, plant and equipment and additional information about the methods of its definition in Note 5.

4.5 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

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

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

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

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

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

- Represents a separate major line of business or geographical area of operations;

- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or

- Is a subsidiary acquired exclusively with a view to resale.

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

Additional disclosures are provided in Note 6. All other notes to the consolidated financial statements include amounts for continuing operations, unless indicated otherwise.

4.6 PROPERTY, PLANT AND EQUIPMENT

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

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

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

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



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 PROPERTY, PLANT AND EQUIPMENT (continued)

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 Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to significant accounting judgments, estimates and assumptions and provisions for further information about the asset retirement and land recultivation obligation (Notes 5, 24).

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

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

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

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

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

4.7 INTANGIBLE ASSETS

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible

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

The useful lives of intangible assets are assessed as finite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization is provided on a straight-line basis over the estimated useful economic life of the



assets, Intangible assets are generally amortized over 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 consolidated statement of comprehensive income in the expense category consistent with the function of the intangible assets.

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

4.8 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

publicly traded subsidiaries or other available fair value indicators.

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

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

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

4.9 FINANCIAL ASSETS

Initial recognition and measurement

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9 FINANCIAL ASSETS (continued)

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

The Group's financial assets include cash and short-term bank deposits, trade and other receivables, and investments held to maturity.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification:

Loans and receivables

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

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

The EIR amortization is included in finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognized in the consolidated statement of comprehensive income in finance costs for loans and in general and administrative expenses or other operating expenses for receivables.

Held-to-maturity investments

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

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income in finance costs. The Group had bank deposits held-to-maturity during the years ended 31 December 2017 and 2016. During 2017 Group acquired long-term bonds, that were classified as investments held-to-maturity.

Derecognition

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4.10 IMPAIRMENT OF FINANCIAL ASSETS

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

- Disclosures for significant accounting judgements, estimates and assumptions (Note 5);
- Trade accounts receivables (Note 11).

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

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

Financial assets carried at amortized cost

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

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the consolidated statement of comprehensive income. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

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

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

4.11 FINANCIAL LIABILITIES

Initial recognition and measurement

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

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

The Group's financial liabilities may include trade and other payables, loans and borrowings, financial guarantee contracts.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.11 FINANCIAL LIABILITIES (continued)

Subsequent measurement

The measurement of financial liabilities depends on their classification.

Loans and borrowings

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

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

Financial guarantee contracts

Financial guarantee contracts are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee.

Derecognition

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

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

4.12 OFFSETTING OF FINANCIAL INSTRUMENTS

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

4.13 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.

4.14 CASH AND CASH EQUIVALENTS

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

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

4.15 PROVISIONS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Group records a provision on asset retirement and land reclamation obligation. Provisions on asset retirement and land reclamation obligation are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the particular asset. The cash flows are discounted at a current pre tax rate that reflects the risks specific to the provisions for asset retirement and land reclamation obligation. The unwinding of the discount is expensed as incurred and recognised in the consolidated statement of comprehensive income as a finance cost. The estimated future costs of asset retirement and land reclamation obligation are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset (Notes 5 and 24).

4.16 EMPLOYEE BENEFITS

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

The expected costs of the benefits associated with one-off retirement payments are accrued over the period of employment using the same accounting methodology as used for defined benefit post-employment plans with defined payments on the end of labor activity. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred. Other movements are recognised in the current period, including current service cost, any past service cost and the effect of any curtailments or settlements.

The most significant assumptions used in accounting for defined benefit obligations are discount rate and mortality rate. The discount rate is used to determine the net present value of future liabilities and each year the unwinding of the discount on those liabilities is charged to the consolidated statement of comprehensive income as interest cost.

The mortality assumption is used to project the future stream of benefit payments, which is then discounted to arrive at a net present value of liabilities.

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

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

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, The Company recognises the following changes in the net defined benefit obligation under 'cost of sales', 'administration expenses' and 'finance expenses' in consolidated statement of comprehensive income (by function):

- Service costs comprising current service costs, past-service costs;
- Net interest expense or income.

Employee benefits are considered as other long-term employee benefits. The expected cost of these benefits is accrued over the period of employment using the same accounting methodology as used for the defined benefit plan.

These obligations are valued by independent qualified actuaries on an annual basis.

4.17 REVENUE AND OTHER INCOME RECOGNITION

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

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements, except for transportation expedition contract where the Group



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.17 REVENUE AND OTHER INCOME RECOGNITION (continued)

is acting as an agent. The following specific recognition criteria must also be met before revenue is recognized:

Rendering of transportation services

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

Rendering of other services

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

Interest income

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

Dividends

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

Fees for undelivered oil volumes

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

4.18 TAXES

Corporate income tax

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

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

Current income tax relating to items recognised in other comprehensive income is recognised in equity and not in the statement of comprehensive income. Management of the Group periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

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

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

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

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

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

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

Value added tax (VAT)

VAT related to sales is payable to the 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 consolidated statement of financial position on a net basis.

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

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.

4.19 EQUITY

Share capital

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

Dividends

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

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

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

New and amended standards and interpretations applied by the Group

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

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

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). These amendments do not have any impact on the Group's consolidated financial statements as the Group has no liabilities subject to financial activities as at 31 December 2017.

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

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

The Group applied amendments retrospectively. However, their application has no effect on the Group's financial

position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Annual improvements 2014–2016 cycle

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

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

These amendments do not have any impact on the Group's consolidated financial statements as at 31 December 2017, as the Group does not have interests in other entities classified as held for sale.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective as at 31 December 2017 are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

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

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group performed a general impact assessment of IFRS 9, in particular, classification and measurement, however currently Group is in process of determining the impact on its consolidated financial statements. The preliminary assessment is based on currently available information and may be subject to

changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. Overall, the Group does not expect significant impact on its consolidated financial statements applying the requirements of IFRS 9.

(a) Classification and measurement

The Group does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9. Trade and other receivables are held by the Group to collect contractual cash flows and are expected to give rise to cash flows representing solely payments to principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

The Group expects to measure at fair value through profit or loss bonds of "Special Financial Company DSFK" LLP that currently held at amortized cost. However, the Group does not expect significant influence, since bonds were acquired at the end of December 2017 and were measured at fair value on initial recognition.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables and other financial assets. The Group expects that these requirements will not have a significant influence on its equity, however the final results will be received by the Group after more detailed analysis taking into account all reasonable and confirmed information, including forecasted information, to determine the extent of the impact. As at reporting date, the Group did not complete detailed analysis of the impact of impairment requirements of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the modified retrospective method. During 2017, the Group performed a detailed analysis of the effects of IFRS 15, which showed absence of impact on the financial position and results of the Group.

The Group's activities mainly relates to the transportation of oil through main pipelines on the territory of the Republic of Kazakhstan, as well as with the transshipment of oil and oil products in Georgia.

(a) Rendering of services

The Group fulfills the obligation to execute on a monthly basis and recognizes the proceeds from the provision of oil transportation services, transport expedition of oil and other related services, based on the actual volume of services rendered at the end of transportation route. The obligation to perform transshipment of oil and oil products in Georgia is also performed on a monthly basis and the revenue from the provision of services is recognized at a certain point in time (when the consignee receives the goods) on the basis of actual volumes of services rendered.

Revenues from pipeline operation and maintenance services are recognized over time, as the buyer simultaneously receives and benefits from the performance of the Group's contractual obligations. It is expected that the application of IFRS 15 to service contracts will not affect the Group's revenue and profit or loss.

In preparing to adopt IFRS 15, the Group is considering the following:

(i) Variable consideration

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

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(ii) Principal versus agent considerations

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

The Group 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), except for contracts on oil transportation coordination services where Group determined that it does not control the services before they are transferred to the customer. Hence, Group is an agent, rather than principal in these contracts on oil transportation coordination services.

(iii) Advances received from customers

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

The Group receives only short-term advances from its customers. They are presented as part of advances received. The Group determined that the length of time between the delivery of the services to the customer by the Group and the time when the customer pays for such services is relatively short. Therefore, the Group 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 Group's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that the impact of some of these disclosures requirements will be significant.

In particular, the Group expects that the notes to the consolidated financial statements will not be expanded because of the disclosure of significant judgments made when determining the transaction price of the contracts. Also, small disclosures are expected as a result of the

significant judgement made when assessing the contracts where the Group has concluded that: it acts as an agent instead of a principal, there is no significant financing component, and no variable consideration.

In addition, as required by IFRS 15, the Group 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.

It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. During 2017 the Group had 3 (three) segments.

In 2017 the Group continued testing of appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

(c) Other adjustments

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

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

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

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

IFRS 16 Leases

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

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

recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

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

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

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

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

Transfers of Investment Property – Amendments to IAS 40

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



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Annual Improvements 2014–2016 Cycle (issued in December 2016)

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

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

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

The amendments clarify that:

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

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

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

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

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

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

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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



- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply interpretation from its effective date. Since the Group operates in a complex multinational tax environment, applying the Interpretation may affect its consolidated financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

- Financial risk management and policies (Note 37);
- Sensitivity analyses disclosures (Note 37).

Estimates and assumptions

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

Revaluation of property, plant and equipment

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

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

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

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

	Cash-generating unit		
	Oil transshipment	Sea port	Oil transportation
Discount rate	13.01%	12.67%	12.55%
Long-term growth rate	1.9%	1.9%	4.58%
Remaining useful life of the primary asset	14 years	21 years	18.2 years





NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

The resulting value in use for cash-generating units of oil transshipment and oil transportation was below depreciated replacement cost and hence was recorded as fair value of the Group property, plant and equipment. The results of the assessment of value in use are sensitive to expected volumes of services provided, the level of tariffs for services provided, the amount of capital and operating expenditures.

As a result of the revaluation performed during 2016 the carrying value of property, plant and equipment of the Group increased by 126,261,313 thousand Tenge.

The main increase is due to increase of exchange rates of main foreign currencies against the functional currency of the Group, resulting in increased cost of the replacement of existing property, plant and equipment with foreign origin.

The Group 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 2017 the management of the Group 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 Group's property, plant and equipment (except for technological oil) as at 31 December 2017 from the date of last revaluation during 2016. As a result, the fair value of the Group's property, plant and equipment approximated their carrying amount.

Revaluation of technological oil

Technological oil is annually revalued, due to the fact that fluctuations are quite frequent and significant. Technological oil was revalued on 31 December 2017.

