

**KazTransGas JSC**

**Consolidated financial statements**

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

**CONTENTS**

---

Independent auditor's report

**Consolidated financial statements**

Consolidated statement of financial position .....	1-2
Consolidated statement of comprehensive income .....	3
Consolidated statement of cash flows .....	4
Consolidated statement of changes in equity .....	5
Notes to the consolidated financial statements .....	6-58

## Independent auditor's report

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

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the 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 the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's 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.

## Key audit matters

### **Recoverability of financial assets**

As at 31 December 2018, the Group has investments in Beineu-Shymkent Gas Pipeline LLP, joint venture of the Group, and significant loans issued to this joint venture. The assessments of recoverability of this investment and collectability of the loans 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, and loans to Beineu-Shymkent Gas Pipeline LLP and is disclosed in *Notes 6 and 8* to the consolidated financial statements.

### **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 to the financial statements. 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 gas pipeline abandonment and site restoration is disclosed in *Notes 2 and 18* to the consolidated financial statements.

### **Compliance with loan covenants**

In accordance with the terms of certain financing arrangements, the Group should maintain and comply with certain financial and non-financial covenants. Breaching covenants could result in significant fines and penalties along with funding shortages. In addition, cross default provisions are in place under the Group's financing arrangements.

## How our audit addressed the key audit matter

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 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.

Our 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 for making future cost estimates. We analysed the calculations and evaluated the discount rate and inflation rate used.

We examined the terms of financing arrangements. We compared data used in the financial covenants compliance calculations with the consolidated financial statements as well as the financial statements of subsidiaries.

Compliance with covenants was one of the matters of most significance in the audit since it can have a major impact on the going concern assumption used in the preparation of the consolidated financial statements, and on classification of the liabilities under financing arrangements in the consolidated statement of financial position.

Information about loan covenants is disclosed in *Note 16* to the consolidated financial statements.

We assessed arithmetic accuracy of financial covenants calculations. In addition, we performed procedures to evaluate compliance with non-financial covenants under the Group's financing arrangements.

#### ***Other information included in the Group's 2018 Annual report***

Other information consists of the information included in the Group's 2018 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2018 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

#### ***Responsibilities of Management and the 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 are responsible for overseeing the Group's financial reporting process.

#### ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the 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

Qualified audit license No. MF-0000115  
dated 21 September 2012

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

20 February 2019



---

Gulmira Turmagambetova  
General Director  
Ernst and Young LLP

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

<i>In thousands of tenge</i>	Notes	As at December	
		2018	2017
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	990,553,112	873,582,370
Exploration and evaluation assets	5	11,839,832	12,051,402
Intangible assets		5,695,763	4,747,183
Investments in joint ventures	6	21,899,371	5,185,395
Advances paid for non-current assets	7	8,733,969	2,928,599
Loans to related party	8	154,926,469	135,190,963
Non-current financial assets		2,373,194	2,078,177
VAT recoverable	9	92,910,112	48,321,910
Deferred tax assets	28	189,372	3,527,073
Other non-current assets		375,136	285,735
Bank deposits	10	4,611,916	5,404,411
		<b>1,294,108,246</b>	<b>1,093,283,218</b>
<b>Current assets</b>			
Inventories	12	60,257,659	17,539,716
Trade and other receivables	13	126,884,462	160,368,738
Loans to related party	8	71,392,215	72,366,122
Advances paid	7	5,655,622	4,843,166
Prepaid taxes other than income tax	9	10,651,416	7,846,304
Corporate income tax prepaid		20,728,947	16,731,818
Other current assets		637,169	241,464
Bank deposits	10	39,212	148,116
Cash and cash equivalents	11	151,155,747	23,974,879
		<b>447,402,449</b>	<b>304,060,323</b>
<b>Total assets</b>		<b>1,741,510,695</b>	<b>1,397,343,541</b>

*The accompanying notes on pages 6 to 58 are an integral part of these consolidated financial statements.*



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)**

<i>In thousands of tenge</i>	Notes	As at December	
		2018	2017
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	14	192,623,055	192,623,055
Additional paid-in capital	14	249,054,740	243,148,277
Foreign currency translation reserve		546,149	546,149
Retained earnings		358,270,270	210,707,808
		<b>800,494,214</b>	<b>647,025,289</b>
<b>Non-current liabilities</b>			
Debt securities issued	15	291,626,098	252,649,513
Interest bearing loans	16	181,478,932	113,304,947
Loans from related party	17	9,905,541	9,335,226
Employee benefit obligations		1,715,974	1,110,423
Provisions	18	60,764,700	51,674,958
Other non-current financial liabilities		2,128,487	1,570,175
Other non-current liabilities	19	8,111,532	8,327,738
Deferred tax liabilities	28	51,828,912	41,101,462
		<b>607,560,176</b>	<b>479,074,442</b>
<b>Current liabilities</b>			
Debt securities issued	15	3,420,482	11,871,439
Interest bearing loans	16	31,105,703	19,321,945
Loans from related party	17	26,198,509	43,386,615
Provisions	18	34,582,390	24,629,398
Trade and other payables	20	209,375,852	149,109,414
Taxes payable other than income tax		3,219,598	1,642,303
Contract liabilities	21	9,066,269	5,635,991
Other current financial liabilities		3,420,675	2,634,602
Other current liabilities	22	13,066,827	13,012,103
		<b>333,456,305</b>	<b>271,243,810</b>
<b>Total equity and liabilities</b>		<b>1,741,510,695</b>	<b>1,397,343,541</b>

Deputy of General Director on economics and finance



Meldekkhanov B.N.

*The accompanying notes on pages 6 to 58 are an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

<i>In thousands of tenge</i>	Notes	For the years ended 31 December	
		2018	2017
Revenue	23	921,179,600	581,756,771
Cost of sales	24	(678,104,234)	(434,793,202)
<b>Gross profit</b>		<b>243,075,366</b>	<b>146,963,569</b>
General and administrative expenses	25	(26,153,670)	(21,454,044)
Reversal of allowance for expected credit losses		1,349,077	-
Other operating income	26	4,767,720	5,064,173
Other operating expenses	26	(14,604,064)	(8,460,431)
<b>Operating profit</b>		<b>208,434,429</b>	<b>122,113,267</b>
Gain on sale of interest ownership	2	15,109,842	-
Finance income	27	13,884,999	14,530,067
Finance costs	27	(38,977,393)	(36,924,516)
Share in income/(loss) of joint ventures	6	16,748,976	(633,390)
Foreign exchange (loss)/gain, net		(11,560,507)	373,836
<b>Profit before income tax</b>		<b>203,640,346</b>	<b>99,459,264</b>
Income tax expenses	28	(47,665,288)	(24,678,324)
<b>Net profit for the year</b>		<b>155,975,058</b>	<b>74,780,940</b>
<b>Other comprehensive loss</b>		<b>(208,970)</b>	<b>(257,920)</b>
<b>Comprehensive loss not to be reclassified to profit and loss in subsequent periods</b>			
Actuarial loss on defined benefit plans		(261,212)	(322,400)
Impact of income tax benefit	28	52,242	64,480
<b>Net comprehensive loss not to be reclassified to profit and loss in subsequent periods</b>		<b>(208,970)</b>	<b>(257,920)</b>
<b>Total comprehensive income for the year, net of income tax</b>		<b>155,766,088</b>	<b>74,523,020</b>
<b>Earnings per share</b>			
Basic and diluted, earnings per share for the year attributable to the parent	14	0.44	0.21

Deputy of General Director on economics and finance



Zhanizak T. Zh.

Chief Accountant



Meldekanov B.N.

The accompanying notes on pages 6 to 58 are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

<i>In thousands of tenge</i>	Notes	For the years ended 31 December	
		2018	2017
<b>Cash flows from operating activities</b>			
Receipts from customers		998,665,350	584,834,883
Return of advances paid to suppliers		-	32,579,501
Cash receipts from management fee		14,180,776	18,647,418
Interest received		7,191,299	4,554,396
Taxes refund from budget		4,807,244	4,112,650
Other receipts		989,364	727,624
Payments to suppliers		(695,365,711)	(430,060,274)
Income tax paid		(35,521,315)	(28,897,423)
Other taxes and payments to budget		(36,516,476)	(30,076,458)
Interest paid		(29,826,155)	(14,335,880)
Payments to employees		(41,394,834)	(32,927,904)
Other payments		(6,364,913)	(2,936,899)
<b>Net cash inflows from operating activities</b>		<b>178,844,629</b>	<b>106,221,634</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of interest ownership	2	14,472,800	-
Withdrawal of bank deposits		1,145,123	131,093,676
Proceeds from sale of property, plant and equipment and intangible assets		275,258	25,810
Loans repaid by related party	8	16,294,978	-
Dividends received	6	35,000	-
Proceeds from sale of investment securities	3	13,910,001	-
Placement of bank deposits		(368,707)	(113,830,937)
Purchase of property, plant and equipment, intangible assets, and exploration and evaluation assets		(120,941,399)	(107,235,401)
Loans provided to related party	8	(11,032,435)	(136,183,151)
Acquisition of investment securities	3	(13,910,001)	-
<b>Net cash flows used in investing activities</b>		<b>(100,119,382)</b>	<b>(226,130,003)</b>
<b>Cash flows from financing activities</b>			
Proceeds on interest bearing loans and debt securities issued	15, 16, 31	115,019,917	574,287,516
Proceeds on loans from related party	17, 31	-	25,321,800
Repayments of interest bearing loans and debt securities issued	15, 16, 31	(55,504,846)	(378,450,204)
Repayments of loans from related party	17, 31	(18,983,228)	(142,309,300)
Loan arrangement fee		(786,120)	(1,218,014)
<b>Net cash inflows from financing activities</b>		<b>39,745,723</b>	<b>77,631,798</b>
<b>Net foreign exchange difference on cash and cash equivalents</b>		<b>8,709,898</b>	<b>4,262,990</b>
Net change in cash and cash equivalents		127,180,868	(38,013,581)
Cash and cash equivalents, at the beginning of the year	11	23,974,879	61,988,460
<b>Cash and cash equivalents, at the end of the year</b>	11	<b>151,155,747</b>	<b>23,974,879</b>

Deputy of General Director on economics and finance



Zhanbek T. Zh.  
KazTransGas

Chief Accountant



Meldekhanov B.N.

The accompanying notes on pages 6 to 58 are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

<i>In thousands of tenge</i>	Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	Total
<b>As at 1 January 2017</b>	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)
<b>Total comprehensive income for the year</b>	-	-	-	74,523,020	74,523,020
Issue of shares (Note 14)	12,967,880	(12,967,880)	-	-	-
Contribution from the Shareholder (Note 14 and 17)	-	15,085,231	-	-	15,085,231
Other transactions with the Shareholder (Note 14)	-	-	-	(8,367,740)	(8,367,740)
<b>As at 31 December 2017</b>	192,623,055	243,148,277	546,149	210,707,808	647,025,289
<b>At 1 January 2018</b>	192,623,055	243,148,277	546,149	210,707,808	647,025,289
Effect of adoption of IFRS 9 (Note 3)	-	-	-	(2,503,626)	(2,503,626)
<b>At 1 January 2018</b>	192,623,055	243,148,277	546,149	208,204,182	644,521,663
Net profit for the year	-	-	-	155,975,058	155,975,058
Other comprehensive loss for the year	-	-	-	(208,970)	(208,970)
<b>Total comprehensive income for the year</b>	-	-	-	155,766,088	155,766,088
Contribution from the Shareholder (Note 14)	-	5,906,463	-	-	5,906,463
Other transactions with the Shareholder (Note 14)	-	-	-	(5,700,000)	(5,700,000)
<b>As at 31 December 2018</b>	192,623,055	249,054,740	546,149	358,270,270	800,494,214

Deputy of General Director on economics and finance



Zhanisak T.Zh.

Meldekhanov B.N.

