KazTransGas JSC

Consolidated financial statements

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

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Independent auditor's report

To the Shareholder and Management of KazTransGas JSC

Opinion

We have audited the consolidated financial statements of KazTransGas JSC and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

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

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Key audit matter	How our audit addressed the key audit matter
Recoverability of investments in Beineu-Shymkent Gas Pipeline LLP	
As at 31 December 2017, the Group has investments in Beineu-Shymkent Gas Pipeline LLP, joint venture of the Group, significant loans issued to this joint venture and guarantees issued to third parties on behalf of this joint venture. The assessments of recoverability of this investment, collectability of the loans and carrying value of the financial guarantee obligation are complex, largely subjective and based on assumptions, in particular, on forecasted ability of the borrower to pay. Therefore, this matter was one of the most significance in our audit. Information associated with the investments in, loans to Beineu-Shymkent Gas Pipeline LLP and guarantees issued is disclosed in *Notes* 6, 8 and 28 to the consolidated financial statements.	We obtained understanding of the process of the estimation of recoverability of investments in Beineu-Shymkent Gas Pipeline LLP and loans issued to it. We analyzed information used by the Group, including the financial statements and long-term business model of Beineu-Shymkent Gas Pipeline LLP. We assessed major assumptions and checked mathematical accuracy of the model. We considered the consistency of Beineu-Shymkent Gas Pipeline LLP's business model with expected demand for gas transportation services based on known sales contracts of the Group. We analysed assumptions used in valuation of financial guarantees and compared them with available market information.
Gas pipeline abandonment and site restoration provision	
We considered this matter to be one of the most significance in our audit because the calculation of gas pipeline abandonment and site restoration provision requires significant judgment due to the inherent complexity in estimating future costs and due to the significance of this liability. The Group's estimation of gas pipeline abandonment and site restoration provision incorporates the effects of expected approach to decommissioning and discount rates, effects of changes in local regulations along with the effects of changes in inflation. Information associated with abandonment and site restoration is disclosed in *Notes* 2 and 18 to the consolidated financial statements.	Our audit procedures involved obtaining understanding of legal and constructive obligations with respect to the decommissioning process based on the contractual arrangements, relevant local regulation and existing business practice. We considered the competence and objectivity of the experts involved by the Group. We tested the calculations and evaluated the discount rate and inflation rate used.

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Other information included in the Group's 2017 Annual Report

Other information consists of the information included in the Group's 2017 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2017 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and the 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 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 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.

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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 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.

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We also provide 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 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 Paul Cohn.

Ernst & Young LLP

Paul Cohn
Audit Partner

Aigerim Nurkenova
Auditor

Auditor qualification certificate
No.МФ-0000115 dated 21 September 2012

Gulmira Turmagambetova
General Director
Ernst and Young LLP

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

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20 February 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

In thousands of tenge	Notes	2017	2016
Assets			
Non-current assets			
Property, plant and equipment	4	**873,582,370**	763,666,710
Exploration and evaluation assets	5	**12,051,402**	12,811,916
Intangible assets		**4,747,183**	3,018,539
Investments in joint ventures	6	**5,185,395**	1,065,363
Advances paid for non-current assets	7	**2,928,599**	26,248,798
Loans to related party	8	**135,190,963**	–
Non-current financial assets	14	**2,078,177**	–
VAT recoverable	9	**48,321,910**	27,688,098
Deferred tax assets	27	**3,527,073**	869,416
Other non-current assets		**265,735**	623,852
Bank deposits	10	**5,404,411**	5,349,163
		1,093,283,218	841,341,855
Current assets			
Inventories	12	**17,539,716**	26,153,969
Trade and other receivables	13	**160,610,202**	140,154,435
Loans to related party	8	**72,366,122**	70,594,716
Advances paid	7	**4,843,166**	29,975,432
Prepaid taxes other than income tax	9	**7,846,304**	5,934,679
Corporate income tax prepaid		**16,731,818**	7,428,521
Bank deposits	10	**148,116**	32,060,777
Cash and cash equivalents	11	**23,974,879**	61,988,460
		304,060,323	374,290,989
Total assets		**1,397,343,541**	1,215,632,844

The accompanying notes on pages 6 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of tenge	Notes	2017	2016
Equity and liabilities			
Equity			
Share capital	14	**192,623,055**	179,655,175
Additional paid-in capital	14	**243,148,277**	241,030,926
Foreign currency translation reserve		**546,149**	546,149
Retained earnings		**210,707,808**	144,552,528
		647,025,289	565,784,778
Non-current liabilities			
Debt securities issued	15	**252,649,513**	12,776,399
Interest bearing loans	16	**113,304,947**	76,235,899
Loans from related parties	17	**9,335,226**	143,124,023
Employee benefit obligations		**1,110,423**	633,295
Provisions	18	**51,674,958**	48,114,205
Other non-current financial liabilities		**1,570,175**	585,578
Other non-current liabilities	19	**8,327,738**	5,810,754
Deferred tax liabilities	27	**41,101,462**	35,816,314
		479,074,442	323,096,467
Current liabilities			
Debt securities issued	15	**11,871,439**	43,346,717
Interest bearing loans	16	**19,321,945**	64,516,504
Loans from related parties	17	**43,386,615**	25,183,205
Provisions	18	**24,629,398**	26,284,445
Trade and other payables	20	**149,109,414**	156,534,323
Taxes payable other than income tax		**1,642,303**	1,558,959
Advances received		**5,635,991**	3,038,527
Other current financial liabilities		**2,634,602**	1,608,678
Other current liabilities	21	**13,012,103**	4,680,241
		271,243,810	326,751,599
Total equity and liabilities		**1,397,343,541**	1,215,632,844
Book value per share in thousands of tenge	14	**1.827**	1.607

Deputy of General Director on economics and finance

Kusherov D.A.

Chief Accountant

Meldekhanov B.N.

The accompanying notes on pages 6 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

In thousands of tenge	Notes	2017	2016
Revenue	22	**581,756,771**	501,958,495
Cost of sales	23	**(434,793,202)**	(348,453,622)
Gross profit		**146,963,569**	153,504,873
General and administrative expenses	24	**(21,454,044)**	(34,085,402)
Other operating income	25	**5,064,173**	7,319,895
Other operating expenses	25	**(8,460,431)**	(3,568,376)
Operating profit		**122,113,267**	123,170,990
Finance income	26	**14,530,067**	13,247,026
Finance costs	26	**(36,924,516)**	(27,210,248)
Share in loss of joint ventures	6	**(633,390)**	(3,456,173)
Foreign exchange gain, net		**373,836**	2,175,101
Profit before income tax		**99,459,264**	107,926,696
Income tax expenses	27	**(24,678,324)**	(26,531,702)
Net profit for the year		**74,780,940**	81,394,994
Other comprehensive (loss)/income		**(257,920)**	110,650
Comprehensive (loss)/income not to be reclassified to profit and loss in subsequent periods			
Actuarial (loss)/gain on defined benefit plans		**(322,400)**	138,312
Impact of income tax benefit/(expense)		**64,480**	(27,662)
Net comprehensive (loss)/income not to be reclassified to profit and loss in subsequent periods		**(257,920)**	110,650
Total comprehensive income for the year, net of income tax		**74,523,020**	81,505,644
Earnings per share			
Basic and diluted, earnings per share for the year attributable to the parent	14	**0.21**	0.23

Deputy of General Director on economics and finance

Kusherov D.A.

Chief Accountant

Meldekhanov B.N.

The accompanying notes on pages 6 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

In thousands of tenge	Notes	2017	2016*
Cash flows from operating activities			
Receipts from customers		**585,448,815**	445,909,817
Return of advances paid to suppliers		**32,579,501**	–
Cash receipts from management fee		**18,647,418**	19,169,382
Interest received		**4,554,396**	5,193,946
Taxes refund from budget		**4,112,650**	1,614,493
Other receipts		**113,692**	290,635
Payments to suppliers		**(430,060,274)**	(266,630,769)
Income tax paid		**(28,897,423)**	(10,275,992)
Other taxes and payments to budget		**(30,076,458)**	(21,985,003)
Interest paid	30	**(14,335,880)**	(14,983,378)
Payments to employees		**(32,927,904)**	(30,875,144)
Other payments		**(2,936,899)**	(2,824,767)
Net cash flows received from operating activities		**106,221,634**	124,603,220
Cash flows from investing activities			
Withdrawal of bank deposits		**131,093,454**	137,031,415
Proceeds from sale of property, plant and equipment and intangible assets		**25,810**	80,764
Loans repaid by related parties		**222**	2,231,151
Placement of bank deposits		**(113,830,937)**	(159,302,559)
Purchase of property, plant and equipment, intangible assets, and exploration and evaluation assets		**(107,235,401)**	(97,998,194)
Loans provided to related party	8	**(136,183,151)**	(11,440,207)
Net cash flows used in investing activities		**(226,130,003)**	(129,397,630)
Cash flows from financing activities:			
Proceeds on interest bearing loans and debt securities issued	30	**574,287,516**	254,838,976
Proceeds on loans from related parties	17,30	**25,321,800**	–
Repayments of interest bearing loans and debt securities issued	30	**(378,450,204)**	(206,136,311)
Repayments of loans from related parties	17,30	**(142,309,300)**	–
Loan arrangement fee		**(1,218,014)**	(1,086,218)
Net cash flows received from financing activities		**77,631,798**	47,616,447
Net foreign exchange difference on cash and cash equivalents		**4,262,990**	(412,159)
Net change in cash and cash equivalents		**(38,013,581)**	42,409,878
Cash and cash equivalents, at the beginning of the year	11	**61,988,460**	19,578,582
Cash and cash equivalents, at the ending of the year	11	**23,974,879**	61,988,460

* *The cash flow statement for the year ended 31 December 2016 does not correspond to the one presented in the 2016 financial statements as the Company changed the method of presentation of cash flow statement, as detailed in Note 3.*

Deputy of General Director on economics and finance

Kusherov D.A.

Chief Accountant

Meldekhanov B.N.

The accompanying notes on pages 6 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

In thousands of tenge	Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	Total
As at 1 January 2016	179,655,175	237,758,875	546,149	69,003,602	486,963,801
Net profit for the year	–	–	–	81,394,994	81,394,994
Other comprehensive income for the year	–	–	–	110,650	110,650
Total comprehensive income for the year	–	–	–	81,505,644	81,505,644
Contribution from the Shareholder *(Note 14 and 17)*	–	3,272,051	–	–	3,272,051
Other transactions with the Shareholder *(Note 14)*	–	–	–	(5,956,718)	(5,956,718)
As at 31 December 2016	179,655,175	241,030,926	546,149	144,552,528	565,784,778
Net profit for the year	**–**	**–**	**–**	**74,780,940**	**74,780,940**
Other comprehensive loss for the year	**–**	**–**	**–**	**(257,920)**	**(257,920)**
Total comprehensive income for the year	**–**	**–**	**–**	**74,523,020**	**74,523,020**
Issue of shares *(Note 14)*	**12,967,880**	**(12,967,880)**	**–**	**–**	**–**
Contribution from the Shareholder *(Note 14)*	**–**	**15,085,231**	**–**	**–**	**15,085,231**
Other transactions with the Shareholder *(Note 14)*	**–**	**–**	**–**	**(8,367,740)**	**(8,367,740)**
As at 31 December 2017	**192,623,055**	**243,148,277**	**546,149**	**210,707,808**	**647,025,289**

Deputy of General Director on economics and finance

Kusherov D.A.

Chief Accountant

Meldekhanov B.N.

The accompanying notes on pages 6 to 56 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. CORPORATE INFORMATION

The accompanying consolidated financial statements include the financial statements of KazTransGas JSC (the "Company" or "KTG") and its subsidiaries (hereinafter collectively referred to as the "Group") *(Note 2)*.

KTG is a joint stock company established in accordance with the Resolution of the Government of the Republic of Kazakhstan (the "Government") No. 173 dated 5 February 2000 and was registered as a closed joint stock company on 13 March 2000. On 9 June 2004 the Company was re-registered as a joint stock company under the laws of the Republic of Kazakhstan. The Group's head office is registered in the Republic of Kazakhstan, Astana, Yesil district, Alikhan Bokeykhan avenue, 12.

NC KazMunayGas JSC ("KazMunayGas") is the sole shareholder of KTG. The Government as represented by "Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna") owns 90% minus 1 (one) share of KazMunayGas, and all subsidiaries of KazMunayGas and Samruk-Kazyna are considered as related parties of the Company and the Group *(Note 28)*.

In accordance with the Resolution of the Government of the RK No. 914 dated 5 July 2012, KTG was appointed as the national operator in the area of gas production and gas supply. In its role of the national operator, the Group's main activities are aimed to ensure reliable supply of commercial gas to meet the domestic demand in Kazakhstan.

The main activities of the Group also include the following:

- Managing of investment activities for the overall development of the main gas pipeline systems within Kazakhstan;
- Managing of investment activities for gas fields development within Kazakhstan;
- Providing consultancy services in research and development for gas industry;
- Sale of gas to the external and local markets;
- Participation in the development and implementation of state programs for the gas industry development.

The Group's operating activities are regulated by the Law of the Republic of Kazakhstan *On Natural Monopolies and Regulated Markets* (the "Law") as the Group is a natural monopolist in transportation and supply of gas on domestic market. According to the Law, the Group's tariffs related to gas transportation and sales on domestic market are approved by the Committee of the Republic of Kazakhstan for the Regulation of Natural Monopolies and Protection of Competition under the Ministry of national economy of the Republic of Kazakhstan and Ministry of Energy of the Republic of Kazakhstan.

As at 31 December 2017, the Group has commitments in the amount of 79,035,612 thousand tenge under the investment program for 2016-2021 approved by the common order of Vice-Minister of Energy and Chairman of the Committee on Regulation of Natural Monopolies and Protection of Competition under the Ministry of national economy of the Republic of Kazakhstan (as at 31 December 2016: 93,675,719 thousand tenge). The results of the implementation of this program can influence the future tariffs. As of 31 December 2017, the Group fulfils its obligations under the approved investment program, taking into account the adjustments made.

The Deputy of General Director on economics and finance and Chief accountant authorized the accompanying consolidated financial statements for the issue on 20 February 2018.

Exploration and production of hydrocarbons

In December 2000, the Group signed a Contract with the Investment agency of the Republic of Kazakhstan on exploration and production of hydrocarbons on North-Ucharal, Ucharal-Kempirtobe territories and blocks XXXIII-48, XXXIII-49, XXXIV-49, XXXIV-50, XXXIV-51, XXXV-50, including Amangeldy, Anabai, Airakty and Kumyrly gas fields, in Zhambyl oblast, South Kazakhstan (the "Hydrocarbon Agreement"). The duration of the Hydrocarbon Agreement is 31 years. The Group started the production and sale of gas at Amangeldy gas field in November 2003 and at Zharkum field in December 2014.

Under the terms of the Hydrocarbon Agreement, the Group has the right to relinquish any of the block areas unless commercially viable hydrocarbon reserves are discovered.