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

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

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

Taking into account all these factors, as well as the report of an independent professional appraiser as at 31 December 2017 the fair value of the Group's technological oil was determined based on the price of 41,175 Tenge per ton (31 December 2016: 35,714 per ton). The effect of the change in fair value of the technological oil was equal to 13,353,217 thousand Tenge (31 December 2016: 16,573,065 thousand Tenge), in addition as at 31 December 2017 the revaluation of technological oil surplus in the amount 2,167,946 thousand Tenge (31 December 2016: 2,401,160 thousand Tenge) was recognized; the overall effect of revaluation is equal to 15,521,163 thousand Tenge (31 December 2016: 18,974,225 thousand Tenge) (Note 6).

The volume of oil in the pipeline as at 31 December 2017 amounted to 2,498 tons (31 December 2016: 2,460 tons). According to the results of stock count during 2017 the oil surpluses in the amount of 52,652 tons (for 2016: 67,233 tons) and shortage of the oil in the amount of 14,991 tons were recognized.

Impairment of assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

The Group engaged independent external appraiser to perform impairment tests of its property, plant and equipment located in Georgia as at 31 July 2017. The recoverable amount of property, plant and equipment located in Georgia has been determined based on a value in use using DCF model under the income approach. The value in use of property, plant and equipment has been defined as the value of business adjusted for the fair value of net working capital and non-specialized fixed assets. Forecasting cash flows is based on financial budgets approved by management covering period 2017-2022 and the expected forecast until 2030, and publicly available macroeconomic information. The projected cash flows have been updated to reflect the forecasted volumes of services provided. The property, plant and equipment located in Georgia were grouped into two CGUs – the BSP and the BOT. The following assumptions were used in calculation value in use:

	Cash-generating unit	
	BOT	BSP
Discount rate	13.0%	13.4%
Long-term growth rate	1.9%	1.9%

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

As a result of analysis the carrying value of property, plant and equipment located in Georgia is approximated to their recoverable amount, therefore no impairment on these assets was recorded in the consolidated financial statements. However, any deterioration in estimates and assumptions may lead to impairment in the future.

The calculation of value in use for both CGUs is most sensitive to the start of the Transshipment of crude oil from Kalamkas and Zhemchuzhina. Although management expects that transshipment from these specified oilfields will start as planned on 2023, a shift of transshipment from 2023 to 2025 would result in decrease of recoverable amount of BOT by 19,621 thousand US dollars (equivalent to 6,520,647 thousand Tenge).

A decrease in transshipment volumes (by 5.0%) and an increase in discount rate (by 0.5%) would not result in significant decrease of recoverable amount of BOT and BSP.

Useful lives of items of property, plant and equipment

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

Asset retirement and land recultivation obligation

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

Asset retirement and land recultivation obligation is estimated based on the value of the work to decommission and rehabilitate calculated by the Group in accordance with the technical regulations of the Republic of Kazakhstan (pipeline decommission expense is equal to 4,278 thousand Tenge per kilometer (2016: 4,036 thousand Tenge).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Reserve on liquidation of landfills and waste management is also reflected within the asset retirement and land reclamation obligation. The reserve was created in 2013 in accordance with the requirements of Environmental Code of the Republic of Kazakhstan, which states that the

owner of the landfills has to create a liquidation fund for reclamation of land and for monitoring of environmental impact right after the closure of the landfill.

The reserve was determined at the end of the reporting period using the projected inflation rate for the expected period of fulfillment of obligations, and the discount rate at the end of the reporting period which is presented below:

	2017	2016
Discount rate	9.05%	8.72%
Inflation rate	5.55%	5.58%
Period of fulfillment of obligations	17 years	18 years

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

As at 31 December 2017 the carrying amount of the asset retirement and land reclamation obligation was 15,347,322 thousand Tenge (31 December 2016: 15,022,086 thousand Tenge) (Note 24).

Assessing the cost of rehabilitation of the environment is subject to potential changes in environmental

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

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

In thousands of Tenge	(Decrease)/increase in rate	(Decrease)/ increase in liability
Discount rate	-0.5%	1,232,842
	+0.5%	(1,135,180)
Inflation rate	-0.5%	(1,176,606)
	+0.5%	1,269,246

Allowances for doubtful debts

The Group accrues allowances for doubtful accounts receivable, advances to suppliers and other assets. In estimating doubtful accounts historical and anticipated customer performance are considered.

Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As at 31 December 2017 and 2016 allowances for doubtful accounts have been created for the amount of 4,107,465 thousand Tenge and 2,431,678 thousand Tenge, respectively (Notes 9, 11 and 12).

Tax provision

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the country.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The amount of recognized deferred tax assets as at 31 December 2017 was 5,422,606 thousand Tenge (31 December 2016: 6,264,690 thousand Tenge) (Note 33). As at 31 December 2017 and 2016 the Group did not have unrecognized deferred tax assets.

Employee benefits

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

rate, future salary increases, mortality rates and future pension increases.

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

As there is no active market for corporate bonds in Kazakhstan, in determining the appropriate discount rate, management considers the interest rates of government bonds (MEUKAM) with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

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

In December 2016 "The collective agreement between "KazTransOil" JSC and employees of "KazTransOil" JSC" has been amended, the effect of changes in the conditions was recorded as cost of services of prior periods (Note 19). In 2017 the terms of this agreement remained unchanged.

Principal actuarial assumptions used for valuation of employee benefit liabilities as at 31 December 2017 and 2016 were as follows:

In percent	2017	2016
Discount rate	8.96%	9.7%
Future salary increase	6.0%	7.0%
Mortality rate	6.0%	7.0%

As at 31 December 2017 the average period of post-retirement benefit liabilities were 19.6 years (as at 31 December 2016: 19 years).

Sensitivity analysis of employee benefit liabilities for the change in significant estimates as at 31 December 2017 is as follows:

In thousands of Tenge	(Decrease)/increase in rate	(Decrease)/increase in liability
Discount rate	-0.5%	536,339
	+0.5%	(570,886)
Future salary increase	-0.5%	(559,848)
	+0.5%	591,749
Life duration	-1 year	(82,545)
	+1 year	81,822



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at 31 December 2017 and 2016 are as follows:

In thousands of Tenge	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
At revalued amount as at 31 December 2016	19,803,815	202,402,253	14,258,143	96,958,727	145,295,540	88,061,076	15,398,884	40,428,912	622,607,350
Foreign currency translation	(39,960)	–	18,357	68,305	70,825	–	1,865	16,163	135,555
Additions	226,722	173,793	542,875	7,791,516	1,355,741	1,165	1,050,851	40,682,344	51,825,007
Additions of asset retirement and land recultivation obligation (Note 24)	–	265,812	–	–	–	–	–	–	265,812
Disposals	(13,170)	(232,689)	(39,520)	(30,188)	(252,410)	(743,596)	(221,896)	(29,488)	(1,562,957)
Revaluation (through revaluation reserve)	–	–	–	–	–	15,521,163	–	–	15,521,163
Transfers to non-current assets held for sale	(87,865)	–	(170,247)	(2,810,480)	(292,648)	–	(61,471)	–	(3,422,711)
Transfers from construction-in-progress	763	25,221,954	211,570	6,917,877	10,636,366	–	1,555,826	(44,544,356)	–
Transfers to intangible assets (Note 7)	–	–	–	–	–	–	–	(72,365)	(72,365)
Transfers and reclassifications	–	31,141	(257,278)	137,938	456,379	–	175,918	(544,098)	–
At revalued amount as at 31 December 2017	19,890,305	227,862,264	14,563,900	109,033,695	157,269,793	102,839,808	17,899,977	35,937,112	685,296,854
Accumulated depreciation and impairment as at 31 December 2016	–	(5,664,218)	(797,704)	(2,026,280)	(7,868,018)	(199,540)	(1,838,562)	(57,681)	(18,452,003)
Foreign currency translation	–	–	(753)	(19,014)	(10,080)	–	(64)	–	(29,911)
Depreciation charge	–	(14,995,566)	(2,049,380)	(6,138,898)	(20,700,775)	–	(4,543,642)	–	(48,428,261)
Disposals	–	116,811	35,432	25,152	179,880	199,540	164,898	–	721,713
(Impairment)/reversal of impairment (through expenses)	–	(1,597)	4,462	(39,222)	(1,212)	–	(113)	–	(37,682)
Impairment (through revaluation reserve)	(2,100)	(12,255)	–	(349,844)	(17,221)	–	(2,983)	–	(384,403)
Transfers to non-current assets held for sale	2,100	–	57,480	360,045	123,378	–	31,210	–	574,213
Transfers and reclassifications	–	(2,550)	3,391	(3,841)	10,667	–	(7,667)	–	–
Accumulated depreciation and impairment as at 31 December 2017	–	(20,559,375)	(2,747,072)	(8,191,902)	(28,283,381)	–	(6,196,923)	(57,681)	(66,036,334)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROPERTY, PLANT AND EQUIPMENT (continued)

In thousands of Tenge	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
At revalued amount as at 31 December 2015	19,906,546	181,224,490	15,037,200	97,363,099	134,803,085	69,590,536	16,386,475	53,042,281	587,353,712
Foreign currency translation	(237,646)	–	(585,710)	32,977	(794,015)	–	(88,254)	(557,063)	(2,229,711)
Additions	806	280,519	389,853	282,712	631,864	494	532,088	40,533,736	42,652,072
Additions of asset retirement and land recultivation obligation (Note 24)	–	129,237	–	–	–	–	–	–	129,237
Disposals	(3,386)	(1,155,418)	(39,908)	(97,204)	(295,333)	(173,974)	(214,213)	(70,214)	(2,049,650)
Revaluation (through revaluation reserve)	4,458,872	42,647,924	5,433,818	21,572,834	40,080,997	18,974,225	7,187,329	66,059	140,422,058
(Impairment)/revaluation (through profit and loss)	(4,344,587)	173,140	359,420	(1,103,174)	(2,899,593)	–	271,543	(6,617,494)	(14,160,745)
Subtraction of accumulated depreciation and impairment on revaluation	–	(32,825,419)	(6,450,752)	(34,213,513)	(46,182,992)	(330,205)	(9,150,597)	(331,818)	(129,485,296)
Transfer from construction-in-progress	23,210	11,930,268	222,864	13,259,894	19,588,276	–	455,092	(45,479,604)	–
Transfer to intangible assets (Note 7)	–	–	–	–	–	–	–	(24,327)	(24,327)
Transfers and reclassifications	–	(2,488)	(108,642)	(138,898)	363,251	–	19,421	(132,644)	–
At revalued amount as at 31 December 2016	19,803,815	202,402,253	14,258,143	96,958,727	145,295,540	88,061,076	15,398,884	40,428,912	622,607,350
Accumulated depreciation and impairment as at 31 December 2015	–	(26,043,932)	(5,464,300)	(30,151,504)	(38,724,779)	(529,745)	(7,602,703)	(331,819)	(108,848,782)
Foreign currency translation	–	–	(3,569)	(104,245)	(64,479)	–	(20,395)	–	(192,688)
Depreciation charge	–	(13,359,491)	(1,806,513)	(6,070,735)	(15,487,318)	–	(3,532,733)	–	(40,256,790)
Disposals	–	919,840	26,035	82,236	221,769	171,927	167,649	–	1,589,456
(Impairment)/reversal of impairment through expenses	–	(2,964)	–	–	5,671	–	–	(54,507)	(51,800)
(Impairment)/reversal of impairment through revaluation reserve	–	(3,336)	–	–	1,702	(171,927)	–	(3,134)	(176,695)
Subtraction of accumulated depreciation and impairment on revaluation	–	32,825,419	6,450,752	34,213,513	46,182,992	330,205	9,150,597	331,818	129,485,296
Transfers and reclassifications	–	246	(109)	4,455	(3,576)	–	(977)	(39)	–
Accumulated depreciation and impairment as at 31 December 2016	–	(5,664,218)	(797,704)	(2,026,280)	(7,868,018)	(199,540)	(1,838,562)	(57,681)	(18,452,003)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROPERTY, PLANT AND EQUIPMENT (continued)