Chief Accountant

*The accompanying notes on pages 6 to 58 are an integral part of these consolidated financial statements.*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

### I. 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 29).

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 2018, the Group has commitments in the amount of 62,558,109 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 2017: 65,683,267 thousand tenge). The results of the implementation of this program can influence the future tariffs. As of 31 December 2018, 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 issuance on 20 February 2019.

#### 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****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 2018 and 31 December 2017, the Company had interest ownership in the following companies, which were included into the consolidated financial statements:

Name	Place of incorporation	Principal activities	Ownership	
			2018	2017
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%
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%
AstanaGas JSC	Kazakhstan	Construction and exploitation of pipeline "Saryarka"	-	100%

As of 31 December 2017, KazTransGas JSC had 100% legal ownership in KazTransGas Tbilisi LLC (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)****Basis of consolidation (continued)***Subsidiaries (continued)*

On 13 September 2018, the Company and the Government of Georgia signed an arbitration agreement on the peaceful settlement of the dispute as a result of which KazTransGas JSC sold 100% shares of KTG Tbilisi for 15,109,600 thousand tenge (equivalent to 40,000 thousand US dollars). On 28 September 2018, the Company collected proceeds from sale of interest ownership of 14,472,800 thousand tenge (equivalent to 40,000 thousand US dollars).

On 2 October 2018, the Company finalized sale of 50% interest in AstanaGas JSC to Samruk-Kazyna and 50% interest in the entity to Baiterek Venture Fund JSC, a subsidiary of NMH Baiterek JSC. Total amount of gain on disposal and consideration received equals to 242 thousand tenge. At disposal date, the net assets of AstanaGas JSC was equal to zero.

*Investments in joint ventures*

As at 31 December 2018 and 31 December 2017, 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 2018	31 December 2017
Asia Gas Pipeline LLP (AGP)	Kazakhstan	Construction and operating Kazakhstan – China gas pipeline	50%	50%
Beineu-Shymkent Gas Pipeline LLP (BShP)	Kazakhstan	Construction and operating 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 ventures, whereby the venturer have a contractual arrangement that establishes joint control over the economic activities of the entities. The agreement requires unanimous consent of the parties sharing control. Investments in joint ventures are accounted for by the Group using the equity method.

Under the equity method, the investment in the joint venture 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****2. BASIS OF PREPARATION (continued)****Basis of consolidation (continued)***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.

**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 2018, the currency exchange rate of KASE was 384.20 tenge to 1 US dollar. This rate was used for translation of monetary assets and liabilities denominated in US dollar at 31 December 2018 (at 31 December 2017: 332.33 tenge to 1 US dollar).



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****2. BASIS OF PREPARATION (continued)****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 30*.

*Allowance for VAT recoverable*

The Group determines whether VAT recoverable is doubtful at least on an annual basis. Allowance for doubtful VAT recoverable 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 28*.

*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.

*Allowance for expected credit losses*

Management maintains an allowance for expected credit losses resulting from expectations, which based on ability of customers to make required payments. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

*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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****2. BASIS OF PREPARATION (continued)****Significant accounting judgements, estimates and assumptions (continued)***Employee benefits (continued)*

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

	2018	2017
Discount rate	9.16%	8.96%
Future salary increase	6.4%	6.8%
Mortality rate	12%	14.0%

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.

*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 2018 were 5.50% and 9.16%, respectively (2017: 5.57% and 10%). As at 31 December 2018 the carrying amount of provision for abandonment of gas pipeline and site restoration was equal to 58,838,287 thousand tenge (2017: 49,792,367 thousand tenge). As at 31 December 2018 the carrying amount of provision for well abandonment and site restoration under the contract for exploration and production of hydrocarbons was equal to 1,903,822 thousand tenge (2017: 1,882,591 thousand tenge). Further details are contained in *Note 18*.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **New standards, interpretations and amendments adopted to the existing standards and interpretations adopted by the Group for the first time**

The Group applies, for the first time, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* that require restatement of comparative information. As required by IAS 34, the nature and effects of these changes are disclosed below.

The following amendments and interpretations apply for the first time in 2018, but do not have an impact on annual consolidated financial statements of the Group:

- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Considerations*;
- Amendments to IAS 40 *Transfers of Investment Property*;
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*;
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*;
- Amendments to IAS 28 *Investments in Associates and Joint Ventures* – clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice;
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* – deletion of short-term exemptions for first-time adopters.

#### *IFRS 15 Revenue from Contracts with Customers*

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

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

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

Adoption of IFRS 15 did not have significant effect on the annual consolidated financial statements of the Group.

#### *(a) Sale of gas*

The Group's contracts with customers for the sale of natural gas generally include one performance obligation. The Group has concluded that revenue from sale of natural gas should be recognized over time. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

#### *(b) Rendering services*

The Group fulfills performance obligation on a monthly basis and recognizes revenue from rendering gas transportation services and technical maintenance of gas pipelines, based on the actual volumes of services rendered. Revenue from gas transportation services is recognized over time given that the buyer simultaneously receives and consumes the benefits provided by the Group. The adoption of IFRS 15 did not have an impact on the Group's revenue and profit or loss from rendering of services.

#### *(c) Management fee*

The Group recognizes management fee, which is related to management of KazMunayGas's joint venture, KazRosGas LLP, at point in time based on the approval of the declaration of dividends of KazRosGas LLP. Therefore, the adoption of IFRS 15 did not have an impact on the Group's revenue and profit or loss.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**New standards, interpretations and amendments adopted to the existing standards and interpretations adopted by the Group for the first time (continued)**

*IFRS 15 Revenue from Contracts with Customers (continued)**(d) Advances received from customers*

Generally, the Group receives short-term advances from its customers. Prior to the adoption of IFRS 15, the Group presented these advances as advances received in the consolidated statement of financial position.

Upon the adoption of IFRS 15, for short-term advances, the Group used the practical expedient. As such, the Group will not adjust the promised amount of the consideration for the effects of a financing component in contracts, where the Group expects, at contract inception, that the period between the time the customer pays for the good or service and when the Group transfers that promised good or service to the customer will be one year or less.

The Group changed the presentation of its consolidated statement of financial position as at 31 December 2017 renaming Advances received to Contract liabilities. The amendment did not have any impact on the consolidated financial statements of the Group.

*IFRS 9 Financial Instruments*

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

With the exception of hedge accounting, which the Group applied prospectively, the Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018.

The Group did not restate the comparative information for the annual period beginning 1 January 2017 and recognized the adjustment to the opening balance of retained earnings as at 1 January 2018.

*(a) Classification and measurement*

Interest bearing loans to related party, as well as trade receivables and amounts due from credit institutions are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Interest-free loans to related party do not meet criteria for amortized costs or FVOCI and measured at FVPL. The Group assessed the contractual cash flow characteristics of the financial asset on the basis of the facts and circumstances that existed at the initial recognition of the financial asset. Due to short-term nature, the carrying value of interest-free loans to related party approximates its fair value. The reclassification made did not affect the consolidated statement of financial position and consolidated statement of comprehensive income of the Group (Note 8).

*(b) Impairment*

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

IFRS 9 requires the Group to record an allowance for ECLs for all debt financial assets not held at FVPL.

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

For trade accounts receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets (i.e., loans to related parties, bank deposits and financial guarantee obligations), the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**New standards, interpretations and amendments adopted to the existing standards and interpretations adopted by the Group for the first time (continued)**

*IFRS 9 Financial Instruments (continued)**(b) Impairment (continued)*

The adoption of the ECL requirements of IFRS 9 resulted in increase in impairment allowances of the Group's trade accounts receivables, loans to related parties and increase in financial guarantee obligations. As a result of this increase, the Group adjusted the balance of retained earnings as at 1 January 2018 in the annual consolidated statement of changes in equity for ECL for financial assets at amortized cost and financial guarantee obligations.

IAS 1.82 (ba) requires that the statement of profit or loss include line items that present the impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with IFRS 9. The Group presents its net impairment gains determined in accordance with IFRS 9 separately in the annual consolidated statement of comprehensive income.

*(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 do not have an impact on the Group's financial statements.

*(d) Other adjustments*

In addition to the adjustments described above, upon adoption of IFRS 9, other items of the annual consolidated financial statements such as financial guarantee obligation were adjusted as necessary.

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

<i>In thousands of tenge</i>	As at 31 December 2017	Effects of adoption of IFRS 9	As at 1 January 2018
<b>Assets</b>			
<b>Trade accounts receivable</b>			
At cost	166,928,541	-	166,928,541
Less: impairment	(6,559,803)	(756,354)	(7,316,157)
	<b>160,368,738</b>	<b>(756,354)</b>	<b>159,612,384</b>
<b>Loans to related party</b>			
At cost	207,928,823	-	207,928,823
Plus: interest receivable	1,873,090	-	1,873,090
Less: discount	(2,244,828)	-	(2,244,828)
Less: impairment	-	(354,747)	(354,747)
	<b>207,557,085</b>	<b>(354,747)</b>	<b>207,202,338</b>
<b>Deferred tax assets</b>	<b>3,527,073</b>	<b>625,906</b>	<b>4,152,979</b>
<b>Equity and liabilities</b>			
<b>Other current financial liabilities</b>			
Financial guarantee obligation	(1,947,364)	(2,018,431)	(3,965,795)
<b>Equity</b>			
Retained earnings	210,707,808	(2,503,626)	208,204,182

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Standards issued but not yet effective**

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective. The following new standards and amendments are not applicable or have no significant impact for the Group:

- IFRS 17 *Insurance Contracts*;
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*;
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*;
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*;
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*;
- IFRS 3 *Business Combinations* (Annual Improvements 2015-2017 Cycle (issued in December 2017));
- IFRS 11 *Joint Arrangements* (Annual Improvements 2015-2017 Cycle (issued in December 2017));
- IAS 12 *Income Taxes* (Annual Improvements 2015-2017 Cycle (issued in December 2017));
- Amendments to IFRS 3 *Definition of a Business*;
- Amendments to IAS 1 and IAS 8 *Definition of Material*;
- The Conceptual Framework for Financial Reporting.

*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. The lease term will correspond to the duration of the contracts signed except in cases where the Group is reasonably certain that it will exercise contractual extension options.

The Group will make a transition to IFRS 16 using the modified retrospective approach. Under this approach the prior year figures will not be adjusted and both lease liabilities and right-of-use assets will be recognised at the date of transition to IFRS 16.

For leases previously classified as an operating lease applying IAS 17 at the date of transition to IFRS 16 the Group will measure these lease liabilities at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. For leases previously classified as an operating lease applying IAS 17 the Group at the date of transition to IFRS 16 will on a lease-by-lease basis measure right-of-use assets at either:

- Its carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the Group's applicable incremental borrowing rate at the date of transition to IFRS 16; or
- An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position immediately before the date of transition to IFRS 16.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Standards issued but not yet effective (continued)***IFRS 16 Leases (continued)*

The Group has elected to use the following practical expedients proposed by the standard:

- On initial application initial direct costs will be excluded from the measurement of the right-of-use asset;
- On initial application IFRS 16 will only be applied to contracts that were previously classified as leases;
- For all classes of underlying assets each lease component and any associated non-lease components will be accounted as a single lease component;
- Lease payments for contracts with a duration of 12 months or less for the classes of underlying assets other than land and buildings will continue to be expensed to the statement of profit or loss on a straight-line basis over the lease term;
- Lease contracts for which the underlying asset is of low value.

During 2018, the Group has performed a detailed assessment of IFRS 16 impact.

Impact on the consolidated statement of financial position as at 1 January 2019 is as follows:

<i>In thousands of tenge</i>	As at 31 December 2018	Effects of adoption of IFRS 16	As at 1 January 2019
<b>Assets</b>			
Property, plant and equipment:	990,553,112	4,784,799	995,337,911
Right-of-use assets	–	4,784,799	4,784,799
Advances paid	5,655,622	(2,415,853)	3,239,769
<b>Equity and liabilities</b>			
<b>Equity</b>			
Retained earnings	358,270,270	–	358,270,270
<b>Liabilities</b>			
Lease liabilities	–	2,368,946	2,368,946

IAS 17 requires disclosing operating lease commitments only for non-cancellable leases, while under IFRS 16 the Group is also required to include in lease term periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. As at 31 December 2018, the Group's has no non-cancellable leases.

