

# EFFICIENCY SQUARED



ANNUAL REPORT  
2018



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# MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

GRI 102-14



## DEAR SHAREHOLDERS, PARTNERS, AND COLLEAGUES!

Actual economic climate forces the companies to be agile and to demonstrate an ability to move beyond, constantly improving approaches to business. KazTransOil JSC considers it, therefore systematically works on implementation of modern production, digital technologies and enhancing of it's corporate governance model and business processes. I am convinced, that the foundation of Company's financial stability is focus on continually improvement of operational efficiency and sustainable development that is appreciated by our business partners.

Today, KazTransOil JSC as a national oil transportation in Kazakhstan, transports around 40% of all produced oil in the country and 99% of oil shipment to domestic refineries. 79 oil-producing companies used the services of Company in 2018.

Over the reporting period, KazTransOil JSC accomplished significant results in many areas of activity and establish the basis for further development of the country.

For instance, the project of transformation for two- leveled organizational managing structure, that started in 2016 was successfully completed in 2018. It provided the Company to manage from central office in Nur-Sultan directly to production divisions in 11 regions of the country.

*KazTransOil JSC systematically works on implementation of modern production, digital technologies and enhancing of it's corporate governance model and business processes. I am convinced, that the foundation of Company's financial stability is focus on continually improvement of operational efficiency and sustainable development that is appreciated by our business partners.*



Also, the Main Dispatch Office (MDO) began operations in the city of Nur-Sultan. The successful launch of the MDO allowed us to centralize and automate the management of oil flows using the pipeline system of KazTransOil JSC and its jointly controlled entities.

An important event in 2018 was the signing of a long-term service agreement to provide maintenance services for the oil pipeline system of the Caspian Pipeline Consortium within the Republic of Kazakhstan, which enabled KazTransOil JSC to increase its market share of operator services to 100%. I am certain that the work we have carried out in this area will not only boost the Company's efficiency, but will also strengthen our operating stability going forward.

The Company adopts advanced corporate governance practices and adheres to the principles and recommendations of the KazTransOil JSC Code of Corporate Governance. Each year the Company performs measures to improve its corporate governance system in order to continue to safeguard the rights and interests of its shareholders.

The performance in 2018 of an independent evaluation of the work of the Board of Directors and a certification audit on the compliance of the integrated management system with applicable international standards further testify to the Company's commitment to best practices in corporate governance.

The Company's performance results outlined above allowed us to make healthy dividend payments to shareholders. During the reporting period, dividend payments based on 2017 results amounted to KZT 61.5 billion, or KZT 160 per common share in the Company.

The Company looks to the future with confidence: our strategy of increasing efficiency will allow KazTransOil JSC to attain the targets and goals that have been set for 2019. A balanced strategy, supported by the outstanding professionalism and commitment of our people, serve as the basis for the further growth of the Company, to the benefit of both society and our stakeholders.

## DANIYAR BERLIBAYEV

Chairman of the Board of Directors  
KazTransOil JSC



# MESSAGE FROM THE GENERAL DIRECTOR (CHAIRMAN OF THE MANAGEMENT BOARD)

GRI 102-14



**DEAR READERS,**

We hereby present for your attention the Integrated Annual Report of KazTransOil JSC for 2018.

2018 proved to be a watershed year in KazTransOil JSC’s development history. In the reporting period, the Company not only attained its operating and financial targets, but also assessed the interim results of the efforts to optimize business processes and enhance performance.

The key factors impacting KazTransOil JSC’s financial, economic, and production performance in the reporting period were a reduction in oil extraction by the Company’s traditional oil shippers and the expanding throughput capacity by the Caspian Pipeline Consortium.

In 2018 KazTransOil JSC transported 45.3 million metric tons of oil, which was 2% less than in 2017, while consolidated freight turnover of oil declined by 4.6% year-on-year, and stood at 46.1 billion ton-km.

Despite these falls in oil transportation volumes, the Company demonstrated growth in a number of other operating parameters in 2018. For example, KazTransOil JSC pumped 28.7 million m3 of water through its pipelines in 2018, or 9.6% more compared with 2017.

The reporting year also faced improved performance in another key operating segment: revenues from operator services totaled KZT 13.2 billion, equalling an increase of 24.9% compared with 2017. This growth was primarily attributable to the signing of a contract with the Caspian Pipeline Consortium-K Joint Stock Company (CPC-K JSC) related to technical maintenance, repair, and emergency response services at CPC-K JSC’s oil pipeline system facilities for 2018–2023.

*I would like to thank the Company’s employees for their excellent performance in 2018. I would also like to express my gratitude to all our shareholders and partners for their trust, support, and constructive cooperation.*

In 2018 consolidated revenue from KazTransOil JSC’s operations rose by KZT 3 billion year-on-year. However, the Company’s net profit fell by 23.2%, to KZT 38.5 billion. This was due to KCP LLP suffering forex losses on a foreign-currency loan (issued under the Kazakhstan–China pipeline construction project), and the impairment of assets located in Georgia. KazTransOil JSC also increased investments to enhance the reliability of production facilities and in the technical re-equipment and renovation of oil pipelines, which resulted in greater depreciation and tax expenses.

To ensure long-term growth the Company invests in the development of the oil pipeline infrastructure. For example, to diversify its oil transportation routes and to create a multifaceted oil transportation system of the Republic of Kazakhstan, we continue working on the development of the Kazakhstan–China oil pipeline. The refurbishment of the Kenkiyak Principal Oil Pumping Station (POPS), which was performed to expand oil transportation capacity for export to the People’s Republic of China and to guarantee workloads for domestic oil refineries, was completed in 2018.

In connection with the completion of transitioning to a two-tier management system through the closing of the Western and Eastern Branches, as well as the spin-off of the water supply business to Main Waterline LLP in 2018, the Company continued with measures to improve performance in 2018. For example, the expansion of the central office’s functions required a qualitative transformation of the approaches adopted to managing business processes. With this in mind, a large-scale project to model and optimize the Company’s business processes was launched and will continue in 2019.

Alongside the organizational and operational transformations, 2018 also saw a number of achievements in the sphere of occupational and industrial safety. In particular, the lost time injury frequency rate (LTIFR) fell to 0.034, a 32% reduction compared to 2017. This result would not have been possible without the Company’s systematic work to introduce best practices in industrial safety, occupational safety and health, developing a safety culture, and boost investment in this area.

KazTransOil JSC also integrates corporate and social responsibility into its activities. The necessary conditions are created to facilitate the professional growth of employees, and active work is performed in the area of human resource development, improving the training and career advancement system, and fostering a corporate culture based on human rights.

In conclusion, I would like to thank the Company’s employees for their excellent performance in 2018. KazTransOil JSC’s achievements would not have been possible without your professionalism and commitment to our common cause.

I would also like to express my gratitude to all our shareholders and partners for their trust, support, and constructive cooperation, all of which are especially important during a period of transformation within the Company.

**DIMASH DOSANNOV**

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

# ABOUT THIS REPORT

### APPROACH USED TO PREPARE THE REPORT

KazTransOil Joint-Stock Company (KazTransOil JSC, or the Company) believes that it is necessary to regularly disclose the results of its activities, thereby demonstrating its openness and commitment to maintaining a responsible dialog with its stakeholders.

The Integrated Annual Report of KazTransOil JSC for 2018 (the Report) is the sixth Report to comprehensively disclose the Company's financial and operational indicators, as well as its efforts in the sphere of sustainable development.

The traditional purpose of the Report has been to inform a wide range of stakeholders about the Company's strategy, mission, and values, its corporate governance and risk management systems, and also the key events and achievements during the Company's business and production activities and in the areas of sustainable development and interaction with stakeholders.

The Company has adopted an annual reporting cycle. This Report reflects the performance of the Company from January 1 to December 31, 2018, and contains a description of the Company's plans for 2019. The Integrated Annual Report of KazTransOil JSC for 2017 was published in May 2018. [GRI 102-50, 102-51, 102-52](#)

The Report was prepared in accordance with the Core<sup>1</sup> option of GRI Standards on sustainability reporting (the GRI Standards). On some topics the Company has made a more detailed disclosure than was required. [GRI 102-54](#)

### REPORT PREPARATION AND DETERMINING SIGNIFICANT TOPICS

The Company followed the recommendations of GRI Standards when preparing this Report. During the writing of the Report, the Company also complied with the principles of the International Integrated Reporting Standard developed by the International Integrated Reporting Council, the requirements of the Kazakhstan Stock Exchange, and the provisions of the Corporate Governance Code as well as other internal documents of the Company. Also, the Report includes an appendix containing information on compliance with the principles of the Global Compact of the United Nations (UN).

The description of the results of the Company's business activities was prepared in accordance with the recommendations of the Practical Guide "Management Commentary" of the International Financial Reporting Standards (IFRS).

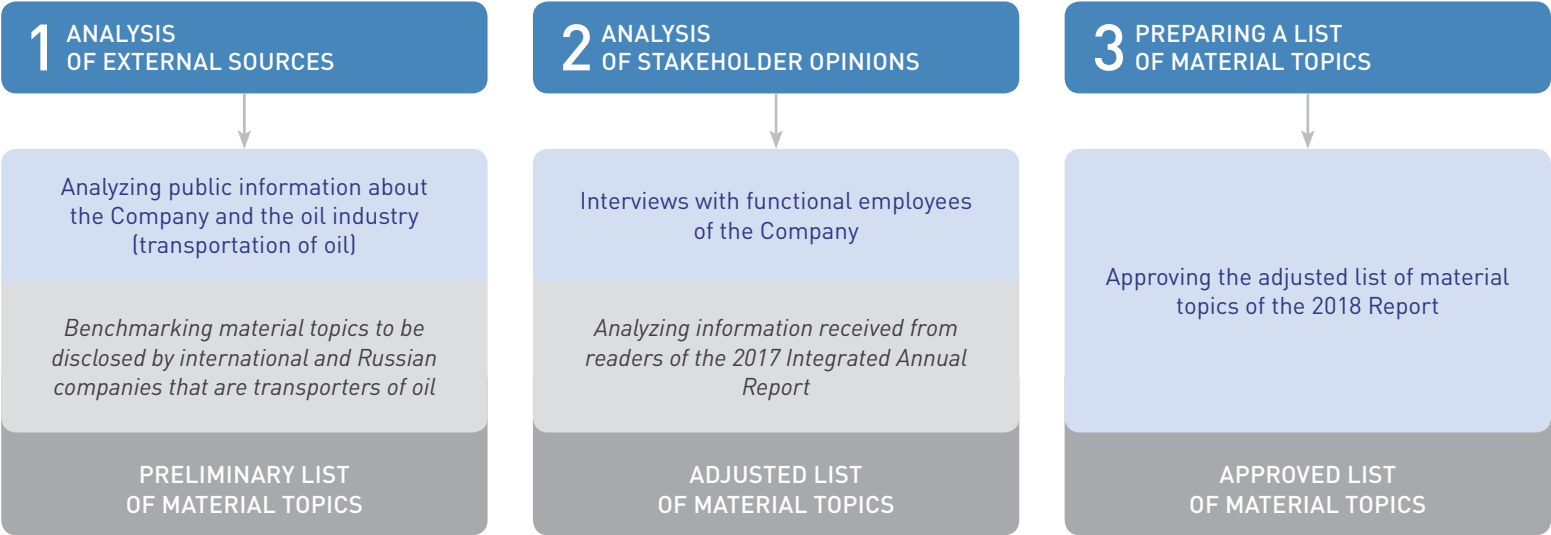
In compliance with GRI Standards, the Company determined the most important material topics.

Based on the results of the analysis and the strategic vision of the Company's development, 15 material topics were determined, which included topics from the categories economic, environmental, and social.

### FULL LIST OF TOPICS CONSIDERED, [GRI 102-47](#)

Category	Material topics	Internal	External to the Company
Economic	201 Economic performance	✓	✓
	202 Market presence	✓	✓
	204 Procurement practices	✓	✓
	205 Anti-corruption	✓	✓
Environmental	302 Energy	✓	✓
	303 Water and effluents	✓	✓
	305 Emissions	✓	✓
	306 Effluents and waste	✓	✓
	307 Environmental compliance	✓	✓
Social	401 Employment	✓	✓
	402 Labor/management relations	✓	-
	403 Occupational health and safety	✓	✓
	404 Training and education	✓	✓
	405 Diversity and equal opportunity	✓	-
	406 Non-discrimination	✓	-

### APPROACH TO DETERMINING MATERIAL TOPICS [GRI 102-46](#)



<sup>1</sup> The Core option entails the mandatory disclosure of a selected number of elements from the GRI 102 Standard, as well as at least one indicator from selected topical GRI Standards.

A table containing the full list of standard reporting elements and references to disclosures in the Report is provided in Appendix 1 to the Report. [GRI 102-55](#)

The Company also determined additional material topics for disclosure in the 2018 Report, which reflect the operating priorities and development areas of KazTransOil JSC, including:

- the operation of production assets
- ensuring the reliability and safety of production processes, as well as emergency preparedness
- corporate governance
- investments and capital expenditures
- digitalization and automation

### REPORT BOUNDARIES

The Report comprises information about the activities of KazTransOil JSC and its subsidiaries and jointly-controlled entities (SJCE). [GRI 102-45](#)

The operating and financial indicators in the sections "Key indicators of 2018" and "Financial and business performance: Management report" are shown on a consolidated basis, and include the performance results of SJCE. In other sections of the Report, information is presented only for KazTransOil JSC, unless otherwise indicated.

In the reporting year the Company continued its practice of disclosing information for a sliding three-year period. In addition, in order to give a fuller presentation of information, the Report refers to events occurring before or after the reporting period.



The Report also reflects information in respect of plans for 2019, which are forward-looking. Since their implementation is exposed to the influence of a number of external factors that are outside the control of the Company, the results attained in future reporting periods cannot coincide with the benchmarks indicated in the Report. **GRI 102-46**

Compared to the Company's 2017 Integrated Annual Report, changes have been made in respect of certain indicators, as well as in respect of the disclosure of additional indicators. Detailed explanations are provided in the Report. **GRI 102-48**

Specifically, data related to the delivery of water were excluded from the calculation of certain indicators, as this function was removed from the main activities of the Company and transferred to Main Waterline LLP. No other significant changes were made to the scope or boundaries of the Report compared to the previous year. **GRI 102-49**

In 2018 the Company first disclosed information on direct emissions of greenhouse gases, broken down by type of gas. The practice of disclosing this information is to be continued in subsequent reporting periods.

The results of analyzing feedback from readers of the 2017 Integrated Annual Report were also used in preparing the Report.

## INDEPENDENT ASSURANCE

The external audit of the Company's financial statements was performed by Ernst and Young LLP. The audit opinion is provided in Appendix 6 to the Report.

An external assurance of information related to sustainable development was not performed for the 2018 Report. However, the Company recognizes the importance for KazTransOil JSC stakeholders of independently confirming non-financial information, and plans to consider the option of introducing this practice. **GRI 102-56**

## FEEDBACK

A feedback form is provided in the Report. The Company would be grateful for any feedback, so as to be able to refine future reporting and to meet the needs of its stakeholders in relation to information openness and transparency.

## CONTACT DETAILS

The interactive version of the 2018 Report is available, along with electronic versions of the Company's previous reports, on the Company's website [www.kaztransoil.kz](http://www.kaztransoil.kz) in the sections "To Shareholders and Investors/ Information Disclosure/ Annual Reports".

To request additional information on the 2018 Report and its contents, please use the following contact details: **GRI 102-53**

### *Department of Corporate Governance*

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### *Address of the Company:*

**12 NRB, 20 Turan Ave., 010000, Nur-Sultan, Republic of Kazakhstan.  
**GRI 102-3****



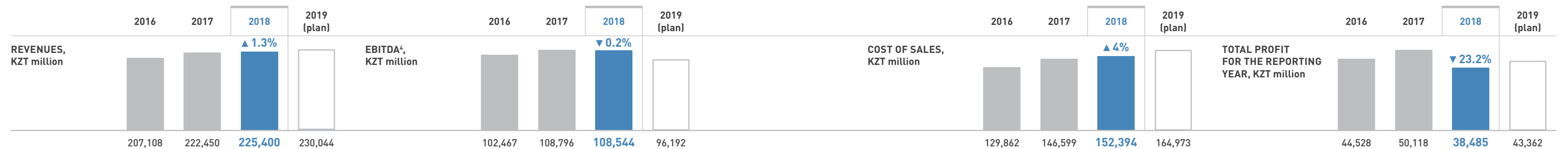


## KEY INDICATORS FOR 2018

### OIL TRANSPORTATION AND WATER SUPPLY



### FINANCIAL INDICATORS



### SUSTAINABLE DEVELOPMENT



<sup>1</sup> Calculated on a consolidated basis, taking into account the volume of the Company and Batumi Oil Terminal LLC.

<sup>2</sup> Here and below in the 2018 Report, the change shown in quantitative indicators is calculated as the ratio of the actual value for the reporting period to the actual value for the previous year.

<sup>3</sup> Calculated on a consolidated basis, taking into account the volume of the Company and its SJCE.

<sup>4</sup> Calculated in accordance with the Rules for the Processing, Agreement, Approval, Correction, Execution and Monitoring of the Development Plans of joint stock company Sovereign Wealth Fund Samruk-Kazyna Subsidiaries.



MAIN PIPELINES  
OF KAZTRANSOIL JSC

5 378,5 km  
main oil pipelines

1 945,1 km  
main water pipelines

- ADMINISTRATIVE CENTERS
- POPS (PRINCIPAL OIL PUMP STATIONS)
- OPS (OIL PUMPING STATION)
- OIL LOADING/UNLOADING OVERPASSES
- PWPS (PRINCIPAL 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

In order to comply with the interests of the Republic of Kazakhstan in the field of oil transportation, export and import of oil and oil products the National Oil Transportation Company KazTransOil Closed Joint-Stock Company (NOTC KazTransOil CJSC) was created as a 100% state-owned company under the Government of the Republic of Kazakhstan Resolution No. 461 dated April 2, 1997.

### 1998

In December the Company was included in the Republic Section of the State Register of Natural Monopolies in respect of several of the services it provided, which were classified as natural monopolies, including oil transportation via main oil pipelines and water supply via main water pipelines.

### 2001

In 2001 the state shareholding in NOTC KazTransOil CJSC (renamed KazTransOil CJSC) was transferred to the charter capital of the NC Transport of Oil and Gas CJSC, created in accordance with the Resolution No. 591 of the Government of the Republic of Kazakhstan dated May 2, 2001.

### 2002

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

### 2003

The Kenkiyak–Atyrau main oil pipeline was commissioned in June.

### 2009–2011

The Kenkiyak–Kumkol main pipeline was commissioned in September 2009 by KCP LLP.

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.

### 2008

In February 2008 the Company acquired a 100% stake in Batumi Industrial Holdings Limited.

### 2007

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

### 2006

The Atasu–Alashankou main pipeline was commissioned in July.

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

### 2004

KazTransOil CJSC was renamed KazTransOil JSC in May. **GRI 102-1, 102-5**

In July NC KazMunayGas JSC transferred its 51% shareholding in MunaiTas NWPC JSC to the Company.

The Company and China National Oil and Gas Exploration and Development Corporation established Kazakhstan-China Pipeline LLP (KCP LLP) as equal partners.

### 2012

In September the Company sold its 100% stake in KazTransOil-Service JSC to KazMunayGas LLP.

The Government of the Republic of Kazakhstan Resolution No. 1273 dated 8 October 2012 appointed the Company as the national oil pipeline operator.

In December 2012, trading on the secondary market in the Company's ordinary shares began on the Kazakhstan Stock Exchange; the Company thus became the first enterprise in Kazakhstan to list its shares as part of the People's IPO Program.

### 2013

In December, as a result of the reorganization of Batumi Industrial Holdings Limited, Batumi Capital Partners Limited, and Batumi Services Limited, the Company became the owner of a 100% stake in Batumi Terminals Limited(Cyprus), which provides direct ownership and management of the production assets in Georgia – Batumi Oil Terminal and Batumi Sea Port.

### 2014

In January the Company began transporting Russian oil to China via the Republic of Kazakhstan, in a volume of up to 7 million tons per year.

In August the Company sold 0.88% of its shares in the Accumulative Pension Fund of Halyk Bank of Kazakhstan JSC.

### 2015

In May, in accordance with amendments to the Law of the Republic of Kazakhstan "On Natural Monopolies", services related to oil transportation in transit through the Republic of Kazakhstan and exports 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.

### 2017

As a result of the liquidation of the subsidiary Batumi Terminals Limited (Cyprus), in March KazTransOil JSC became the sole shareholder of Petrotrans Limited, and in August the sole shareholder in Batumi Oil Terminal LLC, which has the exclusive right to manage 100% of share capital of Batumi Sea Port LLC, owned by the state of Georgia.

In November supplies of Russian oil began to be received for shipment to Uzbekistan via the KazTransOil JSC system of main oil pipelines, following the route Omsk–Pavlodar–Shymkent–Shagyr oil loading platform (where the oil was loaded into rail tank cars).

In December, Main Waterline Limited Liability Partnership (Main Waterline LLP) was registered in December, with the Company holding a 100% stake.

### 2016

In August the overhaul of the Kazakhstan section of the TON-2 oil pipeline was completed, which made it possible to boost capacity from 7 to 11 million tons per year.

In October 2016 the Company began to receive oil from the Kashagan oil field into its main pipeline network.

In December the 663-km Shmanov Memorial OPS was commissioned.



## KEY EVENTS IN 2018

### JANUARY

#### TARIFF REGULATION

Order No. 15 of the General Director (Chairman of the Management Board) of KazTransOil JSC dated January 25, 2018 approved tariffs on the Company's services to transport oil of Russian origin through the Republic of Kazakhstan to Kyrgyzstan.

### FEBRUARY

#### TARIFF REGULATION

Order No. 46 of the General Director (Chairman of the Management Board) of KazTransOil JSC dated February 27, 2018 approved tariffs on the Company's services to transport oil in the pipeline system for export from the Republic of Kazakhstan, in the amount of KZT 6,398.92 per ton per 1,000 km (excluding VAT).

Order No. 47 of the General Director (Chairman of the Management Board) of KazTransOil JSC dated February 27, 2018, approved tariffs on the Company's services to transport oil in the pipeline system for export from the Republic of Kazakhstan, in the amount of KZT 4,292.4 per ton per 1,000 km (excluding VAT).

### MARCH

#### CREDIT RATING

The international ratings agency Fitch Ratings confirmed its long-term default rating of the issuer KazTransOil JSC in a foreign currency at the level BBB–, with a forecast rate “Stable”.<sup>1</sup>

<sup>1</sup> KazTransOil JSC is also rated by Moody's at Baa3, with a forecast rate “Stable” (confirmed in 2017).

### APRIL

#### CLOSURE OF BRANCHES

The Western and Eastern branches of KazTransOil JSC were deregistered on the basis of respective orders from the Directorate of Justice of the city of Atyrau of the Department of Justice of Atyrau Region of the Ministry of Justice of the Republic of Kazakhstan, and the Directorate of Justice of the city of Pavlodar of the Department of Justice of Pavlodar Region of the Ministry of Justice of the Republic of Kazakhstan.

#### CREDIT RATING

The international ratings agency Standard & Poor's Global Ratings confirmed its long-term default rating of the issuer KazTransOil JSC at the level BB–, with a Stable forecast.

### MAY

#### ANNUAL MEETING OF SHAREHOLDERS

The annual General Meeting of Shareholders of KazTransOil JSC was held in the city of Nur-Sultan, and was dedicated to considering the results of 2017.

#### INTERNATIONAL COOPERATION

A contract was signed on the technical servicing, repair, and emergency responses of CPC-K JSC oil pipeline system facilities for 2018–2023.

### JUNE

#### ASTRAKHAN–MANGYSHLAK MAIN WATERLINE

A sale agreement was signed between KazTransOil JSC and Main Waterline LLP for the property of the Astrakhan–Mangyshlak main waterline.

### JULY

#### PAYMENT OF DIVIDENDS

Dividends of KZT 61.5 billion were paid for 2017 on ordinary shares. Dividends were equal to KZT 160 per ordinary share of KazTransOil JSC.

#### CENTRALIZATION OF MAIN DISPATCH OFFICE IN NUR-SULTAN

Akhmetzhan Esimov, Chairman of the Management Board of Samruk-Kazyna JSC, initiated the work of the new Main Dispatch Office, which centralized the management of oil flows in the oil pipeline system of KazTransOil JSC and its SJCE.

### AUGUST

#### RENOVATION OF KENKIYAK POPS

The Kenkiyak POPS facility (The Second Phase of the Second Stage of the Kazakhstan–China oil pipeline construction. Improvement of capacity to 20 million tons per year) was commissioned, which made it possible to expand oil transportation capacity to China.

#### OCCUPATIONAL HEALTH AND SAFETY FORUM

KazTransOil JSC was the organizer of the Occupational Health and Safety Forum “100% Safety is Our Commitment”. Forum participants included the management and executives of the Company's divisions, and representatives from NC KazMunayGas JSC, Karachaganak Petroleum Operating BV, Tengizchevroil LLP, and Air Astana JSC, as well as representatives from contractors.

### SEPTEMBER

#### AWARDING OF CERTIFICATES

KazTransOil JSC successfully completed a certification audit to confirm compliance between the Company's integrated management system and the requirements of the international standards ISO 9001:2015, ISO 14001:2015, OHSAS 18001:2007, and ISO 50001:2011.

#### KAZTRANSOIL JSC REPRESENTATIVE OFFICE

The KazTransOil JSC Board of Directors passed a decision to open a Moscow representative office of the Company.

#### WATER SUPPLY SERVICES

KazTransOil JSC was delisted from the State Register of Natural Monopolies for regulated services to supply water through water mainlines.

### NOVEMBER

#### CREDIT RATING

The international ratings agency Standard & Poor's Global Ratings raised its long-term credit rating of the Company from BB– to BB, with a forecast rate “Stable”.

#### INTERNATIONAL COOPERATION

The law of the Republic of Kazakhstan on ratification of the Agreement on the determination of the process oil status in the "Tuimazy – Omsk – Novosibirsk-2" and "Omsk – Pavlodar" pipelines between the Republic of Kazakhstan and the government of the Russian Federation was adopted on 21 November 2018.

### DECEMBER

#### TARIFF REGULATION

Order No. 545 of the Republic of Kazakhstan Ministry of Energy dated December 28, 2018 for the period 2019–2023 approved the cost to transport Russian oil in the volume of 10 million tons per year, via Kazakhstan to China, at USD 15.00 per ton, excluding VAT.



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**46,120**  
**MILLION TON-KM**  
consolidated oil turnover in 2018

**100%**  
satisfaction coefficient of oil transportation  
services consumers





BUSINESS-MODEL

GRI102-2, 102-7

OUR VISION

KazTransOil JSC is a competitive and dynamic company that provides a wide range of oil transport services using a modern and diversified pipeline system that complies with best practices in sustainable development, production safety, environmental protection, and the management of production assets.

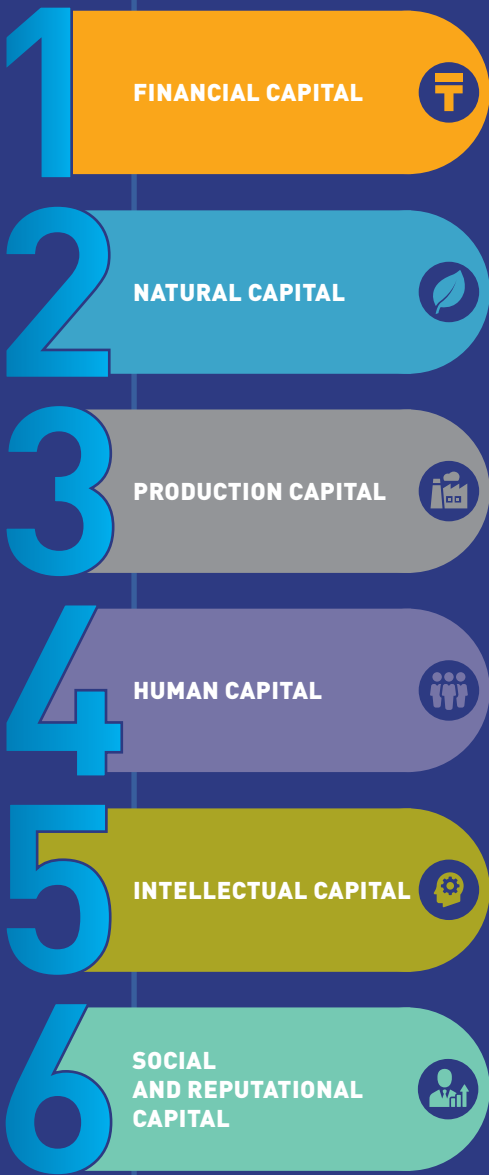
OUR CORPORATE VALUES

- OCCUPATIONAL HEALTH AND SAFETY
- EFFICIENCY
- SUSTAINABLE DEVELOPMENT
- PROFESSIONALISM
- MUTUAL ASSISTANCE AND TEAMWORK

UN SDGS

KazTransOil JSC contributes to the achievement of UN Sustainable Development Goals

RESOURCES



MAIN PROCESSES

OUR ACTIVITIES

OIL TRANSPORTATION

- Provision of services for oil transportation through main pipelines in the Republic of Kazakhstan
- Transportation of Kazakhstani oil through pipelines in other countries
- Transshipment and storage of hydrocarbons through Batumi Oil Terminal and provision of services for freight transshipment at Batumi Sea Port

WATER SUPPLY

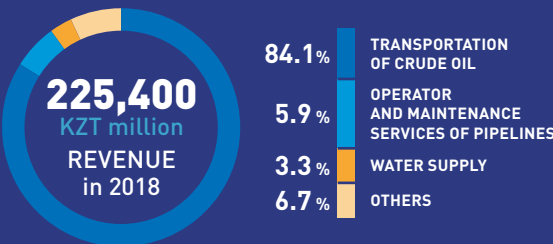
- Water supply through the main water pipeline<sup>1</sup>

OPERATOR SERVICES

- Operation and maintenance of main pipelines owned by third parties

BOOSTING MANAGEMENT EFFICIENCY

- Optimizing costs and transforming business processes
- SJCEs management
- Assets management
- Corporate governance
- Sustainability



OUR KEY RISKS

- Decrease of oil and water supplies
- Emergency
- Intentional theft or destruction of assets
- Risk of exchange losses
- Strategic partner risk
- Accidents
- Environmental risk

PERFORMANCE RESULTS

**38,485**  
MLN. TENGE  
net profit in 2018

**164.7**  
THOUSAND METRIC  
TONS OF CO<sub>2</sub>  
EQUIVALENT  
Gross direct greenhouse  
gas emissions

**45,309**  
THOUSAND TONS  
Oil transportation,  
separately  
for KazTransOil JSC

**51,313**  
MLN. TENGE  
Capital investments

**0** The number  
of deaths due  
to occupational  
injuries

**THE CONCEPT  
OF DIGITALIZATION**  
KazTransOil JSC has  
been approved

**67%**  
social stability rating

**61.5**  
BILLION OF TENGE  
Dividends for 2018

**4.1%**  
reduction in energy  
consumption level

**13,233**  
MLN. TENGE  
Revenues from operator  
activities

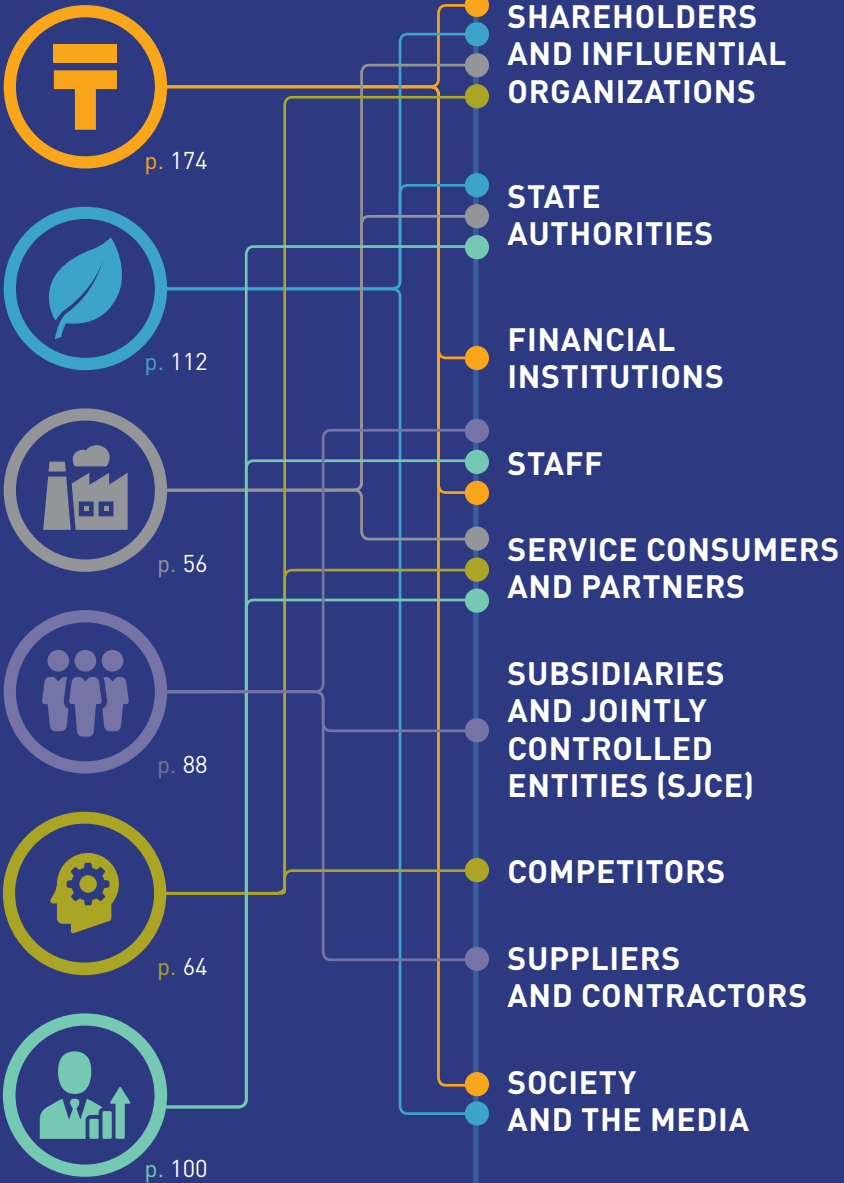
**3.1%**  
staff turnover ratio

**0** The number  
of confirmed facts  
of corruption  
and fraud

**2.2**  
BILLION OF TENGE  
social support costs

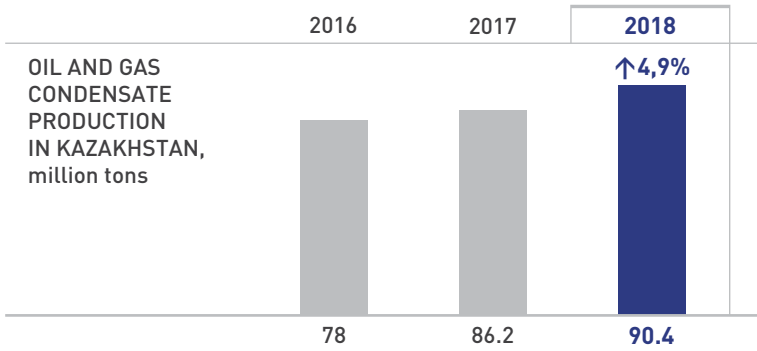
**77%**  
employee engagement  
index

VALUE FOR STAKEHOLDERS

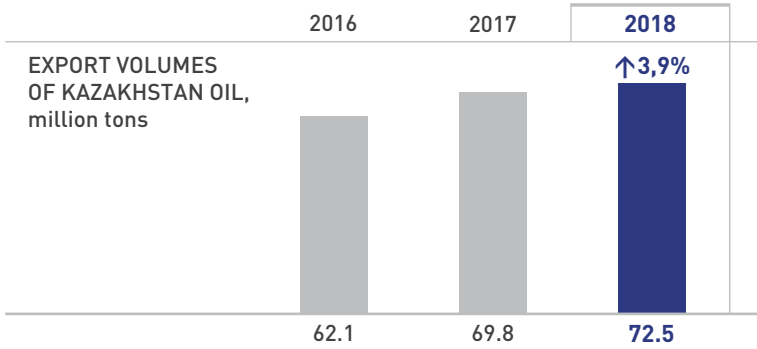


## DESCRIPTION OF THE INDUSTRY AND THE COMPANY'S MARKET POSITION

In the past two years Kazakhstan has seen an increase in oil production; production in 2017 was 11% higher than in 2016. In 2018, 90.4 million tons of oil and gas condensate were produced in Kazakhstan, which was 4.9% higher than in 2017. The main reason behind the increase in oil and gas-condensate production was commercial production commencing at the Kashagan deposit at the end of 2016.



In connection with the growth of production in 2018, exports of Kazakhstani oil also grew by 3.9% versus 2017, to 72.5 million tons.

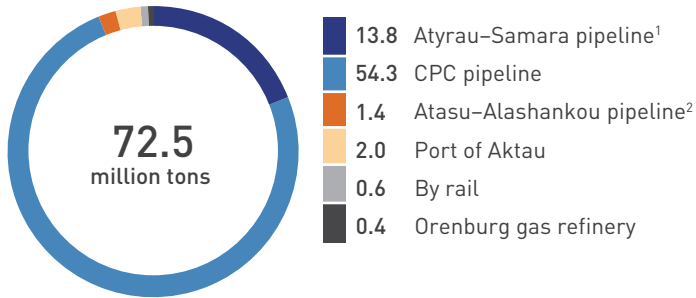


<sup>1</sup> In addition, around 1 million tons were delivered to the Pavlodar Oil Chemistry Refinery via Russia along the Samara-TON-2-Priirtyshsk-POCR route.

<sup>2</sup> The total volume transported was 11.4 million tons, which included 10 million tons in transit deliveries to China.

Source: Center for Oil and Gas Information and Analysis JSC.

### EXPORTS OF KAZAKHSTANI OIL AND GAS CONDENSATE, million tons



Traditionally, virtually all oil produced in Kazakhstan has been exported via Russia. In 2018, over 95% of Kazakhstani oil exports transited through the Russian Federation, along the CPC and Atyrau-Samara pipelines or by rail.

Due to the completion in 2017 of a project to expand the capacity of the CPC pipeline, as well as the wide economic appeal of the pipeline, virtually all oil produced at the Tengiz, Kashagan, and Karachaganak fields (which are responsible for the entire increase in oil production in Kazakhstan at present and for the foreseeable future) is and will be sent in future for export through the CPC pipeline.

A reduction can also be seen in the volume of Kazakhstani oil shipped using the Atasu-Alashankou pipeline, which provides oil exports to China. Exports via this pipeline in 2018 stood at 1.4 million tons of oil per year, which was 39% lower than in 2017. This was chiefly due to lower oil production in the Kumkol group of oilfields, a large share of oil produced by the Kumkol and Aktobe producing companies going to supply PetroKazakhstan Oil Products (PKOP) and Pavlodar Oil Chemistry Refinery (POCR), the low appeal of this route for Kazakh producers of the Aktobe Region, and the fact that it is not technically currently possible to ship Western-Kazakhstan oil to Alashankou.

It is expected that further production growth will occur mainly at the Tengiz and Kashagan fields, which are oriented to the CPC pipeline. In view of the greater economic appeal of making oil exports via the CPC pipeline, production companies in Kazakhstan that have access to this pipeline will seek to use it. For this reason, and due to a production decline from the Company's traditional shipping customers, it is expected that KazTransOil's share of Kazakhstani oil exports will continue to fall. As a result, the Company is working actively to boost the appeal of its export routes and to develop its transit capacities.

Work is being performed in two export areas:

- In 2016 an understanding was reached between the Company and Transneft PJSC on the separate pumping of light Kazakhstani oil through the Atyrau-Samara pipeline, with subsequent transportation using the Transneft system in a blend with low-sulfur Siberian oil, to be shipped through the port of Novorossiysk, in a volume of up to 1 million tons of oil. This route was used to transport 892,000 tons of oil in 2018.
- Work is under way on a project to reverse the Kenkiyak-Atyrau pipeline, which forms part of the Kazakhstan-China oil pipeline. The implementation of this project will ensure that oil from Western Kazakhstan has access via an eastern direction (PKOP and POOCR, as well as for export to China). Issues relating to making this route more appealing to Kazakhstani producing companies are being addressed together with the Chinese side.

In relation to the development of the transit potential of the Republic of Kazakhstan, the Company is actively working to support and increase the transit of Russian oil to China, Uzbekistan, and Kyrgyzstan. The volume of oil transited in 2018 totaled 10 million tons to China, and 36 thousand tons of oil to Uzbekistan.

In view of the above factors, the Company is taking measures to boost the competitiveness of the services it provides and to continue work to bring in additional oil from the Tengiz, Kashagan, and Karachaganak oil fields. [GRI 102-4, 102-6](#)





# DEVELOPMENT STRATEGY OF THE COMPANY UP TO 2025

## MISSION, VISION, AND VALUES

### OUR MISSION:

To ensure maximum benefits for the shareholders of KazTransOil JSC, by providing high-quality, timely, efficient, safe, and competitive services to transport oil using a system of main pipelines, while ensuring equal conditions of access to the Company's services for customers.

### OUR VISION:

KazTransOil JSC is a competitive and dynamic company that provides a wide range of oil transport services using a modern and diversified pipeline system that complies with best practices in sustainable development, production safety, environmental protection, and the management of production assets.

As the national operator of main oil pipelines, the Company strives to maintain leading industry positions, and participates in the largest oil-transportation projects in the Republic of Kazakhstan and abroad.

### OUR CORPORATE VALUES:

In its operations the Company is guided by the following values:

- **Occupational health and safety.** The Company strives to ensure an accident-free work environment at its production facilities, create and maintain safe working conditions, and care about the health of its employees.
- **Efficiency.** The Company recognizes its responsibility to its country, shareholders, workers, and society, and accordingly keeping its operations profitable and efficient and achieving robust performance are fundamental Company priorities. Improving business processes, optimizing costs, having a focus on upgrading equipment, and investing in developing production will ensure the sustainable and stable operation of the Company.
- **Sustainable development.** The Company is committed to ensuring the proper and high-quality implementation of the sustainable development principles set forth in the Corporate Governance Code. In its work, the Company endeavors to prevent environmental pollution and to ensure the economical and rational use of energy and natural resources.

- **Professionalism.** The Company values employee knowledge pertaining to the Company's specifics, as well as employees performing their duties in a timely manner and to a high standard; it also strives to ensure the continuous improvement of employees' professional knowledge and skills.
- **Mutual assistance and teamwork.** The Company is aware that achieving high performance is possible via a system of 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.  
**GRI 102-16**

Corporate values are reflected in all areas of the Company's operations, and play a significant role in how relations with employees are organized, how business processes are built, and in strategic planning and decision-making processes.

## KAZTRANSOIL JSC STRATEGIC AREAS OF DEVELOPMENT UP TO 2025

In December 2016 the Board of Directors approved the Development Strategy of KazTransOil JSC up to 2025 (the Development Strategy), which aims to boost the market value (capitalization) of the Company and to ensure that the strategic interests of the state are upheld in the area of oil transportation through main oil pipelines. The Development Strategy was created in accordance with the recommendations of NC KazMunayGas JSC, as well as changes in the internal and external environment in 2015–2016 that had a significant impact on the Company's operations.

In 2018 the Company continued to successfully implement the goals and objectives of the Development Strategy.





KAZTRANSOIL JSC STRATEGIC AREAS OF DEVELOPMENT UP TO 2025

Strategic areas and target objectives	Strategic initiatives up to 2025	Main activities planned for 2018	Implementation status of activities in 2018	Main activities planned for 2019
<b>OIL TRANSPORTATION</b> <ul style="list-style-type: none"><li>Ensuring high-quality, reliable, uninterrupted, and efficient oil transportation.</li><li>Increasing oil transportation and turnover volumes by engaging new oil shippers</li></ul>	<ul style="list-style-type: none"><li>Increasing oil turnover (&gt;50 billion ton-km by 2025).</li><li>Attracting additional volumes from the Tengiz, Kashagan, and Karachaganak fields for oil transportation via the Atyrau–Samara pipeline.</li><li>Reversing and expanding the Kenkiyak–Atyrau pipeline, and boosting the capacity of the Kazakhstan–China oil pipeline.</li><li>Ensuring a more flexible and effective tariff policy that takes into consideration industry development trends as well as the Company’s investment needs.</li></ul>	<ul style="list-style-type: none"><li>Ensuring the implementation of the planned volume of oil transportation and turnover for 2018:<ul style="list-style-type: none"><li>volume of transportation separately for the Company: 44,911 thousand tons;</li><li>consolidated oil turnover: 45,391 million ton–km (separately for the Company: 37,514 million ton–km).</li></ul></li><li>Continuing the separate pumping of Kazakhstani oil along the Atyrau–Samara pipeline, for further shipment in a mix with low-sulfur Siberian light oil through Novorossiysk.</li><li>Joint work with stakeholders to increase the pipeline transit of Russian oil through the Republic of Kazakhstan to China to 13 million tons per year, as well as to Uzbekistan and Kyrgyzstan.</li><li>Commissioning the Kenkiyak POPS.</li><li>Approving tariffs and the cost of transportation of oil of Russian origin for transit purposes through the Republic of Kazakhstan to Uzbekistan for 2018.</li></ul>	<p><b>Completed</b> <i>In the reporting year the oil transportation separately for the Company stood at 45,309 thousand tons of oil; consolidated oil turnover stood at 46,120 million ton–km (separately for the Company – 38,040 million ton–km).</i></p> <p><b>Completed</b> <i>In 2018 the delivery of oil along the Atyrau–Samara pipeline for further shipment in a mix with low-sulfur Siberian light oil through Novorossiysk stood at 892 thousand tons.</i></p> <p><b>Completed</b> <i>In 2018 negotiations and meetings were held with interested parties on boosting the transit of Russian oil to China, Uzbekistan and Kyrgyzstan.</i></p> <p><b>Completed</b></p> <p><b>Completed</b></p>	<ul style="list-style-type: none"><li>Ensuring the implementation of the planned volume of oil transportation and turnover for 2019:<ul style="list-style-type: none"><li>volume of transportation of oil separately for the Company: 44,074 thousand tons;</li><li>consolidated oil turnover: 44,768 million ton–km (separately for the Company: 37,146 million ton–km).</li></ul></li><li>Continuing the separate pumping of Kazakhstani oil along the Atyrau–Samara pipeline, for further shipment in a mix with low-sulfur Siberian light oil through Novorossiysk.</li><li>Redirection by light oil producers of supplies of their resources from the CPC pipeline to the Atyrau–Samara direction, up to 1.0 million tons.</li><li>Boosting the capacity of the Kazakhstan–China oil pipeline:<ul style="list-style-type: none"><li>implementing a project to reverse the Kenkiyak–Atyrau pipeline, while boosting its capacity in reverse mode to 6 million tons per year;</li><li>implementation of the Oil Quality Control System (OQCS) project at Kenkiyak POPS and Kumkol POPS to boost capacity related to the commercial metering of oil, from 10 million to 15 million tons of oil per year, obtained via the reversing project.</li></ul></li></ul>
<b>WATER SUPPLY</b>	<ul style="list-style-type: none"><li>Improving the efficiency of water supplies and developing the existing system of main water pipelines where it is economically justified to do so.</li></ul>	<ul style="list-style-type: none"><li>Increase in the capacity of the main water pipeline.</li><li>Increasing the profitability of the water supply (setting an investment tariff, public grants, and other measures).</li></ul>	<p><b>Pending</b></p> <ul style="list-style-type: none"><li>Completion of the “Renovation of WPS-5 to increase water supply via the Astrakhan–Mangyshlak pipeline” project.</li></ul> <p><i>In connection with the implementation of measures to remove water supply services from the Company’s subject of activity through the foundation of Main Waterline LLP, as well as replacing the contractor on field supervision, the completion of the project was deferred to 2019.</i></p>	<ul style="list-style-type: none"><li>Ensuring the performance of the planned level of water supply at 30,628 thousand m3.</li><li>Completion of the project “Renovation of WPS-5 to increase water supply via the Astrakhan–Mangyshlak pipeline”.</li></ul>
<b>OPERATOR SERVICES</b>	<ul style="list-style-type: none"><li>Increase in revenues from operating and maintaining main pipelines owned by third parties.</li></ul>	<ul style="list-style-type: none"><li>Improving performance and increasing the competitiveness of equipment maintenance and repair in order to extend the scope of operator services.</li></ul>	<p><b>Completed</b> <i>A long-term contract was concluded for the operation and maintenance of the Karachaganak–Atyrau transport system.</i></p> <p><b>Completed</b> <i>A contract was signed on maintenance, repairs, and emergency responses at CPC-K JSC oil pipeline system facilities in Kazakhstan for 2018–2023.</i></p>	<ul style="list-style-type: none"><li>Concluding a contract to operate the Turgay Petroleum JSC pipeline.</li><li>Providing equipment maintenance and repair services to Main Waterline LLP.</li></ul>



Strategic areas and target objectives	Strategic initiatives up to 2025	Main activities planned for 2018	Implementation status of activities in 2018	Main activities planned for 2019
<b>IMPROVING MANAGEMENT EFFICIENCY</b> Increasing the market value of the Company and providing competitive services, taking into account the interests of both the state and shareholders.				
<b><i>Optimizing costs and transforming business processes</i></b> <ul style="list-style-type: none"><li>Implementing measures to optimize, improve, and make more efficient business processes, as well as optimize costs</li></ul>	<ul style="list-style-type: none"><li>Implementing measures of the KazTransOil JSC Cost Management Program for 2017–2021 (the “Cost Management Program”).</li><li>Implementing the “Business Process Transformation and Optimization Program” of KazTransOil JSC</li></ul>	<ul style="list-style-type: none"><li>Implementing the Action Plan of KazTransOil JSC to optimize operations and improve performance in 2018.</li></ul>	<b>Completed</b>	<ul style="list-style-type: none"><li>Completing the project to optimize inventory logistics.</li><li>Implementing measures to optimize and model business processes.</li><li>Developing the KazTransOil JSC Digital Technology Development Program.</li></ul>
<b><i>Corporate governance</i></b> <ul style="list-style-type: none"><li>Improving the corporate governance system and compliance with global best practices in corporate governance.</li></ul>	<ul style="list-style-type: none"><li>Ensuring a high level of corporate governance.</li><li>Maintaining a stable level of dividend payments.</li><li>Improving practices to combat corruption and resolve conflicts of interest.</li></ul>	<ul style="list-style-type: none"><li>Confirming that the Company’s integrated management system (IMS) meets international standards ISO 9001:2015, ISO 14001:2015, OHSAS 18001:2007, and ISO 50001:2011.</li><li>Independent appraisal of the work of the Board of Directors and its committees in 2017, engaging independent external consultants.</li><li>Updating and developing internal documents due to transitioning to a two-level management system for the Company.</li><li>Participation in meetings of associations, expert groups, exhibitions and other events, as well as interaction on other issues.</li><li>Improving the efficiency of work in the Company to combat corruption.</li><li>Approving the Regulations on Anti-corruption Monitoring and Internal Analysis of Corruption Risks at KazTransOil JSC.</li></ul>	<b>Completed</b>  <b>Completed</b>  <b>Completed</b>  <b>Completed</b>  <b>Completed</b>	<ul style="list-style-type: none"><li>Transitioning to a safety and health management system that complies with ISO 45001:2018.</li><li>Implementing and certifying ISO 55000:2014 – asset management.</li><li>Improving the efficiency of work to combat corruption.</li></ul>

Strategic areas and target objectives	Strategic initiatives up to 2025	Main activities planned for 2018	Implementation status of activities in 2018	Main activities planned for 2019
<b>Asset management</b> <ul style="list-style-type: none"><li>Ensuring the efficiency of and improving the Company's asset management system.</li></ul>	<ul style="list-style-type: none"><li>Refining the asset management system, covering the assets of both the Company and the SJCEs.</li></ul>	<ul style="list-style-type: none"><li>Reorganizing MunaiTas NWPC JSC into MunaiTas LLP</li></ul>	<b>Completed</b>	<ul style="list-style-type: none"><li>Implementing the KazTransOil JSC Action Plan on energy saving and energy efficiency for 2016–2019, including a reduction of 403 TOE in fuel and energy consumption, equivalent to KZT 39 million in 2019.</li></ul>
<b>Sustainability</b> <ul style="list-style-type: none"><li>Business development in parallel with the preservation and protection of the environment, the creation of decent working conditions, ensuring workplace safety, and contributing to the development of local communities where the Company operates.</li></ul>	<ul style="list-style-type: none"><li>Developing energy saving systems and boosting energy efficiency.</li><li>Reducing on-the-job injuries.</li><li>Reducing adverse environmental impacts.</li><li>Improving the staff appraisal system through developing KPIs</li></ul>	<ul style="list-style-type: none"><li>Implementing the KazTransOil JSC Action Plan on energy conservation and energy efficiency for 2016–2019, including a reduction of 703.93 TOE in fuel and energy consumption, equivalent to KZT 64.8 million in 2018.</li><li>KazTransOil JSC Code of leadership and employee commitment to health, safety and environment.</li><li>Establishing and organizing a crisis management team.</li><li>Elaborating a new conceptual approach for the Talent Pool program of KazTransOil JSC.</li><li>Elaborating the Rules of the Payroll System of KazTransOil JSC.</li><li>Implementing a project to appraise the managers of the business units of the central office and separate subdivisions of the Company, under an approved framework of personal and business competencies and 360-degree assessments.</li></ul>	<p><b>Partially completed</b> <i>A reduction in fuel and energy consumption was achieved of 289.8 TOE in physical terms, or KZT 31.9 million in monetary terms. Partial completion of the plan was due to an optimization of costs, while the following measures were excluded from the plan: "Replacement of oil heater No. 3 at the Kasymov OPS and the delivery/ installation of three precision conditioners, with free cooling for the KazTransOil JSC MICC branch.</i></p> <p><b>Completed</b></p> <p><b>Completed</b></p> <p><b>Pending</b> <i>Elaborating a new conceptual approach for the Talent Pool program of KazTransOil JSC was deferred to 2019.</i></p> <p><b>Completed</b></p> <p><b>Completed</b></p>	<ul style="list-style-type: none"><li>Organizing a meeting of the Board of The International Association of Oil Transporters in Almaty.</li><li>Holding the “Best in the Profession” contest.</li><li>Certifying employees of separate structural divisions (SSD).</li><li>Ensuring 52% local content when purchasing goods, and 74% in work and services.</li></ul>

KEY PERFORMANCE INDICATORS OF THE COMPANY

Since 2012 the Company’s performance has been appraised based on key performance indicators (KPIs). These are a set of indicators that determine the degree to which the Company’s strategic goals and objectives have been attained, and also give an indication of the efficiency of the Company’s operations.

The Company’s KPI system focuses on:

- the implementation of the Company’s Development Strategy and Business Plan
- ensuring the safe and trouble-free performance of the Company
- continual improvements to the Company’s financial and production performance
- cascading and breaking down KPIs on a top-down basis.

The Company’s KPI system includes:

- the KPIs of the Company as a whole (corporate KPIs)
- the KPIs of executives (members of the Management Board)
- the KPIs of managers
- the KPIs of the heads of departments and the services of the central office and the heads of SSDs and representative offices
- the KPIs of central office employees.

CORPORATE KPIS FOR 2018

KPI	Unit	Actual 2018	Target 2018	Comments
Economic value added (EVA) (consolidated)	KZT million	- 32,202	- 39,368	achieved
Available funds for development and dividends	KZT million	56,156	40,420	achieved
Oil turnover (consolidated) <sup>1</sup>	million ton–km	46,896	45,845	achieved
Lost time injury rate per million man–hours (LTIR) (separately for KazTransOil JSC)	quantity/million man–hours	0.17	0.23	achieved
Productive operation ratio for main oil transportation	ratio	0.6	0.56	achieved

<sup>1</sup> Taking into account the undeclared and/or undelivered minimum volume.

On January 29, 2019, in accordance with the Company’s Business Plan indicators for 2019–2023, the approved corporate KPIs of NC KazMunayGas JSC for 2019, and also pursuant to the recommendations of NC KazMunayGas JSC on the introduction of new KPIs, the KazTransOil JSC Board of Directors approved corporate KPIs and their targets for 2019.

MAIN CORPORATE KPIS FOR 2019

KPI	Unit	Target 2019
Payment of dividends	KZT million	35,739
EBITDA <sup>2</sup>	KZT million	105,811
Oil turnover (consolidated) <sup>3</sup>	million ton–km	45,216
Health and safety index (separately for KazTransOil JSC)	ratio	0.07

<sup>2</sup> According to the financial statements prepared in accordance with the Accounting Policy of the KazTransOil JSC group of companies.

<sup>3</sup> Taking into account the undeclared and/or undelivered minimum volume.



# STRUCTURE OF THE BUSINESS

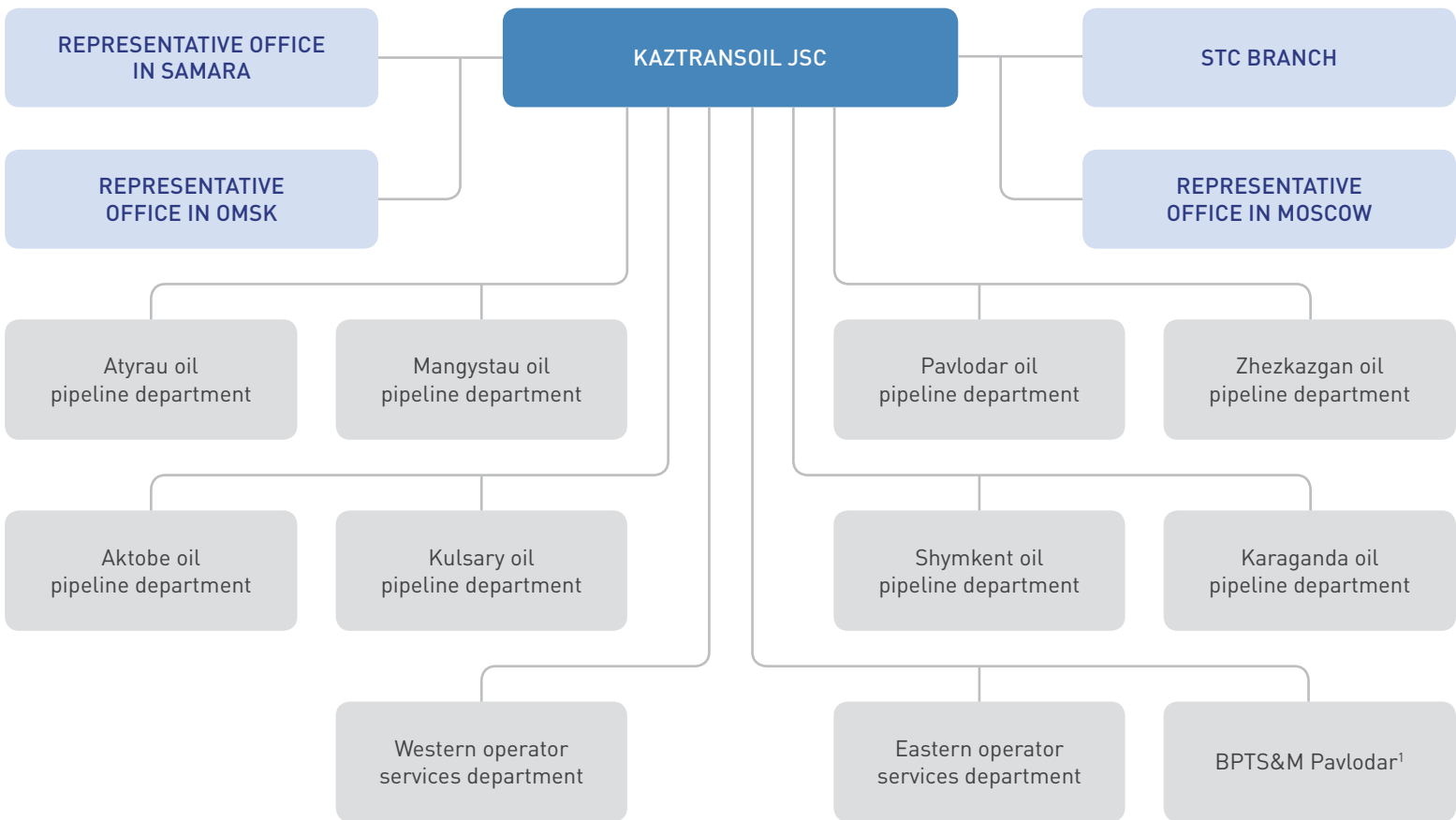
## ORGANIZATIONAL STRUCTURE

In 2018 a major project to reorganize the Company's management structure was completed. The project resulted in a reduction in the interaction levels between the central office and pipeline administrations and a transition to a two-level management system.

As part of the project's implementation, the Western and Eastern branches of the Company were closed and staffing levels were optimized. **GRI 102-10**

The current management system has made it possible to optimize expenses and also improve the management of production processes.