In May 2016 the Group signed the agreement with KazMunayGas on cession of claims under the Contract No. 3949-YBC dated 1 October 2013 on exploration of hydrocarbons on the minefield "Kansu" located in Mangistau oblast from KazMunayGas to the Group. The Group purchased corresponding contract for cash consideration of 3,867,812 thousand tenge, including VAT.

2. BASIS OF PREPARATION

The accompanying consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements have been prepared on a historical cost basis, except for assets and liabilities that were valued at fair value as described in the accounting policies and the notes to these consolidated financial statements.All values in these consolidated financial statements are rounded to the nearest thousands, except when otherwise indicated.

Basis of consolidation

Subsidiaries are consolidated by the parent company from the date of acquisition, being the date on which the latter obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies for all companies of the Group. All intra-group balances, transactions, unrealized gains and losses and cash flows resulting from intra-group transactions and dividends were eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Subsidiaries

As at 31 December 2017 and 31 December 2016, the Company had interest ownership in the following companies, which were included into the consolidated financial statements:

Name	Place of incorporation	Principal activities	Ownership 2017	Ownership 2016
Intergas Central Asia JSC (ICA)	Kazakhstan	Transportation and storage of gas and rendering technical services for gas pipelines in Kazakhstan	100%	100%
KazTransGas Aimak JSC (KTG Aimak)	Kazakhstan	Sale of gas to local power distributors, legal entities and individuals	100%	100%
KazTransGas Onimderi LLP (KTG Onimderi)	Kazakhstan	Transportation services	100%	100%
Amangeldy Gas LLP (Amangeldy Gas)	Kazakhstan	Production of natural gas and gas condensate	100%	100%
Astana Gas KMG JSC	Kazakhstan	Construction of gas transmittal pipeline "West-North-Center"	100%	100%
KMG Kansu Operating LLP	Kazakhstan	Exploration of natural gas and gas condensate	100%	100%
Intergas Finance B.V. (IFBV)	Netherlands	Issue of Eurobonds (raising debt funds)	100%	100%
KazTransGas Bishkek LLC (KTG Bishkek)	Kyrgyzstan	Repair and renewal operations and modernization of the main gas pipeline "Bukhara gas area – Tashkent – Bishkek – Almaty"	100%	100%

KazTransGas JSC has 100% legal ownership in KazTransGas Tbilisi JSC (KTG Tbilisi). On 16 March 2009 the City Court of Kutaisi disqualified the Company from exercising rights that give it the ability to direct the relevant activities of KTG Tbilisi. As a result the Company lost control over KTG Tbilisi and ceased consolidation since the date of loss of control.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION (continued)

Investments in joint ventures

As at 31 December 2017 and 31 December 2016 the Group had interests in the following joint ventures which are accounted for in the consolidated financial statements using the equity method:

Name	Place of incorporation	Principal activities	Share, % 31 December 2017	Share, % 31 December 2016
Asia Gas Pipeline LLP (AGP)	Kazakhstan	Construction and operating Kazakhstan – China gas pipeline	**50%**	50%
Beinue-Shymkent Gas Pipeline LLP (BShP)	Kazakhstan	Construction and operating of Beineu-Bozoi-Shymkent gas pipeline	**50%**	50%
AvtoGaz LLP (AG)	Kazakhstan	Organization, operation, construction and maintenance of gas filling compressor stations	**50%**	50%

The Group has interests in joint arrangements in the form of joint venturers, whereby the ventures have a contractual arrangement that establishes joint control over the economic activities of the entities. The agreement requires unanimous agreement for financial and operating decisions among the venturers. Investments in joint ventures are accounted for by the Group using the equity method.

Under the equity method, the investment in the joint ventures is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the joint venture. Goodwill related to joint activities is included into the carrying amount of the investment and is neither amortized, not individually tested for impairment.

The consolidated statement of comprehensive income reflects the Group's share in financial results of operations of a joint venture. Where there has been a change recognized directly in the equity of the joint venture, the Group recognizes its share of such change and discloses, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and joint venture are eliminated at consolidation to the extent of the interest in the joint venture.

The share of the Group in profit or loss of joint venture is shown on the face of the consolidated statement of comprehensive income. This is the profit or loss attributable to participants of the joint venture and therefore is profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

The financial statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on the investment in joint venture. The Group assesses at each reporting date whether there is objective evidence that an investment in 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 amount and recognizes the loss in the "share in loss of joint venture" in the consolidated statement of comprehensive income.

Acquisition of subsidiaries from parties under common control

Purchases of subsidiaries from parties under common control are accounted for using the pooling of interest method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer. Related goodwill, if any, inherent in the Predecessor's original acquisition is also recorded in these consolidated financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to equity.

If such acquisition is considered material then the consolidated financial statements, including comparative amounts, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION (continued)

Foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented in Kazakhstani tenge ("tenge"), which is the functional currency of most entities of the Group. 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.

Transactions and balances

Transactions in foreign currencies are initially recorded at functional currency spot rates prevailing at the date when the transaction meets recognition criteria. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences arising from repayment or restatement of monetary items are stated in the consolidated statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Gains or losses arising on translation of non-monetary items are recorded in accordance with principles of income or expense recognition as a result of change in the item fair value (i.e. exchange differences on items, fair value gains or losses of which are recognized within other comprehensive income or profit or loss, are also recognized within other comprehensive income or profit or loss, respectively).

Group companies

The results and financial position of all of the Group's subsidiaries and joint ventures (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at that reporting dates;
- Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- All resulting exchange differences are recognized as a separate component of other comprehensive income.

Foreign exchange rates

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

As at 31 December 2017 the currency exchange rate of KASE was 332.33 tenge to 1 US dollar. This rate was used for translation of monetary assets and liabilities denominated in US dollar at 31 December 2017 (at 31 December 2016: 333.29 tenge to 1 US dollar).

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 and assets, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Taxation

In assessing tax risks, management considers to be probable obligations the known areas of tax positions which the Group would not appeal or does not believe it could successfully appeal, if assessed by tax authorities. Such determinations inherently involve significant judgement and are subject to change as a result of changes in tax laws and regulations, the determination of expected outcomes from pending tax proceedings and the outcome of ongoing compliance audits by tax authorities. Further details regarding tax risks are contained in *Note 29*.

2. BASIS OF PREPARATION (continued)

Significant accounting judgements, estimates and assumptions (continued)

Allowance for VAT receivable

The Group determines whether VAT receivable is doubtful at least on an annual basis. Allowance for doubtful VAT receivable is based on the management's expectations on future VATable turnovers and VAT refund in cash. Significant management judgement is required to determine whether the Group can further defend its right for VAT refund or offset. Further details are contained in *Note 9.*

Deferred tax assets

Deferred tax assets are recognised for loans receivable, prior years' tax losses carried forward, allowances for doubtful debts, accrued vacations and other liabilities to the extent that it is probable that taxable temporary differences and business nature of such expenses will be proved, as well as successful application of tax planning strategies. In the statement of financial position, deferred tax assets and liabilities are presented separately, since they are related to various entities of the Group and may not be offset against each other in accordance with the tax legislation. Further details are contained in *Note 27.*

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model.

The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include liquidity risk, credit risk and volatility. Changes in valuations and judgements can affect the fair values of financial instruments.

Allowances for doubtful accounts

The Group records allowances for doubtful accounts receivable, advances paid and other current assets. Significant judgement is used to estimate doubtful debts. In estimating doubtful debts, historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the financial statements. As at 31 December 2017 allowances for doubtful debts were made in the amount of 6,842,157 thousand tenge (31 December 2016: 6,922,219 thousand tenge). Further details are contained in *Notes 7* and *13.*

Employee benefits

The costs of future social benefit to employees are determined using actuarial valuations. Actuarial method involves the use of different assumptions, which may differ from actual results in future. Actuarial method comprises assumptions on discounting rates, future salary growth and mortality rate. Due to the difficulty of assessing the basic assumptions and long-term obligations under the defined benefit plans, such obligations are highly sensitive to changes in assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate the Group's management considers the interest rates on government bonds with extrapolated maturities corresponding to the expected term of defined benefits. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases are based on expected future inflation rates for the respective country.

Principal actuarial assumptions used for valuation of employee benefit obligations are as follows:

	2017	2016
Discount rate	**8.96%**	9.39%
Future salary increase	**6.8%**	7.0%
Mortality rate	**14.0%**	16.0%

The expected cost of employee 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.

2. BASIS OF PREPARATION (continued)

Significant accounting judgements, estimates and assumptions (continued)

Useful life of property, plant and equipment

Additions or improvements to property, plant and equipment managed and operated under the Trust Management Agreement are capitalized and depreciated over an estimated remaining useful life regardless of the term of the Agreement. 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, changes are accounted for prospectively as changes in accounting estimates in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

Impairment of property, plant and equipment and gas assets

An impairment exists when the carrying amount of an asset or cash generating unit 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 in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five (5) years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested.

The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and growth rates used for extrapolation purposes.

Assets retirement obligations

In accordance with the Law of the Republic of Kazakhstan *On Main Pipelines* dated 4 July 2012, the Group has legal obligations to dismantle and remove tangible assets and restore the land. Specifically, the Group's obligation relates to removal of gas pipelines and recultivation of the land plots.

The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation. The Group reviews abandonment and site restoration provisions at each reporting date and adjust them to reflect the current best estimate in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities.* Estimating the future costs involves significant estimates and judgments by management. Most of these obligations are many years in the future and, in addition to ambiguities in the legal requirements, the Group's estimate can be affected by changes in asset removal technologies, costs and industry practice. Uncertainties related to the final costs are mitigated by the effects of discounting the expected cash flows. The Group estimates future gas pipelines abandonment cost using current year prices and the average long-term inflation rate

The long-term inflation and discount rates used to determine the obligation in the consolidated statement of financial position at 31 December 2017 were 5.57% and 10%, respectively (as at 31 December 2016: 5.73% and 10.15%). As at 31 December 2017 the carrying amount of provision for abandonment of gas pipeline and site restoration was equal to 49,792,367 thousand tenge (as at 31 December 2016: 44,517,699 thousand tenge). As at 31 December 2017 the carrying amount of provision for well abandonment, site restoration and historical costs under the contract for exploration and production of hydrocarbons was equal to 2,612,404 thousand tenge (as at 31 December 2016: 4,479,772 thousand tenge). Further details are contained in *Note 18.*

Change in classification affecting comparative information

The Group changed the presentation of its consolidated financial statements as new presentation provides information that is more relevant to users of the consolidated financial statements.

Effect on the consolidated statement of financial position as at 31 December 2016

In thousands of tenge	As previously	Reclassifications	As reclassified
Restricted cash	5,309,163	(5,309,163)	–
Bank deposits	40,000	5,309,163	5,349,163
Other non-current liabilities	6,396,332	(585,578)	5,810,754
Other non-current financial liabilities	–	585,578	585,578
Other current liabilities	6,288,919	(1,608,678)	4,680,241
Other current financial liabilities	–	1,608,678	1,608,678

The above mentioned reclassifications did not have any impact on the consolidated financial statements of the Group. The management believes that such presentation is more transparent as they reflect the nature of such instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Amendments in accounting policy and principles of disclosing information

In the course of preparation of these consolidated financial statements the Group decided to change the presentation of operating cash flows.

Starting from 1 January 2017 the Group uses only the direct method for presentation of operating cash flows as this method provides reliable and more relevant information for the users about operating cash flows which are not available under the indirect method. As a result, the Group restated the consolidated statement of cash flows for the year ended 31 December 2016 by using the direct method.

New standards, interpretations and amendments adopted by the Group

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The nature and the impact of each amendment is described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period in *Note 30.*

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

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

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

Annual improvements cycle – 2014-2016

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. This amendment does not have any impact on the Group.

Standards and interpretations issued but not yet effective

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

IFRS 9 Financial Instruments

Starting from 2018, the Group will apply IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting.

Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group will adopt the new standard on the required effective date and due to the exemption in IFRS 9 relating to transition for classification and measurement and impairment will not restate comparative periods in the year of initial application. As a consequence, any adjustments to carrying amounts of financial assets or liabilities are to be recognised at 1 January 2018, with the difference recognised in opening retained earnings.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018. Overall, the Group expects no significant impact on its statement of financial position and equity. The Group has assessed the impact of IFRS 9 to the Group financial statements as follows:

(a) Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVTPL). It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available-for-sale financial assets.

Based on its assessment, the Group does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9.

(b) Impairment – financial assets and contract assets

Under IFRS 9, the new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date; or
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group has chosen to apply the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for trade and other receivables. To measure the expected credit losses, trade and other receivables have been grouped based on credit risk characteristics and the days past due.

According to long-term bank deposits, loans to related party and other financial assets at amortized cost, the Group will apply general approach in relation to such financial assets.

The Group determined that its short-term bank deposits and cash and cash equivalents have low credit risk based on the external credit ratings of bank and financial institutions.

Based on the assessments undertaken to the date, the Group expects an insignificant change in the loss allowance for trade debtors and other financial assets held at amortised cost.

(c) Hedge accounting

The Group does not have hedge relationships that are currently designated as effective hedging relationships and therefore applying the hedging requirements of IFRS 9 will not have an impact on Group's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. During 2017, the Group performed a preliminary assessment of IFRS 15 according to which no significant impact on the Group is expected.

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.

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

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

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

IFRS 16 Leases

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

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments).

The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 16 Leases (continued)

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

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

The beginning of the reporting period in which the entity first applies the interpretation

Or

The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

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

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply interpretation from its effective date. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

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

The amendments clarify that:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued but not yet effective (continued)

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 (continued)

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact.

These amendments are not applicable to the Group.

Annual improvements cycle – 2015-2017

The IASB has issued the Annual improvements to IFRS standards 2015-2017 cycle. The amendments affect four standards:

- IFRS 3 *Business Combinations*;
- IFRS 11 *Joint Arrangements*;
- IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*.

The amendments are effective for annual periods beginning on or after 1 January 2019. Currently, the Group is assessing the potential effect of these standards on its consolidated financial statements.

Current versus non-current classification

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

- Expected to be realised or intended to sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within 12 (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 12 (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 operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 (twelve) months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least 12 (twelve) months after the reporting period.

The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are always classified as non-current assets and liabilities.

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;
- 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 by the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

- Level 1 – market quotations at active market for identical assets or liabilities (without any quotations);
- Level 2 – techniques for which all inputs that relate to the lower hierarchy level which have a significant effect on the fair value are observable, either directly or indirectly;
- Level 3 – techniques for which all inputs that relate to the lower hierarchy level which have a significant effect on the fair value are not observable.

For the purpose of disclosing the fair value, the Group classified assets and liabilities based on their nature, characteristics and risks attributable to them as well as applicable level in the fair value hierarchy as mentioned above.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at initial cost less any accumulated amortisation and any accumulated impairment losses (if any).

Intangible assets generated internally within the Group, except for the capitalized costs for development, are not capitalized and the related expense is recognized in the consolidated statement of comprehensive income for the year in which it originated.