In thousands of Tenge	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
As at 31 December 2017									
At revalued amount	19,890,305	227,862,264	14,563,900	109,033,695	157,269,793	102,839,808	17,899,977	35,937,112	685,296,854
Accumulated depreciation and impairment	–	(20,559,375)	(2,747,072)	(8,191,902)	(28,283,381)	–	(6,196,923)	(57,681)	(66,036,334)
Net book value	19,890,305	207,302,889	11,816,828	100,841,793	128,986,412	102,839,808	11,703,054	35,879,431	619,260,520
As at 31 December 2016									
At revalued amount	19,803,815	202,402,253	14,258,143	96,958,727	145,295,540	88,061,076	15,398,884	40,428,912	622,607,350
Accumulated depreciation and impairment	–	(5,664,218)	(797,704)	(2,026,280)	(7,868,018)	(199,540)	(1,838,562)	(57,681)	(18,452,003)
Net book value	19,803,815	196,738,035	13,460,439	94,932,447	137,427,522	87,861,536	13,560,322	40,371,231	604,155,347

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

In thousands of Tenge	Land	Pipelines	Transportation assets	Buildings	Machinery and equipment	Technological oil	Other	Construction in progress	Total
At 31 December 2017	17,601,898	155,169,285	8,156,550	70,592,417	98,708,783	30,429,636	7,537,917	37,098,481	425,294,967
At 31 December 2016	17,424,828	137,946,332	8,576,467	61,158,067	98,879,490	30,577,781	6,863,620	41,249,692	402,676,277

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

- Construction and reconstruction, realized as part of interstate "Kazakhstan-China" oil pipeline construction project;
- Reconstruction of the WPS-5 to increase the supply of water for the water pipeline "Astrakhan-Mangyshlak";
- Overhaul with replacement of the pipeline on the section 1,001.9–1,187.5 kilometers of the main oil pipeline "Tuymazy–Omsk–Novosibirsk-2" (the second stage of construction) and the main oil pipeline "Uzen–Atyrau–Samara" on the section 1,031–1,065 kilometers and others.

As at 31 December 2016 construction in progress mainly included the following production projects:

- Construction and reconstruction, realized as part of interstate "Kazakhstan-China" oil pipeline construction project;
- Reconstruction of main oil pipelines "Kalamkas-Karazhanbas-Aktau" on the "Karazhanbas-Aktau" route;
- Reconstruction of the WPS-5 to increase the supply of water for the water pipeline "Astrakhan-Mangyshlak";
- Reconstruction of firefighting system, construction of acceptance points at 1,235 kilometers of the oil pipeline "Uzen–Atyrau–Samara", construction of nonperforming automated communication centers, upgrade of hardware for automation and instrumentation systems, modernization of the existing fiber-optic network, reconstruction of firefighting systems and and power supply facilities,

implementation of the project for the installation of system for measurement of quantity and quality of oil for to bitumen plant and others.

As at 31 December 2017:

- The initial cost and corresponding accumulated depreciation of fully depreciated, but still in use property, plant and equipment were 2,065,226 thousand Tenge (31 December 2016: 1,482,726 thousand Tenge);
- The volume of oil in pipelines, included in property, plant and equipment, amounted to 2,498 thousand tons (31 December 2016: 2,460 thousand tons);
- Construction in progress included materials and spare parts in the amount of 5,644,338 thousand Tenge (as at 31 December 2016: 2,432,369 thousand Tenge), which were acquired for construction works. This increase is mainly due to purchases in 2017 for use in the construction of main pumping station MOPS Uzen and OPS Zhetybai, as well as for

the reconstruction of technological pipelines at the MOPS Atasu.

Depreciation for the year ended 31 December 2017 included in the cost of construction in progress amounted to 34,799 thousand Tenge (for the year ended 31 December 2016: 15,736 thousand Tenge).

Transfers to non-current assets held for sale

As at 31 December 2017 the Group classified the property of administrative and residential building in Pavlodar (hereinafter – "ARB"), as well as individual vehicles as assets held for sale, as their carrying amount is planned to be recovered through sale rather than through continuing use. These assets are available for immediate sale in their present condition.

Management of the Group expects to complete the sale of the above assets during 2018. These assets held for sale are recognized at the amount of 2,848,498 thousand Tenge, which is the lowest of their carrying amount and fair value less costs to sell.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. INTANGIBLE ASSETS

Intangible assets as at 31 December 2017 and 2016 are as follows:

In thousands of Tenge	Licenses	Software	Right for land use	Other	Total
Net book value at 31 December 2016	152,886	1,088,171	4,991,673	27,871	6,260,601
Additions	185,102	503,436	–	5,945	694,483
Disposals	(26,584)	(44,766)	–	(1,909)	(73,259)
Amortization charge	(59,509)	(344,272)	(165,323)	(3,356)	(572,460)
Accumulated amortization on disposals	26,258	44,719	–	1,909	72,886
Transfers from construction in progress (Note 6)	28,925	43,440	–	–	72,365
Foreign currency translation	2,435	–	88,750	–	91,185
Transfers and reclassifications	2,593	16	(2,609)	–	–
Net book value at 31 December 2017	312,106	1,290,744	4,912,491	30,460	6,545,801
Net book value at 31 December 2015	161,369	1,384,815	5,821,900	31,647	7,399,731
Additions	46,196	24,128	119,609	–	189,933
Disposals	(4,960)	(9,590)	–	(3,635)	(18,185)
Amortization charge	(48,578)	(344,677)	(236,484)	(3,775)	(633,514)
Accumulated amortization on disposals	4,777	9,588	–	3,634	17,999
Transfers from construction in progress (Note 6)	420	23,907	–	–	24,327
Foreign currency translation	(6,338)	–	(713,352)	–	(719,690)
Net book value at 31 December 2016	152,886	1,088,171	4,991,673	27,871	6,260,601
As at 31 December 2017					
At cost	859,601	5,037,905	8,181,950	89,058	14,168,514
Accumulated amortization and impairment	(547,495)	(3,747,161)	(3,269,459)	(58,598)	(7,622,713)
Net book value	312,106	1,290,744	4,912,491	30,460	6,545,801
As at 31 December 2016					
At cost	672,215	4,535,902	8,036,273	85,022	13,329,412
Accumulated amortization and impairment	(519,329)	(3,447,731)	(3,044,600)	(57,151)	(7,068,811)
Net book value	152,886	1,088,171	4,991,673	27,871	6,260,601

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. INVESTMENTS IN JOINT VENTURES

Investments in joint ventures as at 31 December 2017 and 2016 are as follows:

In thousands of Tenge	KCP	MunaiTas	Total
As at 31 December 2016	–	15,728,257	15,728,257
Share in income of joint ventures	6,225,244	1,712,517	7,937,761
Unrecognised share in income of joint venture	(836,291)	–	(836,291)
Share in other comprehensive income/(loss) of joint venture	8,942,660	(35,401)	8,907,259
As at 31 December 2017	14,331,613	17,405,373	31,736,986
As at 31 December 2015	–	13,918,006	13,918,006
Share in income of joint ventures	6,324,738	2,336,465	8,661,203
Unrecognised share in income of joint venture	(6,324,738)	–	(6,324,738)
Share in other comprehensive income of joint venture	327,966	960,946	1,288,912
Unrecognised share in other comprehensive income of joint venture	(327,966)	–	(327,966)
Dividends	–	(1,487,160)	(1,487,160)
As at 31 December 2016	–	15,728,257	15,728,257

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

In thousands of Tenge	KCP		MunaiTas	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
	50%	100%	50%	100%
Assets and liabilities of joint ventures				
Current assets	11,193,076	22,386,152	8,302,354	16,604,708
Non-current assets	112,914,233	225,828,466	110,886,209	221,772,418
Current liabilities	(20,394,094)	(40,788,188)	(20,275,079)	(40,550,158)
Non-current liabilities	(89,381,602)	(178,763,204)	(99,421,809)	(198,843,618)
Net assets/(liabilities)	14,331,613	28,663,226	(508,325)	(1,016,650)
Unrecognised accumulated comprehensive loss	–	–	508,325	1,016,650
Net book value of investment	14,331,613	28,663,226	–	–
Additional information				
Cash and cash equivalents	4,342,244	8,684,488	6,259,460	12,518,920
Short-term financial liabilities, net of trade and other payables and provisions	(16,057,521)	(32,115,042)	(16,270,055)	(32,540,110)
Long-term financial liabilities, net of trade and other payables and provisions	(83,384,876)	(166,769,752)	(97,898,723)	(195,797,446)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. INVESTMENTS IN JOINT VENTURES (continued)

In thousands of Tenge	MunaiTas			
	31 December 2017		31 December 2016	
	51%	100%	51%	100%
Assets and liabilities of joint ventures				
Current assets	8,082,188	15,847,427	5,808,421	11,389,061
Non-current assets	13,032,214	25,553,361	13,464,948	26,401,859
Current liabilities	(969,387)	(1,900,759)	(706,488)	(1,385,271)
Non-current liabilities	(2,739,642)	(5,371,847)	(2,838,624)	(5,565,929)
Net assets	17,405,373	34,128,182	15,728,257	30,839,720
Additional information				
Cash and cash equivalents	7,690,327	15,079,073	5,641,461	11,061,688
Short-term financial liabilities, net of trade and other payables and provisions	-	-	-	-
Long-term financial liabilities, net of trade and other payables and provisions	-	-	-	-

Long-term financial liabilities of KCP are represented by liabilities under loan agreement with the Industrial and Commercial Bank of China Limited and ING Bank N.V. (hereinafter – “loan agreement”) for the credit line of 1,180 million US dollars, and loan agreement with the Industrial and Commercial Bank of China Limited jointly with Industrial and Commercial Bank of China in Almaty JSC for the total amount of 300 million US dollars. Within the framework of the loan agreement KCP received four tranches for the total amount of 950 million US dollars (equivalent to 315,714 million Tenge).