*IFRIC Interpretation 23 Uncertainty over Income Tax Treatment*

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

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

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply the interpretation from its effective date. Since the Group operates in a complex tax environment, applying the Interpretation may affect its financial statements (*Note 30*). 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

---

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Standards issued but not yet effective (continued)***Annual Improvements 2015-2017 Cycle (issued in December 2017)**IAS 23 Borrowing Costs*

The amendments clarify that an entity treats as part of general borrowings any borrowings originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. The Group is assessing the potential effect of these amendments 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.

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.



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

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.

**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.

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

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.

*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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Property, plant and equipment (continued)***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 assets***Initial recognition and measurement*

Before 1 January 2018, the 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.

Information on initial recognition and measurement of financial assets after 1 January 2018 is disclosed above.

*Subsequent measurement*

Before 1 January 2018, 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.

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.

Information on subsequent measurement of financial assets after 1 January 2018 is disclosed above.

*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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial assets (continued)***Derecognition (continued)*

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 according to IAS 39*

Before 1 January 2018, 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.

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.

Information about impairment of financial assets according to IFRS 9 is disclosed above.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial assets (continued)***Investment securities*

During 2018, the Group took advantage of broker services to acquire for trading purposes Government and other securities at the Kazakhstan Stock Exchange providing a yield at the rate of 8.3% to 13.3% per annum under the repurchase agreement ("REPO") for the total amount of 13,910,001 thousand tenge. The period of holding the securities was from 1 to 5 days. The Group recognized interest income on the REPO transactions of 6,069 thousand tenge.

**Financial liabilities***Initial recognition and measurement*

Before 1 January 2018, the 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.

Information on significant changes after 1 January 2018, is disclosed above.

*Subsequent measurement*

Before 1 January 2018, 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 under IAS 37 (before 1 January 2018) or allowance for estimated credit losses calculated according to IFRS 9 (after 1 January 2018), and the amount initially recognised less cumulative amortisation.

*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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****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.

**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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****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.

**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.

*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.

*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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Revenue and expense recognition (continued)***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.

**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.

**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.

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.



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

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

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 2018 and 2017 was as follows:

<i>In thousands of tenge</i>	Land	Gas assets	Buildings and constructions	Gas trans- portation system	Equipment	Vehicles	Other	Construction in progress	Total
<b>Cost</b>									
<b>31 December 2016</b>	1,232,115	33,986,305	61,313,360	536,545,667	205,439,263	22,021,958	8,896,798	58,355,103	927,792,599
Additions	87	2,971,846	7,068	16,354,203	377,255	124,165	43,642	118,475,200	138,353,496
Change in estimate (Note 18)	-	(2,036,005)	-	555,667	-	-	-	-	(1,480,338)
Transfer from exploration and evaluation assets	-	3,906,030	-	-	-	-	-	-	3,906,030
Transfers	-	15,275	21,723,115	76,552,663	48,093,841	79,167	411,111	(144,865,172)	-
Disposals	-	(429,735)	(5,328)	(450,223)	(481,830)	(48,152)	(343,650)	(218,436)	(1,975,354)
<b>31 December 2017</b>	1,232,202	39,415,716	83,036,215	625,568,007	251,428,529	22,177,168	9,009,901	31,728,695	1,066,599,433
Additions	286	1,764,251	15,897	5,131,050	880,598	346,982	173,922	144,953,001	153,265,987
Change in estimate (Note 18)	-	(124,482)	-	3,874,683	-	-	-	-	3,750,201
Transfer to other current assets	(44,440)	-	(273,000)	(2,401)	(57,547)	(52,610)	-	-	(429,998)
Transfers	-	-	2,392,704	18,201,889	12,512,151	78,889	196,610	(33,382,243)	-
Disposals	(465,221)	(20,993)	(1,805,904)	(1,488,830)	(1,271,145)	(517,319)	(1,001,710)	(1,739,672)	(9,310,794)
<b>31 December 2018</b>	722,827	40,034,492	83,367,912	655,284,398	263,492,586	22,033,110	8,376,723	141,559,781	1,214,873,829
<b>Accumulated depreciation and impairment</b>									
<b>31 December 2016</b>	-	(8,559,614)	(10,478,331)	(89,005,455)	(52,266,033)	(13,869,352)	(4,964,017)	(4,983,087)	(164,125,889)
Charge for the year	-	(1,230,272)	(2,239,676)	(15,008,446)	(9,427,893)	(1,263,111)	(866,810)	-	(29,854,207)
Impairment provision	-	-	-	-	-	-	-	(314,705)	(314,705)
Transfers	-	(9,544)	28,360	44,927	17,508	(1,487)	(74,784)	-	-
Disposals	-	105,549	5,147	336,519	470,389	41,547	319,590	-	1,278,738
<b>31 December 2017</b>	-	(9,683,891)	(12,689,469)	(83,630,455)	(61,206,032)	(15,092,403)	(5,406,031)	(5,297,792)	(193,016,063)
Charge for the year	-	(1,667,813)	(2,961,309)	(16,723,669)	(11,330,942)	(1,251,915)	(653,469)	-	(34,519,117)
Impairment recovery (provision)	(165,486)	-	(627,067)	(86,210)	(86,210)	-	-	337,328	(443,435)
Transfer to other current assets	-	-	12,421	-	11,716	-	-	-	24,137
Transfers	-	-	(34,048)	392	33,379	1,139	(862)	-	-
Disposals	-	17,176	257,795	1,291,332	937,729	467,058	662,670	-	3,633,761
<b>31 December 2018</b>	(165,486)	(11,344,518)	(15,941,676)	(99,062,400)	(71,642,360)	(15,876,121)	(6,327,692)	(4,980,464)	(224,320,717)
<b>Net book value</b>									
<b>31 December 2017</b>	1,232,202	29,721,835	70,348,746	545,937,552	189,222,487	7,084,765	3,603,870	26,430,903	873,562,370
<b>31 December 2018</b>	557,341	28,689,974	67,426,236	556,221,998	191,850,226	6,156,989	3,061,031	136,569,317	990,653,112

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****4. PROPERTY, PLANT AND EQUIPMENT (continued)****Construction in progress***Additions*

In 2018, additions to construction-in-progress included pipes and other equipment, intended for construction and capital repair of pipelines (including transfer from inventories). During 2018, additions to construction-in-progress are mainly represented by the construction of Turkestan gas compressor station of 38,941,343 thousand tenge, construction of Aral gas compressor station of 36,218,493 thousand tenge, construction of Korqyt Ata gas compressor station of 36,091,814 thousand tenge, reconstruction and construction of accumulation points of Bozoi UGS with the development of project design of 5,075,190 thousand tenge, capital repair of main gas pipeline Bukhara-Ural, Central Asia Center – 2, Central Asia Center – 3 welding works and emergency recovery works of 4,894,342 thousand tenge, construction of automated gas distribution stations Zharkent with the development of project design of 2,157,968 thousand tenge, construction of automated gas distribution station Shelek and pipe branch with the development of project design of 1,425,375 thousand tenge, rehabilitation of KS-10 Aral LPU territory of 1,276,838 thousand tenge.

*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.

*Disposals*

During 2018, the Group transferred the training center located in Shymkent, including all its fixed assets, to the South Kazakhstan Department of State Property and Privatization. The carrying amount at the date of disposal was 2,477,065 thousand tenge. The respective loss was included in other operating expenses.

**Gas transportation system***Additions*

In 2018, the Group received gas transportation systems under trust management agreement from the Government with the fair value of 4,113,769 thousand tenge (*Note 14*) at the date of transfer as contribution to equity.

**Other**

As at 31 December 2018 the cost and related accumulated depreciation of fully depreciated property, plant and equipment still in use was equal to 17,641,864 thousand tenge (as at 31 December 2017: 17,961,973 thousand tenge).

In 2018, the Group capitalized in the carrying amount of property, plant and equipment borrowing costs at the average interest rate of 10.05% in the amount of 4,694,933 thousand tenge which are related to the construction of assets (2017: 376,636 thousand tenge at the average interest rate of 10.15%).

**5. EXPLORATION AND EVALUATION ASSETS**

Exploration and evaluation assets were as follows:

<i>In thousands of tenge</i>	<b>Tangible assets</b>
<b>At 31 December 2016</b>	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)
<b>At 31 December 2017</b>	12,051,402
Additions	3,435,740
Impairment	(3,647,310)
<b>At 31 December 2018</b>	<b>11,839,832</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****5. EXPLORATION AND EVALUATION ASSETS (continued)**

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

<i>In thousands of tenge</i>	2018	2017
Sultankuduk	4,950,657	4,947,984
Anabay	3,753,922	572,364
Sherubainur	2,066,562	1,974,287
Koskuduk	427,183	427,183
Barkhan	308,475	233,626
Moldybay	110,887	110,791
Kansu	–	3,586,082
Other	222,146	199,085
	<b>11,839,832</b>	<b>12,051,402</b>

In connection with the planned return of the contract “Kansu” in 2019, the Group recognized an impairment loss on exploration and evaluation assets of 3,647,310 thousand tenge (*Note 26*).

**6. INVESTMENTS IN JOINT VENTURES**

Financial information on investment in joint ventures is summarized below:

<i>In thousands of tenge</i>	AGP	BShP	AG	Total
<b>31 December 2017</b>	–	4,084,722	1,100,673	5,185,395
Share in profit of joint venture	104,659,682	21,978,592	39,080	126,677,354
Unrecognized share in profit of joint venture	(104,659,682)	–	–	(104,659,682)
Share in other comprehensive income of joint venture	1,006,413	–	–	1,006,413
Unrecognized share in other comprehensive income of joint venture	(1,006,413)	–	–	(1,006,413)
Dividends received	–	–	(35,000)	(35,000)
Consolidation adjustment*	–	(5,268,696)	–	(5,268,696)
<b>31 December 2018</b>	–	<b>20,794,618</b>	<b>1,104,753</b>	<b>21,899,371</b>

\* Consolidation adjustment represents elimination of borrowing costs capitalized in the property, plant and equipment of the JV on the loans received from KTG recognized as finance income by KTG.

<i>In thousands of tenge</i>	AGP	BShP	AG	Total
<b>31 December 2016</b>	–	–	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)
<b>31 December 2017</b>	–	<b>4,084,722</b>	<b>1,100,673</b>	<b>5,185,395</b>

**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:

<i>In thousands of tenge</i>	2018	2017
<b>Statement of financial position of joint venture</b>		
Current assets	548,678,667	519,332,547
Non-current assets	1,460,389,311	1,572,551,905
Current liabilities	(390,294,167)	(331,505,536)
Non-current liabilities	(1,710,805,217)	(2,058,444,374)
<b>Equity deficit</b>	<b>(92,031,406)</b>	<b>(298,065,458)</b>
Proportion of the Group's ownership	50%	50%
Effect of adoption of IFRS 9 by AGP	(2,649,069)	-
Carrying amount of investment	-	-
<b>Cumulative unrecognized share in equity losses</b>	<b>(46,015,703)</b>	<b>(149,032,729)</b>
<b>Statement of comprehensive income of joint venture</b>		
Revenue	766,661,140	587,428,795
Net profit for the year	209,319,364	269,400,360
Other comprehensive income for the year	2,012,826	246,838

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 2018 and 2017, 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:

<i>In thousands of tenge</i>	2018	2017
<b>Statement of financial position of joint venture</b>		
Current assets	198,892,090	139,271,512
Non-current assets	452,239,989	442,256,509
Current liabilities	(104,497,970)	(110,972,112)
Non-current liabilities	(496,647,747)	(464,526,731)
<b>Equity</b>	<b>49,986,362</b>	<b>6,029,178</b>
Proportion of the Group's ownership	50%	50%
Share in equity	24,993,181	3,014,589
Share of the Group in the fair value of issued financial guarantee	1,070,133	1,070,133
Consolidation adjustment	(5,268,696)	-
Carrying amount of investment	20,794,618	4,084,722
<b>Cumulative unrecognized share in equity losses</b>	<b>-</b>	<b>-</b>
<b>Statement of comprehensive income of a joint venture</b>		
Revenue	150,792,512	79,096,648
Net profit for the year	43,957,184	38,070,508
Share in profit of a joint venture for the year	21,976,592	-
Other comprehensive income for the year	-	-
<b>Additional investment</b>		
Fair value of issued financial guarantee	2,140,266	2,140,266
Share of the Group in the fair value of issued financial guarantee	1,070,133	1,070,133
Discount on initial recognition of the loan provided	-	7,366,578
Share of the Group in the discount from initial recognition of the loan provided	-	3,683,289

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****6. INVESTMENTS IN JOINT VENTURES (continued)****BShP (continued)**

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 2018 and 2017 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.