Intangible assets are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The period and accrual method of amortization for an intangible asset are reviewed at least at the end of each reporting period. Change in the estimated useful life or alleged structure of consumption of future economic benefits embodied in the asset is recorded in the consolidated financial statements as a change in the period or accrual method of amortization depending on the situation and accounted for as a change in accounting estimates. Expenses on amortization of intangible assets are recognized in the consolidated statement of comprehensive income in the category of expenses, which corresponds to the function of intangible assets. Intangible assets are amortized on a straight-line basis over the estimated useful life, which is presented in the following table:

	Years
Software	7
Other	10

Gains or losses arising from disposal 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 disposed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment are recognised in the accounting records at cost less accumulated depreciation and impairment losses. The initial cost of property, plant and equipment comprises its purchase price, including import duties, direct non-refundable taxes, costs of borrowings that relates directly to the construction of long-term assets if they meet the recognition criteria, the cost of replacement of equipment components and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

The expenditures that have resulted in an increase in the future economic benefits expected to be obtained beyond its originally assessed standard performance (increase of useful life, capacity, etc.) are capitalized as an additional cost of fixed assets. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciate them appropriately. 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 the profit or loss as incurred.

Depreciation of property, plant and equipment (non-gas assets) is computed on a straight-line basis over the estimated useful lives as follows:

	Years
Buildings and constructions	7-100
Gas transportation system	10-70
Machinery and equipment	3-40
Vehicles	5-30
Other	3-20

Land is not depreciated.

An item of property, plant and equipment and any significant part initially recognized is derecognized 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 consolidated statement of comprehensive income in the year when the asset is derecognised.

Provision for decommissioning is recognized in full, on a discounted basis, when the Group has an obligation to dismantle and decommission a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that provision can be made.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Construction-in-progress represents fixed assets under construction and is stated at cost. This includes cost of construction and equipment and other direct costs. Construction-in-progress is not depreciated until such time as construction of such assets is completed and placed into operational use.

Costs incurred prior to acquisition of subsurface use right

Costs incurred prior to signing subsurface use contract are expensed in the period in which they are incurred.

Subsurface use right costs

Subsurface use rights acquisition costs are capitalized within intangible assets. Each property under exploration is reviewed on an annual basis to confirm that drilling activity is planned and it is not impaired. If no future activity is planned, the carrying amount of the subsurface use right and related property acquisition costs is written off. Upon determination of economically recoverable reserves ('proved reserves' or 'commercial reserves') and internal approval of development, the carrying amount of the subsurface use right and related property acquisition costs held on a field-by-field basis is aggregated with exploration and evaluation expenditure and transferred to gas assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Exploration and evaluation costs

Once the legal right to explore has been acquired, geological and geophysical exploration costs and costs directly associated with an exploratory drilling are capitalized as exploration and evaluation intangible or tangible assets, according to the nature of the costs, until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig lease costs and payments made to contractors. If no reserves are found, the exploration and evaluation asset is tested for impairment, if extractable hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells, are likely to be developed commercially, the costs continue to be carried as an intangible asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons. All such carried costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. When proved reserves of gas are determined and development is sanctioned, the relevant expenditure is transferred to gas assets after impairment is assessed and any resulting impairment loss is recognized.

Development costs

Expenditures on the construction, installation or completion of infrastructure facilities such as platforms, gas pipelines and the drilling of producing wells, including unsuccessful development or delineation wells, are capitalized within gas assets.

Depreciation of gas assets

Gas assets are depreciated using the unit of production method on the basis of proved developed gas reserves, except for infrastructure facilities, which are depreciated using straight-line basis.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

Financial assets, except for financial assets at fair value through profit or loss, are recognized initially at fair value, plus directly attributable transaction costs.

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

Financial assets of the Group comprise cash and cash equivalents, cash restricted in use, short-term and long-term bank deposits, trade and other accounts receivable and loans issued.

Subsequent measurement

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

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. 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 in accordance with IAS 39.

Financial assets at fair value through profit and loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in finance income or finance costs in the consolidated statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income as expenses of the period.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised from the consolidated statement of financial position where:

- 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, and has neither transferred nor retained substantially all 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.

Impairment of financial assets

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

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation. Besides, such evidence include observable data indicating that there is a measurable decrease in the estimated future cash flows on a financial instrument such as changes in arrears or economic conditions that correlate with defaults.

Reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be objectively related to an event occurring after the write-down. Such reversal is recognized as income in the consolidated statement of comprehensive income.

Financial assets carried at amortised cost

For financial assets carried at amortised cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

The interest income is recorded as part of finance income in the consolidated statement of comprehensive income. Loans together with the associated allowance are written off from the consolidated statement of financial position when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, 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.

Financial liabilities are recognized initially at fair value and in the case of loans and borrowings, less directly attributable transaction costs.

The Group's financial liabilities include trade and other accounts payable, debt securities issued, interest bearing loans and borrowings and loans from related parties.

Subsequent measurement

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

Loans and borrowings

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

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the consolidated statement of comprehensive income.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee.

Subsequently, the liability is measured at the higher of: the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Subsequent measurement (continued)

Trade accounts payable

Liabilities for accounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Derecognition

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

Offsetting of financial instruments

Financial assets and financial liabilities are only offset and reported at the net amount in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Group intends to either settle on a net basis, to realise the asset and settle the liability simultaneously.

Inventory

Materials and supplies and raw materials are valued at the lower of cost and net realisable value.

Inventories are accounted for on a first in, first out basis separately for each warehouse.

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 such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's or cash-generating unit's (CGU) recoverable amount is the higher of fair value of the asset (CGU) 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. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, the relevant valuation model is applied. These calculations are corroborated by valuation multiples, quoted prices for publicly traded shares of 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 cash generating units to which individual assets are allocated.

These budgets and forecast calculations are generally covering a period of 5 (five) years. For longer periods, a long-term growth rate is calculated and applied to project future cash flow after the fifth year.

Impairment losses of continuing operations are recognised in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date 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 cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and short-term deposits

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand, and short-term bank deposits with a maturity of 3 (three) months or less.

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

Provisions

Provisions are recognized in the consolidated financial statements when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

Asset retirement obligation (decommissioning)

Provision for decommissioning is recognized in full, on a discounted cash flow basis, when the Group has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that provision can be made. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding item of property, plant and equipment, the amount of which is equivalent to the provision, is also created. Subsequently, this asset is depreciated as part of gas production assets and gas transportation system assets.

Changes in the measurement of an existing decommissioning provision that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or change in the discount rate, is accounted for so that:

(a) Changes in the provision are added to, or deducted from, the cost of the related asset in the current period;

(b) The amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the provision exceeds the carrying amount of the asset, the excess is recognized immediately as expenses; and

(c) If the adjustment results in an addition to the cost of an asset, the Group considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Group tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss, in accordance with IAS 36.

Share capital and dividends

Share capital is recognized at cost and is comprised of common shares. Dividends on common shares are recognized in shareholder's equity as a reduction of shareholder's equity in the period in which they are declared. Dividends on the common shares are payable at the discretion of the Shareholder. Dividends that are declared after the reporting date are treated as a subsequent event under IAS 10 *Events after the Reporting Date* and disclosed accordingly.

Operating lease

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement. It is necessary to determine at inception date whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Operating lease payments are recognized as current expense on a straight-line basis over the lease term.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue from sales is recorded net of indirect taxes. The following specific recognition criteria must also be met before revenue is recognised:

Sales of goods

Revenues from sales are recognised when the significant risks and rewards of ownership of goods have passed to the buyer.

Rendering of transportation services

Revenue from transportation services is recognised based on actual volumes of gas transported during the reporting period.

Management services

Fees for the provision of management services are accrued over a period of time when they are earned and recognised to the extent that it is probable that the economic benefits will flow to the Group.

Deferred income

Property, plant and equipment obtained on a free of charge basis from government bodies, legal entities or individuals are recognized at their fair value as deferred income as at the date when they were obtained (received). Deferred income is allocated to income of one or more reporting periods during which respective depreciation is accrued.

Interest income

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

The interest income is recorded as part of finance income in the consolidated statement of comprehensive income.

Expenses

Expenses are accounted for at the time the actual flow of the related goods or services occur, regardless of when cash or its equivalent is paid, and are reported in the consolidated financial statements in the period to which they relate.

Dividends

Dividend income is recognized when the Group's right to distribution is established, which, as a rule, happens when the shareholders approve the dividends

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the carrying amount of that asset. Other borrowing costs are recognized as an expense when incurred.

Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

Employee benefits

The Group provides long-term benefits to its employees, in accordance with the collective labour agreement approved by the Board of Directors. The collective labor agreement provides for holiday payments, Pensioner/spouse' death, financial aid for health improvement and voucher for resort treatments. The entitlement to benefits is usually conditional on the employee remaining in service up to retirement age.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

The expected costs of the benefits associated with payments are accrued over the period of employment using the same accounting methodology as used for defined benefit post-employment plans. Actuarial gains and losses arising in the year are taken to other comprehensive income and losses. For this purpose actuarial gains and losses comprise both the effect of changes in actuarial assumptions and the effect of previous experience owing to the differences between actuarial assumptions and actual data. Other changes are recognized in current period including the cost of current services, past services and the effect of staff reduction or calculations made.

The most significant assumptions used in accounting for defined benefit obligations are discount rate and mortality assumptions. 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 finance cost. Mortality assumption is used to forecast future interest payment flow, which is later discounted to get net present value of liabilities.

Current income tax

Current income tax assets and liabilities for the current and prior periods 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 directly in equity is recognised in equity and not in the consolidated statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

Deferred income 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; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- Where the deferred tax assets 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; and
- 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 be used in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow such 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax (continued)

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in the consolidated statement of comprehensive income or directly in equity.

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

Value added tax (VAT)

Tax authorities allow repaying input VAT and output VAT on a net basis. Thus, VAT receivable represents VAT on purchases net of VAT on sales.

VAT payable

VAT is payable to tax authorities upon collection of receivables from customers. VAT on purchases, which have been settled at the reporting date, is deducted from the amount payable.

Where an allowance has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT liability is maintained until the debtor is written off for tax purposes.

VAT receivable

VAT receivable is recorded in the accounting records related to purchased goods, work and services, which were purchased with VAT and if they were used in order to derive income.

At each reporting date, the VAT receivable is subject to offset against the VAT payable amount.

Contingent assets and liabilities

Contingent assets are not recognized in the consolidated financial statements. When the realization of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Subsequent events

The results of post-year-end events that provide additional information on the Group's financial position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the years ended 31 December 2017 and 2016 was as follows:

In thousands of tenge	Land	Gas assets	Buildings and constructions	Gas trans-portation system	Equipment	Vehicles	Other	Construction in progress	Total
Cost									
31 December 2015	1,459,842	29,826,981	60,241,691	487,765,391	191,689,257	22,142,173	8,860,852	52,468,381	854,454,568
Additions	13,278	4,163,404	21,513	2,596,406	522,633	299,752	163,866	72,350,580	80,131,432
Change in estimate *(Note 18)*	–	–	–	1,014,426	–	–	–	–	1,014,426
Transfers	1,049	–	1,571,275	45,374,169	13,576,081	–	175,031	(60,697,605)	–
Disposals	(242,054)	(4,080)	(521,119)	(204,695)	(348,708)	(419,967)	(300,951)	(5,766,253)	(7,807,827)
31 December 2016	1,232,115	33,986,305	61,313,360	536,545,697	205,439,263	22,021,958	8,898,798	58,355,103	927,792,599
Additions	**87**	**2,971,846**	**7,068**	**16,354,203**	**377,255**	**124,196**	**43,642**	**118,475,200**	**138,353,496**
Transfer from exploration and evaluation assets	–	**3,908,030**	–	–	–	–	–	–	**3,908,030**
Change in estimate *(Note 18)*	–	**(2,036,005)**	–	**555,667**	–	–	–	–	**(1,480,338)**
Transfers	–	**15,275**	**21,723,115**	**76,562,663**	**46,093,841**	**79,167**	**411,111**	**(144,885,172)**	–
Disposals	–	**(429,735)**	**(5,328)**	**(450,223)**	**(481,830)**	**(48,152)**	**(343,650)**	**(216,436)**	**(1,975,354)**
31 December 2017	**1,232,202**	**38,415,716**	**83,038,215**	**629,568,007**	**251,428,529**	**22,177,168**	**9,009,901**	**31,728,695**	**1,066,598,433**
Accumulated depreciation and impairment									
31 December 2015	–	(7,317,072)	(8,361,760)	(55,456,611)	(43,454,489)	(12,893,316)	(4,481,511)	(6,839,948)	(138,804,707)
Charge for the year	–	(1,245,809)	(2,203,198)	(13,759,215)	(9,037,188)	(1,319,021)	(763,303)	–	(28,327,734)
Disposals	–	3,267	86,114	144,379	252,438	338,004	279,484	–	1,103,686
Impairment recovery *(Note 25)*	–	–	–	–	(26,794)	4,981	–	1,924,679	1,902,866
Transfers	–	–	513	65,992	–	–	1,313	(67,818)	–
31 December 2016	–	(8,559,614)	(10,478,331)	(69,005,455)	(52,266,033)	(13,869,352)	(4,964,017)	(4,983,087)	(164,125,889)
Charge for the year	–	**(1,230,272)**	**(2,239,675)**	**(15,006,446)**	**(9,427,893)**	**(1,263,111)**	**(686,810)**	–	**(29,854,207)**
Impairment provision	–	–	–	–	–	–	–	**(314,705)**	**(314,705)**
Transfers	–	**(9,544)**	**23,390**	**44,927**	**17,508**	**(1,487)**	**(74,794)**	–	–
Disposals	–	**105,549**	**5,147**	**336,519**	**470,386**	**41,547**	**319,590**	–	**1,278,738**
31 December 2017	–	**(9,693,881)**	**(12,689,469)**	**(83,630,455)**	**(61,206,032)**	**(15,092,403)**	**(5,406,031)**	**(5,297,792)**	**(193,016,063)**
Net book value									
31 December 2016	1,232,115	25,426,691	50,835,029	467,540,242	153,173,230	8,152,606	3,934,781	53,372,016	763,666,710
31 December 2017	**1,232,202**	**28,721,835**	**70,348,746**	**545,937,552**	**190,222,497**	**7,084,765**	**3,603,870**	**26,430,903**	**873,582,370**

4. PROPERTY, PLANT AND EQUIPMENT (continued)

Construction in progress

Additions

In 2017, additions to construction-in-progress included pipes and other equipment, intended for construction and capital repair of pipelines (including transfer from inventories). During 2017, additions to construction-in-progress are mainly represented by the construction of gas compressor station Karaozek related to main gas pipeline Beineu – Bozoy – Shymkent of 26,056,753 thousand tenge; capital repair of main gas pipeline Buhara – Ural of 24,799,715 thousand tenge; drilling and infrastructure development of 36 production wells of Zhamankoyankulak Bozoy gas storage facility of 12,107,026 thousand tenge; capital repair of gas pipeline MG "BGR-TBA" of 6,134,434 thousand tenge; capital repair, welding works and emergency recovery works of main gas pipelines of 4,811,725 thousand tenge; construction of gas dehydration plant at Bozoi gas storage facility of 4,669,450 thousand tenge; construction of automated gas distribution stations Zharkent and Issyk with the development of project design of 3,694,328 thousand tenge and 2,682,706 thousand tenge, respectively; development of project design and construction of gas distribution station Akyrtobe of 1,555,611 thousand tenge and other capital construction and improvements.