Both loans are denominated in US dollars and are payable in 2023 and 2019, accordingly. The Company along

with the second participant of KCP did not guarantee the loans. Nevertheless, as of 31 December 2017 the Company issued a parent support letter to KCP stating that the Company will support the operating activity of the joint venture for the next twelve months.

As at 31 December 2017 total payable under both loans equals to 598,455 thousand US dollars (equivalent to 198,884,794 thousand Tenge), including interest. As at 31 December 2016 total payable under both loans equals to 685,102 thousand US dollars (equivalent to 228,337,556 thousand Tenge), including interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

In thousands of Tenge	KCP			
	For the year ended 31 December			
	2017	2016	50%	100%
Information on profit or loss and other comprehensive income of joint ventures for the year				
Revenue	31,616,305	63,232,610	26,743,101	53,486,202
Income from continuing operations for the year	6,225,244	12,450,488	6,324,738	12,649,476
Unrecognised income	(836,291)	(1,672,582)	(6,324,738)	(12,649,476)
Income from discontinued operations for the year	-	-	-	-
Other comprehensive income	8,942,660	17,885,320	327,966	655,932
Unrecognised other comprehensive income	-	-	(327,966)	(655,932)
Total comprehensive income	14,331,613	28,663,226	-	-
Dividends	-	-	-	-
Additional information				
Depreciation and amortization	(7,061,412)	(14,122,824)	(7,228,967)	(14,457,934)
Interest income	80,853	161,706	76,264	152,528
Interest expense	(6,160,434)	(12,320,868)	(6,264,362)	(12,528,724)
Income on exchange differences	701,437	1,402,874	1,979,943	3,959,886
Income tax (expense)/benefit	(1,693,842)	(3,387,684)	249,832	499,664

In thousands of Tenge	MunaiTas			
	For the year ended 31 December			
	2017	2016	51%	100%
Information on profit or loss and other comprehensive income of joint ventures for the year				
Revenue	4,323,112	8,476,690	5,557,170	10,896,412
Income from continuing operations for the year	1,712,517	3,357,877	2,336,465	4,581,304
Income from discontinued operations for the year	-	-	-	-
Other comprehensive (loss)/ income	(35,401)	(69,414)	960,946	1,884,208
Total comprehensive income	1,677,116	3,288,463	3,297,411	6,465,512
Dividends	-	-	(1,487,160)	(2,916,000)
Additional information				
Depreciation and amortization	(947,403)	(1,857,653)	(1,039,847)	(2,038,916)
Interest income	558,060	1,094,235	458,836	899,678
Income tax expense	(431,073)	(845,241)	(619,120)	(1,213,961)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. ADVANCES TO SUPPLIERS FOR PROPERTY, PLANT AND EQUIPMENT

Advances to suppliers for property, plant and equipment as at 31 December 2017 and 2016 are as follows:

In thousands of Tenge	31 December 2017	31 December 2016
Advances to third parties for property, plant and equipment and construction services	910,669	1,717,166
Advances to related parties for property, plant and equipment and construction services (Note 35)	46,927	14,695
	957,596	1,731,861
Less: allowance for doubtful debts	(661,754)	(53,258)
Total	295,842	1,678,603

Movement in allowance for doubtful debts related to the advances given to suppliers for property, plant and equipment was as follows:

In thousands of Tenge	2017	2016
As at 1 January	53,258	53,258
Accrual for the year (Note 28)	597,052	-
Foreign currency translation	11,444	-
As at 31 December	661,754	53,258

10. INVENTORIES

Inventories as at 31 December 2017 and 2016 are as follows:

In thousands of Tenge	31 December 2017	31 December 2016
Spare parts	1,978,556	1,511,168
Fuel	905,183	1,580,081
Construction materials	541,497	517,552
Overalls	173,167	144,234
Chemical reagents	90,817	62,220
Goods	81,554	133,548
Other	297,944	450,232
Total	4,068,718	4,399,035

11. TRADE AND OTHER ACCOUNTS RECEIVABLE

Trade and other accounts receivable as at 31 December 2017 and 2016 are as follows:

In thousands of Tenge	31 December 2017	31 December 2016
Trade accounts receivable from third parties	6,243,094	5,151,952
Trade accounts receivable from related parties (Note 35)	3,551,029	3,030,762
Other accounts receivable from third parties	716,947	672,111
Other accounts receivable from related parties (Note 35)	509	509
	10,511,579	8,855,334
Less: allowance for doubtful debts	(3,444,446)	(2,378,382)
Total	7,067,133	6,476,952

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

In thousands of Tenge	2017	2016
As at 1 January	2,378,382	759,853
Charge for the year, net (Note 28)	1,024,013	1,669,512
Used in write-off of receivable	-	(1,351)
Currency translation	42,051	(49,632)
As at 31 December	3,444,446	2,378,382

Trade and other accounts receivable as at 31 December 2017 and 2016 are denominated in the following currencies:

In thousands of Tenge	31 December 2017	31 December 2016
Tenge	6,196,038	5,192,550
US Dollar	413,088	977,206
Russian Ruble	1,717	1,569
Other currency	456,290	305,627
Total	7,067,133	6,476,952

As at 31 December the ageing analysis of trade receivables is as follows:

In thousands of Tenge	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	31-60 days	61-90 days	91-120 days	>120 days
2017	7,067,133	4,476,372	593,278	1,013,799	656,265	230,517	96,902
2016	6,476,952	3,826,374	498,442	866,255	692,404	97,954	495,523

12. ADVANCES TO SUPPLIERS

Advances to suppliers as at 31 December 2017 and 2016 are as follows:

In thousands of Tenge	31 December 2017	31 December 2016
Advances to third parties	301,599	117,504
Advances to related parties (Note 35)	204,462	257,916
	506,061	375,420
Less: allowance for doubtful debts	(1,265)	(38)
Total	504,796	375,382

Movement in allowance for doubtful debts in regards to advances given to suppliers is as follows:

In thousands of Tenge	2017	2016
As at 1 January	38	984
Charge/(reversal) for the year (Note 28)	1,264	(946)
Used in write-off of advances	(37)	-
As at 31 December	1,265	38



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. VAT RECOVERABLE AND OTHER PREPAID TAXES

VAT recoverable and other prepaid taxes as at 31 December 2017 and 2016 are as follows:

In thousands of Tenge	31 December 2017	31 December 2016
VAT recoverable	8,157,636	6,072,444
Other taxes prepaid	385,362	373,934
Total	8,542,998	6,446,378

14. OTHER CURRENT ASSETS

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

In thousands of Tenge	31 December 2017	31 December 2016
Due for oil transportation coordination services	5,678,717	5,551,741
Prepaid insurance	65,716	31,629
Due from employees	45,518	24,252
Deferred expenses from third parties	39,547	31,547
Deferred expenses from related parties (Note 35)	5	5,791
Other	26,919	82,169
Total	5,856,422	5,727,129

15. BANK DEPOSITS

Bank deposits as at 31 December 2017 and 2016 are as follows:

In thousands of Tenge	31 December 2017	31 December 2016
Short-term bank deposits – US Dollar	18,005,639	14,498,115
Short-term bank deposits – Tenge	10,000,000	1,000,000
Long-term bank deposits – Tenge	3,948,692	4,182,770
Accrued interest on deposits – Tenge	309,811	96,715
Accrued interest on deposits – US Dollar	41,070	80,788
Total	32,305,212	19,858,388

As at 31 December 2017 and 2016 bank deposits comprised the following:

- Tenge denominated bank deposit with the term from 3 to 12 months, with interest from 7.4% per annum, maturing in January 2018 (as at 31 December 2016: with interest 11% per annum, maturing in January 2017);
- US dollar denominated deposits with maturity from 3 to 12 months, with interest from 0.5% to 1%

per annum (as at 31 December 2016: from 1% to 2% per annum), maturing from June to August 2018 (as at 31 December 2016: in July and August 2017);

- Restricted long-term bank deposits with interest from 2% to 3.5% per annum maturing in 2029 and in 2027, respectively (as at 31 December 2016: from 2% to 3.5% per annum maturing in 2029 and in 2026, respectively), arranged for the purpose of preferential lending rates for the Company's employees for the purchase of residential property.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. CASH AND CASH EQUIVALENTS

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

In thousands of Tenge	31 December 2017	31 December 2016
Time deposits with banks – Tenge	35,566,876	52,590,424
Time deposits with banks – US Dollar	–	10,699,446
Current accounts with banks – US Dollar	4,635,546	5,370,006
Current accounts with banks – Tenge	420,100	285,255
Current accounts with banks – Lari	165,168	268,298
Current accounts with banks – Euro	57,825	59,992
Current accounts with banks – Russian Ruble	11,142	4,999
Other current accounts with banks	13,093	15,127
Cash in transit	–	52
Cash on hand	777	830
Total	40,870,527	69,294,429

As at 31 December 2017 current accounts and time deposits with maturity less than 3 months in Tenge placed with Kazakhstani banks carried interest ranging from 0.5% to 9.84% per annum (as at 31 December 2016: from 0.5% to 10.5% per annum).

Interest for current accounts and time deposits with maturity less than 3 months placed in US dollars ranged from 0.25% to 4% per annum (for current accounts and time deposits as at 31 December 2016: from 0.25% to 4% per annum).

As at 31 December 2017 the Company recognized an impairment loss for a non-guaranteed bonds amount of 3,639,607 thousand Tenge, as well as expenses for discounting of these long-term investments held to maturity in the amount of 630,951 thousand Tenge (Note 32). As a result, the carrying value of the given bonds as at the reporting date was 748,962 thousand Tenge.

18. EQUITY**Share capital**

As at 31 December 2017 and 2016 the Company's share capital comprised of 384,635,600 common shares authorized, issued and fully paid in the amount of 62,503,284 thousand Tenge, except for 1 share which was authorized but not issued and not paid.

As at 31 December 2017 and 2016 the share capital was equal to 61,937,567 thousand Tenge, net of consulting costs related to the issuance of shares in the amount of 565,717 thousand Tenge.