**AG**

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

<i>In thousands of tenge</i>	<b>2018</b>	<b>2017</b>
<b>Statement of financial position of joint venture</b>		
Current assets	<b>545,229</b>	391,599
Non-current assets	<b>1,754,626</b>	1,879,091
Current liabilities	<b>(90,349)</b>	(69,344)
Non-current liabilities	<b>-</b>	-
<b>Equity</b>	<b>2,209,506</b>	2,201,346
Proportion of the Group's ownership	<b>50%</b>	50%
Carrying amount of investment	<b>1,104,753</b>	1,100,673
<b>Cumulative unrecognized share in equity losses</b>	<b>-</b>	-
<b>Statement of comprehensive income of a joint venture</b>		
Revenue	<b>1,242,880</b>	1,082,792
Net profit for the year	<b>78,160</b>	70,620
Share in profit of a joint venture for the year	<b>39,080</b>	35,310
Other comprehensive income for the year	<b>-</b>	-
<b>7. ADVANCES PAID</b>		
<i>In thousands of tenge</i>	<b>2018</b>	<b>2017</b>
<b>Advances paid for non-current assets</b>		
Advances paid to third parties	<b>9,003,613</b>	3,204,086
Advances paid to related parties (Note 29)	<b>5,843</b>	-
Less: allowance for possible non-performance	<b>(275,487)</b>	(275,487)
	<b>8,733,969</b>	2,928,599
<b>Advances paid for current assets and services</b>		
Advances paid to third parties	<b>4,162,500</b>	2,901,474
Advances paid to related parties (Note 29)	<b>1,502,935</b>	1,948,559
Less: allowance for possible non-performance	<b>(9,813)</b>	(6,867)
	<b>5,655,622</b>	4,843,166

At 31 December 2018, advances paid for non-current assets to third parties mainly include advances of 4,100,000 thousand tenge for complex works on turnkey construction of the second launching system of compressor station TIP-02 "Akyrtobe", 2,329,316 thousand tenge for works on reconstruction of assembly points of Bozoy UGS and 1,142,400 thousand tenge for construction of gas distribution and compressor station "Kozhasay".

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 8. LOANS TO RELATED PARTY

As at 31 December 2018 and 2017, loans to related party comprised the following:

<i>In thousands of tenge</i>	2018	2017
<b>Financial assets at amortized cost</b>		
Interest bearing loans to related party	155,864,715	133,317,872
Interest-free loans to related party*	–	74,610,951
<b>Financial assets at fair value through profit or loss</b>		
Interest-free loans to related party*	71,392,215	–
Plus: interest receivable	–	1,873,090
Less: discount	–	(2,244,828)
Less: impairment	(938,246)	–
	226,318,684	207,557,085
Less: current portion (Note 29)	(71,392,215)	(72,366,122)
<b>Non-current portion (Note 29)</b>	<b>154,926,469</b>	<b>135,190,963</b>

\* The Group initially applied IFRS 9. See Note 3 and explanation below for details.

Movement of allowance for expected credit losses was as follows:

<i>In thousands of tenge</i>	Impairment
<b>At 31 December 2017</b>	–
Effect of adoption of IFRS 9 (Note 3)	(354,747)
Charge for the year	(583,499)
<b>At 31 December 2018</b>	<b>(938,246)</b>

**Interest bearing loans**

In September 2017, the Company provided a loan to BShP 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. The maturity date of the loan is 31 August 2029.

During 2018, BShP repaid principal and interest of 4,284,049 thousand tenge and 4,251,879 thousand tenge, respectively (2017: nil).

**Interest-free loans***BShP*

During 2018, the Company provided additional on-demand interest-free loan to BShP of 3,260,435 thousand tenge (2017: 2,467,151 thousand tenge). Before 1 January 2018, the fair value on initial loans, which are given on an interest-free basis, is determined by discounting the future cash flows on the loan using a discount rate of 10-16.9% per annum. Under IFRS 9, the interest-free loans to related party do not meet criteria for amortized costs or FVOCI and measured at FVPL. The Group assessed the contractual cash flow characteristics of the financial asset on the basis of the facts and circumstances that existed at the initial recognition of the financial asset. Due to short-term nature, the carrying value of interest-free loans to related party approximates its fair value. During 2018, BShP repaid principal of 4,238,929 thousand tenge (2017: nil).

During 2018, the Company revised expected repayment date of the residual loans provided to BShP. As a result, the repayment period was extended to 30 March 2019.

*KazRosGas LLP*

During 2018, the Company provided on-demand interest-free loan to KazRosGas LLP of 7,772,000 thousand tenge. The fair value of the provided loan, which is given on an interest-free basis, is determined by discounting the future cash flows on the loan using a discount rate of 13% per annum. Respective discount on the interest-free loan of 881,951 thousand tenge was recognized within finance costs (Note 27). During 2018, KazRosGas LLP fully repaid the principal on the loan. During 2018, amortization of the discount on the loan was equal to 881,951 thousand tenge (2017: nil) (Note 27).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****9. VAT RECOVERABLE AND PREPAID TAXES OTHER THAN INCOME**

<i>In thousands of tenge</i>	2018	2017
VAT recoverable	108,962,360	64,689,283
Property tax	519,921	778,867
Other taxes prepaid	77,257	81,555
	<b>109,559,538</b>	<b>65,549,705</b>
Less: allowance for non-recoverable VAT	(5,998,010)	(9,381,491)
	<b>103,561,528</b>	<b>56,168,214</b>
Non-current portion	92,910,112	48,321,910
Current portion	10,651,416	7,846,304

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

<i>In thousands of tenge</i>	Individually impaired
At 31 December 2016	(9,320,887)
Charge for the year	(60,604)
At 31 December 2017	(9,381,491)
Charge for the year	(9,962)
Utilised	3,393,443
At 31 December 2018	(5,998,010)

**10. BANK DEPOSITS**

<i>In thousands of tenge</i>	2018	2017
Tenge bank deposits with maturity of over five years	4,580,294	5,344,568
Tenge bank deposits with maturity of over one year and less than five years	39,843	59,843
Less: allowance for expected credit losses	(8,221)	-
<b>Bank deposits, non-current</b>	<b>4,611,916</b>	<b>5,404,411</b>
Tenge bank deposits with maturity of over three months and less than one year	39,212	148,116
<b>Bank deposits, current</b>	<b>39,212</b>	<b>148,116</b>

As at 31 December 2018, tenge deposits with maturity over five years include restricted deposits in Halyk Bank Kazakhstan JSC and ForteBank JSC of 4,292,582 thousand tenge and 287,712 thousand tenge, correspondingly. The deposits in Halyk Bank Kazakhstan JSC were opened as collateral for loans of the Group's employees (2017: 5,008,579 thousand tenge). The deposit in ForteBank JSC is kept in blocked account designated as liquidation fund per requirements of subsoil use contracts (2017: the deposit was placed in Tsesna Bank JSC of 335,989 thousand tenge).

As at 31 December 2018, deposits were placed in banks at the interest rates of 1-5% per annum in tenge (2017: 1-15%).

**11. CASH AND CASH EQUIVALENTS**

<i>In thousands of tenge</i>	2018	2017
Deposits in USD	72,613,800	-
Tenge bank accounts	30,336,860	17,812,587
Deposits in tenge	29,876,666	3,802,155
Foreign currency bank accounts	18,281,989	2,258,208
Cash in transit	41,777	92,085
Cash on hand	4,655	9,844
	<b>151,155,747</b>	<b>23,974,879</b>

As at 31 December 2018, deposits were placed in banks at interest rates of 7-7.5% per annum in tenge (2017: 7.5%-8.21%) and 2.45% per annum in a foreign currency (2017: nil).



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****11. CASH AND CASH EQUIVALENTS (continued)**

As at 31 December 2018, interest rates for cash on the current accounts in banks were 0.1-7.5% per annum in tenge (2017: 0.1-9.05%) and 0.1% per annum in a foreign currency (2017: 0.1%).

**12. INVENTORIES**

<i>In thousands of tenge</i>	2018	2017
Gas inventory (at cost)	57,670,369	15,593,121
Materials and supplies (at lower of cost and net realizable value)	2,587,290	1,946,595
	<b>60,257,659</b>	<b>17,539,716</b>

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.

**13. TRADE AND OTHER RECEIVABLES**

<i>In thousands of tenge</i>	2018	2017
Trade receivables from third parties	116,078,919	127,455,705
Trade receivables from related parties (Note 29)	13,634,299	38,845,581
Other receivables	2,608,508	627,255
	<b>132,321,726</b>	<b>166,928,541</b>
Less: allowance for expected credit losses	(5,437,264)	(6,559,803)
	<b>126,884,462</b>	<b>160,368,738</b>

Movements in the allowance for expected credit losses were as follows:

<i>In thousands of tenge</i>	Individually impaired
<b>At 31 December 2016</b>	(8,646,732)
Charge for the year	(4,638,946)
Foreign currency translation	5,402
Utilised	184,166
Recovered	4,536,307
<b>At 31 December 2017</b>	(6,559,803)
Charge for the year	(3,193,009)
Effect of adoption of IFRS 9 (Note 3)	(756,354)
Foreign currency translation	(401,832)
Utilised	339,928
Recovered	5,133,806
<b>At 31 December 2018</b>	<b>(5,437,264)</b>

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

<i>In thousands of tenge</i>	Total	Neither past due nor impaired	Past due, but not impaired				
			<30 days	30-60 days	60-90 days	90-120 days	<120 days
2018	126,884,462	114,219,182	7,931,178	784,503	1,378,327	266,553	2,304,719
2017	160,368,738	91,225,321	4,449,145	33,339,416	15,993,088	850,647	14,511,121

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****13. TRADE AND OTHER RECEIVABLES (continued)**

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

<i>In thousands of tenge</i>	2018	2017
USD	71,147,747	81,605,809
KZT	55,736,715	78,762,929
	<b>126,884,462</b>	<b>160,368,738</b>

Trade and other receivables are non-interest bearing.

**14. EQUITY**

	Common shares outstanding (number of shares)				Total share capital (in thousands of tenge)
	Par value of 100 tenge	Par value of 138 tenge	Par value of 2,500 tenge	Par value of 10,000 tenge	
As of 31 December 2018	312,167,670	1	30,976,655	8,396,465	192,623,055
As of 31 December 2017	312,167,670	1	30,976,655	8,396,465	192,623,055

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 2018 and 2017.