KAZTRANSOIL JSC ORGANIZATIONAL STRUCTURE AS AT DECEMBER 31, 2018, **GRI 102-7**

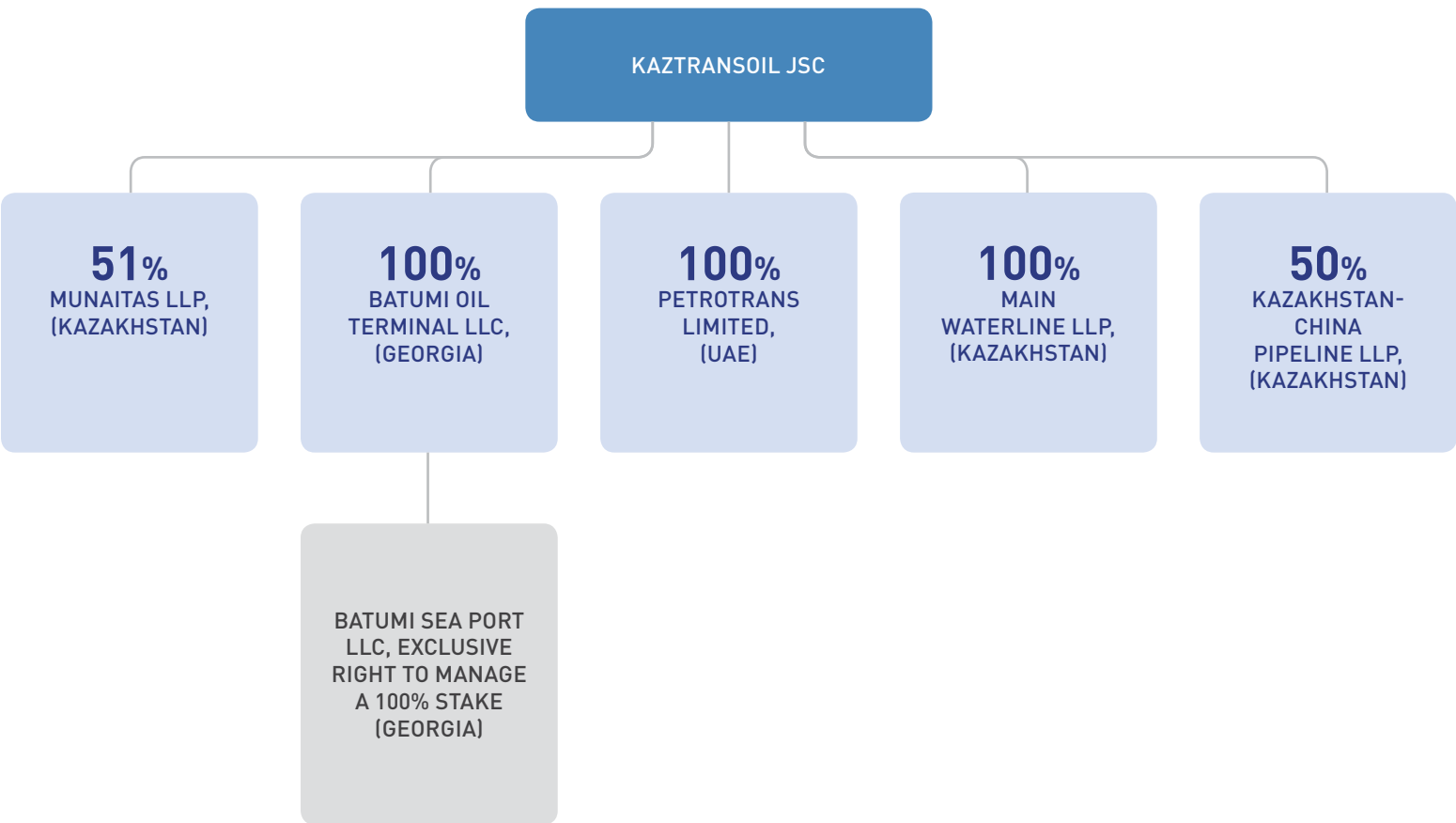


<sup>1</sup> In February 2019 a decision was taken to cease operations at BPTS&M Pavlodar from April 1, 2019

## SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES.

**GRI 102-4**

STRUCTURE OF THE SJCES OF KAZTRANSOIL JSC







#### MUNAITAS LLP

MunaiTas Northwest Pipeline Company Joint-Stock Company was transformed to MunaiTas Northwest Pipeline Company Limited Liability Partnership (MunaiTas LLP) and registered legally on July 24, 2018. The purpose of the reorganization was to simplify the management process of the Company and to boost overall productivity and efficiency.

MunaiTas LLP is a joint venture between KazTransOil JSC (51%) and CNPC Exploration and Development Company Ltd (49%), and was established to implement a project to design, finance, construct, and operate the Kenkiyak-Atyrau oil pipeline.

The company's core activity is to provide oil transportation services along the main pipeline. The Kenkiyak-Atyrau oil pipeline is 448.85 km long, and has storage facilities of 40,000 m³.

In 2018 the volume of oil transported by MunaiTas LLP was up 6% on 2017, due to an increase in the volume of oil provided by shippers, and a redistribution of some Aktoobe Region oil from the Kenkiyak-Kumkol pipeline.

#### KEY PERFORMANCE RESULTS OF MUNAITAS LLP

Indicator	2017	2018
<b>Financial performance</b>		
Net income, KZT million	3,358	3,235
<b>Operating performance</b>		
Oil transportation, thousand tons	3,660	3,878
Oil turnover, million ton-km	1,437	1,522
Tappings, units	2	–
<b>Sustainable development indicators</b>		
Headcount	85	102
Atmospheric emissions, tons	70	39
Recycled waste, tons	3	2
Accidents	–	–
Electricity consumption, thousand kWh	385	358

The main objective of MunaiTas LLP in 2019 is the on-time implementation of the project "Increasing the capacity of the Kazakhstan-China oil pipeline: First stage of reversing a section of the Kenkiyak-Atyrau pipeline with a capacity of up to 6 million tons per year".



#### KAZAKHSTAN-CHINA PIPELINE LLP

KCP LLP is a joint venture between KazTransOil JSC (50%) and China National Oil and Gas Exploration and Development Company Ltd. (50%), which was created to design, construct, and operate the Atasu-Alashankou oil pipeline.

The company's core activity is to provide oil transportation services along the main pipeline. KCP LLP is the owner of the Atasu-Alashankou and Kenkiyak-Kumkol main oil pipelines, which form parts of the Kazakhstan-China oil pipeline system.

The Atasu-Alashankou main pipeline was commissioned by KCP LLP in July 2006, with a length of 965.1 km and 4 OPS. In September 2009 the Kenkiyak-Kumkol pipeline was commissioned, with a length of 794.26 km.

The reduction in the volume of KCP LLP's oil transportation, by 3.3% compared to 2017, was related to a reduction in oil production by the Kumkol group of oil fields and a redistribution for exports via the Kenkiyak-Atyrau main pipeline (MunaiTas LLP).

#### KEY PERFORMANCE RESULTS OF KCP LLP

Indicator	2017	2018
<b>Financial results</b>		
Net income/losses, KZT million	12,451	-7,452
<b>Operating performance</b>		
Oil transportation, thousand tons	16,538	15,997
Oil turnover, million ton-km	15,609	14,607
Tappings, units	–	–
<b>Sustainable development indicators</b>		
Headcount	183	187
Atmospheric emissions, tons	200	183
Recycled waste, tons	14	40
Accidents	–	–
Electricity consumption, million kWh	54	39

The KCP LLP has set itself the following objectives for 2019:

- implementing the investment project "Increasing the capacity of the OQCS at Kenkiyak POPS and Kumkol POPS" as part of the project "Second phase of the second construction stage of the Kazakhstan-China oil pipeline. Increasing productivity to 20 million tons of oil per year"
- ensuring the financial stability of the company
- attracting additional oil for transportation.





BATUMI OIL TERMINAL LLC

Following the liquidation of the subsidiary Batumi Terminals Limited, from August 22, 2017 KazTransOil JSC became the sole shareholder in Batumi Oil Terminal LLC (BOT). The direct ownership and management of production assets in Georgia is exercised through BOT.

BOT’s core activity consists in providing services related to the transshipment, pumping transfer, and storage of oil, petroleum products, and gas, and also products of refining, using its own wharfs, technological pipelines, and tanks.

The key advantage of BOT is the flexibility it has in terms of the storage and transshipment of various types – up to 22 – of oil and petroleum products. BOT’s facilities consist of 135 tanks, technical pipeline systems, seven loading racks, three wharfs, and single-buoy moorings.

BOT’s results indicate that there was a reduction in the transshipment of oil and petroleum products, by 51% compared to the 2017 figure, which was related to a lack of orders from shippers.

KEY PERFORMANCE RESULTS OF BOT

Indicator	2017	2018
Financial results		
Net loss, KZT million	4,248	4,804
Operating performance		
Transshipment of oil and petroleum products, thousand tons	2,109	1,030
Tappings, units	–	–
Sustainable development indicators		
Headcount	1,415	1,255
Atmospheric emissions, tons	383	150
Recycled waste, tons	6,660	2,455
Accidents	3	5
Electricity consumption, million kWh	14	9

BOT’s main objective for 2019 is to attain the production and financial indicators of the business plan, while at the same time taking into account the need to ensure production safety and protect the environment.



MAIN WATERLINE LLP

Main Waterline LLP was founded on December 28, 2017 in order to remove water supply services using the main pipelines from the scope of operations of KazTransOil JSC. The company is under the management of KazTransOil JSC, which owns a 100% equity holding.

The company’s core activity is to provide services to the public, agricultural producers, oil producers, and industrial enterprises related to the supply of water via main pipelines, and to provide services related to the production, transfer, and distribution of heat energy, as well as electrical power transmission services.

Main Waterline LLP is the operator of the Astrakhan–Mangyshlak main waterline. The Astrakhan–Mangyshlak main waterline extends for 1,945.1 km and has an average annual capacity of 94,000 m³/day.

The main share of the water supply is to utility enterprises (47%) and oil and gas producers (45%). The water supply to industrial enterprises made up 6.6%.

KEY PERFORMANCE RESULTS OF MAIN WATERLINE LLP<sup>2</sup>

Indicator	2017	2018
Financial results		
Net loss, KZT million	–	825
Operating performance		
Water supply, thousand m³	–	14,805
Tappings, units	–	–
Sustainable development indicators		
Headcount	–	391
Atmospheric emissions, tons	–	7
Recycled waste, tons	–	219
Accidents	–	–
Electricity consumption, million kWh	–	55

The company has set itself the following objectives for 2019:

- implementing the water supply production program
- developing and approving a technical feasibility study to expand the Astrakhan–Mangyshlak main waterline.

<sup>2</sup> The key results are presented taking into account the activity of Main Waterline LLP for the period from July 2018 to December 2018.





### PETROTRANS LIMITED

Petrotrans Limited was founded on May 22, 2000 in the British Virgin Islands. Following the liquidation of Batumi Terminals Limited in March 2017, KazTransOil JSC received a 100% stake in Petrotrans Limited.

On November 26, 2017 Petrotrans Limited was transferred from the jurisdiction of the British Virgin Islands to the Abu Dhabi Global Market special economic zone in the United Arab Emirates. This economic zone is not included on the List of Offshore Zones related to the Law of the Republic of Kazakhstan “On Combatting the Legalization (Laundering) of the Proceeds of Crime and the Financing of Terrorism”, or on the list of states that have a preferential taxation regime approved in the Republic of Kazakhstan.

The company’s core activity is to provide cargo shipment services via the Transcaucasian corridor. Petrotrans Limited brings together services provided by various third parties, including transshipment services from BOT as part of a unified model aimed at providing integrated services to clients.

Petrotrans Limited’s extensive range of services and the company’s positive experience of operating in the Caucasus Region give it a competitive advantage. The company made a profit of KZT 60 million in 2018.

## TRANSFORMATION AND OPTIMIZATION OF BUSINESS PROCESSES

Optimizing costs and transforming business processes are the key strategic priorities of the Company, and are enshrined in its Development Strategy up to 2025.

In 2018 the Company continued to implement measures stipulated by the Transformation and Business Process Optimization Program of KazTransOil JSC, as well as the Action Plan on KazTransOil JSC’s performance optimization and upgrade.

The Company’s main areas of activity in the reporting year consisted of boosting the efficiency of internal communications among participants in the Company’s business processes and improving the methodological framework for managing this area. In 2018 the Company successfully implemented a number of projects to boost operational efficiency, which helped reduce the operating activity costs of KazTransOil JSC.

### REORGANIZATION OF THE COMPANY’S MANAGEMENT STRUCTURE

*Project implementation periods: July 2017–April 2018*

The optimization of the Company’s management system, a major project affecting all processes in the Company, came to a successful conclusion in April 2018. The project resulted in a reduction in the number of management levels and transitioning to a two-level management system through the central office interacting with the pipeline divisions of the Company. As part of the project implementation the Western and Eastern branches of the Company were closed, and staffing levels optimized: total headcount and the number of non-staff employees were reduced by 187.

### OPTIMIZATION OF INVENTORY LOGISTICS

*Project implementation periods: July 2017–December 2019*

The removal of little-used bases of production-technical services and marketing (BPTS&M) from the Company’s asset structure is one of the main measures to reduce costs, as part of optimizing the logistics system to supply inventory in the Company. The main goal of this project is the sale of the BPTS&Ms in Atyrau and Pavlodar, with a subsequent purchase of services to lease necessary warehouse facilities.

In August 2018 the Working Group on optimizing business processes and increasing the Company’s efficiency took the decision to exclude BPTS&M Atyrau from the project scope, in November - to close BPTS&M Atyrau from December 4, 2019.

During 2018 the Company conducted tenders to sell the assets of BPTS&M Pavlodar. As the tenders were declared invalid due to a lack of bids, in January 2019 the Company took the decision to not sell the assets of BPTS&M Pavlodar and to close the Pavlodar base from April 1, 2019. As a result, 66 Company staff were made redundant.

### SEPARATION OF CORE AND AUXILIARY PRODUCTION AT KAZTRANSOIL JSC

In 2018 the Company began implementing the project “Separation of core and auxiliary production at KazTransOil JSC”, aimed at boosting the efficiency of equipment operation and staff work, including through creating a “customer–contractor” mechanism, based on internal regulations and a division of responsibilities among main and auxiliary production units.

However, during the implementation of this project, in May the Company’s Working Group on optimizing business processes and improving the Company’s efficiency took the decision to close the project, due to the need to implement it through modeling and business process re-engineering. Subsequently, in June 2018 the project was closed.

### MODELING BUSINESS PROCESSES

*Project implementation periods: September 2018–April 2020*

In September 2018 the Company began implementing the sustainable transformation project “Modeling the business processes of KazTransOil JSC” (the Project).

The Project will be implemented using the ARIS Architect & Designer system, with a view to creating a chain that will bring added value for the Company based on a procedural approach, and which will facilitate securing the following qualitative benefits:

- determining business process that create value for the Company’s end consumers
- determining business processes that need to be optimized and/or that need to be re-engineered in order to boost the Company’s efficiency.

As part of the Project implementation, in 2018 44 first-level processes were investigated, alongside more than 200 second-level processes. According to the Project implementation plan, in December 2018 a training seminar was held for Company employees on the modeling



of business processes in ARIS Architect & Designer software, and the methodological documents on managing business processes were approved: the KazTransOil Rules for Business Process Management and the KazTransOil Rules for Managing Business Process Optimization Projects.

The Company’s efforts to transform its business processes contributed significantly to attaining its strategic goals in the reporting period.

In 2019 the Company plans to continue active work on projects in this area, including:

- implementing measures to optimize and model business processes
- closing a project to optimize inventory logistics.

In addition, the Company will continue post-project monitoring conducted over the past five years of the completion of projects, with the aim of ensuring that optimum management decisions are taken and that the planned benefits of projects are obtained.

## STATE REGULATION AND TARIFFS FOR SERVICES

In accordance with the law of the Republic of Kazakhstan on natural monopolies, KazTransOil JSC is a natural monopoly in the following areas:

- services to transport oil and/or petroleum products via main pipelines, other than transportation, for the purpose of transit through the Republic of Kazakhstan and exports outside the Republic of Kazakhstan
- electrical power transmission services
- services related to the production, transmission, distribution, and/or supply of heat
- water supply and/or water removal services.

### OIL TRANSPORTATION SERVICES TARIFFS USING THE COMPANY’S MAIN PIPELINE SYSTEM

Under the law of the Republic of Kazakhstan on natural monopolies, tariffs on regulated services should be no lower than the sum of the costs necessary to provide the services, and should take into account the possibility of generating a profit that supports the effective functioning of the natural monopoly.

Tariffs on oil transportation services on Kazakhstan’s domestic market are approved by the competent authority regulating natural monopolies.

The calculation of tariffs on oil transportation services on the Kazakhstan domestic market uses a methodology that is approved by the competent authority for calculating tariffs (prices, fee rates) for the regulated services of natural monopolies for main pipeline oil transportation.

Tariffs on oil transportation services for exports from the Republic of Kazakhstan and transit through Kazakhstan are approved independently by the Company.

In order to calculate oil transportation tariffs for export and transit purposes, KazTransOil JSC has developed and applies a tariff calculation methodology for the Company’s oil transportation services via main pipelines for export from Kazakhstan and for transit via Kazakhstan.

The cost of transporting Russian oil for transit through Kazakhstan to China is approved by the Republic of Kazakhstan Ministry of Energy.

### TARIFFS ON KAZTRANSOIL JSC SERVICES TO SHIP OIL USING THE MAIN PIPELINE SYSTEM

Area	Unit of measure	2016	2017	1 Jan 2018 – 31 Mar 2018	1 Apr 2018 – 31 Dec 2018
On the Republic of Kazakhstan domestic market	KZT/1000 ton–km	3,547.46	3,902.13	4,292.4	4,292.4
For export outside the Republic of Kazakhstan	KZT/1000 ton–km	5,817.20	5,817.20	5,817.20	6,398.92
Transit via the Kazakhstan section of the TON-2 pipeline	KZT/1000 ton–km	1,727.10	1,727.10	1,727.1	4,292.4
Transit to China	USD/ton	2.63	3.11	3.11	3.11
Transit to Uzbekistan	USD/ton	–	22.9	25.12	25.12
Transit to Kyrgyzstan	USD/ton	–	–	25.12	25.12

In 2019 the Company plans to apply to the Committee for Regulating Natural Monopolies and Protecting Competition and Consumer Rights of the Ministry of the National Economy of the Republic of Kazakhstan to approve the maximum level of tariffs for oil shipment services on the Kazakhstan domestic market for 2020–2024.

### TARIFFS ON WATER SUPPLY SERVICES USING THE COMPANY’S MAIN PIPELINE SYSTEM

Under Order No. 418-OD of the acting Chairman of the Committee for Regulating Natural Monopolies, Protecting Competition and Consumer Rights of the Ministry of the National Economy of the Republic of Kazakhstan dated October 23, 2015, tariffs were approved for 2015–2019 for regulated water supply services using the main KazTransOil JSC waterlines.

Order No. 128-OD of the acting Chairman of the Committee for Regulating Natural Monopolies and Protecting Competition and Consumer Rights of the Ministry of the National Economy

of the Republic of Kazakhstan dated June 19, 2017 approved temporary compensatory tariffs for regulated water supply services using main KazTransOil JSC waterlines, effective from July 1, 2017 to 30 June 2018 (a reduction of 2.9%).

KazTransOil JSC ceased providing water supply services along main pipelines from July 2, 2018, in connection with the sale of the Astrakhan–Mangyshlak main waterline on the basis of a sale–purchase agreement with Main Waterline LLP.

Order No. 216-OD of the Chairman of the Committee for Regulating Natural Monopolies and Protecting Competition and Consumer Rights of the Ministry of the National Economy of the Republic of Kazakhstan dated September 20, 2018 removed KazTransOil JSC from the State Register of Natural Monopolies for the “supply of water by main waterline” type of regulated services by natural monopolies.



TARIFFS ON KAZTRANSOIL JSC WATER SUPPLY SERVICES USING MAIN PIPELINE SYSTEM

Groups of customers	Tariff, KZT/m³ (excluding VAT)			
	process water		drinking water	
	by section			
	0–449 km	449 km–end consumers	Kulsary–Sargamys	LOCS Kigach
Public, state-funded, and non-profit organizations, as well as other enterprises that provide utility services to public, state-funded, and non-profit organizations	18.72	20.92	39.08	39.08
Producers of agricultural goods	67.38	151.49	95.56	–
Industrial enterprises and other commercial entities	247.12	386.5	353.89	–
Oil and gas producers	338.54	522.85	495.15	–

TEMPORARY COMPENSATORY TARIFFS ON KAZTRANSOIL JSC WATER SUPPLY SERVICES USING THE MAIN PIPELINE SYSTEM

Groups of customers	Compensatory tariff, KZT/m³ (excluding VAT)			
	process water		drinking water	
	by section			
	0–449 km	449 km–end consumers	Kulsary–Sargamys	LOCS Kigach
Public, state-funded, and non-profit organizations, as well as other enterprises that provide utility services to public, state-funded, and non-profit organizations	18.17	20.31	37.94	37.94
Producers of agricultural goods	65.41	147.07	92.77	–
Industrial enterprises and other commercial entities	239.90	375.21	343.55	–
Oil and gas producers	328.65	507.58	480.69	–





## RESULTS OF OPERATING ACTIVITIES

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**51,313**  
**KZT MILLION**  
capital investments

**0** ACCIDENTS  
caused production shutdown  
or environmental damage





# OIL TRANSPORTATION AND WATER SUPPLY

Oil transportation is the main strategic development area of KazTransOil JSC and is the Company’s key source of profits, which ensures stable operations.

Oil is transported through the Company’s system of main oil pipelines, in accordance with oil delivery schedules approved by the Republic of Kazakhstan Ministry of Energy under contracts with consumers in the following areas:

- the supply of oil for export via the Atyrau–Samara pipeline (through the Russian Federation)
- the supply of oil on the domestic market to Atyrau Oil Refinery LLP, PetroKazakhstan Oil Products LLP, Pavlodar Oil Chemistry Refinery LLP, and CASPI BITUM LLP (bitumen plant)
- offloading oil to tankers in the port of Aktau
- oil transshipments to CPC-K JSC, MunaiTas LLP, and KCP LLP systems
- loading oil into tank cars from Shagyr OLP and Kasymov OPS railways.

The volume of oil transported by KazTransOil JSC in 2018 was 45,309 thousand tons, 2.1% less than the same figure for 2017. The main reasons behind the reduction in oil transported was oil from the Kashagan field being redirected from the end of 2017

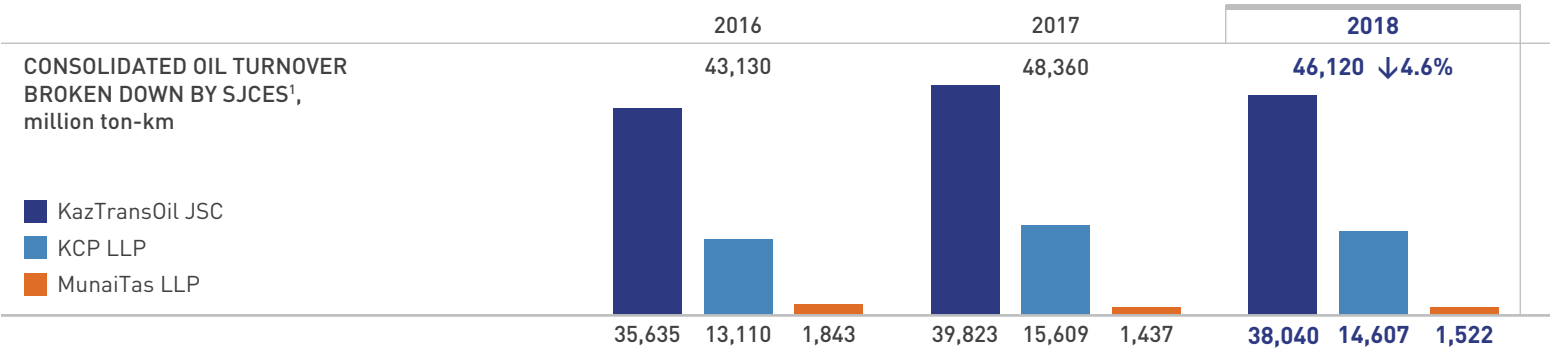
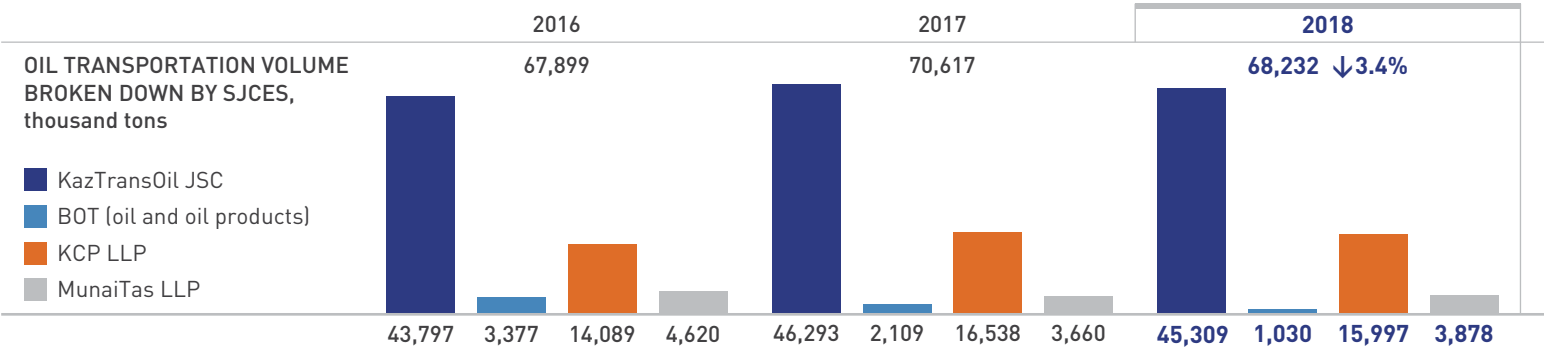
to the CPC-K JSC system, and a reduction in the receipt of oil in the KazTransOil JSC pipeline system from the Kumkol group of oil fields.

The reduction in the volume of oil transported by KCP LLP, by 3.3% compared to 2017, related to a reduction in oil production by the Kumkol group of oil fields and a redistribution for export via the Kenkiyak–Atyrau main pipeline (MunaiTas LLP).

In 2018 the volume of oil transported by MunaiTas LLP rose by 6%, due to an increase in the volume of oil provided by shippers, and the redistribution of some Aktobe Region oil from the Kenkiyak–Kumkol pipeline.

The reduction experienced by BOT, by 51.2% compared to 2017, related to a lack of orders from shippers.

Consolidated oil turnover in 2018 was down 4.6% on the previous year, and stood at 46,120 million ton-km. The reduction was due to an overall reduction in oil coming into the KazTransOil JSC pipeline system from oil companies, as well as to oil being redirected from the Kashagan field to the CPC-K JSC system and a redistribution from the Buzachi group of oil fields to the port of Aktau from Samara.



OIL TRANSPORTATION BY DIRECTION AND CONSUMER IN THE KAZTRANSOIL JSC PIPELINE SYSTEM, thousand tons

Area	2016	2017	2018	2019 (plan)	Change, %
to oil refineries					
Atyrau Oil Refinery LLP	4,666	4,629	5,237	5,500	13.1
PetroKazakhstan Oil Products LLP	4,497	4,686	4,759	6,000	1.5
Pavlodar Oil Chemistry Refinery LLP	4,599	4,732	5,334	5,250	12.7
CASPI BITUM LLP	624	718	819	770	14.1
transit through Russian Federation					
Atyrau–Samara pipeline	15,024	15,913	14,757	12,700	-7.3
shipment through the port of Aktau					
Loading into tankers at POPs Aktau	2,196	1,192	2,002	2,200	67.9
transshipment of oil to pipeline companies					
KCP LLP (Atasu–Alashankou pipeline)	10,068 <i>(incl. transit of 6,992)</i>	12,289 <i>(incl. transit of 9,989)</i>	11,373 <i>(incl. transit of 9,989)</i>	10,179 <i>(incl. transit of 10,000)</i>	-7.5
CPC-K JSC (CPC pipeline)	3,023	2,884	2,143	2,902	-25.7
MunaiTas LLP	4,233	3,306	3,485	2,601	5.4
KCP LLP (Kenkiyak–Kumkol pipeline)	4,215	4,683	4,559	5,404	-2.7
rail racks					
Rail rack of Kasymov OPS	0	0	26	0	–
Rail rack of Shagyr OPS	210	261	333	120	27.6

In 2018 the volume of oil supplied to Republic of Kazakhstan oil refineries rose by 9.4% and stood at 16,149 thousand tons, which was due to an increase in supplies in accordance with the schedules approved each month by the Republic of Kazakhstan Ministry of Energy.

The 7% decline in oil supplies using the Atyrau–Samara pipeline compared to 2017 was due to a redistribution of oil to the port of Aktau and from the Kashagan oil field to the CPC-K system. The main recipients of oil supplies from Kazakhstani shippers through the Russian Federation were the Ust-Luga and Novorossiysk ports.

<sup>1</sup> Oil turnover is calculated taking into account the equity holding of KazTransOil JSC in the SJCE.

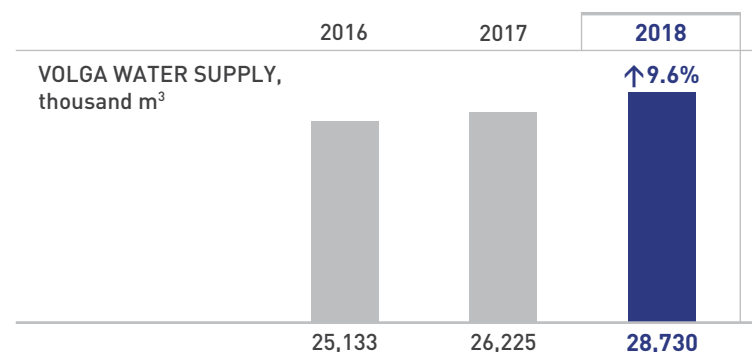
In 2018 shipments through the port of Aktau stood at 2,002 thousand tons, 68% more than in 2017. The increase in volume was due to a redistribution of the oil exports of certain shippers from the Atyrau–Samara route. Tankers were loaded in the port of Aktau for further shipment to the port of Makhachkala.

In 2018 oil continued to be loaded from the Shagyr OPS rack for shipment to Uzbekistan. Loading was also performed from the loading rack of Kasymov OPS for supply to the domestic market. At the same time, loading from this rack was not planned, owing to a lack of orders.

The reduction in oil transshipments to the CPC-K JSC system compared to 2017 was due to a decline in the volume of oil supplied.

A consumer satisfaction survey of oil transportation services was conducted in the reporting year, which covered 100% of KazTransOil JSC customers. According to the survey results, the overall satisfaction coefficient was 100%.

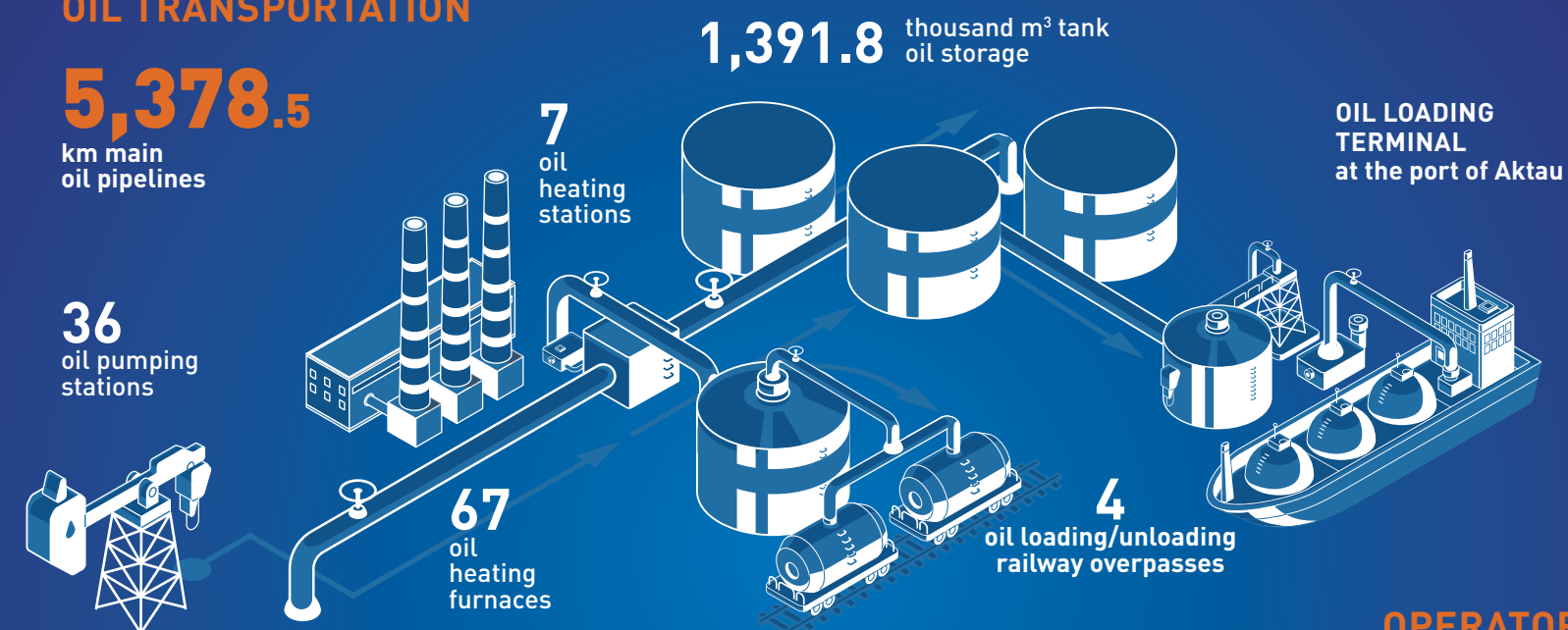
The water supply in 2018 stood at 28,730 thousand m<sup>3</sup> and was up 9.6% on the previous year's figure of 26,225 thousand m<sup>3</sup>. The main reason behind the increase in the water supply using main waterlines was a rise in water consumption from utilities and industrial enterprises.



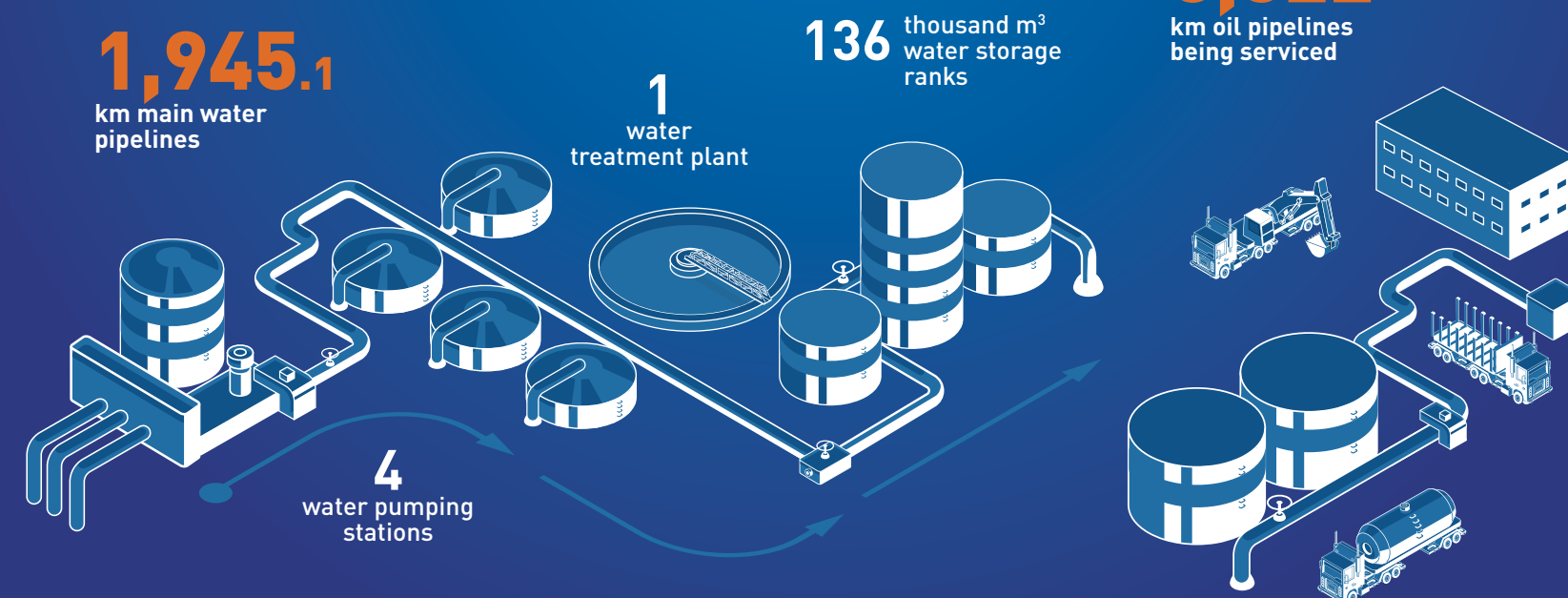
**100% SATISFACTION COEFFICIENT**  
of oil transportation services consumers

## PRODUCTION CAPACITIES OF THE COMPANY

### OIL TRANSPORTATION



### WATER SUPPLY





# OPERATIONS AND ENSURING RELIABILITY

KazTransOil JSC’s main asset is a network of main pipelines which covers the whole country. When carrying out its core activity, a fundamental Company priority is to ensure the reliable and safe operation of main pipelines and production facilities, both core and auxiliary.

To this end, the Company plans and implements all necessary measures for the maintenance, repair, and diagnostics of pipelines, including:

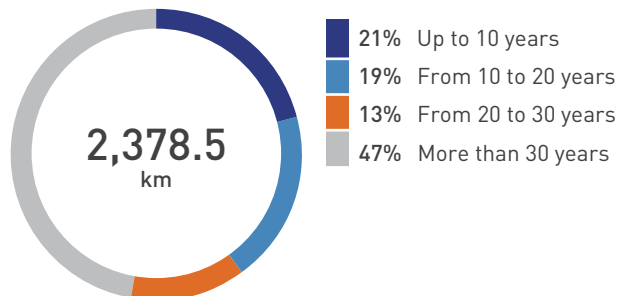
- drafting the Company’s production program
- organizing controls over the preparation and implementation of plans for organizational and technical measures to support the reliability of the operation of the production facilities of main pipelines, and to prepare for work during the flood season and in the autumn and winter
- monitoring the provision of effective protection against the corrosion of main pipeline facilities
- the timely performance of diagnostic work at production facilities and the technical equipment of main pipelines
- organizing and controlling work related to surveying air around main pipelines
- monitoring compliance with the optimal thermo-hydraulic modes of main pipeline operations, and with the consumption of boiler and furnace fuel
- monitoring the performance of organizational and technical measures to boost productivity, reduce costs, and enhance other technical-economic operating indicators
- measures to prevent and remedy accidents and incidents.

The Operations Department oversees work in this area.

## STOCK OF PIPELINES AND PRODUCTION FACILITIES

The total length of the KazTransOil JSC main pipelines is 5,378.47 km. In terms of the age of the network, the largest portion – 2,538.04 km (47.2%) – consists of pipes which are more than 30 years old. The Company is working to rebuild and replace pipelines, in line with its Reduction Program.

### AGE OF MAIN KAZTRANSOIL JSC PIPELINES, DECEMBER 31, 2018



The age of the pipeline stock of KCP LLP and MunaiTas LLP is dominated by pipes that are 10 to 20 years old, inclusive.

Oil transportation through the main pipeline is supported by 36 oil pumping stations, 67 oil heaters, and oil storage tanks with a total volume of 1,391.8 thousand m³.

Oil transshipments are supported by four loading/unloading rail racks and corresponding equipment to load oil into tankers, installed at three wharfs at the sea oil loading terminal at the port of Aktau.

Electrical power for oil pumping stations is supplied by 15 35–220-kV substations and 46 ZRU-6-10-kV closed switchgear units.

217 pumping assemblies are in operation, together with four nitrogen units, 11 compressor units, and 1,133 vehicles.

In order to heat production facilities during the winter, 42 boiler stations are in operation, with 93 water boilers and three steam boilers.

## SUPPORTING THE RELIABILITY OF PRODUCTION FACILITIES

In order to ensure accident-free operations and to increase the efficiency of production processes, the Company performed the following work during the reporting period:

- internal diagnostics of 1,028.8 km of main pipelines, using methods such as calibration, profile logging, magnetic pigs, and electromagnetic acoustic transformation
- 1,983 pipe defects in the main pipelines (against a target of 1,864) were eliminated
- 17 main and four booster pumps that had operated for their rated lifetime received technical certification
- 86 tank foundations were examined; based on the diagnostics, the overall condition of the foundations was assessed as being satisfactory
- anti-corrosion protection of tanks was carried out; an external anti-corrosion coating and an internal anti-corrosion coating was applied to seven tanks
- anti-corrosion protection was applied to 10 oil heaters
- 25 oil heaters received technical diagnostics and expert examinations.

The results of the reporting period indicated that the Company recorded no faults related to sudden, full, or partial pipeline stoppages due to breaches in the integrity of the pipeline itself or to check valves or control valves, or pipeline blockages.

A plan to prepare production facilities for the fall-winter and spring periods was also fully implemented.

## PLANS FOR 2019 AND THE MEDIUM-TERM OUTLOOK

For 2019 the Company is planning to introduce the following measures to ensure the reliable and safe operation of production facilities:

- regular technical and technological measures to ensure the accident-free functioning of production facilities
- diagnostics and repair work and renovation of production buildings, structures, and equipment
- connecting the launch and receiving station for cleaning devices at the Zhuan–Tyube oil pumping station of the Pavlodar–Shymkent main pipeline
- replacing four units of the main pumping equipment.

**1,133** VEHICLES  
in the Company’s operation

**1,028.8** km  
internal diagnostics of main pipelines

## ACTIVITY RELATED TO THE PROVISION OF OPERATOR SERVICES

Work related to the operation, including technical servicing of main oil pipelines belonging to third-party organizations and work related to technical servicing and maintenance of main waterlines within NC KazMunayGas JSC Group of companies, i.e. operator services, form one of the core areas of activity of KazTransOil JSC. The Company's priority in this area is to work consistently to expand the scope of services to third-party oil pipelines.

The Department of Operator Services manages this activity within the Company.

KazTransOil JSC provides operator services to the following companies:

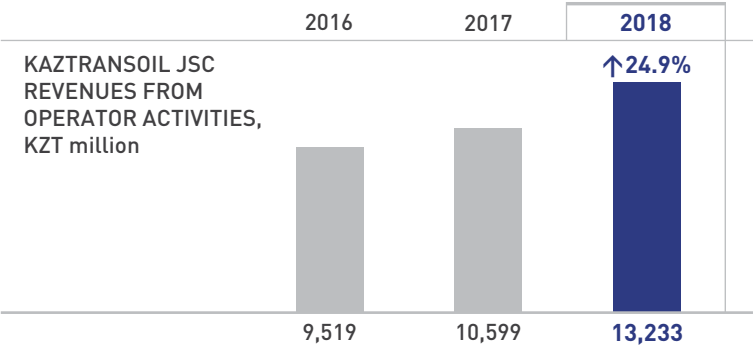
- KCP LLP
- MunaiTas LLP
- Karachaganak Petroleum Operating BV
- Turgay Petroleum JSC
- CPC-K JSC
- Main Waterline LLP.

The total length of oil pipelines being serviced is 3,322 km, and a total of 1,227 Company employees work in this area.

In 2018 KazTransOil JSC concluded two long-term service contracts, specifically:

- An operator services contract with CPC-K JSC for the period 2018–2013; the budget of the new contract, concluded for a five-year period, is KZT 27,029 million.
- A contract with Karachaganak Petroleum Operating (KPO) for the period 2018-2021; the budget of the new contract, concluded for three years, was KZT 6,682 million (the budget of the previous five-year contract, from 2013 to 2018, was KZT 6,679 million).

Revenues from the provision of operator services rose by 24.9% in 2018 compared to 2017, and stood at KZT 13,233 million. This significant growth was chiefly due to the conclusion of a contract with CPC-K JSC.



The clients of the Company's operator services have high standards when it comes to staff qualifications, occupational safety, and technical equipment. To ensure that customers' demands are met, the Company makes significant investments to develop this area of operations.

Monitoring is also performed at each production facility, to ensure compliance with the occupational safety requirements of the Company's service customers. In the event of any violation and/or incident at a facility, a corresponding report is made to the Main Dispatch Office. In order to ensure a rapid response, reports can be sent round-the-clock.

Each year the Company performs organizational and technical measures to support the reliability of the operation of third-party production facilities, and to prepare facilities for work in the autumn and winter and during the flood season. In 2018, based on the internal pipe diagnostics results of the Atasu–Alashankou oil pipeline, the Eastern Office of operator services eliminated one defect (loss of metal).

At the same time, over the reporting period there were no faults in main equipment, or accidents or incidents at the main pipelines in operation.

A survey of clients was carried out in 2018, in order to assess the quality of operator services provided in accordance with ISO 9001:2015. The survey results indicated an average assessment of 95.2%, which corresponded to the 2017 level.

### ASSESSMENT RESULTS OF CONSUMER SATISFACTION WITH QUALITY OF OPERATOR SERVICES IN 2018

Overall assessment	
Turgay Petroleum JSC	100%
MunaiTas LLP	100%
KCP LLP	100%
KPO	91.4%
CPC-K JSC	82.9%
Main Waterline LLP	97.1%
Overall assessment	95.2%

Based on an analysis of the reasons behind the lower scores for certain issues in the survey, the following measures were developed:

- involvement of SSD's employees in the KPI's system, as follows:
  - to develop the key indicators for SSD head engineers engaged in providing vehicle and special equipment, as well as the provision of one-time works as part of providing operator services, and include a consumer satisfaction index in these key indicators within their competence;
  - to develop the key indicators of the head engineer and senior coordinator of the Western office of operator services and include indicators related to the quality and timeliness of services rendered in these key indicators;
- to introduce additional job positions in the Company, with a function of responsibility for the performance of operator services.

In 2019 the Company plans to continue to provide operator services in accordance with signed contracts, including the performance of the following measures:

- concluding an agreement to operate the Turgay Petroleum JSC oil pipeline, with a profit margin of 15%
- providing equipment maintenance and repair services to Main Waterline LLP
- holding a Safety Day: inviting the owners of oil pipelines and government authorities to raise the safety culture level at production facilities.

**KZT 13,233 MILLION**  
revenues from the provision of operator services



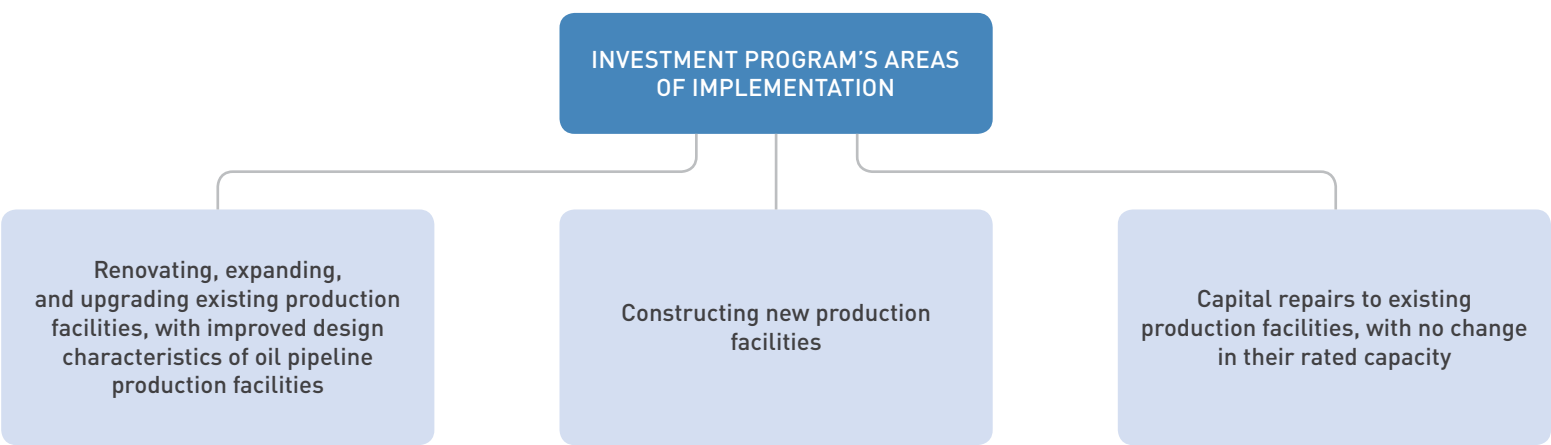
# INVESTMENT ACTIVITY

The KazTransOil JSC Investment Program for 2015–2019 (the Investment Program) was approved in August 2015 by a Joint Order of the Republic of Kazakhstan Ministry of Energy and the Committee on the Regulation of Natural Monopolies and Protecting Competition, and Consumer Rights of the Ministry of the National Economy of the Republic of Kazakhstan, with annual adjustments.

The Investment Program is based on a plan of capital investments, a production program, and decisions made by the Investment Committee of the Company.

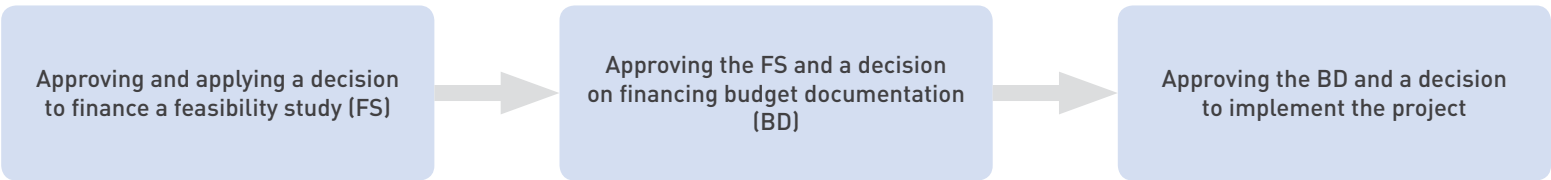
The main Investment Program goals are to implement promising investment projects and to maintain the current level of production.

INVESTMENT PROGRAM’S AREAS OF IMPLEMENTATION



Each investment project initiated by the Company or its SCJE is subject to a comprehensive and methodical examination. Project-related decisions are made by the Investment Committee of the Company in three stages in accordance with the Company’s established requirements and corporate procedures.

DECISION-MAKING STAGES FOR INVESTMENT PROJECTS

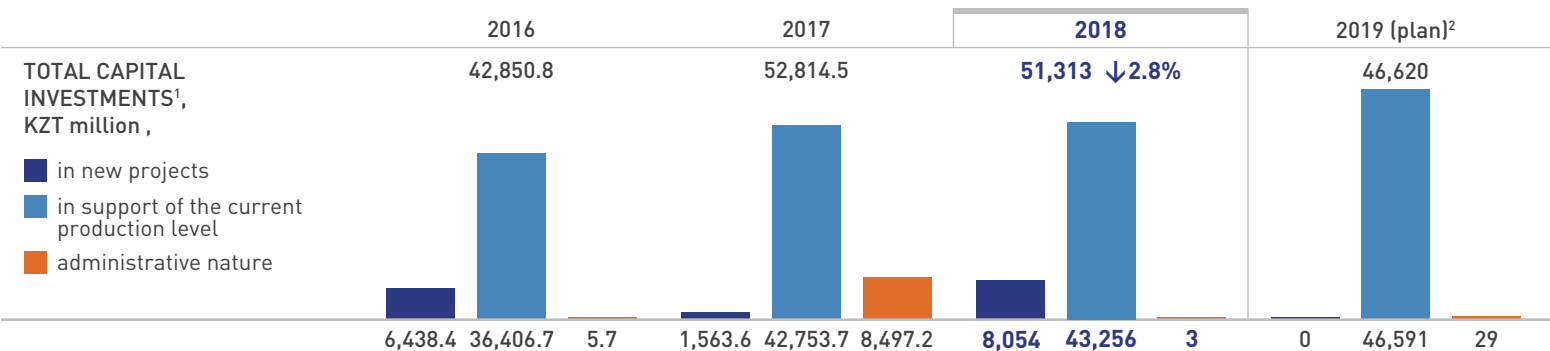


At the first stage, a decision is made on the possibility and feasibility of the investment project. At the next stage, the economic appeal is assessed and analyzed. At the final stage, detailed calculations are made of the investment payback period, the project’s impact on the Company’s financial position and on the KPIs of the business plan, as well as the planning of human resources.

In addition, each decision-making stage takes into account such factors as the project’s risk level and its impact on occupational safety and the environment.

The Investment Program stipulates an even allocation of investment expenses over a five-year period, which allows the Company to maintain a balanced structure of financing resources.

The total volume of scheduled KazTransOil JSC investments for 2015–2019 is around KZT 190 billion. The Investment Program is to be financed during this period using the Company’s own funds, no use will be made of loans or public funds.



The bulk of planned capital investments will go towards maintaining the current production level of KazTransOil JSC. In 2019 the total amount of capital investment to support the current KazTransOil JSC production level is projected to be KZT 46,591 million.

RESULTS OF IMPLEMENTING INVESTMENT PROJECTS

EXPANSION OF THE KAZAKHSTAN–CHINA PIPELINE

One of the largest and strategically most important investment projects, not only for the Company but also for the Republic of Kazakhstan as a whole, is the construction of the Kazakhstan–China oil pipeline system. The project is being carried out in stages.

In the first stage, the Atasu–Alashankou pipeline was built and put into operation in 2006, with a length of 965.1 km. In 2009 the Kenkiyak–Kumkol pipeline, with a length of 794.26 km, was commissioned.

The following stage in the construction of the Kazakhstan–China pipeline was the project “The Second Phase of the Second Stage of the Kazakhstan–China oil pipeline construction. Improvement of capacity to 20 million tons per year”, which was intended to diversify oil transportation routes and to create a multivector system for transporting hydrocarbons in the Republic of Kazakhstan. The project involves a gradual increase in pipeline capacity in all sections, in line with growth in transportation volumes on the domestic market and in exports to China, via constructing new and renovating existing oil pumping stations, as well as replacing the pipeline at existing sections.

<sup>1</sup> In accordance with the adjusted Business Plan of KazTransOil JSC for 2019–2023, approved by a decision of the Board of Directors on 29 January 2019.

<sup>2</sup> Indicates the consolidated amount of capital investments of the Company (on an equity basis).



Project participants: KazTransOil JSC, MunaiTas LLP, and KCP LLP, each being the owner of a corresponding section of the Kazakhstan–China oil pipeline. The project is being financed using the own funds of the participants.

As part of the project “The Second Phase of the Second Stage of the Kazakhstan–China oil pipeline construction. Improvement of capacity to 20 million tons per year”, work was performed at the Kasymov OPS and the Shmanov POPS (OPS 663 km) to construct the third branch of the Kumkol–Karakoin pipeline, and at other facilities.

Kenkiyak POPS was commissioned in August 2018 after the completion of renovation work.

Work is currently under way to reverse the Kenkiyak–Atyrau pipeline belonging to MunaiTas LLP.

Budget documentation has been completed for the project “Increasing the Capacity of the Kazakhstan–China Oil Pipeline. First Stage of the Reverse project of the Kenkiyak–Atyrau Pipeline Section with an increase in Capacity in reverse mode to 6 Million Tons per Year” (the Reverse Project).

In March 2018 a positive opinion was received from RGP Gosexpertiza on the Reverse Project, and in July 2018 the project was approved by NC KazMunayGas JSC and Samruk-Kazyna JSC.

In November 2018, as part of the Reverse Project, an EPC-1 contract was concluded between MunaiTas LLP and GAZ Stroy Montazh KZ LLP for construction and assembly work and equipment procurement, and tenders were held to determine the EPC-2 construction contractor.

It is planned for the Reverse Project to be financed using the own funds of MunaiTas LLP, as well as through contributions to the charter capital by participants in accordance with their equity holdings.

Under the Reverse Project, KZT 2,673.45 million has been allocated, of which KZT 1,861.21 million was in 2018.

#### ACQUISITION OF SPECIAL EQUIPMENT

In order to increase the share of income from operator services, and also increase to 100% the Company’s share of the market for operation pipelines belonging third parties in May 2018 KazTransOil JSC and CPC-K JSC entered into a long-term contract for pipeline maintenance repair of CPC pipelines on the Republic of Kazakhstan territory. Under this contract, in 2018 the Company implemented the project “Acquisition of special equipment to provide maintenance, repair and emergency

response services at the facilities of CPC-K JSC on the Republic of Kazakhstan territory in 2018–2023”.

The implementation of this project involves the acquisition of special equipment to provide maintenance, repair and emergency response services for CPC pipelines on the Republic of Kazakhstan territory.

The project is being financed using own internal funds. A total of KZT 9,050 million was spent on it in 2017–2018.

#### RENOVATION OF MAIN PIPELINES VIA THE REPLACEMENT OF PIPES

In order to support the reliable and safe operation of production facilities in 2018, the Company performed the following measures:

- Replaced pipes on the 1,031 km–1,065 km section of the Uzen–Atyrau–Samara pipeline, with a total length of 34 km. The facility was commissioned in August 2018.
- Capital repairs to the second phase of the TON-2 main pipeline on the 1,001.9 km–1,187.5 km section, which involved building overhead power transmission lines, establishing a tele-mechanics system, drainage and cathodic protection, automation, and CCTV surveillance.

#### PLANS FOR 2019 AND THE MEDIUM-TERM OUTLOOK

The Company plans the following investment activity measures in 2019:

- beginning the implementation of the investment project “Increasing the capacity of the OQCS at Kenkiyak POPS and Kumkol POPS” as part of the project “Second phase of the second construction stage of the Kazakhstan–China oil pipeline. Increasing productivity to 20 million tons of oil per year”
- continuing with implementing the investment project “First stage of the reverse of the Kenkiyak–Atyrau pipeline with a capacity of six million tons per year” as part of the project “Second phase of the second stage of the construction of the Kazakhstan–China pipeline. Increasing productivity to 20 million tons of oil per year”.



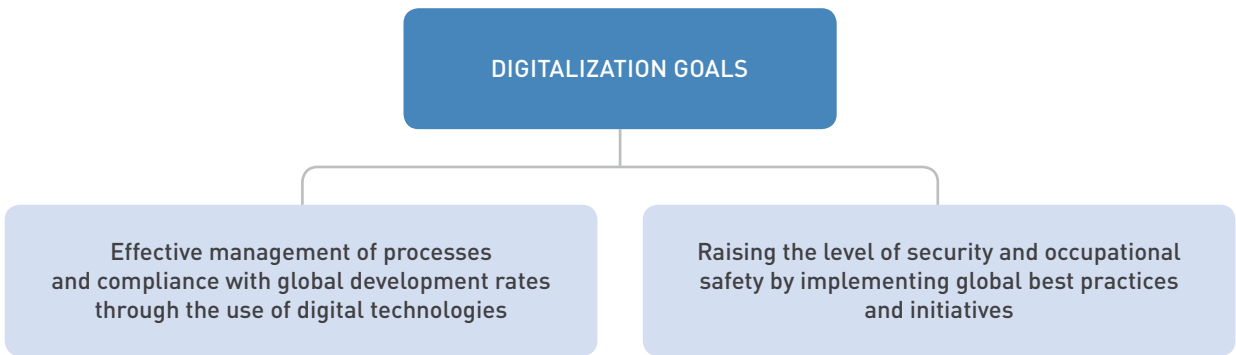


# DIGITALIZATION AND AUTOMATION OF PROCESSES

KazTransOil JSC recognizes the importance of ensuring the continuous technological development and improvement of our processes, and endeavors to keep in step with global trends and practices in this area. In addition to implementing scheduled projects, the Company is also interested in implementing next-generation digital technologies in its operations.

The Company has specialized departments in this field, whose responsibility includes projects to digitalize and automate the Company's activities: the Department of Information Technology, the Department of Telecommunications, and the Department of APCMSS<sup>1</sup>.

### DIGITALIZATION GOALS OF KAZTRANSOIL JSC



- The successful implementation of digital initiatives will allow the Company to ensure:
- a high level of technological modernization of production processes
  - an improvement in the quality of the corporate management system by obtaining rapid, reliable information in relation to key operating indicators
  - improving the efficiency of the workplace as well as the digital literacy of employees

### GOALS AND AREAS OF DIGITALIZATION

In 2018 the Digitalization Concept of KazTransOil JSC (the Digitalization Concept) was developed, with the aim of determining areas of the Company's activities in need of improvement by implementing modern digital technologies and rolling out an efficient information and communications infrastructure.

- raising the accessibility and security of digital infrastructure
  - enhancing the occupational safety and security culture.
- In 2018 the Company, on the basis of the Digitalization Concept, began developing a Digital Technology Development Program – a set of interrelated projects united by the goal of attaining the Company's strategic objectives.

The following Company development areas have been identified within the Digitalization Concept framework:

### AREAS OF DIGITALIZATION IN THE MEDIUM TERM

Area	Description
Setting up a smart digital security system	Enhancing the occupational safety culture and reducing production risks
Developing systems for shipment operations	Transforming shipment operation systems
Digitalizing technological processes	Increasing the reliability and optimization of the load utilization of main oil pipelines; transitioning to a qualitatively new level of oil flow management
Transitioning to digital technologies for managing production processes	Increasing the reliability of technologies and equipment, ensuring the uninterrupted operation of production processes, and optimizing operating indicators using modern technologies
Digital transformations in the management of human resources, creation of modern workplaces	Managing human resources using digital technologies, including through running a service center, and altering the conceptual approach and organization of working processes
Implementing modern mechanisms for managing KPIs	Increasing the maturity level of process management in accordance with the Company's development strategy; building a system of KPIs
Digital monitoring of finances	Implementing analytical systems, mobile, and web-based technologies to visualize financial information
Developing processes in the field of purchasing and materials management	Materials management, using price modeling to boost efficiency
Ensuring that a reliable digital infrastructure is in place	Developing a high-speed and secure data transfer infrastructure

### LAUNCH OF MAIN DISPATCH OFFICE IN NUR-SULTAN

In 2018 KazTransOil JSC implemented a number of projects related to the development of telecommunications, automation, and the digitalization of processes.

One of the Company's key digital projects in the reporting period was the completion of a large-scale, two-year program to launch the Company's Main Dispatch Office.

The purpose of this program was to build an integrated and extensive computerized information and management system to manage the facilities of the Company's main pipelines within the framework of the organizational-production structure of the Main Dispatch Office (MDO) in Nur-Sultan. The creation of the MDO facilitated the centralization of the management function as well as control of the main oil pipelines, and also integrated required data from the main pipeline management systems of SJCEs.

- In online mode the MDO handles the receipt and dispatch of oil, supplies raw materials to four oil refineries in Kazakhstan, exports hydrocarbons to foreign markets, and carries out the loading of oil in the port of Aktau.
- Total Company investments in the project in 2017 and 2018 stood at KZT 2.6 billion.
- Implementing the project made it possible to obtain a number of significant advantages, including:
- the centralized management of virtually the entire unified network of main oil pipelines in the Republic of Kazakhstan
  - a boost to labor productivity
  - energy and resource savings
  - the planning and precise implementation of shipping plans while conforming with the approved working modes of the oil pipelines
  - reducing risks of staff injuries

<sup>1</sup> Automated Process Control & Metrology Support System.