Transfers

Significant portion of fixed assets placed in operations is related to completion of the above construction works and placement of respective property, plant and equipment in operation.

Gas transportation system

Additions

In 2017, the Group received gas transportation systems under trust management agreement from the Government with the fair value of 13,188,885 thousand tenge *(Note 14)* at the date of transfer as contribution to equity. In addition the Group received gas transportation systems on a free of charge basis from the population with the fair value of 2,963,823 thousand tenge at the date of transfer recognised as deferred income.

Other

As at 31 December 2017 the cost and related accumulated depreciation of fully depreciated property, plant and equipment still in use was equal to 17,961,973 thousand tenge (as at 31 December 2016: 16,039,432 thousand tenge).

5. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets were as follows:

In thousands of tenge	Tangible assets
At 31 December 2015	4,208,567
Additions	8,603,349
At 31 December 2016	12,811,916
Additions	3,351,335
Change in estimate	(112,876)
Disposals	(78,943)
Transfer to property, plant and equipment	(3,908,030)
Impairment	(12,000)
At 31 December 2017	**12,051,402**

5. EXPLORATION AND EVALUATION ASSETS (continued)

The exploration and evaluation assets are represented by the following projects:

In thousands of tenge	2017	2016
Sultankuduk	**4,947,984**	3,764,143
Kansu	**3,586,082**	3,575,070
Sherubainur	**1,974,287**	1,581,126
Anabay	**572,364**	502,803
Koskuduk	**427,183**	427,183
Barkhan	**233,626**	143,631
Moldybay	**110,791**	110,791
Ayrakty	**–**	2,392,407
Other	**199,085**	314,762
	12,051,402	12,811,916

6. INVESTMENTS IN JOINT VENTURES

Financial information on investment in significant joint ventures is summarized below:

In thousands of tenge	AGP	BShP	AG	Total
31 December 2016	**–**	**–**	1,065,363	1,065,363
Share in profit of joint venture	**134,700,180**	**19,035,254**	**35,310**	**153,770,744**
Unrecognized share in profit of joint venture	**(134,700,180)**	**(19,035,254)**	**–**	**(153,735,434)**
Share of the Group in the recognition of financial guarantee obligations	**–**	**1,070,133**	**–**	**1,070,133**
Share of the Group in the discount on initial recognition of the loan provided to the joint venture	**–**	**3,683,289**	**–**	**3,683,289**
Loss on write-off of discount on interest-free loan provided to the joint venture	**–**	**(668,700)**		**(668,700)**
Share in other comprehensive income of joint venture	**123,419**	**–**	**–**	**123,419**
Unrecognized share in other comprehensive income of joint venture	**(123,419)**	**–**	**–**	**(123,419)**
31 December 2017	**–**	**4,084,722**	**1,100,673**	**5,185,395**

In thousands of tenge	AGP	BShP	AG	Total
31 December 2015	–	–	770,209	770,209
Share in profit/(loss) of joint venture	152,555,515	7,494,672	(3,735)	160,046,452
Unrecognized share in profit of joint venture	(152,555,515)	(7,494,672)	–	(160,050,187)
Share of the Group in the discount on initial recognition of the loan provided to the joint venture	–	3,452,438	–	3,452,438
Loss on write-off of discount on interest-free loan provided to the joint venture	–	(3,452,438)	–	(3,452,438)
Share in other comprehensive income of joint venture	(180,078)	–	–	(180,078)
Unrecognized share in other comprehensive income of joint venture	180,078	–	–	180,078
Additional contribution to the capital	–	–	298,889	298,889
31 December 2016	–	–	1,065,363	1,065,363

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. INVESTMENTS IN JOINT VENTURES (continued)

AGP

The following table provides summarized financial information about investments of the Group in AGP:

In thousands of tenge	2017	2016
Statement of financial position of joint venture		
Current assets	519,332,547	529,037,901
Non-current assets	1,572,551,905	1,691,909,542
Current liabilities	(331,505,536)	(322,092,871)
Non-current liabilities	(2,058,444,374)	(2,466,567,228)
Equity deficit	(298,065,458)	(567,712,656)
Proportion of the Group's ownership	50%	50%
Carrying amount of investment	–	–
Cumulative unrecognized share in equity losses	(149,032,729)	(283,856,328)
Statement of comprehensive income of joint venture		
Revenue	587,428,795	551,219,060
Net profit for the year	269,400,360	305,111,030
Other comprehensive income/(loss) for the year	246,838	(360,156)

On 15 February 2008 according to the agreement between the Government of the Republic of Kazakhstan and the Government of People's Republic of China on cooperation in the construction and operation of the Kazakhstan-China gas pipeline, AGP joint venture was established with 50% participation of the Group and 50% participation of Trans-Asia Gas Pipeline Company Limited. As at 31 December 2017 and 2016, the charter capital of AGP was equal to 1,200,000 thousand tenge, of which an amount of 600,000 thousand tenge was paid by the Group.

BShP

The following table provides summarized financial information about investments of the Group in BShP:

In thousands of tenge	2017	2016
Statement of financial position of joint venture		
Current assets	139,271,512	115,813,128
Non-current assets	442,256,509	449,074,109
Current liabilities	(110,972,112)	(129,935,447)
Non-current liabilities	(464,526,731)	(474,359,698)
Equity/(deficit)	6,029,178	(39,407,908)
Proportion of the Group's ownership	50%	50%
Share in equity	3,014,589	–
Share of the Group in the fair value of issued financial guarantee	1,070,133	–
Carrying amount of investment	4,084,722	–
Cumulative unrecognized share in equity losses	–	(19,703,954)
Statement of comprehensive income of a joint venture		
Revenue	79,096,648	33,827,305
Net profit for the year	38,070,508	14,989,344
Other comprehensive income for the year	–	–
Additional investment		
Fair value of issued financial guarantee	2,140,266	–
Share of the Group in the fair value of issued financial guarantee	1,070,133	–
Discount on initial recognition of the loan provided	7,366,578	6,904,876
Share of the Group in the discount from initial recognition of the loan provided	3,683,289	3,452,438

On 18 January 2011 according to the agreement between the Government of the Republic of Kazakhstan and the Government of the People's Republic of China on cooperation in construction and operation of the Kazakhstan-China gas pipeline, BShP joint venture was established with 50% participation of the Group and 50% participation of Trans-Asia Gas Pipeline Company Limited. As at 31 December 2017 and 2016 the charter capital of BShP was equal to 145,430,000 thousand tenge, of which an amount of 72,715,000 thousand tenge was paid by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. INVESTMENTS IN JOINT VENTURES (continued)

AG

The following table provides summarized financial information about investments of the Group in AG:

In thousands of tenge	2017	2016
Statement of financial position of joint venture		
Current assets	**391,599**	509,998
Non-current assets	**1,879,091**	1,968,137
Current liabilities	**(69,344)**	(347,409)
Non-current liabilities	**–**	–
Equity	**2,201,346**	2,130,726
Proportion of the Group's ownership	**50%**	50%
Carrying amount of investment	**1,100,673**	1,065,363
Cumulative unrecognized share in equity losses	**–**	–
Statement of comprehensive income of a joint venture		
Revenue	**1,082,792**	866,331
Net profit/(loss) for the year	**70,620**	(7,470)
Share in profit/(loss) of a joint venture for the year	**35,310**	(3,735)
Other comprehensive income for the year	**–**	–

7. ADVANCES PAID

In thousands of tenge	2017	2016
Advances paid for non-current assets		
Advances paid to third parties	**3,204,086**	26,524,285
Less: allowance for possible non-performance	**(275,487)**	(275,487)
	2,928,599	26,248,798
Advances paid for current assets and services		
Advances paid to third parties	**2,901,474**	3,574,495
Advances paid to related parties *(Note 28)*	**1,948,559**	26,400,937
Less: allowance for possible non-performance	**(6,867)**	–
	4,843,166	29,975,432

8. LOANS TO RELATED PARTY

As at 31 December 2017 and 2016, loans to related party comprised the following:

In thousands of tenge	2017	2016
Interest bearing loans to related party	**133,317,872**	–
Interest-free loans to related party	**74,610,951**	72,143,800
Less: discount	**(2,244,828)**	(1,549,084)
Plus: interest receivable	**1,873,090**	–
	207,557,085	70,594,716
Less: current portion *(Note 28)*	**(72,366,122)**	(70,594,716)
Non-current portion *(Note 28)*	**135,190,963**	–

As of 31 December 2017 and 2016, loans to related party were neither past due nor impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. LOANS TO RELATED PARTY (continued)

Interest bearing loans

In September 2017, the Company provided a loan to BShP in the amount of 133,716,000 thousand tenge (equivalent to: 400,000 thousand US dollars) with the interest rate of 5.5% per annum for partial early repayment of the bank loan obtained by BShP under the loan agreement with China Development Bank, Bank of China Limited and Bank of China (Hong Kong) Limited. According to the loan agreement between the Company and BShP, the amount of loan principal and interest payments is indexed to the USD/KZT exchange rate at each repayment date. The Company accounts for the loan as USD denominated loan and recognises foreign exchange difference at each reporting date. Interest is paid on quarterly basis. In case of non-payment, interest is capitalized to the loan principal until Phase 1 of the Project completion date, which is 30 September 2019. The loan principal is payable, starting from 14 April 2028. The maturity date of the loan is 31 August 2029.

During 2017, BShP did not make any payments on interest to the Company.

Interest-free loans

In 2017, the Company provided additional on-demand interest-free loan to BShP in the amount of 2,467,151 thousand tenge (2016: 11,440,207 thousand tenge). The fair value on initial and additional loans, which are given on an interest free basis, is determined discounting future cash flows for the loan using a discount rate of 10-16.9%.

In 2017, the Company revised expected repayment date of the loans by BShP. As a result, the repayment period was extended to 31 March 2018. This extension resulted in decrease of the carrying amount of the loans by 7,366,578 thousand tenge, where investments of BShP was adjusted accordingly to recognize effect of discounting. In 2017, amortization of the discount on the loan was equal to 6,670,834 thousand tenge (2016: 7,191,646 thousand tenge) (*Note* 26).

9. VAT RECOVERABLE AND PREPAID TAXES OTHER THAN INCOME

In thousands of tenge	2017	2016
VAT recoverable	**64,689,283**	42,391,830
Property tax	**778,867**	384,563
Other taxes prepaid	**81,555**	167,271
	65,549,705	42,943,664
Less: allowance for non-recoverable VAT	**(9,381,491)**	(9,320,887)
	56,168,214	33,622,777
Non-current portion	**48,321,910**	27,688,098
Current portion	**7,846,304**	5,934,679

Movements in the allowance for non-recoverable VAT were as follows:

In thousands of tenge	Individually impaired
At 31 December 2015	(545,712)
Charge for the year *(Note 24)*	(10,488,065)
Utilised	1,712,890)
At 31 December 2016	(9,320,887)
Charge for the year *(Note 24)*	**(60,604)**
At 31 December 2017	**(9,381,491)**

10. BANK DEPOSITS

In thousands of tenge	2017	2016
Tenge bank deposits with maturity of over five years	5,344,568	5,269,320
Tenge bank deposits with maturity of over one year and less than five years	59,843	79,843
Bank deposits, non-current	**5,404,411**	5,349,163
US dollar bank deposits with maturity of over three months and less than one year	–	23,958,639
Tenge bank deposits with maturity of over three months and less than one year	148,116	8,102,138
Bank deposits, current	**148,116**	32,060,777

As at 31 December 2017, tenge deposits with maturity over five years include restricted deposits in Halyk Bank Kazakhstan JSC and Tsesna Bank JSC in the amount of 5,008,579 thousand tenge and 335,989 thousand tenge, correspondingly. The deposits in Halyk Bank Kazakhstan JSC were opened as collateral for loans of the Group's employees (2016: 5,019,387 thousand tenge). The deposit in Tsesna Bank JSC is kept in blocked account designated as liquidation fund per requirements of subsoil use contracts.

As at 31 December 2017, deposits were placed in banks at the interest rates of 1-15% per annum in tenge (2016: 1-15%).

11. CASH AND CASH EQUIVALENTS

In thousands of tenge	2017	2016
Tenge bank accounts	17,812,587	6,263,136
Deposits in tenge	3,802,155	42,805,634
Foreign currency bank accounts	2,258,208	12,859,535
Cash in transit	92,085	56,332
Cash on hand	9,844	3,823
	23,974,879	61,988,460

As at 31 December 2017, deposits were placed in banks at interest rates of 7.5-8.21% per annum in tenge (2016: 10.5%).

As at 31 December 2017, interest rates for cash on the current accounts in banks were 0.1-9.05% per annum in tenge (2016: 0.1-12.06%) and 0.1% per annum in a foreign currency (2016: 0.09-0.1%).

12. INVENTORIES

In thousands of tenge	2017	2016
Gas inventory (at cost)	15,593,121	22,552,879
Materials and supplies (at lower of cost and net realizable value)	1,946,595	3,601,090
	17,539,716	26,153,969

Materials and supplies mainly include spare parts for maintenance of gas transportation system, methanol and lubricating materials to be used in the gas transportation equipment and the goods for internal use. Gas inventory includes fuel gas and gas for sale. In 2017, an amount of 1,012,290 thousand tenge was recognised as an expense for inventories carried at net realizable value (2016: 996,090 thousand tenge). In 2017, an amount of 26,750 thousand tenge was recovered (2016: 14,203 thousand tenge).

13. TRADE AND OTHER RECEIVABLES

In thousands of tenge	2017	2016
Trade receivables from third parties	127,455,705	65,063,099
Trade receivables from related parties *(Note 28)*	38,845,581	80,776,472
Other receivables	868,719	961,596
	167,170,005	146,801,167
Less: allowance for doubtful debts	(6,559,803)	(6,646,732)
	160,610,202	140,154,435

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. TRADE AND OTHER RECEIVABLES (continued)

Movements in the allowance for doubtful debts were as follows:

In thousands of tenge	Individually impaired
At 31 December 2015	(5,074,691)
Charge for the year	(4,447,285)
Foreign currency translation	29,046
Utilised	300,276
Recovered	2,545,922
At 31 December 2016	(6,646,732)
Charge for the year	**(4,638,946)**
Foreign currency translation	**5,402**
Utilised	**184,166**
Recovered	**4,536,307**
At 31 December 2017	**(6,559,803)**

As at 31 December the ageing analysis of trade and other receivables is as follows:

		Neither past due nor	Past due, but not impaired				
In thousands of tenge	Total	impaired	<30 days	30-60 days	60-90 days	90-120 days	<120 days
2017	**160,610,202**	**91,466,785**	**4,449,145**	**33,339,416**	**15,993,088**	**850,647**	**14,511,121**
2016	140,154,435	126,099,884	1,988,167	6,598,249	3,610,190	82,022	1,775,923

As at 31 December trade and other receivables are denominated in following currencies:

In thousands of tenge	2017	2016
USD	**81,605,809**	29,115,345
KZT	**79,004,393**	111,039,090
	160,610,202	140,154,435

Trade and other receivables are non-interest bearing.