**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.

**Book value per share**

<i>In thousands of tenge</i>	2018	2017
Total assets	1,741,510,695	1,397,343,541
Less: intangible assets	(5,695,763)	(4,747,183)
Less: total liabilities	(941,016,481)	(750,318,252)
Net assets for common shares	794,798,451	642,278,106
Number of common shares	351,540,791	351,540,791

<b>Book value per common share in thousands of tenge</b>	2.261	1.827
--	-------	-------

In accordance with the decision of the Exchange Board of Kazakhstan Stock Exchange JSC ("KASE") dated 4 October 2010, the 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:

<i>In thousands of tenge</i>	2018	2017
Net income attributable to shareholder for basic and diluted earnings per share	155,975,058	74,780,940
Average number of common shares for basic and diluted earnings per share	351,540,791	351,324,660
<b>Basic and diluted earnings per share for the period attributable to the parent (in thousands of tenge)</b>	<b>0.44</b>	<b>0.21</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****14. EQUITY (continued)****Additional paid-in capital**

During 2018, the Group received property, plant and equipment represented by gas transportation system under trust management agreement from the Government with the fair value of 4,113,769 thousand tenge at the date of transfer (2017: 13,188,885 thousand tenge). 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 the trust management agreement. Accordingly, the Group recognised the assets and appropriate increase in additional paid-in capital, which will be reclassified to share capital once the legal procedures are completed.

During 2018, the Group recognized additional paid-in capital with respect to discount on loan provided by KazMunayGas of 1,792,694 thousand tenge (2017: 1,896,346 thousand tenge) (Note 17).

**Retained earnings***Construction of social facility*

In accordance with the order of the President of the Republic of Kazakhstan dated 29 September 2018 and based on the decision of the Government of the Republic of Kazakhstan dated 20 December 2018, the Group recognised provision of 5,700,000 thousand tenge (Note 18) related to future financing of the construction of social facility in the city of Turkestan under the social economic development of Turkestan region. The provision was recorded as other transactions with the Shareholder through retained earnings.

*Bank RBK JSC*

In October 2017, the Group identified the indicators of impairment on deposits and cash on current accounts held with Bank RBK JSC of 13,927,890 thousand tenge, due to pre-default condition of the bank. Based on the asset coverage ratio, the Group assessed the recoverable amount of deposits and cash and recognised loss on impairment on financial assets of 3,481,973 thousand tenge (Note 27). As a result, the carrying amount of deposits and cash on current accounts comprised 10,445,917 thousand tenge.

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 period of 5 (five) years. The difference between the carrying amount of deposits and cash and the fair value of coupon bonds 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 2018 and 2017, the debt securities issued comprised:

<i>In thousands of tenge</i>	Issue	Maturity	Interest rate	2018		2017	
				US dollar	In thousands of tenge	US dollar	In thousands of tenge
KTG bonds	2017	2027	4.375%	750,000,000	288,150,000	750,000,000	249,255,769
KTG Aimak bonds	2015	2025	7.5%	-	5,000,000	-	5,000,000
KTG Aimak bonds	2014	2018	7.5%	-	-	-	8,616,746
				750,000,000	293,150,000	750,000,000	262,872,515
Plus: interest payable					3,420,482		3,295,177
Less: unamortised transaction costs					(333,994)		(372,197)
Less: discount					(1,189,908)		(1,274,543)
Less: amount due for settlement within 12 months from the reporting date					(3,420,482)		(11,871,439)
<b>Amounts due for settlement after 12 months</b>					<b>291,626,098</b>		<b>252,649,513</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****15. DEBT SECURITIES ISSUED (continued)**

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 of 40,652,220 thousand tenge (equivalent to 127,801,000 US dollars), including accrued interest of 1,295,789 thousand tenge (equivalent to 4,073,657 US dollars).

In 2018, KTG Aimak performed redemption of bonds of 8,616,746 thousand tenge (2017: 12,424 thousand tenge).

**16. INTEREST BEARING LOANS**

As at 31 December interest bearing loans comprised:

<i>In thousands of tenge</i>	2018	2017
Interest-bearing loans with floating rate	135,175,019	65,371,308
Interest-bearing loans with fixed rate	76,626,611	66,658,955
	<b>211,801,630</b>	<b>132,030,263</b>
Plus: interest payable	1,961,450	1,702,189
Less: unamortised transaction costs	(1,178,445)	(1,105,560)
	<b>212,584,635</b>	<b>132,626,892</b>
Less: amount due for settlement within 12 months from the reporting date	(31,105,703)	(19,321,945)
<b>Amounts due for settlement after 12 months</b>	<b>181,478,932</b>	<b>113,304,947</b>

**Interest-bearing loans with floating rate***European Bank for Reconstruction and Development*

In accordance with the loan agreement dated 26 May 2016, on 18 June 2018, ICA received additional financing from the European Bank for Reconstruction and Development of 4,621,477 thousand tenge for modernization of Bozoy gas storage facility (2017: 25,254,400 thousand tenge for the purpose of restructuring existing obligations). ICA shall repay this loan in 32 (thirty-two) consecutive equal quarterly instalments commencing on September 2018 with the interest of 3m CPI (Consumer Price Index) plus 3.15% per annum.

During 2018, ICA repaid principal under the loan agreement of 11,657,766 thousand tenge (2017: 8,317,269 thousand tenge).

As at 31 December 2018, ICA has principal payable to European Bank for Reconstruction and Development under the above loan agreement of 58,335,019 thousand tenge (2017: 65,371,308 thousand tenge).

*The Corporate and Investment Banking Division of Société Générale*

In accordance with the loan agreement dated 16 April 2018, on 17 May 2018, the Company received a loan from the Corporate and Investment Banking Division of Société Générale of 65,832,000 thousand tenge (equivalent to 200,000 thousand US dollars) for partial financing of the project "Construction of three compressor stations at MG "Beineu-Bozoy-Shymkent" at the rate of 3 months LIBOR + 1.35% per annum. This loan is payable by 16 April 2021.

As at 31 December 2018, the Company has principal payable to the Corporate and Investment Banking Division of Société Générale under the above loan agreement of 76,840,000 thousand tenge (2017: nil).

*Citibank N.A. Jersey Branch*

In 2017, the Company received additional short-term financing from Citibank N.A. Jersey Branch of 13,264,400 thousand tenge (equivalent to 40,000 thousand US dollars) at the rate of 3 months LIBOR + 2% per annum. In 2017, the Company fully repaid principal under the loan agreement of 63,367,232 thousand tenge (equivalent to 200,600 thousand US dollars).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****16. INTEREST BEARING LOANS (continued)****Interest-bearing loans with floating rate (continued)***Citibank N.A. Jersey Branch (continued)*

In 2018, ICA received a short-term loan from Citibank N.A. Jersey Branch of 27,172,800 thousand tenge (equivalent to 85,000 thousand US dollars) at the rate of 1 month LIBOR + 2% per annum for the purpose of restructuring existing obligations (2017: 6,313,600 thousand tenge (equivalent to 20,000 thousand US dollars)). In 2018, ICA fully repaid principal under the loan agreement of 27,804,350 thousand tenge (equivalent to 85,000 thousand US dollars) (2017: 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 from Citibank NA (London branch), VTB Bank and ING Bank (ING-DiBa AG branch) of 245,670,000 thousand tenge (equivalent to 750,000 thousand US dollars) at the rate of 3 months LIBOR + 0.875% per annum 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 of 255,322,500 thousand tenge (equivalent to 750,000 thousand US dollars).

*HSBC Bank Plc*

ICA fully repaid principal of 908,895 thousand tenge on 29 March 2017 related to the loan agreement dated 15 August 2005, Trinkaus & Burkhardt KGAA and CITI Group Global Markets Deutschland AG & CO.KGAA.

**Interest-bearing loans with fixed rate***European Bank for Reconstruction and Development*

In accordance with the loan agreement dated 24 November 2016, in 2018, KTG Aimak received additional financing from European Bank for Reconstruction and Development of 1,460,819 thousand tenge at 10.15% per annum with a maximum loan term of 10 (ten) years for the project "Modernization of gas pipeline system in Mangystau, Aktobe and Kostanay regions" (2017: 14,202,061 thousand tenge). In 2018, KTG Aimak repaid principal under the loan agreement of 1,074,083 thousand tenge (2017: nil).

As at 31 December 2018, KTG Aimak has total principal payable to European Bank for Reconstruction and Development under the above loan agreement of 16,111,241 thousand tenge (as at 31 December 2017: 15,724,505 thousand tenge).

*Development Bank of Kazakhstan*

KTG Aimak concluded several revolving credit line agreements with the Development Bank of Kazakhstan for the projects "Modernization of gas pipeline system in South Kazakhstan, Taraz, Kyzylorda, Aktobe" and "Construction of stand-by line of gas pipeline Uzen-Zhetybai". During 2018, KTG Aimak received additional financing of 15,932,821 thousand tenge (2017: 15,747,578 thousand tenge) under the loan agreement. During 2018, KTG Aimak repaid principal of 6,351,901 thousand tenge (2017: 3,440,464 thousand tenge).

As at 31 December 2018, KTG Aimak has total principal payable to Development Bank of Kazakhstan JSC under the above loan agreements of 52,815,370 thousand tenge (as at 31 December 2017: 43,234,450 thousand tenge).

*Eurasian Development Bank*

In 2016, KTG Aimak raised funds by concluding non-revolving credit line agreement dated 15 November 2016 for 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 2018, KTG Aimak has total principal payable to Eurasian Development Bank JSC under the above loan agreement of 7,700,000 thousand tenge (2017: 7,700,000 thousand tenge).

KTG acts as a guarantor under the loan agreements with Development Bank of Kazakhstan, Eurasian Development Bank, European Bank for Reconstruction and Development.

**Covenants**

Under the terms of bank loans, the Group is obliged to comply with certain covenants. The Group reviews compliance with loan covenants at each reporting date. Failure to comply with financial covenants gives the lenders the right to demand early repayment of loans.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****17. LOANS FROM RELATED PARTY**

As at 31 December loans from related parties comprised:

<i>In thousands of tenge</i>	<b>2018</b>	<b>2017</b>
Fixed interest rate borrowings	<b>40,203,697</b>	<b>57,278,925</b>
	<b>40,203,697</b>	<b>57,278,925</b>
Plus: interest payable	<b>1,220,537</b>	<b>1,363,013</b>
Less: discount	<b>(5,320,184)</b>	<b>(5,920,097)</b>
	<b>36,104,050</b>	<b>52,721,841</b>
Less: amount due for settlement within 12 months from the reporting date	<b>(26,198,509)</b>	<b>(43,386,615)</b>
<b>Amounts due after 12 months</b>	<b>9,905,541</b>	<b>9,335,226</b>

**Fixed interest rate borrowings**

On 6 March 2017, KazMunayGas provided to the Group short-term financing 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. During 2018, the repayment period of the principal was extended until 6 March 2019. Respective discount on the loan of 1,792,694 thousand tenge was recognized as additional paid-in capital (2017: 1,896,346 thousand tenge) (Note 14).

On 31 May 2013, KazMunayGas provided to the Group long-term financing 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. During 2018, the loan was fully repaid.

On 10 December 2015, KazMunayGas provided to the Group long-term loan 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. In 2018, the Group fully repaid principal under the loan agreement of 18,524,500 thousand tenge (2017: 116,987,500 thousand tenge).

