

National Maritime Shipping Company
Kazmortransflot LLP

Consolidated financial statements

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

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Independent auditor's report

Consolidated financial statements

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Independent auditor's report

To the Management and Participant of "National maritime shipping company "Kazmortransflot" Limited Liability Partnership

Qualified Opinion

We have audited the consolidated financial statements of "National maritime shipping company "Kazmortransflot" Limited Liability Partnership and its subsidiaries (hereinafter, 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, except for the matter described in the Basis for qualified opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for qualified opinion

In the presence of indications of impairment as at 31 December 2017, the Group did not estimate the recoverable amount of "Building" group of property, plant and equipment with a carrying value of 556,275 thousand tenge and investment property with a carrying value of 2,160,087 thousand tenge, which represents a departure from IAS 36 "Impairment of assets". As at 31 December 2018 the Group estimated the recoverable amount of "Building" group of property, plant and equipment and investment property and recognized impairment loss on investment property for 1,276,295 thousand tenge, while the recoverable amount of "Building" group of property, plant and equipment exceeded its carrying balance. The whole amount of impairment loss was recognized in the consolidated statement of comprehensive income for the year ended 31 December 2018. The effects of this departure from IFRS on the consolidated statement of comprehensive income for the years ended 31 December 2018 and 2017 and carrying value of investment property as of 31 December 2017 have not been determined.

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 qualified opinion.

Responsibilities of management 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.

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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP


Dinara Malayeva
Auditor


Audit Qualification Certificate
No. МФ-0000323 dated 25 February 2016

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

26 February 2019


Gulmira Turmagambetova
General Director
Ernst & Young LLP


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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

<i>In thousands of tenge</i>	Note	31 December 2018	31 December 2017*
Assets			
Non-current assets			
Property, plant and equipment	5	81,362,546	65,376,035
Investment properties	6	485,441	2,160,087
Intangible assets	7	130,176	150,697
Advances paid for non-current assets	8	—	5,671,945
VAT recoverable		—	226,957
Restricted cash	12	1,704,807	666,233
Other non-current assets		20,992	33,084
		83,703,962	74,285,038
Current assets			
Inventories	9	658,257	699,547
Income tax prepaid		291,445	284,728
Trade and other accounts receivable	10	12,667,062	2,652,022
Other current assets	11	420,541	236,276
Short-term bank deposits	12	—	398,796
Cash and cash equivalents	13	3,753,806	3,497,517
		17,791,111	7,768,886
Total assets		101,495,073	82,053,924
Equity and liabilities			
Equity			
Charter capital	14	11,575,721	11,575,721
Foreign currency translation reserve		5,942,369	4,599,433
Retained earnings		13,818,793	10,876,662
Total equity		31,336,883	27,051,816
Non-current liabilities			
Non-current portion of finance lease liabilities	15	4,513,425	3,145,398
Non-current portion of loans received	16	22,662,037	17,803,921
Long-term advances received for operating lease	17	4,468,540	10,572,730
Contract liabilities	18	3,572,395	7,347,151
Provisions		35,582	47,674
Other non-current liabilities		—	38,621
Deferred income tax liabilities	27	2,654,686	459,033
		37,906,665	39,414,528
Current liabilities			
Current portion of finance lease liabilities	15	1,976,175	1,090,819
Current portion of loans received	16	2,346,693	4,749,654
Short-term advances received for operating lease	17	9,534,906	3,524,243
Contract liabilities	18	6,877,128	2,449,051
Trade and other accounts payable	19	8,473,661	2,004,762
Financial guarantee obligation	28	1,893,585	1,490,919
Income tax liability		—	19,492
Other current liabilities	20	1,149,377	258,640
		32,251,525	15,587,580
Total liabilities		70,158,190	55,002,108
Total equity and liabilities		101,495,073	82,053,924

* Certain amounts in this column do not conform to 2017 financial statements, since they comprise reclassifications that are detailed in Note 2.