- the ability to forecast oil transportation processes
- the implementation of global best practices
- transitioning to minimally staffed technologies
- increasing the reliability of oil pipeline operations and ensuring secure and stable oil transportation

### OTHER DIGITALIZATION PROJECTS

In 2018 the IT function optimization project was fully implemented, which included outsourcing the bulk of IT functions. Thanks to the optimization, the Main Information Computer Center of KazTransOil JSC and regional information computer centers were reorganized, and staffing numbers were reduced. As a result, an economic effect equal to KZT 2.2 billion will be achieved by 2020.

In the reporting period the project to upgrade the trunk radio communications network located along the entire system of the Company's main oil pipelines was completed. The working format was entirely moved over to being digital, thereby providing an opportunity to use a wide range of digital functions. All radio stations were moved to a geo-information platform, which has made it possible to track staff and equipment in real time. The functionality was expanded to promptly bring together the necessary employees from various technical departments into a single group to address specific tasks or to perform repair work.

In 2018 the Company developed the KazTransOil Atlas of Oil Pipelines information system. The creation of this system made it possible to visualize and publish data about the main oil pipeline routes of Eurasia that relate to the Company's operations, ensure prompt demonstrations of various aspects of oil transportation to the state authorities and higher-level organizations, and provide information to the Company's management for rapid decision-making.

Also, a project to implement the production process management system, Digitalization Roadmap of NC KazMunayGas JSC, was launched. The project aims to improve how equipment is maintained and repaired.

A number of software / hardware solutions were also implemented, which made it possible to computerize the systems for recording employees fed at production facility cafeterias and the movement of payments.

### PLANS FOR 2019 AND THE MEDIUM TERM

In 2019 the next stage of digitalization will commence: the Company's Digital Technology Development Program will be developed. The Company also plans to complete current projects and to implement new computerization and digitalization projects:

- completion of a design to upgrade the SCADA system on the Atasu–Alashankou main pipeline, and the start of its implementation and integration into the overall system;
- creation of Innovation Bank software to search for internal innovations and proposals to make improvements at the Company, including among young specialists
- continuing work to ensure the reliability of communication channels, supporting the Company's information systems, and maintaining server and computer equipment and office technology.

**KazTransOil JSC has not stood on the sidelines during the global digitalization trend. We have created a digital system to manage oil transportation in Kazakhstan. To do this required a serious transformation of the Company and all its processes. Today, the Main Dispatch Office is the foundation of the digital ecosystem of the Company.**

*Dimash Dosanov,  
General Director (Chairman of the Management Board)  
of KazTransOil JSC at the MDO presentation*



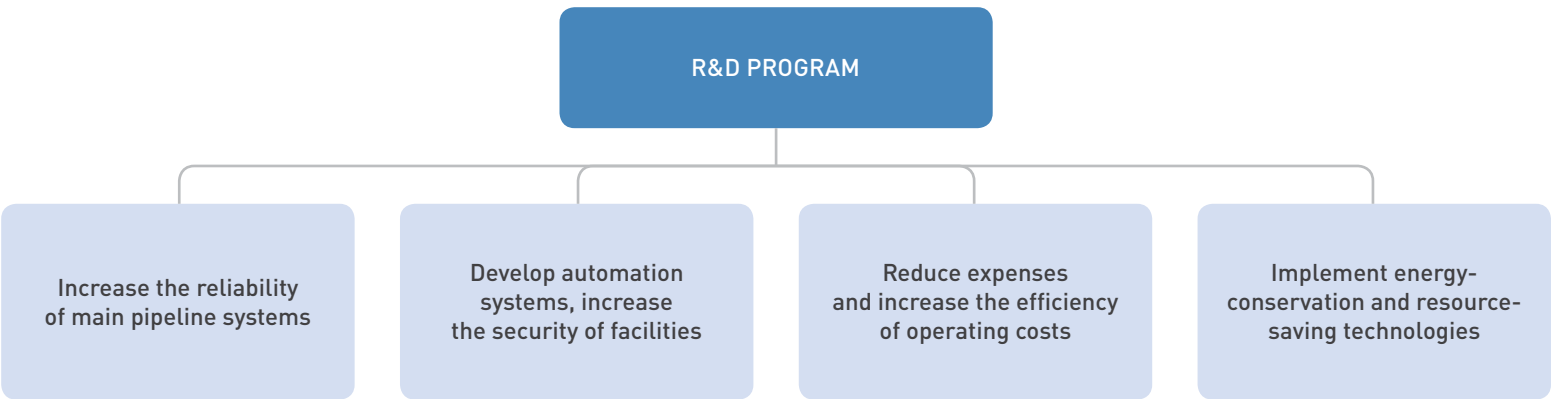
# INNOVATION AND TECHNOLOGICAL DEVELOPMENT

KazTransOil JSC’s oil transportation activity is fraught with various technological challenges, due among other things to the chemical characteristics of the oil being transported; the natural, climactic, and topographic transportation environment; and the operating characteristics of pipelines and production facilities. In connection with this, in order to improve efficiency and to develop industry knowledge the Company organizes work within the innovation and technological development.

In order to meet current innovation and technological development aims, the Company is implementing a program to develop R&D and to transfer new technology and innovative-technological solutions for 2018–2022 (the R&D Program).

Innovation and technological development, R&D activities and coordination of the KazTransOil JSC Scientific Technical Center are overseen by the Department of Technical Policy. Certain types of work are outsourced to external contracting organizations.

R&D PROGRAM OBJECTIVES



EXECUTION OF R&D AND PILOT TESTING

In 2018 the Company performed research, development, and pilot testing programs in a total of 31 areas, as well as an analysis of scientific and technical information, which resulted in drafting proposals to develop new areas of R&D and to implement for the future innovative oil transportation technologies.

In 2018 the Company also supported implementing SmartTran digital technology at pipeline transportation facilities of oil and oil blends of Kazakhstan.

Other projects implemented include assessing the residual lifespan of two sections of the Pavlodar–Shymkent main pipeline, so as to determine the duration of the safe operation of the pipeline.

SMARTTRAN AND SCADA DIGITAL TECHNOLOGIES

SmartTran and SCADA digital software products facilitate automating the system for planning and managing energy saving oil transportation modes, boosting employee productivity, and ensuring that main oil pipelines remain competitive.

In order to implement these technologies, the Company carried out the following measures in the reporting year:

- collected parameters related to pipes, stations, pumps, and heaters, as well as historical data on the work of pipelines
- analyzed the correctness of values for 17 KazTransOil JSC sections and main pipelines
- trained Company specialists in the use of SmartTran digital technology.

INDUSTRY PUBLICATIONS

The Company works regularly to issue the applied science magazine Pipeline Transport of Kazakhstan. The purpose of the magazine is to incentivize research and development activity at KazTransOil JSC, and to provide Company employees with scientific publications, analytical articles and surveys, advanced production experience, and various industry information. Two issues of this magazine were published in the reporting period.

In 2018, for the first time in the history of KazTransOil JSC, a Technological Encyclopedia was developed and published on the transportation of oil and water – a collection covering many years of the Company’s experience and development history in this area. The encyclopedia contains information about the current achievements of the Company, as well as up-to-date maps of main oil pipelines and the Astrakhan–Mangyshlak water mainline.

DRAFTING REGULATORY AND TECHNICAL DOCUMENTATION

The Company is continually working to develop and update regulatory and technical documents related to pipeline transport. Over the reporting period, in accordance with the KazTransOil JSC Program on the development of regulatory and technical documentation for 2018–2022, work was organized and carried out to draft and update 23 regulatory and technical documents.

The Company also drafted technical documentation related to the procedure for performing pilot testing at Company facilities, approved the Rules for organizing R&D work, developing of innovative industrial projects and implementing of new technologies and equipment in the Company, and approved the Rules on in-house innovation activity.

IN-HOUSE INNOVATION ACTIVITY

KazTransOil JSC encourages in-house innovation among its employees. The Company has adopted the Rules on in-house innovation activity, which incentivize scientific and technological creativity among Company employees and help boost production efficiency.

Employees that take part in developing innovative proposals receive rights to their inventions, are able to test their developments through pilot projects, and, in the event of positive results, receive an innovator’s certificate and a bonus for their innovative proposal.

In 2018 the Company considered and accepted three innovative proposals from employees.

REGISTRATION OF APPLICATIONS FOR THE INVENTION (ACQUISITION) IN THE FIELD OF OIL AND WATER TRANSPORT

The Company carries out an analysis of scientific and technical information in the field of oil transportation and a patent search on the information bases of seven leading countries, a search depth of 15 years. As a result of the work performed in 2018, six applications for the issuance of intellectual property documents were made and filed pursuant to the established procedure. All six applications were accepted by the National Intellectual Property Institute of the Republic of Kazakhstan Ministry of Justice.

COLLABORATION WITH EXTERNAL ORGANIZATIONS

In 2018 the Company continued to implement existing memoranda on scientific and technical collaboration with Kazakhstan–Britain Technical University (Almaty), NAO KazNITU (Almaty), NII Transneft LLC (Moscow), and NIPI Oil & Gas (Aktau).

In October, a new Memorandum on scientific and technical cooperation was signed with the Institute of Chemistry and Oil of the Siberian Division of the Russian Academy of Sciences (Tomsk). One of the reasons for signing the memorandum was to determine



the causes behind a precipitation of asphaltenes and paraffin in cases of low oil throughput in pipelines.

#### PLANS FOR 2019 AND THE MEDIUM TERM

The following innovation and technological development activity is planned for 2019:

- 16 R&D projects and three full-scale pilot tests at the Company's production facilities, as part of the Program for the Development of R&D and the Transfer of New Technology and Innovative Technologies for 2019–2023
- updating existing standards, expert appraisals of the regulatory documents of foreign countries, developing six new scientific and technical documents
- publishing the book History of the Development of Oil Transport .

## 3 INNOVATIVE PROPOSALS

from employees were accepted by the Company



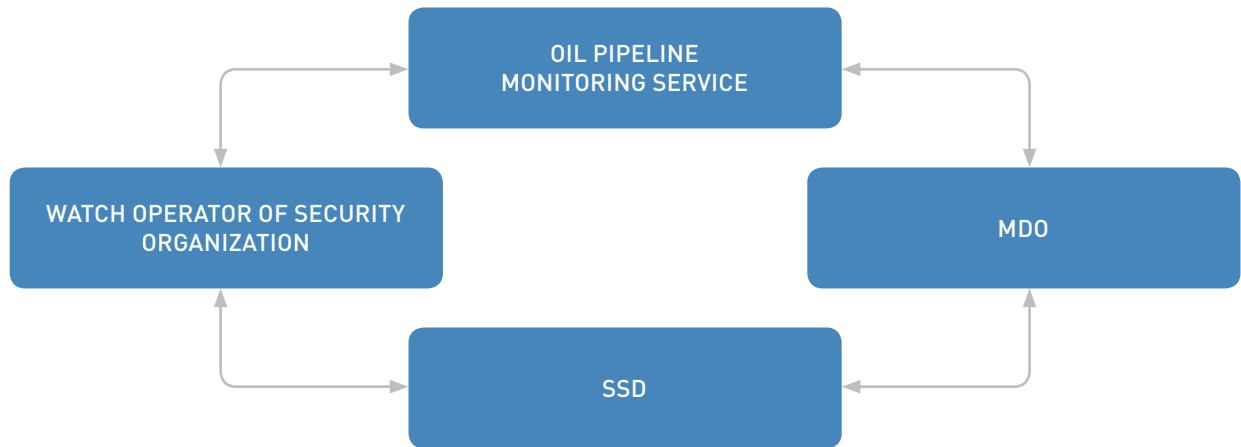


# CORPORATE SECURITY

KazTransOil JSC upholds high standards on issues related to corporate security and asset protection. In order to safeguard its corporate security, the Company has organized the permanent protection of its main pipelines as well as round-the-clock monitoring of pipeline security systems and systems to detect oil leaks.

The Department of Corporate and Information Security is responsible for overseeing corporate security. The identification of illegal actions and incursions into secure pipeline zones is performed at central office level, as well as during interactions between SSDs, including KazTransOil JSC mobile security groups and emergency services.

## PARTICIPANTS IN THE SYSTEM TO ENSURE THE SECURITY OF COMPANY ASSETS



In order to prevent and combat attacks on KazTransOil JSC facilities, the Company, the Regional offices of Internal Affairs, and the security company KMG-Security LLP have concluded cooperation and interaction memoranda, under which the parties promptly exchange pertinent information, collaborate to devise a strategy to combat crime at facilities, and draft proposals to enhance legislation affecting main oil pipelines.

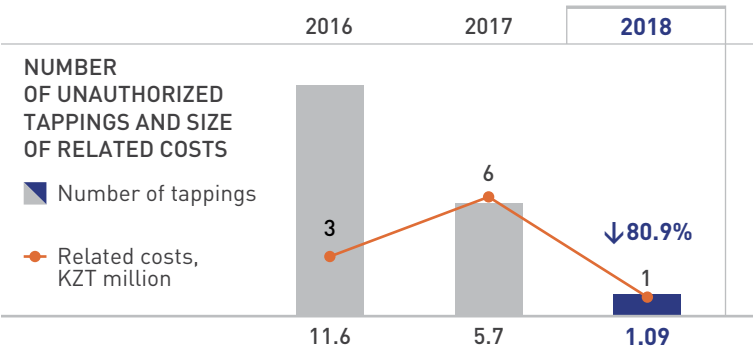
As of 31 December, 2018 memoranda of cooperation were concluded between KazTransOil JSC, the Regional offices of Internal Affairs and KMG-Security LLP in Atyrau, Karaganda, West Kazakhstan,

Pavlodar, and South Kazakhstan Regions. In the North Kazakhstan Region at LOCS Peterfeld, the security function is performed by Qazaq Security LLP.

Enhancing the pipeline security system is a key asset security priority within KazTransOil JSC operations. The Company is actively taking measures to implement technical-engineering safety features (TESF) in accordance with the Plan for Equipping Company Facilities with TESH up to 2022, which was elaborated taking into account the provisions of the Law of the Republic of Kazakhstan “On Combating Terrorism”. In accordance with this Plan, security perimeter alarm systems and CCTV surveillance are implemented at production and technical facilities.

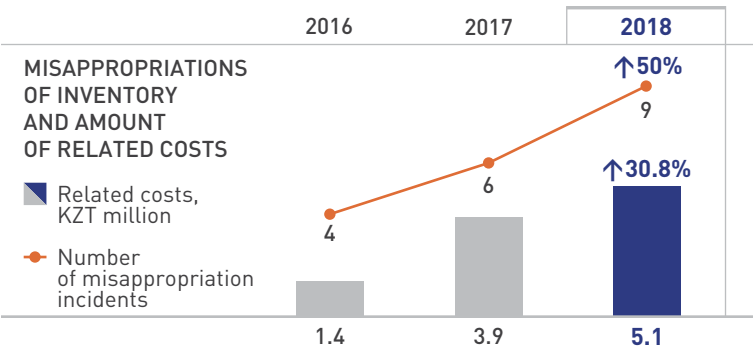
## TAPPINGS AND MISAPPROPRIATIONS OF INVENTORIES

In 2018 there was one unauthorized tapping on the Kalamkas–Karazhanbas–Aktau oil pipeline, damage from which amounted to KZT 1.09 million, which was 80.9% lower than in 2017. KMG-Security LLP reimbursed the costs incurred as a result of this incident, which totaled KZT 1.2 million (including VAT).



As a result of active work to ensure the security of assets, the Company achieved a significant reduction in the number of illegal actions. KazTransOil JSC will continue to develop its security system in order to prevent such offenses from occurring in the future.

In 2018, nine instances of inventory misappropriations were committed on the premises of Company facilities protected by KMG-Security LLP; the total damage from these misappropriations was KZT 5.1 million, of which KZT 1.1 million was reimbursed by KMG-Security LLP.



The Company regularly conducts training and preventative security measures, as well as exercises involving production facility employees on modeling situations related to the emergence of potential threats.

## PLANS FOR 2019 AND THE MEDIUM TERM

The Company intends to continue to implement measures to increase the security of its assets, including:

- installing a high-growth acoustic system to detect leaks from the main oil pipeline Uzen–Atyrau–Samara
- updating the Plan for Equipping Facilities with TESH, as well as volumes and implementation deadlines (in accordance with the Republic of Kazakhstan legislation to combat terrorism and bolster the integrity of Company facilities)
- continuing measures to equip facilities with TESH in accordance with their categories and the Company’s approved plans and standards
- acting together with KCP LLP and MunaiTas LLP on issues to ensure security at the facilities of these companies
- working with law-enforcement authorities on issues related to combating terrorist threats, misappropriations of oil and inventories, relating to investigating criminal cases and court proceedings; conducting joint exercises
- elaborating a regulation for conducting official investigations at KazTransOil JSC into instances of violations of the Company’s property / non-property interests.

**83.3%**  
decrease in the number of tappings  
in 2018



# INFORMATION SECURITY

Current KazTransOil JSC projects and plans on digitalization and the implementation of cutting-edge information technologies carry certain risks in the area of information security. To manage these risks, the Company has an Information Security Management System (ISMS) in place, which is organized in accordance with the legislation of the Republic of Kazakhstan and the international standard ISO/IEC 27001.

The Company seeks to develop its information security management system, and implements its own ISMS Improvement Plan. Work in this area is coordinated by the Department of Corporate and Information Security. The key internal documents comprise:

- the KazTransOil JSC Policy in the area of safeguarding information security
- the KazTransOil JSC Guidelines on the information security management system
- the KazTransOil JSC Rules for managing information security risks
- the KazTransOil JSC Rules for managing information security incidents
- the KazTransOil JSC Guidelines on information disclosure.

## CLASSIFICATIONS OF CRITICALITY LEVELS OF INCIDENTS ASSOCIATED WITH THE INFORMATION SECURITY OF KAZTRANSOIL JSC

HIGH LEVEL OF CRITICALITY	<ul style="list-style-type: none"><li>• This incident had a significant effect on business continuity, staff, and/or the information assets suffered significant damage.</li></ul>
MEDIUM LEVEL OF CRITICALITY	<ul style="list-style-type: none"><li>• This incident could (but did not) have a significant impact or did have an insignificant impact on business continuity, staff, and/or the information assets suffered insignificant damage.</li></ul>
LOW LEVEL OF CRITICALITY	<ul style="list-style-type: none"><li>• This incident did not have a significant impact on business continuity, staff, and/or the information assets did not suffer significant damage.</li></ul>

In 2018 the KazTransOil JSC Policy in the area of safeguarding information security was revised in accordance with the requirements of the KazTransOil JSC Rules on managing IMS documents. The new version of the document determines the commitment of the Company’s management to safeguarding information security.

In connection with the Republic of Kazakhstan legislation amendments, as well as the introduction of amendments and addenda to the Charter of KazTransOil JSC, the KazTransOil JSC Guidelines on information disclosure were elaborated. These guidelines define categories of access to information, as well as general requirements related to the disclosure and protection of information.

## COMPLIANCE WITH INFORMATION SECURITY REQUIREMENTS AND REACTING TO INFORMATION SECURITY INCIDENTS

The Company keeps records of instances of information security violations. There are three levels of criticality of incidents in this area: high, medium, and low.

The procedure for responding to incidents differs, depending on the criticality level. If the incident falls into the high or medium category, it is addressed in accordance with regulated response arrangements. If the incident falls into the low criticality category, it is recorded but not investigated.

## DIAGRAM OF RESPONSE PROCESS TO INFORMATION SECURITY INCIDENTS AT KAZTRANSOIL JSC WITH HIGH AND MEDIUM CRITICALITY LEVELS



The Company continuously monitors compliance with information security requirements in all existing and new IT systems, and performs a wide range of measures to manage information security in accordance with the annual ISMS Improvement Plan, including:

- performing quarterly assessments of information security risks and developing mitigating measures
- conducting supervisory audits of the ISMS to check compliance with international requirements
- conducting internal audits at separate structural divisions to check compliance with corporate regulations and approaches
- antivirus protection based on global best practices and technologies
- fostering an information security culture among KazTransOil JSC staff.

In 2018 no information security incidents with high or medium criticality levels, that is, those that had or could have had a significant impact on the continuity of business operations, were registered.

The Qradar information security management system was installed in the reporting year to safeguard against network security threats. This system continuously compiles a log of events and collates information on network traffic in real time.

In June 2018 the Company successfully passed a supervisory audit conducted by the British Standards Institution (BSI Management Systems). According to the audit, existing corporate information security processes are effective. Internal audits of the compliance of the ISMS of the Company’s separate structural divisions with the international standard ISO/IEC 27001 and the provisions of corporate documents were also performed.

The Company holds briefings to raise information security awareness among employees and to inform them about any changes to internal documents governing information security requirements. In the reporting period the Company held introductory briefings for 185 Company employees and contractors’ representatives, internship students and etc.



#### PILOT PROJECTS TO DEVELOP THE INFORMATION SECURITY SYSTEM.

A number of pilot projects were performed in 2018 to develop the ISMS:

- The pilot project “Clickster”, to record work time and control access to information systems using biometric technology, was successfully implemented.
- The Check Point 5800 Appliance and Check Point SandBlast TE250X Appliance, which are designed to provide maximum protection against fifth-generation threats and threats to the corporate systems without affecting productivity, were tested.
- Pilot testing was performed of the Positive Technologies MultiScanner system to scan multiple files. This system is designed to protect against malware and facilitates identifying and blocking threats in infrastructure data streams.

#### PLANS FOR 2019 AND THE MEDIUM TERM

The Company will continue to monitor compliance with information security requirements in all existing IT systems and those being developed, and will also continue with efforts to raise awareness among employees about information security issues and potential risks.

The Company plans to continue to install new technologies in 2019 in accordance with the ISMS Improvement Plan for 2019, including:

- conducting a supervisory audit of the corporate ISMS for compliance with the international standard ISO/IEC 27001
- assessing risks to the information security management system
- conducting annual internal audits of the ISMS in the Company’s structural divisions
- carrying out the measures stipulated in the Action Plan for Implementing the Cybersecurity Strategy (“Cyber Shield Kazakhstan”) up to 2022
- updating key information security management documentation.

## 0 INFORMATION SECURITY INCIDENTS

with high or medium criticality levels





# SUSTAINABLE DEVELOPMENT RESULTS

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**11.8 %**

reduction of gross direct  
greenhouse gas emissions

**4.69**

**TOE/MILLION  
METRIC TONS-KM,**  
Energy intensity of oil transportation





# SUSTAINABLE DEVELOPMENT MANAGEMENT

## SUSTAINABLE DEVELOPMENT MANAGEMENT

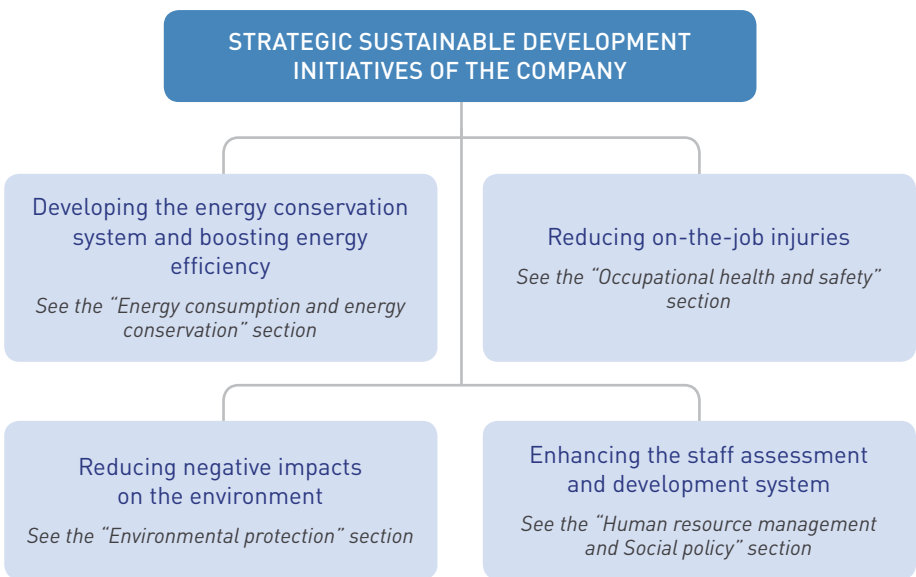
A balanced approach to sustainable development management is key to KazTransOil JSC’s long-term development and competitiveness. As a national operator and a major employer and taxpayer, the Company makes a considerable contribution to the development of the country’s economy, improving living standards in its regions of operation, creating comfortable and safe working conditions, and providing its employees with opportunities for professional development.

The principles of sustainable development and corporate social responsibility form an integral part of the Company’s corporate culture and are assimilated into daily operating activity. The Company’s sustainable development priorities include: **GRI 102-16**

- ensuring effective and uninterrupted business activity
- minimizing negative impacts on the environment
- the rational and effective use of natural resources
- the professional development and social security of employees
- ensuring occupational safety.

Sustainable development management forms one area of KazTransOil JSC’s Development Strategy up to 2025. Enhancing performance in this area is a top priority for the Company, and to this end the Company has planned a number of strategic sustainable development initiatives, established specific measures and deadlines for each of these, and assigned employees to implement them. The progress made vis-à-vis attaining the set goals is tracked on a regular basis.

## STRATEGIC SUSTAINABLE DEVELOPMENT INITIATIVES OF THE COMPANY AND THEIR IMPLEMENTATION RESULTS



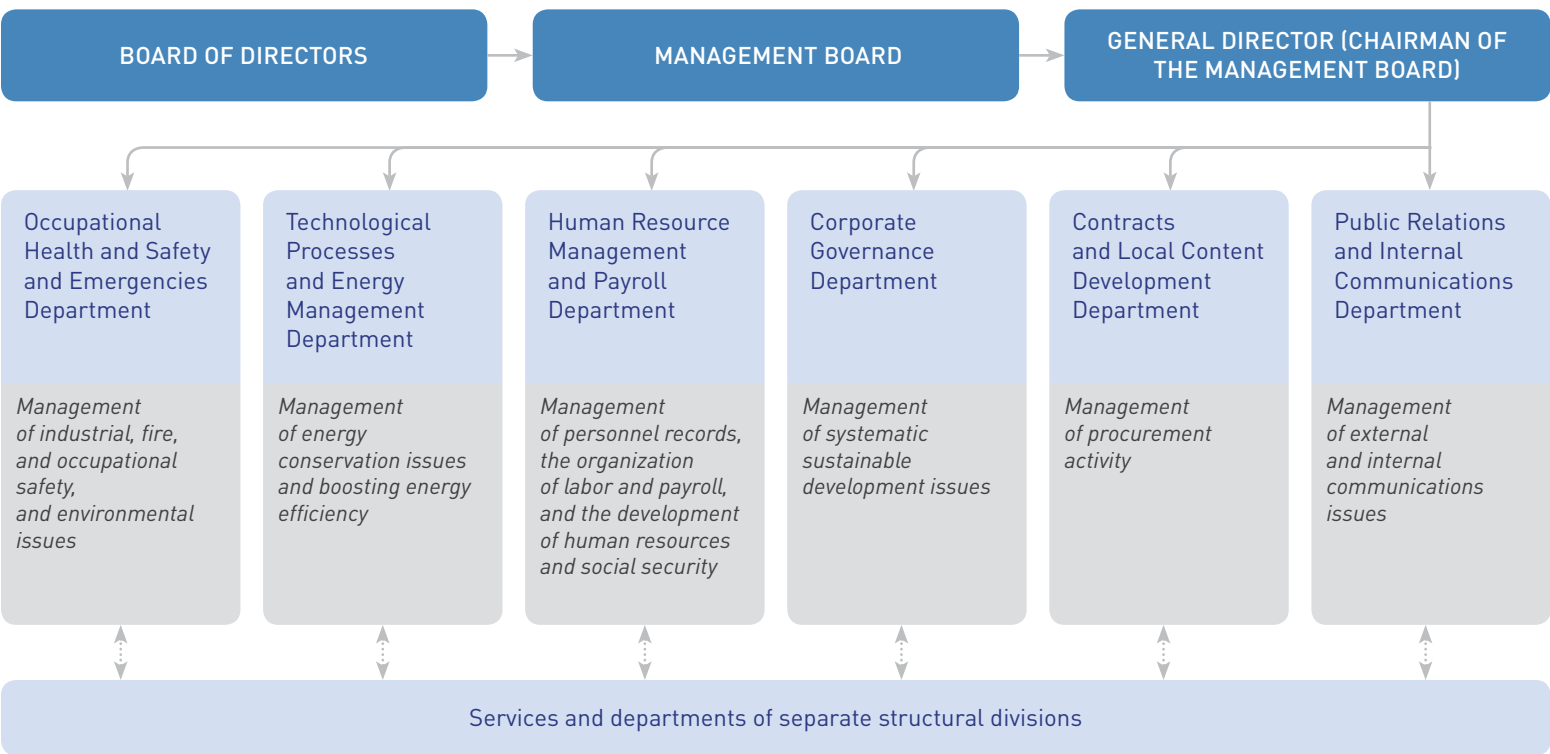
The management of sustainable development issues is integrated into the corporate governance management system at KazTransOil JSC and is performed at all organizational levels of the Company.

The Board of Directors and the Company’s management are actively engaged in managing the Company’s environmental, social, and economic impacts, and regularly assess sustainable development issues.

A decision was taken in 2018 to set up a Committee on Occupational Health, Safety, and the Environment (HSE Committee) under the Management Board. The HSE Committee will begin working proactively on sustainable development management issues in 2019, and will be the Company’s standing advisory body under the Company’s Management Board in the area of industrial, fire, and transportation safety; occupational health and safety; the rational use of resources; environmental protection; and other measures that fall under its area of expertise.

In connection with the completion in 2018 of the reorganization of the Company’s structure, the management of some sustainable development issues is now performed by core departments within the Company’s central office, while at the level of the separate structural divisions there are services and departments which oversee specific areas of sustainable development, such as human resources management, occupational and industrial safety, and environmental protection. The work of these services and departments is coordinated and approved as part of direct cooperation with the Company’s central office.

## ORGANIZATIONAL STRUCTURE OF SUSTAINABLE DEVELOPMENT MANAGEMENT



The Company’s approach to managing the economic, environmental, and social aspects of its operations is based on adhering to global sustainable development best practices. In particular, the Company is guided by the principles and provisions established in the following documents:

- ISO 26000 “Guidance on social responsibility”
- AA1000 Accountability Principles and AA1000 Stakeholder Engagement, including the principles of engagement, materiality, and responsiveness
- GRI standards on sustainable development reporting
- internal corporate documents on certain areas of sustainable development activity, which are publicly available on [the Company’s website](#).

In addition, the Company’s operations comply with the UN Global Compact in the areas of human rights, labor, environmental protection, and combatting corruption. For more details on our compliance with the principles of the UN Global Compact are provided in [Appendix 3 to this Report](#). **GRI 102-12**

The Company carries out work to raise employee awareness of the principles and values of sustainable development. An important result in this area was the holding of a two-day training session in autumn 2018 on the topic “Best Practices in Sustainable Development Reporting and Management. GRI Standards”, which featured an external specialist. 27 central office employees received training, including the Company’s senior management.



CONTRIBUTING TO ATTAINING UN SUSTAINABLE DEVELOPMENT GOALS

In 2015 the UN General Assembly adopted 17 sustainable development goals (SDG), aimed at addressing important economic, social, and environmental issues. In doing this, it created the global sustainable development agenda.

KazTransOil JSC believes that it is very important to make an individual contribution to attaining SDG through responsible business practices, effective corporate governance, and managing impacts on the environment and personnel. [GRI 102-12](#)

8 UN SDGS are observed by the Company

COMPANY’S CONTRIBUTION TO ATTAINING THE UN SDGs

	<b>Ensure healthy lives and promote well-being for all at all ages</b> <i>See the following sections of the Report: Occupational health and safety, Environmental protection.</i>
	<b>Ensure inclusive and quality education and promote lifelong learning for all</b> <i>See the following section of the Report: Human resource management and Social policy.</i>
	<b>Ensure the availability and rational use of water resources and sanitation</b> <i>See the following section of the Report: Environmental protection.</i>
	<b>Ensure universal access to affordable, reliable, sustainable and modern energy</b> <i>See the following section of the Report: Energy consumption and energy conservation.</i>
	<b>Promote progressive, inclusive and sustainable economic growth, full and productive employment and decent work for all</b> <i>See the following sections of the Report: Occupational health and safety, Human resource management and Social policy.</i>
	<b>Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation</b> <i>See the following section of the Report: Digitalization and computerization.</i>
	<b>Take urgent action to combat climate change and its impacts</b> <i>See the following section of the Report: Environmental protection.</i>
	<b>Promote just, peaceful, and inclusive societies in the interests of sustainable development, ensuring access to justice for all and creating effective, accountable, and inclusive institutions at all levels</b> <i>See the following sections of the Report: Monitoring corruption, Corporate ethics, Settlement of corporate conflicts and conflicts of interest, Occupational health and safety, Human resource management and Social policy.</i>
	<b>Revitalize the global partnership for sustainable development</b> <i>See the following section of the Report: Sustainable development management.</i>

STAKEHOLDER ENGAGEMENT

Establishing and maintaining mutually beneficial and constructive interactions with all stakeholders that are based on respect, information transparency, and fulfilling respective obligations is a priority for KazTransOil JSC. The Company focuses on harmonizing the interests of various stakeholder groups and on responding promptly to their requests and needs.

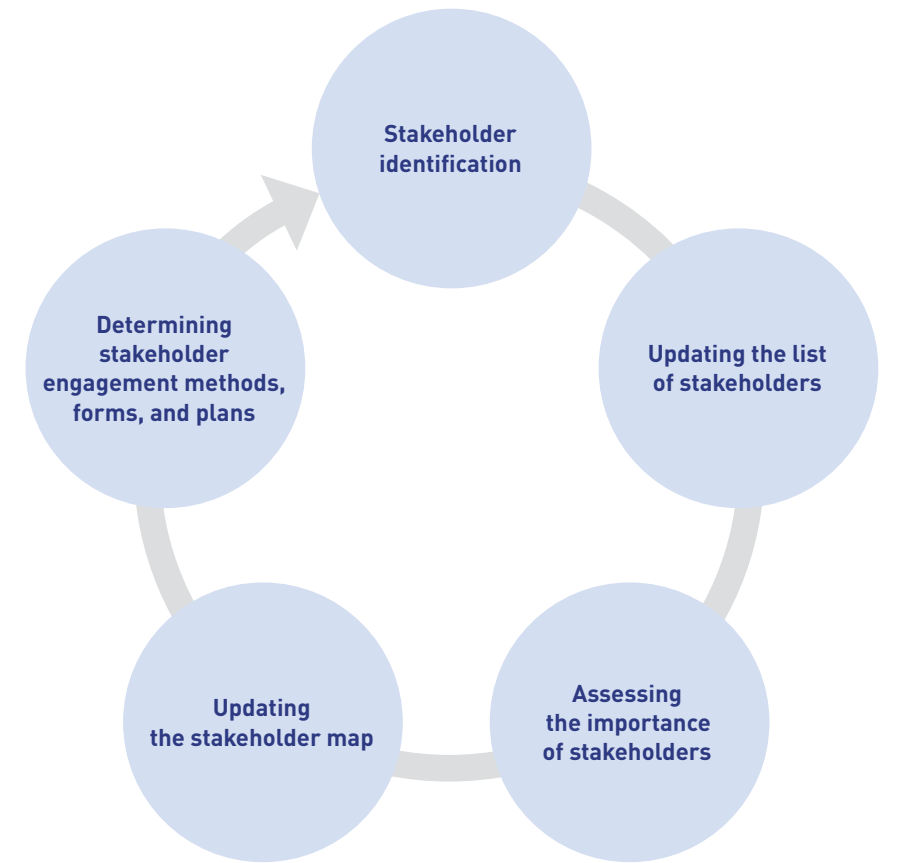
The Company’s approach to stakeholder engagement is formalized in the following internal documents:

- the Charter of KazTransOil JSC
- the Corporate Governance Code of KazTransOil JSC
- the Corporate Ethics Code of KazTransOil JSC
- the Anti-corruption Standards of KazTransOil JSC
- the Code of Leadership and the commitment of KazTransOil JSC employees to compliance with occupational health and safety, industrial, fire, transportation, and environmental safety requirements
- the Collective Bargaining Agreement between KazTransOil JSC and employees of the KazTransOil JSC [GRI 102-43](#)

In order to determine, assess, and organize groups of stakeholders, the Company has also drafted and approved a Stakeholder Map. When drawing up the Stakeholder Map, the Company assesses the influence of stakeholders on the Company and their level of interest in the Company, based on specific parameters of interaction. The map is updated at least once every three years. The current version of the Stakeholder Map was approved by the Company’s Board of Directors in 2017. [GRI 102-42](#)

The stakeholder interaction process in place at the Company makes it possible to rapidly identify and assess the interests of various stakeholder groups and to elaborate measures related to stakeholder engagement. [GRI 102-42](#)

STAKEHOLDER ENGAGEMENT PROCESS





STAKEHOLDER ENGAGEMENT, GRI 102-40, 102-43, 102-44

Stakeholders	Area of interests in 2018	Engagement methods
SHAREHOLDERS AND INFLUENTIAL ORGANIZATIONS		
<ul style="list-style-type: none"><li>• Owners of Company shares</li><li>• Organizations having a direct or indirect impact on the Company’s activity</li></ul>	<ul style="list-style-type: none"><li>• Ensuring shareholder rights</li><li>• The Company’s operating and financial performance</li><li>• Growth in shareholder value and business continuity</li><li>• Information transparency</li><li>• Compliance with business ethic norms</li></ul>	<ul style="list-style-type: none"><li>• Holding General Meetings of Shareholders</li><li>• Preparing answers to queries from shareholders and influential organizations</li><li>• Publishing corporate reports</li><li>• Using corporate media systems</li></ul>
STATE AUTHORITIES		
<ul style="list-style-type: none"><li>• State agencies authorized to publish legislative acts and monitor compliance with mandatory rules of conduct established by the state</li></ul>	<ul style="list-style-type: none"><li>• Compliance with legislation</li><li>• Corporate governance practices</li><li>• Minimizing adverse environmental impacts</li><li>• Economic and social stability in the regions of operation</li></ul>	<ul style="list-style-type: none"><li>• Participating in work to draft regulatory acts that touch upon the Company’s interests</li><li>• Participating in working groups, meetings, and roundtables on issues related to oil transportation and water distribution</li><li>• Meeting tax obligations</li><li>• Publishing corporate reports</li></ul>
STAFF		
<ul style="list-style-type: none"><li>• Company management</li><li>• Company employees</li><li>• Trade unions</li></ul>	<ul style="list-style-type: none"><li>• Employment and wages</li><li>• Safe and comfortable working conditions</li><li>• Providing opportunities for professional development and career advancement</li><li>• Social support, including for veterans and pensioners</li><li>• Observing human rights</li><li>• Observing business ethic norms</li></ul>	<ul style="list-style-type: none"><li>• Holding collective and personal meetings between the Company’s management and employees</li><li>• Fulfilling the provisions of the Collective Bargaining Agreement with employees</li><li>• The training and professional development of employees</li><li>• Operating a hotline to receive employee reports</li><li>• Operating internal communication channels</li></ul>

Stakeholders	Area of interest in 2018	Engagement methods
SERVICE CONSUMERS AND PARTNERS		
<ul style="list-style-type: none"><li>• Consumers of the Company’s services (including potential consumers)</li><li>• Participants in mutually beneficial cooperation with the Company</li></ul>	<ul style="list-style-type: none"><li>• Providing timely and high-quality services</li><li>• Tariff policy</li><li>• Business continuity</li><li>• Information transparency</li></ul>	<ul style="list-style-type: none"><li>• Concluding partnership agreements</li><li>• Surveying consumers to determine the satisfaction level with the quality of services provided</li><li>• Publishing corporate reports</li><li>• Using corporate media systems</li><li>• Holding conferences and exhibitions</li><li>• Conducting negotiations and holding meetings with consumers on various issues</li></ul>
SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES		
<ul style="list-style-type: none"><li>• SJCE</li></ul>	<ul style="list-style-type: none"><li>• Financial and operating performance</li><li>• Business continuity</li><li>• Compliance with business ethic norms</li><li>• Information transparency</li></ul>	<ul style="list-style-type: none"><li>• Participating in the management bodies of the SJCE</li><li>• Agreeing and approving appointments to SJCE management positions</li><li>• Considering and approving SJCE strategies, budgets, and reporting</li><li>• Holding meetings and conferences with SJCE representatives</li><li>• Performing audits of the SJCE</li></ul>
SOCIETY AND THE MEDIA		
<ul style="list-style-type: none"><li>• Local community</li><li>• Public unions, associations and other non-governmental nonprofit unions and organizations</li><li>• Mass media</li></ul>	<ul style="list-style-type: none"><li>• Information transparency</li><li>• Compliance with business ethic norms</li><li>• A wide range of issues touching upon the interests of all stakeholder groups</li></ul>	<ul style="list-style-type: none"><li>• Publishing corporate reports</li><li>• Publishing information about the Company’s activity on its website and the Kazakhstan Stock Exchange</li><li>• Organizing public hearings, briefings, press conferences, and interviews with senior Company officials</li><li>• Participating in the work of sectoral commissions and public associations</li></ul>



STAKEHOLDER ENGAGEMENT (continued), GRI 102-40, 102-43, 102-44

Stakeholders	Area of interest in 2018	Engagement methods
FINANCIAL INSTITUTIONS		
<ul style="list-style-type: none"><li>Legal entities providing financial services to the Company</li></ul>	<ul style="list-style-type: none"><li>Information transparency</li><li>Operating and financial performance</li><li>Corporate governance practices</li><li>Business continuity</li><li>Compliance with business ethic norms</li></ul>	<ul style="list-style-type: none"><li>Publishing corporate reports</li><li>Quarterly disclosures of financial results</li><li>Organizing meetings and negotiations with second-tier banks and opening accounts</li><li>Holding meetings and presentations with representatives from ratings agencies</li></ul>
SUPPLIERS AND CONTRACTORS		
<ul style="list-style-type: none"><li>Parties acting as the Company's counterparties under contracts entered into on the purchase of work, goods, and services</li></ul>	<ul style="list-style-type: none"><li>Fulfilling mutual obligations</li><li>Transparent, open, and competitive procurement procedures</li><li>Business continuity</li><li>Compliance with business ethic norms</li><li>Monitoring corruption</li></ul>	<ul style="list-style-type: none"><li>Performing procurements and concluding contracts on the purchase of goods, work, and services</li><li>Organizing conferences and exhibitions</li><li>Holding working meetings</li><li>Preparing answers to queries from suppliers and business correspondence</li><li>Publications in the media</li></ul>
COMPETITORS		
<ul style="list-style-type: none"><li>Parties whose lines of business, interests, and goals are identical or similar to those of the Company</li></ul>	<ul style="list-style-type: none"><li>Information transparency</li><li>Ensuring competitiveness</li><li>Compliance with business ethic norms</li></ul>	<ul style="list-style-type: none"><li>Participating in joint working groups, specialized exhibitions, forums, and other events</li><li>Participating in meetings of the International Association of Oil Transporters</li></ul>

MEMBERSHIP IN ASSOCIATIONS

The Company participates in a number of professional and sectoral initiatives and takes a proactive stance in this area. The exchange of professional knowledge and helping to solve pressing industry challenges are important elements within the effective management of the Company's activity.

COMPANY MEMBERSHIP IN ASSOCIATIONS AND OTHER UNIONS IN 2018. GRI 102-12, 102-13

Name	Description of participation
<b>Kazakhstan Association of Oil, Gas and Energy Sector Organizations KAZENERGY</b>	The Company was appointed national operator of the main oil pipeline. Company representatives are members of this association's Coordination Council for the Development of the Oil and Gas Industry of the Republic of Kazakhstan.
<b>Association of Taxpayers of Kazakhstan</b>	The main task of the Association of Taxpayers of Kazakhstan is to promote protecting the legitimate rights and interests of taxpayers and to provide timely information about amendments to tax legislation. The Company's representatives participate in working groups of this Association and ensure the Company's involvement in drafting any amendments and addenda to tax legislation.
<b>International Association of Oil Transporters</b>	The International Association of Oil Transporters (IAOT) was set up to coordinate efforts to effectively develop the oil transportation systems of participating companies and to increase the stability of international oil transportation. IAOT members comprise eight of the largest international oil transportation companies in the former Soviet Union and beyond and one company as an observer. Three expert working groups have been created from representatives of association members: for energy efficiency, for legal issues, and for supplies. In addition to the work of the permanent expert groups, the association's main methods of work consist of biannual board meetings, conferences, exhibitions and seminars, and technical visits and knowledge sharing. At KazTransOil JSC's initiative the twelfth meeting of the IAOT is scheduled to be held in Almaty in September 2019.
<b>National Chamber of Entrepreneurs of Kazakhstan Atameken</b>	The National Chamber of Entrepreneurs of Kazakhstan Atameken was created to improve the business and investment climate, promote stability, and develop the business environment in the country – for both domestic and foreign investors. Participation in this organization safeguards the rights and interests of business, ensuring the wide coverage and involvement of all entrepreneurs in the process of drawing up legislation as well as other regulations related to doing business.



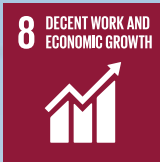
# HUMAN RESOURCE MANAGEMENT AND SOCIAL POLICY

## SIGNIFICANT TOPICS

- MARKET PRESENCE
- EMPLOYMENT
- LABOR/MANAGEMENT RELATIONS
- TRAINING AND EDUCATION
- DIVERSITY AND EQUAL OPPORTUNITY
- NON-DISCRIMINATION

## KEY EVENTS

- IMPLEMENTATION OF THE KPI SYSTEM FOR CENTRAL OFFICE EMPLOYEES AND DIRECTORS OF SEPARATE STRUCTURAL DIVISIONS
- REALIZATION OF UNIFIED WAGE SYSTEM PROJECTS



**13.7%**

increase in staff training costs

**KZT 2.2 BILLION**

social support costs for employees

## APPROACH TO HUMAN RESOURCE MANAGEMENT AND SOCIAL POLICY

KazTransOil JSC is one of the largest employers in the Republic of Kazakhstan, and facilitates the economic development of its regions of operation and guarantees employment.

The employees of KazTransOil JSC are our main asset, and ensure the Company's strong competitive position. The key priorities of our human resources policy consist of constantly improving working conditions and the compensation and incentive system, expanding training opportunities, and enhancing the level of social support for employees.

When recruiting and selecting staff, determining wages, and implementing the human resource and social policy, the Company does not tolerate discrimination based on age, culture, religion, race, or any other factors. The Company supports the prevention of any form of discrimination or use of child or forced labor, and recruits and promotes staff solely on the basis of professional abilities, knowledge, and skills.

Special attention is paid to developing internal corporate communications and establishing trust-based relations between employees and management through communication and relationship-building events, a transparent assessment system, and feedback tools on the work results of both rank-and-file employees and managers.

## STAKEHOLDERS

- shareholders and influential organizations
- staff and trade unions
- the SJCE
- state authorities
- society and the media

## MANAGEMENT STRUCTURE AND TOOLS

Human resource and social policy issues are managed at two levels: by the Human Resource Management and Payroll Department at central office level, and by personnel services at the level of separate structural divisions.

The Public Relations and Internal Communications Department is responsible for issues pertaining to corporate culture and internal communications.

The Company performs a wide range of human resource management and social measures and initiatives, including:

- an effective employee remuneration and assessment system based on KPIs achievement;
- professional training programs for employees
- a social package that includes material and non-material benefits for employees and their families
- liaising with trade unions
- a progressive digital internal communications system
- active engagement with the media and controlled crisis management announcements
- annual studies on the engagement level among administrative and management personnel and the social stability level among production personnel.

## KEY INTERNAL DOCUMENTS

- The Collective Bargaining Agreement between KazTransOil JSC and its employees.
- The Social Responsibility Code of KazTransOil JSC.
- Regulations on Social Support for Non-Working Pensioners and Persons with Disabilities at KazTransOil JSC.
- The Corporate Ethics Code of KazTransOil JSC.
- Rules for the Competitive Selection of Personnel for Vacancies and the Work Professions at KazTransOil JSC.
- Rules on the Wages and Bonuses of Central Office Employees of KazTransOil JSC.
- The Youth Policy of KazTransOil JSC.
- Guidelines for Internal Communications at KazTransOil JS.



**6,923** PEOPLE  
the staff headcount

STAFF HEADCOUNT AND STRUCTURE

During the reporting period the staff headcount was down 3.2% on 2017 and stood at 6,932. The reduced headcount was due to the performance of measures to complete the reorganization of the Company’s structure and to optimize business processes. [GRI 102-7](#)

As prescribed by the Labor Code of the Republic of Kazakhstan, the minimum period of notice to be given to employees upon the termination of employment contracts in the case of downsizing or staff reduction as established by the Collective Bargaining Agreement between KazTransOil JSC and employees of the KazTransOil JSC is one month. [GRI 402-1](#)

In 2018 no lawsuits were brought by employees claiming non-compliance by the Company with labor legislation, including those related to downsizing.

Due to the nature of the Company’s production activities, the number of males among the Company’s employees is traditionally higher. In 2018 the share of male employees in total headcount stood at 81.9%.

STAFF HEADCOUNT BY GENDER, people [GRI 102-8](#)

	2016		2017		2018	
	male	female	male	female	male	female
Central office	134	115	132	105	279	176
Separate structural divisions <sup>1</sup>	–	–	–	–	5,299	970
Western branch <sup>2</sup>	3,688	1,172	3,256	694	–	–
Eastern branch <sup>2</sup>	2,133	514	2,036	339	–	–
MICC	25	21	–	–	–	–
STC	37	33	69	76	70	81
Main Waterline Department <sup>3</sup>	–	–	310	87	–	–
Representative offices in Samara, Omsk, and Moscow	19	23	23	25	22	26
<b>Total</b>	<b>6,036</b>	<b>1,878</b>	<b>5,826</b>	<b>1,326</b>	<b>5,670</b>	<b>1,253</b>

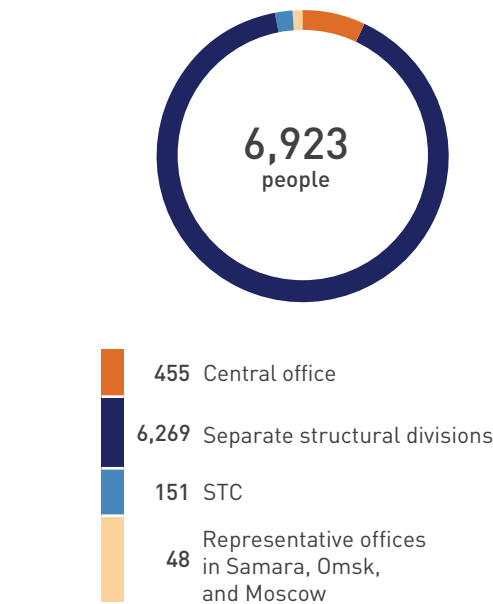
<sup>1</sup> Staff headcount in 2018 is shown with staff from separate structural divisions.

<sup>2</sup> Staff headcount in 2018 is shown without the Western and Eastern branches.

<sup>3</sup> Staff headcount in 2018 is shown without the Main Waterline Department.

**42.6** YEARS  
the average age  
of staff member

STAFF HEADCOUNT BY BRANCHES, people  
[GRI 102-8](#)



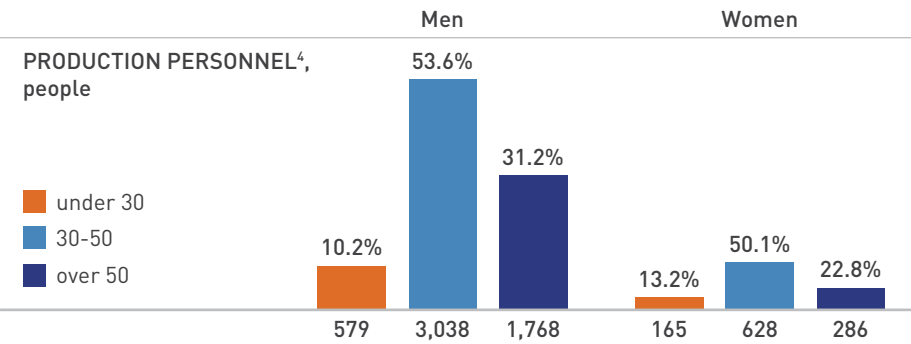
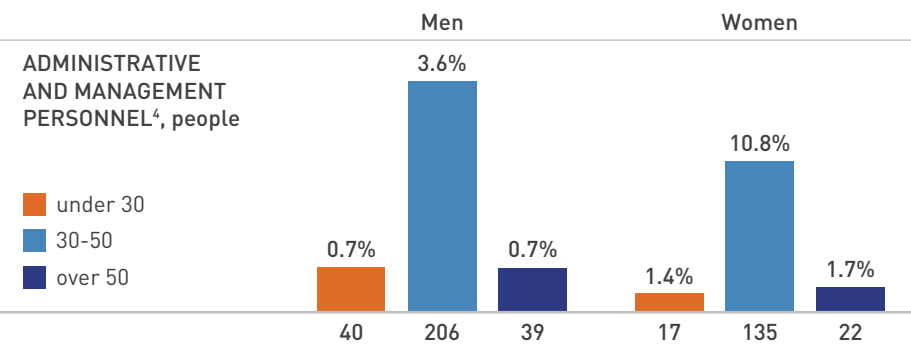
<sup>4</sup> The share by age is calculated based on the total number of each category of employees of each gender.

<sup>5</sup> Employees are shown with whom an employment contract was concluded for the period of temporary replacement of absent employees.

Most of the Company’s personnel are aged 30-50 (57.8%). The average age of a Company staff member in 2018 was 42.6 years.

The vast majority, 99%, of Company employees are employed under open-ended contracts. The share of full-time employees in the reporting period was 100%. [GRI 102-8](#)

Composition of main Company staff categories in 2018. [GRI 102-8, 405-1:](#)

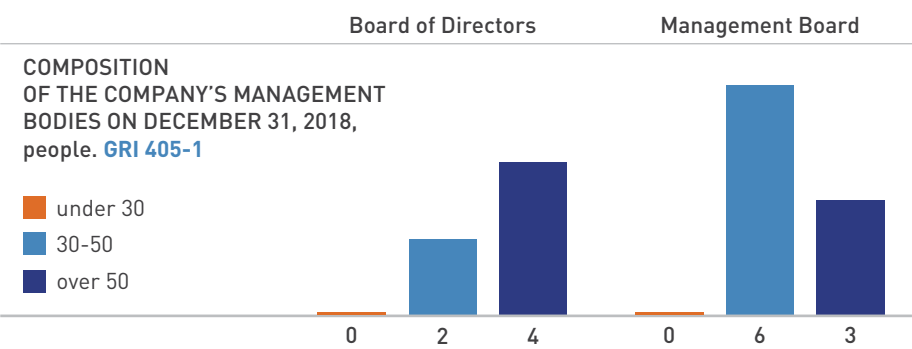


NUMBER OF FULL-TIME AND TEMPORARY EMPLOYEES BY GENDER, people. [GRI 102-8](#)

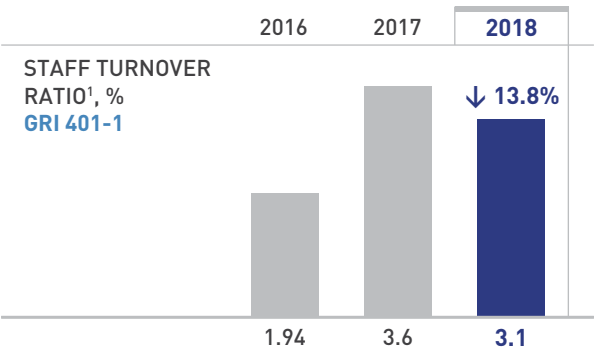
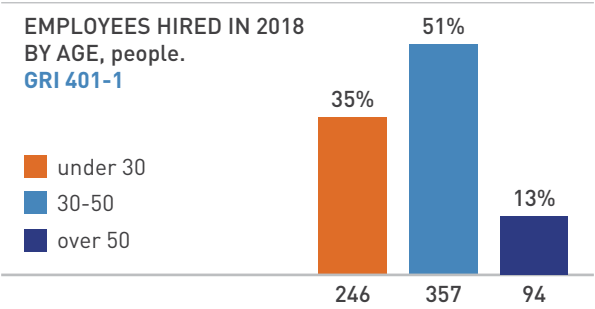
	2018	
	men	women
Total headcount, including:	5 670	1 253
full-time	5 628	1 199
temporary <sup>5</sup>	42	54



**12 YEARS**  
the average duration of service  
among Company employees



The Company endeavors to support gender diversity among the employees of the management bodies, with due account of the nature of the Company's activity. For example, in 2018 KazTransOil JSC's Management Board was made up of both men and women.



<sup>1</sup> The staff turnover indicator is determined as the ratio of employees that resigned of their own accord and those dismissed with cause and the Company's average staff headcount for the year.

STAFF RECRUITMENT

The Company recruits staff in accordance with the Rules for Competitive Selection of Personnel for Vacancies and Work Professions at KazTransOil JSC, using testing methods and adhering to the principles of transparency, meritocracy, and non-discrimination.

Based on the respective criteria there were no cases of discrimination against job candidates or employees in 2018. **GRI 406-1**

The Company appointed 697 new employees during the reporting year, including 94 central office employees and 603 employees from separate structural divisions. Most new hires were aged 31-50 (357), with 246 employees aged under 30 and 94 aged over 50 also being hired.

STAFF TURNOVER

The low level of staff turnover is an indicator of the organization's ability to ensure stable staff levels.

The staff turnover ratio in 2018 was 3.1%, a fall of 13.8 percentages year-on-year. The Company's actions to ensure favorable working conditions, organize a system of material and non-material incentives, and provide possibilities for professional training and career advancement contributed to the reduction in this indicator.

REMUNERATION AND MOTIVATION

KazTransOil JSC has a competitive level of employee remuneration. The Company also takes into account the viewpoints of trade unions when elaborating local regulations on wages. The existing corporate wage system ensures:

- a decent level of compensation, in line with leading companies in Kazakhstan
- a two-component wage system consisting of fixed and variable (bonus) components
- the indexation of production personnel wages based on the level of inflation in Kazakhstan.

Ratios that take into account the severe natural and climatic conditions in the regions, ratios for living in unfavorable environmental conditions, premiums for hazardous working conditions, and other fixed payments are used when determining the fixed part of wages.

Year-on-year the minimum wage of KazTransOil JSC employees is consistently higher than the minimum wage in the Company's regions of operation.

In order to standardize the approaches used to determining wages, in late 2017 a Working Group tasked with developing a Unified Wage System (UWS) was set up.

Standard principles and approaches to the wages of employees of the Oil transportation line of business, prescribed by the Action Plans to develop the UWS at the Company, were drafted during the reporting year. All the prepared materials were sent to NC KazMunayGas JSC for approval. The Company plans to continue its work on the UWS project in 2019.

RATIO OF THE WAGES OF ENTRY-LEVEL EMPLOYEES TO THE MINIMUM WAGE IN THE COMPANY'S REGIONS OF OPERATION. **GRI 202-1**

	2016 <sup>2</sup>	2017 <sup>2</sup>	2018 <sup>3</sup>	Change, %
Minimum wage in regions of operation, KZT thousand	22.9	24.5	28.3	↑ 15.6
<b>Men</b>				
Wages of an entry-level employee at the Company, KZT thousand <sup>2</sup>	49.8	57	52.3	↓ 8.2
Ratio of the minimum wage at the Company to wages in the regions of operation	2.2	2.3	1.9	–
<b>Women</b>				
Wages of an entry-level employee at the Company, KZT thousand <sup>3</sup>	49.3	49.3	52.3	↑ 6.1
Ratio of the minimum wage at the Company to wages in the regions of operation	2.2	2	1.9	–

<sup>2</sup> Data for men in 2016 contained information on the wages of a janitor, whose services have been outsourced since July 2017. In 2017 data on the boiler room operator were used.

<sup>3</sup> In 2018 the data for men shows the wages of a laborer at Karazhanbas OPS and Karazhanbas LOCS, and for women shows the wages of a laborer at Uzen POPS.

Appraisals of KazTransOil JSC middle managers and central office employees were performed in 2018, in order to assess whether employees were suitably qualified for the positions held by them, determine demand for employee training and development, and ascertain wage levels that corresponded with the qualifications level of employees.

The average score among the 455 Company employees appraised was 84% (out of a possible 100%). An individual development plan to determine the professional training to be used to improve both personal and professional skills was created for each employee, based on the appraisal results.



DEVELOPING THE KPI SYSTEM

The responsibilities of employees from the Company's central office and separate structural divisions increased significantly, as a result of a reorganization of the management structure. As a consequence, from 2018 the year-end bonuses of all central office employees and directors of separate structural divisions are paid based on KPIs, with due account of the attainment of the Company's strategic goals and individual performance indicators.

A vertically integrated KPI structure is created under this approach, thereby making it possible to allocate responsibility for the attainment of strategic goals to each designated participant in the Company's business processes.

The development of a system to assess the activity of the business units of the KazTransOil JSC central office using elements of the 360-degree assessment method also commenced in December 2018. As part of this assessment, each division determined a group of business units with which it works and the indicators (requirements) to be used to perform assessments.

This tool allows the strengths and weaknesses of cooperation between the business units to be identified and the methods and means for improving the effectiveness of their work to be established.

Due to the rise in the amount of information being processed as part of the development of the KPI system, a project to computerize this system was launched in 2018 (see the section "Digitalization and automation of processes").

TRAINING AND DEVELOPMENT

Providing extensive training opportunities and improving the level of employee qualifications are key KazTransOil JSC priorities. A high level of professional training is an important factor in ensuring the reliability and efficacy of the Company's work.

The Company considers staff development to be a holistic project that helps ensure that workers have the required skill level to achieve production goals, promotes the professional growth and loyalty of employees, creates a positive social climate among staff, and has a direct impact on the development of the corporate culture.

The Company's existing staff training system provides equal opportunities and support for the professional development of each Company employee, through the regular completion of advanced training courses (at least one, but no more than three training events per year per employee) to acquire and advance the knowledge and skills required to perform the tasks that have been assigned to employees.

AREAS OF TRAINING AND STAFF DEVELOPMENT. GRI 404-2



In 2018, 683 staff training and development events were held. Total training costs amounted to KZT 449 million, which was 13.6% more than in 2017.