**Interest-free borrowings**

In 2015, KazMunayGas provided to the Group interest-free loan of 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. In the 2017, the loan was fully repaid.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 18. PROVISIONS

<i>In thousands of tenge</i>	Provision for gas transportation expenses	Abandonment and site restoration provision	Gas pipeline abandonment and site restoration provision	Tax provisions	Other provisions	Total
<b>As at 31 December 2016</b>	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
Foreign exchange gain	(70,170)	-	-	-	-	(70,170)
Change in estimates (Note 4)	-	(2,036,005)	555,667	-	-	(1,480,338)
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)
<b>At 31 December 2017</b>	<b>24,291,288</b>	<b>1,882,591</b>	<b>49,792,367</b>	<b>100,771</b>	<b>237,339</b>	<b>76,304,356</b>
Arising during the year	-	-	-	196,074	10,596,800	10,791,874
Foreign exchange loss	3,791,379	-	-	-	-	3,791,379
Change in estimates (Note 4)	-	(124,482)	3,874,683	-	-	3,750,201
Unwinding of discount	-	145,713	5,171,237	-	-	5,316,950
Recovered	-	-	-	(22,242)	-	(22,242)
Utilised	-	-	-	(142,515)	(4,442,913)	(4,585,428)
<b>At 31 December 2018</b>	<b>28,082,667</b>	<b>1,903,822</b>	<b>58,838,287</b>	<b>131,088</b>	<b>6,391,226</b>	<b>95,347,090</b>
<b>Current provisions as at 31 December 2018</b>	<b>28,082,667</b>	<b>-</b>	<b>-</b>	<b>131,088</b>	<b>6,368,635</b>	<b>34,582,390</b>
<b>Non-current provisions as at 31 December 2018</b>	<b>-</b>	<b>1,903,822</b>	<b>58,838,287</b>	<b>-</b>	<b>22,591</b>	<b>60,764,700</b>
<b>Current provisions as at 31 December 2017</b>	<b>24,291,288</b>	<b>-</b>	<b>-</b>	<b>100,771</b>	<b>237,339</b>	<b>24,629,398</b>
<b>Non-current provisions as at 31 December 2017</b>	<b>-</b>	<b>1,882,591</b>	<b>49,792,367</b>	<b>-</b>	<b>-</b>	<b>51,674,958</b>

**Provision for gas transportation expenses**

As at 31 December 2018, provision for gas transportation expenses represents provision for reimbursement of expenses associated with transportation of borrowed gas to PetroChina International Co. Ltd. of USD 73,094 thousand (equivalent to 28,082,667 thousand tenge) (2017: USD 73,094 thousand (equivalent to 24,291,288 thousand tenge) under the gas borrowing agreement (Note 30).

In 2018 foreign exchange difference on the provisions of 3,791,379 thousand tenge was recognized with in foreign exchange loss (2017: foreign exchange gain of 70,170 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 2018, provision for abandonment of gas pipelines and site rehabilitation in the amount of 58,838,287 thousand tenge (2017: 49,792,367 thousand tenge) represents the current costs of abandonment of gas pipelines and site rehabilitation expected to be incurred from 2021 till 2084.

**Other**

During 2018, the Group sold 415,777 thousand cubic meters of gas in excess of the volume of gas stored by the Group in Bozoy underground storage facility. As a result of the excess usage the Group accrued a provision to fill the storage with gas for the total amount of 4,417,285 thousand tenge. In 2018, the Group returned 415,777 thousand cubic meters of gas to Bozoy underground storage facility and decreased the respective provision.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****18. PROVISIONS (continued)****Other (continued)**

As of 31 December 2018, the Group recognised provision of 5,700,000 thousand tenge (*Note 14*) related to future financing of the construction of social facility in the city of Turkestan.

**19. OTHER NON-CURRENT LIABILITIES**

<i>In thousands tenge</i>	2018	2017
Deferred income: non-current portion	8,111,532	8,308,872
Other	-	18,866
	<b>8,111,532</b>	<b>8,327,738</b>

**20. TRADE AND OTHER PAYABLES**

<i>In thousands of tenge</i>	2018	2017
Due to related parties ( <i>Note 29</i> )	119,222,945	110,915,218
Due to third parties	90,152,907	38,194,196
	<b>209,375,852</b>	<b>149,109,414</b>

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 the following currencies:

<i>In thousands of tenge</i>	2018	2017
KZT	178,443,065	134,038,495
USD	19,263,810	12,208,651
RUR	11,651,821	2,849,630
Other	17,156	12,638
	<b>209,375,852</b>	<b>149,109,414</b>

**21. CONTRACT LIABILITIES**

<i>In thousands of tenge</i>	2018	2017
Contract liabilities to third parties	4,638,725	3,928,357
Contract liabilities to related parties ( <i>Note 29</i> )	4,427,544	1,707,634
	<b>9,066,269</b>	<b>5,635,991</b>

\* *Contract liabilities were previously presented as advances received in the consolidated statement of financial position of the Group as of 31 December 2017. See Note 3 for details.*

**22. OTHER CURRENT LIABILITIES**

<i>In thousands of tenge</i>	2018	2017
Gas borrowing	5,611,326	4,853,769
Accrued bonuses	4,437,577	4,904,383
Payables to pension and social insurance funds	932,676	772,640
Deferred income: current portion	474,928	461,012
Other payments to the budget	-	944,855
Other	1,610,320	1,075,444
	<b>13,066,827</b>	<b>13,012,103</b>

As at 31 December 2018, the Group recognised gas borrowing liability to return 104,323 thousand cubic meters of natural gas borrowed from PetroChina International Company Limited (2017: 104,323 thousand cubic meters).



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****23. REVENUE**

<i>In thousands of tenge</i>	<b>Timing of revenue recognition</b>	<b>2018</b>	<b>2017</b>
<b>Type of goods or services</b>			
Revenue from sales of gas	Over time	771,410,192	391,510,313
Revenue from gas transportation services	Over time	140,431,452	155,584,118
Revenue from technical maintenance of gas pipelines	Over time	8,261,270	4,369,653
Management fee	At a point in time	-	29,310,861
Other	Over time	1,076,686	981,826
		<b>921,179,600</b>	<b>581,756,771</b>
<b>Geographical markets</b>			
Kazakhstan		321,347,343	330,025,999
China		400,434,292	59,489,321
CIS		199,397,965	192,241,451
		<b>921,179,600</b>	<b>581,756,771</b>

**24. COST OF SALES**

<i>In thousands of tenge</i>	<b>2018</b>	<b>2017</b>
Cost of gas sold	316,995,801	234,536,355
Transportation expenses	223,177,683	93,658,724
Payroll and related contributions	43,108,857	35,448,901
Depreciation and amortization	33,888,466	29,081,227
Modification of payment terms on financial instrument	16,741,798	-
Fuel gas and gas losses	12,920,982	14,214,718
Taxes other than income tax	9,826,130	8,685,460
Billing services	5,793,250	5,331,987
Repair and maintenance	4,038,931	4,000,465
Security	2,700,726	2,400,743
Electricity	2,262,522	2,076,504
Business trip expenses	1,180,688	1,028,577
Materials and supplies	1,061,752	847,423
Communication expenses	926,034	551,146
Insurance	578,802	543,738
Other	2,901,812	2,387,234
	<b>678,104,234</b>	<b>434,793,202</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****25. GENERAL AND ADMINISTRATIVE EXPENSES**

<i>In thousands of tenge</i>	2018	2017
Payroll and related contributions	12,558,245	12,048,291
Taxes other than income tax	3,513,654	1,242,836
Rent expenses	2,569,819	2,520,874
Consulting services	1,987,165	1,348,249
Depreciation and amortization	1,384,635	1,354,094
Personnel development and qualification upgrade	588,895	514,045
Repair and maintenance	557,411	417,051
Business trip expenses	448,787	401,230
Office maintenance expenses	385,128	508,877
Fines and penalties	373,657	(3,006,513)
Communication services	187,789	137,026
Tax provision, net	182,794	(484,780)
Bank charges	169,864	334,645
Festive and cultural events expenses	120,959	75,338
Security costs	103,685	121,792
Insurance	26,990	29,904
Provision for doubtful debts, net*	-	109,506
Write-down of inventory to net realisable value	(207,207)	985,540
Other payments to the budget	(944,855)	944,855
Other	2,146,255	1,851,184
	<b>26,153,670</b>	<b>21,454,044</b>

\* The Group has initially applied IFRS 9 Financial Instruments. Allowance for expected credit losses for 2018 was presented separately in the consolidated statement of comprehensive income. See Note 3 for details.

**26. OTHER OPERATING INCOME/(EXPENSES)**

<i>In thousands of tenge</i>	2018	2017
<b>Other operating income</b>		
Income from services rendered (gas supply to residential buildings, hook-up, technical maintenance)	3,201,428	3,363,611
Income from fines	520,096	571,368
Amortization of deferred income	464,056	403,770
Income from sale of inventories	220,623	439,559
Other	361,517	285,865
	<b>4,767,720</b>	<b>5,064,173</b>
<b>Other operating expenses</b>		
VAT expense under Trust management agreement	(4,369,531)	(4,842,850)
Provision for impairment of property, plant and equipment and exploration and evaluation assets (Notes 4 and 5)	(4,090,745)	(326,705)
Expenses on services rendered (gas supply to residential buildings, hook-up, technical maintenance)	(2,491,640)	(2,438,263)
Loss on disposal of property, plant and equipment, intangible assets and exploration and evaluation assets	(3,053,394)	(771,657)
Depreciation and amortization	(15,273)	(21,404)
Other	(583,481)	(59,552)
	<b>(14,604,064)</b>	<b>(8,460,431)</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****27. FINANCE INCOME AND FINANCE COSTS**

<i>In thousands of tenge</i>	2018	2017
<b>Finance income</b>		
Interest income on loans to related party	8,049,903	2,271,095
Interest income on bank deposits	3,277,707	5,220,378
Amortization of financial guarantee obligations	1,167,311	-
Amortization of discount on the loans issued to related party (Note 8)	881,951	6,670,834
Other income from financial assets	420,186	-
Other	87,941	367,760
	<b>13,884,999</b>	<b>14,530,067</b>
<b>Finance costs</b>		
Interest on bank loans and overdrafts	(13,671,155)	(9,111,632)
Interest on debt securities issued	(12,374,180)	(4,836,628)
Unwinding of discount on abandonment and site restoration provision	(5,316,950)	(4,941,334)
Unwinding of discount on financial liabilities	(2,392,607)	(2,650,789)
Interest on loans from related party	(2,350,231)	(4,681,800)
Discount on interest-free loans to related parties (Note 8)	(881,951)	-
Amortization of capitalized costs related to loan arrangement	(762,684)	(1,642,490)
Amortization of discount on debt securities issued	(159,177)	(118,850)
Discount on interest free loans to the joint venture	-	(3,683,289)
Loss on impairment of financial asset (Note 14)	-	(3,481,973)
Financial guarantee obligations to the joint venture	-	(1,070,133)
Other	(1,068,458)	(705,598)
	<b>(38,977,393)</b>	<b>(36,924,516)</b>

**28. INCOME TAX EXPENSES**

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

<i>In thousands of tenge</i>	2018	2017
Current income tax expense	31,686,027	21,819,456
Deferred income tax expense	14,743,299	2,691,971
Adjustment of prior year income tax	1,235,962	166,897
	<b>47,665,288</b>	<b>24,678,324</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****28. 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:

<i>In thousands of tenge</i>	2018	2017
<b>Profit before income tax</b>	<b>203,640,346</b>	<b>99,459,264</b>
Statutory tax rate	20%	20%
<b>Theoretical income tax expense</b>	<b>40,728,069</b>	<b>19,891,853</b>
<b>Tax effect of permanent differences</b>		
Non-deductible foreign exchange differences, net	2,905,958	-
Non-deductible expenses related to storage of gas	1,079,672	-
Change in provision for deferred tax assets	1,084,618	-
Gratuitous transfer of the Training Centre building (Reversal)/accrual of tax provision	542,894 (1,015,600)	- 1,003,479
Unwinding of discount – historical costs and assets abandonment liabilities	1,063,390	998,108
VAT expense under Trust management agreement	873,906	968,570
Non-deductible loss on impairment of financial asset	-	696,395
Unwinding of discount on financial liabilities	478,621	530,158
Financial guarantee obligations to the joint venture	-	214,027
Adjustments with respect to current income tax of prior year	1,235,962	166,897
Share in (income)/loss of joint ventures recognised	(3,349,795)	126,678
Provision for impairment of property, plant and equipment and exploration and evaluation assets	818,149	65,341
Adjustments with respect to deferred income tax of prior year	-	(257,845)
Amortization of discount on loans issued to related parties	-	(597,509)
Non-deductible fines and penalties	-	(601,303)
Other	1,219,544	1,473,475
	<b>47,665,288</b>	<b>24,678,324</b>
Tax benefit recognized in other comprehensive income	(52,242)	(64,480)
<b>Income tax expenses reported in the consolidated statement of comprehensive income</b>	<b>47,613,046</b>	<b>24,613,844</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 28. INCOME TAX EXPENSES (continued)