Treasury shares

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

17. LONG-TERM INVESTMENTS HELD TO MATURITY

In December 2017, in accordance with the Decision of the Government of the Republic of Kazakhstan dated 7 November 2017, the Group acquired bonds of "Special Financial Company DSFK" LLP (hereinafter – "DSFK bonds") using the funds placed with RBK Bank JSC (hereinafter – "RBK Bank"). The nominal amount of the bonds was 5,019,520 thousand tenge, the number of bonds is 5,019,520 thousand units. DSFK bonds carry coupon interest of 0.01% per annum and mature in 15 years. The bonds are secured by a financial guarantee of "Kazakhmys Corporation" LLP of 1,379,913 thousand Tenge. The guarantee is exercisable upon request of the Group not earlier than the fifth anniversary after the inception of the bonds.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. EQUITY (continued)**Asset revaluation reserve**

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

In thousands of Tenge	31 December 2017	31 December 2016
Asset revaluation reserve of the Group	196,489,838	207,642,414
Share in the asset revaluation reserve of the joint ventures	29,905,757	22,704,244
Total	226,395,595	230,346,658

Foreign currency translation reserve

As at 31 December 2017 foreign currency translation reserve was equal to 33,068,230 thousand Tenge (as at 31 December 2016: 32,918,111 thousand Tenge). Change in foreign currency translation reserve is due to the translation of the operations of the foreign subsidiary. Significant increase related to considerable changes in foreign exchange rates (Note 4.2).

Other capital reserves

As at 31 December 2017 other capital reserves amounted to 623,415 thousand Tenge (31 December 2016: 695,389 thousand Tenge). Change in given reserve is due to accrual of actuarial gain from employee benefit liabilities in the amount of 278,400 thousand Tenge, income tax effect of which amounted to 55,680 thousand Tenge (31 December 2016: actuarial gains in the amount of 3,897,890 thousand Tenge, income tax effect of which amounted to 779,578 thousand Tenge). Also in the current reporting period, the Group wrote off deferred tax assets of 150,746 thousand Tenge, related to the change in estimates of long-term employee benefit obligations (Note 33).

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

In thousands of Tenge	2017	2016
Net profit for the period attributable to ordinary equity holders of the Parent of the Group	50,117,856	44,527,918
Weighted average number of ordinary shares for the year for basic earnings per share	384,628,099	384,631,224
Basic earnings per share, in relation to profit for the year attributable to ordinary equity holders of the Company, as a Parent company of the Group (in Tenge)	130	116

Dividends

During 2017 the Company accrued and paid dividends as the result of 2016 year to the shareholders based on the decision of the shareholders meeting dated 25 May 2017 in the amount of 59,617,355 thousand Tenge based on 155 Tenge per 1 share (as at 31 December 2016: 51,156,535 thousand Tenge based on 133 Tenge per 1 share), including 53,656,666 thousand Tenge attributable to KMG (as at 31 December 2016: 46,040,881 thousand Tenge) and 5,960,689 thousand Tenge attributable to minority shareholders (as at 31 December 2016: 5,115,654 thousand Tenge).

Earnings per share

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Book value per ordinary share

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

In thousands of Tenge	31 December 2017	31 December 2016
Total assets	764,227,005	744,975,997
Less: intangible assets (Note 7)	(6,545,801)	(6,260,601)
Less: total liabilities	(164,535,958)	(157,000,715)
Net assets for calculation of book value per ordinary share	593,145,246	581,714,681
Number of ordinary shares	384,628,099	384,628,099
Book value per ordinary share (in Tenge)	1,542	1,512

19. EMPLOYEE BENEFIT LIABILITIES

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

Employee benefit liabilities as at 31 December 2017 and 2016 are as follows:

In thousands of Tenge	31 December 2017	31 December 2016
Current portion of employee benefit liabilities	600,175	543,418
Non-current portion of employee benefit liabilities	12,740,751	11,994,599
Total	13,340,926	12,538,017

Changes in the present value of employee benefit liabilities for the years ended 31 December 2017 and 2016 are as follows:

In thousands of Tenge	2017	2016
Employee benefit liabilities at the beginning of the year	12,538,017	15,533,710
Interest cost (Note 32)	1,182,271	1,112,503
Current services cost (Notes 27, 28)	559,185	641,073
Past service cost (Notes 27, 28)	–	478,957
Actuarial loss/(gain) through profit and loss (Notes 29, 30)	39,943	(742,441)
Actuarial gain through other comprehensive income	(279,191)	(3,897,890)
Benefits paid	(699,299)	(587,895)
Employee benefit liabilities at the end of the year	13,340,926	12,538,017

20. DEFERRED INCOME

Deferred income as at 31 December 2017 represents a guarantee of the Group in the amount of 7,498,361 thousand Tenge (31 December 2016: 7,731,328 thousand Tenge) ensuring the provision of individual BSP assets for long-term lease to a counterparty ("Batumi International Container Terminal" LLC).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. TRADE AND OTHER ACCOUNTS PAYABLE

Trade and other accounts payable as at 31 December 2017 and 2016 are as follows:

In thousands of Tenge	31 December 2017	31 December 2016
Accounts payable to third parties for goods and services	16,443,979	13,330,438
Accounts payable to related parties for goods and services (Note 35)	820,196	1,947,068
Other payables to third parties	345,994	106,515
Other payables to related parties (Note 35)	2,190	777
Total	17,612,359	15,384,798

Trade and other accounts payables included payables to related and third parties, related to property, plant and equipment and construction in progress in the amount of 12,190,230 thousand Tenge (as at 31 December 2016: 11,769,003 thousand Tenge).

Trade and other accounts payable as at 31 December 2017 and 2016 are in the following currencies:

In thousands of Tenge	31 December 2017	31 December 2016
Tenge	16,658,063	14,755,776
US Dollar	358,700	113,875
Euro	24,370	20,135
Russian Ruble	14,574	44,737
Other currency	556,652	450,275
Total	17,612,359	15,384,798

22. ADVANCES RECEIVED

Advances received as at 31 December 2017 and 2016 are as follows:

In thousands of Tenge	31 December 2017	31 December 2016
Advances received from related parties (Note 35)	10,919,781	10,407,356
Advances received from third parties	7,277,866	6,037,076
Total	18,197,647	16,444,432

23. OTHER TAXES PAYABLE

Other taxes payable as at 31 December 2017 and 2016 are as follows:

In thousands of Tenge	31 December 2017	31 December 2016
Personal income tax	3,304,942	2,833,115
Withholding tax at the source of payment to non-residents	1,063,456	1,172,181
Social tax	684,221	530,575
Property tax	217,714	162,122
VAT payable	8,075	8,650
Other taxes	287,025	349,023
Total	5,565,433	5,055,666

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. PROVISIONS

Movements in provisions for the years ended 31 December 2017 and 2016 are as follows:

Short-term provisions

In thousands of Tenge	Tax provisions (BOT)	Environmental provisions (Company)	Others (Company)	Total
As at 31 December 2016	166,978	–	41,125	208,103
Foreign currency translation	15,139	–	–	15,139
As at 31 December 2017	182,117	–	41,125	223,242
As at 31 December 2015	22,066	41,125	–	63,191
Charge/(reversal) for the year	154,125	(41,125)	41,125	154,125
Foreign currency translation	(9,213)	–	–	(9,213)
As at 31 December 2016	166,978	–	41,125	208,103

Long-term provisions

Asset retirement and land reclamation obligation

The Company revised the long-term provisions considering current best estimate. Assumptions used and the sensitivity to changes in the discount rate are reflected in Note 5.

In thousands of Tenge	2017	2016
As at 1 January	15,022,086	21,999,701
Charge for the year through asset (Note 6)	265,812	129,237
Revision of estimates through other comprehensive loss /(income)	30,162	(6,886,484)
Revision of estimates through profit and loss (Note 29)	(1,239,714)	(1,556,766)
Unwinding of discount on asset retirement and land reclamation obligation (Note 32)	1,268,976	1,336,398
As at 31 December	15,347,322	15,022,086

25. OTHER CURRENT LIABILITIES

Other current liabilities as at 31 December 2017 and 2016 are as follows:

In thousands of Tenge	31 December 2017	31 December 2016
Salaries and other compensations	10,053,682	9,506,279
Accounts payable for oil transportation coordination services to related parties (Note 35)	6,589,984	5,656,284
Accounts payable for oil transportation coordination services to third parties	4,118,923	5,067,651
Accounts payable to pension fund	741,564	580,524
Current portion of deferred income from third parties	540,164	460,940
Other accruals	463,809	1,241,923
Total	22,508,126	22,513,601

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. REVENUE

Revenue for the years ended 31 December 2017 and 2016 is as follows:

In thousands of Tenge	2017	2016
Crude oil transportation	184,818,487	171,762,134
Pipeline operation services	10,598,775	9,518,791
Oil reloading and railway shipment*	8,200,586	8,088,986
Water transportation	7,046,075	7,156,674
Fees for undelivered oil volumes	5,198,277	2,507,272
Seaport services	4,677,944	5,462,714
Oil transportation coordination services	697,652	713,708
Oil storage services	100,327	62,951
Other	1,111,831	1,834,585
Total	222,449,954	207,107,815

* Including revenues from transportation of oil and oil products by rail for 2017 amounted to 3,761,007 thousand Tenge (for the year 2016: 1,543,981 thousand Tenge).

For the year ended 31 December 2017 revenue from the four major customers amounted to 49,159,783 thousand Tenge, 26,582,952 thousand Tenge, 13,132,025 thousand Tenge and 12,106,463 thousand Tenge, respectively (for the year ended 31 December 2016 revenue from the four major customers: 51,090,880 thousand Tenge, 24,509,836 thousand Tenge, 13,181,553 thousand Tenge and 13,164,119 thousand Tenge, respectively).

27. COST OF SALES

Cost of sales for the years ended 31 December 2017 and 2016 are as follows:

In thousands of Tenge	2017	2016
Personnel costs	51,365,261	48,189,834
Depreciation and amortization	47,706,105	39,786,718
Materials and fuel	8,044,338	7,086,252
Taxes other than income tax	7,378,580	6,344,703
Electric energy	7,376,113	6,755,713
Repair and maintenance	5,639,398	5,041,045
Security services	4,261,973	4,145,043
Gas expense	3,600,450	3,622,316
Railway services	2,740,376	1,137,994
Air services	1,186,286	1,563,931
Business trip expenses	910,133	896,935
Insurance	637,977	660,847
Post-employment benefits (Note 19)	528,274	1,052,828
Environmental protection	473,677	403,775
Outstaffing services	396,876	54,124
Diagnostics of production assets	377,305	165,268
Transportation services	285,740	-
Communication services	257,442	259,822
Operational rent expenses	189,483	229,036
Obligatory Social Medical Insurance	154,997	-
Other	3,087,747	2,465,599
Total	146,598,531	129,861,783

Increase in personnel costs is due to the indexation of salaries of operating personnel made starting from 1 January 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Increase in costs for railway services is associated with an increase in the volume of transportation of oil and oil products by rail from 235 tons in 2016 to 954 tons in 2017 (Note 26).

28. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 December 2017 and 2016 are as follows:

In thousands of Tenge	2017	2016
Personnel costs	8,698,946	9,137,439
Net charge of allowance for doubtful debts (Notes 9, 11 and 12)	1,622,329	1,668,566
Depreciation and amortization	1,259,817	1,087,850
Consulting services	516,403	418,600
Outstaffing services	500,323	308,678
Office maintenance	497,469	484,629
Taxes other than income tax	351,289	261,707
Social sphere expenses	303,460	77,897
Business trip expenses	290,252	303,027
Repair and technical maintenance	285,544	215,390
Training	138,557	150,321
Insurance and security	130,663	140,276
Transportation services	123,866	4,101
Materials and fuel	122,954	126,999
Information services	108,617	90,770
Bank costs	107,687	108,866
Communication services	99,910	107,267
Write-off of VAT recoverable	91,939	109,801
Advertising expenses	71,195	90,863
Charity expenses	46,956	140,411
Operational rent expenses	31,584	37,286
Post-employment benefits (Note 19)	30,911	67,202
Charge/(reversal) of provision for obsolete inventories, net	28,552	(95)
Obligatory Social Medical Insurance	9,432	-
Other	552,268	515,548
Total	16,020,923	15,653,399

29. OTHER OPERATING INCOME

Other operating income for the years ended 31 December 2017 and 2016 is as follows:

In thousands of Tenge	2017	2016
Revision of estimates on provision on asset retirement and land recultivation obligation (Note 24)	1,239,714	1,556,766
Income from fines and penalties	682,829	1,143,367
Cost recovery from temporary structures	217,054	-
Income from disposal of inventory	105,876	41,811
Actuarial gain (Note 19)	-	742,441
Other income	201,489	455,390
Total	2,446,962	3,939,775



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. OTHER OPERATING EXPENSES

Other operating expenses for the years ended 31 December 2017 and 2016 are as follows:

In thousands of Tenge	2017	2016
Net loss on disposal of property, plant and equipment and intangible assets	741,248	239,377
Expenses for liquidation of idle production facilities	56,275	14,688
Actuarial loss (Note 19)	39,943	–
Loss from disposal of inventory	–	28,059
Other expenses	125,396	586,055
Total	962,862	868,179

31. FINANCE INCOME

Finance income for the years ended 31 December 2017 and 2016 is as follows:

In thousands of Tenge	2017	2016
Interest income on bank deposits and current accounts	4,918,019	4,885,662
Unwinding of discount on loans to employees	4,906	10,932
Unwinding of discount on interest free loan (Note 35)	–	1,264,921
Other finance income from third parties	14,630	29,390
Total	4,937,555	6,190,905

32. FINANCE COSTS

Finance costs for the years ended 31 December 2017 and 2016 are as follows:

In thousands of Tenge	2017	2016
Unwinding of discount on asset retirement and land recultivation obligation (Note 24)	1,268,976	1,336,398
Interest cost on employee benefit liabilities (Note 19)	1,182,271	1,112,503
Discount of investments held to maturity (Note 17)	630,951	–
Other finance costs	–	10,936
Total	3,082,198	2,459,837

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. INCOME TAX EXPENSE

Income tax expense for the years ended 31 December 2017 and 2016 is as follows:

In thousands of Tenge	2017	2016
Current income tax expense	17,080,223	16,774,997
Adjustments of the past periods	(294,732)	446,882
Deferred income tax benefits	(961,161)	(6,842,143)
Income tax expense	15,824,330	10,379,736

On 31 December 2016 the Group wrote off the carrying value of deferred tax liabilities in the amount of 2,235,454 thousand Tenge through profit and loss, of which 1,370,377 thousand Tenge were written off through profit and loss and 865,077 thousand Tenge through other comprehensive income, attributable to BOT and BSP due to change of the tax legislation of Georgia, which represented change in the tax base for calculating corporate income tax of resident enterprises from 1 January 2017. Based on the

new tax legislation the taxable base will include distributed profits (dividends), expenses not related to business operations, as well as gratuitous supply of goods/services/transfer of funds.

A reconciliation of income tax expense on accounting profit, multiplied by income tax rate and current income tax expense for the years ended 31 December 2017 and 2016 is as follows:

In thousands of Tenge	2017	2016
Profit before income tax	65,942,186	54,907,654
Statutory rate	20%	20%
Income tax expense on accounting profit	13,188,437	10,981,531
Adjustments of the past periods	(294,732)	446,882
Write-off of temporary differences of BTL	–	(1,370,377)
Reversal of deferred tax assets on long-term employee benefit liabilities	1,166,108	–
Impairment of long-term investments held to maturity	727,921	–
Non-taxable losses of foreign operations	770,545	–
Gain on surplus of technological oil	433,589	503,353
Other non-deductible expenses	1,252,756	396,021
Tax effect of other adjustments		
Profit of joint ventures recognized based on equity method	(1,420,294)	(467,293)
Effect of difference in tax rates	–	(110,381)
Corporate income tax expense reported in the consolidated statement of comprehensive income	15,824,330	10,379,736



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. INCOME TAX EXPENSE (continued)

Deferred income tax balances, calculated by applying the statutory income tax rates in effect at the respective

statement of financial position dates to the temporary differences between the basis of assets and liabilities and the amounts reported in the consolidated financial statements, comprised the following at 31 December:

In thousands of Tenge	31 December 2017	Charged to profit and loss	Charged to other capital reserves	31 December 2016	Charged to profit and loss	Charged to other capital reserves	1 January 2016
Deferred tax assets							
Employee benefits and other employee compensation and related costs	1,936,939	(850,797)	(206,584)	2,994,320	188,398	(779,578)	2,994,320
Allowance for doubtful debts	130,911	(8,470)	–	139,381	(23,438)	–	139,381
Provision for obsolete and slow-moving inventories	3,523	(26)	–	3,549	(3,961)	–	3,549
Provision for assets retirement and land reclamation obligation	3,069,465	59,015	6,033	3,004,417	23,203	(1,377,295)	3,004,417
Provision for environmental protection and other provisions	8,225	–	–	8,225	(52,145)	–	8,225
Taxes payable	147,353	32,555	–	114,798	(9,507)	–	114,798
Discounting of investments held for sale	126,190	126,190	–	–	–	–	–
Financial liabilities on intercompany loans	–	–	–	–	(37,671)	–	–
	5,422,606	(641,533)	(200,551)	6,264,690	84,879	(2,156,873)	6,264,690
Deferred tax liabilities							
Property, plant and equipment	(68,545,861)	1,602,694	(3,027,352)	(67,121,203)	6,757,264	(24,859,140)	(67,121,203)
	(68,545,861)	1,602,694	(3,027,352)	(67,121,203)	6,757,264	(24,859,140)	(67,121,203)
Net deferred income tax liabilities	(63,123,255)	961,161	(3,227,903)	(60,856,513)	6,842,143	(27,016,013)	(60,856,513)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

34. SEGMENT INFORMATION

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

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

Segments that are identified, but do not separately exceed quantitative limits (amount of separate segment revenue comprises less than 10% of combined revenue) are combined in "Other segments". Such services include transshipment of dry cargo (sugar-airbrick, ammonium

nitrate, cement, grain, sunflower and oil cake) in BSP with operation of dry cargo, ferry and container terminal, and also passenger terminal services.

Oil transportation and related services provided by the Company, which do not exceed quantitative limits and are intimately connected with the Group's main operating activities, or with main asset of the Group – pipelines, such as: water transportation, oil storage, expedition services, services on support and maintenance of pipelines, are included into service related to oil transportation. Separate management report is not provided to the Management of the Group on some types of these services and accordingly they cannot be identified as separate segments.

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

Management analyses its operating segments by segment profit.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. SEGMENT INFORMATION (continued)

In thousands of Tenge	For the year ended 31 December 2017				For the year ended 31 December 2016			
	Oil transportation and related services (Kazakhstan)	Oil trans-shipment (Georgia)	Other	Total segments	Oil transportation and related services (Kazakhstan)	Oil trans-shipment (Georgia)	Other	Total segments
Revenue								
External customers	208,606,879	8,797,964	5,045,111	222,449,954	191,869,628	9,079,690	6,158,497	207,107,815
Total revenue	208,606,879	8,797,964	5,045,111	222,449,954	191,869,628	9,079,690	6,158,497	207,107,815
Financial results								
Impairment of property, plant and equipment through profit and loss	(37,682)	–	–	(37,682)	(9,197,852)	(3,510,353)	(1,504,340)	(14,212,545)
Depreciation and amortization	(45,976,094)	(2,015,827)	(974,001)	(48,965,922)	(37,865,889)	(2,126,990)	(881,689)	(40,874,568)
Interest income	4,862,911	55,108	–	4,918,019	4,840,552	45,110	–	4,885,662
Share in income of joint ventures	7,101,470	–	–	7,101,470	2,336,465	–	–	2,336,465
Income tax (expense)/benefit	(15,793,678)	(15,978)	(14,674)	(15,824,330)	(12,525,227)	1,532,362	613,129	(10,379,736)
Segment profit/(loss)	52,740,514	(3,302,861)	680,203	50,117,856	47,693,066	(3,984,688)	819,540	44,527,918
Total assets	693,922,594	52,756,058	17,548,353	764,227,005	671,987,485	50,386,782	22,601,730	744,975,997
Total liabilities	148,871,251	13,190,178	2,474,529	164,535,958	141,124,446	11,381,187	4,495,082	157,000,715
Other disclosures								
Investments in joint ventures (Note 8)	31,736,986	–	–	31,736,986	15,728,257	–	–	15,728,257
Capital expenditures	51,351,798	1,167,692	–	52,519,490	38,046,856	3,257,807	1,537,342	42,842,005

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. RELATED PARTY TRANSACTIONS

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related party transactions were made on terms agreed to between the parties that may not necessarily be at market rates, except for certain regulated services, which are provided based on the tariffs available to related and third parties.

The following tables provide the total amount of transactions, which have been entered into with related parties during 2017 and 2016 and the related balances as at 31 December 2017 and 2016.