KazTransOil JSC has a Training Center (in Aktau), an STC branch of the KazTransOil JSC, that functions to coordinate the vocational training system and provide the basis and conditions for implementing production training and development programs. In 2018, 12,444 production personnel, including 9,933 blue collar workers, underwent training and retraining at the Training Center. **GRI 404-2**



**VISIT TO THE COMPANY BY NAZARBAYEV UNIVERSITY STUDENTS**

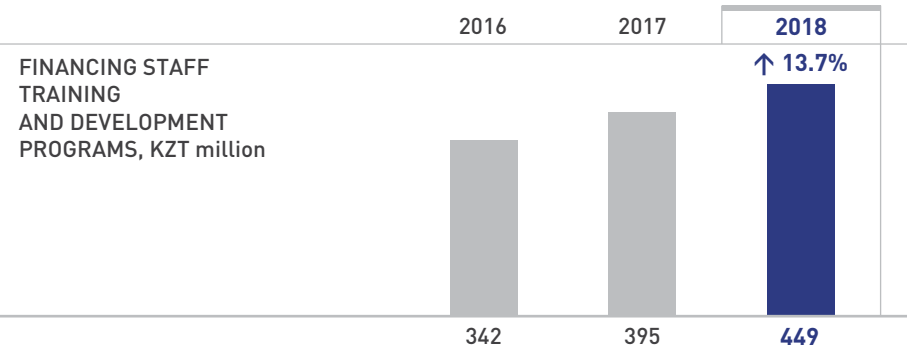
In September 2018 students from Nazarbayev University visited the KazTransOil JSC central office, as well as the offices of Karaganda Oil Pipeline Department and Atasu POPS. The students comprised pupils from the schools of chemical engineering, mechanical engineering, and mathematics.

At the central office the students were shown a presentation about the Company's main business lines. At the end of the meeting the students had an opportunity to familiarize themselves with the work of the Main Dispatch Office. The future engineers spent one day at Atasu POPS, where they studied in detail all stages of the production process. This event was organized at the personal initiative of the General Director (Chairman of the Management Board) of KazTransOil JSC.

The retraining of Company employees is aimed at not only improving employees' qualifications, but also at ensuring that staff are qualified in related professions and can transfer to another job in the event of, for example, headcount optimization measures.

For a number of years the Company has successfully been implementing the "Young specialist" program. The purpose of this program is to recruit the best students from higher education institutions and to create a pipeline for training future specialists, thereby meeting the Company's need for young specialists. Under this program, in 2018 104 students from specialized domestic and foreign universities participated in the internships at the Company's structural divisions.

Enrolment in the "Young specialists" program is based on a comprehensive analysis of a candidate's academic performance, personal qualities, and business acumen. Students of higher education institutions that have completed their third year of study are eligible for selection. The young specialists training program entails the completion of on-the-job training at the Company's structural divisions. When receiving on-the-job training, each student is appointed to a position at the Company based on their chosen specialization. Each student is assigned an experienced employee as a mentor. During their internships, third- and fourth-year students are paid wages at SSD at a rate that corresponds to second-grade employees, provided that they receive a positive assessment and respective request from their mentor. After the student has successfully defended their dissertation the Company may make them a job offer as a young specialist.



**683 STAFF TRAINING**  
and development events were held in 2018



TALENT POOL

KazTransOil JSC endeavors to ensure career growth and development for employees that have received training and have practical work experience in production processes. The Company provides access to its accumulated store of knowledge and experience, encouraging employees to keep their professional skills up-to-date and to share knowledge and capabilities in case of rotations or dismissals. The Company also fosters mentorship, where employees train and exchange with colleagues the knowledge and skills they have accumulated.

The Company’s vision for the creation and development of a talent pool is to ensure that there are promising and highly professional employees that are motivated to achieve good results at all organizational levels through constant personal and professional growth, and to nurture senior executives that are capable of attaining the Company’s strategic goals, developing the corporate culture, and passing on best business practices and corporate traditions in an efficient manner.

Since 2010, 27 employees have been appointed to managerial positions from the Company’s talent pool.

104 STUDENTS participated in the Company’s internships

SOCIAL POLICY

Implementing the social policy, which is today fully compliant with both state standards and requirements as well as the Company’s internal documents, remains one of the most important tasks for the Company. The foundation for performing the social policy is the 2016 Collective Bargaining Agreement between KazTransOil JSC and employees of the KazTransOil dated by December 27, 2016.

In 2018 a supplemental agreement to the Collective Bargaining Agreement. One of the key amendments became ensuring an eight-hour, shift-based working day and free lunch at food service areas (or, if production facilities do not have such food service areas, a packed lunch) for employees of the Company’s production facilities.

A new document on managing social issues was also drafted in the reporting year – the Regulations on Social Support for Non-Working Pensioners and Persons with Disabilities at KazTransOil JSC.

The Company looks after its former employees. In addition to providing mandatory material assistance upon retirement, the Regulations on Social Support for Non-Working Pensioners and Persons with Disabilities at KazTransOil JSC also prescribes monthly monetary payments and financial assistance for national, state, and professional holidays.

The Company provides all employees with a guaranteed social package, as stipulated in the Collective Bargaining Agreement, in order to improve the living conditions of employees and their family members<sup>1</sup>. **GRI 102-41**

The Company’s social package comprises:

- social and educational leave
- maternity leave
- leave to care for an adopted newborn (or adopted newborns)
- short paid leave: for an employee’s wedding, paternity leave, and bereavement leave in the event of the death of an employee’s close relative
- an option to set up voluntary health insurance for employees and their family members, including parents . **GRI 401-2, 403-6**

<sup>1</sup> Employees of KazTransOil JSC representative offices are not covered by the Collective Bargaining Agreement.



YOUNG SPECIALISTS COUNCIL

*The Young Specialists Council was created at KazTransOil JSC in 2016 in order to unite employees aged under 34, to facilitate their social and professional adaptation and professional growth at the Company, and to help resolve the social and domestic challenges faced by youth. Young Specialists Council members have made great strides within a short time, from the drafting of statutes and regulations to successfully participating in the Company’s cultural events.*

In 2018 the Company met all the obligations stipulated in the Collective Bargaining Agreement. The Company’s social support costs for its employees and their families amounted to around KZT 2.2 billion.

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

- monthly payments of benefits to employees on childcare leave, until the child reaches 18 months of age
- additional support is provided to women: the Company provides a flexible work schedule to women with young children
- monthly payments of KZT 15,000 to support a child (children) aged from 18 months to six years
- New Year gifts to children of employees aged up to 12.

Thanks to its wide-ranging social support and continual efforts to improve its social package, the Company records a high rate of employees that return from maternity leave until a child reaches the age of three years (100%).

THE RATIO OF WORKERS WHO RETURNED TO WORK AFTER THE END OF PARENTAL LEAVE TO CARE FOR A CHILD BEFORE HE REACHES THE AGE OF THREE YEARS. **GRI 401-3**

	Number of employees who took maternity/paternity leave		Number of employees that returned to work after maternity/paternity leave		Share of employees that returned to work after maternity/paternity leave, %
	men	women	men	women	
Central office	0	13	0	4	6
Separate structural divisions	7	91	5	57	94
STC	0	8	0	0	–
Representative offices in Samara, Omsk, and Moscow	0	1	0	0	–
Total	7	113	5	61	–
Total number	120		66		100





**SPARTAKIAD IN ALMATY**

A Spartakiad was held in Almaty in August that pitted 16 teams against one another, including teams from the separate structural divisions and the SJCE. Over 320 sportsmen from KazTransOil JSC competed in sectoral Spartakiads involving futsal (indoor soccer) and volleyball, and demonstrated their skills in mixed relays, table tennis, tug-of-war, and kettlebell lifting competitions.

**YOUTH POLICY**

The Company adopts an integrated approach to working with young professionals and recruiting young specialists to work in the Company, which is enshrined in the Youth Policy of KazTransOil JSC.

University and college students can undergo paid internships at the Company during their summer breaks. They are assigned a mentor upon being hired as a young specialist, and teambuilding cultural events are organized throughout the year. A Young Specialists Council has been created and is in operation at the Company, which consist of the young specialists of central office, SSD and KazTransOil JSC STC branch.

The Company creates the conditions necessary for the professional and personal development of young specialists, and enhancing their leadership, professional, and managerial competencies. Competitions are held among young specialists, including for the “Best Innovation Project”.

The “Mentorship of Young Employees at Production Facilities” program was developed and presented for implementation in the Company, at the initiative of the KazTransOil JSC Young Specialists Council in 2018. The draft program “Exemplary Young Employee” was also prepared, and is scheduled for implementation in 2019. These programs are aimed at the continued development of mentorship activities within the Company.

The Young Specialists Council also worked on scientific projects for the II International Youth Scientific and Technical Conference of Transneft PAO and the member organizations of the International Association of Oil Transporters in 2018.

The Company’s young specialists are actively involved in social events and projects. For example, in 2018 they took part in Saturday clean-ups, charity events and fairs, and congratulating World War II veterans and home front workers on Victory Day.

**HEALTHY LIFESTYLE**

The Company carries out work to encourage employees to engage in sporting activities in order to foster harmonious development, improve health, and maintain labor potential. **GRI 403-6**

Over 700 Company employees took part in a number of Company-wide sports events (so-called Spartakiads) in 2018.

KazTransOil JSC sports teams win prizes in various competitions and tournaments. The Company’s young specialists hold competitions in chess, checkers, and toguz kumalak , marathons, and bike and ski races.

The Company provides employees with annual subscriptions to fitness clubs or, if no fitness clubs are available, leases out premises near its workplace for sports and exercise activities.

**700 EMPLOYEES**  
took part in sporting events (Spartakiads)



**“BEST IN PROFESSION” KAZTRANSOIL JSC COMPETITION**

Each year highly qualified specialists from the production divisions of the Company demonstrate their professional mastery in the “Best in Profession” KazTransOil JSC competition. The goal of this competition is to increase the knowledge and skills of employees, bolster the prestige of vocational professions, and foster a corporate spirit. The participants are judged by a competition committee based on the quality of performing a practical task, the level of academic training, and observance of health and safety rules.

In 2018, 265 employees from the Company’s SSD. The winners of the competition, from various professions, and their coaches were given monetary prizes and commendations.

**206 EMPLOYEES**  
of the KazTransOil were recognised  
with awards in 2018

**CONTEST AND REWARD POLICY**

The Company has developed rules for awards and recognizing KazTransOil JSC employees, its SCJE, and KazTransOil JSC veterans. These rules are aimed at boosting employee interest in attaining high levels of performance, providing incentives for professional engagement, and publically recognizing the achievements of employees and veterans.

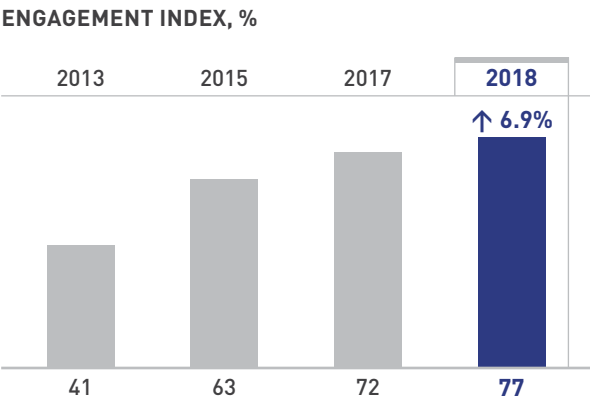
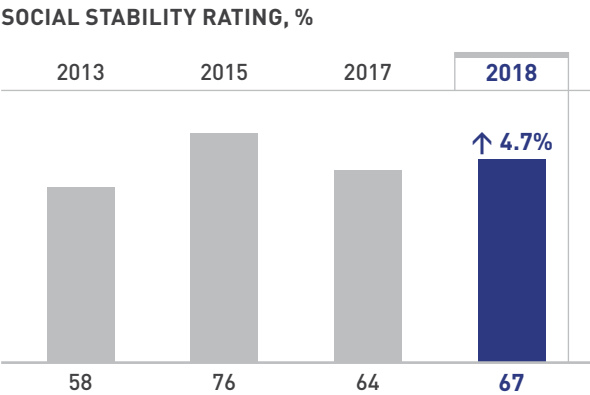
**KAZTRANSOIL JSC EMPLOYEE AWARDS IN 2018**



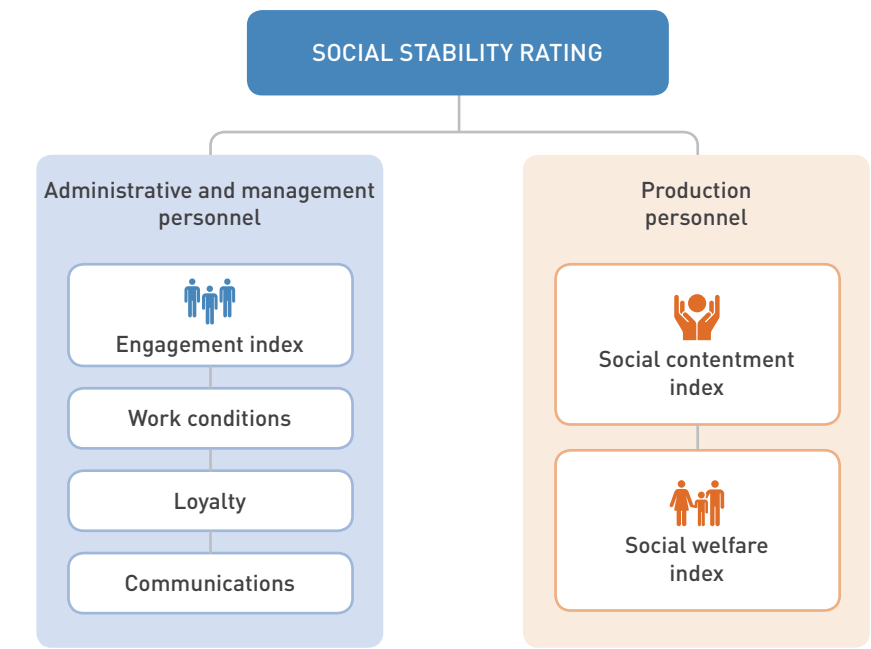
EMPLOYEE ENGAGEMENT STUDY

To assess the satisfaction and motivation level of Company employees, the Center for Social Partnership regularly examines the social stability rating of production personnel, as well as the engagement level of administrative and management personnel.

The social stability rating is based on social welfare, social contentment, and engagement indicators.



BREAKDOWN OF SOCIAL STABILITY RATING



The indices that make up the social stability rating contribute to determining the material and psychological incentives that have the greatest impact on overall employee satisfaction, both for production and administrative and management personnel.

The social stability rating demonstrated 3% growth in 2018, to reach 67%. This growth was the result of a 5% change in the employee engagement index, a 15% change in the social welfare index, and a 12% change in the social contentment index.

The Company’s employee engagement index stood at 77% in 2018. According to the employee engagement index scale adopted by Samruk-Kazyna JSC, this result falls within the positive zone, which provides a good indication that employees understand the Company’s development goals. Employee engagement rose by 5% compared to 2017. Other factors that influenced growth in the Company’s engagement index in 2018 were a 9% rise in satisfactory working conditions and a 2% increase in the employee loyalty indicator.

The Company identifies its weaknesses and determines a respective action plan for the coming year based on the data obtained.



**OPEN HOUSE**

*The Company implemented an “Open house” project to enhance internal communications between employees of the various central office business units. Employees had a chance to take a closer look at the work specifics of other Company divisions, during open-door meetings. This kind of communication makes it easier to raise awareness and engagement among employees in relation to attaining common goals.*

*The first open house was held by the Transportation Department in December 2018. Company employees learned about the special features and development outlook of the Company’s main line of business – oil transportation. Plans for 2019 include holding regular events that cover all business units of the Company’s central office.*

INTERNAL COMMUNICATIONS

The Company’s corporate culture is established and developed using a wide range of communications tools, including an internal information network and feedback channels, meetings between management and employees, and holding corporate events for employees.

The Company implemented 17 projects in 2018. The most important of these were the “Open House” project and introducing a mobile application. Other internal communications measures included:

- meetings between management and the directors of trade union organizations and Company employees
- preparing video content for broadcast on internal information channels
- training 2,515 separate structural division employees in social media and messengers etiquette
- training the directors of separate structural divisions in media communications skills in the event of emergencies as well as other emergency communications
- organizing the first charity fair in cooperation with the Young Specialists Council, with the KZT 940 thousand raised donated to orphans at the Akkol orphanage and used to support child athletes with disabilities.

The first meeting between employees and the Company’s chief executive officer was held in autumn 2018. During the meeting the General Director (Chairman of the Management Board) informed central office employees about the Company’s work results, current projects, and the outlook for 2019. The plan is to hold similar meetings twice a year.

The corporate newsletter Munaqubyrshy is the most well-known of the Company’s internal communications tools and has the largest coverage. 18 issues were published in 2018 and distributed to the POPS, OPS, and all sites that have bulletin boards set up for employees. Munaqubyrshy materials are published in the language of the author, without being translated. Munaqubyrshy also publishes unique proprietary content that is not reproduced in other information channels.

**18 ISSUES**  
of the “Munaqubyrshy” were published in 2018



**DEVELOPMENT OF DIGITAL COMMUNICATION CHANNELS**

*In 2018 the Company developed a mobile application that has become a universal means of access to information for all employees. In view of the fact that 68% of the Company's workforce is made up of production personnel that do not have access to personal computers, the app has become the main source of information about the Company's activity (together with the Munaiqubyrshy electronic corporate newsletter).*

*The KazTransOil mobile app is the only one of its kind in the oil and gas industry in Kazakhstan. The introduction of the application has driven the advancement of mobile journalism within the Company. The KazTransOil JSC YouTube channel was established especially for uploading video content. The "Үш тілді білу" challenge, in which Company employees read literary works in the Kazakh language, was realized using the mobile app. This practice facilitates and promotes the use of the Kazakh language at the Company, and dovetails with an initiative of the President of the Republic of Kazakhstan to spread the Kazakh language.*

*In February 2019 KazTransOil JSC's mobile app was nominated for the Kazakh professional prize Ak-Mergen, in the category PR ("Corporate communications").*

A program to digitalize internal communications was implemented in 2018. A strategy was developed under which video was deemed to be the most suitable channel for communicating with employees. Television equipment was purchased for all Company divisions, including remote shift camps, to broadcast regularly updated video content about the Company.

There was noteworthy growth in creative initiatives among Company employees in the reporting year. Many employees authored articles published on the corporate website and in Munaiqubyrshy. Getting specialists involved in creative activities is one of the development areas of internal communications at the Company.

EXTERNAL COMMUNICATIONS

KazTransOil JSC continued its proactive work with the media in 2018, and enhanced its approaches to external communications.

During the reporting period the Company participated in a live phone-in program, timed to coincide with Industrialization Day. A head of state and the General Director (Chairman of the Management Board) of the Company took part in the event, which received widespread coverage in leading media outlets. Events that received the most media attention in 2018 were:

- the organization of an ethnoaul in honor of the 20th anniversary of the Republic of Kazakhstan capital - city of Nur-Sultan
- the signing of a long-term agreement on the technical maintenance of Caspian Pipeline Consortium JSC facilities in Kazakhstan
- the transfer of the Company's administrative building in Atyrau to Atyrau Region communal property free of charge for placing a student dormitory in accordance with program "Five social initiatives of the President of the Republic of Kazakhstan".

A communications plan, to be implemented differently from previous plans, was developed for KazTransOil JSC in 2019. The plan has two main areas: external communications and internal communications, which are driven by the specifics of two stakeholder groups.



**ETHNOAUL IN HONOR OF 20TH ANNIVERSARY OF KAZAKHSTAN CAPITAL**

*In honor of the 20<sup>th</sup> anniversary of the Republic of Kazakhstan capital - city of Nur-Sultan the Company presented residents and guests of the capital with an ethnoaul that covered over 3,000 m<sup>2</sup>, and made up of 11 yurts, eight of which were theme-based. The theme of the ethnoaul was Rýhanı Jańǵyrý (spiritual revival), spiritual modernization, and the connection of the present with the past.*

*The ethnoaul was organized by KazTransOil JSC employees from 11 regions of Kazakhstan where the Company's production facilities are located. This cultural and ethnic event showcases the spiritual life of the regions, their historic legacy, and the development of the oil and gas industry of Kazakhstan.*

PLANS FOR 2019 AND THE MEDIUM TERM

In the next reporting period the Company plans to continue to implement measures and initiatives to enhance the staff management system, the social policy, and internal and external communications systems, including:

- continued work on the UWS project
- implementing a comprehensive 360-degree assessment for central office employees
- rotating line managers in the regions, so as to enhance management approaches
- developing a competitive internship program for students and young specialists, with subsequent appointments at the Company
- attestations of employees of separate structural divisions
- holding the International Competition "Best in Profession" among member states of the International Association of Oil Transporters
- organizing and holding the second young specialists forum in Aktau
- holding the first youth scientific and technical conference of KazTransOil JSC in January 2019
- implementing television and mobile journalism projects, including employee training and creating of video content.

# OCCUPATIONAL HEALTH AND SAFETY

## SIGNIFICANT TOPICS

- OCCUPATIONAL HEALTH AND SAFETY

## KEY EVENTS

- HOLDING OF FORUM “100% SAFE LABOR – OUR COMMITMENT!”



# 33%

decrease in total number of production-related accidents among Company employees

# KZT 1 890 MILLION

investments in developing the occupational health and safety

## APPROACH TO MANAGING OCCUPATIONAL HEALTH AND SAFETY ISSUES

Ensuring safe working conditions and minimizing risks associated with operational activities form key areas of the Company's Development Strategy.

As part of this activity, the Company aims to ensure:

- trouble-free operations at its production facilities
- the prevention of accidents
- a reduction in the level of professional illnesses
- safe, ergonomic, and sanitary conditions at all workplaces

The Company also places great importance on maintaining the health of its people. In order to do this, and to reduce risks of work-related illnesses, the Company continuously promotes healthy lifestyles and performs respective preventative measures among its employees.

To mitigate the negative consequences of emergencies, the Company has organized a system of rapid response measures, including ensuring fire safety at production facilities.

The occupational health and safety management system covers all Company employees and has been certified in accordance with OHSAS 18001:2007. This system forms part of KazTransOil JSC's IMS. **GRI 403-1, 403-8**

## STAKEHOLDERS

- staff;
- the SJCE;
- service consumers and partners;
- suppliers and contractors.

## MANAGEMENT STRUCTURE AND TOOLS

Occupational health and safety issues are managed on two levels. In the central office this work is coordinated by the occupational health and safety and emergencies department, and at separate structural divisions by the occupational health and safety and environment departments. **GRI 403-1.**

The Company implements a wide range of occupational health and safety measures and initiatives, including:

- compliance with the health and safety legislation of the Republic of Kazakhstan, as well as international and national standards
- certification of health and safety management systems (OHSAS 18001:2007) as part of the integrated management system
- providing required specialized work clothes, footwear, and personal protective equipment; **GRI 403-7**
- assessments of occupational safety risks, maintenance work, and the prevention of on-the-job injuries
- performing a set of reliability and safety measures in accordance with the Declaration of Industrial Safety of Hazardous Production Facility
- the work of Industrial Councils in SSD
- holding monthly meetings with employees on occupational health and safety and environmental issues
- conducting the Safety Minutes program
- employee training in fire and occupational safety basics.

## KEY INTERNAL DOCUMENTS

- KazTransOil JSC's Policy on Occupational Health, Safety and the Environment
- the Unified Occupational Health and Safety Management System of KazTransOil JSC;
- the Declaration of Industrial Safety of Hazardous Production Facilities of KazTransOil JSC
- KazTransOil JSC's Code on Occupational Health and Safety, the "Golden Rules"
- KazTransOil JSC's Code of Leadership and Commitment to Occupational Health and Safety, Industrial, Fire and Transportation Safety, and the Environment
- the Procedure for reporting incidents at KazTransOil JSC.



ASSESSMENT OF OCCUPATIONAL HAZARDS AND RISKS

Pursuant to the KazTransOil JSC’s Risk Management Rules related to occupational health and safety, the Company works to identify threats to employees and other stakeholders and to evaluate associated risks. Risk identification and assessment in the area of occupational health and safety is performed at the central office and the Company’s separate structural divisions. [GRI 403-2](#)

RISK ASSESSMENT STAGES IN THE AREA OF OCCUPATIONAL HEALTH AND SAFETY



Risks are assessed at least once a year. Occupational health and safety service employees are involved in the assessment process, alongside relevant divisions. Identified risks are subject to reassessment in the event of the emergence of events or accidents, as well as in the event of significant changes to production activity. Measures to mitigate high risks in the area of occupational health and safety are elaborated based on risk assessment results.

The Company also regularly trains the staff involved in the risk assessment process, so as to improve the quality and precision of the performance of procedures.

DEVELOPMENT OF THE MANAGEMENT SYSTEM

The Company continued to develop the system to ensure occupational health and safety in 2018, by implementing a number of measures pursuant to the Roadmap for comprehensively enhancing the management system in the area of occupational health and safety and the environment at KazTransOil JSC up to 2025. 10 internal documents were drafted, updated, and adopted.

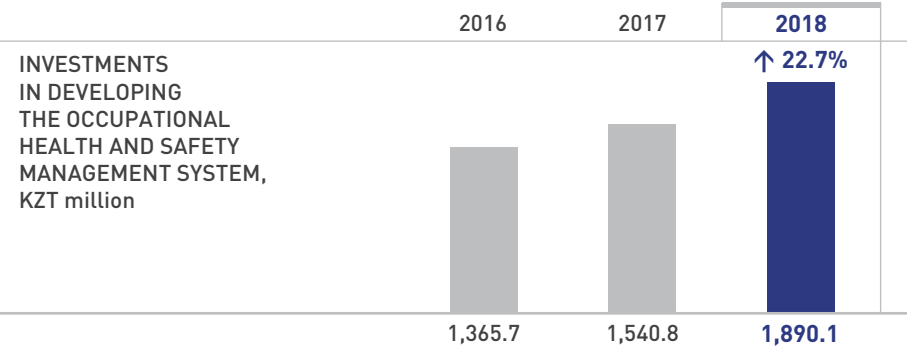
For example, the Unified Management System for Occupational Health and Safety standard of KazTransOil JSC was updated due to changes in the labor legislation of the Republic of Kazakhstan relating to the creation of industrial councils. According to amendments adopted in separate structural divisions at the initiative of employee trade unions, industrial councils are in place whose activity is aimed at improving the efficacy of occupational health and safety measures that have been developed. [GRI 403-4](#)

During the review in 2018 of the performance of the corporate KPI “Transparency of reporting in the areas of occupational health and safety and the environment”, NC KazMunayGas JSC examined the Mangystau, Atyrau, and Shymkent oil pipeline departments. The respective analysis established that this indicator was being met by the Company’s structural divisions.

During the reporting year 11,419 behavioral observations on work safety and 2,634 behavioral obligations on traffic safety were made at the Company’s production facilities. The observations demonstrated that 98% of work is performed in a safe manner. Discussions with employees were held concerning all identified instances of unsafe work, with an indication made of the respective error committed.

INVESTMENTS IN OCCUPATIONAL HEALTH AND SAFETY

Every year the Company makes considerable investments in developing the occupational health and safety management system. Total investments in this area rose by 22.7% in 2018, and stood at KZT 1,890 million, with more investments made in almost every sector compared to 2017. The 7.5% decline in investments in occupational safety was due to the removal of water supply services from the Company’s main business lines and transitioning to a two-tier management system.



INVESTMENTS IN DEVELOPING THE OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEM, KZT million

Name	2016	2017	2018	Change, %
Occupational safety	141.6	177.1	163.9	-7.5
Healthcare	489.9	509.1	673.9	32.4
Industrial safety	2.5	32.5	137.7	4.2 time increase
Fire safety	731.7	822.0	914.6	11.3
Total	1,365.7	1,540.8	1,890.1	22.7

WORK-RELATED INJURIES

Thanks to the work performed to develop the occupational health and safety management system, including elaborating emergency and industrial accident response methods, the Company has been able to maintain a low level of injuries among its employees.

All accidents are investigated in line with legislative requirements. An accident internal investigation regulations in KazTransOil JSC was also developed in 2018, which documents the internal investigation procedure into accidents in cases where the investigation procedure is not regulated by respective legislation. This document is scheduled for approval and adoption in 2019. [GRI 403-2](#)

There were two industrial accidents in 2018, which resulted in minor injuries for two Company employees. In both cases the injured parties were men. In view of the nature of the production process at KazTransOil JSC, the main causes of injuries among employees remain falls from heights and injuries to the extremities.

The investigations were performed within the established timeframes, and established that in the cases in question the decisive factors in the injuries were employee carelessness, poor decision-making, and those performing the work disregarding safety requirements. The injured employees have made a full recovery and resumed their job duties.

Risks were reassessed in the separate structural divisions and appropriate measures were developed to ensure that similar incidents do not reoccur. Information about these accidents was brought to the attention of Company employees. The Company’s policy to instill in employees a personal adherence to occupational health and safety will continue in 2019.

NUMBER OF PRODUCTION-RELATED ACCIDENTS AMONG COMPANY EMPLOYEES [GRI 403-9](#)

	2016	2017	2018	Change, %
Total number of production-related accidents	2	3	2	-33.3
Total number of injured people, including	14	3	2	-33.3
<i>number of minor injuries</i>	10	2	2	–
<i>number of serious injuries</i>	4	1	0	-100
<i>number of deaths due to occupational injuries</i>	0	0	0	0
Accident frequency rate per 1,000 people	0.25	0.39	0.29	-25.6
Lost Time Injury Frequency Rate (LTIFR)	0.19	0.05	0.034	-32

INJURY RATE OF EMPLOYEES OF CONTRACTORS

The employees of contractors are also subject to stringent occupational health and safety requirements.

The Company has implemented a Code on Occupational Health and Safety, the “Golden Rules”, which covers all Company employees as well as the employees of contractors arriving at the sites of Company production facilities.

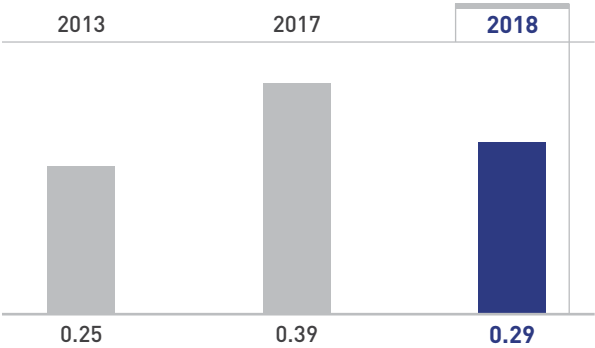
Compulsory adherence to the occupation health and safety requirements set forth in the KazTransOil JSC regulations “Requirements on Contractors” have been established for all contractors. These requirements are also set out in a special section of contracts with employees of contracting organizations. Behavioral observations of safety are performed in relation to the employees of contractors. If flagrant violations are identified, work is suspended and instructions issued to eliminate the violations.

To ensure transparency and awareness among contractors, information about all incidents are on a monthly basis entered into the Corporate data management information system of NC KazMunayGas JSC.

Two injuries involving temporary disability were recorded among the employees of contractors in 2018. Based on the results of the investigations into these accidents, warning signs were made and placed in visible locations. All Company employees were informed about these accidents in “Safety Minutes”, and the employees of contractors are informed about them during initial safety sessions.

0.034 LTIFR  
Lost Time Injury Frequency Rate

ACCIDENT FREQUENCY RATE PER 1,000 PEOPLE FOR THE PAST THREE YEARS



NUMBER OF PRODUCTION-RELATED ACCIDENTS AMONG EMPLOYEES OF COMPANY CONTRACTORS [GRI 403-9](#)

Incident	2016	2017	2018
<b>Mediker-PM LLP</b>			
Number of people that suffered temporary disability	0	0	1
<b>Dos Support LLP</b>			
Number of people that suffered temporary disability	0	0	1

HEALTHCARE

KazTransOil JSC pays close attention to maintaining and supporting the health of its employees. To do this, the Company promotes healthy lifestyles among employees and preventative approaches. The Company implements preventative measures related to occupational and socially significant illnesses, including viruses and cardiovascular disease. [GRI 403-10](#)

In accordance with legislation of the Republic of Kazakhstan, the following medical services are provided to Company employees: [GRI 403-3](#)

- urgent medical aid in the form of medivac helicopters and ambulances
- paramedical care at a daytime medical center
- qualified medical aid at a first aid station working on a rotating schedule
- mandatory medical check-ups of employees, including every day before a shift and annual routine examinations.

In 2018, 6,261 employees underwent mandatory annual medical examinations, with 930 requiring follow-up care (this was 161 employees fewer than in 2017). The reasons behind the reduction in the number of employees needing follow-up care compared to 2017 were:

- the recovery or achieving stable compensation of physiological functions after an acute medical condition (including a heart attacks or a stroke)
- achieving a stable compensation of physiological functions or a stable remission of chronic illnesses or diseases
- eliminating (remedying) risk factors and lowering the risk of chronic incommunicable diseases progressing, as well as complications. [GRI 403-10](#)

6,261 EMPLOYEES  
underwent mandatory annual medical  
examinations in 2018



The Company drafts annual plans for treatment and preventative measures: KZT 690.6 million was earmarked in the reporting period towards the performance of sanitary-epidemiological, treatment, and preventative measures.

Daytime and round-the-clock medical first aid stations supplied with necessary medicines, pharmaceuticals, and medical products as well as medical equipment have been set up to provide emergency medical aid at production facilities.

Production facilities are also regularly supplied with booklets, brochures, and posters on the healthcare theme.

### INDUSTRIAL AND FIRE SAFETY

The Company's industrial and fire safety management system is integrated into organizational and technical measures in order to avert accidents and incidents at hazardous production facilities and facilitate containing and responding to accidents.

In 2018 no accidents or fires owing to human error were recorded during the operation of the Company's oil pipelines and other production facilities. The high level of safety was achieved primarily through implementing the following measures:

- Regulations on the in-process monitoring of compliance with industrial safety requirements at the hazardous production facilities of KazTransOil JSC were drafted, taking into account all hazards affecting the maintenance of industrial safety.
- Three permits were received from the competent authority in the area of industrial safety to install 17 pieces of technical equipment to be used at hazardous production facilities.
- Seven separate structural divisions and two SJCE were audited for compliance with industrial and fire safety rules.
- A contract was concluded to service the Company's production facilities by a professional militarized emergency rescue service.
- The annual training of employees in basic fire and industrial safety.
- Regular inspections of the working condition of stationary foam fire extinguishing installations and the technical condition of fire alarms, as well as inspections of the fire safety equipment at facilities.
- Nurturing practical and theoretical skills in the event of possible fires; in 2018 the Company conducted 16 fire drills and 922 tactical fire exercises, held 19,133 introductory briefings on fire safety, trained 512 members of voluntary firefighting units, and revised 197 fire safety instructions. **GRI 403-4**

## 0 ACCIDENTS

or fires owing to human error in 2018



#### FORUM "100% SAFE LABOR – OUR COMMITMENT!" GRI 403-4

*The first annual forum on occupational health and safety "100% Safe Labor – Our Commitment!", organized by KazTransOil JSC, was held in Almaty in August 2018. The management and directors of the structural divisions of KazTransOil JSC, the parent company NC KazMunayGas JSC, representatives from Karachaganak Petroleum Operating B.V., Tengizchevroil LLP, Air Astana JSC, and contracting organizations took part in the work of the forum.*

*At the forum special attention was paid to the personal commitment of employees in the oil and gas sector to the culture of labor safety. Personal commitment means a conscious awareness of personal and collective safety, based on a deep understanding of the principles of safe behavior.*

### TRAINING AND RAISING AWARENESS OF INDUSTRIAL AND OCCUPATIONAL SAFETY

KazTransOil JSC implements all industrial and occupational safety training programs prescribed by state requirements. 15,984 mandatory occupational, fire, and industrial safety trainings were underwent for the Company's employees in 2018.

Corporate courses to train Company employees were organized: **GRI 403-5**

- on industrial safety requirements: 5,661 employees
- on basic fire and technical safety: 5,092 employees
- on first-aid training for people without a medical education: 1,968 employees
- the "Safe driving" course: 862 drivers .

In the reporting year the practice of sending weekly e-mail bulletins to each employee was implemented. 52 bulletins were sent during 2018 in order to improve the safety culture among the KazTransOil employees.

The Company also publishes a "Warning Sign" information poster that is hung on bulletin boards at production facilities, and holds "Safety Minutes" and monthly meetings between employees and management to discuss occupational health and safety issues.

A new initiative was developed and implemented in the reporting period: "Qorǵay" ("Protection") cards, which will be placed in all the Company's production and office premises. Any Company employee or visitor who discovers non-compliance or an event that could become a safety threat can make suggestions on improving safety by filling in the card. The Company plans to actively promote the use of these cards in the future by offering a cash reward for the best suggestion.

### PLANS FOR 2019 AND THE MEDIUM TERM

The Company plans to continue to implement measures to enhance the industrial and occupational health and safety management system in the future, including:

- adopting a single document to govern the procedure for drafting health and safety instructions
- the continued development of the employee occupational health and safety section of the KazTransOil mobile application.

# ENVIRONMENTAL PROTECTION

## SIGNIFICANT TOPICS

- WATER AND EFFLUENTS
- EMISSIONS
- EFFLUENTS AND WASTES
- ENVIRONMENTAL COMPLIANCE

## KEY EVENTS

- PUMP SYSTEM FOR CIRCULATING THE WATER SUPPLY WAS INSTALLED AT JUMAGALIYEV POPS
- UPDATE OF THE RULES ON ENVIRONMENTAL ASPECTS MANAGEMENT OF KAZTRANSOIL JSC
- THE CONCEPT OF A GREEN OFFICE WAS IMPLEMENTED AT THE COMPANY'S CENTRAL OFFICE



35.6%

reduction in the total volume of discharges

11.8%

reduction in the gross direct greenhouse gas emissions



## APPROACH TO MANAGING ENVIRONMENTAL PROTECTION

Environmental protection and ecological safety form important components of the Company's approach to sustainable development. In its operations the Company strives to maintain a harmonious balance between meeting production targets and its adverse impacts on air, water, and land resources, as well as other environmental aspects.

The Company's environmental protection activity is regulated by the requirements of the Republic of Kazakhstan legislation, international and national standards, and the provisions of corresponding Company policies as well as other internal guideline documents.

### STAKEHOLDERS

- shareholders and influential organizations
- staff
- the SJCE
- service consumers and partners
- state authorities
- society and the media.

## MANAGEMENT STRUCTURE AND TOOLS

Environmental protection issues are managed at two levels. In the central office work is coordinated by the Occupational Health and Safety and Emergencies Department, and at separate structural divisions by relevant departments.

The environmental protection management system covers all areas of the Company's production activity. In 2018 SGS Kazakhstan Ltd. LLP conducted a certification audit of the integrated management system, which confirmed KazTransOil JSC's compliance with ISO 14001:2015.

The Company implements a wide range of measures and initiatives as part of its management of environmental protection issues. These include:

- adherence to the legislative requirements of the Republic of Kazakhstan on environmental protection, compliance with international and national standards
- certification of the environmental management system (ISO 14001:2015) as part of the integrated management system
- determining and assessing environmental risks, investing in measures to manage such risks
- the training and professional development of core specialists in relation to amendments to the environmental legislation of the Republic of Kazakhstan
- assessing the environmental efficiency of production as part of the environmental monitoring of production through the engagement of contractors (laboratories)
- concluding annual agreements on mandatory environmental insurance against accidental pollution
- the work of the Committee on Occupational Health and Safety and the Environment
- developing and promoting environmental awareness among Company employees.

### KEY INTERNAL DOCUMENTS

- KazTransOil JSC's Policy on Occupational Health, Safety and the Environment
- the Code of Leadership and the Commitment of KazTransOil JSC employees to compliance with the requirements of occupational health and safety, industrial, fire, transportation, and environmental safety
- the Rules on Environmental Management of KazTransOil JSC
- the Rules on Waste Management at KazTransOil JSC.



DEVELOPMENT OF THE MANAGEMENT SYSTEM

The Company is continually improving its methods and approaches to environmental conservation and environmental risk management, and allocates the resources necessary for environmental protection.

In connection with amendments and addenda to the Environmental Code of the Republic of Kazakhstan, transitioning to a two-tier management system, and pursuant to the recommendations of internal audits performed the Rules on Environmental Aspects Management of KazTransOil JSC, was updated in 2018.

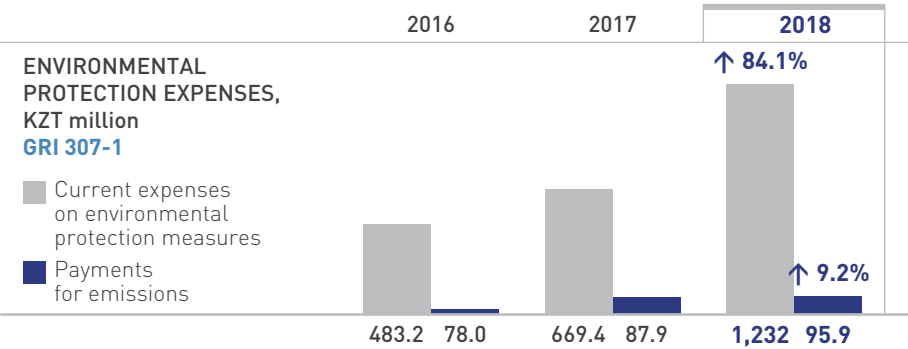
The new version of the Rules on Environmental Aspects Management of KazTransOil JSC includes amendments regarding requirements related to the criteria of substantial environmental aspects. Now all separate structural divisions set up working groups that consist of ecologists, engineers, and technicians. A working group drafts a list of substantial environmental aspects for each facility; an action plan is then developed to mitigate each substantial environmental aspect, and these plans are brought to the attention of the departments for implementation.

KZT 1,232 MILLION  
investments related to environmental protection measures in 2018

INVESTMENTS AND ENVIRONMENTAL PAYMENTS

The Company’s environmental costs are made up of two main items:

- payments for emissions (atmospheric emissions, sewage discharges, waste management)
- expenses related to environmental protection measures initiated by the Company and to improve the environment of Kazakhstan.



In 2018 investments related to environmental protection measures amounted to KZT 1,232 million, which was 84.1% higher than in 2017. Growth in current expenses related to environmental protection measures was due to the implementation of measures to rehabilitate disturbed land along the Uzen–Atyrau–Samara oil pipeline and the removal and disposal of oil sludge formed as a result of tank cleaning. **GRI 307-1**

During the reporting period the Company also paid environmental fees of KZT 95.9 million. The slight 9.2% rise in environmental fees in 2018 was due to an increase in the monthly calculation index.

Breaches of ecological requirements and environmental quality standards were identified in 2018, resulting in public bodies imposing KZT 1,022.1 thousand in administrative penalties.

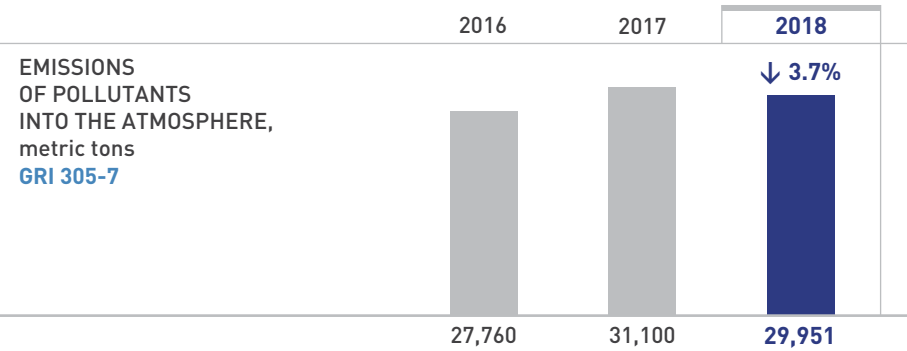
For example, an incident took place in 2018 involving oil seepage due to fluctuations in power supply at the Kultumiev OPS, Kulsary oil pipeline department. This led to two administrative fines being imposed on the Company. All the contaminated soil was quickly collected and sent for disposal, thereby precluding any claims related to environmental damage.

In 2018 there were no accidents that caused environmental damage during oil transportation. **GRI 306-3**

IMPACTS ON THE ATMOSPHERE

The main sources of atmospheric pollutants in the Company’s production processes are emissions from oil heaters for oil transportation, boilers, and oil storage tanks.

To prevent and reduce its negative impacts on the atmosphere, the Company has optimized the combustion process in oil heaters and hot water boilers, and carefully monitors and controls emissions of pollutants into the atmosphere.



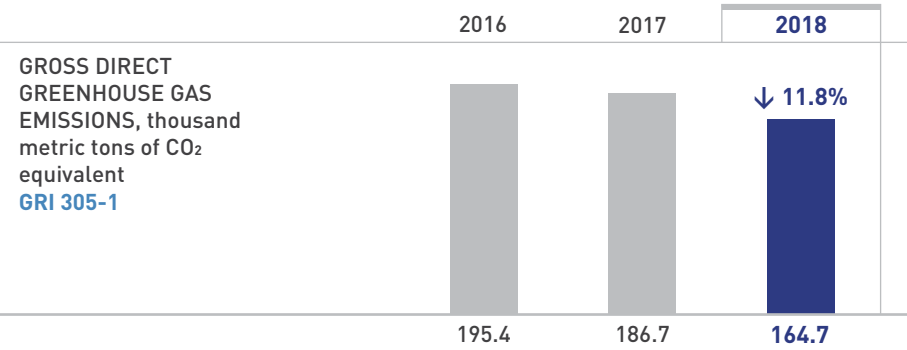
EMISSIONS OF POLLUTANTS INTO THE ATMOSPHERE, metric tons **GRI 305-7**

	2016	2017	2018	Change, %
Volume of emissions of pollutants into the atmosphere, including:	27,760	31,100	29,951	-3.7
NOx	804	816	919	12.6
SOx	104	105	104	-1
COx	313	316	283	-10.4
other categories of atmospheric emissions	26,539	29,863	28,645	-4.1

In 2018 the total volume of harmful emissions into the atmosphere did not exceed established standards: the 3.7% reduction in emissions of pollutants year-on-year was due to a fall in the oil throughput volume, by 984 thousand metric tons.

The Company’s boilers, oil heaters, stationary and movable sources of greenhouse gases, diesel power plants, welding units, and other equipment are all sources of greenhouse gas emissions.

Data on greenhouse gas emissions are calculated by collecting information about fuel consumption and the volume of oil transported during the reporting year by the Company’s structural divisions; the volume of greenhouse gas emissions is calculated based on these data, and a greenhouse gas inventory report is then drafted.



GREENHOUSE GAS EMISSIONS FROM SOURCES AT KAZTRANSOIL JSC STRUCTURAL DIVISIONS [GRI 305-1](#)

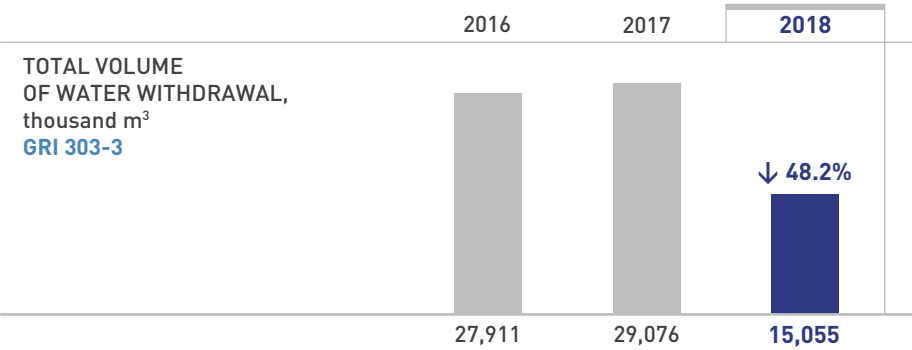
Indicator	2016	2017	2018	Change, %
Gross direct greenhouse gas emissions, thousand metric tons of CO <sub>2</sub> equivalent, including	195.4	186.7	164.7	-11.8
<i>carbon dioxide (CO<sub>2</sub>), thousand metric tons</i>	194.3	185.7	163.7	-11.8
<i>methane (CH<sub>4</sub>), thousand metric tons of CO<sub>2</sub> equivalent</i>	0.11	0.1	0.08	-20
<i>nitrous oxide (N<sub>2</sub>O), thousand metric tons of CO<sub>2</sub> equivalent</i>	1.05	0.96	0.87	-9.4

The Company’s greenhouse gas emissions are declining each year. For example, in 2018 the total amount of direct greenhouse gas emissions stood at 164.7 thousand metric tons of CO2 equivalent, which was 11.8% less than in 2017. In particular, the amount of methane emitted in 2018 fell by 20% compared to 2017. The reduction in methane emissions was connected with a decline in the hours in service (working time) of oil heaters and a consequent drop in the amount of natural gas burned in furnaces.

WATER RESOURCES

Water is one of the main resources required in the Company’s production and technological processes and daily needs (drinking water, fire-fighting systems, and heating systems). The Company also intakes water for the needs of third parties (oil and gas producers, municipal enterprises, agricultural producers, and the public)<sup>1</sup>. [GRI 303-1](#)

KazTransOil JSC intakes water under agreements, has a license for special water use, and does not have a significant impact on water resources.



The volume of water used during the reporting period stood at 15,055 thousand m³, which was almost half the volume of water used in 2017. The fall in water use in 2018 was due to the removal of the Main Waterline Department from the Company’s structure.

20%  
reduction in the amount  
of methane emitted in 2018

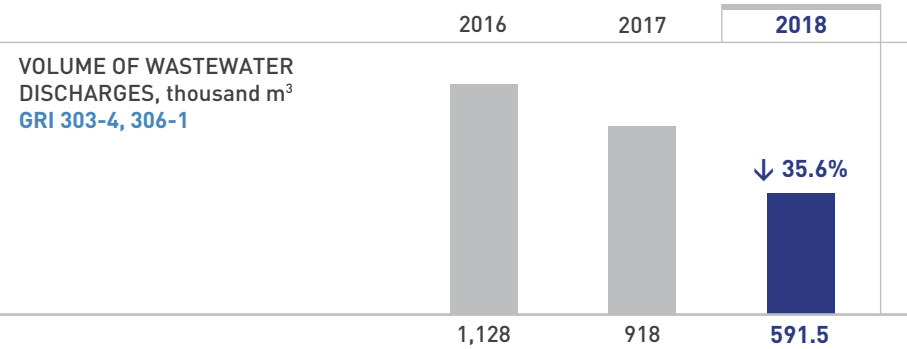
<sup>1</sup> Since July 2018, this type of activity has been carried out by Main Wareline LLP.

TOTAL VOLUME OF WATER WITHDRAWAL BY SOURCE, thousand m³ [GRI 303-3](#)

	2016	2017	2018	Change, %
<b>Water withdrawal volume, including:</b>	<b>27,911</b>	<b>29,076</b>	<b>15,055</b>	<b>-48.2</b>
<i>- surface waters</i>	27,577	28,719	14,727	-48.7
<i>- groundwater (artesian wells)</i>	215	264	240	-9.1
<i>- municipal and other water supply systems (purchase from third-party organizations)</i>	119	93	88	-5.4

In accordance with Article 72 of the Water Code of the Republic of Kazakhstan on the implementation of circulating and recycling water supply systems, a pump system for circulating the water supply was installed in 2018 at Jumagaliyev POPS, Zhezkazgan oil pipeline department. The system is intended for water use in a closed cycle to cool the engines of pipeline pumps, thus allowing a rational use of water resources and a reduction in water losses.

The volume of wastewater discharges in 2018 amounted to 591.5 thousand m3 (taking into account the six months of work of the Main Waterline Department), and did not exceed the limits prescribed for the Company.



In order to control its environmental impacts, the Company monitors underground, surface, and waste water through conducting laboratory tests of water, and monitors the level of effluent treatment.

VOLUME OF WASTEWATER DISCHARGES, WITH A BREAKDOWN BY SOURCE OF DISCHARGE AND QUALITY<sup>2</sup>, thousand m³, [GRI 303-2, 303-4, 306-1](#)

	2016	2017	2018	Change, %
<b>Total volume of discharges, including:</b>	<b>1,128.0</b>	<b>918.0</b>	<b>591.5</b>	<b>-35.6</b>
by source of discharge				
<i>in evaporation (holding) ponds, in absorption fields</i>	295.0	223.4	201.3	-9.9
<i>in the water of third-party organizations</i>	185.6	112.6	94.7	-15.9
<i>in surface waters, including swamps, rivers and lakes</i>	647.4	582.0	295.5	-49.2
by quality				
<i>partially clean</i>	712.1	599.0	295.9	-50.6
<i>treated to standard quality</i>	299.2	247.0	226.9	-8.1
<i>contaminated (without treatment)</i>	112.6	67.6	64.3	-4.9

<sup>2</sup> The volumes of discharges in 2018 are shown with due account of the work of the Main Waterline Department from January to June 2018.



WASTE MANAGEMENT

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

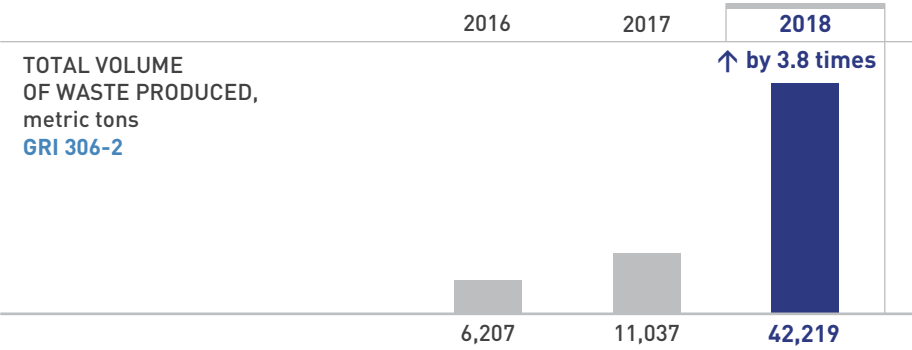
In accordance with the Environmental Code of the Republic of Kazakhstan, the Company observes established environmental and sanitary-epidemiological requirements related to the recycling and safe treatment of all types of waste. The Company’s separate structural divisions all have waste management programs in place.

The Company has developed the Waste Management Rules of KazTransOil JSC in order to establish respective requirements and allocate responsibility for the process of managing waste produced during the Company’s production activities. These rules govern the entire waste management cycle, beginning with collecting and sorting, and ending with the transfer of waste for further removal, disposal, and treatment.

TOTAL VOLUME OF WASTE PRODUCED, metric tons **GRI 306-2**

	2016	2017	2018	Change, %
Volume of waste generated, including	6,207	11,037	42,219	by 3.8 times
<i>oil-containing soil</i>	466	5,790	36,870	by 6.4 times
<i>oil sludge</i>	1,006	1,029	1,443	40.2
<i>solid domestic (municipal) waste</i>	3,053	2,486	2,240	-9.9
<i>other waste</i>	1,682	1,732	1,666	-3.8

In 2018 work was performed to remove bottom deposits from tanks No. 3 (in full), No. 4 (partially) of the Karaganda Oil Pipeline Department and tank No. 2 of the Zhezkazgan Oil Pipeline Department. The oil sludge formed during the cleaning was sent to a specialized organization for disposal, pursuant to a concluded contract.



The total volume of waste generated in 2018 exceeded the previous year’s level by 3.8 times, due to the rehabilitation of previously contaminated land and the disposal of oil-contaminated soil at the Uralsk LOCS (at the 1,016.3 km mark of the Uzen–Atyrau–Samara oil pipeline), and the formation of oil sludge after the cleaning of tanks.



GREEN OFFICE IN NUR-SULTAN

*In 2018 the concept of a Green Office was implemented at the Company’s central office. It includes the installation of containers for sorting waste (waste paper, glass, plastic, food waste) inside the building, the use of energy saving lightbulbs, and using two-sided printing to save on paper. This project was named the most environmentally friendly project among all projects of the NC KazMunayGas JSC group of companies.*

LAND RESOURCES

The Company bears responsibility for maintaining the pristine condition of land resources at its production sites, performs land rehabilitation work, and monitors soil contamination by engaging accredited, independent third-party organizations.

The Company has taken on an obligation to rehabilitate land contaminated in the 1950-1960s. Pursuant to an established land rehabilitation project, stage-by-stage work is performed to rehabilitate previously disturbed land.

The work began in 2017. In 2018 work continued to liquidate previously contaminated land along the Uzen–Atyrau–Samara oil pipeline in accordance with the project “Rehabilitation of disturbed land at facilities [oil pipelines]”. In the reporting year, 1.92 hectares of disturbed land were rehabilitated

PLANS FOR 2019 AND THE MEDIUM TERM

The Company will continue with its regular work to determine, assess, and manage environmental considerations, and will endeavor to ensure strict compliance with the environmental legislation of the Republic of Kazakhstan. The following measures are planned for 2019:

- developing cost estimate documentation for the “Real-time computerized operational environmental monitoring station” project for the Kenkiyak POPS of the Aktobe pipeline department
- continuing work to liquidate previously contaminated soil
- developing the Water Resource Management Rules at KazTransOil JSC
- organizing trainings for employees of the Occupational Health, Safety, and Emergencies Department in the requirements of ISO 14001:2015.

1.92 HECTARES  
of disturbed land were rehabilitated

# ENERGY CONSUMPTION AND ENERGY CONSERVATION

## SIGNIFICANT TOPICS

- ENERGY

## KEY EVENTS

- 4 ENERGY EFFICIENCY GOALS WERE ATTAINED BY THE COMPANY
- ADOPTION OF A DECISION TO INCLUDE ENERGY EFFICIENCY TARGETS IN THE KPI OF DIRECTORS AT THE CENTRAL OFFICE AND SEPARATE STRUCTURAL DIVISIONS

4.1%

reduction in the energy consumption level during the pumping of oil



## APPROACH TO MANAGING ENERGY EFFICIENCY

Optimizing the use of energy resources is a key area of KazTransOil JSC's activity. As part of this activity, the Company pays special attention to boosting the energy efficiency of production processes. The strategic importance of these tasks has been enshrined in the Energy Policy of KazTransOil JSC (drafted in 2017), which establishes the four main energy goals faced by the Company in the next five years:

- reducing the unit consumption of all types of energy (for oil turnover)
- reducing the unit consumption of electricity (for oil turnover)
- reducing the unit consumption of natural gas (for heating of oil)
- reducing total power consumption

The Company's energy goals are approved annually by the General Director (Chairman of the Management Board). Target energy indicators are also calculated for the Company's separate structural divisions. The most energy intensive facilities, chiefly oil pumping stations, are set individual goals and tasks.

## STAKEHOLDERS

- shareholders and influential organizations
- the SJCE
- state authorities

## MANAGEMENT STRUCTURE AND TOOLS

To attain its energy goals, the Company has an energy management system in place that meets the requirements of ISO 50001:2011. The scope of application and boundaries of the system have been defined at all levels: beginning at the business units of the central office to the SSD - oil pipeline departments and OPS.

The division responsible for energy efficiency is the Technical Processes and Energy Management Department of KazTransOil JSC. This department develops target indicators and monitors their fulfillment once a month, thereby ensuring a timely and effective monitoring of set tasks

## KEY INTERNAL DOCUMENTS

- the Energy Policy of KazTransOil JSC
- the KazTransOil JSC Action Plan on Energy Saving and Energy Efficiency Measures for 2015–2019
- the Rules on Energy Planning and Setting Energy Efficiency Indicators at KazTransOil JSC
- the Rules on Energy Analysis of KazTransOil JSC
- the Method for Calculating Energy Efficiency Indicators at KazTransOil JSC
- the Method for Determining Basic and Target Levels of Energy Consumption at KazTransOil JSC.

## DEVELOPMENT OF THE MANAGEMENT SYSTEM

An important event in the development of the corporate energy management system in 2018 was the adoption of a decision to include energy efficiency targets in the KPI of directors at the central office and separate structural divisions. This initiative facilitates enhancing the overall effectiveness of the energy management system, as well as the effectiveness of each individual employee involved in the management of energy efficiency issues.

The annual audit of the KazTransOil JSC energy management system's compliance with ISO 50001:2011 was also successfully performed.



ENERGY CONSUMPTION

Since 2015 the Company has been implementing the KazTransOil JSC Action Plan on Energy Saving and Energy Efficiency Measures for 2015–2019, which is updated every year in order to comply with the Company’s business processes.

The Company attained all its energy efficiency goals for 2018, a result that was made possible by an optimal planning of technical processes at all pipeline segments and the fulfilment of the KazTransOil JSC Action Plan on Energy Saving and Energy Efficiency Measures for 2018.

In the reporting period the following key measures to optimize energy consumption were implemented:

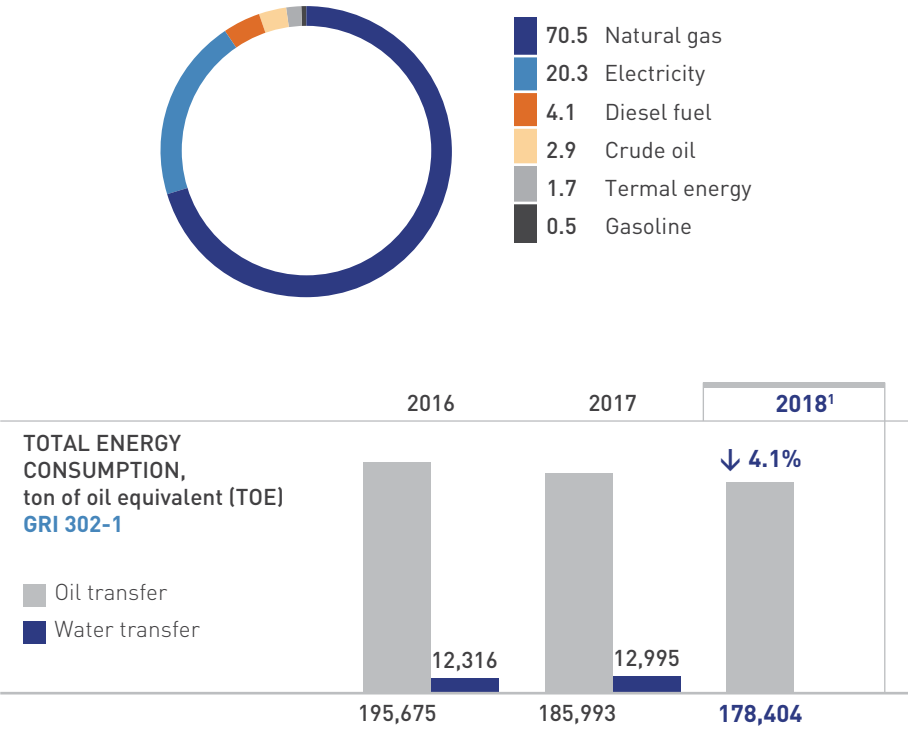
- a number of power transformers were replaced with more energy-efficient transformers
- continued implementation of measures to regulate the revolutions per minute of pump unit drives
- installation of power factor correction units at production facilities
- installation of thermostats in heating system radiators in the administrative and auxiliary buildings of the Company’s separate structural divisions
- replacing incandescent bulbs with energy saving LED bulbs
- overhaul of Kultumiev OPS onsite heating networks of the Kulsary oil pipeline department
- installation of heat-reflective screens behind heating radiators
- installation of automatic outdoor lighting control systems
- replacing idle pumping units at OPS with units working in the operating range (Northern Buzachi OPS, Zhuan-Tobe OPS, Atasu OPS)
- boosting the operational efficiency of pumping units.