As at 31 December 2018 and 2017, components of deferred income tax assets and liabilities are as follows:

<i>in thousands of tenge</i>	2018	Charged to profit and loss	Charged to other comprehensive income	As at 1 January 2018	Effect of adoption of IFRS 9 (Note 3)	2017	Charged to profit and loss	Charged to other comprehensive income	2016
<b>Deferred tax assets</b>									
Finance expenses on financial guarantee	513,069	-	-	513,069	513,069	-	-	-	-
Allowance for expected credit loss	1,199,385	977,165	-	222,220	222,220	-	-	-	-
Provision for gas transportation expenses	6,189,103	758,275	-	5,430,828	-	5,430,828	(14,034)	-	5,444,862
Other provisions	2,266,570	(923,489)	-	3,190,039	-	3,190,039	884,940	-	2,305,099
Loss under trust management agreement	4,263,867	1,852,073	-	2,411,794	-	2,411,794	2,411,794	-	-
Deferred income	1,694,043	(29,339)	-	1,723,382	-	1,723,382	519,356	-	1,204,026
Other	547,412	(2,206,055)	52,242	2,701,225	(109,383)	2,810,608	1,534,588	-	1,276,020
	16,673,449	428,650	52,242	16,192,557	625,906	15,566,651	5,336,644	-	10,230,007
Less: provision for deferred tax assets of the Group	(6,515,446)	(1,084,618)	-	(5,430,828)	-	(5,430,828)	14,034	-	(5,444,862)
	10,158,003	(655,968)	52,242	10,761,729	625,906	10,135,823	5,350,678	-	4,785,145
<b>Deferred tax liabilities</b>									
Property, plant and equipment and intangible assets	(54,525,704)	(6,980,588)	-	(47,545,116)	-	(47,545,116)	(7,949,163)	-	(39,595,953)
Inventories	(6,872,081)	(5,872,081)	-	-	-	-	-	-	-
Other non-current liabilities	(399,758)	(234,682)	-	(165,096)	-	(165,096)	(93,486)	64,480	(136,090)
	(61,797,543)	(14,087,331)	-	(47,710,212)	-	(47,710,212)	(8,042,649)	64,480	(39,732,043)
<b>Net deferred tax liabilities</b>	(51,639,540)	(14,743,299)	52,242	(36,948,483)	625,906	(37,574,369)	(2,691,971)	64,480	(34,946,896)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****28. INCOME TAX EXPENSES (continued)**

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:

<i>In thousands of tenge</i>	2018	2017
Deferred tax assets	189,372	3,527,073
Deferred tax liabilities	(51,828,912)	(41,101,462)
<b>Net deferred tax liabilities as at 31 December</b>	<b>(51,639,540)</b>	<b>(37,574,389)</b>

**29. 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 2018 and 2017, 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 2018 and 2017 were as follows:

<i>In thousands of tenge</i>	2018	2017
<b>Sales of goods and services</b>		
Entities under common control of KazMunayGas	1,112,882	1,097,881
Joint ventures in which the Group is a venturer	7,278,535	3,815,045
Joint ventures in which the Parent is a venturer	46,096,516	62,053,598
Entities under common control of Samruk-Kazyna and the Government	47,865,655	51,264,186
	<b>102,353,588</b>	<b>118,230,710</b>
<b>Management fee</b>		
Entities under common control of Samruk-Kazyna and the Government	-	29,310,861
	-	<b>29,310,861</b>
<b>Purchases of goods and services</b>		
Entities under common control of KazMunayGas	6,220,039	5,484,950
Joint ventures in which the Group is a venturer	219,439,649	91,632,698
Joint ventures in which the Parent is a venturer	88,712,444	37,685,020
Entities under common control of Samruk-Kazyna and the Government	2,549,364	740,102
	<b>316,921,496</b>	<b>135,542,770</b>
<b>VAT expense under the Trust management agreement</b>		
Entities under common control of Samruk-Kazyna and the Government	4,369,531	4,842,850
	<b>4,369,531</b>	<b>4,842,850</b>
<b>Finance income</b>		
Joint ventures in which the Group is a venturer	9,221,801	9,295,572
Joint ventures in which Parent is a venturer	881,951	-
	<b>10,103,752</b>	<b>9,295,572</b>
<b>Finance costs</b>		
Joint ventures in which the Group is a venturer	80,486	8,263
Joint ventures in which Parent is a venturer	881,951	-
Entities under common control of Samruk-Kazyna and the Government	4,742,838	7,338,998
	<b>5,705,275</b>	<b>7,347,261</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****29. RELATED PARTY TRANSACTIONS (continued)****Terms and conditions of transactions with related parties (continued)**

<i>In thousands of tenge</i>	<b>2018</b>	<b>2017</b>
<b>Trade receivables</b>		
Entities under common control of KazMunayGas	7,331	21,187
Joint ventures in which the Group is a venturer	6,660,236	2,938,635
Joint ventures in which the Parent is a venturer	1,670,373	14,412,035
Entities under common control of Samruk-Kazyna and the Government	5,296,359	21,473,724
	<b>13,634,299</b>	<b>38,845,581</b>
<b>Loans to related party</b>		
Joint ventures in which the Group is a venturer	226,318,684	207,557,085
	<b>226,318,684</b>	<b>207,557,085</b>
<b>Advances paid</b>		
Entities under common control of KazMunayGas	2,410	15,629
Joint ventures in which the Parent is a venturer	-	1,927,636
Entities under common control of Samruk-Kazyna and the Government	1,506,368	5,294
	<b>1,508,778</b>	<b>1,948,559</b>
<b>Trade and other payables</b>		
Entities under common control of KazMunayGas	1,008,156	567,797
Joint ventures in which the Group is a venturer	63,026,882	82,274,930
Joint ventures in which the Parent is a venturer	54,393,498	28,049,061
Entities under common control of Samruk-Kazyna and the Government	794,409	23,430
	<b>119,222,945</b>	<b>110,915,218</b>
<b>Contractual liabilities</b>		
Entities under common control of KazMunayGas	116,170	18,479
Joint ventures in which the Group is a venturer	117	-
Joint ventures in which the Parent is a venturer	4,285,355	1,671,387
Entities under common control of Samruk-Kazyna and the Government	25,902	17,768
	<b>4,427,544</b>	<b>1,707,634</b>
<b>Loans</b>		
Entities under common control of Samruk-Kazyna and the Government	89,501,116	96,514,193
	<b>89,501,116</b>	<b>96,514,193</b>
<b>Other financial liabilities</b>		
Joint ventures in which the Group is a venturer	848,975	1,794,886
	<b>848,975</b>	<b>1,794,886</b>

In 2018, the Company provided additional interest-free loan to BShP of 3,260,435 thousand tenge (2017: 2,467,151 thousand tenge) for the construction of the Beineu-Shymkent trunk gas pipeline and for general corporate purposes. During 2018, BShP repaid principal under the loan agreement of 4,238,929 thousand tenge (2017: nil).

During 2018, BShP repaid principal and interest under the loan agreement of 4,284,049 thousand tenge and 4,251,879 thousand tenge, respectively (2017: nil).

During 2018, the Company provided interest-free loan to KazRosGas LLP of 7,772,000 thousand tenge for general corporate purposes. In 2018, KazRosGas LLP fully repaid principal under the loan agreement.

During 2018, the Group repaid principal and interest under the loan agreements of 18,983,228 thousand tenge and 2,397,859 thousand tenge to KazMunayGas (2017: principal of 142,309,300 thousand tenge and interest of 3,773,286 thousand tenge).

In 2017, the Company issued financial guarantee to BShP under the shareholder support agreement dated 7 September 2017 for BShP to comply with the payment obligations to China Development Bank, Bank of China Limited and Bank of China (Hong Kong) Limited for the period until the date of completion 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. As at 31 December 2018, the carrying amount of the Company's financial guarantee obligation was 848,975 thousand tenge (2017: 1,794,886 thousand tenge).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****29. RELATED PARTY TRANSACTIONS (continued)****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 2018 (as at 31 December 2017: 9 persons). In 2018 and 2017 total amount of compensation to key management was equal to 453,277 thousand tenge and 404,184 thousand tenge, respectively, consisting mainly of salaries and other payments and was included in general and administrative expenses in the statement of comprehensive income.

**30. 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 2018, the Group has capital commitments of approximately 30,503,902 thousand tenge, excluding VAT (2017: 15,813,613 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".

**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 2018:

<i>In thousands of tenge</i>	<b>2018</b>	2017
AGP	<b>2,965,114</b>	11,735,079
BShP	<b>16,704,585</b>	9,526,147

**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 2018. The management believes that its interpretation of the transfer pricing legislation is appropriate and that it is probable that the Group's positions with regard to transfer pricing will be sustained.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

---

**30. COMMITMENTS AND CONTINGENCIES (continued)****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.

**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 Kumyrlı-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 2018 and 2017, Amangeldy LLP complied with the minimal working program.

**Obligation to maintain minimum level of bank deposit for KazRosGas LLP**

As at 31 December 2018, KazRosGaz LLP has an obligation to maintain minimum level of bank deposit in the Bank RBK JSC bank of 51,262 thousand US dollars (equivalent to 19,694,860 thousand tenge) till 28 December 2019. KazRosGas LLP has the right to withdraw part or entire deposit with the approval of the Company. In case of such withdrawal by KazRosGas LLP, the Company has to place the deposit in the Bank RBK JSC for the same minimum amount. The Company does not expect any withdrawal of deposit by KazRosGas LLP.

**Payment for transportation services on "Ship or Pay" terms**

As at 31 December 2018, the Group has an obligation under the transportation services agreement with BShP to provide minimum annual volume of gas of 3.5 billion cubic meters for transportation. In case the actual volume of transported gas is less than 3.5 billion cubic meters, the Company obliged to compensate BShP for the undersupplied gas, whereby the fee to be paid by the Company equals the price of transportation services to transport 3.5 billion cubic meters of gas. In 2018, the Group fulfilled its obligation and provided annual volume of gas of 8.3 billion cubic meters for transportation. The Company does not expect undersupply.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****31. 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.

**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 2018 and 2017.

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.

*Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's borrowings with floating interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates (Libor and CPI), with all other variables held constant, of the Group's (loss)/profit before income tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

<i>In thousands of tenge</i>	Increase/ decrease in basis points	Effect on profit before income tax
<b>2018</b>		
Libor	+0.5%	(384,200)
CPI	+1%	(495,969)
Libor	-0.15%	115,260
CPI	-1%	495,969
<b>2017</b>		
CPI	+1%	611,238
CPI	-1%	(611,238)

Assumptions of changes in basis points within analysis of sensitivity to interest rate changes are based on a currently observable market situation.

*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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****31. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Market risk (continued)***Currency risk (continued)*

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.