14. EQUITY

	Common shares outstanding (number of shares)				Total share capital
	Par value of 100 tenge	Par value of 138 tenge	Par value of 2,500 tenge	Par value of 10,000 tenge	(in thousands of tenge
As of 31 December 2017	**312,167,670**	**1**	**30,976,655**	**8,396,465**	**192,623,055**
As of 31 December 2016	312,167,670	1	30,976,655	7,099,677	179,655,175

Common shares give holders the right to vote on all matters within the competence of the General Shareholders Meeting. Dividends on common shares are paid at the Shareholder's discretion. The Group did not distribute any dividends in 2017 and 2016.

Share capital

In 2017, the Group issued 1,296,788 common shares with par value of 10,000 tenge each for the total amount of 12,967,880 thousand tenge related to the assets previously received as contribution to additional paid-in capital under trust management agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. EQUITY (continued)

Book value per share

In thousands tenge	2017	2016
Total assets	**1,397,343,541**	1,215,632,844
Less: intangible assets	**(4,747,183)**	(3,018,539)
Less: total liabilities	**(750,318,252)**	(649,848,066)
Net assets for common shares	**642,278,106**	562,766,239
Number of common shares	**351,540,791**	350,244,003
Book value per common share in thousands of tenge	**1.827**	1.607

In accordance with the decision of the Exchange Board of Kazakhstan Stock Exchange JSC ("KASE") dated October 4, 2010 financial statements shall disclose book value per share (common and preferred) as of the reporting date, calculated in accordance with the KASE rules.

Earnings per share

Basic and diluted earnings per share are calculated by dividing net income for the period attributable to common shareholders by the number of shares outstanding during the period.

The following table reflects the income and share data used in the basic earnings per share computations for the reporting periods ended:

In thousands tenge	2017	2016
Net income attributable to shareholder for basic and diluted earnings per share	**74,780,940**	81,394,994
Average number of common shares for basic and diluted earnings per share	**351,108,528**	350,244,003
Basic and diluted, earnings per share for the period attributable to the parent (in thousands of tenge)	**0.21**	0.23

Additional paid-in capital

In 2017, the Group received property, plant and equipment represented by gas transportation system under trust management agreement from the Government with the fair value of 13,188,885 thousand tenge at the date of transfer. Trust management agreement is a short-term mechanism functioning until the title on these assets is transferred to the Company. The Group is a direct user of these assets; it received all risks and rewards related to the ownership of this property in accordance with trust management agreement. Accordingly, the Group recognised the asset and appropriate increase in additional paid-in capital, which will be reclassified to share capital once the legal procedures are completed.

In 2017, the Group recognised additional paid-in capital with respect to discount on loan provided by KazMunayGas in the amount of 1,896,346 thousand tenge (2016: 3,272,051 thousand tenge) *(Note 17)*.

Retained earnings

In December 2016, the Group transferred Martial Arts Palace, which is a social asset under construction in Astana, to KazMunayGas-Service LLP, KazMunayGas's subsidiary. The fair value of the asset transferred as of the date of the transfer approximates to 5,956,718 thousand tenge.

Bank RBK JSC

In October 2017, there were first indicators of impairment on deposits and cash on current accounts held with Bank RBK JSC in the amount of 13,927,890 thousand tenge, due to pre-default condition of the bank. In accordance with asset coverage ratio, the Group determined the revolving amount of deposits and recognised loss on impairment on financial asset in the amount of 3,481,973 thousand tenge *(Note 26)*. As result, the carrying amount of deposits and cash on current accounts comprised 10,445,917 thousand tenge.

14. EQUITY (continued)

Retained earnings (continued)

Bank RBK JSC (continued)

In November 2017, National Bank of the Republic of Kazakhstan jointly with the Government of the Republic of Kazakhstan and Kazakhmys Corporation LLC (KCC), a third party, signed the framework agreement on improving the conditions of Bank RBK JSC. On 29 December 2017, the Group's deposits and cash on current accounts held with Bank RBK JSC with the carrying amount of 10,445,917 thousand tenge were converted to 15 year coupon bonds at par value of 1 tenge each bearing 0.01% per annum. KCC guarantees to repay 3,828,907 thousand tenge in 5 (five) years. As a result, coupon bonds were initially recognised at fair value of 2,078,177 thousand tenge. The fair value is determined by discounting future cash flows for the guaranteed amount of bonds using a discount rate of 13% and maturity date of 5 (five) years. The difference between carrying amount of deposits and cash and the fair value of coupon bonds in the amount of 8,367,740 thousand tenge was recognised by the Group as other transactions with the Shareholder through retained earnings.

15. DEBT SECURITIES ISSUED

As at 31 December 2017 and 2016, the debt securities issued comprised:

				2017		2016	
In thousands of tenge	Issue	Maturity	Interest rate	US dollar	In thousands of tenge	US dollar	In thousands of tenge
KTG bonds	2017	2027	4.375%	**750,000,000**	**249,255,769**	–	–
KTG Aimak bonds	2014	2018	7.5%	–	**8,629,170**	–	8,629,170
KTG Aimak bonds	2015	2025	7.5%	–	**4,987,576**	–	5,000,000
ICA bonds, The Bank of New York Mellon	2007	2017	6.375%	–	–	127,801,000	42,594,795
				750,000,000	**262,872,515**	127,801,000	56,223,965
Plus: interest payable					**3,295,177**		764,314
Less: unamortised transaction costs					**(372,197)**		(12,392)
Less: discount					**(1,274,543)**		(852,771)
Less: amount due for settlement within 12 months from the reporting date					**(11,871,439)**		(43,346,717)
Amounts due for settlement after 12 months					**252,649,513**		12,776,399

On 26 September 2017, KTG placed international coupon bonds ("Eurobonds") for the total amount of 750,000,000 US dollars at par value of 200,000 US dollars each bearing 4.375% per annum. The coupon is paid semi-annually on 26 March and 26 September till 26 September 2027 with a total period of 10 years. The yield on debt securities issued was equal to 4.4%. On 27 September 2017, the proceeds on debt securities issued less transaction costs were equal to 253,835,477 thousand tenge (equivalent to: 747,278,253 thousand US dollars).

On 10 May 2017, ICA executed full redemption of Eurobonds in the amount of 40,652,220 thousand tenge (equivalent to 127,801,000 US dollars), including accrued interest in the amount of 1,295,789 thousand tenge (equivalent to 4,073,657 US dollars).

In 2017, KTG Aimak performed partial early redemption of bonds in the amount of 12,424 thousand tenge (2016: nil).

As of 31 December 2017 and 2016, the Group is in compliance with financial and non-financial covenants under these debt securities issued prospectuses.

16. INTEREST BEARING LOANS

As at 31 December interest bearing loans comprised:

In thousands of tenge	2017	2016
Interest-bearing loans with floating rate	65,371,308	101,149,162
Interest-bearing loans with fixed rate	66,658,955	39,901,817
	132,030,263	141,050,979
Less: unamortised transaction costs	(1,105,560)	(969,558)
Plus: interest payable	1,702,189	670,982
	132,626,892	140,752,403
Less: amount due for settlement within 12 months from the reporting date	(19,321,945)	(64,516,504)
Amounts due for settlement after 12 months	113,304,947	76,235,899

As of 31 December 2017 and 2016, the loans are unsecured and not supported by any means of collateral. The Group is in compliance with financial and non-financial covenants under these loan agreements.

Interest-bearing loans with floating rate

European Bank for Reconstruction and Development

In accordance with the loan agreement dated 26 May 2016, on 26 July 2016, ICA received a loan from the European Bank for Reconstruction and Development in the amount of 48,143,200 thousand tenge (equivalent to: 140,000 thousand US dollars) to the purpose of restructuring existing obligations. In May 2017, ICA received second tranche under the loan agreement in the amount of 25,254,400 thousand tenge (equivalent to: 80,000 thousand US dollars). Under the terms of the loan agreement, all payments related to the loan are made in US dollars.

On 23 October 2017, according to the letter received from the European Bank for Reconstruction and Development, the principal on the loan was converted from 203,077 thousand US dollars to 68,213,538 thousand tenge. The exchange rate used for conversion was 335.9 tenge per 1 US dollar. Interest rate was changed from 3m LIBOR plus 3.15% per annum to 3m CPI (Consumer Price Index) plus 3.15% per annum. ICA shall repay this loan in 26 (twenty-six) consecutive equal quarterly instalments commencing on 5 June 2017. During 2017, ICA repaid principal under the loan agreement in the amount of 8,317,269 thousand tenge.

As at 31 December 2017, ICA has principal payable to European Bank for Reconstruction and Development under the above loan agreement in the amount of 65,371,308 thousand tenge (as at 31 December 2016: 46,660,600 thousand tenge).

Citibank N.A. Nassau & Citibank Kazakhstan

On 9 May 2016, Citibank N.A. Nassau changed address of facility office to Citibank N.A. Jersey Branch.

As at 31 December 2016, the Company had short-term loans payable to Citibank N.A. Nassau, Bahamas Branch (the Commonwealth of the Bahamas) and Citibank Kazakhstan JSC in the amount of 53,526,374 thousand tenge under the General Agreement with a limit of up to 200 million US dollars at the rate of 3 months LIBOR + 2% for a period of less than 12 (twelve) months from the date of each tranche. In 2017, the Company received additional financing in the amount of 13,264,400 thousand tenge (equivalent to 40,000 thousand US dollars). In 2017, the Company fully repaid principal under the loan agreement in the amount of 63,367,232 thousand tenge (equivalent to 200,600 thousand US dollars).In accordance with the short-term loan agreements dated 31 May 2017 and 3 May 2017, ICA received a loan from Citibank N.A. Jersey Branch in the amount of 6,313,600 thousand tenge (equivalent to 20,000 thousand US dollars) at the rate of 1 months LIBOR + 2% for the purpose of restructuring existing obligations. In 2017, ICA fully repaid principal under the loan agreement in the amount of 6,429,200 thousand tenge (equivalent to 20,000 thousand US dollars).

Citibank NA (London branch), VTB Bank and ING Bank (ING-DiBa AG branch)

In accordance with the loan agreement dated 28 June 2017, on 14 July 2017, the Company received a loan in the amount of 245,670,000 thousand tenge (equivalent to: 750,000 thousand US dollars) from Citibank NA (London branch),VTB Bank and ING Bank (ING-DiBa AG branch) at the rate of 3m LIBOR plus 0.875% for a period of six months and with possibility of prolongation for an additional six months. On 29 September 2017, the Company fully repaid principal in the amount of 255,322,500 thousand tenge (equivalent to: 750,000 thousand US dollars).

16. INTEREST BEARING LOANS (continued)

Interest-bearing loans with floating rate (continued)

HSBC Bank Plc

In accordance with the loan agreement dated 15 August 2005, Trinkaus & Burkhardt KGAA and CITI Group Global Markets Deutschland AG & CO.KGAA agreed to provide a loan in the amount of euro 44,763,860 to ICA, which represents a part of the value of General Contract between MAN Turbo AG and ICA for the design and supply of equipment and construction works on Opornaya compressor station at CAC mainline gas pipeline in Mangistau region. Under this loan agreement HSBC Bank Plc serves as a finance agent. These loans are guaranteed with a corporate guarantee issued by the Company in favour of these banks. In accordance with the loan agreement all payments related to the borrowing are made in US dollars.

ICA shall repay this loan in 20 (twenty) consecutive equal semi-annual installments commencing on 30 September 2007. Interest was charged at 6m LIBOR plus 0.3% per annum and was paid semi-annually. The loan was fully repaid in the amount of 908,895 thousand tenge on 29 March 2017.

Interest-bearing loans with fixed rate

European Bank for Reconstruction and Development

In accordance with the loan agreement dated 24 November 2016, KTG Aimak received a loan in the amount of 1,080,505 thousand tenge at 10.15% per annum with a maximum loan term of 10 (ten) years to finance the project "Modernization of gas distribution system in Mangystau region". In 2017, KTG Aimak received additional financing in the amount of 14,202,061 thousand tenge under this loan agreement. The principal amount is payable starting from September 2018.

As at 31 December 2017, KTG Aimak has total principal payable to European Bank for Reconstruction and Development under the above loan agreement in the amount of 15,724,505 thousand tenge (as at 31 December 2016: 1,400,219 thousand tenge).

Development Bank of Kazakhstan

KTG Aimak concluded a revolving credit line agreement dated 12 March 2014 for the total amount of 21,485,004 thousand tenge at 8.2% per annum with maturity of 13 (thirteen) years for the project "Modernization of gas pipeline system in South Kazakhstan". On 26 June 2017, KTG Aimak received additional financing for the total amount of 2,900,667 thousand tenge under sublimit 1 and 2 at 8.2% per annum. In 2017, KTG Aimak repaid principal under the loan agreement in the amount of 1,570,855 thousand tenge.

KTG Aimak concluded a revolving credit line agreement dated 17 July 2013 for the total amount of 16,400,000 thousand tenge at 8-10% per annum with maturity of 15 (fifteen) years from the date of agreement for the purpose of financing the project "Modernization of gas distribution pipeline system in Taraz". In 2017, KTG Aimak repaid principal under the loan agreement in the amount of 1,172,267 thousand tenge.

KTG Aimak concluded a revolving credit line agreement dated 12 November 2015 for the total amount of 8,000,000 thousand tenge at 7.00% per annum with a maximum loan term of 10 (ten) years for the purpose of financing the project "Gasification of five communities in Kyzylorda region". The principal under the loan agreement is payable starting from November 2017. In 2017, KTG Aimak repaid principal under the loan agreement in the amount of 470,588 thousand tenge.

KTG Aimak concluded a credit line agreement dated 12 June 2007 for the purpose of financing the project "Construction of stand-by line of gas pipeline Uzen-Zhetybai". In 2017, KTG Aimak repaid principal under the loan agreement in the amount of 226,754 thousand tenge.

On 29 September 2017 KTG Aimak concluded a revolving credit line agreement for the total amount of 13,023,000 thousand tenge with maturity of 10 (ten) years for the project "Modernization of gas pipeline system in Aktobe". In 2017, KTG Aimak received 12,846,911 thousand tenge under the loan agreement at 10.20% per annum with maturity of 10 (ten) years. The principal amount is payable starting from September 2018.

As at 31 December 2017, KTG Aimak has total principal payable to Development Bank of Kazakhstan JSC under the above loan agreements in the amount of 43,234,450 thousand tenge (as at 31 December 2016: 30,801,598 thousand tenge).

16. INTEREST BEARING LOANS (continued)

Interest-bearing loans with fixed rate (continued)

Eurasian Development Bank JSC

In 2016, KTG Aimak raised funds by concluding non-revolving credit line agreement dated 15 November 2016 in the amount of 7,676,900 thousand tenge at 11.00% per annum for the project "Modernization of gas distribution system in Aktobe region". The principal amount is payable starting from May 2019.