In its production activities the Company uses various types of energy, the most important of which are natural gas and electricity (which together account for 91% of total energy consumption for oil transportation).

The Company does not use renewable energy sources, but has plans to build at Shymkent POPS a power plant based on solar panels.

KazTransOil JSC’s production processes are quite energy intensive, thus making the search for and implementation of energy saving solutions a vital task for the Company.

CONSUMPTION STRUCTURE OF PRIMARY NON-RENEWABLE ENERGY SOURCES FOR OIL TRANSFER IN 2018, % GRI 302-1



<sup>1</sup> The total energy consumption of the Company for 2018 is presented without taking into account the energy spent on transportation of water, in connection with the withdrawal and transfer of the function of water supply to LLP "Main water Pipeline".

A reduction in gross energy consumption has been seen in the past few years. For example, in 2018 the Company reduced the level of energy consumption during the pumping of oil by 4.1%, through a decline in natural gas consumption by 3.4%, electricity by 6.4%, and gasoline by 35%. . GRI 302-4

The decrease in energy consumption came following a reduction in turnover compared to 2017 and the use of optimal oil transportation methods. GRI 302-4

In order to lower operating costs, the Company also tracks changes in the energy intensity indicator during the pumping of oil.

In 2018 oil turnover separately for the Company declined by 4.5% compared to 2017, while the reduction in total energy consumption progressed at a slower rate (4.1%), owing to a 0.4% increase in energy intensity compared to the previous year. GRI 302-1, 302-3

The rise in energy intensity was due to an increase in natural gas consumption to heat oil being pumped, which cooled quicker due to a reduction in oil flow speed along pipelines.

CHANGE IN THE ENERGY INTENSITY INDICATOR GRI 302-3

Indicator	Unit of measurement	2016	2017	2018	Change, %
Total consumption of energy resources by KazTransOil JSC	TOE	207,991	198,987	178,404	–
Total consumption of energy resources for pumping oil	TOE	195,675	185,993	178,404	-4.1
Total consumption of energy resources for pumping water	TOE	12,316	12,995	0	–
Oil turnover (separately for the Company)	million metric tons-km	35,635	39,823	38,040	-4.5
Pumping of water	thousand m³	25,133	26,225	0	–
Energy intensity of oil transportation <sup>3</sup>	TOE/million metric tons-km	5.49	4.67	4.69	0.4
Energy intensity of pumping of water <sup>4</sup>	TOE/thousand m³	0.49	0.50	0.00	–

PLANS FOR 2019 AND THE MEDIUM TERM

The Company plans to continue to implement measures to conserve energy and boost energy efficiency, in accordance with the approved Action Plan. These measures include:

- conducting an independent energy audit for the subsequent drafting of a new Action Plan on Energy Saving and Energy Efficiency Measures for the next five years and to help optimize production processes
- using optimal oil transportation arrangements.

The planned reduction in the consumption of fuel and energy resources in 2019 under the KazTransOil JSC Action Plan on Energy Saving and Energy Efficiency Measures for 2016–2019 is 403 TOE in physical terms and KZT 39 million in monetary terms.

<sup>3</sup> According to the method for calculating the energy intensity of KazTransOil JSC, the base indicator is oil turnover. All types of energy sources used by the Company are taken into account in the calculation.

<sup>4</sup> The energy intensity indicator of water transportation was not calculated for 2018, as the water supply function was outsourced to Main Waterline LLP.

# PROCUREMENT SYSTEM AND LOCAL CONTENT

## SIGNIFICANT TOPICS

- PROCUREMENT PRACTICES

## KEY EVENTS

- IMPLEMENTATION OF A SYSTEM OF ELECTRONIC CONTRACTS

**KZT 3,345 MILLION**  
total savings made in 2018  
as a result of competitive  
procurement procedures

**67%**  
share of local content  
in procurements of goods,  
work and services



## APPROACH TO MANAGING THE PROCUREMENT SYSTEM

The effective functioning of the procurement system plays an important role in the sustainable development of KazTransOil JSC's business. The Company appreciates the importance of providing high-quality goods and services on time to all the Company's separate structural divisions, for the performance of daily operations and to fulfil strategic tasks – hence the corporate procurement system is built on the principles of openness, competitiveness, and practicality.

### PRINCIPLES OF THE KAZTRANSOIL JSC PROCUREMENT SYSTEM:

- an open and transparent procurement process
- optimal and efficient procurement-related expenditure
- purchasing high-quality goods, work, and services
- good-faith competition among potential suppliers
- minimizing in procurement the participation of intermediaries .

### STAKEHOLDERS

- shareholders and influential organizations
- state authorities
- staff
- the SJCE
- suppliers and contractors.

## MANAGEMENT STRUCTURE AND TOOLS

The Contracts and Local Content Department monitors procurement processes at all Company divisions. The reorganization of the Company's management structure was completed in 2018, and this allowed the procurement function to be centralized.

### PROCUREMENT PROCEDURES ARE PERFORMED ON THE ELECTRONIC PORTAL OF SAMRUK-KAZYNA LLP AND CONSIST OF THE FOLLOWING STAGES



### KEY INTERNAL DOCUMENTS

- the Rules on the Procurement of Goods, Work, and Services of the National Wealth Fund Samruk-Kazyna JSC and organizations of fifty or more percent of voting shares (participations) which are directly or indirectly owned by Samruk-Kazyna JSC by the right of ownership or trust management
- the Corporate Ethics Code of KazTransOil JSC.



## PROCUREMENT RESULTS

In 2018 the Company executed a plan to computerize procurement processes and to implement a system of electronic contracts, thereby facilitating a reduction in time costs at each procurement process stage.

In 2018 the value of contracts concluded by KazTransOil JSC with suppliers was KZT 130,871 million, including:

- KZT 130,641 million by the central office
- KZT 140 million by the KazTransOil JSC STC branch.

Total savings made in 2018 as a result of competitive procurement procedures stood at KZT 3,345 million. See Appendix 2 hereto for more information about procurements performed in 2018.

KazTransOil JSC had a total of 952 suppliers of goods, work, and services in 2018, the majority of which are good-faith suppliers (86%). However, penalties were imposed on 13% of suppliers, and 1% of suppliers were bad-faith suppliers. **GRI 102-9**

# KZT 130,871 MILLION

the value of contracts concluded  
by KazTransOil JSC with suppliers in 2018

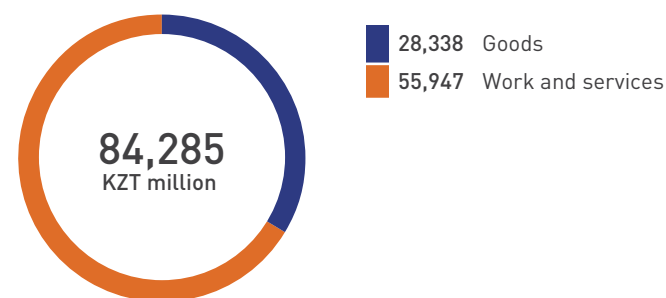
## DEVELOPMENT OF LOCAL CONTENT

As part of the realization of the State's policy to develop the domestic economy and local content, the Company endeavors to increase the share of goods procured from Kazakh manufacturers and the commodity producers of Samruk-Kazyna JSC, thereby expanding cooperation within the holding.

As a result of procurement activity, long-term contracts for 2018-2022 totaling KZT 6,100 million were concluded with domestic commodity producers and organizations of people with disabilities. Also, in 2018 one-year contracts were concluded with domestic commodity producers for KZT 3,100 million, all of which were 100% fulfilled. **GRI 204-1**

In 2018 the share of local content in KazTransOil JSC procurements was 67%, including goods (53%), work and services (75%). Monitoring the share of local content in the procurement of goods, work, and services is carried out on the website of the authorized body of Samruk-Kazyna JSC: "Monitoring card of Kazakhstani content in procurement" at <http://www.kmks.kz>. **GRI 204-1**

**INFORMATION ON THE SHARE OF LOCAL CONTENT IN PROCUREMENTS OF GOODS, WORK AND SERVICES IN 2018<sup>1</sup>, KZT million** **GRI 204-1**



## PLANS FOR 2019 AND THE MEDIUM TERM

In the next reporting period the Company plans to continue to carry out procurements in line with its corporate principles and standards, including via the implementation of the KazTransOil JSC Plan for procurement of goods, work and services 2019.

Monitoring the share of local content in procurements of goods, work, and services will also continue. Plans for 2019 include attaining a 52% share of local content in procurements of goods and a 74% local content share in procurements of work and services.

<sup>1</sup> Data of Samruk-Kazyna Contract LLP.





# CORPORATE GOVERNANCE

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4,500

employees  
trained on IMS

100%

satisfaction coefficient of oil  
transportation services consumers





# CORPORATE GOVERNANCE

KazTransOil JSC considers corporate governance to be a key factor in increasing the Company's value, competitiveness, and investment attractiveness. Hence the continual improvement of the corporate governance system and respecting the interests and rights of shareholders are priority areas for the Company.

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

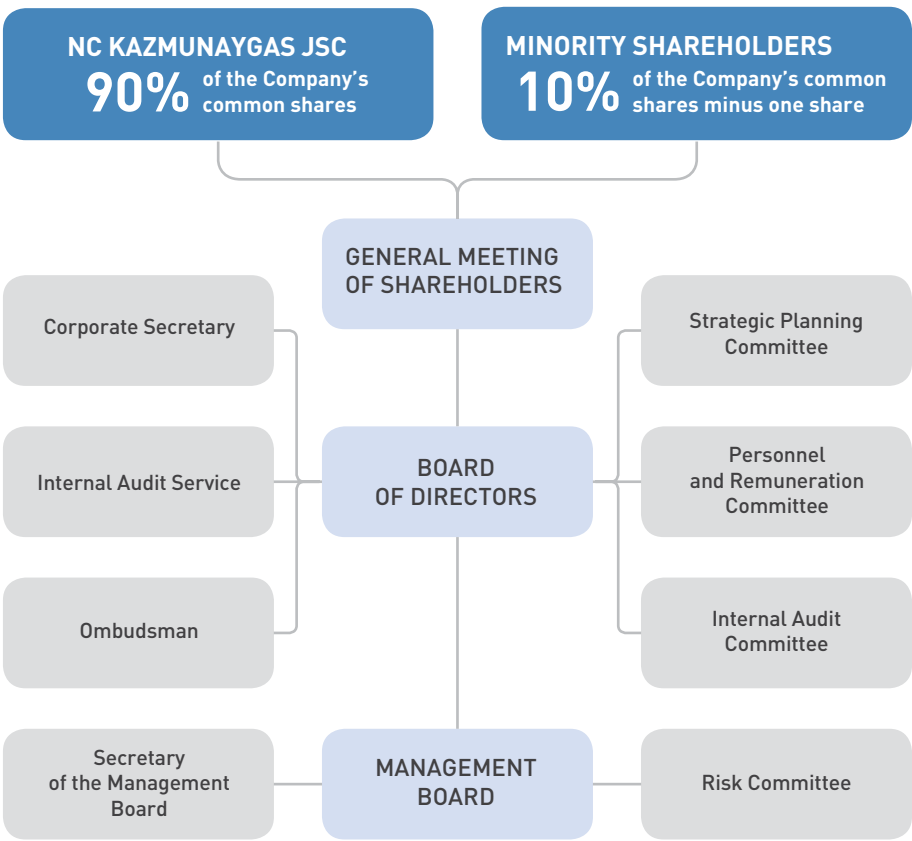
The Corporate Governance Code sets forth the key principles of good corporate governance.

- shareholder rights and the equitable treatment of shareholders
- a professional Board of Directors and executive body
- risk management and internal controls
- sustainable development
- transparency.

These principles are key elements within efforts to enhance the long-term value, investment appeal, and sustainable development of the Company as a whole.

The Company's bodies that make decisions on key operational issues and which are responsible for general management are: the General Meeting of Shareholders (supreme body), the Board of Directors (management body), and the Management Board (executive body).

## THE COMPANY'S CORPORATE GOVERNANCE SYSTEM, GRI 102-18



The Report on KazTransOil JSC's compliance with the principles and provisions of the Corporate Governance Code in 2018 is provided in Appendix 5 to the Report.

# GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is the Company's supreme management body, and conducts its activity in accordance with the Law of the Republic of Kazakhstan on joint-stock companies, the Company Charter, and the Regulations on the General Meeting of Shareholders of KazTransOil JSC. The exclusive competence of the General Meeting of Shareholders is defined by Paragraph 1 of Article 10 of the Company Charter.

The Company strives to maintain equal and fair relations with all shareholders during the exercising of their right to participate in the management of the Company. The primary way that shareholders exercise their rights is by participating in the annual General Meeting of Shareholders and in extraordinary General Meetings of Shareholders.

The procedure for holding the General Meeting of Shareholders is designed to ensure that shareholders' rights are upheld and that all applicable legislative requirements are adhered to, as well as global best practices in corporate governance.

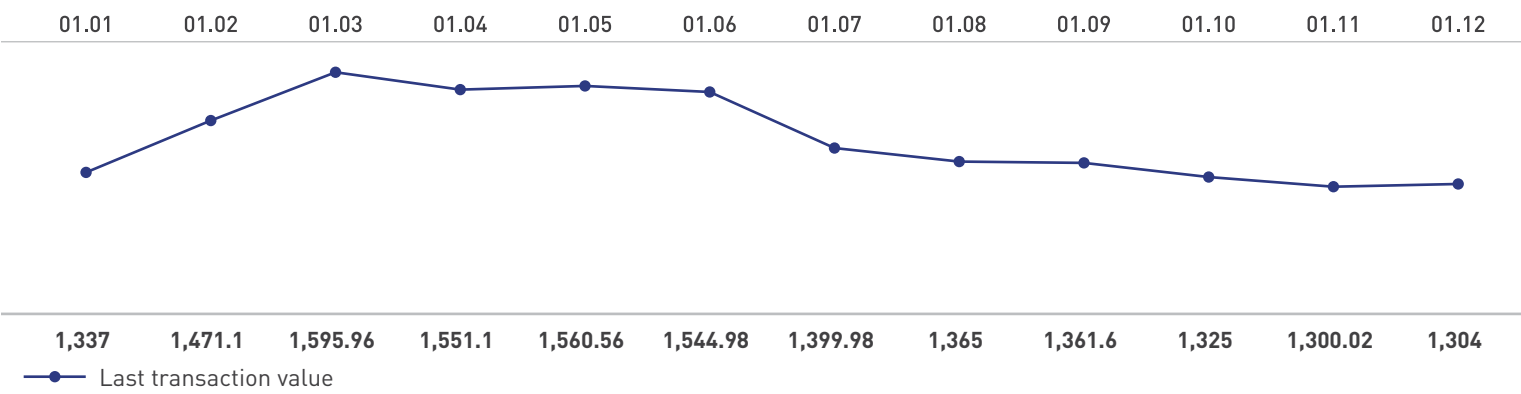
The main rights of shareholders were exercised in accordance with the legislation of the Republic of Kazakhstan and the provisions of the Company Charter. The Company's Board of Directors guarantees an equitable approach to all shareholders and creates conditions that ensure an uninterrupted exercise of their rights to participate in the management of the Company and to receive information about the Company's operations and dividends.

## STRUCTURE OF SHARE CAPITAL

As at December 31, 2018, 384,635,599 common shares in the Company had been issued and paid, of which:

- 346,172,040 common shares, or 90% of the total number of issued and outstanding shares, belonged to NC KazMunayGas JSC
- 38,463,559 common shares, or 10% minus one share, were placed through subscription on the KASE, including 7,500 common shares repurchased by the Company at the request of a shareholder
- 1 (one) common share in the Company was not placed. [GRI 102-5](#)

## CHANGE IN THE MARKET VALUE OF KAZTRANSOIL JSC SHARES IN 2018, KZT



INFORMATION ON THE HOLDING OF THE GENERAL MEETING OF SHAREHOLDERS IN 2018

The annual General Meeting of Shareholders of the Company was held on May 24, 2018 and considered the following issues:

- approving the annual financial statements and consolidated annual financial statements of KazTransOil JSC for 2017
- approving the procedure for distributing the net income of KazTransOil JSC for 2017, the undistributed profit of previous years, adopting a decision to pay dividends on common shares, and determining the value of dividends per common share in KazTransOil JSC
- approving the Annual Report of the KazTransOil JSC Board of Directors on work performed in 2017
- complaints made by the Company’s shareholders about the actions of the Company and its officials in 2017, and the results of their consideration
- amendments and addenda to the Company Charter
- amendments and addenda to the integrated management system document of KazTransOil JSC / Regulations on the General Meeting of Shareholders of KazTransOil JSC
- approving the integrated management system document of KazTransOil JSC / Regulations on the KazTransOil JSC Board of Directors

DIVIDEND PAYMENTS

Period	2015	2016	2017
Profit per share, KZT	116.0	116.0	130.0
Value of dividends per common share, KZT	133.0	155.0	160.0
Total dividends, KZT	51,156,534,667	59,617,355,345	61,540,495,840
Dividend yield to placement price, %	18.34	21.38	22.0
Share of consolidated net profit used in the payment of dividends, % (dividend payment ratio)	100	100	100
Date of compiling the list of parties entitled to receive dividends	11.06.2016	14.06.2017	12.06.2018
Dividends paid	in June 2016	in June 2017	in June-July 2018

DIVIDEND POLICY

KazTransOil JSC’s Dividend Policy, approved in July 2012, was designed to balance the interests of the Company and its shareholders and to provide the maximum possible transparency for shareholders and all stakeholders when determining the size of dividends and their payment procedure.

The Dividend Policy determines a dividend amount of at least 40% of the Company’s net income. The actual size of dividends can reach or exceed 100% of the Company’s net income if it corresponds with the Company’s liabilities.

The largest value of consolidated or separate net income is applied to calculate dividends. The Company’s Management Board reserves the right to offer a dividend payment level below the 40% standard, based on the Company’s actual outcomes for the corresponding fiscal year, industry-wide development trends, and the program of capital (investment) costs.

The total value of dividend payments in 2018, based on the results of 2017, stood at KZT 61,540,495,840, or KZT 160 per common share in the Company. A dividend payment of KZT 50,117,856,000 was made, which was 100% of the Company’s net profit received based on the results for 2017, and part of retained earnings from previous years, of KZT 11,422,639,840. The payment of dividends for 2017 began on June 26, 2018.

INFORMATION DISCLOSURE

The information disclosure made by the Company ensures that it is available to all stakeholders, regardless of the reason for receiving the information. Information is disclosed in accordance with the Laws of the Republic of Kazakhstan on the Securities Market and Joint-Stock Companies, the Listing Rules of Kazakhstan Stock Exchange JSC, the Company Charter, and other requirements of the Republic of Kazakhstan legislation and the Company’s internal documents.

Based on the results for 2018, Kazakhstan Stock Exchange JSC awarded KazTransOil JSC a certificate “For Commitment to Transparency”. The Company became a leader in disclosing information over and above that required by listing requirements.

The establishment of effective relations with shareholders, based on principles of information transparency and mutual respect, is a main area of concern for the Company. The Company has an Investor Relations Service to ensure that a feedback mechanism operates between the Company and its shareholders, potential investors, analysts, professional securities market participants, and representatives of the investment community in general.

In 2018 the Investor Relations Service gave explanations of issues concerning the results of production and financial activity, the decisions of the Company’s management bodies, corporate events, and the exercise of shareholders’ rights to participate in the management of the Company and to receive dividends.

The Company plans to continue work to maintain information transparency.

24 MAY 2018  
The Date of the Shareholders’ annual General Meeting





# BOARD OF DIRECTORS

The Board of Directors is a management body responsible for the strategic management of the Company, and within its competence oversees the activities of the Management Board. The Board of Directors is accountable to the General Meeting of Shareholders and is responsible for the effective management and supervision of the Company, in accordance with the current decision-making system.

The Board of Directors is guided in its activity by the Law of the Republic of Kazakhstan on joint-stock companies, other legislative acts of the Republic of Kazakhstan, decisions from the General Meeting of Shareholders, the Company Charter, the Corporate Governance Code, and the Regulations on the KazTransOil JSC Board of Directors.

In accordance with its competence the Board of Directors determines the Company's development strategy and priority areas of development, including in the following areas:

- corporate governance
- risk management and internal control
- sustainable development
- the implementation of major investment and other key strategic projects.

The Board of Directors also exercises regular control over the performance of priority areas of the Company's development, establishes KPIs in the Company's development plan, and monitors their implementation.

## MEMBERSHIP OF THE BOARD OF DIRECTORS

In 2018 the Board of Directors includes seven members. In accordance with the share capital structure (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 Company's Board of Directors are independent directors, thereby ensuring the protection of the rights and interests of minority shareholders, in accordance with corporate governance best 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 a representative of NC KazMunayGas JSC.

The authorities of the Board of Directors' member Ardak Mukushov were terminated early (from November 30, 2018), at his own initiative, and based on a written notice made to the Board of Directors.

As at December 31, 2018 the Board of Directors had six members.

All Board of Director members have a good professional reputation and significant industry experience. All members also have the necessary knowledge and capabilities in the areas of financial reporting and audit, business planning, and project management.



## Daniyar Berlibayev

**Chairman of the KazTransOil JSC Board of Directors**

**Representative of NC KazMunayGas JSC**

**CITIZENSHIP**  
**Republic of Kazakhstan**

**DATE OF BIRTH**  
**December 21, 1968**

### EDUCATION

Graduated from Al-Farabi Kazakh State University, major – Law, qualification – Lawyer.

### WORK EXPERIENCE

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<sup>1</sup> – Advisor to Chairman of the NC KazMunayGas JSC Management Board.

From January 29, 2016 – Chairman of the KazTransOil JSC Board of Directors, Representative of NC KazMunayGas JSC.

Chairman of the Board of Directors of KMG International N.V. and AstanaGas KMG JSC.

## 6 MEMBERS IN THE BOARD OF DIRECTORS

as at December 31, 2018

<sup>1</sup> On February 7, 2019, Daniyar Berlibayev was appointed as a Deputy Chairman of the Management Board of NC "KazMunayGaz JSC for oil transportation, international projects and construction of the Saryarka gas pipeline

Holder of 9,655 Company shares, or 0.00251% of the total number of outstanding shares.  
Does not hold shares in SJCE.  
Does not hold shares in the suppliers or competitors of the Company.  
Did not perform any transactions with Company shares.



Dimash  
Dossanov

Member of the  
KazTransOil JSC Board  
of Directors

General Director  
(Chairman of the Board)  
of KazTransOil JSC

CITIZENSHIP  
Republic of Kazakhstan

DATE OF BIRTH  
November 2, 1981

EDUCATION

Graduated from Al-Farabi Kazakh National University, major – International Relations, qualification – Specialist in International Relations; T. Ryskulov Kazakh Economic University, major – Finance and Credit, qualification – Economist. MA in Business Administration (Executive MBA), Georgetown University, Washington, USA.

WORK EXPERIENCE

2014–2016 – First Deputy of General Director, General Director of Kazakhstan-China Pipeline LLP.

From January to August 2016 – First Deputy General Director of KazTransOil JSC.

From August 6, 2016 – General Director (Chairman of the Management Board) of KazTransOil JSC.

From October 20, 2016 – member of the KazTransOil JSC Board of Directors.

Member of the Board of Directors of CPC-R JSC and CPC-K JSC.

Does not hold shares in the Company or the SJCE.  
Does not hold shares in the suppliers or competitors of the Company.  
Did not perform any transactions with Company shares.



Nurtas  
Shmanov

Member  
of the KazTransOil JSC  
Board of Directors

Representative of NC  
KazMunayGas JSC

CITIZENSHIP  
Republic of Kazakhstan

DATE OF BIRTH  
December 24, 1956

EDUCATION

Graduated from 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, Nurtas received an MBA from the University of Massachusetts, Boston, USA (special course for managers of the oil and gas industry).

WORK EXPERIENCE

2015–2016 – General Director (Chairman of Management Board) of KazTransOil JSC, part-time Deputy Chairman of the Management Board for Oil Transportation of NC KazMunayGas JSC.

2016–2018 – Senior Vice President for Oil Transportation of NC KazMunayGas JSC.

From June 12, 2018 – Managing Director for Oil Transportation of NC KazMunayGas JSC.

From January 29, 2016 – member of the KazTransOil JSC Board of Directors, representative of NC KazMunayGas JSC.

Chairman of the Supervisory Board of Kazmortransflot NMSC LLP, KMG Systems & Services LLP, and a member of the Board of Directors of CPC-R JSC.

Holder of 9,655 shares in KazTransOil JSC, or 0.00251% of the total number of outstanding shares.  
Does not hold shares in the SJCE.  
Does not hold shares in the suppliers or competitors of the Company.  
Did not perform any transactions with Company shares.

INDEPENDENT DIRECTORS

The members of the Company’s Board of Directors comprise three independent directors; according to global corporate governance best practices, this contributes to safeguarding the rights and interests of minority shareholders.

The presence of independent directors on the Board of Directors is predicated on the Company’s desire to achieve an optimum balance of experience, skills, and qualifications among Board of Director members. The independent directors also bring valuable know-how in corporate governance and risk management, as well as international experience, a strategic vision, and an extensive understanding of the oil and gas transportation industry.

In addition to their participation in the Board of Directors, the independent directors also chair Committees of the Board of Directors, actively participate in discussing agenda items at their meetings, and ensure that objective decisions are made that take into consideration the interests of all shareholders.

In the reporting period the independent directors of the Company were in full compliance with the independence criteria established by Kazakh legislation, the Company’s Charter, and the Regulations on the Company’s Board of Directors.

More information on the procedure for electing independent directors can be found at the Company’s [website in the section Corporate Governance](#).



Luis  
Coimbra

Independent Director

CITIZENSHIP  
Portuguese Republic

DATE OF BIRTH  
July 15, 1958

EDUCATION

Graduated from University of Massachusetts – BSc in Mechanical Engineering; University of Michigan – MBA.

WORK EXPERIENCE

Luis has over 30 years’ international experience in the field of trade, marine transportation, supply system control in the refining sector and business development with invariably solid results and high performance at Chevron Corporation and Souz Petroleum SA.

From January 29, 2016 – independent director at KazTransOil JSC.

He is not a member of the management bodies of other organizations.

Does not hold shares in the Company or the SJCE.  
Does not hold shares in the suppliers or competitors of the Company.  
Did not perform any transactions with Company shares.





Serik Primbetov

Independent Director

CITIZENSHIP  
Republic of Kazakhstan

DATE OF BIRTH  
September 17, 1948

**EDUCATION**

Graduated from Alma-Ata Institute of the National Economy, major – Economics; qualification – Economist, graduated from Lomonosov Moscow State University, 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).

**WORK EXPERIENCE**

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

From May 28, 2014 – independent director at KazTransOil JSC.

He is not a member of the management bodies of other organizations.

Does not hold shares in the Company or the SJCE.

Does not hold shares in the suppliers or competitors of the Company.

Did not perform any transactions with Company shares.



Fernando Machinena

Independent Director

CITIZENSHIP  
United Kingdom of Great Britain and Northern Ireland

DATE OF BIRTH  
November 7, 1956

**EDUCATION**

Graduated from the University of Wisconsin – BSc in Chemical Engineering; University of Utah – MBA.

**WORK EXPERIENCE**

Fernando has 35 years’ experience in the oil industry as well as experience in the successful development of joint ventures, marketing, and logistics of the crude oil industry, and export infrastructure in complex business and political environments. He worked at Chevron Corporation for 25 years. Since 2005 he has been the President of Oteko Group and managed the development of the largest private railway access complex in Russia.

From January 29, 2016 – independent director at KazTransOil JSC.

He is not a member of the management bodies of other organizations.

Does not hold shares in the Company or the SJCE.

Does not hold shares in the suppliers or competitors of the Company.

Did not perform any transactions with Company shares.

**EVENTS AFTER THE REPORTING PERIOD**

On January 28, 2019, at an extraordinary General Meeting of Shareholders, new members were elected to the KazTransOil JSC Board of Directors. There are six members of the Board of Directors, including three independent directors. D.A. Berlibayev was elected Chairman of the KazTransOil JSC Board of Directors.

SELECTION AND ELECTION CRITERIA TO THE BOARD OF DIRECTORS

The criteria for selecting and electing members of the Board of Directors, including independent directors and the Chairman of the Board of Directors, are set out in the Law of the Republic of Kazakhstan on joint-stock companies, the Company Charter, the Corporate Governance Code, and the Regulations on the Company’s Board of Directors.

The General Meeting of Shareholders elects members of the Board of Directors using clear and transparent procedures, with due consideration of the knowledge, skills, achievements, business

PERFORMANCE RESULTS OF THE BOARD OF DIRECTORS

ATTENDANCE AT BOARD OF DIRECTOR MEETINGS IN 2018

Director	Attendance at meetings		
	Number of meetings attended	Percentage of meetings attended	Period as a member of the Board of Directors in the reporting period
Daniyar Berlibayev	13 of 13	100%	01/01/2018 – 31/12/2018
Dimash Dossanov	13 of 13	100%	01/01/2018 – 31/12/2018
Luis Coimbra	13 of 13	100%	01/01/2018 – 31/12/2018
Fernando Machinena	13 of 13	100%	01/01/2018 – 31/12/2018
Ardak Mukushov	12 of 12	100%	01/01/2018 – 30/11/2018
Serik Primbetov	13 of 13	100%	01/01/2018 – 31/12/2018
Nurtas Shmanov	13 of 13	100%	01/01/2018 – 31/12/2018

13 face-to-face Board of Director meetings were held in 2018, during which the participants reviewed and took decisions on 120 issues, including related to the Company’s key lines of business:

STRATEGIC DEVELOPMENT:

- reviewing the Report on performance of the business plan in 2017
- approving the Business Plan for 2019–2023 on the revalued and historical cost of property, plant, and equipment
- reviewing the Report for 2017 on the implementation of the updated Development Strategy of KazTransOil JSC up to 2025
- setting up a KazTransOil JSC representative office in Moscow (Russia)
- closing the Western and Eastern branches of KazTransOil.

reputation, and professional experience of candidates. Their contribution to the performance of the Company’s Board of Directors is considered during the reelection of individual members or all members of the Board of Directors for a new term.

A balance of skills, experience, and knowledge is fostered among members of the Board of Directors and its committees to ensure independent, objective, and effective decision-making in the interests of the Company and shareholders, as well as growth in the long-term value and sustainable development of the Company.

Additional information about the procedure for election to the Board of Directors can be found at the Company’s [website in the section Corporate Governance](#).

INTERNAL AUDIT:

- approving the annual audit plan of the Internal Audit Service of KazTransOil JSC for 2019
- approving the budget of the Internal Audit Service of KazTransOil JSC for 2019
- taking into account Internal Audit Service reports.

FINANCIAL AND BUSINESS ACTIVITY:

- convening the annual General Meeting of Shareholders of KazTransOil JSC
- preliminary approval of the Company’s annual financial statements and consolidated annual financial statements for 2017
- approving the Accounting Policy of the KazTransOil Group of Companies
- proposals from the Board of Directors to the General Meeting of Shareholders of the Company about the procedure for distributing the Company’s net income for 2017, the retained earnings from previous years and the size of the dividend for 2017 (per common share)
- conclusion by the Company of interested-party transactions.

CORPORATE GOVERNANCE:

- approving the Annual Report of KazTransOil JSC for 2017
- approving amendments and addenda to the KazTransOil Charter
- approving the motivational KPIs of senior executives, the corporate secretary, ombudsman, and Head of the Internal Audit Service of the Company for 2018, as well as their targets
- determining the number of members and term of office of the Management Board of the Company, as well as the election of the General Director (Chairman of the Management Board) and members of the Management Board of the Company
- reviewing the Report on the independent performance assessment of the KazTransOil JSC Board of Directors for 2017
- approving the Report on the Company’s compliance with the principles and provisions of the Corporate Governance Code for 2017
- reviewing the annual report by the KazTransOil JSC Board of Directors on work performed during 2017
- approving the Corporate Ethics Code of KazTransOil JSC
- approving the Regulations on the Ombudsman of KazTransOil JSC amendment.

RISK MANAGEMENT AND INTERNAL CONTROLS:

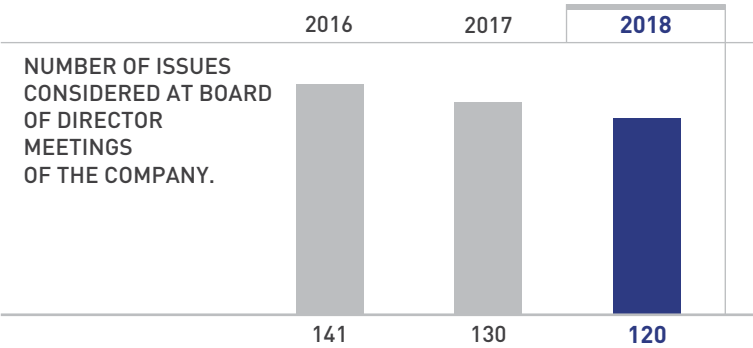
- reporting on key risk trends and progress on implementing actions to manage the key risks of KazTransOil JSC, as well as its subsidiaries and jointly controlled entities for Q4 2017
- approving quarterly reports on the production and non-production risks of KazTransOil JSC, as well as its subsidiaries and jointly controlled entities
- approving the results of determining and assessing the production and non-production risks of KazTransOil JSC, as well as its subsidiaries and jointly controlled entities for 2019.

SUSTAINABLE DEVELOPMENT:

- approving structure of the KazTransOil JSC central office.

The Board of Directors also considered a number of issues assigned to the competence of the general meetings of participants/ shareholders of the Company’s subsidiaries and jointly controlled entities, including approving the annual financial reports of subsidiaries and jointly controlled entities for 2017 and the budgets of subsidiaries and jointly controlled entities for 2019.

Additional information about the decisions of the Board of Directors adopted in 2018 can be found at the Company’s [website in the section Corporate Governance](#).



PERFORMANCE APPRAISAL OF COMMITTEES OF THE BOARD OF DIRECTORS

Three committees were established under the Board of Directors to enhance the performance of the Board of Directors through reviewing and preparing recommendations regarding the most pressing issues requiring special expertise: the Strategic Planning Committee, the HR and Remuneration Committee, and the Internal Audit Committee. Committee members are appointed through a decision of the Company’s Board of Directors.

The functions, rights and obligations, and the procedure for establishing and organizing the work of the committees are established by the corresponding internal regulations: Regulations on the Strategic Planning Committee of the KazTransOil JSC Board of Directors, HR and Remuneration Committee of the KazTransOil JSC Board of Directors and the Regulations on the Internal Audit Committee of the KazTransOil JSC Board of Directors. These documents can be studied on the Company’s [website in the section Corporate Governance](#).

STRATEGIC PLANNING COMMITTEE

The main objective of the Strategic Planning Committee is the preliminary review and preparation of recommendations for the Board of Directors on the Company’s development strategy, including determining priority areas of activity.

The committee consists of members of the Board of Directors and experts with the professional knowledge required to work on the committee. The number of members of the Strategic Planning Committee is determined by the Company’s Board of Directors. In addition, in accordance with the Company’s internal regulations, the Committee Chairman should be an independent director.

Members of the Strategic Planning Committee (elected by a decision of the Company’s Board of Directors dated January 30, 2016):

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

The meetings of the committee are held as and when is necessary, but at least once every six months.

Five face-to-face Strategic Planning Committee meetings were held in 2018. During these the following key issues were discussed and respective recommendations drafted:

- reviewing the adjusted business plans of KazTransOil JSC for 2018-2022 as part of the budget for 2018, at the revalued and historical cost of property, plant, and equipment
- a proposal of the Board of Directors for the General Meeting of Shareholders on the procedure for distributing the Company’s net income for 2017, the retained earnings of previous years, and the size of the dividend for 2017 (per common share)
- reviewing the Report for 2017 on implementing the updated Development Strategy of KazTransOil JSC up to 2025
- reviewing the business plans of KazTransOil for 2019-2013 at the revalued and historical cost of property, plant, and equipment.

HR AND REMUNERATION COMMITTEE

The main goal of the HR and Remuneration Committee is to assist the Board of Directors during the exercise of its powers related to the selection, appointment (election), appraisal, and remuneration of Board of Director members, the General Director (Chairman of the Management Board), members of the Management Board, and the Corporate Secretary.

In accordance with the internal regulations of the Company, the majority of the members of the committee, including the chairman, must be independent directors. The Chairman of the Board of Directors and the General Director (Chairman of the Management Board) cannot be committee members.

Members of the HR and Remuneration Committee (elected by a decision of the Company’s Board of Directors dated January 30, 2016):

- **Luis Coimbra** – Independent Director, Chairman;
- **Fernando Machinena:** – Independent Director;
- **Ardak Mukushov** – representative of NC KazMunayGas JSC (until November 30, 2018);
- **Serik Primbetov** – Independent Director.

Committee meetings are held as and when is necessary, but at least once every six months.

13 FACE-TO-FACE Board of Director meetings in 2018



Seven face-to-face HR and Remuneration Committee meetings were held during 2018. During these the following key issues were discussed and respective recommendations drafted:

- approving the motivational KPIs of senior executives for 2018, as well as their targets
- reviewing the Report on the independent performance assessment of KazTransOil JSC for 2017
- the remuneration of the Company’s senior executives, based on their performance during 2017
- determining the number of members and the term of office of the Management Board of the Company, as well as the election of the General Director (Chairman of the Management Board) and members of the Management Board of the Company
- approving the job assessment results of the senior executives, corporate secretary, and ombudsman of the Company.

INTERNAL AUDIT COMMITTEE

The objective of the Internal Audit Committee is to assist the Board of Directors in relation to external and internal audits, financial statements, internal controls and risk management, asset valuations, compliance with the legislation of the Republic of Kazakhstan, and other issues on the instructions of the Company’s Board of Directors.

In accordance with the internal regulations of the Company, Board of Director members that are members of the committee, including the Committee Chairman, must be independent directors.

Members of the Internal Audit Committee (elected by a decision of the Company’s Board of Directors dated 30 January 2016):

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

Internal Audit Committee meetings are held as and when is necessary, but at least once a quarter.

Where necessary, and further to an invitation from the Committee Chairman, the Lead Partner and/or other representative of the external auditor of the Company – Ernst & Young LLP – can attend committee meetings for the joint consideration of audit results.

In the reporting period the Internal Audit Committee held seven face-to-face meetings and two meetings via distance voting. During these meetings recommendations were drafted on the following key issues:

- preliminary approval of the annual financial statements and consolidated annual financial statements of the Company for 2017
- reviewing reports on the performance of the Company’s Internal Audit Committee
- preliminary approval of the Internal Audit Service’s Annual Audit Plan of the Company for 2019
- preliminary approval of the Internal Audit Service budget for 2019
- reviewing the Report on the performance of the Action Plan to implement the recommendations of Ernst & Young LLP (the independent auditor of KazTransOil JSC), based on the results of the audit of the consolidated and standalone financial statements of KazTransOil JSC for 2016 (based on a confidential report of the independent auditor to management).

Additional information about the requirements related to the membership, objectives, and competencies of Board of Director committees and the procedure for holding committee meetings can be found at the Company’s [website in the section Corporate Governance](#).

PERFORMANCE APPRAISALS OF THE BOARD OF DIRECTORS

In accordance with international best practice, the Company regularly performs comprehensive performance appraisals of the Board of Directors and its committees, as well as individual performance appraisals of directors. The performance appraisal of the Board of Directors makes it possible to assess the efficacy of this corporate management body, and also to determine areas of the Company’s corporate governance practice that are in need of further development.

In 2018 an independent consultant was engaged to appraise the performance of the Board of Directors for 2017: KPMG Tax and Advisory LLP. The consultant’s approach was based on its many years’ practical experience, its own methodology and extensive knowledge base, and the use of best practice standards.

The following procedures were performed as part of the appraisal:

- the internal regulations and minutes of meetings of the Board of Directors and its committees were examined
- the reports of the Board of Directors were evaluated
- a questionnaire was completed by Board of Director members
- independent consultants interviewed Board of Director members, the corporate secretary, and members of the Management Board.

As part of the questionnaire and interviews, the roles and functions of the Board of Directors, its membership, structure, and priorities related to the activity of the Board of Director and its committees, as well as the interaction of the Board of Directors with the management of KazTransOil JSC, were discussed.

An analysis of the issues considered by the Board of Directors in 2017 showed that priority attention was paid to issues relating to the management of subsidiaries and jointly controlled entities, as well as also issues related to corporate governance practices and the financial and business activity of the Company.

The results of the appraisal demonstrated that the number of members and composition of the Board of Directors are optimal and balanced, and this facilitates effective work. Furthermore, all Board of Director members have the necessary knowledge and skills. The results also highlighted the key role played by the Board of Directors Chairman, who made a valuable contribution to fostering a favorable atmosphere during meetings and who ensured professional interactions and communications between Board of Director members and the Management Board of KazTransOil JSC.

The high level of organization of the meetings was highlighted: all materials for meetings were provided in full, were comprehensible and structured, and the regulations on the holding of Board of Director meetings guaranteed an in-depth review of a meeting’s agenda issues and contributed to informed decisions being adopted.

The appraisal results highlighted the Board of Directors’ efficacy and its compliance with the legislative requirements of the Republic of Kazakhstan, the internal regulations of KazTransOil JSC, and the principles of international corporate governance practices in all material aspects.

120 ISSUES  
were reviewed the Board of Directors

REMUNERATION OF BOARD OF DIRECTOR MEMBERS

The procedure for paying remuneration to and compensating the expenses of independent directors is established by the Rules on the Remuneration and Compensation of Expenses of the Independent Directors of the Joint-Stock Companies of National Company KazMunayGas JSC.

Representatives of National Company KazMunayGas JSC, in addition to the General Director (Chairman of the Management Board), who are members of the Board of Directors, do not receive remuneration for the work they perform in this body.

Board of Director members and independent directors receive the following remuneration amounts for performing their duties:

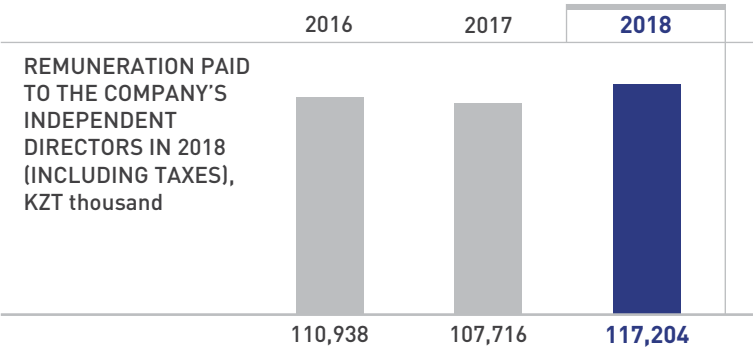
- fixed remuneration of USD 80,000 a year
- additional remuneration of USD 1,000 for attending face-to-face meetings of committees of the Board of Directors.

Independent directors are also reimbursed expenses (tickets, accommodation, per diems) related to travelling to meetings of the Board of Directors and its committees held outside the place of permanent residence of the independent director.

REMUNERATION PAID TO THE COMPANY’S INDEPENDENT DIRECTORS IN 2018, KZT thousand

Independent Director	Annual remuneration	For committee meetings	Total, net of taxes	Total, including taxes
Luis Coimbra	26,838	6,668	33,506	39,068
Fernando Machinena	26,838	6,668	33,506	39,068
Serik Primbetov	26,838	6,668	33,506	39,068
Total:	80,514	20,004	100,518	117,204

The total amount of remuneration paid to the Company’s independent directors for the work they performed in 2018 stood at KZT 117,204 thousand, including taxes.



Additional information about the terms and conditions of paying remuneration to members of the Board of Directors can be found at the Company’s [website in the section Corporate Governance](#).

MANAGEMENT BOARD

The Management Board of KazTransOil JSC is a collegial executive body which is responsible for managing the day-to-day activity of the Company.

The main goals of the Management Board are to ensure the successful fulfillment of the objectives set for the Company and implementing the Development Strategy. When meeting these goals, the Management Board is governed by the following underlying principles: honesty, integrity, reasonableness, circumspection, coherence, and also the maximum possible respect for the rights and interests of the Company’s shareholders and accountability for implementing the decisions of the General Meeting of Shareholders and the Board of Directors of the Company.

The Management Board’s activity is governed by the legislation of the Republic of Kazakhstan, the Company Charter, the Corporate Governance Code, the Regulations on the Management Board, and other internal regulations of the Company.

The Management Board is established by the Board of Directors and reports to the Board of Directors on the work performed to attain the Company’s goals. The Management Board is headed by the General Director (Chairman of the Management Board), who organizes and coordinates its work.

The Management Board is responsible for allocating the financial and human resources necessary to meet the goals set by the General Meeting of Shareholders and the Board of Directors.

Additional information about the authority and performance of the Management Board of the Company can be found at the Company’s [website in the section Corporate Governance](#).

MEMBERS OF THE MANAGEMENT BOARD

In 2018 the Management Board had nine members. The members of the Management Board were reelected on May 23, 2018.

MANAGEMENT BOARD MEMBERS IN 2018

First name, surname	Position
Dimash Dossanov	General Director (Chairman of the Management Board)
Bolat Otarov	Deputy General Director
Sabit Arynov	Deputy General Director
Aleksey Pirogov (until November 30, 2018)	Deputy General Director
Zhaiyk Makhin	Deputy General Director
Shara Tanatarova	Deputy General Director
Alibi Kultumiyev (since December 4, 2018)	Deputy General Director
Chingiz Seissekenov	Deputy General Director
Oral Idyryssov	Deputy General Director
Zhaidarman Isakov	Managing Director





Dimash  
Dossanov

General Director  
(Chairman  
of the Management  
Board)

CITIZENSHIP  
Republic of Kazakhstan

DATE OF BIRTH  
November 2, 1981

EDUCATION

Graduated from Al-Farabi Kazakh National University, major – International Relations, qualification – Specialist in International Relations; T. Ryskulov Kazakh Economic University, major – Finance and Credit, qualification – Economist. MA in Business Administration (Executive MBA), Georgetown University, Washington, USA.

WORK EXPERIENCE

2014–2016 – First Deputy of General Director, General Director of Kazakhstan-China Pipeline LLP.

From January to August 2016 – First Deputy General Director of KazTransOil JSC.

From August 6, 2016 – General Director (Chairman of the Management Board) of KazTransOil JSC.

From October 20, 2016 – member of the KazTransOil JSC Board of Directors.

Member of the Board of Directors of CPC-R JSC and CPC-K JSC.

Does not hold shares in the Company or SJCE.  
Does not hold shares in the suppliers or competitors of the Company.  
Did not perform any transactions with Company shares.



Bolat  
Otarov

Deputy General Director  
of KazTransOil JSC

CITIZENSHIP  
Republic of Kazakhstan

DATE OF BIRTH  
February 23, 1966

EDUCATION

Graduated from Lenin Kazakh Polytechnic Institute, majoring in Mechanical Engineering, Metal Cutting Machines and Tools, qualification – Mechanical Engineer.

WORK EXPERIENCE

2007–2017 – Deputy General Director of KazTransOil JSC for Transportation.

From January 3, 2018 – Deputy General Director of KazTransOil JSC.

From February 20, 2008, to the present – member of the KazTransOil JSC Management Board.

Is not a member of the management bodies of other organizations.

Holder of 135 shares in the Company, or 0.00004% of the total number of outstanding shares.  
Does not hold shares in SJCE.  
Does not hold shares in the suppliers or competitors of the Company.  
Did not perform any transactions with Company shares.



Sabit  
Arynov

Deputy General Director  
of KazTransOil JSC

CITIZENSHIP  
Republic of Kazakhstan

DATE OF BIRTH  
June 29, 1977

EDUCATION

Graduated from Satbayev Kazakh National Technical University, majoring in Technology, Mineral Deposit Exploration Technology, qualification – Mining Engineer.

WORK EXPERIENCE

2009–2017 – Director of the Operations Department of KazTransOil JSC.

2017 – Director of the Western Branch of KazTransOil JSC.

From January 3, 2018 – Deputy General Director of KazTransOil JSC.

From January 3, 2018, to the present – member of the KazTransOil JSC Management Board.

Chairman of the Supervisory Board of Main Waterline LLP.

Does not hold shares in the Company or SJCE.  
Does not hold shares in the suppliers or competitors of the Company.  
Did not perform any transactions with Company shares.



Zhaiyk  
Makhin

Deputy General Director  
of KazTransOil JSC

**CITIZENSHIP**  
Republic of Kazakhstan

**DATE OF BIRTH**  
June 30, 1982

EDUCATION

Graduated from Moscow State Institute of International Relations (University) of the Russian Ministry of Foreign Affairs, graduating in Finance and Credit, BA in Economics, in 2005, MA in Economics, with a minor in foreign languages in the field of Global Economy. In 2014 graduated from the Russian Presidential Academy of the National Economy and Public Administration in the program MBA: Management – International Business, MBA.

WORK EXPERIENCE

2016–2017 – Deputy General Director for Economics, Kazakhstan-China Pipeline, LLP.  
December 2017 – Deputy General Director for Economics and Finance of KazTransOil JSC.  
From January 3, 2018 – Deputy General Director of KazTransOil JSC.  
From December 20, 2017, to the present – member of the KazTransOil JSC Management Board.  
Chairman of the Supervisory Board of Batumi Oil Terminal LLC, member of the Supervisory Board of Main Waterline LLP.

Does not hold shares in the Company or SJCE.  
Does not hold shares in the suppliers or competitors of the Company.  
Did not perform any transactions with Company shares.



Shara  
Tanatarova

Deputy General Director  
of KazTransOil JSC

**CITIZENSHIP**  
Republic of Kazakhstan

**DATE OF BIRTH**  
November 30, 1978

EDUCATION

Graduated from the University of Massachusetts, majoring in Accounting and Finance. MBA, University of Massachusetts. In 2009 graduated from international school of management, awarded a PhD.

WORK EXPERIENCE

2012–2016 – Director for Corporate Finance and Asset Management, Asset Management Department, NC KazMunayGas JSC.  
2015–2016 – Deputy General Director for Business Support, KazMunayGas Global Solutions (part-time).  
2016–2017 – Deputy General Director for Corporate Development and Assets of KazTransOil JSC.  
From January 3, 2018 – Deputy General Director of KazTransOil JSC.  
From October 24, 2016, to the present – member of the KazTransOil JSC Management Board.  
Member of the Supervisory Board of Batumi Oil Terminal LLC, Member of the Meeting of Directors of Petrotrans Limited, member of the Supervisory Board of MunaiTas LLP.

Does not hold shares in the Company or SJCE.  
Does not hold shares in the suppliers or competitors of the Company.  
Did not perform any transactions with Company shares.



Alibi  
Kultumiyev

Deputy General Director  
of KazTransOil JSC

**CITIZENSHIP**  
Republic of Kazakhstan

**DATE OF BIRTH**  
August 1, 1980

EDUCATION

Graduated from the Kazakh Institute of Jurisprudence and International Relations, majoring in Jurisprudence, qualification – Lawyer; Yessenov Aktau State University, majoring in “Design, Construction and Operation of Gas and Oil Pipelines and Gas and Oil Storage Facilities”, qualification – Mechanical Engineer. MBA, Gubkin Russian State University of Oil and Gas.

WORK EXPERIENCE

2013–2017 – Deputy Director, HSE and Emergencies Department of Kazakhstan-China Pipeline LLP.  
2017–2018 – Head of Aktobe Oil Pipeline Division of KazTransOil JSC.  
From December 4, 2018 – Deputy General Director of KazTransOil JSC.  
From December 4, 2018, to the present – member of the KazTransOil JSC Management Board.  
Member of the Supervisory Board of Kazakhstan-China Pipeline LLP.

Does not hold shares in the Company or SJCE.  
Does not hold shares in the suppliers or competitors of the Company.  
Did not perform any transactions with Company shares.



Chingiz  
Seissekenov

Deputy General Director of  
KazTransOil JSC

**CITIZENSHIP**  
Republic of Kazakhstan

**DATE OF BIRTH**  
April 11, 1981

EDUCATION

Graduated from T. Ryskulov Kazakh University of Economics, majoring in International Economic Relations, International Currency and Financial Relations, qualification – international currency and financial relations. In 2005 completed post-graduate studies at T. Ryskulov Kazakh University of Economics, majoring in Finance, Money Circulation and Credit. Holds a degree as a candidate of sciences (economics).

WORK EXPERIENCE

2015–2016– Deputy General Director for Commerce Kazakhstan-China Pipeline, LLP.  
2016 – Managing Director for Business Support in KazTransOil JSC.  
2016–2017 – Deputy General Director for Business Support in KazTransOil JSC.  
From January 3, 2018 – Deputy General Director of KazTransOil JSC.  
From October 24, 2016, to the present – member of the KazTransOil JSC Management Board.  
Member of the Supervisory Board of Batumi Oil Terminal LLC, Member of the Meeting of Directors of Petrotrans Limited, member of the Supervisory Board of Main Waterline LLP.

Does not hold shares in the Company or SJCE.  
Does not hold shares in the suppliers or competitors of the Company.  
Did not perform any transactions with Company shares.





Oral Idyryssov

Deputy General Director of KazTransOil JSC

CITIZENSHIP  
Republic of Kazakhstan

DATE OF BIRTH  
February 12, 1959

EDUCATION

Graduated from Almaty Institute of the National Economy, qualification – Labor Economist.

WORK EXPERIENCE

2014–2016 – Director, HR Policy Department, Kazakhstan-China Pipeline LLP.  
2016–2017 – Director, Department of the HR and Remuneration Division of KazTransOil JSC.  
2017 –Deputy General Director for Transformation of KazTransOil JSC.  
From January 3, 2018 – Deputy General Director for Transformation of KazTransOil JSC.  
From June 1, 2017, to the present – member of the KazTransOil JSC Management Board.  
Member of the Supervisory Board of Batumi Oil Terminal LLC.

Does not hold shares in the Company or SJCE.  
Holder of four shares in EP KazMunayGas JSC, or 0.00000538% of the total number of outstanding shares.  
Does not hold shares in the suppliers or competitors of the Company.  
Did not perform any transactions with Company shares.



Zhaydarman Isakov

Managing Director of KazTransOil JSC

CITIZENSHIP  
Republic of Kazakhstan

DATE OF BIRTH  
October 29, 1965

EDUCATION

Graduated from S.M. Kirov Kazakh State University, majoring in Jurisprudence, qualification – Lawyer. In 2003 completed training at the Russian Presidential Academy of the National Economy and Public Administration, specialization Lawyer in the Oil and Gas Industry.

WORK EXPERIENCE

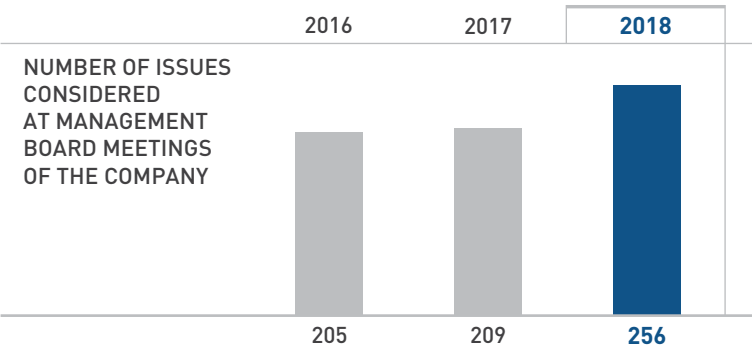
2002–2014 – Director of the Legal Department of KazTransOil JSC.  
2014–2017 – Managing Director for Legal Support of KazTransOil JSC.  
From January 3, 2018 – Managing Director of KazTransOil JSC.  
From May 12, 2003, to the present: member of the KazTransOil JSC Management Board.  
Member of the Supervisory Board of Batumi Oil Terminal LLC.

Does not hold shares in the Company or SJCE.  
Does not hold shares in the suppliers or competitors of the Company.  
Did not perform any transactions with Company shares.

MANAGEMENT BOARD PERFORMANCE APPRAISALS

During 2018 the Management Board held 33 face-to-face meetings. No meetings were held in absentia.

In total, the Management Board of the Company reviewed and adopted decisions on 256 issues and prepared 277 instructions. As at December 31, 2018, all the instructions had been performed. Based on the results of the work of the Management Board, 79 issues were put to the Board of Directors for consideration, with eight being forwarded to the Company’s General Meeting of Shareholders for consideration.



ATTENDANCE AT MANAGEMENT BOARD MEETINGS OF THE COMPANY IN 2018

Member of the Management Board	Attendance at meetings		Period as a member of the Management Board in the reporting period
	Number of meetings attended	Percentage of meetings attended	
Dimash Dossanov	29 of 33	88%	January 1, 2018 – December 31, 2018
Bolat Otarov	25 of 33	76%	January 1, 2018 – December 31, 2018
Sabit Arynov	25 of 33	76%	January 3, 2018 – December 31, 2018
Aleksey Pirogov	25 of 30	83%	January 1, 2018– November 30, 2018
Zhaiyk Makhin	30 of 33	91%	January 1, 2018 – December 31, 2018
Shara Tanatarova	30 of 33	91%	January 1, 2018– December 31, 2018
Alibi Kultumiyev	2 of 3	67%	December 4, 2018 – December 31, 2018
Chingiz Seissekenov	24 of 33	73%	January 1, 2018 – December 31, 2018
Oral Idyryssov	30 of 33	91%	January 1, 2018 – December 31, 2018
Zhaidarman Isakov	30 of 33	91%	January 1, 2018– December 31, 2018

33 FACE-TO-FACE  
Management Board meetings in 2018

During Management Board meetings, issues were considered and decisions adopted on the following key lines of business:

**STRATEGIC DEVELOPMENT:**

- approving the Report for 2017 on implementing the Development Strategy of KazTransOil JSC up to 2025
- approving the Report on implementing the business plan of KazTransOil JSC for 2017
- approving the Action Plan for 2019 on implementing the Development Strategy up to 2025
- approving the Action Plan on Optimizing Activity and Improving the Performance of KazTransOil JSC
- approving the Digitalization Strategy of KazTransOil JSC.

**CORPORATE GOVERNANCE:**

- approving the Annual Report of KazTransOil JSC for 2017
- approving the motivational KPIs of the management employees of KazTransOil JSC for 2018, as well as their targets
- approving the KPIs of the heads of the business units of the central office and the department of operator and maintenance services, the heads of the STC branch of KazTransOil JSC and the representative offices of KazTransOil JSC for 2018 and their targets, as well as KPI datasheets
- approving the corporate and functional KPIs of the executives of certain separate KazTransOil JSC business units for 2018 and their targets, as well as KPI datasheets
- reviewing the Report on the results of the survey of readers of the Annual Report of KazTransOil JSC for 2017.

**FINANCIAL AND BUSINESS ACTIVITY:**

- approving the annual financial statements and consolidated annual financial statements of KazTransOil JSC for 2017
- approving the adjusted Business Plan of KazTransOil JSC for 2018-2022 as part of the budget for 2018
- approving the annual financial statements and consolidated annual financial statements of subsidiaries and jointly controlled entities
- concluding transactions in which KazTransOil JSC has an interest with organizations that are part of Samruk-Kazyna Group JSC.

**RISK MANAGEMENT AND INTERNAL CONTROL:**

- reviewing the Performance Report of the Risk Committee for 2017
- approving the Work Plan of the Risk Committee of KazTransOil JSC for 2018
- approving the quarterly Report on key risk trends and progress being made in implementing the Action Plan on managing the key risks of KazTransOil JSC and its subsidiaries and jointly controlled entities
- preliminary reviews of quarterly reports on the production and non-production risks of KazTransOil JSC as well as its subsidiaries and jointly controlled entities.

**PERFORMANCE OF THE RISK COMMITTEE**

A separate consultative body was established under the Management Board for the preliminary consideration of the Company's risk management issues – the Risk Committee. The committee's functions include the comprehensive consideration of issues related to managing the risks of the Company and the SJCE, and preparing recommendations to facilitate the adoption of balanced risk management decisions by the Management Board.

In its activity the Risk Committee is governed by the legislation of the Republic of Kazakhstan, the Company Charter, the Corporate Governance Code, the Regulations on the Risk Committee of KazTransOil JSC, and other internal regulations of the Company.

The main objectives of the Committee are:

- to assist the Management Board of the Company during the adoption of decisions on managing the Company's risks
- to prepare recommendations and proposals on organizing and supporting an effective corporate risk management system at the Company
- to develop processes aimed at identifying, measuring, monitoring, and controlling the Company's risks
- to prepare recommendations and proposals to supervise the coordination of the Company's risk management activities.

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

Risk Committee meetings are held based on the Work Plan of the Risk Committee, approved by the Management Board of the Company.

Pursuant to the Work Plan of the Risk Committee for 2018, during the reporting period the Risk Committee held six meetings, including five face-to-face meetings and one virtual meeting. At these the following key documents were approved:

- a report on key risk trends and the progress being made to implement actions to manage key risks of the Company and its SJCE for Q1-Q3 2018
- drafts of the Company's Business Process Classifier for 2018 and the Work Schedule on the development and/or update of risk controls matrices and flowcharts for 2018
- drafts of the Company's Risk and Controls Matrices and flowcharts for individual business processes
- drafts of the results of determining and assessing the production and non-production risks of the Company and its SJCE for 2019.

All the above issues considered by the Risk Committee in the reporting period were submitted to the corresponding bodies or officials of the Company for further consideration and/or approval, pursuant to the established procedure.

**REMUNERATION OF MANAGEMENT BOARD MEMBERS**

The remuneration approach in place at the Company for members of the Management Board is intended to attract and retain highly skilled specialists and to ensure they are have a material incentive to effectively perform tasks that the Company needs to fulfill.