General Director

Acting Deputy General Director in Economics and Finance – Chief Accountant



M.K. Ormanov

A.M. Nagayev

The notes on pages 5 to 40 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**For the year ended 31 December 2018**

<i>In thousands of tenge</i>	Note	2018	2017*
Revenue from contracts with customers	21	30,931,031	22,276,157
Rental income	22	12,161,132	229,212
Revenue		43,092,163	22,505,369
Cost of services rendered	23	(29,153,476)	(19,642,026)
Gross profit		13,938,687	2,863,343
General and administrative expenses	24	(3,155,087)	(2,290,607)
Selling expenses		(193,760)	(40,116)
Other operating income	25	1,423,966	1,274,285
Other operating expenses	25	(549,370)	(525,780)
Operating profit		11,464,436	1,281,125
Finance income	26	45,609	52,342
Finance costs	26	(2,134,001)	(1,137,876)
Foreign exchange loss, net		(259,942)	(75,483)
Loss on impairment of property, plant and equipment	5, 6	(2,658,825)	(46,238)
Profit before taxation		6,457,277	73,870
Income tax expenses	27	(3,515,146)	(320,665)
Profit/(loss) for the year		2,942,131	(246,795)
Other comprehensive income			
Amounts of other comprehensive income that may be reclassified to profit or loss in subsequent periods (net of tax)			
Foreign exchange differences from translation of financial statements of foreign operations		1,342,936	(22,744)
Other comprehensive income/(loss) for the year, net of taxes		1,342,936	(22,744)
Total comprehensive income/(loss) for the year, net of tax		4,285,067	(269,539)

* Certain amounts in this column do not conform to 2017 financial statements, since they comprise reclassifications that are detailed in Note 2.

General Director



M.K. Ormanov

Acting Deputy General Director in Economics and Finance – Chief Accountant

A.M. Nagayev

CONSOLIDATED STATEMENT OF CASH FLOWS**For the year ended 31 December 2018**

<i>In thousands of tenge</i>	Note	2018	2017
Operating activities			
Cash receipts from customers		39,448,447	34,454,227
Cash payments to suppliers		(22,506,332)	(14,563,683)
Cash payments to employees		(1,645,470)	(1,555,972)
Cash payments to budget and other		(1,692,654)	(1,952,842)
Transfer to cash restricted in use		(882,515)	–
Interest received		35,696	43,224
Interest paid	16	(1,477,134)	(1,098,710)
Income tax paid		(1,417,808)	(49,800)
Net cash flows from operating activities		9,862,230	15,276,444
Investing activities			
Proceeds from sale of property, plant and equipment		51,249	–
Purchase of intangible assets		(27,592)	(15,102)
Purchases of property, plant and equipment		(9,096,503)	(13,373,056)
Bank deposits, net		644,240	1,136,968
Net cash flows used in investing activities		(8,428,606)	(12,251,190)
Financing activities			
Repayment of loans	16	(698,016)	(3,047,307)
Dividends paid		–	(100,000)
Repayment of finance lease	16	(849,598)	–
Net cash flows used in financing activities		(1,547,614)	(3,147,307)
Net decrease in cash and cash equivalents		(113,990)	(122,053)
Net foreign exchange difference on cash and cash equivalents		370,279	3,827
Cash and cash equivalents as at 1 January 2018		3,497,517	3,615,743
Cash and cash equivalents as at 31 December 2018	13	3,753,806	3,497,517

General Director



M.K. Ormanov

Acting Deputy General Director in Economics and Finance – Chief Accountant

A.M. Nagayev

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

<i>In thousands of tenge</i>	Charter capital	Foreign currency translation reserve	Retained earnings	Total
At 1 January 2017	11,575,721	4,622,177	11,223,457	27,421,355
Loss for the year	—	—	(246,795)	(246,795)
Other comprehensive loss for the year	—	(22,744)	—	(22,744)
Total comprehensive loss for the year	—	(22,744)	(246,795)	(269,539)
Dividends (Note 14)	—	—	(100,000)	(100,000)
As at 31 December 2017	11,575,721	4,599,433	10,876,662	27,051,816
Profit for the year	—	—	2,942,131	2,942,131
Other comprehensive income for the year	—	1,342,936	—	1,342,936
Total comprehensive income for the year	—	1,342,936	2,942,131	4,285,067
As at 31 December 2018	11,575,721	5,942,369	13,818,793	31,336,883

General Director



M.K. Ormanov

Acting Deputy General Director in Economics and Finance – Chief Accountant

A.M. Nagayev

The notes on pages 5 to 40 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**For the year ended 31 December 2018****1. GENERAL INFORMATION**

JSC National Maritime Shipping Company “Kazmortransflot” was incorporated pursuant to the resolution of Government of the Republic of Kazakhstan dated 4 December 1998 and registered on 29 December 1998. On 21 October 2013 based on the decision of the Board of Directors, National Maritime Shipping Company “Kazmortransflot” JSC was reorganized into National Maritime Shipping Company “Kazmortransflot” Limited Liability Partnership (hereinafter, the “Company”). The Company was established for the purpose of forming a national marine trade fleet of the Republic of Kazakhstan and organisation of international marine shipping of domestic goods using own resources.