As at 31 December 2017, KTG Aimak has total principal payable to Eurasian Development Bank JSC under the above loan agreement in the amount of 7,700,000 thousand tenge (as at 31 December 2016: 7,700,000 thousand tenge).

17. LOANS FROM RELATED PARTIES

As at 31 December loans from related parties comprised:

In thousands of tenge	2017	2016
Fixed interest rate borrowings	**57,278,925**	148,656,625
Interest free borrowings	**–**	25,321,800
	57,278,925	173,978,425
Less: discount	**(5,920,097)**	(6,218,680)
Plus: interest accrued	**1,363,013**	547,483
	52,721,841	168,307,228
Less: amount due for settlement within 12 months from the reporting date	**(43,386,615)**	(25,183,205)
Amounts due after 12 months	**9,335,226**	143,124,023

Fixed interest rate borrowings

On 31 May 2013, KazMunayGas provided to the Group long-term financing in the amount of 458,728 thousand tenge at 5% per annum for the purpose of financing the construction of the "West-North-Center" trunk gas pipeline. This loan is payable by 31 May 2018. As at 31 December 2017, the carrying amount of loan is equal to 564,136 thousand tenge (as at 31 December 2016: 522,404 thousand tenge).

On 12 September 2014, KazMunayGas provided to the Group long-term financing in the amount of 14,881,897 thousand tenge at 4.1% per annum to improve its liquidity. This loan is payable by 12 September 2024. As at 31 December 2017, the carrying amount of loan is equal to 9,518,273 thousand tenge (as at 31 December 2016: 9,034,772 thousand tenge).

On 10 December 2015, KazMunayGas provided to the Group long-term loan in the amount of 123,648,000 thousand tenge (equivalent to 400,000 thousand US dollars) to finance repayment of the loan from Syndicate of international banks. The loan has maturity of 36 months and bears interest at the rate of 2.88% per annum. According to the contract with KazMunayGas, the amount of loan principal and interest payments is indexed to the USD/KZT exchange rate at each repayment date. The Group accounts for the loan as USD denominated loan and recognizes foreign exchange difference at each reporting date. In 2017, the Group repaid principal under the loan agreement in the amount of 116,987,500 thousand tenge. As at 31 December 2017, the carrying amount of the loan is equal to 16,644,416 thousand tenge (as at 31 December 2016: 133,566,847 thousand tenge).

On 6 March 2017, KazMunayGas provided to the Group short-term financing for the total amount of 25,321,800 thousand tenge at the rate of 5.0% per annum for general corporate purposes. This loan is payable on 6 March 2018. The loan was recognised on initial recognition at the fair value determined by discounting future cash flows on the loan at the prevailing interest market rate of 13.5%. Discount on the loan in the amount of 1,896,346 thousand tenge *(Note 14)* was recorded as additional paid-in capital. As at 31 December 2017, the carrying amount of the loan is equal to 25,995,016 thousand tenge (as at 31 December 2016: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. LOANS FROM RELATED PARTIES (continued)

Interest-free borrowings

In 2015, the Group received interest-free loans from KazMunayGas in several tranches amounting to 25,321,800 thousand tenge for the purpose of financing the construction of the Beineu-Shymkent trunk gas pipeline through the provision of short-term loans to BShP with maturity date of 31 December 2016. The loan was recognised on initial recognition at the fair value determined by discounting future cash flows on the loan at the prevailing interest market rate of 14.4-14.6%.

On 26 December 2016, the Group concluded an addendum concerning prolongation of repayment period of financial aid till 5 March 2017. Respective discount in the amount of 3,272,051 thousand tenge was recorded in additional paid-in capital *(Note 14)*.

As at 31 December 2016, the carrying amount of the loan was equal to 24,727,345 thousand tenge. The loan was payable on 5 March 2017. The Group fully repaid loan on maturity date.

18. PROVISIONS

In thousands of tenge	Provision for gas transportation expenses	Abandonment and site restoration provision	Gas pipeline abandonment and site restoration provision	Tax provisions	Other provisions	Total
As at 31 December 2015	24,813,178	2,650,352	39,349,902	1,437,587	–	68,251,019
Arising during the year	–	686,553	–	550,187	–	1,236,740
Change in estimates	(451,720)	–	1,014,426	–	–	562,706
Unwinding of discount	–	259,601	4,153,371	–	–	4,412,972
Utilised	–	–	–	(64,787)	–	(64,787)
At 31 December 2016	24,361,458	3,596,506	44,517,699	1,922,987	–	74,398,650
Arising during the year	–	**99,757**	–	–	**304,229**	**403,986**
Change in estimates	**(70,170)**	**(2,036,005)**	**555,667**	–	–	**(1,550,508)**
Unwinding of discount	–	**222,333**	**4,719,001**	–	–	**4,941,334**
Recovered	–	–	–	**(545,384)**	–	**(545,384)**
Utilised	–	–	–	**(1,276,832)**	**(66,890)**	**(1,343,722)**
At 31 December 2017	**24,291,288**	**1,882,591**	**49,792,367**	**100,771**	**237,339**	**76,304,356**
Current provisions as at 31 December 2017	**24,291,288**	–	–	**100,771**	**237,339**	**24,629,398**
Non-current provisions as at 31 December 2017	–	**1,882,591**	**49,792,367**	–	–	**51,674,958**
Current provisions as at 31 December 2016	24,361,458	–	–	1,922,987	–	26,284,445
Non-current provisions as at 31 December 2016	–	3,596,506	44,517,699	–	–	48,114,205

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. PROVISIONS (continued)

Provision for gas transportation expenses

In 2014, PetroChina International Co. Ltd claimed reimbursement on incurred costs and losses associated with transportation of borrowed gas. The Group analysed recoverable expenses in the amount of 73,094 thousand US dollars and recognised provision for reimbursement of gas transportation expenses to PetroChina International Co. Ltd under the gas borrowing agreement. Since 2014, the management of the Group is negotiating with PetroChina International Co. Ltd the final amount of reimbursement. As at 31 December 2017, the amount of provision in original currency remained unchanged. As at 31 December 2017, provision for gas transportation expenses was equal to 24,291,288 thousand tenge (2016: 24,361,458 thousand tenge).

Gas pipeline abandonment and site restoration provision

The Group's subsidiaries ICA and KTG Aimak recorded a provision for future costs of decommissioning of main gas pipelines on a discounted basis in accordance with the Law of the Republic of Kazakhstan *On Main Pipelines (Note 2)*. As at 31 December 2017, provision for abandonment of gas pipelines and site rehabilitation in the amount of 49,792,367 thousand tenge (2016: 44,517,699 thousand tenge) represents the current costs of abandonment of gas pipelines and site rehabilitation expected to be incurred from 2021 till 2084.

19. OTHER NON-CURRENT LIABILITIES

In thousands tenge	2017	2016
Deferred income: non-current portion	**8,308,872**	5,810,754
Other	**18,866**	-
	8,327,738	5,810,754

20. TRADE AND OTHER PAYABLES

In thousands of tenge	2017	2016
Due to third parties	**38,194,196**	41,665,228
Due to related parties *(Note 28)*	**110,915,218**	114,869,095
	149,109,414	156,534,323

Trade and other payables represent amounts due for the purchased gas, assets and services. Trade payables are non-interest bearing, usually settled within 30 days.

As at 31 December trade and other payables are denominated in following currencies:

In thousands of tenge	2017	2016
KZT	**134,038,495**	142,586,623
USD	**12,208,651**	3,511,985
RUR	**2,849,630**	10,427,199
Other	**12,638**	8,516
	149,109,414	156,534,323

21. OTHER CURRENT LIABILITIES

In thousands of tenge	2017	2016
Gas borrowing	4,853,769	–
Accrued bonuses	4,904,383	2,559,730
Other payments to the budget	944,855	-
Payables to pension and social health insurance funds	772,640	817,095
Deferred income: current portion	461,012	399,077
Other	1,075,444	904,339
	13,012,103	4,680,241

As at 31 December 2017, the Group recognised gas borrowing liability to return 104,323 thousand cubic meters of natural gas borrowed form PetroChina International Company Limited during 2017 (2016: nil).

22. REVENUE

In thousands of tenge	2017	2016
Gas transportation services		
Transportation of gas outside of Kazakhstan	55,861,017	47,627,479
Transportation of gas within Kazakhstan	46,254,369	34,881,484
Transportation of Central Asian gas (transit)	27,631,989	45,684,441
Transportation of Russian gas (transit)	25,836,743	28,088,578
	155,584,118	156,281,982
Revenue from sales of gas for export	198,262,041	87,107,006
Revenue from sales of gas on the domestic market	193,305,164	235,630,439
Management fee *(Note 28)*	29,310,861	17,115,519
Maintenance of gas pipelines	4,369,653	4,711,121
Other	924,934	1,112,428
	581,756,771	501,958,495

In 2017, the Group earned management fee in the amount of 29,310,861 thousand tenge for management over KazRosGas LLP, joint venture of KazMunayGas, under the trust management agreement signed between the Company and KazMunayGas on 22 June 2015 (2016: 17,115,519 thousand tenge).

23. COST OF SALES

In thousands of tenge	2017	2016
Cost of gas sold	234,536,355	211,903,400
Transportation expenses	93,658,724	39,019,708
Payroll and related contributions	35,448,901	32,188,159
Depreciation and amortization	29,081,227	27,589,427
Fuel gas and gas losses	14,214,718	14,943,807
Taxes other than income tax	8,685,460	7,903,435
Billing services	5,331,987	4,617,350
Repair and maintenance	4,000,465	2,820,921
Security	2,400,743	1,962,094
Electricity	2,076,504	1,314,640
Business trip expenses	1,028,577	758,586
Materials and supplies	847,423	602,146
Communication expenses	551,146	429,934
Insurance	543,738	662,124
Change in provision for gas transportation expenses, net *(Note 18)*	(70,170)	(451,720)
Other	2,457,404	2,189,611
	434,793,202	348,453,622

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of tenge	2017	2016
Payroll and related contributions	**12,048,291**	9,461,874
Rent expenses	**2,520,874**	3,053,656
Depreciation and amortization	**1,354,094**	1,032,977
Consulting services	**1,348,249**	1,283,066
Taxes other than income tax	**1,242,836**	1,012,964
Write-down of inventory to net realisable value	**985,540**	981,887
Other payments to the budget	**944,855**	–
Personnel development and qualification upgrade	**514,045**	447,542
Office maintenance expenses	**508,877**	530,064
Repair and maintenance	**417,051**	413,198
Business trip expenses	**401,230**	355,099
Bank charges	**334,645**	352,501
Communication services	**137,026**	118,895
Security costs	**121,792**	110,377
Change in allowance for doubtful debts and advances paid *(Note 7 and 13)*	**109,506**	1,901,363
Festive and cultural events expenses	**75,338**	149,457
Insurance	**29,904**	29,235
Sponsorship and charity	**11,653**	2,539
Impairment of tax assets and (reversal)/accrual of tax provision *(Note 9 and 18)*	**(484,780)**	11,038,252
Fines and penalties	**(3,006,513)**	553,289
Other	**1,839,531**	1,257,167
	21,454,044	34,085,402

Fines and penalties represent a reversal of VAT provision in the amount of 3,077,590 thousand tenge which was recognized in 2015. In 2017 the Group's subsidiary KTG Aimak won litigation with tax authorities, upon the court decision input VAT of 3,077,590 thousand tenge was reimbursed to the Group. However, the Group and tax authorities agreed to restructure input VAT into corporate income tax prepaid.

25. OTHER OPERATING INCOME/(EXPENSES)

In thousands of tenge	2017	2016
Other operating income		
Income from services rendered (gas supply to residential buildings, hook-up, technical maintenance)	**3,363,611**	3,140,460
Income from fines	**571,368**	447,375
Income from sale of inventories	**439,559**	162,169
Amortization of deferred income	**403,770**	360,260
Reversal of impairment of property, plant and equipment *(Note 4)*	**–**	1,902,866
Other	**285,865**	1,306,765
	5,064,173	7,319,895
Other operating expenses		
VAT expense under Trust management agreement	**(4,842,850)**	(235,522)
Expenses on services rendered (gas supply to residential buildings, hook-up, technical maintenance)	**(2,438,263)**	(2,318,613)
Loss on disposal of property, plant and equipment, intangible assets and exploration and evaluation assets	**(771,657)**	(627,016)
Allowance for impairment of property, plant and equipment and exploration and evaluation assets *(Note 4 and 5)*	**(326,705)**	–
Depreciation and amortization	**(21,404)**	(30,028)
Other	**(59,552)**	(357,197)
	(8,460,431)	(3,568,376)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. OTHER OPERATING INCOME/(EXPENSES) (continued)

Prior to 5 December 2014, ICA operated certain main gas pipelines under the Concession Agreement signed between the Committee on state property and privatization of the Ministry of finance of the Republic of Kazakhstan (the "Founder-1"), Sovereign Wealth Fund Samruk-Kazyna JSC (the "Founder-2") and Intergas Central Asia JSC (the "Trustee"). Under the Concession Agreement, ICA did not recognize the assets in its accounting books as the Concession Agreement did not transfer the control over the assets to ICA.

Upon termination of the Concession Agreement in December 2014, a trilateral trust management agreement was signed between the Founder-1, the Founder-2 and the Trustee with respect to the same main gas pipelines. Trust management agreement is a short-term mechanism functioning until the title to these gas pipelines is transferred to the Company. ICA is a direct user of these assets; it assumed all risks and received all rewards related to operating these gas pipelines in accordance with trust management agreement. Accordingly, ICA recognised gas pipelines and gas pipelines transportation system with corresponding increase in additional paid-in capital.

Until the transfer of title to these gas pipelines, ICA is liable to pay VAT to the budget when incurred under the Trust management agreement.

26. FINANCE INCOME AND FINANCE COSTS

In thousands of tenge	2017	2016
Finance income		
Amortization of discount on the loans issued to related party *(Note 8)*	**6,670,834**	7,191,646
Interest income on bank deposits	**5,220,378**	5,966,327
Interest income on loans to related party	**2,271,095**	–
Other	**367,760**	89,053
	14,530,067	13,247,026
Finance costs		
Interest on bank loans and overdrafts	**(9,111,632)**	(4,556,481)
Unwinding of discount on abandonment and site restoration provision	**(4,941,334)**	(4,412,972)
Interest on debt securities issued	**(4,836,628)**	(5,806,807)
Interest on loans from related parties	**(4,681,800)**	(4,561,871)
Discount on interest free loans to the joint venture	**(3,683,289)**	(3,452,438)
Loss on impairment of financial asset *(Note 14)*	**(3,481,973)**	–
Unwinding of discount on financial liabilities	**(2,650,789)**	(3,746,368)
Amortization of capitalized costs related to loan arrangement	**(1,642,490)**	(231,737)
Financial guarantee obligations to the joint venture	**(1,070,133)**	–
Amortization of discount on debt securities issued	**(118,850)**	–
Unwinding of discount on employee benefit obligations	**(61,024)**	(55,169)
Other	**(644,574)**	(386,405)
	(36,924,516)	(27,210,248)

27. INCOME TAX EXPENSES

The Group is subject to corporate income tax at the prevailing statutory rate of 20%.