<i>In thousands of tenge</i>	<b>Increase/ decrease in the rate</b>	<b>Effect on profit before income tax</b>
<b>2018</b>		
US dollar	+14%	(35,679,460)
	-10%	25,485,329
<b>2017</b>		
US dollar	+10%	(18,009,756)
	-10%	18,009,756

<i>In thousands of tenge</i>	<b>Increase/ decrease in the rate</b>	<b>Effect on profit before income tax</b>
<b>2018</b>		
Ruble	+14%	(1,630,424)
	-9%	1,048,130
<b>2017</b>		
Ruble	-	-
	-	-

**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)

## 31. 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.

<i>In thousands of tenge</i>	Location	2018		2017		2018	2017
Bank of Tokyo-Mitsubishi UFJ, Ltd (London Branch)	England	Standard & Poor's	A/positive	-	-	72,613,800	-
Halyk Bank of Kazakhstan JSC	Kazakhstan	Standard & Poor's	BB/stable	Standard & Poor's	BB/stable	69,039,849	26,920,113
Citi Bank Kazakhstan JSC	Kazakhstan	Moody's	A/stable/P-1	Moody's	A/stable/P-1	6,869,142	809,631
GazPromBank JSC	Russia	Standard & Poor's	BB+/stable	Standard & Poor's	BB+/stable	6,588,155	70
ForteBank JSC	Kazakhstan	Standard & Poor's	B3/positive	Standard & Poor's	B3/positive	359,778	57,040
Altyn Bank JSC	Kazakhstan	Moody's	Ba1/stable	Moody's	Ba2/stable	177,135	548,018
Deutsche Bank	Germany	Standard & Poor's	BBB+/stable	Moody's	A3/stable	105,655	84,079
ATF Bank JSC	Kazakhstan	Standard & Poor's	B/negative	-	-	892	-
Central Depository of Securities JSC	Kazakhstan	Thomas Murray	A+/positive/A	Thomas Murray	A+/positive/A	474	25,345
Kazkommertsbank JSC	Kazakhstan	Standard & Poor's	BB/stable/B	Standard & Poor's	B+/positive	535	75,110
SB Bank of China	Kazakhstan	Standard & Poor's	A/stable	Standard & Poor's	A/stable	92	100
Bank CenterCredit JSC	Kazakhstan	Standard & Poor's	B/stable/	Fitch Ratings	B/stable	38	21
Citibank N.A. London	England	Standard & Poor's	A+/stable	Standard & Poor's	A+/stable	19	80
Kaspi Bank JSC	Kazakhstan	Standard & Poor's	BB-/stable	-	-	17	-
Bank RBK JSC	Kazakhstan	Standard & Poor's	B-/stable	Standard & Poor's	CCC (developing)	10	10
Sberbank JSC	Kazakhstan	Moody's	Ba2/stable	Moody's	Ba2/stable	13	6,503
Development Bank of Kazakhstan JSC	Kazakhstan	-	-	Standard & Poor's	BB+/stable	-	454,246
Tsesna Bank JSC	Kazakhstan	-	-	Fitch Ratings	B/stable	-	335,989
Qazaq Bank JSC	Kazakhstan	-	-	Standard & Poor's	B-/stable/C	-	70,629
Eurasian Bank JSC	Kazakhstan	-	-	Standard & Poor's	B/negative	-	39,843
Bank of China	Hong Kong	-	-	Standard & Poor's	A+/stable	-	650
						155,753,604	29,425,477

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, other receivables and financial guarantee obligations, the Group's exposure to credit risk arises from default of the counterparty.

The maximum credit risk exposure for the financial assets is limited to the carrying amount as disclosed in Notes 8, 10, 11 and 13. For the financial guarantee issued, the maximum credit risk exposure equals the nominal value of the guaranteed loan agreement as disclosed in liquidity risk section of this note.

## 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 31. 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 2018 and 2017, based on contractual undiscounted payments.

<i>In thousands of tenge</i>	On demand	1 to 3 months	3 months to 1 year	1 to 5 years	>5 years	Total
<b>At 31 December 2018</b>						
Debt securities issued	–	6,490,781	6,490,781	51,926,248	344,326,248	409,234,058
Interest bearing loans	151,562	9,597,743	35,122,279	189,875,245	27,356,522	262,103,351
Trade and other payables	10,974,623	197,891,132	510,097	–	–	209,375,852
Loans from related party	–	26,847,207	259,317	2,074,536	15,399,090	44,580,150
Financial guarantee obligations	–	4,278,302	12,713,114	17,410,979	2,795,407	37,197,802
Other financial liabilities	61,823	1,866,529	25,635	136,722	119,631	2,210,340
	<b>11,188,008</b>	<b>246,971,694</b>	<b>55,121,223</b>	<b>261,423,730</b>	<b>389,996,898</b>	<b>964,701,553</b>

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

<i>In thousands of tenge</i>	On demand	1 to 3 months	3 months to 1 year	1 to 5 years	> 5 years	Total
<b>At 31 December 2017</b>						
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
	<b>9,266,008</b>	<b>182,375,413</b>	<b>67,312,858</b>	<b>192,022,097</b>	<b>355,774,386</b>	<b>806,750,762</b>

## 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 2017.

The capital structure of the Group consists of debt, which includes debt securities issued, interest-bearing loans, and loans from related party 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:

<i>In thousands of tenge</i>	2018	2017
Debt securities issued (Note 15)	295,046,580	264,520,952
Interest bearing loans (Note 16)	212,584,635	132,626,892
Loans from related party (Note 17)	36,104,050	52,721,841
Less: cash and cash equivalents, bank deposits (Notes 10 and 11)	(155,806,875)	(29,527,406)
<b>Total debt</b>	<b>387,928,390</b>	<b>420,342,279</b>
Equity	800,494,214	647,025,289
<b>Debt-to-equity ratio</b>	<b>0.48</b>	<b>0.65</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****31. 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 2018 and 2017 are reasonable approximation of their fair value, except for the financial instruments disclosed below:

<i>In thousands of tenge</i>	<b>2018</b>				
	Carrying amount	Fair value	Fair value by level of assessment		
			Quotations in active markets (Level 1)	Essential observed input data (Level 2)	Essential unobservable input data (Level 3)
<b>Financial assets</b>					
Interest bearing loans to related party	154,926,469	144,948,730	-	-	144,948,730
<b>Financial liabilities</b>					
Debt securities issued	(295,046,580)	(275,997,067)	(275,997,067)	-	-
Interest bearing loans	(212,584,635)	(215,131,153)	-	(215,131,153)	-
Loans from related party	(36,104,050)	(34,757,307)	-	(34,757,307)	-

<i>In thousands of tenge</i>	<b>2017</b>				
	Carrying amount	Fair value	Fair value by level of assessment		
			Quotations in active markets (Level 1)	Essential observed input data (Level 2)	Essential unobservable input data (Level 3)
<b>Financial assets</b>					
Loans to related party	207,557,085	209,041,188	-	-	209,041,188
<b>Financial liabilities</b>					
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)	-

**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 2018 and 2017.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****31. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Changes in liabilities arising from financial activities**

<i>In thousands of tenge</i>	1 January 2018	Proceeds	Repayments	Repayment of interest	Foreign exchange gains or losses	Others	31 December 2018
<b>Financial liabilities</b>							
Interest bearing loans	132,626,892	115,019,917	(46,888,100)	(15,005,611)	11,669,548	15,161,989	212,584,635
Loans from related party	52,721,841	–	(18,983,228)	(2,397,859)	1,921,631	2,841,665	36,104,050
Debt securities issued	264,520,952	–	(8,616,746)	(12,422,685)	38,993,500	12,571,559	295,046,580
<b>Total liabilities arising from financial activities</b>	<b>449,869,685</b>	<b>115,019,917</b>	<b>(74,488,074)</b>	<b>(29,826,155)</b>	<b>52,584,679</b>	<b>30,575,213</b>	<b>543,735,265</b>

<i>In thousands of tenge</i>	1 January 2017	Proceeds	Repayments	Repayment of interest	Foreign exchange gains or losses	Others	31 December 2017
<b>Financial liabilities</b>							
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 party	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
<b>Total liabilities arising from financial activities</b>	<b>365,182,747</b>	<b>599,609,316</b>	<b>(520,759,504)</b>	<b>(14,335,880)</b>	<b>912,774</b>	<b>19,260,232</b>	<b>449,869,685</b>

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.

**32. 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)****32. SEGMENT REPORTING (continued)**

The following table represents information about revenues and net profit, assets and liabilities of operating segments of the Group for 2018:

<i>In thousands of tenge</i>	<b>Gas trading</b>	<b>Transportation and storage of gas</b>	<b>Other segments</b>	<b>Elimination</b>	<b>Total</b>
Revenue from sales to external customers	815,909,960	103,310,346	1,959,294	–	921,179,600
Revenue from sales to other segments	10,147,123	91,800,240	23,616,785	(125,564,148)	–
<b>Total revenue</b>	<b>826,057,083</b>	<b>195,110,586</b>	<b>25,576,079</b>	<b>(125,564,148)</b>	<b>921,179,600</b>
<b>Gross profit</b>	<b>130,058,637</b>	<b>104,749,548</b>	<b>10,974,546</b>	<b>(2,707,365)</b>	<b>243,075,366</b>
Finance income	14,467,456	1,856,776	372,841	(2,812,074)	13,884,999
Finance costs	(29,199,894)	(11,865,598)	(475,789)	2,563,888	(38,977,393)
Depreciation and amortization	(10,503,233)	(21,595,686)	(3,174,182)	–	(35,273,101)
Impairment of property, plant and equipment and exploration and evaluation assets	–	(443,435)	(3,647,310)	–	(4,090,745)
Share in profit of joint ventures	–	16,709,896	39,080	–	16,748,976
Income tax expenses	(28,175,630)	(18,229,751)	(1,259,907)	–	(47,665,288)
<b>Net profit for the year</b>	<b>117,295,294</b>	<b>76,278,179</b>	<b>5,580,949</b>	<b>(43,179,364)</b>	<b>155,975,058</b>
<b>Other segment information</b>					
Investments in joint ventures	–	20,794,618	1,104,753	–	21,899,371
Capital expenditures	13,240,322	130,706,907	5,509,258	(1,864,749)	147,591,738
Allowance for expected credit losses	(5,923,619)	(385,478)	(74,634)	–	(6,383,731)
Allowances for obsolete inventories and advances paid	(94,731)	(2,331,106)	(285,300)	–	(2,711,137)
<b>Assets of the segment</b>	<b>1,153,121,056</b>	<b>798,855,032</b>	<b>70,594,850</b>	<b>(281,060,243)</b>	<b>1,741,510,695</b>
<b>Liabilities of the segment</b>	<b>760,309,693</b>	<b>228,544,909</b>	<b>11,331,678</b>	<b>(59,169,799)</b>	<b>941,016,481</b>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****32. SEGMENT REPORTING (continued)**

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

<i>In thousands of tenge</i>	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)	-
<b>Total revenue</b>	<b>472,596,093</b>	<b>185,555,569</b>	<b>23,720,406</b>	<b>(100,115,297)</b>	<b>581,756,771</b>
<b>Gross profit</b>	<b>31,752,499</b>	<b>107,397,474</b>	<b>11,013,009</b>	<b>(3,199,413)</b>	<b>146,963,569</b>
Finance income	14,864,605	702,186	413,726	(1,450,450)	14,530,067
Finance costs	(27,229,003)	(9,451,834)	(571,104)	327,225	(36,924,516)
Depreciation and amortization	(9,425,273)	(18,326,495)	(2,683,553)	-	(30,435,321)
Impairment of property, plant and equipment and exploration and evaluation assets	(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)
<b>Net profit for the year</b>	<b>37,240,625</b>	<b>63,917,390</b>	<b>5,850,340</b>	<b>(32,227,415)</b>	<b>74,780,940</b>
<b>Other segment information</b>					
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)
<b>Assets of the segment</b>	<b>808,725,669</b>	<b>632,369,068</b>	<b>64,256,771</b>	<b>(108,007,987)</b>	<b>1,397,343,541</b>
<b>Liabilities of the segment</b>	<b>603,998,324</b>	<b>183,858,556</b>	<b>11,206,596</b>	<b>(48,745,224)</b>	<b>750,318,252</b>

Eliminations represent the exclusion of intra-group turnovers.

In 2018, the Group generated 43% of its revenues from PetroChina Group (2017: 10%) and 15% from Gazprom Group (2017: 26%).

**33. SUBSEQUENT EVENTS**

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