The Company’s sole participant is National Company KazMunayGas JSC (“NC KMG” or the “Parent”). The controlling shareholder of NC KMG is Sovereign Wealth Fund Samruk-Kazyna JSC with a 90% ownership share (hereinafter, the “SWF Samruk-Kazyna”), which is controlled by the Government of the Republic of Kazakhstan, 10% of which belongs to the National Bank of Kazakhstan.

These consolidated financial statements comprise financial statements of the Company and its subsidiaries collectively referred to as the “Group”. The list of the Company’s subsidiaries is presented in *Note 2*.

The Group’s principal business activities are marine shipping of Kazakhstani crude oil from Aktau port to international markets, marine shipping of crude oil in the Black and Mediterranean Seas, marine shipping of dry cargoes as well as provision of support fleet services.

The Group’s own fleet comprised of eight oil tankers (“Almaty”, “Astana”, “Aktau”, “Atyrau”, “Oral”, “Aktobe”, “Altai” and “Alatau”), three self-propelling barges (“Barys”, “Berkut” and “Sunkar”) and marine support fleet comprising eight tug-boats and eight dump barges.

The legal address of the Company is Building 70, Microdistrict 14, Aktau 130000, Republic of Kazakhstan.

The accompanying consolidated financial statements of the Group were approved for issue by the General Director, acting Deputy General Director on Economy and Finance / Chief Accountant on 25 February 2019.

2. BASIS OF PREPARATION AND CHANGES IN THE GROUP’S ACCOUNTING POLICY

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (hereinafter, “IFRS”), as issued by International Accounting Standard Board (hereinafter, “IASB”).

These consolidated financial statements are prepared under the historical cost basis, except as described in the accounting policies and the notes to the consolidated financial statements. All values in these consolidated financial statements are rounded to the nearest thousands, except when otherwise indicated.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in *Note 4*. These estimates are based on information available as of the date of the consolidated financial statements. Actual results, therefore, could differ from these estimates in the future.

Basis of consolidation

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the following conditions are met:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**2. BASIS OF PREPARATION AND CHANGE IN THE GROUP'S ACCOUNTING POLICY (continued)****Basis of consolidation (continued)**

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights or potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Subsidiary is consolidated from the date on which control is transferred to the Group and is no longer consolidated from the date that control ceases. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the shareholders of the Parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

As at 31 December 2018 and 31 December 2017, the Company had interest ownership in the following subsidiaries:

Company	Principal activities	Place of registration	Ownership share	
			31 December 2018	31 December 2017
Kazmortransflot Ltd	Marine shipping of Kazakhstani crude oil from Aktau port to international markets in the Caspian sea, marine shipping of crude oil in Black Sea and Mediterranean Sea.	Isle of Man	100%	100%
Kazmortransflot UK Ltd	Operates as Agent Company, which provides services to the Group and receives income in accordance with the commercial management agreement.	United Kingdom	100%	100%
Altai Shipping Ltd	Marine shipping of crude oil and oil products to international markets and leasing out of own tanker.	Marshall Islands	100%	100%
Alatau Shipping Ltd	Marine shipping of crude oil and oil products to international markets and leasing out of own tanker.	Marshall Islands	100%	100%

New and amended standards and interpretations

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

In 2018, some other amendments to the existing standards and interpretations were also applied, which are effective for annual periods beginning on or after 1 January 2018 and which did not affect the consolidated financial statements of the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**2. BASIS OF PREPARATION AND CHANGE IN THE GROUP'S ACCOUNTING POLICY (continued)****New and amended standards and interpretations (continued)***IFRS 15 Revenue from Contracts with Customers*

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted IFRS 15 from 1 January 2018 using a modified retrospective method of adoption. According to this transition method, the standard can be applied either to all contracts at the date of its initial application, or only to those contracts that are not executed at that date. The Group decided to apply the standard to all contracts as at 1 January 2018.