In thousands of tenge	2017	2016
Current income tax expense	**21,883,936**	14,364,150
Deferred income tax expense	**2,627,491**	11,866,815
Adjustment of prior year income tax	**166,897**	300,737
	24,678,324	26,531,702

27. INCOME TAX EXPENSES (continued)

A reconciliation of corporate income tax expenses applicable to profit before taxation at the official income tax rate, with the current income tax expense reported in the IFRS financial statements for the years ended 31 December is as follows:

In thousands of tenge	2017	2016
Profit before income tax	**99,459,264**	107,926,696
Statutory tax rate	**20%**	20%
Theoretical income tax expense	**19,891,853**	21,585,339
Tax effect of permanent differences		
Impairment of tax assets and accrual of tax provision	**1,003,479**	2,207,650
Unwinding of discount – historical costs and assets abandonment liabilities	**998,108**	895,448
VAT expense under Trust management agreement	**968,570**	47,104
Non-deductible loss on impairment of financial asset	**696,395**	–
Unwinding of discount on financial liabilities	**530,158**	749,274
Financial guarantee obligations to the joint venture	**214,027**	–
Adjustments with respect to current income tax of prior year	**166,897**	300,737
Share in loss of joint ventures recognised	**126,678**	691,235
Loss on employee benefit obligation	**83,939**	66,157
Provision for / (reversal of) impairment of property, plant and equipment	**65,341**	(380,573)
Non-deductible charity expenses	**35,511**	25,823
Adjustments with respect to deferred income tax of prior year	**(257,845)**	(271,454)
Amortization of discount on loans issued to related parties	**(597,509)**	(747,842)
Non-deductible fines and penalties	**(601,303)**	53,038
Other	**1,354,025**	1,309,766
Income tax expenses reported in the consolidated statement of comprehensive income	**24,678,324**	26,531,702

As at 31 December 2017 and 2016, components of deferred income tax assets and liabilities are as follows:

In thousands of tenge	2017	Charged to profit and loss	Charged to other comprehensive income	2016	Charged to profit and loss	Charged to other comprehensive income	2015
Deferred tax assets							
Provision for gas transportation expenses	**5,430,828**	**(14,034)**	–	5,444,862	(90,344)	–	5,535,206
Other provisions	**3,190,039**	**884,940**	–	2,305,099	365,663	–	1,939,436
Loss under trust management agreement	**2,411,794**	**2,411,794**	–	–	(4,192,921)	–	4,192,921
Deferred income	**1,723,382**	**519,356**	–	1,204,026	(26,881)	–	1,230,907
Other	**2,773,790**	**1,497,770**	–	1,276,020	(2,710,324)	–	3,986,344
	15,529,833	**5,299,826**	–	10,230,007	(6,654,807)	–	16,884,814
Less: provision for deferred tax assets of the Group	**(5,430,828)**	**14,034**	–	(5,444,862)	1,295,127	–	(6,739,989)
	10,099,005	**5,313,860**	–	4,785,145	(5,359,680)	–	10,144,825
Deferred tax liabilities							
Property, plant and equipment and intangible assets	**(47,545,116)**	**(7,949,163)**	–	(39,595,953)	(6,534,547)	–	(33,061,406)
Other non-current liabilities	**(128,278)**	**(56,668)**	**64,480**	(136,090)	55,074	(27,662)	(163,502)
	(47,673,394)	**(8,005,831)**	**64,480**	(39,732,043)	(6,479,473)	(27,662)	(33,224,908)
Net deferred tax liabilities	**(37,574,389)**	**(2,691,971)**	**64,480**	(34,946,898)	(11,839,153)	(27,662)	(23,080,083)

According to the Tax code of the Republic of Kazakhstan, all deferred tax assets expire after 5 (five) years except tax losses carry forward expiring after 10 (ten) years.

Deferred income tax assets and liabilities are related to various entities of the Group and may not be offset against each other in accordance with the tax legislation. Net deferred tax position of the Group entities is as follows:

In thousands of tenge	2017	2016
Deferred tax assets	**3,527,073**	869,416
Deferred tax liabilities	**(41,101,462)**	(35,816,314)
Net deferred tax liabilities as at 31 December	**(37,574,389)**	(34,946,898)

28. RELATED PARTY TRANSACTIONS

Related parties include key management personnel of the Group, entities in which a substantial interest is owned, directly or indirectly, by the Group's key management personnel, KazMunayGas Group companies (entities under common control), joint ventures, in which the Parent is a venturer and entities controlled by Samruk-Kazyna and the Government (other state-controlled entities).

Terms and conditions of transactions with related parties

Related party transactions were made on terms agreed to between the parties that may not necessarily be at market rates, except for services on gas transportation, which are provided based on the tariffs available to the third parties. Outstanding balances at the year-end are unsecured, non-interest bearing and settlement occurs in cash, except as indicated below. For the years ended 31 December 2017 and 2016, the Group did not recognize any impairment of receivables relating to amounts owed by related parties.

The major transactions with related parties for the years ended 31 December 2017 and 2016 were as follows:

In thousands of tenge	2017	2016
Sales of goods and services		
Entities under common control of KazMunayGas	14,006,135	28,803,920
Joint ventures in which the Group is a venturer	16,162,143	11,896,333
Joint ventures in which the Parent is a venturer	62,053,598	106,161,730
Entities under common control of Samruk-Kazyna and the Government	51,212,130	51,246,687
	143,434,006	198,108,670
Management fee		
Entities under common control of Samruk-Kazyna and the Government	29,310,861	17,115,519
	29,310,861	17,115,519
Purchases of goods and services		
Entities under common control of KazMunayGas	26,349,732	38,784,196
Joint ventures in which the Group is a venturer	95,488,620	37,351,761
Joint ventures in which the Parent is a venturer	37,763,203	74,203,869
Entities under common control of Samruk-Kazyna and the Government	289,464	2,279,392
	159,891,019	152,619,218
VAT expense under the Trust management agreement		
Entities under common control of Samruk-Kazyna and the Government	4,842,850	235,522
	4,842,850	235,522
Trade and other receivables		
Entities under common control of KazMunayGas	14,201,934	55,128
Joint ventures in which the Group is a venturer	2,938,635	4,218,810
Joint ventures in which the Parent is a venturer	14,412,035	68,157,320
Entities under common control of Samruk-Kazyna and the Government	7,292,977	8,258,632
Joint ventures in which Samruk-Kazyna and the Government are venturers	–	86,582
	38,845,581	80,776,472
Loans to related party		
Joint ventures in which the Group is a venturer	207,557,085	70,594,716
	207,557,085	70,594,716
Advances paid		
Entities under common control of KazMunayGas	15,629	20,430
Joint ventures in which the Parent is a venturer	1,927,636	26,371,547
Entities under common control of Samruk-Kazyna and the Government	5,294	8,960
	1,948,559	26,400,937
Trade and other payables		
Entities under common control of KazMunayGas	567,797	744,723
Joint ventures in which the Group is a venturer	82,274,930	59,776,737
Joint ventures in which the Parent is a venturer	28,049,061	54,321,749
Entities under common control of Samruk-Kazyna and the Government	23,430	25,886
	110,915,218	114,869,095

28. RELATED PARTY TRANSACTIONS (continued)

Terms and conditions of transactions with related parties (continued)

In thousands of tenge	2017	2016
Advances received		
Entities under common control of KazMunayGas	18,479	61,620
Joint ventures in which the Group is a venturer	–	69
Joint ventures in which the Parent is a venturer	1,671,387	–
Entities under common control of Samruk-Kazyna and the Government	17,768	12,691
Joint ventures in which Samruk-Kazyna and the Government are venturers	47,623	–
	1,755,257	74,380
Loans from related parties		
Entities under common control of Samruk-Kazyna and the Government	52,721,841	168,307,228
	52,721,841	168,307,228
Other financial liabilities		
Joint ventures in which the Group is a venturer	1,794,886	–
	1,794,886	–

In 2017, the Company provided additional interest-free loan to BShP in the amount of 2,467,151 thousand tenge (2016: 11,440,207 thousand tenge) for the construction of the Beineu-Shymkent trunk gas pipeline and interest bearing loan to BShP in the amount of 133,716,000 thousand tenge (equivalent to: 400,000 thousand US dollars) for partial early repayment of the bank loan obtained by BShP under the loan agreement with China Development Bank, Bank of China Limited and Bank of China (Hong Kong) Limited (2016: nil).

In 2017, the Company issued financial guarantee to BShP under the shareholder support agreement dated 7 September 2017 to comply the payment obligations of BShP to China Development Bank, Bank of China Limited and Bank of China (Hong Kong) Limited for the period until completion date of Beineu-Shymkent gas pipeline project on 30 September 2019. Under the terms of the credit line agreement between BShP and China Development Bank, Bank of China Limited and Bank of China (Hong Kong) Limited, the principal amount is payable in quarterly installments starting from December 2017 to March 2028. The Company's guarantee is limited to KMG's 31% share in guarantee provided for the full maturity of the loan. As at 31 December 2017, the carrying amount of the Company's financial guarantee obligation was 1,794,886 thousand tenge (2016: nil).

In 2017, the Company repaid the interest-free borrowings to KazMunayGas in the amount of 25,321,800 thousand tenge and received the same amount as fixed interest rate loan at a rate of 5.0% per annum for general corporate purposes.

In 2017, the Company repaid principal under the loan agreement with KazMunayGas dated 10 December 2015 in the amount of 116,987,500 thousand tenge (2016: nil).

In 2017, the Group paid interest to KazMunayGas in the amount of 3,773,286 thousand tenge (2016: 4,878,482 thousand tenge).

As of 31 December 2017, the management of the Group expects to recover all trade receivables and advances paid, thus no allowances were made.

Compensation to key management personnel

Key management personnel comprise members of the Management Board and independent directors of the Company, totaling 9 persons as at 31 December 2017 (as at 31 December 2016: 12 persons). In 2017 and 2016 total amount of compensation to key management was equal to 404,184 thousand tenge and 377,567 thousand tenge, respectively, consisting mainly of salaries and other payments and was included in general and administrative expenses in the statement of comprehensive income.

29. COMMITMENTS AND CONTINGENCIES

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 the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Commitments for capital expenditures

As at 31 December 2017, the Group has capital commitments of approximately 15,813,613 thousand tenge, excluding VAT (2016: 75,523,435 thousand tenge, excluding VAT), related to acquisition and construction of property, plant and equipment. These capital commitments are in part related to investment program described in *Note 1* "Corporate information".

29. COMMITMENTS AND CONTINGENCIES (continued)

Commitments of AGP and BShP

The Company's share in the commitments for capital expenditures of AGP and BShP is as follow as at 31 December 2017:

In thousands of tenge	**2017**	2016
AGP	**11,735,079**	29,772,894
BShP	**9,526,147**	10,738,523

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Fiscal periods remain open to review by the authorities in respect of taxes for 5 (five) calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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 prices determined as per the arm's length principle.

The new law on transfer pricing came into effect in Kazakhstan from 1 January 2009. The law is not explicit and there is little precedence with some of its provisions. Moreover, the law is not supported by detailed guidance, which is still under development. As a result, application of transfer pricing law to various types of transactions is not clearly defined.

Due to uncertainties associated with the Kazakhstani law on transfer pricing there is a risk that the tax authorities may take a position on this issue different from that of the Group, which may result in assessment of additional taxes, fines and penalties as of 31 December 2017. The management believes that its interpretation of the transfer pricing legislation is appropriate and that it is probable that the Group's positions with regard to transfer pricing will be sustained.

Environmental matters

The Group is subject to various environmental laws and regulations. Management believes that the Group complies with requirements of the legislation related to environmental matters.

Legal issues and claim

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes, that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the consolidated financial position or the financial results of future operations of the Group.

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 available in the Republic of Kazakhstan. The Group does not have coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Group property or relating to the Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the consolidated financial performance of the Group and its consolidated financial position.

29. COMMITMENTS AND CONTINGENCIES (continued)

Commitments under subsoil use contract

In accordance with the terms of subsoil use contract, Amangeldy LLP has conditional commitment to the Government in the amount of 10,527,586 US dollars related to the cost of acquisition of geological and geophysical data and drilling costs incurred by the Government. This long-term commitment enters in force after confirmation of commercial discovery of gas at the Kumyrly-Kosmudyk, Anabay-Maldybai, Barkhannaya-Sultankudyk, Ucharal-Ucharal North and Kempirtobe fields.

According to the subsurface use contract, Amangeldy LLP is required to comply with minimal working program. As of 31 December 2017 and 2016, Amangeldy LLP complied with the minimal working program.

On 30 May 2016, according to Addendum No. 2 signed by the Company, KazMunayGas and the Ministry of Energy of the Republic of Kazakhstan, the Group received a right for the use of subsurface resources of Kansu site located in Mangystau region under the Contract on exploration of hydrocarbon deposits No. 39949-YBC dated 1 October 2013 (further – "Contract"). Before 30 May 2016, the right for the use of subsurface resources belonged to KazMunayGas. Under the Contract terms, duration period of exploration work is 6 years starting from 1 October 2013 until 1 October 2019. As at 31 December 2017, Addendum No. 3 was signed to extend the drilling of exploratory wells in 2017-2019. As at 31 December 2017 and 2016, the Group failed to comply with the work program under the Contract in full. Management believes that the outstanding amounts can be transferred to subsequent years and that such transfer will not result in termination of subsoil use contract.

Obligation to maintain minimum level of bank deposit for KazRosGas LLP

As at 31 December 2017, the Company has obligation to maintain minimum level of bank deposit in the amount of 51,262 thousand US dollars till 28 December 2019. KazRosGas LLP has the right to withdraw part or entire deposit with the approval of the Company. During this period, Management does not expect any withdrawal from KazRosGas LLP.

30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk management objectives and policies

The Group's principal financial liabilities comprise interest-bearing loans, loans from related parties, debt securities issued, trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group has interest-free loans to related party, trade and other receivables, restricted cash, cash and cash equivalents and bank deposits, which arise directly from its operations.

The Group is exposed to market risk, credit risk and liquidity risk.

The Group's management oversees the management of these risks. The Group's management is supported by department of internal controls and risk management that advises on financial risks and the appropriate financial risk governance framework for the Group. The department of internal controls and risk management provides assurance to the Group's management that the Group's financial risk-taking activities are governed by appropriate policies and procedures.

30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Market prices include two types of risks: interest rate risk and currency risk. Financial instruments affected by market risk include borrowings and deposits.

The Group has no formal agreements for the analysis and mitigation of risks related to changes in interest rates, since management assesses the risk as low.

The sensitivity analysis in the section below relates to positions as at 31 December 2017 and 2016.

The sensitivity analyses have been prepared on the basis that the amount of net debt and the proportion of financial instruments in foreign currencies are all constant.

Currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of foreign exchange rates changes. As a result of significant borrowings and accounts payable denominated in the US dollar, the Group's consolidated statement of financial position can be affected significantly by movement in the US dollar/tenge exchange rates. The financial and economic activities also have transactional currency exposures. Such exposure arises from revenue in US dollar.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar, with all other variables held constant, of the Group's profit before income tax. There is no impact on the Group's equity.