The procedure for the remuneration and payment of bonuses to Management Board members is determined by the following documents:

- the Regulations on the Management Board of KazTransOil JSC
- the Rules on the Performance Appraisal of Executives and Management Employees and the Corporate Secretary of KazTransOil JSC
- the Rules on the Payment of Remuneration to Executives and Management Employees, the Head of the Internal Audit Service, and the Corporate Secretary of KazTransOil JSC.

The wage system of the Chairman and Management Board members includes a fixed wage component and remuneration based on annual performance.

In 2018 KazTransOil JSC Management Board members were paid remuneration totaling KZT 717,121 thousand.

Remuneration based on annual performance is paid to KazTransOil JSC executives within the fund limits prescribed for these goals in the KazTransOil JSC budget, and after approval of the consolidated annual financial statements of the Company.

The following are the main criteria governing the payment of remuneration based on annual performance:

- consolidated total profits for the reporting year
- meeting motivational KPIs for the payment of remuneration based on annual performance
- employee compliance with executive and labor discipline.

Motivational KPIs, which include corporate and functional KPIs developed using the top-down approach for the strategic goals of NC KazMunayGas JSC and KazTransOil JSC, are used to appraise executives' performance.

Remuneration based on an executive's annual performance cannot exceed by three times the executive's annual salary for the actual time worked during the reporting period.

The actual performance of KPIs by executives is approved by the Board of Directors, with due account being made of the established procedures for approving and verifying data.



## ROLE AND ACTIVITY OF THE COMPANY'S CORPORATE SECRETARY

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

The Corporate Secretary is accountable and reports to the Board of Directors. The Corporate Secretary's main tasks comprise:

- ensuring compliance by the Company's bodies and officials with corporate governance standards, and improving corporate governance policies and practices
- ensuring the effective functioning of the Board of Directors and its committees
- ensuring that General Meetings of Shareholders are held

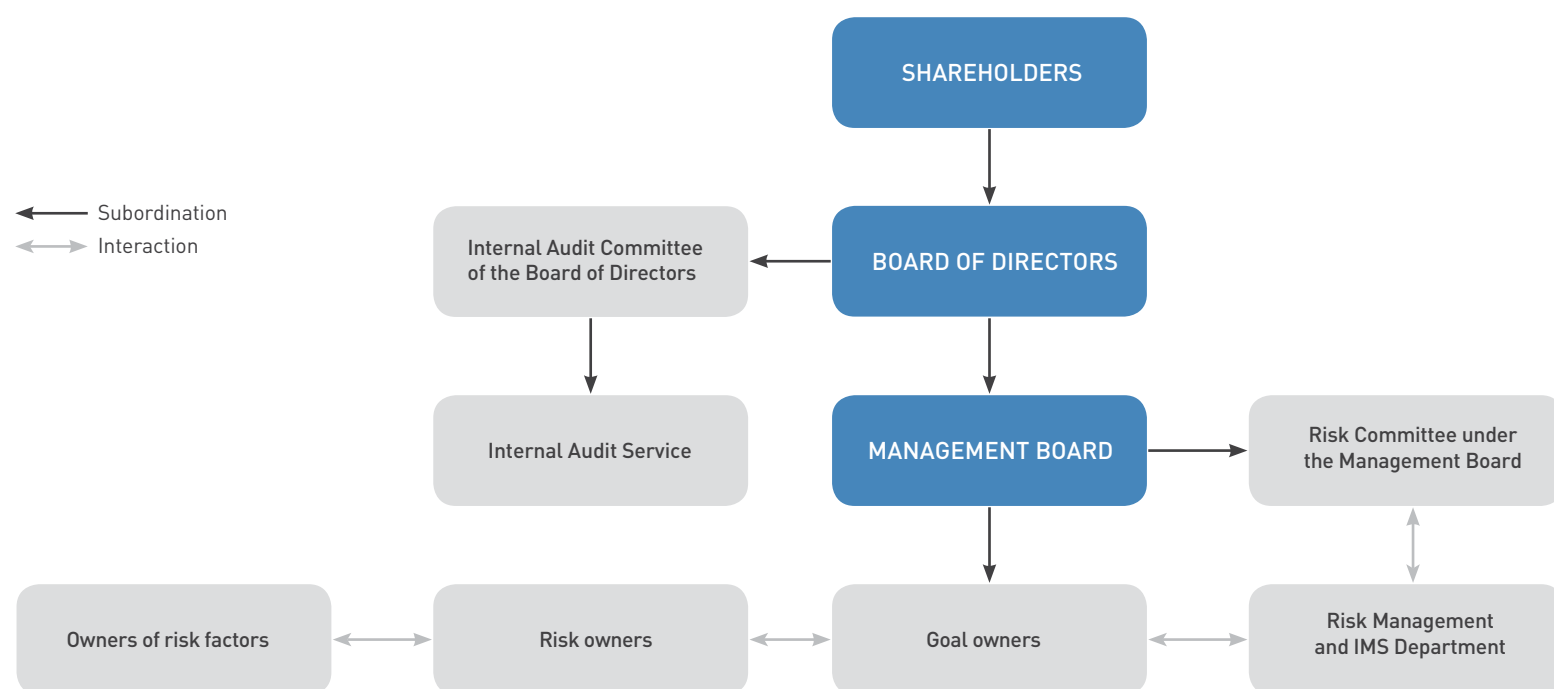
- ensuring the storage, disclosure, and submission of material information, as well as maintaining a high level of information transparency
- ensuring clear and effective communications between the Company and shareholders, as well as among the bodies of the Company.

Ayrat Makhambetovich Shmanov was appointed to be Corporate Secretary of KazTransOil JSC, effective July 2018 for three years, by a decision of the KazTransOil JSC Board of Directors.

The objectives, functions, rights, duties, and responsibilities of the Corporate Secretary of the Company are enshrined in the Corporate Governance Code, as well as the Regulations on the Corporate Secretary of KazTransOil JSC.

The Regulations on the Corporate Secretary can be studied on the Company's [website in the section Corporate Governance](#).

### ORGANIZATIONAL STRUCTURE OF THE CRMS OF THE COMPANY



## RISK MANAGEMENT AND INTERNAL CONTROL

As a major oil transportation company, KazTransOil JSC's activities are associated with a number of risks and opportunities that are capable of impacting the successful attainment of the Company's operating and strategic goals. In connection with this, a risk management system has been organized and functions within the Company. The system is aimed at providing reasonable assurance that the set goals will be attained and mitigating the adverse impact of risks on the Company's activity.

The risk management system is complex and consists of two components: the corporate risk management system (CRMS) and the internal control system (ICS).

The Company's Board of Directors plays a key role in organizing and providing oversight over the effective functioning of the corporate risk management and internal control systems. The Management Board of the Company is responsible for developing and applying internal controls as well as risk management policies and procedures.

### CORPORATE RISK MANAGEMENT SYSTEM

The corporate risk management system (CRMS) comprises an aggregate of the principles, methods, and procedures that ensure the organization and effective functioning of the risk management process at all management levels of the Company. The CRMS forms an integral part of the Company's corporate governance system.

The main goals of the CRMS are the timely identification, analysis, assessment, monitoring, and drafting of actions to reduce the likelihood of the manifestation and consequences of risk events.

The Company's risk management approach was developed to take into account the external and internal environment and complies with the principles set forth in international risk management standards, including ISO 31000:2018 and COSO ERM: 2017.

The key internal regulation governing the work of the CRMS is the Policy on the Corporate Risk Management System of KazTransOil JSC. A unified methodological database of documents regulating the risk management process is employed at the Company, including:

- the Rules for Organizing the Production and Non-Production Risk Management Process at KazTransOil JSC
- the Methodology for Identifying and Assessing Risks and Selecting Risk Management Methods at KazTransOil JSC.

The CRMS structure is vertically integrated and makes it possible to cover risks at all organizational levels of the Company. The Company's management, represented by the Board of Directors and the Management Board, proactively strives to ensure the operational efficiency of the CRMS.

The Risk Management Committee under the Management Board plays a key role in aligning and tracking the effectiveness of the risk management process. As part of its competence, the committee provides the Management Board with detailed recommendations regarding risk management issues and analyzes reports on the status of risks faced by the Company.

Information about the Performance of the Risk Management Committee is given in the "Management Board" section of this Report.

The Risk Management and IMS Department is responsible for coordinating and providing constant consultative and methodological support on issues to identify, analyze, and assess the risks of the SSD and SJCE of the Company.

The employees of the central office, SSD, and SJCE of the Company are actively involved in the risk management process. A risk coordinator is appointed in each business unit of the central office – a specialist responsible for organizing and coordinating the risk management activity of the business unit and interacting with the Risk Management and IMS Department. Risk managers – specialists responsible for organizing and coordinating the risk management process – are appointed at the SSD and SJCE.

RISK MANAGEMENT PROCESS

The organization of the risk management process at the Company involves a continuous flow and exchange of information, as well as interaction on risk management issues at all management levels, up to the SSD.

Information passed along a top-down hierarchy facilitates the communication of strategic goals, the risk appetite level, and risk management approaches to risk owners. A bottom-up system of information flow provides the Company's management with timely

and reliable information about the status of the Company's identified risks, changes in assessments of the likelihood and impact of their manifestation, and also the implementation status of risk management actions.

When drafting the Development Strategy, the Company's management performs a detailed elaboration of alternative options, as well as an analysis of the risks that could impact the attainment of set goals. This risk-oriented approach to goal setting facilitates determining areas most in need of development and assessing associated risks and opportunities. [GRI 102-11](#)

MAIN STAGES OF THE RISK MANAGEMENT PROCESS



The CRMS facilitates identifying, analyzing, assessing, and prioritizing all faced by the Company. Both qualitative and quantitative methods are used as part of the risk assessment approach. Business continuity plans have been drafted for those risks that could result in the partial or full suspension of the Company's activity.

In 2018, in connection with the implementation of the new CRMS Methodology 2018 initiated by NC KazMunayGas JSC, risks were identified and assessed on the basis of the Unified Risk Classifier of NC KazMunayGas JSC and its subsidiaries and associates. As a result, all the Company's risks were divided into two main categories: production and non-production risks.

The risk reporting system in place at the Company supports the functioning of the CRMS and facilitates the adoption of balanced management decisions. Quarterly reports on the Company's risk trends are submitted to the Risk Committee, Management Board, and Board of Directors. The risk identification results are approved by the Company's Board of Directors on an annual basis for the planning year.

A unified electronic database on risk incidents that have materialized was created on the corporate portal, in order to record and subsequently analyze data on such incidents at the Company. Maintenance of the electronic database makes it possible to collect the data required to perform quantitative assessments of risks and risk factors, as well as prepare analytical risk reporting.

In 2018 the Company continued work to implement a vertical production and non-production risk management process,

and to integrate the risk management process with the Company's key business processes in accordance with the updated risk management methodology.

During the reporting period the Company constantly monitored the status of production and non-production risks, the implementation of respective risk management actions, registered realized risks in the electronic realized risk events database and prepared quarterly reports for review by management.

These activities resulted in the identification and assessment of the Company's production and non-production risks for the 2019 planning year.

COMPANY RISKS IN 2018

The Company drew up a list of the risks that could have the most material impact on the Company's financial position and the attainment of its strategic goals.

In order to prevent or reduce the likelihood of the manifestation of risk events, in 2018 the management of the Company's SSD and SJCE implemented necessary preventative measures. The Company also implemented corresponding response measures to realized risks in order to minimize or prevent potential financial losses.

The Company performed planned risk management work in full in 2018.

**100%**  
the Company performed planned risk management work in full in 2018



LIST OF THE RISKS OF KAZTRANSOIL JSC IN 2018

Risk	Risk factors	Key risk management actions	Manifestation of the risk in 2018
PRODUCTION RISKS			
Non-compliance with production practices	<ul style="list-style-type: none"><li>Malfunctions in the external power supply</li><li>Malfunctions or failure of the hardware and software of the automated process control system</li><li>Non-compliance with industry, fire safety, and occupational health and safety requirements</li></ul>	<ul style="list-style-type: none"><li>Implementing and monitoring the performance of the developed optimal operating practices of oil pipelines</li></ul>	Yes
Late/low-quality repair of equipment (including production)	<ul style="list-style-type: none"><li>Termination of the production of spare parts by the manufacturing plant</li><li>Supply of low-quality spare parts and materials for repair</li><li>Late supply of spare parts and materials for repairs</li><li>Late holding of tenders for the supply of spare parts and materials for repairs</li><li>Late conclusion of contracts to supply spare parts and materials for repairs</li><li>Selection of unreliable and/or bad-faith counterparties</li></ul>	<ul style="list-style-type: none"><li>Concluding supply contracts for spare parts and materials directly with manufacturing plants</li><li>Including in supply contracts warranty obligations on replacing low-quality spare parts and materials</li><li>Imposing penalties on suppliers if spare parts and materials are supplied late</li><li>Holding tenders and concluding contracts related to the supply of inventory for priority production equipment repairs</li><li>Concluding contracts with reliable suppliers that have passed the pre-qualification screening of the Holding Company</li></ul>	No
Late/low-quality replacement of production equipment	<ul style="list-style-type: none"><li>Termination of the production of necessary equipment by the manufacturing plant</li><li>Late holding of tenders for procurements of production equipment</li><li>Late conclusion of contracts related to the supply of production equipment</li><li>Supply of low-quality equipment</li><li>Late supply of equipment</li><li>Selection of unreliable and/or bad-faith counterparties</li></ul>	<ul style="list-style-type: none"><li>Holding tenders and concluding contracts on priority production equipment supplies</li><li>Concluding contracts to supply equipment directly with manufacturing plants</li><li>Including in supply contracts warranty obligations on replacing low-quality equipment</li><li>Concluding contracts with reliable suppliers that have passed the pre-qualification screening of the Holding Company</li><li>Imposing penalties on suppliers if equipment is supplied late</li></ul>	Yes

Risk	Risk factors	Key risk management actions	Manifestation of the risk in 2018
NON-PRODUCTION RISKS			
Fall in income	Default by counterparty banks on their obligations	<ul style="list-style-type: none"><li>Compliance with the Corporate Standard on the treasury operations of Samruk-Kazyna JSC</li><li>Investing funds in counterparty banks with a high rating</li><li>Diversifying idle funds being deposited</li><li>Monitoring financial risks by collecting and sending quarterly reports to NC KazMunayGas JSC</li></ul>	Yes
Fall in income	Change in the terms and conditions of relations with strategic partners	<ul style="list-style-type: none"><li>Concluding long-term contracts with strategic partners on the provision of oil transportation services</li></ul>	No
Fall in income	Decrease or termination of oil supplies	<ul style="list-style-type: none"><li>Concluding long-term contracts with consignors</li><li>Engaging new consignors</li><li>Outsourcing/spin-off of services to transport oil for export and the transportation of transit oil from the Company's monopoly</li></ul>	No
Fall in income	Low quality of approved plans	<ul style="list-style-type: none"><li>Increasing the discipline of the planning and implementation of actions under the investment program</li><li>Timely adjustments to the investment program</li></ul>	Yes
Fall in income	Incorrect recording of output	<ul style="list-style-type: none"><li>Metrological servicing of oil meters</li><li>Operational control, registration, and analysis of the main technological parameters of the operations of oil pipelines, oil balance</li><li>Maintenance of the operating balance of oil</li></ul>	No
Fall in income	Provision of unprofessional services in the core line of business	<ul style="list-style-type: none"><li>Annual assessments of customer satisfaction and calculating the overall customer satisfaction rating</li><li>Where necessary, developing remedial and/or preventative actions with a subsequent analysis of their effectiveness</li></ul>	No
Fall in income	Lack of response mechanisms to negative publications depicting the activity of companies in a distorted or unfavorable light	<ul style="list-style-type: none"><li>Organizing briefings, press conferences, and speeches by the Company's management to notify the media of different events related to the Company's activity</li></ul>	No
Fall in income	"Fragile supply chain"	<ul style="list-style-type: none"><li>Preventing the late implementation of an investment project</li><li>Imposing penalties on counterparties</li><li>Concluding additional agreements with counterparties</li></ul>	No

Risk	Risk factors	Key risk management actions	Manifestation of the risk in 2018
Fall in income	Time required to obtain the necessary approvals and permits	<ul style="list-style-type: none"><li>Timely adjustments to the design specifications and estimates of investment projects and approval with the competent authorities under the established procedure</li></ul>	Yes
Fall in income	Fall in demand for services/ products	<ul style="list-style-type: none"><li>Monitoring market changes</li><li>Attracting new cargo volumes/additional cargo flows</li><li>Applying a flexible and effective tariff policy</li><li>Working with the Georgian state authorities and economic entities</li></ul>	Yes
Fall in income	Late payment of accounts receivable	<ul style="list-style-type: none"><li>Legal due diligence reviews of contracts being concluded</li><li>Requesting that counterparties submit statements that they have no tax arrears at the time of concluding BOT contracts</li><li>Regular monitoring of the attainment of BOT business plan targets and the prompt introduction of adjustments thereto</li></ul>	No
Increase in expenses	Premeditated illegal actions by third parties	<ul style="list-style-type: none"><li>Concluding contracts on the provision of security services to protect the Company's facilities with security organizations</li><li>Implementing and operating hardware and software to protect oil pipelines</li><li>Having an effective system in place to physically protect the Company's assets</li></ul>	Yes
Increase in expenses	Environmental impacts, natural disasters	<ul style="list-style-type: none"><li>Organizing examinations of the technical state of facilities, pipelines, and equipment</li><li>Drafting emergency response plans, holding theory classes and practical training courses</li><li>Organizing aircraft patrols of oil pipeline routes</li><li>Organizing observation posts at the crossings of oil pipelines through water bodies</li><li>Drafting action plans to ensure the reliability of main oil pipelines in the autumn-winter and spring flood period</li></ul>	No
Increase in expenses	Increase in the exchange rates of foreign currencies against the KZT	<ul style="list-style-type: none"><li>Monitoring the FX position</li><li>Hedging foreign exchange risks</li><li>Extensions to current loans</li><li>Refining current loans</li></ul>	Yes
Increase in expenses	Incorrect calculation of cost effectiveness during the planning of capital investments	<ul style="list-style-type: none"><li>Processing input data together with the business units of the Company</li></ul>	No

Risk	Risk factors	Key risk management actions	Manifestation of the risk in 2018
Increase in expenses	Non-compliance with environmental protection legislation	<ul style="list-style-type: none"><li>Monitoring compliance with environmental emission limits</li><li>Monitoring compliance with the operating rules of equipment at facilities</li><li>Mandatory environmental insurance</li><li>Industrial environmental control</li></ul>	No
Increase in expenses	Inadequate staff qualifications	<ul style="list-style-type: none"><li>Analyzing the compliance of the professional competencies of employees with job requirements</li></ul>	No
Increase in expenses	Non-compliance with internal regulations on the protection of information	<ul style="list-style-type: none"><li>All employees signing non-disclosure agreements regarding business or trade secrets</li><li>Determining a list of information constituting business or trade secrets</li><li>Monitoring the provision of access to information to third parties</li></ul>	No
Increase in expenses	Breakdown (loss) of existing software	<ul style="list-style-type: none"><li>Providing technical software support</li><li>Software and hardware protection against malware</li><li>Creating software back-ups</li></ul>	No
Increase in expenses	Breakdown of existing server equipment	<ul style="list-style-type: none"><li>Analyzing the capacity of power sources during the addition of equipment</li><li>Existence of uninterrupted power supplies for mission-critical systems</li><li>Existence of emergency power supplies</li></ul>	No
Increase in expenses	Use of unlicensed software	<ul style="list-style-type: none"><li>Annual stock-takes of software and analysis of software licensing</li><li>Procuring the required number of licenses</li></ul>	No
Increase in expenses	Late procurement of goods, work, and services	<ul style="list-style-type: none"><li>Monitoring the timely performance of procurements by set deadlines</li><li>Timely adjustments of the Procurement Plan of Goods, Work, and Services of the Company</li></ul>	No
Increase in expenses	Lawsuits	<ul style="list-style-type: none"><li>Appropriate legal transaction support</li><li>Providing legal support to the business units of the Company</li></ul>	No
Increase in expenses	Late receipt of required environmental permits	<ul style="list-style-type: none"><li>Timely development of draft emission limits</li><li>Monitoring the timely receipt of emission permits</li></ul>	No



### TRAINING AND DEVELOPMENT OF THE RISK CULTURE

The Company pays special attention to developing a risk-oriented culture, based on a high level of awareness of respective risks and engaging employees in the risk management process.

At the time of their recruitment all employees receive training on the main goals, objectives, and principles for the organization and functioning of the CRMS, which are set forth in the Policy on the Risk Management Corporate System of KazTransOil JSC.

In addition, regular training courses are delivered on individual issues of CRMS functioning. The key results of the reporting period in this area were as follows:

- Training on the topic “Monitoring the status of risks. Risk reporting in accordance with the new methodology on the corporate risk management system” for 21 risk managers of the SSD and SJCE and 31 risk coordinators from business units of the Company’s central office.
- Holding a roundtable to provide SSD risk managers with methodological support during the annual identification and assessment of production risks and risk factors.
- Holding a two-day training course for 24 of the Company’s risk managers, with the engagement of an external provider on the topic “Risk management based on ISO 31000:2018”.

### ASSESSMENT OF THE EFFECTIVENESS OF THE RISK MANAGEMENT SYSTEM

Ensuring an effective and constantly improving risk management system are priorities for the Company. The effectiveness of the CRMS is supported by the results of independent assessments, internal and/or external audits, and can also be recognized by the bodies and management of the Company, ratings agencies, and other stakeholders.

The assessment of the effectiveness of the CRMS can result in drawing up a plan to eliminate any identified inconsistencies and developing corresponding risk management practices.

### INTERNAL CONTROL SYSTEM

The internal control system covers all the Company’s business processes and is aimed at the timely identification and analysis of process-level risks inherent in the Company’s activity, as well as the identification and analysis of control procedures to manage these risks in three key areas:

- operating activity
- preparation of financial statements
- compliance with respective legislation and statutory requirements.

The functioning of the internal control system is governed by the Policy on the Internal Control System of KazTransOil JSC and the Regulations on the Internal Control System of KazTransOil JSC.

During standard hiring procedures all employees become conversant with the underlying principles of the internal control system within the framework of implementing the Policy on the Internal Control System.

The Company is continually seeking to enhance the internal control system, and is also developing a risk-oriented business culture. The following key actions were implemented as part of this work in 2018:

- The Company’s Board of Directors approved amendments and addenda to the Regulations on the Internal Control System to establish cooperation and reallocate responsibility for the organization, functioning, and efficacy of the internal control system.
- The business process classifier of the central office and separate structural divisions of the Company was updated.
- The risk and control flowchart as well as matrices for the individual business processes of the Company’s central office were updated.
- The risk and control flowchart matrices for the individual processes of the Company’s SSD were developed and approved.
- Training presentations on the topic “Internal Control System of KazTransOil JSC” were delivered to 23 risk coordinators of the business units of the Company’s central office.





## INTEGRATED MANAGEMENT SYSTEM

An integrated management system operates at the Company to ensure business continuity, the effective management of environmental health and safety issues, and to boost energy efficiency.

The integrated management system forms an integral part of the Company's governance system and meets the requirements of the following international standards:

- ISO 9001:2015: Quality Management System
- ISO 14001:2015: Environmental Management System
- OHSAS 18001:2007: Health & Safety Management System
- ISO 50001:2011: Energy Management System.

The Company successfully passed a certification audit in 2018. Based on the results of the audit, the international certification company SGS (Société Générale de Surveillance) confirmed that the Company's integrated management system was in compliance with the above international standards.

The integrated management system operates in accordance with the provisions of the following internal regulations of the Company:

- The Management of the Integrated Management System of KazTransOil JSC.
- The Procedure for Analyzing the Integrated Management System by the Management of KazTransOil JSC.
- The Procedure for Conducting the Internal Audit of the Integrated Management System of KazTransOil JSC.
- The Procedure for Managing Non-Compliance and Developing Remedial Actions at KazTransOil JSC.

The Company pays special attention to making improvements to the IMS. For example, an annual internal audit of the system is conducted, and recommendations to eliminate any identified shortcomings and IMS development measures are drafted based on its results. In addition, all identified shortcomings and IMS improvement recommendations are documented in the database on the Company's corporate portal.

The Company's management also analyzes the integrated management system on an annual basis, in accordance with the provisions of international standards. Based on the results of the analysis, decisions are drafted to improve the functioning of the integrated management system.

In order to improve the integrated management system and to keep the system fully compliant with international standards, the Company performed significant work in 2018 to classify and update IMS documents, and also took the following actions:

- Management organized an analysis of the integrated management system. During 2018, an analytical report on the functioning of the IMS was submitted to the Company's management, and decisions to further develop the integrated management system were adopted.
- An internal IMS audit was conducted, in accordance with the IMS audit program for 2018 at all Company SSD. Based on its results, actions related to the further development of the IMS were drafted.
- An Action Plan was approved on transitioning from an Occupational Health and Safety Management System that meets the requirements of HSAS 18001:2007 to an Occupational Health and Safety Management System that meets the requirements of ISO 45001:2018.

A priority area of the Company's activity to integrate and improve the integrated management systems entails holding training events on IMS in order to raise the awareness of employees and increase their knowledge in this area. As part of this work, in 2018 the IMS administrators of the Company's SSD delivered training courses for 4,500 Company employees, based on the requirements of the international standards ISO 9001:2015, ISO 14001:2015, OHSAS 18001:2007, and ISO 50001:2011.

In the reporting period a training session was also held for the internal auditors of the IMS of the Company, on the topic: "Manager/Internal Auditor of the Integrated Management System under ISO 9001:2015, ISO 14001:2015, ISO 45001:2018, and ISO 50001:2011". 24 employees participated in the training.

The main areas of work to improve the integrated management system for 2019 and the medium term, in addition to maintaining the IMS's full compliance with international standards, are:

- transitioning to an occupational health and safety and management system that complies with ISO 45001:2018
- structuring and optimizing the Company's internal regulations, based on a process-based approach
- holding training events for Company employees .

## INTERNAL AUDIT SERVICE

The Company's Internal Audit Service, a body which is directly subordinate and accountable to the Board of Directors, was set up on August 8, 2013 by a decision of the Board of Directors.

The main goal of its activity is to submit independent and objective information to the Board of Directors to help ensure the effective management of the Company, through implementing systemic improvements to risk management, internal controls, and corporate governance processes.

When exercising its functions, the Internal Audit Service is governed by the legislation of the Republic of Kazakhstan, the Company Charter, and the provisions of the following internal regulations:

- The Regulations on the Internal Audit Service of KazTransOil JSC.
- The Manual on Organizing Internal Audits at KazTransOil JSC.

The underlying principles of the International Standards for the Professional Practice of Internal Auditing (Standards) and the Code of Ethics drafted by the Institute of Internal Auditors serve as the basis of the activity of the Internal Audit Service.

Seven audits were conducted in 2018 in accordance with the Annual Audit Plan of the Internal Control Service for 2018. In particular, a comprehensive audit of production, operating, and financial processes was performed at Kazakhstan-China Pipeline LLP, Batumi Oil Terminal LLP, Batumi Sea Port LLC, Petrotrans Limited, and at four OPS: the Mangystau, Shymkent, Zhezkazgan, and Kulsary oil pipeline divisions.

In addition, the production and technological communications process and automated process control and metrology support systems were audited at the Company.

In total, the audits conducted by the Internal Audit Service in 2018 identified 150 instances of non-compliance and resulted in respective recommendations being issued. Based on all the recommendations of the Internal Audit Service, remedial action plans on the identified instances of non-compliance were drafted and approved.

The plans of the Internal Audit Service in 2019 are:

- performing appraisals of the business processes, policies, and procedures in the Company's main business lines
- monitoring the implementation of the recommendations issued by the Internal Audit Service of the Company, NC KazMunayGas JSC, and the Company's external auditor.

# 7 AUDITS

were conducted in 2018  
by the Internal Control Service



## EXTERNAL AUDITOR

The Company engages an independent audit firm to corroborate the correctness of the financial statements.

The Company’s interaction with the external auditor is governed by the Policy of KazTransOil JSC on Engaging the Services of Audit Firms, approved by a decision of the Board of Directors dated May 17, 2013. The aim of this policy is to organize effective activity aimed at engaging the services of audit firms (including the non-audit services provided by audit firms), implement unified procedures regarding their selection, and also verify the independent status of the auditors of KazTransOil JSC when providing audit and non-audit services to rule out any conflicts of interest.

The following key criteria are used when selecting an audit firm:

- the quality of services
- the speed and timeliness of service delivery
- the cost of services.

Also, the quality of the audit firm’s services is determined based on the following criteria:

- the qualification level of the audit firm’s professionals
- the work experience of the audit firm’s professionals on both Kazakh and international markets
- of audit firm’s professionals’ knowledge of the oil and gas sector
- the existence of a specialist technical support group at the firm (experts on IFRS accounting issues in relation to oil and gas) in Kazakhstan, or an undertaking from the audit firm to set up such a group.

A decision was adopted at the extraordinary General Meeting of Shareholders of KazTransOil JSC dated January 14, 2015 to appoint Ernst & Young LLP as the auditor of KazTransOil JSC for 2016–2018, and the fee to audit KazTransOil JSC’s financial statements was set at KZT 223,558,062, including VAT.

The size of annual remuneration (indicating VAT for 2016, 2017, and 2018) payable to the audit firm for the audit of financial statements stood at KZT 70,221,781, KZT 74,435,088, and KZT 78,901,193, respectively.

In the reporting period Ernst & Young LLP did not provide any advisory services that were unrelated to the audit of financial statements.

More detailed information about the Company’s external auditor, as well as the services provided in 2018, can be found at the Company’s [website in the section Corporate Governance](#).

### EVENTS AFTER BALANCE-SHEET DATE

In March 2019 Ernst & Young LLP was selected to corroborate the reliability of the Company’s financial statements for 2019–2021.

## ANTI-CORRUPTION

In its daily activity the Company is governed by the principles of transparent, good-faith, and ethical business conduct and also carries out systemic work to identify and combat corruption and fraud in all its manifestations.

As part of implementing the corruption control policy of the Republic of Kazakhstan, and in accordance with the Law of the Republic of Kazakhstan “On Combatting Corruption”, the Company carries out work to prevent corruption, foster an anti-corruption culture, and prevent and resolve conflicts of interest.

Anti-corruption policies are implemented at the Company by the corporate and information security department.

The following documents are the main internal regulations that cover anti-corruption issues at the Company:

- the Corporate Ethics Code of KazTransOil JSC
- the Anti-corruption Standards of KazTransOil JSC
- the Regulations on Conducting Anti-corruption Monitoring and Internal Analysis of Corruption Risks at KazTransOil JSC
- the Policy on Managing Risks of Violations at KazTransOil JSC
- the Policy on Regulating Conflicts of Interest between Officials and Employees of KazTransOil JSC.

A major achievement in 2018 was the approval of the Regulations on Conducting Anti-corruption Monitoring and Internal Analysis of Corruption Risks. These regulations establish the procedure for collecting, analyzing, and assessing information about the state and efficacy of anti-corruption practices, as well as the procedure for identifying and analyzing the causes and conditions that facilitate corruption at the Company.

The Company uses the following key tools and mechanisms to combat corruption:

- drafting and updating internal regulations
- anti-corruption monitoring
- identifying, assessing, and managing corruption risks
- functioning feedback channels to report instances of corruption
- introducing (from 2019) a “Preventing corruption” section in all the Company’s contacts with counterparties
- notifying and training employees and counterparties
- regularly testing employees on their knowledge of the main provisions of the Company’s Corporate Ethics Code.

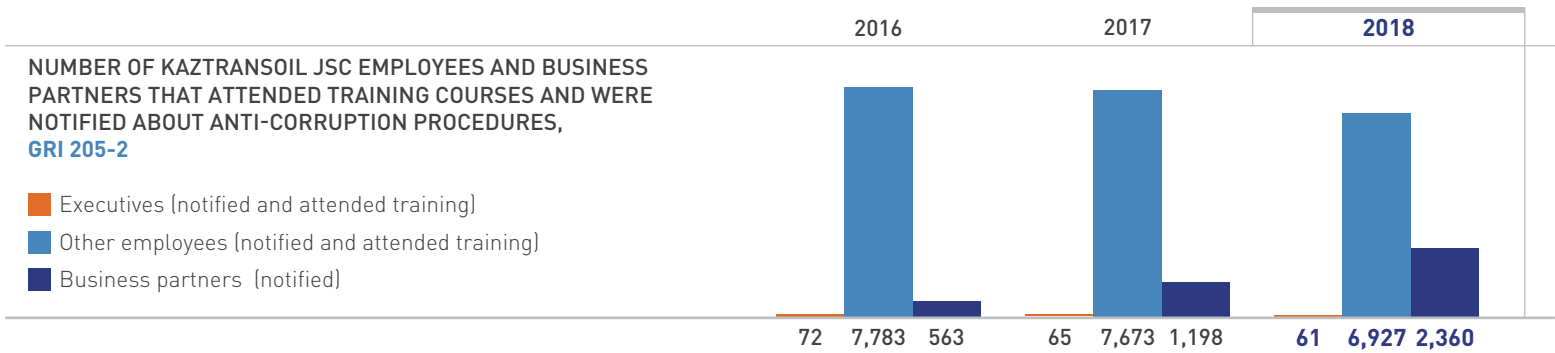
A system of internal communications has been developed at the Company, whereby management receives the latest information from any employee and other stakeholders on suspected instances of corruption, as well as other abuses and violations. The following channels have been set up at the Company to receive these reports:

- the General Director’s (Chairman of the Management Board) blog on the Company’s website;
- a hotline : **+7 (7172) 555-210**;
- the confidential and secure e-mail address : [doverie@kaztransoil.kz](mailto:doverie@kaztransoil.kz).

Information received through the hotline and via e-mail is processed by an ombudsman. Claims submitted to the General Director’s blog (Chairman of the Management Board) are considered by himself personally. Answers on the claims are prepared by the Public Relations and Internal Communications Department and approved by the General Director (Chairman of the Management Board) of the Company.

As part of anti-corruption measures, in 2018 we performed an internal analysis of HR processes. The results of this analysis indicated no corruption risks. [GRI 205-1](#)

To create an anti-corruption culture, in 2018 the Company carried out work to notify employees about the principles of the anti-corruption policy and the procedures for implementing it.



In addition, at the Company’s initiative a focus meeting was held in 2018 between the central office employees and representatives from the Agency of the Republic of Kazakhstan for Civil Service Affairs and Anti-corruption for the city of Astana, on the topic “Establishing an anti-corruption policy. On implementing the Project “Astana – Aladyk Alany”” [Loyalty Platform].

In 2018, no instances of corruption and fraud were identified at the Company. [GRI 205-3](#)

The Company’s plans for 2019 include improving the efficiency of managing anti-corruption work and continuing with outreach work to foster a culture of intolerance among employees towards illegal actions.

**0 INSTANCES**  
of corruption and fraud in 2018

## CORPORATE ETHICS, MANAGING CORPORATE CONFLICTS AND CONFLICTS OF INTEREST

In its activity the Company is governed by the principles of honest, fair, transparent, good-faith, and responsible business conduct. The key corporate values of KazTransOil JSC are the decency, reliability, professionalism, and effectiveness of employees, mutual assistance, as well as respect for each other, stakeholders, and society as a whole.

The values, principles, and norms of business conduct at the Company are enshrined in the Corporate Ethics Code of KazTransOil JSC.

### MANAGING CONFLICTS OF INTEREST

A key factor in safeguarding the interests of the Company and its employees is the timely identification and adoption of measures to settle conflicts of interest.

The procedures in place at the Company to prevent conflicts of interest and to manage risks arising from the manifestation of any violations are regulated by the following internal regulations:

- the Policy on Managing Risks of Violations at KazTransOil JSC
- the Policy on Settling Conflicts of Interest between KazTransOil JSC Officials and Employees .

All participants in the risk management process regarding the potential manifestation of violations are required to study and apply these documents, which also establish the duties of Company officials and employees to prevent the occurrence of conflicts of interest and the procedure for settling conflicts. All officials and employees are expected to immediately report the occurrence of a conflict of interest, in accordance with the procedure prescribed by the Company’s internal regulations. For example, Company officials are required to notify the Chairman of the Board of Directors immediately of the existence or potential occurrence of a conflict of interest, so that the Board of Directors can adopt a decision to settle the conflict. On their part, all other Company employees are required to immediately report to their line managers the existence or potential occurrence of a conflict of interest.

### OMBUDSMAN INSTITUTE

An ombudsman has been appointed since 2016 to promote the principles of corporate ethics and to ensure the impartial settlement of corporate conflicts and ethics-related violations. The activity of the ombudsman is regulated by the legislation of the Republic of Kazakhstan, the Company Charter, the Regulations on the Ombudsman of KazTransOil JSC, the Corporate Governance Code, and other internal regulations.

The Ombudsman performs the following key tasks within his remit:

- ensures that officials and employees comply with the Corporate Ethics Code and the Policy of Managing Risks of Potential Violations
- assists with preventing and settling conflicts of interest
- assists stakeholders with any ethics-related issues they encounter during interactions with the Company, as well as with violations of the Corporate Ethics Code and the Policy of Managing Risks of Potential Violations.

The ombudsman is appointed by a decision of the Board of Directors and is accountable to this corporate governance body, which ensures the independence, impartiality, and confidentiality of the ombudsman’s work. Alexander Cherepanov has been appointed the ombudsman since July 2, 2018, under a decision of the Company’s Board of Directors dated June 25, 2018.

The Company has established direct communication channels with the ombudsman, which can be used by both the employees of the Company and its stakeholders:

- a hotline: [+7 \(7172\) 555-041](tel:+77172555041);
- the confidential and secure e-mail address: [doverie@kaztransoil.kz](mailto:doverie@kaztransoil.kz).



In 2018 the proactive work of the ombudsman within his remit included processing submitted reports, personal meetings with applicants, clarifying the provisions of the Corporate Ethics Code and the Risk Management Policy on Potential Violations at the Company, and advising employees as well as any other individuals that contact him.

During 2018 the ombudsman received 70 reports via various channels, of which 29 were submitted by Company employees. Necessary responses were made to 13 reports, including respective disciplinary measures for three. The facts claimed in 11 reports (including repeat reports) could not be confirmed.

NUMBER OF REPORTS SUBMITTED VIA COMMUNICATION CHANNELS

Communications channel	2016		2017		2018	
	Total number of reports	including reports outside the ombudsman's remit	Total number of reports	including reports outside the ombudsman's remit	Total number of reports	including reports outside the ombudsman's remit
Hotline (telephone)	23	20	45	40	17	3
Hotline (e-mail)	–	–	6	–	33	25
Written request	–	–	–	–	1	–
Personal appointments	3	–	1	–	9	–
City telephone	–	–	–	–	4	4
E-mail	–	–	–	–	6	1
Total:	26	20	52	40	70	33

All reports submitted via the communication channels are registered promptly and analyzed meticulously by the ombudsman. If required by the specifics of a case, the Company’s SSD are engaged to consider certain reports. Based on the review of the reports, applicants receive feedback, including respective clarifications.

The main topics of the reports submitted to the ombudsman via communication channels in 2018 related to notifications of abuses of official powers by certain managers and their unethical behavior, dissatisfaction with wage levels and social benefits, the non-payment of various types of compensation and benefits, the acquisition of housing, and requests to have clarified certain norms of labor legislation.

During 2018 there were no confirmed instances identified of abuses of an official position, any serious conflicts, or any gross violations of the Corporate Ethics Code and the Risk Management Policy of Potential Violations.

COMPLIANCE CONTROL

In 2018 the Company also operated a compliance control service, whose main goal was to ensure that the Company complied with the legislative requirements of the Republic of Kazakhstan, regulatory acts, and the internal regulations governing the disclosure of information about the Company and inside information for the purpose of preventing potential violations of the requirements imposed on KazTransOil JSC as a listed company.

In 2018, 104 central office employees attended a training on the topic “Legal regulation of the use of inside information” as Company insiders.





# FINANCIAL AND ECONOMIC PERFORMANCE. MANAGEMENT REPORT. APPENDIX

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**KZT 38,485  
MILLION**

consolidated net profit in 2018

**KZT 152,394  
MILLION**

cost of sales in 2018





# FINANCIAL AND ECONOMIC PERFORMANCE. MANAGEMENT REPORT

This section is based on the results of discussions and analysis by the Company’s management, and is aimed at disclosing information about the current financial position of KazTransOil JSC, and the effect of its operations and changes to the external environment on the Company’s financial indicators.

This overview is based on the audited annual consolidated financial statements of KazTransOil JSC, prepared in accordance with International Financial Reporting Standards, and it should be read together with the annual consolidated financial statements and accompanying notes, as well as other information presented in other sections of the Report.

The consolidated statement of comprehensive income includes the profits and expenses of the Company and its subsidiaries BOT, Petrotrans Limited, and Main Waterline LLP (the “Group”). The financial performance of the jointly controlled entities KCP LLP and MunaiTas LLP is presented on an equity basis in the item “Share in (loss)/profit of jointly controlled entities”.

## FINANCIAL INDICATORS OF THE GROUP, KZT MILLION

Consolidated indicators	2016	2017	2018	Change,%
Revenue	207,108	222,450	225,400	1
Cost of sales	-129,862	-146,599	-152,394	4
Gross profit	77,246	75,851	73,006	-4
General and administrative expenses	-15,653	-16,021	-16,871	5
Other operating income	3,940	2,447	1,113	-55
Other operating expenses	-868	-963	-3,151	227
Impairment of property, plant, and equipment and intangible assets	-14,213	-38	-2,649	6871
Operating profit	50,452	61,277	51,448	-16
Foreign exchange gain/(loss), net	-1,612	-652	2,594	-498
Finance income	6,191	4,938	2,820	-43
Financing costs	-2,460	-3,082	-2,590	-16
Impairment of bond investments	–	-3,640	–	–
Share in profit/(loss) of jointly controlled entities	2,336	7,101	-2,076	-129
Profit before tax	54,908	65,942	52,196	-21
Income tax expense	-10,380	-15,824	-13,711	-13
Net profit for the period	44,528	50,118	38,485	-23

## KEY CONSOLIDATED FINANCIAL RESULTS

The change in the Group’s financial performance in 2018 compared to 2017 related to the following key factors:

- an increase in oil transportation tariffs on the domestic market and for export and transit
- an expansion of activity related to operating and maintaining oil pipelines owned by third parties
- growth in expenses following the commissioning of production facilities aimed at the technical refitting and renovation of oil pipelines
- the financial performance of jointly controlled entities.

Consolidated revenues for 2018 stood at KZT 225,400 million. The Group’s consolidated net profits for 2018 were KZT 38,485 million.

## INCOME STRUCTURE (NOT INCLUDING SHARES IN JOINTLY CONTROLLED ENTITIES), %

Consolidated indicators	2016	2017	2018
Revenue	95.3	96.8	97.2
Finance income	2.8	2.1	1.2
Other income <sup>1</sup>	1.9	1.1	1.6

In 2018 the share of revenue in total income was 97.2%, while in 2017 the figure was 96.8%.

## REVENUE STRUCTURE, KZT MILLION

Consolidated indicators	2016	2017	2018	Change,%
Revenue	207,108	222,450	225,400	1
Transportation of crude oil <sup>2</sup>	171,762	184,818	189,600	3
Pipeline operation and maintenance services	9,519	10,599	13,233	25
Transshipment of oil and petroleum products and rail transportation	8,089	8,201	3,002	-63
Transportation of water	7,157	7,046	7,536	7
Oil freight forwarding and sea port services	6,176	5,376	6,145	14
Fees for underdelivered oil	2,507	5,198	4,853	-7
Other revenue	1,898	1,212	1,031	-15

Revenues in 2018 stood at KZT 225,400 million, which was 1%, or KZT 2,950 million, higher than in 2017.

## TRANSPORTATION OF CRUDE OIL

The revenues of KazTransOil JSC rose by KZT 4,782 million in 2018 compared to 2017, which was chiefly due to:

- A rise in tariffs on KazTransOil JSC services related to shipping oil along the pipeline network for the domestic market of Kazakhstan: since January 1, 2018, the domestic tariff has been KZT 4,292.4 per metric ton per 1,000 km (exclusive of VAT) (in 2017 the tariff was KZT 3,902.13 per metric ton per 1,000 km (exclusive of VAT)).

- A rise in tariffs on KazTransOil JSC services related to shipping oil along the pipeline network for export from the Republic of Kazakhstan: since April 1, 2018, the export tariff has been KZT 6,398.92 per metric ton per 1,000 km (exclusive of VAT) (before April 1, 2018, the tariff was KZT 5,817.2 per metric ton per 1,000 km (exclusive of VAT)).
- A rise in the tariff to transit Russian oil through the Republic of Kazakhstan using the Kazakhstan section of the Tuymazy–Omsk–Novosibirsk-2 pipeline: since April 1, 2018, the transit tariff has been KZT 4,292.4 per metric ton per 1,000 km (exclusive of VAT) (before April 1, 2018, the tariff was KZT 1,727.1 per metric ton per 1,000 km (exclusive of VAT)).

<sup>1</sup> Other operating income and foreign exchange gains, net.

<sup>2</sup> The section “Crude oil transportation” includes services related to oil pumping, unloading, loading, and transshipment performed using the KazTransOil JSC network of main oil pipelines.

OPERATING AND MAINTAINING OIL PIPELINES OWNED BY THIRD PARTIES

Revenues related to the operation and maintenance of oil pipelines went up by 25%, or KZT 2,634 million.

Revenues rose as a result of growth in recoverable expenses related to the provision of these services. All expenses related to providing pipeline operating and maintenance services are reimbursed by the owners of pipelines.

In addition, from July 1, 2018 the Company began providing services related to maintaining the facilities of the CPC-K JSC pipeline.

TRANSSHIPMENT OF OIL AND PETROLEUM PRODUCTS AND RAIL TRANSPORTATION

In 2018 income from the transshipment and transportation of oil and petroleum products at the Company’s foreign subsidiaries (BOT and Petrotrans Limited) dropped by 63%, or KZT 5,199 million, compared to the same period in the previous year.

This reduction related to a decline in the amount of oil and petroleum products for transportation and transshipment.

TRANSPORTATION OF WATER

Revenues from the transportation of water went up by 7%, or KZT 490 million, due to an increase in the amount of water shipped (28,730 thousand m³ in 2018, as against 26,225 thousand m³ in 2017).

OIL FREIGHT FORWARDING AND SEA PORT SERVICES

Revenues rose by 14%, or by KZT 769 million, due to growth in the amount of services provided by BOT, specifically an increase in the transshipment of dry cargos (from 795 thousand metric tons in 2017 to 1,189 thousand metric tons in 2018), as well as growth in the transshipment of ferry and container cargos, brought about by an increase in calls at ports.

FEES FOR UNDERDELIVERED OIL

During the reporting period the fee for underdelivered oil fell by KZT 345 million (7%), from KZT 5,198 million to KZT 4,853 million. Revenues for underdelivered oil are recognized on the basis of signed oil transportation contracts on ship-or-pay terms. Over the course of 2018, there was a shortfall of 2,044 thousand metric tons of oil in the 2,146 thousand metric tons declared by shippers.

OTHER REVENUE

Other revenues declined by 15%, or KZT 181 million, in 2018 compared to 2017, which was chiefly due to a decrease in the volume of services provided by Batumi Sea Port LLC.

FINANCE INCOME

Finance income for 2018 stood at KZT 2,820 million, and consisted mainly of income from the placement in deposits during 2018 of free cash flows received from the Company’s operating activity. Interest income from bank deposits and current accounts in the reporting period amounted to KZT 2,672 million; in 2017 this income stood at KZT 4,918 million. The decline was due to a reduction in interest rates and a smaller volume of monetary funds placed with second-tier banks during the reporting period.

EXPENSES

Total expenses in 2018 equaled KZT 177,655 million (not including shares in jointly controlled entities), which was 3.9% (KZT 170,995 million) higher than total expenses in 2017.

EXPENSES STRUCTURE, %

Consolidated indicators	2016	2017	2018
Cost of sales	78.9	85.7	85.8
General and administrative expenses	9.5	9.4	9.5
Impairment of property, plant, and equipment and intangible assets	8.6	–	1.5
Impairment of bond investments	–	2.1	–
Financing costs	1.5	1.8	1.5
Other expenses <sup>1</sup>	1.5	1	1.7

The cost of sales in 2018 stood at KZT 152,394 million, which exceeded the 2017 figure by 4% or KZT 5,795 million.

The growth in this figure was primarily influenced by:

- growth in expenses related to increased activity related to operating and maintaining third-party oil pipelines
- growth in expenses on depreciation (by 6.4%) and taxes (by 13.7%), related to the commissioning of production facilities.

COST OF SALES STRUCTURE, %

Consolidated indicators	2016	2017	2018
Personnel costs	37.1	35.0	33.4
Depreciation and amortization	30.6	32.5	33.3
Fuel and materials	5.5	5.5	5.4
Electricity	5.2	5.0	4.8
Taxes other than income tax	4.9	5.0	5.5
Expenses on maintenance, repair, and servicing of property, plant, and equipment	3.9	3.9	4.5
Security services	3.2	2.9	3.3
Gas costs	2.8	2.5	1.9
Aerial survey services	1.2	0.8	0.7
Railroad services	0.9	1.9	0.2
Other	4.7	5.0	7.0

General and administrative expenses in 2018 stood at KZT 16,871 million, which exceeded the 2017 figure by 5.3%, or KZT 16,021 million.

The share of general and administrative expenses in total expenses for 2018 stood at 9.5% (compared to 9.4% in 2017).

<sup>1</sup> Other operating expenses and foreign exchange losses, net.



GENERAL AND ADMINISTRATIVE EXPENSES STRUCTURE, %

Consolidated indicators	2016	2017	2018
Personnel costs	58.4	54.3	52.2
Depreciation and amortization	6.9	7.9	9.8
Accrual of provisions for the compensatory tariff	–	–	6.2
Accrual of provisions on anticipated loan losses	10.6	10.1	4.6
Office maintenance	3.1	3.1	3.4
Repair and technical maintenance	1.4	1.8	2.5
Consulting services	2.7	3.2	2.1
Expenses on write-off of recoverable VAT	0.7	0.6	2.1
Business travel expenses	1.9	1.8	1.9
Taxes other than income tax	1.7	2.2	1.7
Outstaffing services	2.0	3.1	1.3
Training	1.0	0.9	1.0
Information support	0.6	0.7	0.8
Communications services	0.7	0.6	0.8
Materials and fuel	0.8	0.8	0.6
Advertising expenses	0.6	0.4	0.5
Bank services	0.7	0.7	0.5
Insurance and security	0.9	0.8	0.4
Charity	0.9	0.3	0.2
Other	4.4	6.7	7.4

The increase in consolidated administrative expenses compared to actual expenses in 2017 was due mainly to the creation of provisions for the compensatory tariff. This increase was partially offset by a reduction in expenses on certain line items.

Financial expenses stood at KZT 2,590 million, and consisted primarily of an amortization of the discount of obligations on the decommissioning of assets, land rehabilitation, and net interest expenses on long-term compensation to employees.

IMPAIRMENT OF PROPERTY, PLANT, AND EQUIPMENT AND INTANGIBLE ASSETS

The Company recognized impairment of property, plant, and equipment and land use rights for the BOT Group located in Georgia.

SHARE IN (LOSS)/PROFIT OF JOINTLY CONTROLLED ENTITIES

The recognized share of KazTransOil JSC in the financial results of jointly controlled entities fell from a net profit of KZT 7,101 million in 2017 to a loss of KZT 2,076 million in 2018.

SHARE OF KAZTRANSOIL JSC IN NET (LOSS)/PROFIT OF JOINTLY CONTROLLED ENTITIES, KZT MILLION

Indicator	2016	2017	2018	Change,%
Share in net profit of MunaiTas LLP	2,336	1,712	1,650	-4
Share in net (loss)/profit of KCP LLP	–	5,389	-3,726	-169.1
Total	2,336	7,101	-2,076	-129.2

**KCP LLP.** The net loss of KCP LLP for 2018 stood at KZT 7,452 million; the Company’s share of this was KZT 3,726 million. This related to negative exchange differences on financial obligations, due to the growth in the exchange rate of the US dollar to the tenge on KCP’s foreign-currency loan (on December 31, 2017 the exchange rate was KZT 332.33/USD, while on December 31, 2018, it was KZT 384.20), and a reduction in the volume of oil transportation for export.

**MunaiTas LLP.** The net profit of MunaiTas LLP for 2018 stood at KZT 3,235 million, with the Company’s share making up KZT 1,650 million, which was 4% lower than the indicator for 2017 (KZT 1,712 million). This was owing to a general increase in the company’s expenses.

INCOME TAX

Corporate income tax expenses in 2018 stood at KZT 13,711 million, which was 13.4% lower than the indicator for 2017 (KZT 15,824 million).

CORPORATE INCOME TAX EXPENSES, KZT MILLION

Consolidated indicators	2016	2017	2018	Change,%
Current income tax expenses	17,222	16,785	20,452	21.8
Deferred income tax benefits	-6,842	-961	-6,741	601.5
Income tax expense	10,380	15,824	13,711	-13.4

ASSETS, EQUITY, AND LIABILITIES

ASSETS, EQUITY AND LIABILITIES, KZT MILLION

Consolidated indicators	For the year ended December 31			Change,%
	2016	2017	2018	
<b>Assets</b>	<b>744,976</b>	<b>764,227</b>	<b>803,441</b>	<b>5.1</b>
Non-current assets	632,093	662,622	712,479	7.5
Current assets	112,883	101,605	90,962	-10.5
<b>Equity and liabilities</b>	<b>744,976</b>	<b>764,227</b>	<b>803,441</b>	<b>5.1</b>
Equity	587,975	599,691	625,416	4.3
Non-current liabilities	95,605	98,710	109,869	11.3
Current liabilities	61,396	65,826	68,156	3.5

In 2018 the value of the Company’s assets increased by 5.1%. The rise was due primarily to the purchase in 2018 of specialized machinery and equipment for the technical maintenance of CPC-K JSC facilities.

FIXED ASSETS STRUCTURE, KZT MILLION

Consolidated indicators	2016	2017	2018	Change,%
Pipelines	196,738	207,303	199,530	-3.7
Process oil	87,862	102,840	160,975	56.5
Machinery and equipment	137,428	128,986	131,007	1.6
Buildings and structures	94,932	100,842	94,044	-6.7
Construction in progress	40,371	35,879	36,097	0.6
Land	19,804	19,890	21,751	9.4
Transportation assets	13,460	11,817	18,152	53.6
Other	13,560	11,704	10,218	-12.7
<b>Total</b>	<b>604,155</b>	<b>619,261</b>	<b>671,774</b>	<b>8.5</b>

An increase in the value of fixed assets was recorded for the following groups of property, plant, and equipment:

- transportation assets by 53.6%, or KZT 6,335 million, owing to the purchase in 2018 of specialized machinery and equipment for providing technical maintenance services at CPC-K JSC facilities
- process oil by 56.5%, or KZT 58,135 million, due to the revaluation of oil price.

Equity went up by 4.3%, or KZT 25,725 million, chiefly due to growth in provisions for the revaluation of assets and conversion of the reporting currency.

The Company’s current liabilities for 2018 stood at KZT 68,156 million, a rise of KZT 2,330 million compared to 2017 (KZT 65,826 million), mainly due to an increase in advances received by KZT 2,462 million. Also, under an order from the CRNMPCandCR and a subsequent court ruling, the Company accrued KZT 1,047 million in provisions for the compensatory tariff, as it is highly likely that there will be cash outflows from the Company.

PERFORMANCE INDICATORS

KEY PERFORMANCE INDICATORS

Key performance indicators	2016	2017	2018	Change
EBITDA, KZT million	102,467	108,796	108,544	-0.2%
EBITDA margin (EBITDA to revenue ratio), %	49.5	48.9	48.2	-0.7 p.p.
Gross profit margin (gross profit to revenue ratio), %	37.3	34.1	32.4	-1.7 p.p.
Net profit margin (net profit to revenue ratio), %	21.5	22.5	17.1	-5.4 p.p.

The following table displays data related to the components of the operating EBITDA indicator, based on the profit for the reporting year.

CALCULATION OF EBITDA, KZT MILLION

Indicator	2016	2017	2018	Change, %
<b>Profit for the reporting year</b>	<b>44,528</b>	<b>50,118</b>	<b>38,485</b>	<b>-23.2</b>
+ income tax expenses	10,380	15,824	13,711	-13.4
<b>Profit before tax</b>	<b>54,908</b>	<b>65,942</b>	<b>52,196</b>	<b>-20.8</b>
- exchange gains (net)			-2,595	
+ exchange losses (net)	1,612	652		
+ financial expenses	2,460	3,082	2,590	-16
- financial income	-6,192	-4,938	-2,820	-42.9
+ impairment of non-current investments in bonds		3,640		
+ shares in the profit of jointly controlled entities			2,076	
- share in losses of jointly controlled entities	-2,336	-7,101		
<b>Operating profit</b>	<b>50,452</b>	<b>61,277</b>	<b>51,447</b>	<b>-10.7</b>
+ depreciation and amortization	40,874	48,966	52,410	7
+ other operating expenses	868	963	3,151	227.2
- other operating income	-3,940	-2,447	-1,113	-54.5
+ impairment of property, plant, and equipment and intangible assets	14,213	37	2,649	-28
<b>EBITDA</b>	<b>102,467</b>	<b>108,796</b>	<b>108,544</b>	<b>-0.2</b>



KEY PERFORMANCE INDICATORS, %

Indicator	2016	2017	2018
ROA (net profit/average annual assets)	6.5	6.6	4.9
ROE (net profit/average annual equity)	8.4	8.4	6.3

LIQUIDITY AND FINANCIAL STABILITY INDICATORS

The main source of the Company’s liquidity and financial stability is the cash it receives from operating activities.

The liquidity indicator characterizes the Company’s ability to meet its short-term obligations, based 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 the table below, on average KZT 1 of current liabilities is covered by KZT 1.34 of current assets.

The quick ratio characterizes the part of current liabilities that can be repaid not only with available cash, but also expected revenues from services provided (cash and cash equivalents and current receivables). For example, during the reporting period the quick ratio shows that KZT 1 of current liabilities was covered by KZT 1.26 of available assets.

The decline in liquidity in 2018 compared to the actual results for 2017 was due to a decrease in current assets following dividend payments of KZT 61,540 million.

LIQUIDITY RATIOS

Consolidated indicators	Standard criteria	2016	2017	2018
Current ratio (current assets/current liabilities)	1.5 – 2.5	1.84	1.54	1.34
Quick ratio ((current assets – inventories)/current liabilities)	1.5 – 2.5	1.77	1.48	1.26

CASH AND CASH EQUIVALENTS

The Group’s cash and cash equivalents as at December 31, 2018, stood at KZT 33,279 million.

Net positive cash flows from the Group’s operating activity in 2018 stood at KZT 97,453 million, which was 1.5% lower than in 2017. The decline was primarily owing to an increase in income tax paid and a fall in interest received on deposits and current accounts in second-tier banks.

Net negative cash flows from the Group’s investment activity in 2018 stood at KZT 44,854 million, which was 33.3% lower than the figure for 2017. These changes were mainly associated with the placement of deposits in second-tier banks.

Net cash flows from the Group’s financing activity in 2018 stood at KZT 61,540 million, which was 3.2% higher than in 2017. The change was due to an increase in dividend payments in 2018, based on the results for 2017 (at a rate of KZT 160 per share in KazTransOil JSC). The dividend amount paid in 2017, based on the results for 2016, was KZT 59,617 million (at a rate of KZT 155 per common share in KazTransOil JSC)).