The cumulative effect of initially applying IFRS 15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related Interpretations.

The effect of adopting IFRS 15 as at 1 January 2018 was, as follows:

<i>In thousands of tenge</i>	Refe- rences	Increase/ (decrease)
Property, plant and equipment	(a)	432,591
Total assets		432,591
Long-term advances received	(b)	(7,347,151)
Short-term advances received	(b)	(2,449,051)
Contract liabilities (non-current)	(a)	7,357,399
Contract liabilities (current)	(a)	2,871,394
Total liabilities		432,591
Total equity adjustments		
Retained earnings		–

The following are the amounts by which the items in the financial statements as at 31 December 2018 changed as a result of the application of IFRS 15. The application of IFRS 15 did not have a significant effect on the Group's other comprehensive income or cash flows from operating, investing and financing activities. The first column shows the amounts calculated in accordance with IFRS 15, and the second column shows the amounts determined as if IFRS 15 were not applied.

Consolidated statement of comprehensive income for the year ended 31 December 2018	Refe- rences	Amounts as per		Increase/ (decrease)
		IFRS 15	Previous IFRS	
Revenue from contracts with customers	(a)	30,931,031	–	30,931,031
Revenue		–	30,508,688	(30,508,688)
Revenue		43,092,163	42,669,820	422,343
Cost of services rendered	(b)	(29,153,476)	(29,116,156)	(37,320)
Gross profit		13,938,687	13,553,664	385,023
Finance costs	(a)	(606,345)	–	(606,345)
Profit before taxation		6,457,277	6,678,599	(221,322)
Income tax expenses	(b)	(3,515,146)	(3,658,796)	143,650
Profit for the year		2,942,131	3,019,803	(77,672)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**2. BASIS OF PREPARATION AND CHANGE IN THE GROUP'S ACCOUNTING POLICY (continued)****New and amended standards and interpretations (continued)***IFRS 15 Revenue from Contracts with Customers (continued)*

Consolidated statement of financial position as at 31 December 2018	Refe- rences	Amounts as per		Increase/ (decrease)
		IFRS 15	Previous IFRS	
Property, plant and equipment	(a)	81,362,546	80,865,617	496,929
Total non-current assets		83,703,962	83,207,033	496,929
Total current assets		17,791,111	17,791,111	–
Total assets		101,495,073	100,998,144	496,929
Retained earnings	(a), (b)	13,818,793	13,896,465	(77,672)
Total equity		31,336,883	31,414,555	(77,672)
Deferred income tax liabilities	(b)	2,654,686	2,798,336	(143,650)
Long-term advances received		–	3,113,349	(3,113,349)
Contract liabilities	(a)	3,572,395	–	3,572,395
Total non-current liabilities		37,906,665	37,591,269	315,396
Short-term advances received		–	6,617,923	(6,617,923)
Contract liabilities	(a)	6,877,128	–	6,877,128
Total current liabilities		32,251,525	31,992,320	259,205
Total equity and liabilities		101,495,073	100,998,144	496,929

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the consolidated statement of financial position as at 31 December 2018 and the consolidated statement of comprehensive income for the year ended 31 December 2018 are described below:

(a) Long term advance payments received from customers

Since 2016, the Group has provided shipbuilding management and transportation services for newly built vessels. Before the adoption of IFRS 15, the Group presented these advances as deferred revenue in the consolidated statement of financial position and no interest was accrued on the long-term advances received. Under IFRS 15, the Group concluded that there was a significant financing component for those contracts where the customer elected to pay the transaction price when the contract was signed. The amount received for such contracts was considered the discounted transaction price that take into consideration the significant financing component. Upon the adoption of IFRS 15, the above adjustments were made such that

current and non-current contract liabilities increased by 422,343 thousand tenge and 10,248 thousand tenge, respectively, reflecting the adjustment on the promised amount of consideration, plus the interest, with an increase in fixed assets by the same amount, which represents the capitalization of borrowing costs according to IAS 23.