In thousands of tenge	Increase/ decrease in the rate	Effect on profit before income tax
2017		
US dollar	+10%	(18,009,756)
	-10%	18,009,756
2016		
US dollar	+13%	(27,899,440)
	-13%	27,899,440

Credit risk

Credit risk is the risk that one party with financial instrument will not be able to fulfil an obligation and cause the other party to incur a financial loss. The Group is exposed to a credit risk from its operating activities and certain types of investing activities. With regard to investing activities, the Group places deposits with Kazakhstani banks. The Group's management reviews credit ratings of these banks periodically to eliminate extraordinary credit risk exposure. The Group's management believes that recent international credit crisis and subsequent changes in credit rating of local banks does not justify extraordinary credit risk. Accordingly, no impairment allowance against bank deposits is required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The table below shows the balances of cash and deposits in banks at the reporting date using Standard & Poor's and Fitch Ratings credit rating symbols.

In thousands of tenge	Location	2017		2016		2017	2016
Halyk Bank of Kazakhstan JSC	Kazakhstan	Standard & Poor's	BB/negative	Standard & Poor's	BB/negative	26,920,113	52,882,125
Citi Bank Kazakhstan JSC	Kazakhstan	Standard & Poor's	A+/stable	Standard & Poor's	A+/stable	809,631	12,346,402
Altyn Bank JSC	Kazakhstan	Standard & Poor's	BB/negative	Standard & Poor's	BB/negative	546,018	789,315
Development Bank of Kazakhstan JSC	Kazakhstan	Moody's	Baa3/stable	Standard & Poor's	BA2/negative	454,246	–
Tsesna Bank JSC	Kazakhstan	Fitch Ratings	B/stable	Standard & Poor's	B+/negative	335,989	249,934
Deutsche Bank	Germany	Moody's	A3/stable	Moody's	A-2/stable	84,079	203,640
Kazkommertsbank JSC	Kazakhstan	Standard & Poor's	B+/positive	Standard & Poor's	B-/negative	75,110	450,006
Qazaq Bank JSC	Kazakhstan	Standard & Poor's	B-/negative	Standard & Poor's	B-/stable	70,629	3,748,071
ForteBank JSC	Kazakhstan	Standard & Poor's	B/positive	Standard & Poor's	B/stable	57,040	347,109
Eurasian Bank JSC	Kazakhstan	Standard & Poor's	B/negative	Standard & Poor's	B/stable	39,843	39,843
Central Depository of Securities JSC	Kazakhstan	Thomas Murray	A+/positive/A	Thomas Murray	A+/positive/A	25,345	22,224
Sberbank of Russia JSC	Kazakhstan	Fitch Ratings	BB+/positive	Fitch Ratings	Ba2/negative	6,503	32
Bank of China	Hong Kong	Standard & Poor's	A+/stable	Standard & Poor's	A+/stable	650	1,549
SB Bank of China	Kazakhstan	Standard & Poor's	A+/stable	Standard & Poor's	A+/stable	100	–
Citibank N.A. London	England	Standard & Poor's	A+/stable	Standard & Poor's	A+/stable	80	–
GazPromBank	Russia	Standard & Poor's	BB+/stable	Standard & Poor's	BB+/stable	70	–
Bank CenterCredit JSC	Kazakhstan	Fitch Ratings	B/stable	Fitch Ratings	B2/stable	21	126,323
Bank RBK JSC	Kazakhstan	Standard & Poor's	CCC (developing)	Standard & Poor's	B-/stable	10	28,086,436
Bank of ExpoCredit JSC	Kazakhstan	Standard & Poor's	Ba1/negative	Standard & Poor's	Ba1/negative	–	45,236
						29,425,477	99,338,245

At the level of operations, management believes that the Group established appropriate credit verification procedures and monitoring of trade customers, which enabled the Group to trade only with recognized, creditworthy third parties. The Group monitors the outstanding receivables on an ongoing basis with the result that the Group's exposure to bad debts is not significant. Credit risks are taken through individual impairments. Concentration of credit risks mainly relates to the key accounts, in particular, to international customers.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, bank deposits, other non-current financial assets, loans to related party, and other receivables, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The maximum credit risk exposure is limited to the carrying amount as disclosed in *Notes 8, 10, 11* and *13*.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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

In thousands of tenge	On demand	1 to 3 months	3 months to 1 year	1 to 5 years	>5 years	Total
At 31 December 2017						
Debt securities issued	–	5,639,789	14,902,791	45,118,312	309,903,659	375,564,551
Interest bearing loans	161,108	7,582,993	24,584,542	125,240,857	26,309,269	183,878,769
Trade and other payables	9,001,537	139,641,815	466,062	–	–	149,109,414
Loans from related parties	–	26,657,297	17,430,144	2,074,536	15,917,724	62,079,701
Financial guarantee obligations	–	2,555,061	8,342,626	19,451,670	3,489,922	33,839,279
Other financial liabilities	103,363	298,458	1,586,693	136,722	153,812	2,279,048
	9,266,008	182,375,413	67,312,858	192,022,097	355,774,386	806,750,762

The financial guarantee obligations present the amounts of original contracts the Group guaranteed during 2017.

In thousands of tenge	On demand	1 to 3 months	3 months to 1 year	1 to 5 years	> 5 years	Total
At 31 December 2016						
Debt securities issued	323,594	866,355	44,108,337	10,776,358	6,500,000	62,574,644
Interest bearing loans	170,655	2,860,695	66,835,583	73,717,234	18,340,425	161,924,592
Trade and other payables	5,708,453	149,851,476	974,394	–	–	156,534,323
Loans from related parties	–	25,607,829	858,088	137,007,054	16,725,116	180,198,087
Other financial liabilities	95,091	132,263	1,586,536	380,366	–	2,194,256
	6,297,793	179,318,618	114,362,938	221,881,012	41,565,541	563,425,902

Capital management

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

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. There were no changes in the Group's approach to capital management as compared to 2016.

The capital structure of the Group consists of debt, which includes debt securities issued, interest-bearing loans, and loans from related parties disclosed in *Notes 15, 16* and *17*, and equity, comprising primarily share capital, additional paid-in capital and retained earnings as disclosed in *Note 14*.

The Group's management reviews the capital structure on a semi-annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Group has a target debt-to-equity ratio of no more than 1.5.The debt-to-equity ratio at the year end was as follows:

In thousands of tenge	2017	2016
Debt securities issued *(Note 15)*	264,520,952	56,123,116
Interest bearing loans *(Note 16)*	132,626,892	140,752,403
Loans from related parties *(Note 17)*	52,721,841	168,307,228
Less: cash and cash equivalents, bank deposits *(Notes 10 and 11)*	(29,527,406)	(99,398,400)
Total debt	420,342,279	265,784,347
Equity	647,025,289	565,784,778
Debt-to-equity ratio	0.65	0.47

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value of financial instruments

The carrying value of the Group's financial instruments as of 31 December 2017 and 2016 are reasonable approximation of their fair value, except for the financial instruments disclosed below:

	2017				
			Fair value by level of assessment		
In thousands of tenge	**Carrying amount**	**Fair value**	**Quotations in active markets (Level 1)**	**Essential observed input data (Level 2)**	**Essential unobservable input data (Level 3)**
Financial assets					
Loans to related party	**207,557,085**	**209,041,188**	**–**	**–**	**209,041,188**
Financial liabilities					
Debt securities issued	**(264,520,952)**	**(267,423,371)**	**(267,423,371)**	**–**	**–**
Interest bearing loans	**(132,626,892)**	**(135,738,457)**	**–**	**(135,738,457)**	**–**
Loans from related parties	**(52,721,841)**	**(53,372,575)**	**–**	**(53,372,575)**	**–**

	2016				
			Fair value by level of assessment		
In thousands of tenge	Carrying amount	Fair value	Quotations in active markets (Level 1)	Essential observed input data (Level 2)	Essential unobservable input data (Level 3)
Financial assets					
Loans to related party	70,594,716	70,594,716	–	–	70,594,716
Financial liabilities					
Debt securities issued	(56,123,116)	(56,440,444)	(56,440,444)	–	–
Interest bearing loans	(140,752,403)	(140,752,403)	–	(140,752,403)	–
Loans from related parties	(168,307,228)	(168,307,228)	–	(168,307,228)	–

Estimates and assumptions

The management of the Group has determined that the fair value of cash and bank deposits, trade receivables, interest free loans provided to related parties, trade and other payables, and short-term loans received approximates their carrying amount mainly due to short-term nature of these instruments.

Fair value of quoted bonds is based on price quotations at the reporting date.

The fair values of long-term loans are determined by the DCF method using rates currently available for debt on similar terms, credit risk and remaining maturities.

There have been no transfers between Level 1 and Level 2 during 2017 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Changes in liabilities arising from financial activities

In thousands of Tenge	1 January 2017	Proceeds	Repayments	Repayment of interest	Foreign exchange gains or losses	Others	31 December 2017
Financial liabilities							
Interest bearing loans	140,752,403	**320,452,039**	**(337,785,560)**	**(8,244,995)**	**8,071,858**	**9,381,147**	**132,626,892**
Loans from related parties	168,307,228	**25,321,800**	**(142,309,300)**	**(3,773,286)**	**288,000**	**4,887,399**	**52,721,841**
Debt securities issued	56,123,116	**253,835,477**	**(40,664,644)**	**(2,317,599)**	**(7,447,084)**	**4,991,686**	**264,520,952**
Total liabilities arising from financial activities	365,182,747	**599,609,316**	**(520,759,504)**	**(14,335,880)**	**912,774**	**19,260,232**	**449,869,685**

In thousands of Tenge	1 January 2016	Proceeds	Repayments	Repayment of interest	Foreign exchange gains or losses	Others	31 December 2016
Financial liabilities							
Interest bearing loans	45,883,469	254,838,976	(157,767,321)	(4,287,628)	(2,156,410)	4,241,317	140,752,403
Loans from related parties	169,828,015	–	–	(4,878,482)	(2,577,583)	5,935,278	168,307,228
Debt securities issued	105,093,277	–	(48,368,990)	(5,817,268)	(759,209)	5,975,306	56,123,116
Total liabilities arising from financial activities	320,804,761	254,838,976	(206,136,311)	(14,983,378)	(5,493,202)	16,151,901	365,182,747

The "Others" column mainly represents interest accrued, amortization of discount and costs associated with the organization of loans. The Group classifies interest paid as cash flows from operating activities.

31. SEGMENT REPORTING

The Group determines its operating segments based on the nature of their operations. The performance of the operating segments is assessed by management on a regular basis.

The following reportable segments within the Group were determined:

- Gas trading – sales of gas within the Republic of Kazakhstan and abroad;
- Transportation and storage of gas – transportation of gas and storage of purchased gas in underground gas storages.

The remaining operating segments (exploration and production of gas and rendering transportation services) have been aggregated and presented as other operating segment due to their insignificance.

Segment performance is evaluated based on both revenues and net profit, which are measured on the same basis as in the consolidated financial statements. Inter-segment transactions were made on terms agreed to between the segments 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.

Substantially all of the Group's operations and assets are located in the Republic of Kazakhstan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. SEGMENT REPORTING (continued)

The following table represents information about revenues and net profit, assets and liabilities of operating segments of the Group for 2017:

In thousands of tenge	Gas trading	Transportation and storage of gas	Other segments	Elimination	Total
Revenue from sales to external customers	461,870,222	116,947,422	2,939,127	–	581,756,771
Revenue from sales to other segments	10,725,871	68,608,147	20,781,279	(100,115,297)	–
Total revenue	472,596,093	185,555,569	23,720,406	(100,115,297)	581,756,771
Gross profit	31,752,499	107,397,474	11,013,009	(3,199,413)	146,963,569
Finance income	14,864,605	702,186	413,726	(1,450,450)	14,530,067
Finance costs	(27,229,003)	(9,451,634)	(571,104)	327,225	(36,924,516)
Depreciation, depletion and amortization	(9,446,677)	(18,326,495)	(2,683,553)	–	(30,456,725)
Impairment of property, plant and equipment	(173,435)	(141,270)	(12,000)	–	(326,705)
Share in (loss)/profit of joint ventures	–	(668,700)	35,310	–	(633,390)
Income tax expenses	(3,582,977)	(19,514,751)	(1,580,596)	–	(24,678,324)
Net profit for the year	37,240,625	63,917,390	5,850,340	(32,227,415)	74,780,940
Other segment information					
Investments in joint ventures	–	4,084,722	1,100,673	–	5,185,395
Capital expenditures	49,066,323	89,611,230	6,756,154	–	145,433,707
Allowances for obsolete inventories, doubtful debts, and advances paid	(6,325,414)	(2,856,396)	(312,271)	–	(9,494,081)
Assets of the segment	808,725,669	632,369,068	64,256,771	(108,007,967)	1,397,343,541
Liabilities of the segment	603,998,324	183,858,556	11,206,596	(48,745,224)	750,318,252

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. SEGMENT REPORTING (continued)

The following represents information about revenue and net profit, and assets and liabilities of operating segments of the Group for 2016:

In thousands of tenge	Gas trading	Transportation and storage of gas	Other segments	Elimination	Total
Revenue from sales to external customers	371,205,553	128,355,355	2,397,587	–	501,958,495
Revenue from sales to other segments	7,492,349	40,702,487	16,606,537	(64,801,373)	-
Total revenue	378,697,902	169,057,842	19,004,124	(64,801,373)	501,958,495
Gross profit	53,373,035	96,576,567	5,882,588	(2,327,317)	153,504,873
Finance income	12,508,599	1,317,830	279,187	(858,590)	13,247,026
Finance costs	(16,331,834)	(10,659,838)	(349,306)	130,730	(27,210,248)
Depreciation, depletion and amortization	(8,544,495)	(17,396,476)	(2,711,461)	–	(28,652,432)
Reversal of impairment of property, plant and equipment	1,897,885	-	4,981	–	1,902,866
Share in loss of joint ventures	–	(3,452,438)	(3,735)	–	(3,456,173)
Income tax expenses	(9,291,153)	(16,452,071)	(788,478)	–	(26,531,702)
Net profit for the year	33,433,532	53,743,769	1,867,221	(7,649,528)	81,394,994
Other segment information					
Investments in joint ventures	–	–	1,065,363	–	1,065,363
Capital expenditures	38,433,039	40,574,751	12,740,654	–	91,748,444
Allowances for obsolete inventories, doubtful debts, and advances paid	(6,239,335)	(2,050,142)	(302,304)	–	(8,591,781)
Assets of the segment	654,535,325	604,780,907	64,400,369	(108,083,757)	1,215,632,844
Liabilities of the segment	491,170,753	183,163,267	12,343,374	(36,829,328)	649,848,066

Eliminations represent the exclusion of intra-group turnovers.

In 2017, the Group generated 26% of its revenues from Gazprom Group (2016: 33%).

32. SUBSEQUENT EVENTS

The Group had no significant events after the end of the reporting period.