CASH TURNOVER, KZT MILLION

Consolidated indicators	For the year ended December 31			Change,%
	2016	2017	2018	
Net cash flows from operating activity	90,977	98,945	97,452	-1.5
Net cash flows from investing activity	-20,217	-67,271	-44,854	-33.3
Net cash flows from financing activity	-51,167	-59,617	-61,540	3.2
Net change in cash and cash equivalents	19,593	-27,943	-8,942	-68.0
Net exchange difference	-719	-481	1,367	-384.2
Change in provisions for expected credit losses	–	–	-17	–
Opening balance of cash and cash equivalents	50,420	69,294	40,871	-41
Closing balance of cash and cash equivalents	69,294	40,871	33,279	-18.6

# APPENDIX 1. GRI CONTENT INDEX

## GRI 102-55

Indicator	Reference	Comments	Section and page in the Report
GENERAL STANDARD REPORTING COMPONENTS			
Organizational profile			
102-1	Name of the organization		Development History, page 18
102-2	Activities, brands, products, and services		About the Company, Business Model, page 24
102-3	Location of headquarters		About the Report, page 12
102-4	Location of operations		Main pipelines of kaztransoil jsc, page 16
			About the Company, Description of the Industry and Market Position of the Company, page 27
			About the Company, Subsidiaries and Jointly Controlled Entities of the Company, page 39
102-5	Ownership and legal form		Development History, page 18 Corporate Governance, General Meeting of Shareholders, Structure of Share Capital, page 131
102-6	Markets served		About the Company, Description of the Industry and Market Position of the Company, page 27
102-7	Scale of the organization		About the Company, Business Model, page 24
			About the Company, Organizational Structure, page 38 Sustainable Development Results, Human Resource Management and Social Policy, Staff Headcount and Structure, page 90
102-8	Information on employees and other workers		Sustainable Development Results, Human Resource Management and Social Policy, Staff Headcount and Structure, page 90-91
102-9	Supply chain		Sustainable Development Results, Procurement System and Local Content, Approach to Managing the Procurement System, page 126
102-10	Significant changes to the organization and its supply chain	In the reporting period there were no material changes to the supply chain at the Company	About the Company, Organizational Structure, page 38 Sustainable Development Results, Procurement System and Local Content, Approach to Managing the Procurement System, page 126

Indicator	Reference	Comments	Section and page in the Report
102-11	Precautionary Principle or approach	The Company shares the main provisions of the Precautionary Principle (Principle 15 of the Rio de Janeiro Declaration on Environment and Development, UN 1992)	Corporate Governance, Risk Management and Internal Control, Corporate Risk Management System, page 156
102-12	External initiatives		Sustainable Development Results, Sustainable Development management, page 81
			Contributing to attaining UN sustainable development goals, page 82 Membership in associations, page 87
102-13	Membership in associations		Sustainable Development Results, Sustainable Development management, Membership in Associations, page 87
Strategy			
102-14	Statement from the senior decision-maker		Address of the Chairman of the Board of Directors, page 6 Address of the General Director (Chairman of the Management Board), page 8
Ethics and integrity			
102-16	Values, principles, standards, and norms of behavior		About the Company, Mission, Vision and Values, page 28 Sustainable Development Results, Sustainable Development management, page 80
Governance			
102-18	Governance structure		Corporate Governance, page 130
Stakeholder communications			
102-40	List of stakeholder groups		Sustainable Development Results, Sustainable Development management, Stakeholder Engagement, page 84
102-41	Collective bargaining agreements		Sustainable Development Results, Human Resource Management and Social Policy, Social Policy, page 96
102-42	Identifying and selecting stakeholders		Sustainable Development Results,Sustainable Development management, Stakeholder Engagement, page 83



Indicator	Reference	Comments	Section and page in the Report
102-43	Approach to stakeholder engagement		Sustainable Development Results,Sustainable Development management, Stakeholder Engagement, pages <a href="#">83-84</a>
102-44	Key topics and concerns raised		Sustainable Development Results, Sustainable Development management, Stakeholder Engagement, page <a href="#">84</a>
Reporting practice			
102-45	Entities included in the consolidated financial statements		About the Report, page <a href="#">11</a>
102-46	Defining report content and topic boundaries		About the Report, page <a href="#">10</a>
102-47	List of material topics		About the Report, page <a href="#">11</a>
102-48	Restatement of information		About the Report, page <a href="#">12</a>
102-49	Changes in reporting		About the Report, page <a href="#">12</a>
102-50	Reporting period		About the Report, page <a href="#">10</a>
102-51	Date of most recent report		About the Report, page <a href="#">10</a>
102-52	Reporting cycle		About the Report, page <a href="#">10</a>
102-53	Contact point for questions regarding the report		About the Report, page <a href="#">12</a>
102-54	Claims of reporting in accordance with the GRI Standards		About the Report, page <a href="#">10</a>

Indicator	Reference	Comments	Section and page in the Report
102-55	GRI content index		About the Report, page <a href="#">11</a> Appendix 1. GRI CONTENT INDEX, page <a href="#">184</a>
102-56	External assurance		About the Report, page <a href="#">12</a>
MATERIAL TOPICS			
CATEGORY: ECONOMIC			
201 – Economic performance			
103	Management approach		Appendix 6 Consolidated Financial Statements, page <a href="#">206</a>
201-1	Direct economic value generated and distributed	The information is presented as consolidated income and expenses, and also as paid dividends recognized in the financial statements and in the disclosures to the financial statements	Appendix 6 Consolidated Financial Statements, page <a href="#">206</a>
202 – Market presence			
103	Management approach		Sustainable Development Results, Human Resource Management and Social Policy, Approach to Human Resource Management and Social Policy, page <a href="#">89</a>
202-1	Ratios of standard entry-level wages by gender compared to local minimum wage		Sustainable Development Results, Human Resource Management and Social Policy, Remuneration and Motivation, page <a href="#">93</a>
204 – Procurement practices			
103	Management approach		Sustainable Development Results, Procurement System and Local Content, Approach of Managing of the Procurement System, page <a href="#">125</a>
204-1	Proportion of spending on local suppliers		Sustainable Development Results, Procurement System and Local Content, Development of Local Content, page <a href="#">126</a>

Indicator	Reference	Comments	Section and page in the Report
205 – Anti-corruption			
103	Management approach		Corporate Governance, Anti-corruption, page 167
205-1	Operations assessed for risks related to corruption		Corporate Governance, Anti-corruption, page 168
205-2	Communication and training about anti-corruption policies and procedures		Corporate Governance, Anti-corruption, page 168
205-3	Confirmed incidents of corruption and actions taken		Corporate Governance, Anti-corruption, page 168
CATEGORY: ENVIRONMENTAL			
302 - Energy			
103	Management approach		Sustainable Development Results, Energy Consumption and Energy Conservation, Approach to Managing Energy Efficiency, page 121
302-1	Energy consumption within the organization		Sustainable Development Results, Energy Consumption and Energy Conservation, Energy Consumption, pages 122-123
302-3	Energy intensity		Sustainable Development Results, Energy Consumption and Energy Conservation, Energy Consumption, pages 123
302-4	Reducing energy consumption		Sustainable Development Results, Energy Consumption and Energy Conservation, Energy Consumption, pages 123
303 – Water and Effluents			
103	Management approach		Sustainable Development Results, Environmental Protection, Approach to Managing Environmental Protection, page 113 Water Resources, page 116
303-1	Interactions with water as a shared resource		Sustainable Development Results, Environmental Protection, Water Resources, page 116
303-2	Management of water discharge-related impacts		Sustainable Development Results, Environmental Protection, Water Resources, page 117

Indicator	Reference	Comments	Section and page in the Report
303-3	Water withdrawal		Sustainable Development Results, Environmental Protection, Water Resources, page 116-117
303-4	Water discharge		Sustainable Development Results, Environmental Protection, Water Resources, page 117
305 – Emissions			
103	Management approach		Sustainable Development Results, Environmental Protection, Approach to Managing Environmental Protection, page 113 Impacts on the Atmosphere, page 115
305-1	Direct (Scope 1) GHG emissions		Sustainable Development Results, Environmental Protection, Impacts on the Atmosphere, page 115
305-7	Nitrogen oxides (NO <sub>x</sub> ), sulfur oxides (SO <sub>x</sub> ), and other significant air emissions		Sustainable Development Results, Environmental Protection, Impacts on the Atmosphere, page 115
306 – Effluents and waste			
103	Management approach		Sustainable Development Results, Environmental Protection, Approach to Managing Environmental Protection, page 113 Waste Management, page 118
306-1	Water discharge by quality and destination		Sustainable Development Results, Environmental Protection, Water Resources, page 117
306-2	Waste by type and disposal method		Sustainable Development Results, Environmental Protection, Waste Management, page 118
306-3	Significant spills		Sustainable Development Results, Environmental Protection, Investments and Environmental Payments, page 114
307 – Environmental compliance			
103	Management approach		Sustainable Development Results, Environmental Protection, Approach to Environmental Protection, page 113
307-1	Non-compliance with environmental laws and regulations		Sustainable Development Results, Environmental Protection, Investments and Environmental Payments, pages 114



Indicator	Reference	Comments	Section and page in the Report
CATEGORY: SOCIAL			
401- Employment			
103	Management approach		Sustainable Development Results, Human Resource Management and Social Policy, Approach to Human Resource Management and Social Policy, page 89 Social Policy, page 96
401-1	New employee hires and employee turnover		Sustainable Development Results, Human Resource Management and Social Policy, Staff recruitment, page 92 Staff turnover, page 92
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees		Sustainable Development Results, Human Resource Management and Social Policy, page 96
401-3	Parental leave		Sustainable Development Results, Human Resource Management and Social Policy, Social policy, page 97
402 – Labor/Management Relations			
103	Management approach		Sustainable Development Results, Human Resource Management and Social Policy, Approach to Human Resource Management and Social Policy, page 89 Staff Headcount and Structure, page 90
402-1	Minimum notice periods regarding operational changes		Sustainable Development Results, Human Resource Management and Social Policy, Staff Headcount and Structure, page 90
403- Occupational Health and Safety			
103	Management approach		Sustainable Development Results, Occupational Health and Safety, Approach to Managing Occupational Health and Safety, page 105
403-1	Occupational health and safety management system	Production Council	Sustainable Development Results, Occupational Health and Safety, Approach to Managing Occupational Health and Safety, page 105

Indicator	Reference	Comments	Section and page in the Report
403-2	Hazard identification, risk assessment, and incident investigation		Sustainable Development Results, Occupational Health and Safety, Approach to Managing Occupational Health and Safety, page 106 Work-related Injuries, page 107
403-3	Occupational health services		Sustainable Development Results, Occupational Health and Safety, Healthcare, page 109
403-4	Worker participation, consultation and communication on occupational health and safety		Sustainable Development Results, Occupational Health and Safety, Approach to Managing Occupational Health and Safety, page 106 Industrial and Fire Safety, page 110 Training and raising awareness of industrial and occupational safety, page 111
403-5	Worker training on occupational health and safety		Sustainable Development Results, Occupational Health and Safety, Health Protection, page 111
403-6	Promotion of worker health		Sustainable Development Results, Human Resource Management and Social Policy, Social Policy, page 96 Healthy Lifestyle, page 98
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships		Sustainable Development Results, Occupational Health and Safety, Approach to Managing Occupational Health and Safety, page 105
403-8	Workers covered by an occupational health and safety management system		Sustainable Development Results, Occupational Health and Safety, Approach to Managing of Occupational Health and Safety, page 105
403-9	Work-related injuries	Lost Time Accident Frequency Rate per 1,000 people = (number of injuries related to production)/(average number staff) * 1000  LTIFR = (total work time lost as a result of injuries) * 200 000 / (total number of hours worked)	Sustainable Development Results,Occupational Health and Safety, Work-Related Injuries, page 108 Injury rate of the employees of contractors, page 109

Indicator	Reference	Comments	Section and page in the Report
403-10	Work-related ill health		Sustainable Development Results, Occupational Health and Safety, Healthcare, page <a href="#">109</a>
404 – Training and education			
103	Management approach		Sustainable Development Results, Human Resource Management and Social Policy, Approach to Human Resource Management and Social Policy, page <a href="#">89</a> Training and Development, page <a href="#">94</a>
404-2	Programs for upgrading employee skills and transition assistance programs		Sustainable Development Results, Human Resource Management and Social Policy, Training and Development, page <a href="#">94</a>
405 – Diversity and equal opportunities			
103	Management approach		Sustainable Development Results, Human Resource Management and Social Policy, Approach to Human Resource Management and Social Policy, page <a href="#">89</a>
405-1	Diversity of governance bodies and employees		Sustainable Development Results, Human Resource Management and Social Policy, Staff Headcount and Structure, pages <a href="#">91-92</a>
406 – Non-discrimination			
103	Management approach		Sustainable Development Results, Human Resource Management and Social Policy, Approach to Human Resource Management and Social Policy, page <a href="#">89</a>
406-1	Incidents of discrimination and corrective actions taken		Sustainable Development, Human Resource Management and Social Policy, Staff recruitment, page <a href="#">92</a>

## APPENDIX 2. PROCUREMENT REPORT FOR 2018

KZT MILLION

	Central office	STC Branch	TOTAL
PUBLIC TENDER			
Number	2,556	1	2,557
Budget	13,756.41	14.26	13,770.67
Value of concluded procurement contracts	11,865.23	9.74	11,874.97
ONE SOURCE			
Number	10,772	93	10,865
Budget	116,039.00	107.47	116,146.47
Value of concluded procurement contracts	114,944.55	106.97	115,051.51
PROCUREMENTS THROUGH REQUEST FOR QUOTES			
Number	1,662	6	1,668
Budget	846.12	18.46	864.58
Value of concluded procurement contracts	493.04	16.51	509.55
Total budget	130,641.53	140.19	130,781.71
Total value of concluded procurement contracts	127,302.81	133.22	127,436.04
Savings on procurements	3,338.71	6.97	3,345.68



# APPENDIX 3. PRINCIPLES OF THE UNITED NATIONS GLOBAL COMPACT

Principles of the UN Global Compact	Compliance of KazTransOil JSC’s activity with the principles	Section and page of the Report
HUMAN RIGHTS		
PRINCIPLE 1. Businesses should support and respect the protection of internationally proclaimed human rights.	In its activity, KazTransOil JSC ensures compliance with and respect of human rights proclaimed internationally and prescribed by the Constitution of the Republic of Kazakhstan. The business ethic norms enshrined in the Corporate Ethics Code adopted at the Company are identical for all employees and officials.	Sustainable Development Management (page 80).
PRINCIPLE 2. Make sure that they are not complicit in human right abuses.	Pursuant to the Corporate Ethics Code, any situation leading to the violation of human rights must be considered in accordance with the legislative norms of the Republic of Kazakhstan and the internal regulations of the Company.  From 2016, in order to promote the principles of corporate ethics and to ensure the impartial regulation of ethics-related violations, the institute of ombudsman has been established at the Company.	Human resource management and Social Policy (page 88).
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 to organize and participate in voluntary associations at their own discretion and to conclude collective bargaining agreements.	Human resource management and Social Policy (page 88).
PRINCIPLE 4. The elimination of all forms of forced and compulsory labor.	At the time of hiring, payment of remuneration, promotion and access to training, the Company does not tolerate discrimination on the grounds of race, ethnicity, age, gender, social status, nationality, attitude to religion and public associations, and also on the basis of other circumstances unrelated to the business qualities of the employee and his/her performance.	Occupational Health and Safety (page 105).
PRINCIPLE 5. The effective abolition of child labor.	The Company guarantees safe and decent working conditions, takes the necessary measures to prevent work-related injuries, and also creates for employees the appropriate sanitary, hygienic, and social working conditions.	
PRINCIPLE 6. The elimination of discrimination in respect of employment and occupation.	The Company does not use forced or child labor in its activities.	

ENVIRONMENT		
PRINCIPLE 7. Business should support a precautionary approach to environmental challenges.	KazTransOil JSC respects and treats the environment with care. In its activity, the Company seeks to strike a balance between the attainment of operating goals and a decrease in adverse environmental impacts.	Environmental Protection (page 113).
PRINCIPLE 8. Undertake initiatives to promote greater environmental responsibility.	The environmental impact management system in place in the Company covers all areas of production activity and is certified for compliance with the standard ISO 14001:2015.	
PRINCIPLE 9. Encourage the development and diffusion of environmentally friendly technologies.	The Company implements on a systematic basis initiatives and programs aimed at decreasing volumes of emissions and discharges of pollutants, volumes of production and consumption waste, greenhouse gas emissions, and increasing energy efficiency.  In 2018 the Company invested KZT 1,232 million in environmental measures. These funds were allocated to implementing environmental controls (air, water, and soil monitoring) at facilities, the removal and disposal of production and consumption waste, the pumping and treatment of wastewater, the liquidation of previously polluted areas and other actions, and the payment of mandatory environmental charges.  The Company also implements measures to develop and promote an environmental culture among employees.	
ANTI-CORRUPTION		
PRINCIPLE 10. Business should work against corruption in all its forms, including extortion and bribery.	In its activity KazTransOil JSC adheres to the principles of fair and good-faith business conduct, does not tolerate instances of corruption or fraud, as well as instances of giving and receiving gifts, with the exception of gifts accepted in business practice.  In 2018 no violations of the anti-corruption legislation of the Republic of Kazakhstan were documented at the Company.  The Company’s officials and employees can be called by telephone +7 (7172) 555 210 or sent a message to a confidential and secure e-mail address doverie@kaztransoil.kz regarding occurrences of corruption and other illegal actions, for the adoption of corresponding measures.	Anti-corruption (page 167).

## APPENDIX 4. LIST OF INTERESTED-PARTY TRANSACTIONS CONCLUDED BY KAZTRANSOIL JSC IN 2018

Nº	Name of transaction	Decision of the body of KazTransOil JSC
Tengizchevroil LLP, GAZ Stroy Montazh KZ		
1	Tripartite Contract on the Design, Construction, and Commissioning of the Kulsary – Tengiz Water Pipeline for the Supply of Process Water	Decision of the KazTransOil JSC Board of Directors dated January 19, 2018 (Minutes of the Meeting, No. 1/2018)
2	Amendment No. 1 to the Tripartite Contract on the Design, Construction, and Commissioning of the Kulsary – Tengiz Water Pipeline for the Supply of Process Water, No. 1612814/6/2018 dated January 22, 2018	Decision of the KazTransOil JSC Board of Directors dated October 18, 2018 (Minutes of the Meeting, No. 11/2018)
Tengizchevroil LLP		
3	Contract on Establishing an Easement for the Construction of the Linear Section and Surface Infrastructure Facilities of the Kulsary – Tengiz Water Pipeline (Process Water) of KazTransOil JSC	Decision of the KazTransOil JSC Board of Directors dated October 18, 2018 (Minutes of the Meeting, No. 11/2018)
4	Additional Agreement No. 4 to Transport Forwarding Contract No. EX 62/2015 dated February, 27 2015	Decision of the KazTransOil JSC Board of Directors dated November 19, 2018 (Minutes of the Meeting, No. 12/2018)
5	Additional Agreement No. 3 to the Contract to Provide Oil Transportation Services No. TR 61/2016 dated December 22,2015	Decision of the KazTransOil JSC Board of Directors dated November 19, 2018 (Minutes of the Meeting, No. 12/2018)
Samruk Service Management Company LLP		
6	Contract on the Procurement of Catering Services for Employees (Catering Services for Employees Working on a Rotation Basis, at the Oil Heating Station (OHS) Oporny, Kulsary LOCS, Kulsary Oil Pipeline Division of KazTransOil JSC	Decision of the KazTransOil JSC Board of Directors dated March 16, 2018 (Minutes of the Meeting, No. 4/2018)
7	Contract on the Procurement of Catering Services for Employees (Catering Services for Employees Working on a Rotation Basis, at the OHS Prorva, Kulsary Oil Pipeline Division of KazTransOil JSC)	Decision of the KazTransOil JSC Board of Directors dated March 16, 2018 (Minutes of the Meeting, No. 4/2018)
Kaskor – Transservice JSC		
8	Contract on the Repair and Maintenance of the Rail Access Tracks of Aktau POPS of Mangystau Oil Pipeline Division	Decision of the KazTransOil JSC Board of Directors dated March 16, 2018 (Minutes of the Meeting, No. 4/2018)

Nº	Name of transaction	Decision of the body of KazTransOil JSC
Kazakhstan-China Pipeline LLP		
9	Lease Agreement for 2 (Two) Single-Mode Optical Fibers of the Fiber-Optic Communications Link of the Kenkiyak-Kumkol Oil Pipeline	Decision of the KazTransOil JSC Board of Directors dated February 15, 2018 (Minutes of the Meeting, No. 2/2018)
10	Loan Agreement with INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED (Organizer) and Industrial and Commercial Bank of China in the City of Almaty Joint-Stock Company (agent)	Decision of the KazTransOil JSC Board of Directors dated June 14, 2018 (Minutes of the Meeting, No. 8/2018)
11	Lease Agreement of 4 (Four) Single-Mode Optical Fibers of the Fiber-Optic Communications Link of the Kenkiyak-Kumkol Oil Pipeline	Decision of the KazTransOil JSC Board of Directors dated December 13, 2018 (Minutes of the Meeting, No. 13/2018)
Main Waterline LLP		
12	Sale and Purchase Agreement for the Property of the Astrakhan-Mangyshlak Water Main	Decision of the KazTransOil JSC Board of Directors dated June 14, 2018 (Minutes of the Meeting, No. 8/2018)
Mangystaumunaygaz JSC		
13	Contract on the Supply of Water for the Needs of Kalamkas POPS and Karazhanbas OPS	Decision of the KazTransOil JSC Board of Directors dated February 15, 2018 (Minutes of the Meeting, No. 2/2018)
14	Contract to Provide Oil Transportation Services	Decision of the KazTransOil JSC Board of Directors dated November 19, 2018 (Minutes of the Meeting, No. 12/2018)
15	Transport Forwarding Contract	Decision of the KazTransOil JSC Board of Directors dated November 19, 2018 (Minutes of the Meeting, No. 12/2018)
16	Contract on the Supply and Receipt of Natural Gas for the Needs of Kalamkas POPS and Karazhanbas OPS of KazTransOil JSC	Decision of the KazTransOil JSC Board of Directors dated December 13, 2018 (Minutes of the Meeting, No. 13/2018)
PetroKazakhstan Oil Products LLP		
17	Contract to Provide Services on the Supply of Water and Acceptance of Wastewater at the Shymkent Transfer and Acceptance Point	Decision of the KazTransOil JSC Board of Directors dated February 15, 2018 (Minutes of the Meeting, No. 2/2018)
Electrode SK LLP		
18	Product Supply Contract	Decision of the KazTransOil JSC Board of Directors dated June 25, 2018 (Minutes of the Meeting, No. 9/2018)



№	Name of transaction	Decision of the body of KazTransOil JSC
SNPS-AMG JSC		
19	Additional Agreement No. 3 to Contract No. WPA 123/2017 dated December 30, 2016, to Provide Effluent Discharge Services (Removal and Acceptance of Waste-water) from the Residential Property of the Zhanazhol Rotation Camp of Aktobe Oil Pipeline Division of KazTransOil JSC	Decision of the KazTransOil JSC Board of Directors dated May 25, 2018 (Minutes of the Meeting, No. 7/2018)
20	Contract to Provide Oil Transportation Services	Decision of the KazTransOil JSC Board of Directors dated November 19, 2018 (Minutes of the Meeting, No. 12/2018)
21	Transport Forwarding Contract	Decision of the KazTransOil JSC Board of Directors dated November 19, 2018 (Minutes of the Meeting, No. 12/2018)
CTC-C JSC		
22	Contract to Provide the Maintenance Services of the CTC Oil Pipeline System in the Republic of Kazakhstan	Decision of the KazTransOil JSC Board of Directors dated May 14, 2018 (Minutes of the Meeting, No. 6/2018)
23	Order to Amendment No. 1 to Contract No. K-OD-18-0078//OS125/2018 dated May 16, 2018, to Provide Services, stipulating an increase in the price of the contract	Decision of the KazTransOil JSC Board of Directors dated June 14, 2018 (Minutes of the Meeting, No. 8/2018)
Kazakhoil-Aktobe LLP		
24	Contract to Provide Oil Transportation Services	Decision of the KazTransOil JSC Board of Directors dated November 19, 2018 (Minutes of the Meeting, No. 12/2018)
25	Additional Agreement No. 3 to Transport Forwarding Contract No. EX 04/2016/22CSL1Yk15 dated December 22, 2015	Decision of the KazTransOil JSC Board of Directors dated November 19, 2018 (Minutes of the Meeting, No. 12/2018)
26	Oil Supply Contract	Decision of the KazTransOil JSC Board of Directors dated November 19, 2018 (Minutes of the Meeting, No. 12/2018)
Uranenergo LLP		
27	Lease Agreement for Property at Step-Down Station 110/35/6kV GPP-Mynkuduk	Decision of the KazTransOil JSC Board of Directors dated May 25, 2018 (Minutes of the Meeting, No. 7/2018)
28	Lease Agreement for Property at Step-Down Station 110/35/6kV GPP-Mynkuduk	Decision of the KazTransOil JSC Board of Directors dated December 13, 2018 (Minutes of the Meeting, No. 13/2018)

№	Name of transaction	Decision of the body of KazTransOil JSC
TURGAI PETROLEUM JSC		
29	Oil Supply Contract	Decision of the KazTransOil JSC Board of Directors dated April 9, 2018 (Minutes of the Meeting, No. 5/2018)
30	Contract to Provide Oil Transportation Services	Decision of the KazTransOil JSC Board of Directors dated November 19, 2018 (Minutes of the Meeting, No. 12/2018)
Kazgermunai JV LLP		
31	Contract to Provide Oil Transportation Services	Decision of the KazTransOil JSC Board of Directors dated November 19, 2018 (Minutes of the Meeting, No. 12/2018)
KNNK Kazakhstan B.V.		
32	Contract to Provide Oil Transportation Services	Decision of the KazTransOil JSC Board of Directors dated November 19, 2018 (Minutes of the Meeting, No. 12/2018)
33	Transport Forwarding Contract	Decision of the KazTransOil JSC Board of Directors dated November 19, 2018 (Minutes of the Meeting, No. 12/2018)
PetroKazakhstan Kumkol Resources JSC		
34	Contract to Provide Oil Transportation Services	Decision of the KazTransOil JSC Board of Directors dated November 19, 2018 (Minutes of the Meeting, No. 12/2018)
PetroKazakhstan Ventures, Inc.		
35	Contract to Provide Oil Transportation Services	Decision of the KazTransOil JSC Board of Directors dated November 19, 2018 (Minutes of the Meeting, No. 12/2018)
KMK M JSC		
36	Contract to Provide Oil Transportation Services	Decision of the KazTransOil JSC Board of Directors dated November 19, 2018 (Minutes of the Meeting, No. 12/2018)
37	Additional Agreement No 3 to Transport Forwarding Contract No. EX 06/2016 dated November 17, 2015	Decision of the KazTransOil JSC Board of Directors dated November 19, 2018 (Minutes of the Meeting, No. 12/2018)

Nº	Name of transaction	Decision of the body of KazTransOil JSC
<b>Karakhanbasmunai JSC</b>		
38	Transport Forwarding Contract	Decision of the KazTransOil JSC Board of Directors dated November 19, 2018 (Minutes of the Meeting, No. 12/2018)
<b>KMG-Security LLP</b>		
39	Contract to Provide Oil Transportation Services	Decision of the KazTransOil JSC Management Board dated January 19, 2018 (Minutes of the Meeting, No. 1)
<b>MunaiTas LLP</b>		
40	Contract on Mutual Relations during Commodity and Transport Transactions	Decision of the KazTransOil JSC Management Board dated February 22, 2018 (Minutes of the Meeting, No. 4)
<b>National Company KazMunayGas JSC</b>		
41	Amicable Settlement Agreement on the Dispute between NC KazMunayGas JSC and KazTransOil JSC	Decision of the KazTransOil JSC Management Board dated April 13, 2018 (Minutes of the Meeting, No. 9)
42	Contract on the Procurement of Property (office premises and other related property of KazTransOil JSC located at: 19, Kabanbay Baytra Prospekt, Yesil District, Nur-Sultan)	Decision of the KazTransOil JSC Management Board dated August 14, 2018 (Minutes of the Meeting, No. 22)
<b>Main Waterline LLP</b>		
43	Contract on the Transfer as a Contribution to the Charter Capital of Main Water-line LLP of Part of the Administrative Building of KazTransOil JSC, located at: 12, Kayrgalia Smagulov Street, City of Atyrau, Atyrau Region	Decision of the KazTransOil JSC Management Board dated February 22, 2018 (Minutes of the Meeting, No. 4)
44	Agreement on the Sale and Purchase of the Property of the Astrakhan-Mangyshlak Water Main	Decision of the KazTransOil JSC Management Board dated June 13, 2018 (Minutes of the Meeting, No. 16)
45	Contract to Provide Maintenance and Repair Services on Water Mains	Decision of the KazTransOil JSC Management Board dated July 4, 2018 (Minutes of the Meeting, No. 19)
46	Agreement No. MTS 968/2018 dated June 8, 2018, on the Substitution of Persons in an Obligation under the Supply Contract	Decision of the KazTransOil JSC Management Board dated July 17, 2018 (Minutes of the Meeting, No. 21)

Nº	Name of transaction	Decision of the body of KazTransOil JSC
47	Agreement on the Substitution of Persons in an Obligation under Contracts concluded by KazTransOil JSC, with a Respective Transfer of Rights and Obligations (with service consumers)	Decision of the KazTransOil JSC Management Board dated August 14, 2018 (Minutes of the Meeting, No. 22)
48	Contract on the Transfer as an Additional Contribution to the Charter Capital of Main Waterline LLP of the Property and Right of the Temporary Land Use (Lease) on Land Plots	Decision of the KazTransOil JSC Management Board dated November 21, 2018 (Minutes of the Meeting, No. 30)
49	Agreement on the Substitution of Persons in an Obligation under Contracts concluded by KazTransOil JSC, with a Respective Transfer of Rights and Obligations	Decision of the KazTransOil JSC Management Board dated December 5, 2018 (Minutes of the Meeting, No. 31)
50	Agreement on the Substitution of Persons in an Obligation under Contracts concluded by KazTransOil JSC, with a Respective Transfer of Rights and Obligations (with service consumers)	Decision of the KazTransOil JSC Management Board dated December 12, 2018 (Minutes of the Meeting, No. 32)
51	Additional agreements to supply contracts with service consumers	Decision of the KazTransOil JSC Management Board dated August 14, 2018 (Minutes of the Meeting, No. 22)
<b>IC Group Service, Dos Support LLP</b>		
52	Additional Agreement to the Contract to Provide Services on the Assembly of Buildings/Premises/Territory/Transport and Similar Properties	Decision of the KazTransOil JSC Management Board dated August 14, 2018 (Minutes of the Meeting, No. 22)
<b>OzenMunayGas JSC, EmbaMunayGas JSC, Kazakhturkmunay LLP, and KazMunayTeniz Marine Oil Company LLP</b>		
53	Transport forwarding contracts	Decision of the KazTransOil JSC Management Board dated November 21, 2018 (Minutes of the Meeting, No. 30)
<b>KMG Kashagan B.V. Private Limited Liability Company</b>		
54	Additional Agreement No. 2 to the Transport Forwarding Contract EX 22/2017 dated December 13, 2016	Decision of the KazTransOil JSC Management Board dated November 21, 2018 (Minutes of the Meeting, No. 30)
<b>KazMunayTeniz Marine Oil Company LLP</b>		
55	Contract to Provide Oil Transportation Services	Decision of the KazTransOil JSC Management Board dated November 21, 2018 (Minutes of the Meeting, No. 30)



## APPENDIX 5. REPORT ON KAZTRANSOIL JSC’S COMPLIANCE WITH THE PRINCIPLES AND PROVISIONS OF THE CORPORATE GOVERNANCE CODE FOR 2018

Approved by the resolution of the KazTransOil JSC Board of Directors dated April 24, 2019 Minutes No.3/2019.

In accordance with the Corporate Governance Code approved by a decision of the General Meeting of Shareholders of KazTransOil JSC dated May 27, 2016 (Minutes No. 3/2016) (the Code), the Corporate Secretary annually prepares a report on compliance/non-compliance with the principles and provisions of the Code.

The goals of the Code are to improve corporate governance at KazTransOil JSC, ensure the transparency of governance, and confirm the commitment of the Company to adhere to appropriate corporate governance standards. The principles of the corporate governance code are as follows

1. The government as the Shareholder of Samruk-Kazyna JSC<sup>1</sup>.
2. Interaction of Samruk-Kazyna JSC and Entities. Role of Samruk-Kazyna JSC as the National Management Holding.
3. Sustainable Development.
4. Rights of Shareholders and the Equitable Treatment of Shareholders.
5. Effectiveness of the Board of Directors and the Executive Body.
6. Risk Management, Internal Controls, and Audit.
7. Transparency.

Understanding the importance of corporate governance, the Company pays significant attention to the need for the Company’s internal regulations and practices to comply with corporate governance principles.

<sup>1</sup> The first principle of the Code is specific in nature, and relates to the governance specifics of Samruk-Kazyna JSC, and interaction between Samruk-Kazyna JSC and the Government of the Republic of Kazakhstan.

№	Provision of the Corporate Governance Code/Corporate Governance Principle	Observed/not observed	Actions implemented to comply with corporate governance provisions/principles
1	Interaction of Samruk-Kazyna JSC and entities. Role of Samruk-Kazyna JSC as the National Management Holding	Observed	<p>KazTransOil JSC’s corporate governance system ensures appropriate governance and controls over its activity and is aimed at increasing long-term value and sustainable development.</p> <p>The Company and its officials are responsible for increasing the long-term value and sustainable development of the Company, with respective decisions being adopted and actions/inaction pursuant to the procedure established by the legislation of the Republic of Kazakhstan and internal regulations.</p>
2	Sustainable Development	Observed	<p>The Company’s goal is to develop the business and maintain and protect the environment, create favorable working conditions and safe workplaces, and also contribute to the development of the local communities where the Company operates.</p> <p>The management of sustainable development issues is integrated into the corporate governance system of KazTransOil JSC and is performed at all organizational levels of the Company.</p>
2.1	Environmental protection	Observed	<p>The Company pays significant attention to measures aimed at mitigating the negative environmental impacts of its activity, and implementing principles to ensure the rational use of natural resources.</p> <p>The Company adheres strictly to the Environmental Code of the Republic of Kazakhstan, international best practice, the standards and provisions of internal corporate regulations, and certifies and assesses environmental aspects and ensures the transparency and openness of its environmental protection actions.</p> <p>The environmental management system covers all areas of the Company’s production activity and is certified for compliance with the standard ISO 14001:2015.</p>
2.2	Occupational Health and Safety	Observed	<p>Within occupational health and safety, the Company seeks to ensure the accident-free work of production facilities, creates and supports safe working conditions, is concerned about the health of employees, and clearly adheres to the legislation of the Republic of Kazakhstan, international and national standards, and the internal regulations of the Company.</p>

№	Provision of the Corporate Governance Code/Corporate Governance Principle	Observed/not observed	Actions implemented to comply with corporate governance provisions/principles
2.3	Human resources and Social Policy	Observed	<p>The priorities of the Company’s Human Resources policy are to ensure an appropriate wage level and to create a social support system for employees, provide professional development and career growth opportunities, build and implement an effective staff motivation system, and also increase employee satisfaction.</p> <p>The Company builds its Human Resources and Social policy in accordance with the legislation of the Republic of Kazakhstan and the collective bargaining agreement concluded with the personnel of the Company.</p>
2.4	Procurement system and local content	Observed	<p>When selecting suppliers, the Company is guided by the Procurement Rules for Goods, Work, and Services by Sovereign Wealth Fund Samruk-Kazyna Joint-Stock Company and Organizations in Which 50 or More Percent of the Voting Shares (Equity Holdings) are Held Directly or Indirectly by Samruk-Kazyna JSC by Right of Title or Trust Management.</p>
3	Rights of Shareholders (Participants) and Equitable Treatment of Shareholders (Participants)	Observed	<p>Having the most open and effective interaction possible with shareholders is a key operating principle of the Company. The main rights of shareholders are exercised pursuant to legislative acts as well as the Charter of KazTransOil JSC (Charter).</p> <p>The Company’s Board of Directors guarantees the equitable treatment of all shareholders, provides them with an opportunity to participate in the management of the Company, obtain information about the activity of the Company, and exercise their right to receive dividends. The method and procedures for holding the General Meeting of Shareholders ensure the equal treatment of all shareholders.</p>
4	Effectiveness of the Board of Directors and the Executive Body	Observed	<p>The Board of Directors is a management body of the Company which ensures the strategic management of the Company, supervises the activity of the Management Board of the Company within the limits of its competence, and assumes responsibility to the Company’s General Meeting of Shareholders for the effective management and appropriate monitoring of the Company’s activity.</p> <p>Committees of the Company’s Board of Directors perform preliminary reviews of the most pressing issues and prepare recommendations for the Board of Directors.</p> <p>The Company conducts comprehensive performance appraisals of the work of the Board of Directors and its committees, as well as individual performance appraisals of directors in accordance with global best practice.</p> <p>The day-to-day management of the Company is performed by the Management Board, which is the collegiate executive body.</p>

№	Provision of the Corporate Governance Code/Corporate Governance Principle	Observed/not observed	Actions implemented to comply with corporate governance provisions/principles
5	Risk Management, Internal Controls, and Audit	Observed	<p>The risk management system in place at the Company comprises the CRMS and ICS.</p> <p>The CRMS is intended to promptly identify, assess, monitor, and decrease potential risk events that could have an adverse impact on attaining the Company’s strategic and operating goals.</p> <p>The ICS aims to promptly identify and analyze process-level risks and to identify and analyze control procedures aimed at managing these risks in key areas of the ICS.</p> <p>An Internal Audit Service also operates at the Company, in order to monitor the Company’s financial and business activity, assess internal controls, risk management, and the execution of corporate governance documents, and to give advice on how to improve performance.</p>
6	Transparency	Observed	<p>The Company ensures the prompt and full disclosure to stakeholders of information about all aspects of its activity, governed by the related legislation of the Republic of Kazakhstan, the requirements of regulatory authorities, and the listing rules and internal regulations of the Company.</p>

A detailed report on KazTransOil JSC’s compliance with the principles and provisions of the Corporate Governance .



# APPENDIX 6. CONSOLIDATED FINANCIAL STATEMENTS, GRI 201-1

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

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## Independent auditor’s report

To the Shareholders of KazTransOil JSC

### Opinion

We have audited the consolidated financial statements of KazTransOil JSC and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018 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
<b>Impairment of property, plant and equipment located in Georgia</b>	
<p>Property, plant and equipment located in Georgia makes up approximately 7% of the total assets of the Group as at 31 December 2018. 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 30 June 2018 by engaging independent appraisers and resulted in impairment loss of 4,329,907 thousand tenge. Management performed analysis of indications that assets may be further impaired as at 31 December 2018 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 30 June 2018 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 30 June 2018. 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 2018. We compared budgeted transshipment volume, EBITDA and revenue for 2018 with actual figures.</p>

**Other Information included in the Group's 2018 Annual report**

Other information consists of the information included in the Group's 2018 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2018 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  
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4 March 2019



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 FINANCIAL STATEMENTS

In thousands of Tenge	Notes	31 December 2018	31 December 2017
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	671,773,612	619,260,520
Intangible assets	7	6,891,299	6,545,801
Investments in joint ventures	8	30,001,323	31,736,986
Advances to suppliers for property, plant and equipment	9	110,135	295,842
Long-term accounts receivable		82,987	71,783
Bank deposits	15	2,778,076	3,948,692
Investments in bonds	18	828,437	748,962
Other non-current assets		12,585	13,100
		712,478,454	662,621,686
<b>Current assets</b>			
Inventories	10	5,130,498	4,068,718
Trade and other accounts receivable	11	5,627,598	7,067,133
Advances to suppliers	12	744,873	504,796
Prepayment for income tax		961,849	3,489,707
VAT recoverable and other prepaid taxes	13	9,504,898	8,542,998
Other current assets	14	7,883,154	5,856,422
Bank deposits	15	25,424,203	28,356,520
Cash and cash equivalents	16	33,278,843	40,870,527
		88,555,916	98,756,821
Non-current assets held for sale	17	2,406,231	2,848,498
		90,962,147	101,605,319
<b>Total assets</b>		803,440,601	764,227,005

The accounting policy and explanatory notes on pages 219-285 form an integral part of these consolidated financial statements.

In thousands of Tenge	Notes	31 December 2018	31 December 2017
<b>Equity and liabilities</b>			
Equity			
Share capital	19	61,937,567	61,937,567
Treasury shares repurchased from shareholders	19	[9,549]	[9,549]
Asset revaluation reserve	19	243,588,977	226,395,595
Foreign currency translation reserve	19	39,572,764	33,068,230
Other capital reserves	19	[72,146]	[623,415]
Retained earnings		280,398,586	278,922,619
<b>Total equity</b>		625,416,199	599,691,047
<b>Non-current liabilities</b>			
Employee benefit obligations	20	12,940,911	12,740,751
Deferred tax liabilities	34	67,394,342	63,123,255
Provision for asset retirement and land recultivation obligation	25	21,109,397	15,347,322
Deferred income	21	8,423,897	7,498,361
		109,868,547	98,709,689
<b>Current liabilities</b>			
Employee benefit obligations	20	663,463	600,175
Income tax payable		1,348,926	1,119,287
Trade and other accounts payable	22	12,957,514	17,612,359
Advances received	23	20,660,210	18,197,647
Other taxes payable	24	6,056,874	5,565,433
Provisions	25	1,635,604	223,242
Other current liabilities	26	24,833,264	22,508,126
		68,155,855	65,826,269
<b>Total liabilities</b>		178,024,402	164,535,958
<b>Total equity and liabilities</b>		803,440,601	764,227,005
<b>Book value per ordinary share (in Tenge)</b>	19	1,608	1,542

Signed and approved for issue on 4 March 2019.

General Director (Chairman of the Management Board) Dossanov D.G. \_\_\_\_\_

Chief Accountant Sarmagambetova M.K. \_\_\_\_\_



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of Tenge	Notes	For the year ended 31 December	
		2018	2017
Revenue	27	225,399,570	222,449,954
Cost of sales	28	(152,393,686)	(146,598,531)
General and administrative expenses		73,005,884	75,851,423
General and administrative expenses	29	(16,871,021)	(16,020,923)
Other operating income	30	1,112,840	2,446,962
Other operating expenses	31	(3,150,563)	(962,862)
Impairment of property, plant and equipment and intangible assets	6, 7	(2,649,261)	(37,682)
Operating profit		51,447,879	61,276,918
Net foreign exchange gain/(loss)		2,594,699	(651,952)
Finance income	32	2,820,024	4,937,555
Finance costs	33	(2,590,261)	(3,082,198)
Impairment of investments in bonds	18	–	(3,639,607)
Share in (loss)/income of joint ventures	8	(2,075,937)	7,101,470
Profit before income tax		52,196,404	65,942,186
Income tax expense	34	(13,711,421)	(15,824,330)
Net profit for the year		38,484,983	50,117,856
Earnings per share (in Tenge)	19	100	130
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Exchange difference from translation of foreign operations of the Group		6,504,534	150,119
Total other comprehensive income to be reclassified to profit or loss in subsequent periods		6,504,534	150,119

The accounting policy and explanatory notes on pages 219-285 form an integral part of these consolidated financial statements.

In thousands of Tenge	Notes	For the year ended 31 December	
		2018	2017
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation and impairment of property, plant and equipment of the Group, net	6	55,421,707	15,136,760
Income tax effect	34	(11,494,525)	(3,027,352)
		43,927,182	12,109,408
Charge of provision for asset retirement and land recultivation obligation of the Group	25	(3,102,220)	(30,162)
Income tax effect	34	620,445	6,033
		(2,481,775)	(24,129)
Revaluation of property, plant and equipment of joint ventures		433,192	11,418,672
Income tax effect		(86,638)	(2,283,734)
	8	346,554	9,134,938
Charge of provision for asset retirement and land recultivation obligation of joint ventures		(3,195)	(283,806)
Income tax effect		638	56,760
	8	(2,557)	(227,046)
Actuarial gain from employee benefit obligations of the Group	20	688,653	279,191
Income tax effect	34	(137,731)	(55,838)
		550,922	223,353
Actuarial gain/(loss) from employee benefit obligations of joint venture		434	(791)
Income tax effect		(87)	158
	8	347	(633)
Write-off of deferred tax assets on employee benefit obligations		–	(150,746)
	19, 34	–	(150,746)
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods, net		42,340,673	21,065,145
Total other comprehensive income for the year, net of tax		48,845,207	21,215,264
Total comprehensive income for the year, net of tax		87,330,190	71,333,120

Signed and approved for issue on 4 March 2019.

General Director (Chairman of the Management Board) Dossanov D.G. \_\_\_\_\_

Chief Accountant Sarmagambetova M.K. \_\_\_\_\_

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of Tenge	Notes	For the year ended 31 December	
		2018	2017
<b>Cash flows from operating activities</b>			
Profit before income tax		52,196,404	65,942,186
<b>Non-cash adjustment to reconcile profit before tax to net cash flows</b>			
Depreciation and amortization	28, 29	52,409,550	48,965,922
Finance income	32	(2,820,024)	(4,937,555)
Impairment of property, plant and equipment and intangible assets	6, 7	2,649,261	37,682
Finance costs	33	2,590,261	3,082,198
Unrealized foreign exchange (gain)/loss		(2,594,699)	641,071
Share in loss/(income) of joint ventures	8	2,075,937	(7,101,470)
Revision of estimates on provision on asset retirement and land recultivation obligation	30, 31	1,162,914	(1,239,714)
Charge of other current provisions	29, 31	1,293,697	–
Loss on disposal of property, plant and equipment and intangible assets, net	31	1,228,319	741,248
Charge of expected credit losses, net	29	774,844	1,024,013
Employee benefit obligations, current service costs	28, 29	568,282	559,185
Impairment of non-current assets held for sale	31	283,956	–
Gain on disposal of non-current assets held for sale, net	30	(254,756)	–
Expenses on liquidation of idle production facilities	31	106,084	56,275
Actuarial (gain)/loss	30, 31	(70,352)	39,943
Write – off of VAT recoverable		43,191	36,283
Charge of provision for obsolete inventories	29	11,562	28,552
(Reversal)/charge of reserve for impairment of advances to suppliers	29	(618)	598,316
Impairment of investments in bonds	18	–	3,639,607
Others		(44,181)	(108,956)
<b>Operating cash flows before working capital changes</b>		<b>111,609,632</b>	<b>112,004,786</b>
<b>(Increase)/decrease in operating assets</b>			
Inventories		(1,482,723)	(1,069,539)
Trade and other accounts receivable		318,366	(1,681,296)
Advances to suppliers		(214,002)	(128,353)
VAT recoverable and other prepaid taxes		(987,802)	(1,952,935)
Other current assets		(1,999,423)	(111,055)
<b>Increase/(decrease) in operating liabilities</b>			
Trade and other accounts payable		1,656,515	1,722,258

The accounting policy and explanatory notes on pages 219-285 form an integral part of these consolidated financial statements.

In thousands of Tenge	Notes	For the year ended 31 December	
		2018	2017
Advances received		2,431,124	1,753,424
Other taxes payable		(680,487)	(195,040)
Other current and non-current liabilities and employee benefit obligations		1,249,592	(890,337)
<b>Cash generated from operating activities</b>		<b>111,900,792</b>	<b>109,451,913</b>
Income taxes paid		(17,364,973)	(15,218,590)
Interest received		2,917,095	4,712,241
<b>Net cash flows from operating activities</b>		<b>97,452,914</b>	<b>98,945,564</b>
<b>Cash flows from investing activities</b>			
Withdrawal of bank deposits		33,037,782	63,785,853
Proceeds from disposal of property, plant and equipment		5,491,706	18,661
Proceeds from bonds redemption	18	43,457	–
Purchase of property, plant and equipment		(56,309,790)	(49,192,197)
Placement of bank deposits and bonds		(27,090,320)	(81,182,023)
Purchase of intangible assets		(27,164)	(701,553)
<b>Net cash flows used in investing activities</b>		<b>(44,854,329)</b>	<b>(67,271,259)</b>
<b>Cash flows from financing activities</b>			
Dividends paid	19	(61,540,496)	(59,617,355)
<b>Net cash flows used in financing activities</b>		<b>(61,540,496)</b>	<b>(59,617,355)</b>
<b>Net change in cash and cash equivalents</b>		<b>(8,941,911)</b>	<b>(27,943,050)</b>
Net foreign exchange difference		1,367,345	(480,852)
Change in allowance for expected credit losses		(17,118)	–
Cash and cash equivalents at the beginning of the year		40,870,527	69,294,429
<b>Cash and cash equivalents at the end of the year</b>	16	<b>33,278,843</b>	<b>40,870,527</b>

Signed and approved for issue on 4 March 2019.

General Director (Chairman of the Management Board) Dossanov D.G. \_\_\_\_\_

Chief Accountant Sarmagambetova M.K. \_\_\_\_\_



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of Tenge	Share capital	Treasury shares repurchased from shareholders	Asset revaluation reserve	Foreign currency translation reserve	Other capital reserves	Retained earnings	Total
As at 31 December 2017	61,937,567	(9,549)	226,395,595	33,068,230	(623,415)	278,922,619	599,691,047
Changes in accounting policy (Notes 8, 11, 15 and 16)	-	-	-	-	-	(64,542)	(64,542)
As at 1 January 2018 (restated)	61,937,567	(9,549)	226,395,595	33,068,230	(623,415)	278,858,077	599,626,505
Net profit for the year	-	-	-	-	-	38,484,983	38,484,983
Other comprehensive income	-	-	41,789,404	6,504,534	551,269	-	48,845,207
Total comprehensive income for the year	-	-	41,789,404	6,504,534	551,269	38,484,983	87,330,190
Amortization of revaluation reserve for revalued property, plant and equipment	-	-	(24,596,022)	-	-	24,596,022	-
Dividends (Note 19)	-	-	-	-	-	(61,540,496)	(61,540,496)
As at 31 December 2018	61,937,567	(9,549)	243,588,977	39,572,764	(72,146)	280,398,586	625,416,199
As at 31 December 2016	61,937,567	(9,549)	230,346,658	32,918,111	(695,389)	263,477,884	587,975,282
Net 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
Amortization of revaluation reserve for revalued property, plant and equipment	-	-	(24,944,234)	-	-	24,944,234	-
Dividends (Note 19)	-	-	-	-	-	(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

Signed and approved for issue on 4 March 2019.

General Director (Chairman of the Management Board)	Dossanov D.G.	_____
Chief Accountant	Sarmagambetova M.K.	_____

The accounting policy and explanatory notes on pages 219-285 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
For the year ended 31 December 2018

1. GENERAL

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

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

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

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

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

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

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

The Company and its subsidiaries are hereinafter referred to as the “Group”.

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

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

1. GENERAL (CONTINUED)

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

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

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

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

- In 2015 – 3,225.04 Tenge per ton for 1,000 kilometers without VAT;
  - In 2016 – 3,547.46 Tenge per ton for 1,000 kilometers without VAT;
  - In 2017 – 3,902.13 Tenge per ton for 1,000 kilometers without VAT;
  - In 2018 – 4,292.40 Tenge per ton for 1,000 kilometers without VAT\*;
  - In 2019 – 4,721.72 Tenge per ton for 1,000 kilometers without VAT.
- \* The rate came into effect on 1 January 2018*

Starting from 1 April 2018 tariffs for pumping oil on the export from the Republic of Kazakhstan equals to 6,398.92 Tenge per ton for 1,000 kilometers without VAT.

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

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

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

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

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

2. BASIS OF PREPARATION

The 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 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee [i.e., existing rights that give it the current ability to direct the relevant activities of the investee];
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group’s voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 INTEREST IN A JOINT VENTURE

The Group has interests in joint operations in the form of joint ventures.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Factors considered in determining joint control are similar to the factors considered in determining the existence of control of subsidiaries.

The Group’s investment in its joint ventures is accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group’s share of net assets of the associate or joint venture since the acquisition date.

Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the Group’s share of the results of operations of the joint venture. Any change in other comprehensive income of those investees is presented as part of the Group’s other comprehensive income. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The Group’s share of profit or loss of a joint venture is shown on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax of the joint venture.

Financial statements of joint ventures are prepared for the same reporting period as for the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on own investments in its joint ventures. The Group determines at each reporting date whether there is any objective evidence that the investment in a joint venture is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount in consolidated statement of comprehensive income under “Share in profit or loss of joint ventures”.

Upon loss of significant influence over the joint control over the joint ventures, the Group measures and recognises its remaining investment at its fair value. Any differences between the carrying amount of the former jointly controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in statement of comprehensive income.

4.2 FOREIGN CURRENCY TRANSLATION

The Group’s consolidated financial statements are presented in Tenge. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Functional currency of the Company, “Main Waterline” LLP and the joint ventures MunaiTas and KCP is Tenge. Functional currency of 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 2018 and 2017 are as follows:

Tenge	For the year ended 31 December	
	2018	2017
US Dollars	345,04	326,08
Russian Rubles	5,50	5,59
Euro	406,88	368,65
Georgian Lari	136,98	130,93

As at 31 December the currency exchange rates of KASE were:

In Tenge	2018	2017
US Dollars	384,20	332,33
Russian Rubles	5,52	5,77
Euro	439,37	398,23
Georgian Lari	144,44	128,16

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

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

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

An analysis of the fair value of property, plant and equipment and additional information about the methods of its definition in Note 5.

4.5 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 17. 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 during the period when the fair value changes) in order to ensure that fair value of the revalued asset does not significantly differ from its book value.

Any revaluation surplus is recorded in other comprehensive income and, credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as expense in the statement of comprehensive

income, in this case the increase is recognised through profit in the statement of comprehensive income. A revaluation deficit is recognised as expense in the statement of comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

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

The cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the 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. Further detailed information about the asset retirement and land recultivation obligation disclosed in Notes 5 and 25.

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 seven-ten years. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognised in the 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

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

4.9 FINANCIAL ASSETS

*Initial recognition and measurement*

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

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

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

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

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

*Subsequent measurement*

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

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

*Financial assets at amortised cost (debt instruments)*

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

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

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

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

*Financial assets at fair value through profit or loss*

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

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

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

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

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

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

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

**Derecognition**

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

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

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

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

4.10 IMPAIRMENT OF FINANCIAL ASSETS

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

- Disclosures for significant assumptions (Note 5);
- Trade and other accounts receivable (Note 11);
- Bank deposits (Note 15);
- Cash and cash equivalents (Note 16).

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

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

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

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

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

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 include trade and other accounts payable.

*Subsequent measurement*

The measurement of financial liabilities depends on their classification.

*Trade and other accounts payable*

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

**Derecognition**

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

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

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, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

4.13 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

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.

The Group records a provision on asset retirement and land reclamation obligation. Provisions on asset retirement and land reclamation obligation are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the particular asset. The cash flows are discounted at a current pre tax rate that reflects the risks specific to the asset retirement 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 on asset retirement and land reclamation obligation are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset (Notes 5 and 25).

4.16 EMPLOYEE BENEFITS

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

The expected costs of the benefits associated with one-off retirement payments are accrued over the period of employment using the same accounting methodology as used for defined benefit post-employment plans with defined payments on the end of labor activity. The cost of

providing benefits under the defined benefit plan is determined using the projected unit credit method. Actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred.

Other movements are recognised in the current period, including current service cost, any past service cost and the effect of any curtailments or settlements.

The most significant assumptions used in accounting for defined benefit obligations are discount rate and mortality rate. The discount rate is used to determine the net present value of future liabilities and each year the unwinding of the discount on those liabilities is charged to the 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 obligations, 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 obligation or asset, The Company recognises the following changes in the net defined benefit obligation under “cost of sales”, “administration expenses” and “finance expenses” in 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 from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

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 (as it typically controls the goods or services before transferring them to the customer), except for transportation expedition contract where the Group is acting as an agent for which the Group recognizes revenue commission for its services.

In the consolidated financial statements, the Group generally recognizes revenue for the following types:

*Rendering of transportation services*

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

*Rendering of pipeline operation and maintenance services*

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

*Rendering of other services*

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

*Interest income*

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

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

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

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

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

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

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

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

*Value added tax (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.

*Treasury shares repurchased from shareholders*

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

*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.

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 2018.

*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 2018. 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 2018. The nature and the impact of each new standard or amendment are described below:

*IFRS 15 Revenue from Contracts with Customers*

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

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

The Group adopted the new standard on the required effective date using the modified retrospective method to not completed contracts at the date of initial application in its consolidated financial statements. 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 as at 1 January 2018.

The Group's activities mainly relates to the transportation of oil and water 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 oil and water transportation services, transport expedition of oil and other related services, based on the actual volume of services rendered. 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 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. Application of IFRS 15 to service contracts does not affect the Group's revenue and profit or loss.

In applying of 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. Thereafter, this update will have no effect on Group's revenue recognition.

*(iii) 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/customer's buyer.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

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 or customer’s buyer), except for contracts on oil transportation coordination services where Group determined that it does not control the services before they are accepted by the customer’s buyer. Hence, Group is an agent, rather than principal in these contracts on oil transportation coordination services.

(iii) *Advances received from customers*

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

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*

In accordance with the requirements for the consolidated financial statements, the Group has detailed information on revenue recognized under contracts with customers in categories reflecting how economic factors influence the nature, size, timing and uncertainty of revenue and cash flows. Disclosure of detailed revenue is discussed in Note 27.

(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. These changes did not affect to the consolidated financial statements of the Group.

*IFRS 9 Financial Instruments*

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

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

- The comparative information on financial assets and liabilities is disclosed in accordance with classification and measurement requirements of IAS 39 (Notes 11, 15, 16 and 22);
- The adjustment to the opening balance of retained earnings as at 1 January 2018 is recognized in the consolidated statement of changes in equity for year ended 31 December 2018. The information on this adjustment is disclosed as follows:

In thousands of Tenge	Adjustments	1 January 2018
<b>Assets</b>		
<b>Non-current assets</b>		
Investments in joint ventures (Note 8)	(c)	(4,070)
Bank deposits (Note 15)	(b)	(31,251)
<b>Total non-current assets</b>		<b>(35,321)</b>
<b>Current assets</b>		
Trade and other accounts receivable (Note 11)	(b)	(27,623)
Bank deposits (Note 15)	(b)	(264)
Cash and cash equivalents (Note 16)	(b)	(1,334)
<b>Total current assets</b>		<b>(29,221)</b>
<b>Total assets</b>		<b>(64,542)</b>
<b>Equity</b>		
Retained earnings	(b), (c)	(64,542)
<b>Total equity</b>		<b>(64,542)</b>

(a) *Classification and measurement*

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

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

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

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

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

(b) *Impairment*

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

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

The adoption of the expected credit loss requirements of IFRS 9 resulted in increase in impairment allowances of the Group's debt financial assets. The increase in allowance resulted in adjustment to Retained earnings as at 1 January 2018. The effect of the adjustment is as follows: decreases in Trade and other receivables, Cash and cash equivalents, Bank deposits and Retained earnings amounting to 27,623 thousand Tenge, 1,334 thousand Tenge, 31,515 thousand Tenge and 64,542 thousand Tenge, respectively.

(c) Other adjustments

In addition to the adjustments described above, upon adoption of IFRS 9, other items of the primary financial statements such as investments in joint ventures were adjusted as necessary. These adjustments are due to an increase in estimated provisions for impairment losses on debt financial assets of joint ventures. As a result of this increase, the amount of Retained earnings for the beginning of the period was adjusted. The effect of the adjustment is a decrease in balances of Investments in joint ventures and Retained earnings by 4,070 thousand Tenge (Note 8).

*IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations*

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

*Amendments to IAS 40 Transfers of Investment Property*

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

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

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

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

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

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

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

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

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

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

These amendments do not have any impact on the Group's consolidated financial statements.

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

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

*Standards issued but not yet effective*

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

*IFRS 16 Leases*

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

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

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

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

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

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.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

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

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

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

1 January 2019 in the consolidated financial statements as at 31 March 2019.

*IFRS 17 Insurance Contracts*

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

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

*IFRIC Interpretation 23 Uncertainty over Income Tax Treatment*

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

- Whether an entity considers uncertain tax treatments separately;

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

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

*Amendments to IFRS 9: Prepayment Features with Negative Compensation*

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

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of 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 early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

*Amendments to IAS 19: Plan Amendment, Curtailment or Settlement*

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

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

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

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

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

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

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

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

*Annual improvements 2015-2017 cycle (issued in December 2017)*

These improvements include:

*IFRS 3 Business Combinations*

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

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

*IFRS 11 Joint Arrangements*

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

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

IAS 12 Income Taxes

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

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

IAS 23 Borrowing Costs

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

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

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Other disclosures relating to the Group’s exposure to risks and uncertainties includes:

- Financial risk management and policies (Note 38);
- Sensitivity analyses disclosures (Note 38).

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 transportation*	Oil transshipment	Sea port
Discount rate	12.55%	13.01%	12.67%
Long-term growth rate	4.58%	1.9%	1.9%
Remaining useful life of the primary asset	18.2 years	14 years	21 years

\* Water transportation was included in to the CGU oil transportation as a related service.

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.

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 2018 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 and long-term assets of the Group located in Georgia) as at 31 December 2018 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 2018.

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

The following judgments were taken into account by the 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 of 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 at 31 December 2018 the fair value of the Group’s technological oil was determined based on the price of 63,015 Tenge per ton (31 December 2017: 41,175 per ton). The effect of the change in fair value of the technological oil was equal to 54,541,851 thousand Tenge (31 December 2017: 13,353,217 thousand Tenge), in addition as at 31 December 2018 the revaluation of technological oil surplus in the amount 3,678,627 thousand Tenge (31 December 2017: 2,167,946 thousand Tenge) was recognized; the overall effect of revaluation is equal to 58,220,478 thousand Tenge (31 December 2017: 15,521,163 thousand Tenge) (Note 6).



4. SUMMARY OF SIGNIFICANT ACCOUNTING  
(CONTINUED)

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

Impairment of assets

The 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. Impairment exists when the carrying value of an asset or cash generating units (hereinafter – CGU) exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm’s length, for similar assets or observable market prices less incremental costs for disposing of the asset. If no such transactions can be identified, an appropriate valuation model is used.

The value in use calculation is based on a discounted cash flow model. The 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 discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

Due to the existence of impairment indicators, the Group performed an analysis of its property, plant and equipment located in Georgia and the BSP’s right for land use for impairment as at current reporting period. The recoverable amount of these assets has been determined based on a value in use, using a discounted cash flow model. The value in use of property, plant and equipment and the right for land use has been defined as the value of the business, adjusted for the fair value of net working capital and non-specialized property, plant and equipment.

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

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

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

As a result of analysis the carrying value of property, plant and equipment and the right for land use exceeded their recoverable amount. The Group recognized impairment of property, plant and equipment in the amount of 12,549 thousand US Dollars (equivalent to 4,329,907 thousand Tenge), including 6,605 thousand US Dollars (equivalent to 2,278,989 thousand Tenge) through profit and loss and 5,944 thousand US Dollars (equivalent to 2,050,918 thousand Tenge) through decrease in asset revaluation reserve, as well as impairment of the right for land use in the amount of 226 thousand US Dollars (equivalent to 77,979 thousand Tenge) recognized through profit and loss (Note 7).

The calculation of value in use for both CGUs is most sensitive to the assumption associated with additional volumes of crude oil transshipment of Kazakhstan origin since 2023. Thus, the shift in the transshipment of this oil from 2023 to 2025 and decrease in volumes by 10% for the period from 2023 to 2031 would reduce the recoverable value of these assets by 28,000 thousand US Dollars (equivalent to 10,757,600 thousand Tenge) and 14,716 thousand US Dollars (equivalent to 5,653,887 thousand Tenge), respectively.

The increase in discount rate by 0.5% would result in decrease of recoverable amount of the above-mentioned assets by 11,146 thousand US Dollars (equivalent to 4,282,293 thousand Tenge).

As at 31 December 2018, the book value property, plant and equipment, located in Georgia, and land in use of BSP amounted to 150,895 thousand US Dollars (equivalent to 57,973,859 thousand Tenge), as at 31 December 2017: 172,576 thousand US Dollars (equivalent to 57,352,182 thousand Tenge).

In addition, as at 31 December 2018 impairment was recognized for the idle production and non-specialized property, plant and equipment of the Company in the amount of 1,040,146 thousand Tenge, including 292,293 thousand Tenge through profit and loss and 747,853 thousand Tenge through decrease in asset revaluation reserve.

As a result, the total impairment of the Group’s property, plant and equipment amounted to 5,370,053 thousand Tenge (Note 6).

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 5,671 thousand Tenge per kilometer (2017: 4,278 thousand Tenge).

Reserve on liquidation of landfills and waste management is also reflected within the asset retirement and land recultivation 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 recultivation of land and for monitoring of environmental impact right after the closure of the landfill.

The reserve was determined at the end of the reporting period using the projected inflation rate for the expected period of fulfillment of obligations, and the discount rate at the end of the reporting period which is presented below:

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

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

As at 31 December 2018 the carrying amount of the asset retirement and land recultivation obligation was 21,109,397 thousand Tenge (31 December 2017: 15,347,322 thousand Tenge) (Note 25).