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

In thousands of Tenge	Notes	31 December 2017	31 December 2016
Advances to related parties for property, plant and equipment			
Advances for property, plant and equipment to entities under common control of Samruk-Kazyna Group		46,927	–
Advances for property, plant and equipment to entities under common control of KMG		–	14,695
Total advances to related parties for property, plant and equipment	9	46,927	14,695

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

In thousands of Tenge	Notes	31 December 2017	31 December 2016
Trade and other accounts receivable from related parties			
Trade accounts receivable from joint ventures		2,495,886	2,218,268
Trade accounts receivable from entities under common control of KMG		1,051,701	812,058
Trade accounts receivable from entities under common control of Samruk-Kazyna Group		3,442	436
	11	3,551,029	3,030,762
Other accounts receivables from entities under common control of KMG and Samruk-Kazyna Group	11	509	509
Total trade and other accounts receivable from related parties		3,551,538	3,031,271

Advances provided to related parties are as follows:

In thousands of Tenge	Notes	31 December 2017	31 December 2016
Advances paid to related parties			
Advances paid to entities under common control of KMG		103,181	140,560
Advances paid to entities under common control of Samruk Kazyna Group		101,281	117,356
Total advances paid to related parties	12	204,462	257,916



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. RELATED PARTY TRANSACTIONS (continued)

Deferred expenses from related parties are as follows:

In thousands of Tenge	Notes	31 December 2017	31 December 2016
Deferred expenses from related parties			
Deferred expenses from entities under control of Samruk Kazyna Group		5	5,791
Total deferred expenses from related parties	14	5	5,791

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

In thousands of Tenge	Notes	31 December 2017	31 December 2016
Trade accounts payables to related parties for goods and services			
Trade accounts payables to entities under common control of KMG		587,835	668,777
Trade accounts payables to entities under common control of Samruk Kazyna Group		232,361	1,278,291
	21	820,196	1,947,068
Other payables to entities under common control of Samruk-Kazyna Group		2,190	777
	21	2,190	777
Total trade and other accounts payable to related parties for goods and services		822,386	1,947,845

Advances received from related parties are as follows:

In thousands of Tenge	Notes	31 December 2017	31 December 2016
Advances received from related parties			
Advances from entities under common control of KMG		10,560,712	9,990,855
Advances from entities under common control of Samruk-Kazyna Group		359,068	416,492
Advances from joint ventures		1	9
Total advances received from related parties	22	10,919,781	10,407,356

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Other current liabilities to related parties are as follows:

In thousands of Tenge	Notes	31 December 2017	31 December 2016
Accounts payable for oil transportation coordination services to related parties			
Accounts payable for oil transportation coordination services to entities under common control of KMG		6,589,984	5,656,284
Total of accounts payable for oil transportation coordination for related parties	25	6,589,984	5,656,284
Employee benefits obligation of key management personnel			
Employee benefits obligation of key management personnel		44,502	43,840
Total employee benefits obligation of key management personnel		44,502	43,840
Total other current liabilities to related parties		6,634,486	5,700,124

The following tables provide the total amount of transactions, which have been entered into with related parties during the year ended 31 December:

	2017	2016
Sales to related parties		
Revenue from main activities with entities under common control of KMG	117,469,386	114,182,315
Revenue from main activities with joint ventures	9,121,018	8,108,759
Revenue from main activities with entities under common control of Samruk Kazyna Group	3,731,719	4,553,518
Revenue from other activities with entities under common control of KMG	84,391	24,878
Revenue from other activities with entities under common control of Samruk Kazyna Group	16,138	1,337
Total	130,422,652	126,870,807

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

Purchase of services and assets from related parties is as follows:

	2017	2016
Purchases from related parties		
Purchases of services from entities under common control of KMG	7,387,038	9,359,945
Purchases of services from entities under common control of Samruk Kazyna Group	2,992,827	3,004,858
Purchases of inventory from entities under common control of KMG	1,071,536	70,860
Purchases of property, plant and equipment from entities under common control of Samruk-Kazyna Group	1,057,305	991,574
Purchases of property, plant and equipment from entities under common control of KMG Group	747,248	841,864
Purchases of services from joint ventures	7,506	4,877
Purchases of inventory from entities under common control of Samruk Kazyna Group	3,359	18,778
Total	13,266,819	14,292,756



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. ELATED PARTY TRANSACTIONS (continued)

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

		For the year ended 31 December	
In thousands of Tenge	Notes	2017	2016
Finance income from related parties			
Discounting of interest free loans provided to KMG	31	–	1,264,921
Total		–	1,264,921

Cash flows from related parties is as follows:

In thousands of Tenge	For the year ended 31 December	
	2017	2016
Cash flows from related parties		
Return of Interest free loan from KMG	-	20,000,000
Total	-	20,000,000

In 2015, the Company, on the basis of a decision of the Board of Directors, issued KMG an interest-free loan of 20 billion Tenge with maturity date until 30 June 2016.

As at 31 December 2016 the loan was repaid by KMG, by transferring funds to the Company's settlement account.

Total accrued compensation to key management personnel for the year ended 31 December 2017 amounts to 586,985 thousand Tenge (for the year ended 31 December 2016: 759,880 thousand Tenge). Payments to key personnel consist primarily of payroll costs and remuneration established by contracts and Company's internal regulations.

36. 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.

Kazakhstan economy continued to be negatively impacted by a significant drop in crude oil prices and a significant devaluation of Kazakhstani Tenge that took place in 2015. The combination of the above along with other factors resulted in reduced access to capital, a higher cost

of capital, increased inflation and uncertainty regarding economic growth. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Taxation

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

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

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

As at 31 December 2017 Management believes that its interpretation of the relevant legislation is appropriate



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

and that it is probable that the Group's tax positions will be sustained, except as provided for or otherwise disclosed in these consolidated financial statements.

Transfer pricing control

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

The new law on transfer pricing came into effect in Kazakhstan from 1 January 2009. The new law is not explicit and there is little precedence with some of its provisions. Moreover, the law is not supported by detailed guidance, which is still under development. As a result, application of transfer pricing control to various types of transactions is not clearly regulated.

Because of the uncertainties associated with the Kazakhstan transfer pricing legislation, there is a risk that the tax authorities may take a position that differs from the Group's position, which could result in additional taxes, fines and interest as at 31 December 2017.

As at 31 December 2017 the Management believes that its interpretation of the transfer pricing legislation is appropriate and that it is probable that the Group's positions with regard to transfer pricing will be sustained.

Tax commitments of Georgian entities

According to the Tax Code of Georgia ("TCG"), tax administration is authorized to make motivated written decision on use of market prices for taxation purposes if transaction takes place between related parties. Although TCG contains certain guidance on the determination of market prices of goods and services, the mechanism is not sophisticated and there is no separate transfer pricing legislation in Georgia. Existence of such ambiguity creates uncertainties as related to the position that tax authorities might take when considering taxation of transactions between related parties.

The Georgian subsidiaries of the Group have significant transactions with off-shore subsidiaries of the Group as well as amongst each other. These transactions fall within the definition of transactions between related parties and may be challenged by tax authorities of Georgia.

Management believes that it has sufficient arguments to assert that pricing of transactions between entities of the Group is at arm's length, however due to absent legislative basis for determination of market prices tax authorities might take position different from that of the Group.

In 2015 Georgian Tax Authorities (hereinafter - "GTA") additionally accrued taxes and fines in the amount of 2,811 thousand US dollars (equivalent to 934,180 thousand Tenge) as a result of tax inspections of BSP for the period of 2010-2014. BSP did not agree with the decision of GTA and filed an appeal.

As a result in 2016 by the decision of the audit department of the Georgian Revenue Service, the accrued taxes were reduced to 1,844 thousand US dollars (equivalent to 612,817 thousand Tenge). BSP filed another appeal to the Board of Dispute Resolution of the Georgia Revenue Service.

The management of the BSP, based on an analysis of local tax laws and current practice for similar tax proceedings, at the end of 2016 recognized the obligation to pay taxes in the amount of 886 thousand US dollars (equivalent to 294,444 thousand Tenge). The remaining amount of 958 thousand US dollars (equivalent to 318,372 thousand Tenge) is not recognized as additional obligations, since management believes that the BSP's appeal will be successful and assess the likelihood of outflow of financial resources in this part unlikely.

As at 31 December 2017 the decision of the department of the Georgian Revenue Service was not revised.

Environmental matters

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Potential liabilities which may arise as a result of changes in legislation cannot be reasonably estimated. Under existing legislation management believes that there are no probable or possible liabilities which could have a material adverse effect on the Group's financial position or results of operations except for those described in the present consolidated financial statements (Notes 5, 24).

36. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Insurance matters

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available.

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

Contractual commitments

As at 31 December 2017 the Group had contractual obligations to acquire property, plant and equipment, and construction services for the amount of 18,507,367 thousand Tenge (31 December 2016: 25,628,294 thousand Tenge).

Share of the Company as at 31 December 2017 in contractual obligations of joint ventures to acquire property, plant and equipment, and construction services amounted to 123,176 thousand Tenge (31 December 2016: 147,419 thousand Tenge).

Legal proceedings

Legal proceedings BOT

On 19 December 2016 the proposal from the law enforcement agencies of Georgia on the implementation of the court ruling was received, which contains the order that BOT should not use its dominant position in the market, as well as the requirements on conclusion of the agreement on services. According to this definition, the court decided to arrest the property owned by BOT – the land plot (c. Batumi) and buildings and constructions located on it. As at 31 December 2017 the total cost of the arrested property is 50.1 million US dollars (equivalent to 16,650 million Tenge). This arrest restricts the alienation of the arrested property, but does not affect the operational and economic activities of BOT. On 23 December 2016, BOT appealed the above decision in the Tbilisi City Court.

On 15 February 2017, BOT received a statement of claim according to which the plaintiff (Vibro Diagnostic) requires the court to oblige BOT to enter into a service contract on the terms specified at the claimant's claim, and also compensate the plaintiff for damages in amount

of 2,500 thousand US dollars (equivalent to 830,825 thousand Tenge) and, additionally from 1 December 2016 until the execution of the court decision, a monthly amount of 280 thousand US dollars (equivalent to 93,052 thousand Tenge). On 24 February 2017 the plaintiff and the court sent a response to the statement of claim with the position of the BOT in this case.

On 11 September 2017, the Tbilisi Court of Appeal refused to satisfy the BOT's claim to appeal against the ruling of the court, received on 19 December 2016, but BOT continues legal proceedings.

As at 31 December 2017 the Group did not recognize any additional obligations due to the opinion of BOT management, the plaintiff's claims against BOT are not supported.

Expropriation of the BSP assets

In accordance with BSP Management Right agreement between BOT and the Georgia Government, the Georgian Government has the right for expropriation of the BSP's assets, in case the BSP in the course of 2 years does not meet its obligations on minimum volume of transshipment, which is 4 million tons per year. In addition, if the transshipment volume is less than 6 million tons per year, BOT shall pay the following penalties for:

- Non-fulfillment of up to 1 million tons in the amount of 0.1 US dollars (ten US cents) per ton;
- Non-fulfillment of 1 to 2 million tons in the amount of 0.2 US dollars (twenty US cents) per ton;
- Non-fulfillment of over 2 million tons in the amount of US dollars 1 per ton.