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 recultivation obligation for the change in significant assumptions as at 31 December 2018 is as follows:

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

Impairment of advances to suppliers

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

As at 31 December 2018 and 2017 these reserves have been created for the amount of 745,465 thousand Tenge and 663,019 thousand Tenge (Notes 9 and 12).

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Allowances for financial assets

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

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

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

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

Thus, as at 31 December 2018 and 2017 allowance for expected credit losses was created in the amount of 4,776,003 thousand Tenge and 3,450,230 thousand Tenge, respectively (Notes 11, 15 and 16). Changes in the economy, industry, or specific customer conditions would have impact to these allowance recorded in the consolidated financial statements.

Tax provision

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given 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 by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the country.

Deferred tax assets

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

Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The amount of recognized deferred tax assets as at 31 December 2018 was 7,702,677 thousand Tenge (31 December 2017: 5,422,606 thousand Tenge) (Note 34). As at 31 December 2018 and 2017 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.

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

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

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

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

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

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

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



## 6.PROPERTY, PLANT AND EQUIPMENT

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

In thousands of Tenge	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
<b>At revalued amount as at 31 December 2017</b>	<b>19,890,305</b>	<b>227,862,264</b>	<b>14,563,900</b>	<b>109,033,695</b>	<b>157,269,793</b>	<b>102,839,808</b>	<b>17,899,977</b>	<b>35,937,112</b>	<b>685,296,854</b>
Foreign currency translation	2,159,089	–	567,027	3,391,865	1,885,786	–	63,744	108,610	8,176,121
Additions	–	38,026	6,500,021	41,517	4,786,484	–	2,089,359	37,535,779	50,991,186
Additions of asset retirement and land recultivation obligation (Note 25)	–	106,229	–	–	–	–	–	–	106,229
Transfers from non-current assets held for sale (Note 17)	–	–	22,498	–	–	–	–	–	22,498
Disposals	(134,166)	(1,173,251)	(128,835)	(970,256)	(871,533)	(85,792)	(621,011)	(67,237)	(4,052,081)
Revaluation (through revaluation reserve)	–	–	–	–	–	58,220,478	–	–	58,220,478
Transfers to non-current assets held for sale (Note 17)	(168,288)	–	–	(4,270,070)	(578,375)	–	(29,015)	–	(5,045,748)
Transfers from construction-in-progress	3,468	8,321,832	2,970,215	4,472,508	19,150,067	–	1,468,985	(36,387,075)	–
Transfers to intangible assets (Note 7)	–	–	–	–	–	–	–	(725,094)	(725,094)
Transfers and reclassifications	–	(204,274)	(873,802)	(11,671)	1,061,493	–	28,254	–	–
<b>At revalued amount as at 31 December 2018</b>	<b>21,750,408</b>	<b>234,950,826</b>	<b>23,621,024</b>	<b>111,687,588</b>	<b>182,703,715</b>	<b>160,974,494</b>	<b>20,900,293</b>	<b>36,402,095</b>	<b>792,990,443</b>
<b>Accumulated depreciation and impairment as at 31 December 2017</b>	<b>–</b>	<b>(20,559,375)</b>	<b>(2,747,072)</b>	<b>(8,191,902)</b>	<b>(28,283,381)</b>	<b>–</b>	<b>(6,196,923)</b>	<b>(57,681)</b>	<b>(66,036,334)</b>
Foreign currency translation	–	–	(125,185)	(632,362)	(459,136)	–	(20,943)	–	(1,237,626)
Depreciation charge	–	(15,644,967)	(2,366,527)	(6,382,407)	(22,084,104)	–	(5,045,533)	–	(51,523,538)
Disposals	–	780,353	104,342	209,238	651,591	59,180	605,088	2,181	2,411,973
Impairment (through expenses)	–	(2,185)	(276,897)	(841,411)	(1,160,537)	(8,586)	(32,434)	(249,232)	(2,571,282)
Impairment (through revaluation reserve)	–	(2,457)	(58,448)	(2,045,762)	(633,919)	(50,594)	(7,591)	–	(2,798,771)
Transfers to non-current assets held for sale (Note 17)	–	–	–	237,984	283,028	–	17,735	–	538,747
Transfers and reclassifications	–	8,128	708	3,426	(10,857)	–	(1,405)	–	–
<b>Accumulated depreciation and impairment as at 31 December 2018</b>	<b>–</b>	<b>(35,420,503)</b>	<b>(5,469,079)</b>	<b>(17,643,196)</b>	<b>(51,697,315)</b>	<b>–</b>	<b>(10,682,006)</b>	<b>(304,732)</b>	<b>(121,216,831)</b>
<b>At revalued amount as at 31 December 2016</b>	<b>19,803,815</b>	<b>202,402,253</b>	<b>14,258,143</b>	<b>96,958,727</b>	<b>145,295,540</b>	<b>88,061,076</b>	<b>15,398,884</b>	<b>40,428,912</b>	<b>622,607,350</b>
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 25)	–	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 (Note 17)	(87,865)	–	(170,247)	(2,810,480)	(292,648)	–	(61,471)	–	(3,422,711)
Transfer from construction-in-progress	763	25,221,954	211,570	6,917,877	10,636,366	–	1,555,826	(44,544,356)	–
Transfer to intangible assets (Note 7)	–	–	–	–	–	–	–	(72,365)	(72,365)
Transfers and reclassifications	–	31,141	(257,278)	137,938	456,379	–	175,918	(544,098)	–
<b>At revalued amount as at 31 December 2017</b>	<b>19,890,305</b>	<b>227,862,264</b>	<b>14,563,900</b>	<b>109,033,695</b>	<b>157,269,793</b>	<b>102,839,808</b>	<b>17,899,977</b>	<b>35,937,112</b>	<b>685,296,854</b>

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
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 gain and loss)	–	(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 (Note 17)	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)
As at 31 December 2018									
At revalued amount	21,750,408	234,950,826	23.621.024	111,687,588	182,703,715	160,974,494	20,900,293	36,402,095	792,990,443
Accumulated depreciation and impairment	–	(35,420,503)	(5,469,079)	(17,643,196)	(51,697,315)	–	(10,682,006)	(304,732)	(121,216,831)
Net book value	21,750,408	199,530,323	18.151.945	94,044,392	131,006,400	160,974,494	10,218,287	36,097,363	671,773,612
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
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 and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
As at 31 December 2018	18,437,634	157,523,347	15,720,849	69,988,280	110,237,099	30,409,139	8,162,817	37,152,464	447,631,629
As 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

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

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

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

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

As at 31 December 2018:

- The initial cost and corresponding accumulated depreciation of fully depreciated plant and equipment still in use property were 1,158,467 thousand Tenge (31 December 2017: 2,065,226 thousand Tenge);
- Construction in progress included materials and spare parts in the amount of 4,479,477 thousand Tenge
- (as at 31 December 2017: 5,644,338 thousand Tenge), which were acquired for construction works,

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



7. INTANGIBLE ASSETS

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

In thousands of Tenge	Licenses	Software	Right for land use	Other	Total
<b>Net book value as at 31 December 2017</b>	<b>312,106</b>	<b>1,290,744</b>	<b>4,912,491</b>	<b>30,460</b>	<b>6,545,801</b>
Additions	12,087	7,639	–	22,768	42,494
Transfers from construction in progress (Note 6)	133,827	591,267	–	–	725,094
Amortization charge	(91,059)	(647,563)	(177,006)	(3,550)	(919,178)
Impairment	–	–	(77,979)	–	(77,979)
Foreign currency translation	18,330	–	575,286	–	593,616
Transfer to non-current assets held for sale (Note 17)	–	–	(18,549)	–	(18,549)
Transfers and reclassifications	–	–	18,549	(18,549)	–
<b>Net book value as at 31 December 2018</b>	<b>385,291</b>	<b>1,242,087</b>	<b>5,232,792</b>	<b>31,129</b>	<b>6,891,299</b>
<b>Net book value as at 31 December 2016</b>	<b>152,886</b>	<b>1,088,171</b>	<b>4,991,673</b>	<b>27,871</b>	<b>6,260,601</b>
Additions	185,102	503,436	–	5,945	694,483
Transfers from construction in progress (Note 6)	28,925	43,440	–	–	72,365
Amortization charge	(59,509)	(344,272)	(165,323)	(3,356)	(572,460)
Disposals	(26,584)	(44,766)	–	(1,909)	(73,259)
Accumulated amortization on disposals	26,258	44.719	–	1,909	72,886
Foreign currency translation	2,435	–	88,750	–	91,185
Transfers and reclassifications	2,593	16	(2,609)	–	–
<b>Net book value as at 31 December 2017</b>	<b>312,106</b>	<b>1,290,744</b>	<b>4,912,491</b>	<b>30,460</b>	<b>6,545,801</b>
<b>As at 31 December 2018</b>					
At cost	1,021,657	5,499,098	9,160,850	93,276	15,774,881
Accumulated amortization and impairment	(636,366)	(4,257,011)	(3,928,058)	(62,147)	(8,883,582)
<b>Net book value</b>	<b>385,291</b>	<b>1,242,087</b>	<b>5,232,792</b>	<b>31,129</b>	<b>6,891,299</b>
<b>As at 31 December 2017</b>					
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)
<b>Net book value</b>	<b>312,106</b>	<b>1,290,744</b>	<b>4,912,491</b>	<b>30,460</b>	<b>6,545,801</b>

8. INVESTMENTS IN JOINT VENTURES

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

In thousands of Tenge	KCP	MunaiTas	Total
<b>As at 31 December 2017</b>	<b>14,331,613</b>	<b>17,405,373</b>	<b>31,736,986</b>
Changes in accounting policy (Note 4)	(3,844)	(226)	(4,070)
Share in (loss)/income of joint ventures	(3,726,041)	1,650,104	(2,075,937)
Share in other comprehensive income/(loss) of joint venture	(88,125)	432,469	344,344
<b>As at 31 December 2018</b>	<b>10,513,603</b>	<b>19,487,720</b>	<b>30,001,323</b>
<b>In thousands of Tenge</b>	<b>KCP</b>	<b>MunaiTas</b>	<b>Total</b>
<b>As at 31 December 2016</b>	<b>–</b>	<b>15,728,257</b>	<b>15,728,257</b>
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
<b>As at 31 December 2017</b>	<b>14,331,613</b>	<b>17,405,373</b>	<b>31,736,986</b>

The following tables below show summarized financial information about joint ventures, including the Group’s proportionate share:

In thousands of Tenge	KCP		31 December 2017	
	31 December 2018 50%	100%	50%	100%
<b>Assets and liabilities of joint ventures</b>				
Current assets	18,224,069	36,448,138	11,193,076	22,386,152
Non-current assets	108,058,909	216,117,818	112,914,233	225,828,466
Current liabilities	(20,594,902)	(41,189,804)	(20,394,094)	(40,788,188)
Non-current liabilities	(95,174,473)	(190,348,946)	(89,381,602)	(178,763,204)
<b>Net assets / net book value of investment</b>	<b>10,513,603</b>	<b>21,027,206</b>	<b>14,331,613</b>	<b>28,663,226</b>
<b>Additional information</b>				
Cash and cash equivalents	8,754,456	17,508,912	4,342,244	8,684,488
Short-term financial liabilities, net of trade and other payables and provisions	(15,411,861)	(30,823,722)	(16,057,521)	(32,115,042)
Long-term financial liabilities, net of trade and other payables and provisions	(89,400,397)	(178,800,794)	(83,384,876)	(166,769,752)

8. INVESTMENTS IN JOINT VENTURES (CONTINUED)

Long-term financial liabilities of KCP are represented by liabilities under loan agreement from 27 June 2018 with the Industrial and Commercial Bank of China Limited jointly with Industrial and Commercial Bank of China in Almaty JSC, acting as an agent. The loan amount was 540 million US Dollars (equivalent to 191,756,400 thousand Tenge at the date of attraction), the loan period is 6 years with the possibility of early repayment. The purpose of the loan is to refinance the loans from Industrial and Commercial Bank of China and ING Bank N.V. and Industrial and Commercial Bank of China and Industrial and Commercial Bank of China in Almaty JSC.

As a result of refinancing, the bank margin was reduced from 3.96% to 2.375% and the deadlines for the final repayment of the principal debt were postponed from 2023 to 2024.

The Company along with the second participant of KCP did not guarantee the loans.

As at 31 December 2018 total payable under loan including interest equals to 545,613 thousand US Dollars (equivalent to 209,624,516 thousand Tenge). As at 31 December 2017 total payable under both loans including interest equaled to 598,455 thousand US Dollars (equivalent to 198,884,794 thousand Tenge).

In thousands of Tenge	MunaiTas			
	31 December 2018		31 December 2017	
	51%	100%	51%	100%
<b>Assets and liabilities of joint ventures</b>				
Current assets	9,688,754	18,997,557	8,082,188	15,847,427
Non-current assets	14,019,921	27,490,041	13,032,214	25,553,361
Current liabilities	(1,634,263)	(3,204,437)	(969,387)	(1,900,759)
Non-current liabilities	(2,586,692)	(5,071,945)	(2,739,642)	(5,371,847)
<b>Net assets / net book value of investment</b>	<b>19,487,720</b>	<b>38,211,216</b>	<b>17,405,373</b>	<b>34,128,182</b>
<b>Additional information</b>				
Cash and cash equivalents	9,485,812	18,599,631	7,690,327	15,079,073
Short-term financial liabilities, net of trade and other payables and provisions	–	–	–	–
Long-term financial liabilities, net of trade and other payables and provisions	–	–	–	–

In thousands of Tenge	KCP			
	For the year ended 31 December			
	2018		2017	
	50%	100%	50%	100%
<b>Information on profit or loss and other comprehensive income of joint ventures for the year</b>				
Revenue	30,443,093	60,886,186	31,616,305	63,232,610
(Loss)/income from continuing operations for the year	(3,726,041)	(7,452,082)	6,225,244	12,450,488
Unrecognised income	–	–	(836,291)	(1,672,582)
Income/(loss) from discontinued operations for the year	–	–	–	–
Other comprehensive (loss)/income	(88,125)	(176,250)	8,942,660	17,885,320
<b>Total comprehensive (loss)/income</b>	<b>(3,814,166)</b>	<b>(7,628,332)</b>	<b>14,331,613</b>	<b>28,663,226</b>
<b>Dividends</b>				
	–	–	–	–
<b>Additional information</b>				
Depreciation and amortization	(5,996,100)	(11,992,200)	(7,061,412)	(14,122,824)
Interest income	111,955	223,910	80,853	161,706
Interest expense	(6,072,471)	(12,144,942)	(6,160,434)	(12,320,868)
(Loss)/income on exchange differences	(12,668,632)	(25,337,264)	701,437	1,402,874
Income tax benefit/(expense)	521,561	1,043,122	(1,693,842)	(3,387,684)

In thousands of Tenge	MunaiTas			
	For the year ended 31 December			
	2018		2017	
	51%	100%	51%	100%
<b>Information on profit or loss and other comprehensive income of joint ventures for the year</b>				
Revenue	4,542,842	8,907,533	4,323,112	8,476,690
Income from continuing operations for the year	1,650,104	3,235,498	1,712,517	3,357,877
Income/(loss) from discontinued operations for the year	–	–	–	–
Other comprehensive income/(loss)	432,469	847,978	(35,401)	(69,414)
<b>Total comprehensive income</b>	<b>2,082,573</b>	<b>4,083,476</b>	<b>1,677,116</b>	<b>3,288,463</b>
<b>Dividends</b>				
	–	–	–	–
<b>Additional information</b>				
Depreciation and amortization	(906,649)	(1,777,743)	(947,403)	(1,857,653)
Interest income	609,842	1,195,769	558,060	1,094,235
Income tax expense	(420,663)	(824,829)	(431,073)	(845,241)



## 9. ADVANCES TO SUPPLIERS FOR PROPERTY, PLANT AND EQUIPMENT

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

In thousands of Tenge	31 December 2018	31 December 2017
Advances to third parties for property, plant and equipment and construction services	838,835	910,669
Advances to related parties for property, plant and equipment and construction services (Note 36)	16,118	46,927
	854,953	957,596
Less: impairment	(744,818)	(661,754)
<b>Total</b>	<b>110,135</b>	<b>295,842</b>

Movement in reserve for impairment of advances given to suppliers for property, plant and equipment was as follows:

In thousands of Tenge	2018	2017
<b>As at 1 January</b>	<b>661,754</b>	<b>53,258</b>
Charge for the year (Note 29)	–	597,052
Used in write-off of advances	(10,696)	–
Foreign currency translation	93,760	11,444
<b>As at 31 December</b>	<b>744,818</b>	<b>661,754</b>

## 10. INVENTORIES

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

In thousands of Tenge	31 December 2018	31 December 2017
Spare parts	2,136,344	1,978,556
Fuel	1,012,002	905,183
Construction materials	549,851	541,497
Chemical reagents	383,129	90,817
Overalls	345,834	173,167
Goods	98,814	81,554
Other	604,524	297,944
<b>Total</b>	<b>5,130,498</b>	<b>4,068,718</b>

## 11. TRADE AND OTHER ACCOUNTS RECEIVABLE

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

In thousands of Tenge	31 December 2018	31 December 2017
Trade accounts receivable from third parties	7,163,458	6,243,094
Trade accounts receivable from related parties (Note 36)	2,420,294	3,551,029
Other accounts receivable from third parties	725,594	716,947
Other accounts receivable from related parties (Note 36)	19,761	509
	10,329,107	10,511,579
Less: allowance for expected credit losses	(4,701,509)	(3,444,446)
<b>Total</b>	<b>5,627,598</b>	<b>7,067,133</b>

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

In thousands of Tenge	2018	2017
<b>As at 1 January</b>	<b>3,444,446</b>	<b>2,378,382</b>
Changes in accounting policy (Note 4)	27,623	–
Charge for the year, net (Note 29)	774,844	1,024,013
Currency translation	454,596	42,051
<b>As at 31 December</b>	<b>4,701,509</b>	<b>3,444,446</b>

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

In thousands of Tenge	31 December 2018	31 December 2017
Tenge	4,935,286	6,196,038
US Dollar	673,886	413,088
Russian Ruble	1,905	1,717
Other currency	16,521	456,290
<b>Total</b>	<b>5,627,598</b>	<b>7,067,133</b>

11. TRADE AND OTHER ACCOUNTS RECEIVABLE (CONTINUED)

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

Trade and other accounts receivable					
Past due payments					
In thousands of Tenge	less than 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total
<b>As at 31 December 2018</b>					
Estimated total gross carrying amount at default	4,190,311	164,353	343,815	5,630,628	10,329,107
Expected credit losses	[81,477]	[45,948]	[69,582]	[4,504,502]	[4,701,509]

Trade and other accounts receivable					
Past due payments					
In thousands of Tenge	less than 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total
<b>As at 31 December 2017</b>					
Estimated total gross carrying amount at default	7,051,867	135,191	56,056	3,268,465	10,511,579
Expected credit losses	[94,245]	[78,106]	[3,630]	[3,268,465]	[3,444,446]

12. ADVANCES TO SUPPLIERS

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

In thousands of Tenge	31 December 2018	31 December 2017
Advances to third parties	519,721	301,599
Advances to related parties (Note 36)	225,799	204,462
	<b>745,520</b>	<b>506,061</b>
Less: impairment	[647]	[1,265]
<b>Total</b>	<b>744,873</b>	<b>504,796</b>

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

In thousands of Tenge	2018	2017
<b>As at 1 January</b>	<b>1,265</b>	<b>38</b>
(Reversal)/charge for the year (Note 29)	[618]	1,264
Used in write-off of advances	–	[37]
<b>As at 31 December</b>	<b>647</b>	<b>1,265</b>

13. VAT RECOVERABLE AND OTHER PREPAID TAXES

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

In thousands of Tenge	31 December 2018	31 December 2017
VAT recoverable	9,021,244	8,157,636
Other taxes prepaid	483,654	385,362
<b>Total</b>	<b>9,504,898</b>	<b>8,542,998</b>

14. OTHER CURRENT ASSETS

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

In thousands of Tenge	31 December 2018	31 December 2017
Due for oil transportation coordination services	7,653,717	5,678,717
Prepaid insurance	128,906	65,716
Deferred expenses from third parties	47,352	39,547
Due from employees	13,986	45,518
Deferred expenses from related parties (Note 36)	5	5
Other	39,188	26,919
<b>Total</b>	<b>7,883,154</b>	<b>5,856,422</b>



15. BANK DEPOSITS

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

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

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

In thousands of Tenge	2018	2017
<b>As at 1 January</b>	<b>–</b>	<b>–</b>
Changes in accounting policy (Note 4)	264	–
Charge for the year, net (Note 33)	27,198	–
<b>As at 31 December</b>	<b>27,462</b>	<b>–</b>

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

In thousands of Tenge	2018	2017
<b>As at 1 January</b>	<b>–</b>	<b>–</b>
Changes in accounting policy (Note 4)	31,251	–
Reversal for the year (Note 33)	(7,121)	–
<b>As at 31 December</b>	<b>24,130</b>	<b>–</b>

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

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

16. CASH AND CASH EQUIVALENTS

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

In thousands of Tenge	31 December 2018	31 December 2017
Time deposits with banks – Tenge	27,107,538	35,566,876
Current accounts with banks – Tenge	3,202,253	420,100
Current accounts with banks – US Dollar	2,468,302	4,635,546
Current accounts with banks – Lari	461,040	165,168
Current accounts with banks – Russian Ruble	31,447	16,926
Current accounts with banks – Euro	8,452	57,825
Other current accounts with banks	21,567	13,093
Cash in hand	1,146	777
Less: allowance for expected credit losses	(22,902)	(5,784)
<b>Total</b>	<b>33,278,843</b>	<b>40,870,527</b>

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

In thousands of Tenge	31 December 2018	31 December 2017
<b>As at 1 January</b>	<b>5,784</b>	<b>5,443</b>
Changes in accounting policy (Note 4)	1,334	–
Charge for the year, net (Note 33)	15,906	–
Foreign currency translation	(122)	341
<b>As at 31 December</b>	<b>22,902</b>	<b>5,784</b>

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

Interest for current accounts placed in US Dollars ranged from 0.25% to 4% per annum (as at 31 December 2017: from 0.25% to 4% per annum).

17. NON-CURRENT ASSETS HELD FOR SALE

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

Based on the supply and demand in the real estate market, in the current reporting period the management of the Group recognized impairment of the administrative-residential building in Pavlodar in the amount of 283,956 thousand Tenge (Note 31).

During 2018, the Group classified as non-current assets held for sale and subsequently sold the property of administrative building in Astana, including property, plant and equipment with the carrying value of 4,507,001 thousand Tenge (Note 6) and intangible assets with the carrying value of 18,549 thousand Tenge (Note 7). In addition, during the reporting period, the Group sold certain vehicles with the carrying value of 135,813 thousand Tenge, which were recognized as non-current assets held for sale as at 31 December 2017. Net income from the sale of the above assets amounted to 254,756 thousand (Note 30).

With that, the management of the Group decided to cancel the sale of certain assets in the amount of 22,498 thousand Tenge and transfer them back to property, plant and equipment to continue their use (Note 6).

18. INVESTMENTS IN BONDS

In December 2017, in accordance with the Decision of the Government of the Republic of Kazakhstan dated 7 November 2017, the Group purchased bonds of “Special Financial Company DSFK” LLP (hereinafter – “DSFK bonds”) using the funds placed with RBK Bank JSC. The nominal amount of the bonds was 5,019,520 thousand tenge, the number of bonds is 5,019,520 thousand units. DSFK bonds carry coupon interest of 0.01% per annum and mature in 15 years. The above mentioned bonds are secured by a financial guarantee of “Kazakhmys Corporation” LLP of 1,379,913thousand Tenge. The guarantee is exercisable upon request of the Group not earlier than the fifth anniversary after the inception of the bonds. As at 31 December 2017 the Company recognized impairment loss for non-guaranteed bonds in the amount of 3,639,607 thousand Tenge, as well as expenses for discounting of these long-term investments held to maturity in the amount of 630,951 thousand Tenge (Note 33).

In the current reporting period the issuer repurchased 43,457 thousand bonds at a price of 1 Tenge per 1 bond. The Group also revised the fair value of bonds based on the market interest rate of 12.7% and as a result, recognized income from revision of bond’s fair value in the amount of 122,932 thousand Tenge (Note 32). Thus, as at 31 December 2018, the book value of investment in bonds amounted to 828,437 thousand Tenge (as at 31 December 2017: 748,962 thousand Tenge).

19. EQUITY

SHARE CAPITAL

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

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

TREASURY SHARES REPURCHASED FROM SHAREHOLDERS

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

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 2018	31 December 2017
Revaluation reserve for property, plant and equipment of the Group	215,013,525	196,489,838
Share in the asset revaluation reserve of the joint ventures	28,575,452	29,905,757
Total	243,588,977	226,395,595

FOREIGN CURRENCY TRANSLATION RESERVE

As at 31 December 2018 foreign currency translation reserve was equal to 39,572,764 thousand Tenge (as at 31 December 2017: 33,068,230 thousand Tenge). Change in foreign currency translation reserve is due to the translation of the operations of the foreign subsidiaries as a result of changes in exchange rates (Note 4.2).

OTHER CAPITAL RESERVES

As at 31 December 2018 other capital reserves represent a loss amounted to 72,146 thousand Tenge (31 December 2017: 623,415 thousand Tenge). Change in given reserve is due to accrual of actuarial gain from Employee benefit obligations in the amount of 689,087 thousand Tenge, income tax effect of which amounted to 137,818 thousand Tenge (31 December 2017: actuarial gains in the amount of 278,400 thousand Tenge, income tax effect of which amounted to 55,680 thousand Tenge). Also in 2017 the Group wrote off deferred tax assets of 150,746 thousand Tenge, related to the change in estimates of long-term employee benefit obligations.

DIVIDENDS

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



19. EQUITY (CONTINUED)

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.

Since the Company, as the Parent of the Group, does not issue convertible financial instruments, basic earnings per share of the Group are equal to diluted earnings per share.

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

In thousands of Tenge	2018	2017
Net profit for the period attributable to ordinary equity holders of the Parent of the Group	38,484,983	50,117,856
Weighted average number of ordinary shares for the year for basic earnings per share	384,628,099	384,628,099
<b>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)</b>	<b>100</b>	<b>130</b>

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 2018	31 December 2017
Total assets	803,440,601	764,227,005
Less: intangible assets (Note 7)	(6,891,299)	(6,545,801)
Less: total liabilities	(178,024,402)	(164,535,958)
<b>Net assets for calculation of book value per ordinary share</b>	<b>618,524,900</b>	<b>593,145,246</b>
Number of ordinary shares	384,628,099	384,628,099
<b>Book value per ordinary share (in Tenge)</b>	<b>1,608</b>	<b>1,542</b>

20. EMPLOYEE BENEFIT OBLIGATIONS

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

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

In thousands of Tenge	31 December 2018	31 December 2017
Current portion of employee benefit obligations	663.463	600.175
Non-current portion of employee benefit obligations	12.940.911	12.740.751
<b>Total</b>	<b>13.604.374</b>	<b>13.340.926</b>

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

In thousands of Tenge	2018	2017
<b>Employee benefit obligations at the beginning of the year</b>	<b>13,340,926</b>	<b>12,538,017</b>
Interest cost (Note 33)	1,163,566	1,182,271
Current services cost (Notes 28, 29)	568,282	559,185
Actuarial (gain)/loss through profit and loss (Notes 30, 31)	(70,352)	39,943
Actuarial gain through other comprehensive income	(688,653)	(279,191)
Benefits paid	(709,395)	(699,299)
<b>Employee benefit obligations at the end of the year</b>	<b>13,604,374</b>	<b>13,340,926</b>

21. DEFERRED INCOME

As at 31 December 2018 deferred income mainly represents a guarantee of the Group in the amount of 8,423,897 thousand Tenge (as at 31 December 2017: 7,498,361 thousand Tenge), ensuring the provision of individual BSP assets for long term lease to a counterparty (“Batumi International Container Terminal” LLC).

The increase in the amount of these liabilities as at 31 December 2018 is due to increase in the exchange rates at the reporting date as well as amortization of liabilities for the period

22. TRADE AND OTHER ACCOUNTS PAYABLE

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

In thousands of Tenge	31 December 2018	31 December 2017
Accounts payable to third parties for goods and services	10,209,574	16,443,979
Accounts payable to related parties for goods and services (Note 36)	2,062,160	820,196
Other accounts payable to third parties	682,590	345,994
Other accounts payable to related parties (Note 36)	3,190	2,190
<b>Total</b>	<b>12,957,514</b>	<b>17,612,359</b>

Trade and other accounts payable included payables to related and third parties, related to property, plant and equipment and construction in progress in the amount of 4,655,943 thousand Tenge (as at 31 December 2017:

12,190,230 thousand Tenge). The decrease in trade and other accounts payable as at 31 December 2018 is associated with the repayment of debt on capital services and the acquisition of construction in progress and property, plant and equipment.

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

In thousands of Tenge	31 December 2018	31 December 2017
Tenge	12,207,766	16,658,063
US Dollar	244,584	358,700
Euro	34,206	24,370
Russian Ruble	3,770	14,574
Other currency	467,188	556,652
<b>Total</b>	<b>12,957,514</b>	<b>17,612,359</b>

23. ADVANCES RECEIVED

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

In thousands of Tenge	31 December 2018	31 December 2017
Advances received from related parties (Note 36)	13,198,088	10,919,781
Advances received from third parties	7,462,122	7,277,866
<b>Total</b>	<b>20,660,210</b>	<b>18,197,647</b>

24. OTHER TAXES PAYABLE

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

In thousands of Tenge	31 December 2018	31 December 2017
Personal income tax	3,773,442	3,304,942
Withholding tax at the source of payment to non-residents	1,146,069	1,063,456
Social tax	671,697	684,221
Property tax	118,004	217,714
VAT payable	12,092	8,075
Other taxes	335,570	287,025
<b>Total</b>	<b>6,056,874</b>	<b>5,565,433</b>

25. PROVISIONS

Movements in provisions for the years ended 31 December 2018 and 2017 are as follows:

SHORT-TERM PROVISIONS

In thousands of Tenge	Tax provisions (BOT)	Provision on compensating tariff (Company)	Other provisions	Total
<b>As at 31 December 2017</b>	<b>182,117</b>	<b>-</b>	<b>41,125</b>	<b>223,242</b>
Charge for the year	-	1,046,994	246,703	1,293,697
Transfers and reclassifications	-	-	72,114	72,114
Foreign currency translation	10,367	-	36,184	46,551
<b>As at 31 December 2018</b>	<b>192,484</b>	<b>1,046,994</b>	<b>396,126</b>	<b>1,635,604</b>
<b>As at 31 December 2016</b>	<b>166,978</b>	<b>-</b>	<b>41,125</b>	<b>208,103</b>
Foreign currency translation	15,139	-	-	15,139
<b>As at 31 December 2017</b>	<b>182,117</b>	<b>-</b>	<b>41,125</b>	<b>223,242</b>

In accordance with the order of the CRNMPCandCR and the subsequent decision of the judicial authorities, the Group accrued a provision on the compensating tariff in the amount of 1,046,994 thousand Tenge as at 31 December 2018, as there is a high probability of outflow of financial resources of the Group.

Also, the Group recognized other provisions in the amount of 246,703 thousand Tenge (Note 31), including the provision of PTL in the amount of 679 thousand US Dollars (equivalent to 234,282 thousand Tenge) to compensate the losses incurred by customers for deterioration of the quality of the transported gas and vacuum gas oil/



25. PROVISIONS (CONTINUED)

LONG-TERM PROVISIONS

Asset retirement and land recultivation obligation

As at 31 December 2018 and 2017, the Company revised the long-term provisions considering current best estimate. Assumptions used and the sensitivity to changes in the discount rate are reflected in Note 5.

In thousands of Tenge	2018	2017
As at 1 January	15,347,322	15,022,086
Charge for the year through asset (Note 6)	106,229	265,812
Revision of estimates through other comprehensive loss	3,102,220	30,162
Revision of estimates through profit and loss (Notes 30 and 31)	1,162,914	(1,239,714)
Unwinding of discount on asset retirement and land recultivation obligation (Note 33)	1,390,712	1,268,976
As at 31 December	21,109,397	15,347,322

26. OTHER CURRENT LIABILITIES

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

In thousands of Tenge	31 December 2018	31 December 2017
Salaries and other compensations	10,279,349	10,053,682
Accounts payable for oil transportation coordination services to related parties (Note 36)	8,437,279	6,589,984
Accounts payable for oil transportation coordination services to third parties	4,319,474	4,118,923
Accounts payable to pension fund	817,336	741,564
Current portion of deferred income from third parties	579,231	540,164
Other accruals	400,595	463,809
Total	24,833,264	22,508,126

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

27. REVENUE

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

In thousands of Tenge	Oil transportation and related ser- vices	Oil transship- ment	Water transportation	Others	Total segments 2018	Total seg- ments 2017
Crude oil transportation	189,600,250	–	–	–	189,600,250	184,818,487
Pipeline operation and maintenance services	13,233,048	–	–	–	13,233,048	10,598,775
Water transportation	–	–	7,536,197	–	7,536,197	7,046,075
Seaport services	–	–	–	5,453,702	5,453,702	4,677,944
Fees for undelivered oil volumes	4,852,920	–	–	–	4,852,920	5,198,277
Oil transshipment and railway shipment	–	3,001,848	–	–	3,001,848	8,200,586
Oil transportation coordination services	691,347	–	–	–	691,347	697,652
Oil storage services	77,375	–	–	–	77,375	100,327
Other	110,286	–	354	842,243	952,883	1,111,831
Total	208,565,226	3,001,848	7,536,551	6,295,945	225,399,570	222,449,954
Geographic regions						
Kazakhstan	208,565,226	–	7,536,551	–	216,101,777	–
Georgia	–	3,001,848	–	6,295,945	9,297,793	–
Total revenue under contracts with customers	208,565,226	3,001,848	7,536,551	6,295,945	225,399,570	–
Timing of revenue recognition						
At a point in time	195,332,178	3,001,848	7,536,551	6,295,945	212,166,522	–
Over time	13,233,048	–	–	–	13,233,048	–
Total revenue under contracts with customers	208,565,226	3,001,848	7,536,551	6,295,945	225,399,570	–

The decrease of revenue from the oil transshipment and railway shipment is associated with decrease in the volume of oil products and gas transported through the Georgian railway from 935 thousand tons in 2017 to 37 thousand tons in 2018.

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

28. COST OF SALES

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

In thousands of Tenge	2018	2017
Personnel costs	50,899,811	51,365,261
Depreciation and amortization	50,759,001	47,706,105
Taxes other than income tax	8,387,637	7,378,580
Materials and fuel	8,177,241	8,044,338
Electric energy	7,349,797	7,376,113
Repair and maintenance	6,862,945	5,639,398
Security services	4,972,112	4,261,973
Gas expense	2,950,498	3,600,450
Food and accomodation	1,786,131	549,634
Transportation services	1,548,268	285,740
Air services	1,057,842	1,186,286
Environmental protection	1,039,222	473,677
Business trip expenses	982,420	910,133
Insurance	653,375	637,977
Post-employment benefits (Note 20)	530,504	528,274
Outstaffing services	443,259	396,876
Obligatory social medical insurance	428,535	154,997
Diagnostics of production assets	368,319	377,305
Operational rent expenses	333,818	189,483
Railway services	312,951	2,740,376
Communication services	258,195	257,442
Other	2,291,805	2,538,113
<b>Total</b>	<b>152,393,686</b>	<b>146,598,531</b>

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

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

The reduction in the cost of railway services is mainly due to decrease in the volume of oil, oil products and gas transportation in Georgia (Note 27).

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

29. GENERAL AND ADMINISTRATIVE EXPENSES

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

In thousands of Tenge	2018	2017
Personnel costs	8,802,714	8,698,946
Depreciation and amortization	1,650,549	1,259,817
Charge of provision on compensating tariff (Note 25)	1,046,994	–
Charge of allowance for expected credit losses, net (Note 11)	774,844	1,024,013
Office maintenance	581,342	497,469
Repair and maintenance	417,832	285,544
Consulting services	355,333	516,403
Write-off of VAT recoverable	346,556	91,939
Social sphere expenses	333,814	303,460
Business trip expenses	325,718	290,252
Taxes other than income tax	287,536	351,289
Outstaffing services	216,548	500,323
Training	170,072	138,557
Transportation services	162,313	123,866
Information services	140,445	108,617
Communication services	139,128	99,910
Materials and fuel	101,783	122,954
Advertising expenses	82,425	71,195
Bank costs	77,741	107,687
Insurance and security	75,547	130,663
Operational rent expenses	61,233	31,584
Post-employment benefits (Note 20)	37,778	30,911
Charity expenses	33,814	46,956
Obligatory social medical insurance	33,679	9,432
Charge of provision for obsolete inventories, net	11,562	28,552
(Reversal)/charge of reserve for impairment of advances to suppliers (Notes 9 and 12)	[618]	598,316
Other	604,339	552,268
<b>Total</b>	<b>16,871,021</b>	<b>16,020,923</b>



30. OTHER OPERATING INCOME

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

In thousands of Tenge	2018	2017
Income from disposal of inventories	304,331	105,876
Income from fines and penalties	266,145	682,829
Gain on disposal of non-current assets held for sale, net (Note 17)	254,756	–
Actuarial gain (Note 20)	70,352	–
Revision of estimates on provision on asset retirement and land recultivation obligation (Note 25)	–	1,239,714
Cost recovery from temporary structures	–	217,054
Other income	217,256	201,489
<b>Total</b>	<b>1,112,840</b>	<b>2,446,962</b>

31. OTHER OPERATING EXPENSES

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

In thousands of Tenge	2018	2017
Net loss on disposal of property, plant and equipment and intangible assets	1,228,319	741,248
Revision of estimates on provision on asset retirement and land recultivation obligation (Note 25)	1,162,914	–
Impairment of non-current assets held for sale (Note 17)	283,956	–
Charge of other current provisions (Note 25)	246,703	–
Expenses for liquidation of idle production facilities	106,084	56,275
Actuarial loss (Note 20)	–	39,943
Other expenses	122,587	125,396
<b>Total</b>	<b>3,150,563</b>	<b>962,862</b>

32. FINANCE INCOME

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

In thousands of Tenge	2018	2017
Interest income on bank deposits and current accounts	2,671,783	4,918,019
Income from revision of bond’s fair value (Note 18)	122,932	–
Other finance income	25,309	19,536
<b>Total</b>	<b>2,820,024</b>	<b>4,937,555</b>

33. FINANCE COSTS

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

In thousands of Tenge	2018	2017
Unwinding of discount on asset retirement and land recultivation obligation (Note 25)	1,390,712	1,268,976
Interest cost on employee benefit obligations (Note 20)	1,163,566	1,182,271
Charge of allowance for expected credit losses of cash and cash equivalents, bank deposits, net (Notes 15 and 16)	35,983	–
Discount of investments in bonds (Note18)	–	630,951
<b>Total</b>	<b>2,590,261</b>	<b>3,082,198</b>

34. INCOME TAX EXPENSE

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

In thousands of Tenge	2018	2017
Current income tax expense	19,417,881	17,080,223
Changes in estimates of current income tax of the prior periods	1,034,264	[294,732]
Deferred income tax benefits	[6,740,724]	[961,161]
<b>Income tax expense</b>	<b>13,711,421</b>	<b>15,824,330</b>

34. INCOME TAX EXPENSE (CONTINUED)

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

In thousands of Tenge	2018	2017
<b>Profit before income tax</b>	<b>52,196,404</b>	<b>65,942,186</b>
Statutory rate	20%	20%
<b>Income tax expense on accounting profit</b>	<b>10,439,281</b>	<b>13,188,437</b>
Changes in estimates of current income tax of the prior periods	1,034,264	(294,732)
Decrease due to revision of estimates on taxable temporary differences related to property, plant and equipment	(1,065,393)	–
Profit and intolerable losses of foreign operations	988,954	770,545
Gain on surplus of technological oil	788,242	433,589
Provision on compensating tariff	209,399	–
Impairment of non-depreciable property, plant and equipment	93,462	1,029,766
Write-off of deferred tax assets on long-term employee benefit obligations	44,213	1,166,108
Impairment of investments in bonds	–	727,921
Other non-deductible expenses	614,476	222.990
<b>Tax effect of other adjustments</b>	<b>564,523</b>	<b>(1,420,294)</b>
Loss/(profit) of joint ventures recognized based on equity method	13,711,421	15,824,330
<b>Corporate income tax expense reported in the consolidated statement of comprehensive income</b>	<b>13.711.421</b>	<b>15.824.330</b>

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 2018	Charged to profit and loss	Charged to other comp-re-hensive income	31 Decem-ber 2017	Charged to profit and loss	Charged to other comp-re-hensive income	1 January 2017
<b>Deferred tax assets</b>							
Employee benefits and other employee compensation and related costs	1,953,562	154,354	(137,731)	1,936,939	(850,797)	(206,584)	2,994,320
Reserve for impairment of advances to suppliers	10,781	(124)	–	10,905	245	–	10,660
Provision for obsolete and slow-moving inventories	3,353	(170)	–	3,523	(26)	–	3,549
Provision for assets retirement and land reclamation obligation	4,221,881	531,971	620,445	3,069,465	59,015	6,033	3,004,417
Provision for environmental protection and other provisions	8,225	–	–	8,225	–	–	8,225
Taxes payable	125,916	(21,437)	–	147,353	32,555	–	114,798
Fair value change and discounting of investments in bonds	101,604	(24,586)	–	126,190	126,190	–	–
Transfer of losses for subsequent periods	694,956	694,956	–	–	–	–	–
Unrealized income from intragroup transactions	401,821	401,821	–	–	–	–	–
Expected credit losses	180,578	60,572	–	120,006	(8,715)	–	128,721
	<b>7,702,677</b>	<b>1,797,357</b>	<b>482,714</b>	<b>5,422,606</b>	<b>(641,533)</b>	<b>(200,551)</b>	<b>6,264,690</b>
<b>Deferred tax liabilities</b>							
Property, plant and equipment	(75,097,019)	4,943,367	(11,494,525)	(68,545,861)	1,602,694	(3,027,352)	(67,121,203)
	<b>(75,097,019)</b>	<b>4,943,367</b>	<b>(11,494,525)</b>	<b>(68,545,861)</b>	<b>1,602,694</b>	<b>(3,027,352)</b>	<b>(67,121,203)</b>
<b>Net deferred income tax liabilities</b>	<b>(67,394,342)</b>	<b>6,740,724</b>	<b>(11,011,811)</b>	<b>(63,123,255)</b>	<b>961,161</b>	<b>(3,227,903)</b>	<b>(60,856,513)</b>

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.



35. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on its services and has four reportable segments, as follows:

- Oil transportation and related services,
- Oil transshipment;
- Water transportation;
- Other segments.

In relation to the formation at the end of 2017 of the subsidiary of “Main Waterline” LLP, the Group as at 31 December 2018 has allocated a separate segment “Water transportation”. Earlier this segment was aggregated in the segment “Oil transportation and related services”.

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 terminals, 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: 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 rendered by PTL, represent transshipment of oil and oil-products services through railway from Azerbaijanian-Georgian border to oil terminal in Batumi. This type of activity is directly related to oil transshipment, and therefore is not shown as a separate segment.

In thousands of Tenge	For the year ended 31 December 2018					For the year ended 31 December 2017				
	Oil transpor- tation and related services (Kazakhstan)	Oil trans-ship- ment (Geor- gia)	Water transpor- tation (Ka- zakhstan)	Other	Total segments	Oil trans-porta- tion and related services (Kazakhstan)	Oil trans-ship- ment (Geor- gia)	Water trans-por- tation (Ka- zakhstan)	Other	Total segments
<b>Revenue</b>										
External customers	208,565,226	3,001,848	7,536,551	6,295,945	225,399,570	201,560,804	8,200,586	7,046,075	5,642,489	222,449,954
<b>Total revenue</b>	<b>208,565,226</b>	<b>3,001,848</b>	<b>7,536,551</b>	<b>6,295,945</b>	<b>225,399,570</b>	<b>201,560,804</b>	<b>8,200,586</b>	<b>7,046,075</b>	<b>5,642,489</b>	<b>222,449,954</b>
<b>Financial results</b>										
Impairment of property, plant and equipment intangible assets through profit and loss	(292,293)	(2,239,655)	–	(117,313)	(2,649,261)	(37,682)	–	–	–	(37,682)
Depreciation and amortization	(46,235,224)	(1,873,222)	(3,219,403)	(1,081,701)	(52,409,550)	(43,114,292)	(2,015,827)	(2,861,802)	(974,001)	(48,965,922)
Interest income	2,468,573	4,831	136,962	61,417	2,671,783	4,862,911	55,108	–	–	4,918,019
Share in( loss)/income of joint ventures	(2,075,937)	–	–	–	(2,075,937)	7,101,470	–	–	–	7,101,470
Income tax (expense)/benefit	(13,680,920)	–	129,974	(160,475)	(13,711,421)	(15,793,678)	(15,978)	–	(14,674)	(15,824,330)
<b>Segment profit/(loss) for the period</b>	<b>45,662,399</b>	<b>(6,234,183)</b>	<b>(2,648,387)</b>	<b>1,705,154</b>	<b>38,484,983</b>	<b>55,072,740</b>	<b>(3,302,861)</b>	<b>(2,332,226)</b>	<b>680,203</b>	<b>50,117,856</b>
<b>Other disclosures</b>										
Total assets	706,250,834	51,206,176	28,932,026	17,051,565	803,440,601	669,637,249	52,756,058	24,285,345	17,548,353	764,227,005
Total liabilities	159,223,487	6,973,998	749,277	11,077,640	178,024,402	147,563,341	13,190,178	1,307,910	2,474,529	164,535,958
Investments in joint ventures (Note 8)	30,001,323	–	–	–	30,001,323	31,736,986	–	–	–	31,736,986
Capital expenditures	50,380,291	75,563	182,410	395,416	51,033,680	51,351,798	1,167,692	–	–	52,519,490

36. RELATED PARTY TRANSACTIONS

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related party transactions were made on terms agreed to between the parties that may not necessarily be at market rates, except for certain

regulated services, which are provided based on the tariffs available to related and third parties.

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

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

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

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

In thousands of Tenge	Notes	31 December 2018	31 December 2017
<b>Trade and other accounts receivable from related parties</b>			
Trade accounts receivable from joint ventures		994,993	2,495,886
Trade accounts receivable from entities under common control of Samruk-Kazyna Group		817,719	3,442
Trade accounts receivable from entities under common control of KMG		607,582	1,051,701
<b>Total trade accounts receivable from related parties</b>	<b>11</b>	<b>2,420,294</b>	<b>3,551,029</b>
Other accounts receivables from entities under common control of KMG and Samruk-Kazyna Group			
		19,761	509
<b>Total other accounts receivable from related parties</b>	<b>11</b>	<b>19,761</b>	<b>509</b>
Less: allowance for expected credit losses			
		(7,295)	–
<b>Total</b>		<b>2,432,760</b>	<b>3,551,538</b>

Advances provided to related parties are as follows:

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

Deferred expenses from related parties are as follows:

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

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

In thousands of Tenge	Notes	31 December 2018	31 December 2017
<b>Trade accounts payables to related parties for goods and services</b>			
Trade accounts payables to entities under common control of Samruk Kazyna Group		1,334,743	232,361
Trade accounts payables to entities under common control of KMG		720,259	585,503
Trade accounts payable to joint ventures		7,158	2,332
<b>Total trade accounts payable to related parties for goods and services</b>	<b>22</b>	<b>2,062,160</b>	<b>820,196</b>
Other payables to entities under common control of Samruk Kazyna Group			
		2,493	2,190
Other payables to entities under common control of KMG		697	–
<b>Total other accounts payable to related parties for goods and services</b>	<b>22</b>	<b>3,190</b>	<b>2,190</b>
<b>Total trade and other accounts payable to related parties for goods and services</b>		<b>2,065,350</b>	<b>822,386</b>



36. RELATED PARTY TRANSACTIONS (CONTINUED)

Advances received from related parties are as follows:

In thousands of Tenge	Notes	31 December 2018	31 December 2017
<b>Advances received from related parties</b>			
Advances from entities under common control of KMG		12,869,915	10,560,712
Advances from entities under common control of Samruk Kazyna Group		328,173	359,068
Advances from joint ventures		–	1
<b>Total advances received from related parties</b>	<b>23</b>	<b>13,198,088</b>	<b>10,919,781</b>

Other current liabilities to related parties are as follows:

In thousands of Tenge	Notes	31 December 2018	31 December 2017
<b>Accounts payable for oil transportation coordination services to related parties</b>			
Accounts payable for oil transportation coordination services to entities under common control of KMG		8,437,279	6,589,984
<b>Total of accounts payable for oil transportation coordination services to related parties</b>	<b>26</b>	<b>8,437,279</b>	<b>6,589,984</b>
<b>Employee benefits obligation of key management personnel</b>			
Employee benefits obligation of key management personnel		55,559	44,502
<b>Total employee benefits obligation of key management personnel</b>		<b>55,559</b>	<b>44,502</b>
<b>Total other current liabilities to related parties</b>		<b>8,492,838</b>	<b>6,634,486</b>

The following tables provide the total amount of transactions, which have been entered into with related parties during the year ended 31 December:

In thousands of Tenge	For the year ended 31 December	
	2018	2017
<b>Sales to related parties</b>		
Revenue from main activities with entities under common control of KMG	120,997,267	117,469,386
Revenue from main activities with joint ventures	9,284,834	9,121,018
Revenue from main activities with entities under common control of Samruk Kazyna Group	5,739,205	3,731,719
Income from sale of non-current assets held for sale to KMG	372,976	–
Income from other activities with entities under common control of Samruk Kazyna Group	57,756	16,138
Income from other activities with entities under common control of KMG	39,576	84,391
Income from other activities with joint ventures	1,238	–
<b>Total</b>	<b>136,492,852</b>	<b>130,422,652</b>

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:

In thousands of Tenge	For the year ended 31 December	
	2018	2017
<b>Purchases from related parties</b>		
Purchases of property, plant and equipment from entities under common control of Samruk-Kazyna Group	17,627,906	1,057,305
Purchases of services from entities under common control of KMG	5,744,501	7,387,038
Purchases of services from entities under common control of Samruk Kazyna Group	2,934,371	2,992,827
Purchases of inventory from entities under common control of KMG	1,429,260	1,071,536
Purchases of property, plant and equipment from entities under common control of KMG	199,669	747,248
Purchases of services from joint ventures	34,645	7,506
Purchases of inventory from entities under common control of Samruk Kazyna Group	165	3,359
<b>Total</b>	<b>27,970,517</b>	<b>13,266,819</b>

36. RELATED PARTY  
TRANSACTIONS (CONTINUED)

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

Cash flows to related to the payment of dividends are as follows:

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

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

37. 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 80% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years proceeding the year of review. Under certain circumstances reviews may cover longer periods.

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

As at 31 December 2018 the Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the 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 transfer pricing law is not explicit and there is little precedence with some of its provisions. Moreover, the law is not supported by detailed guidance. As a result, application of transfer pricing control to various types of transactions is not clearly regulated.

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

As at 31 December 2018 the Management believes that its interpretation of the transfer pricing legislation is appropriate and that it is probable that the 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.

BOT has significant transactions with off-shore subsidiary of the Company (PTL). 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 2,723 thousand US Dollars (equivalent to 1,046,177 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 1,786 thousand US Dollars (equivalent to 686,181 thousand Tenge). BSP filed another appeal to the Board of Dispute Resolution of the Georgia Revenue Service.

Also in 2018, the GTA carried out a tax audit of BOT for the period from 2015 to the first half of 2018, the results of which accrued taxes and fines in the amount of 1,856 thousand US Dollars (equivalent to 713,075 thousand Tenge). Management of the BOT believes that additional charges of taxes and fines are controversial and sent a complaint to the Ministry of Finance of Georgia.

The management of the BOT, 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 858 thousand

US Dollars (equivalent to 329,644 thousand Tenge). The remaining amount of 928 thousand US Dollars (equivalent to 356,538 thousand Tenge) for BSP for the period of inspection of 2010-2014 and 1,856 thousand US Dollars (equivalent to 713,075 thousand Tenge) for BOT for the period of inspection from 2015 to the first half of 2018 is not recognized as additional obligations, since management believes that the BSP’s appeal and BOT’s complaint will be successful and assess the likelihood of outflow of financial resources in this part unlikely.

As at 31 December 2018 the decision of the department of the Georgian Revenue Service was not revised.

ENVIRONMENTAL OBLIGATIONS

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Potential liabilities which may arise as a result of changes in legislation cannot be reasonably estimated. Under existing legislation management believes that there are no probable or possible liabilities which could have a material adverse effect on the Group’s financial position or results of operations except for those described in the present consolidated financial statements (Notes 5, 25).

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 TO ACQUIRE PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2018 the Group had contractual obligations to acquire property, plant and equipment, and construction services for the amount of 38,927,686 thousand Tenge (31 December 2017: 18,507,367 thousand Tenge).

These contractual commitments are part of the investment program.

Share of the Company as at 31 December 2018 in contractual obligations of joint ventures to acquire property, plant and equipment, and construction services amounted to 3,707,759 thousand Tenge (31 December 2017: 123,176 thousand Tenge).



37. CONTINGENT LIABILITIES  
AND COMMITMENTS (CONTINUED)

INVESTMENT PROGRAM COMMITMENTS

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

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

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

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

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. 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 2,038 thousand US Dollars (equivalent to 783,000 thousand Tenge) and, additionally from 1 December 2016 until the execution of the court decision, a monthly amount of 280 thousand US Dollars (equivalent to107,576 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.

Due to the fact that the market value of the arrested property exceeded the plaintiff’s monetary claim (as at 31 December 2017, the carrying value of the arrested property was 50.1 million US Dollars, equivalent to 16,650 million Tenge), based on the petition of the BOT and the subsequent court decision, at the end of 2018, the arrested land plot was replaced with another land plot. As a result, the total book value of all arrested property as at 31 December 2018 was 5.85 million US Dollars (equivalent to 2,152 million Tenge).

As at 31 December 2018 the Group did not recognize any additional obligations due to the opinion of BOT management, the plaintiff’s claims against BOT are not supported.

On 12 February 2019, the City Court of Tbilisi made a decision in favor of the plaintiff, BOT intends to appeal the court decision in the next instance.

*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 2018, the actual volumes of transshipment through BSP amounted to 5.6 million tons (as at 31 December 2017: 5.9 million tons). According to the Agreement, based on factual volumes in 2018, the Group accrued penalties under the contract in the amount of 36 thousand US Dollars (equivalent to 12,421 thousand Tenge).

38. 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). Management of the Group reviews credit ratings of these banks periodically to eliminate extraordinary credit risk exposure. In accordance with IFRS 9, the Group accruals allowances for expected credit losses in respect of funds with credit institutions.

The table below shows the balances of bank deposits and cash and cash equivalents at the 31 December 2018 and 2017 using the “Moody’s”, “Fitch” and “Standard & Poor’s” credit ratings.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Bank	Location	Rating		31 December 2017	31 December 2017
		31 December 2018	31 December 2017		
“Halyk Bank of Kazakhstan” JSC	Kazakhstan	BB/Positive	Ba1/Stable	60,758,933	68,314,402
Halyk Bank of Georgia	Georgia	BB-	BB-/B	380,742	49,517
Hellenic Bank	Cyprus	Caa1	B-	249,730	4,641,986
Bank of Georgia	Georgia	Ba3/Ba2	BB-/B	42,646	56,828
TBC Bank	Georgia	Ba3/Ba2	BB-/B	38,036	101,028
“Sberbank” SB JSC	Russia	Baa3	BBB-	9,338	724
“ForteBank” JSC	Kazakhstan	B/Stable	B3/Positive	384	5
“Sberbank Russia” SB JSC	Kazakhstan	BB+/Positive	BB+/Positive	167	12
GazBank JSC CB	Russia	–	B3/Stable	–	10,418
“Altyn Bank” JSC	Kazakhstan	BBB-/Stable	Ba2/Stable	–	25
“Tsesna Bank” JSC	Kazakhstan	B-	B/Stable	–	9
“KazKommertzBank” JSC	Kazakhstan	–	Ba2/Stable	–	8
Total				61,479,976	73,174,962

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 2018 and 2017 based on contractual undiscounted payments.

In thousands of Tenge	On demand	More than 1 year	1 to 2 years	2 to 5 years	Less than 5 years	Total
As at 31 December 2018						
Trade and other payables	–	12,884,530	67,552	820	4,612	12,957,514
Total	–	12,884,530	67,552	820	4,612	12,957,514
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

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 2018					
Assets	28,582,197	37,829	8,452	517,518	29,145,996
Liabilities	931,277	65,608	35,359	647,378	1,679,622
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

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.

In thousands of Tenge	Increase/ decrease in exchange rate	Effect on profit before tax
2018		
US Dollar	+14.00% -10.00%	3,871,129 (2,765,092)
Russian Ruble	+14.00% -9.00%	(3,889) 2,500
Euro	+14.00% -10.00%	(3,767) 2,691
2017		
US Dollar	+10.00% -10.00%	2,213,380 (2,213,380)
Russian Ruble	+16.00% -16.00%	(11,479) 11,479
Euro	+13.50% -9.50%	(1,630) 1,147

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 2018 and 2017.

As at 31 December 2018 and 2017 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.

39. SUBSEQUENT EVENTS

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



## APPENDIX 7. LIST OF ABBREVIATIONS

<b>APCMSS</b>	Automated process control and metrology support system
<b>BD</b>	Budget documentation
<b>BOT</b>	Batumi Oil Terminal LLC
<b>BPTS&amp;M</b>	Base of production-technical services and marketing
<b>BSI</b>	British Standards Institution
<b>CCTV</b>	Closed circuit television
<b>Company</b>	KazTransOil JSC
<b>CPC</b>	Caspian Pipeline Consortium
<b>CPC-K JSC</b>	Caspian Pipeline Consortium-K Joint Stock Company
<b>CRMS</b>	Corporate risk management system
<b>CRNMPCandCR</b>	Committee on Regulation of Natural Monopolies, Protection of Competition and Consumer rights
<b>EBITDA</b>	Earnings before interest, taxes, depreciation, and amortization
<b>EVA</b>	Economic value added
<b>FS</b>	Feasibility study
<b>GHG</b>	Greenhouse gas
<b>GRI Standards</b>	GRI (Global Reporting Initiative) sustainable reporting standards
<b>HR</b>	Human resources
<b>HSE Committee</b>	Health, safety, and environment committee
<b>IAOT</b>	International Association of Oil Transporters
<b>ICS</b>	Internal control system
<b>IFRS</b>	International financial reporting standards
<b>IMS</b>	Integrated management system
<b>IPO</b>	Initial public offering
<b>ISMS</b>	Information security management system
<b>IT</b>	Information technologies
<b>KASE</b>	Kazakhstan Stock Exchange
<b>KCP LLP</b>	Kazakhstan – China Pipeline LLP
<b>KPIs</b>	Key performance indicators
<b>KPO</b>	Karachaganak Petroleum Operating
<b>LOCS</b>	Linear operations control system
<b>LTIR</b>	Lost time injury rate

<b>LTIFR</b>	Lost time injury frequency rate
<b>MBA</b>	Master of Business Administration
<b>MDO</b>	Main Dispatch Office
<b>MICC</b>	Main Information and Computing Center
<b>NC KazMunayGas JSC</b>	National Company KazMunayGas Joint-Stock Company
<b>NC Transport of Oil and Gas CJSC</b>	National Oil and Gas Transportation Company Closed Joint-Stock Company
<b>NOTC KazTransOil CJSC</b>	National Oil Transportation Company KazTransOil Closed Joint-Stock Company
<b>MunaiTas NWPC JSC</b>	North-West Pipeline Company MunaiTas Joint-Stock Company
<b>OHS</b>	Oil heating station
<b>OPS</b>	Oil pumping station
<b>OQCS</b>	Oil quality control system
<b>PKOP</b>	PetroKazakhstan Oil Products LLP
<b>POPS</b>	Principal oil pumping station
<b>POCR</b>	Pavlodar Oil Chemistry Refinery LLP
<b>ROA</b>	Return on assets (net profit/average annual amount of assets)
<b>ROE</b>	Return on equity (net profit/average annual amount of equity)
<b>R&amp;D</b>	Research and development
<b>SGS</b>	Société Générale de Surveillance
<b>SSD</b>	Separate structural divisions
<b>STC</b>	Scientific Technical Center
<b>Report</b>	Integrated annual report of KazTransOil JSC for 2017
<b>Samruk-Kazyna JSC</b>	Samruk Sovereign Wealth Fund Samruk-Kazyna JSC
<b>SDG</b>	Sustainable development goals
<b>SJCE</b>	Subsidiaries and jointly controlled entities
<b>TESF</b>	Technical-engineering safety features
<b>TOE</b>	Ton of oil equivalent
<b>TON-2</b>	Tymazy-Omsk-Novosibirsk-2 Main Oil Pipeline
<b>UN</b>	United Nations
<b>UWS</b>	Unified wage system
<b>VAT</b>	Value-added tax
<b>WPS</b>	Water pumping station

# QUESTIONNAIRE FOR THE REPORT READER

Full name.....

Position/type of activity .....

Organization .....

Feedback contacts:

E-mail ..... telephone .....

SELECT FROM THE OPTIONS YOUR POSITION IN RESPECT OF KAZTRANSOIL JSC:

- ☐ Shareholder
- ☐ Representative of a financial institution
- ☐ Representative of the public and the media
- ☐ Representative of the state authorities
- ☐ Representative of a subsidiary or jointly controlled entity
- ☐ Employee
- ☐ Clients and partners
- ☐ Supplier
- ☐ Other .....

DID THE REPORT ANSWER THE QUESTIONS OF INTEREST TO YOU?

- ☐ Yes, fully
- ☐ Yes, partially
- ☐ Not at all

	Excellent	Good	Satisfactory	Poor
Relevance and materiality of information	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Completeness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Structure	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Design	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Clarity of information	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Level of trust in the presented information	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

WHAT INFORMATION WOULD YOU LIKE TO SEE INCLUDED IN THE KAZTRANSOIL JSC REPORT?

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WHAT RECOMMENDATIONS/PROPOSALS DO YOU HAVE FOR FUTURE KAZTRANSOIL JSC REPORTS?

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