During 2017, the actual volumes of transshipment through BSP amounted to 5.86 million tons (2016: 6.9 million tons). Due to the performance of the annual transshipment volume less than 6 million tons, the Group accrued penalties under the contract in the amount of 14 thousand US dollars (equivalent to 4,565 thousand Tenge).

Commercial warranty of PTL

In accordance with the Agreement of 18 November 2016 between Georgian Transit Ltd (hereinafter referred to as GTL) and PTL, PTL was obliged to transport a minimum volume of 2 million tons of oil products per year for the purpose of obtaining a preferential tariff for railway services by the Group. Also to get discount on railway tariffs, the Group provides the performance guarantee to the



Georgian Railway JSC (GR) on behalf of GTL on transshipment of 3.2 million tons, out of which 2 million tons should be transported by PTL. Also, in accordance with the terms of the agreement, PTL is required to provide a bank guarantee in favor of GR to ensure a minimum volume of transportation of oil products per year. The total amount of the bank guarantee for the period from 17 September 2016 to 17 September 2017 was equal to 4.2 million US dollars (equivalent to 1,396 million Tenge) and was provided to PTL in favor of GR. In the period from 17 September 2016 to 17 September 2017, PTL transported 1.6 million tons and the total volumes transferred by GR during the same period also did not meet 3.2 million tons.

The PTL management is negotiating with GTL regarding the fine for the total underperformed volumes. As at 31 December 2017 the Group has created a reserve of 208 thousand US dollars (equivalent to 69,125 thousand Tenge) as probable to pay the amount of the obligation.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Credit risk

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

The Group places deposits with Kazakhstani and foreign banks (Notes 15 and 16). The Group's management reviews credit ratings of these banks periodically to eliminate extraordinary credit risk exposure, and believes that no impairment provision against Group's bank deposits is required.

The table below shows the balances of bank accounts and cash and cash equivalents at the 31 December 2017 and 2016 using the "Moody's", "Fitch" and "Standard & Poor's" credit ratings.

Bank	Location	Rating			
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
"Halyk Bank of Kazakhstan" JSC	Kazakhstan	Ba1/Stable	BB/Stable	68,314,402	77,756,612
Hellenic Bank	Cyprus	B-	Caa2	4,641,986	3,614,530
TBC Bank	Georgia	BB-/B	Ba3	101,028	127,650
Bank of Georgia	Georgia	BB-/B	B1/Stable	56,828	101,320
Halyk Bank of Georgia	Georgia	BB-/B	BB-/Stable	49,517	648,249
GazBank JSC CB	Russia	B3/Stable	B3	10,418	3,268
"Sberbank" SB JSC	Russia	BBB-	-	724	-
"Altyn Bank" JSC	Kazakhstan	Ba2/Stable	BB/Positive	25	1,829,416
"Sberbank Russia" SB JSC	Kazakhstan	BB+/Positive	BB+/Stable	12	5,070,824
"Tsesna Bank" JSC	Kazakhstan	B/Stable	B/Stable	9	10
"KazkommertzBank" JSC	Kazakhstan	Ba2/Stable	CCC/Stable	8	56
"ForteBank" JSC	Kazakhstan	B3/Positive	-	5	-
Total				73,174,962	89,151,935



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**37. FINANCIAL RISK MANAGEMENT
OBJECTIVES AND POLICIES** (continued)**Liquidity risks**

The Group monitors its risk to a shortage of funds using a current liquidity planning tool. This tool considers the maturity

of both its financial investments and financial assets (e.g., accounts receivables, other financial assets) and projected cash flows from operations.

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

In thousands of Tenge	On demand	<1 year	1 to 2 years	2 to 5 years	>5 years	Total
As at 31 December 2017						
Trade and other payables	-	17,580,864	27,068	145	4,282	17,612,359
Total	-	17,580,864	27,068	145	4,282	17,612,359
As at 31 December 2016						
Trade and other payables	-	15,370,051	7,877	492	6,378	15,384,798
Total	-	15,370,051	7,877	492	6,378	15,384,798

Currency risk

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

In thousands of Tenge	US Dollar	Russian Ruble	Euro	Other currencies	Total
At 31 December 2017					
Assets	23,128,576	13,487	57,825	492,846	23,692,734
Liabilities	994,780	85,231	69,899	881,006	2,030,916
At 31 December 2016					
Assets	31,738,097	14,706	59,992	589,923	32,402,718
Liabilities	1,714,667	101,655	20,135	699,576	2,536,033

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations. The Group also has transactional currency exposures. Such exposure arises from revenues in US dollars.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

In thousands of Tenge	Increase / decrease in exchange rate	Effect on profit before tax
2017		
US dollar	+10.00%	2,213,380
	-10.00%	(2,213,380)
Russian ruble	+16.00%	(11,479)
	-16.00%	11,479
Euro	+13.50%	(1,630)
	-9.50%	1,147
2016		
US dollar	+13.00%	3,903,046
	-13.00%	(3,903,046)
Russian ruble	+23.00%	(19,998)
	-19.00%	16,520
Euro	+15.00%	5,979
	-15.00%	(5,979)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy equity ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholder, return capital to shareholder or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 2016.

As at 31 December 2017 and 2016 the Group does not have significant debts. The Group has sufficient cash, exceeding its debt as at the reporting date.

Fair value of financial instruments

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



38. SUBSEQUENT EVENTS

In order to optimize expenses, as well as to increase the efficiency of the Company's operations and the quality of its production processes management, from 3 January 2018, the Company has moved from a three-level to a two level management system. On 19 January 2018, the Company's Management Committee approved the closure of two branches located in Atyrau (Western branch) and Pavlodar (Eastern branch) cities, performing administrative and management functions with respect to the regional production departments of the Company. As a result of this restructuring, the Company will directly manage the above-mentioned production structural divisions. Management of the Group does not expect significant liabilities related to this restructuring.

In accordance with the agreement signed on 18 October 2017 between Company and Central Asia Transit LLC on provision of oil transportation services in transit, for the

purpose of transit through the territory of the Republic of Kazakhstan towards the Kyrgyz Republic in 2018, oil supplies of Russian origin will be launched through the system the Company's main oil pipelines along the route "the border of the Russian Federation from the Republic of Kazakhstan – the oil loading point Shagyr". According to oil supply schedules, up to 500 thousand tons of raw materials are to be transported annually along this route. Tariff for services provided on this route will be 25.12 US dollars per ton.

On 27 February 2018, the Company's orders on increase in the tariffs for the pumping oil on the export from the Republic of Kazakhstan to 6,398.92 tenge per ton for 1,000 km (excluding VAT) and for pumping oil for transit through Kazakhstani part of main oil pipeline "Tuymazy-Omsk-Novosibirsk-2" to 4,292.4 tenge per 1 ton per 1,000 km (excluding VAT) were approved. The tariffs are effective from 1 April 2018.



APPENDIX 9. LIST OF ABBREVIATIONS

BLS	Basic Life Support
BOT	Batumi Oil Terminal LLC
BPTS&M	Base of production-technical services and marketing
BSP	Batumi Sea Port LLC
BTL	Batumi Terminals Limited company
CNODC	China National Oil and Gas Exploration and Development Corporation
Company	KazTransOil JCS
CPC	Caspian Pipeline Consortium
CRMS	Corporate risk management system
DAP	Delivery and acceptance point
DED	Design and estimate documentation
GM	Goods and materials
GR	Georgian Railways Joint Stock Company
GRI Standards	GRI (Global Reporting Initiative) standards on sustainability reporting
HAZOP	Hazard and operability study
HOPS/POPS	Head/Principal oil pumping station
ICS	Internal control system
IFRS	International Financial Reporting Standards
IMS	Integrated management system
ISMS	Information security management system
KASE	Kazakhstan Stock Exchange
KCP LLP	Kazakhstan-China Pipeline LLP
KPI	Key performance indicators
LOCS	Line operations control station
LTIFR	Lost Time Injury Frequency Rate
LTIR	Lost Time Injury Rate
MICC	Main information and computing center
MunaiTas NWPC JSC	North-West Pipeline Company MunaiTas Joint Stock Company



NC KazMunayGas JSC	National Company KazMunayGas Joint Stock Company
NC Transport of Oil and Gas CJSC	National Company Transport of Oil and Gas Closed Joint Stock Company
NCOT KazTransOil CJSC	National Company for Oil Transportation KazTransOil Closed Joint Stock Company
NOGC Kazakhoil CJSC	National Oil and Gas Company Kazakhoil Closed Joint Stock Company
OHS	Oil heating station
OLP	Oil loading point
OPPS	Oil processing and pumping shop
OPS	Oil pumping station
OR	Oil refinery
PHTLS	Prehospital trauma life support
PKOP	PetroKazakhstan Oil Products LLP
POCR	Pavlodar Oil Chemistry Refinery LLP
PRC	People's Republic of China
PTL	Petrotrans Limited company
R&D	Research and development
Report	2017 Integrated Annual Report of KazTransOil JSC
Samruk-Kazyna JSC	National Welfare Fund Samruk-Kazyna JSC
SGS	Societe Generale de Surveillance SA
SJCE	Subsidiaries and jointly-controlled entities
SIL-2	Safety Integrity Level-2
STC	Scientific Technical Center
TC	Training center
TESF	Technical-engineering safety features
TON-2	Main oil pipeline "Tuimazy-Omsk-Novosibirsk-2"
UN	United Nations
VAT	Value added tax
WPS	Water pumping station
WTF	Water treatment facility



APPENDIX 10. QUESTIONNAIRE FOR REPORT READERS

INFORMATION ON THE QUESTIONED STAKEHOLDER:

Name

Position / type of activity

Name of Organization

QUESTIONS:

How do you interact with KazTransOil JSC?
Please, select the following:

- ☐ Holder of the Company's shares
- ☐ The Company's consumer
- ☐ The Company's supplier
- ☐ The Company's authority
- ☐ The Company's employee
- ☐ Representative of government body
- ☐ Representative of research and production association –

Other (please, indicate) _____

Identify the most important issues to be described in the Report. Please, select and provide a short explanation.

- ☐ Social issues (employment, occupational health and safety, product responsibility, etc.)

- ☐ Ecological issues (effluents, emissions, wastes, biodiversity, etc.)

- ☐ Economical issues (economic value generation and distribution)

How do you think, what issues are not disclosed (or insufficiently disclosed) in the Report?

How can we contact you?