In addition, as at 1 January 2018, the Group reclassified 2,449,051 thousand tenge from short-term advances received to contract liabilities (short-term) and 7,347,151 thousand tenge from long-term advances received to contract liabilities (long-term).

(b) Other adjustments

In addition to the adjustments described above, other items of the primary financial statements such as deferred taxes, by the amount of the significant financing component, fixed assets by the additional amortization of capitalized borrowing costs and retained earnings, respectively were adjusted as necessary.

IFRS 9 Financial Instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**2. BASIS OF PREPARATION AND CHANGE IN THE GROUP'S ACCOUNTING POLICY (continued)****New and amended standards and interpretations (continued)***IFRS 9 Financial Instruments (continued)*

The Group applied IFRS 9 prospectively as at the date of initial recognition, 1 January 2018. At the same time, the Group did not restate the comparative information, which was presented in accordance with IAS 39. As a result of applying IFRS 9, it did not have a significant impact on the current classification and assessment and impairment of financial instruments used by the Group. The Group does not have a hedging relationship; accordingly, this part of the new standard did not affect the consolidated financial statements of the Group.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

The Group applied this clarification from 1 January 2018; however, since the Group's current activities comply with the interpretation requirements, it did not affect its consolidated financial statements.

Transfers of Investment Property – Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The Group applied these amendments from 1 January 2018, but it did not have a significant impact on its consolidated financial statements.

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

The IASB issued amendments to IFRS 2 *Share-based Payments* where three main aspects are reviewed: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are not required to restate information for the previous periods however retrospective application is permitted if amendments are applied to all three aspects and other criteria are met.

These amendments did not have any effect on the consolidated financial statements of the Group as the Group does not have share based payments.

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

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which will replace IFRS 4. The amendments provide two options for entities that issue insurance contracts: temporary exemption from applying IFRS 9 and overlay approach. These amendments are not applicable to the Group.

Amendments to IAS 28 Investments in Associates and Joint Ventures – clarification that the decision to evaluate investees at fair value through profit or loss should be taken separately for each investment

The amendments clarify that an entity specializing on venture investments, or a similar entity, may elect, at initial recognition on an investment-by-investment basis, to measure an investment in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which:

- (a) The date of initial recognition of the associate or joint venture, which are investment entities;
- (b) The date on which the associate or joint venture becomes an investment entity; and
- (c) The date on which the associate or joint venture, which are investment entities, first become parents.

The amendments have no impact on the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**2. BASIS OF PREPARATION AND CHANGE IN THE GROUP'S ACCOUNTING POLICY (continued)****New and amended standards and interpretations (continued)**

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

Short-term exemptions provided for by E3-E7 (IFRS 1) have been deleted because they served their intended purpose. This amendment is not applicable to the Group.

Standards issued but not yet effective

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

IFRS 16 Leases

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

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

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

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

Transition to IFRS 16

The Group plans to apply IFRS 16 using a modified retrospective approach as of the effective date of the standard. The Group elected to apply the standard to contracts that were previously identified as lease contracts in accordance with IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease in accordance with IAS 17 and IFRIC 4.

The Group elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

In 2018, the Group carried out a preliminary analysis of the impact of IFRS 16 and concluded that the application of IFRS 16 will not have a significant impact on the consolidated financial statements of the Group, since the Group mainly acts as a lessor under the lease contracts, as well as the contracts in which the Group acts as a lessee, expire within 12 months from the date this standard becomes effective.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**2. BASIS OF PREPARATION AND CHANGE IN THE GROUP'S ACCOUNTING POLICY (continued)****Standards issued but not yet effective (continued)***IFRS 17 Insurance Contracts*

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 replaces IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. There are several scope exceptions. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach).
- A simplified approach (the premium allocation approach) is mainly for short-duration contracts.

IFRS 17 is effective for reporting periods starting on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable for the Group.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation 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 periods beginning on or after 1 January 2019. Certain exemptions are allowed on transition. The Group will adopt the interpretation when it becomes effective. As the Group is an international organization and operates in a complicated tax environment, application of the interpretation may have an impact on its consolidated financial statements. Besides, the Group may be forced to implement procedures and methods of receiving information necessary for the timely application of the interpretation.

Prepayment Features with Negative Compensation – Amendments to IFRS 9

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

These amendments are applied retrospectively and become effective for annual periods beginning on 1 January 2019. Early application is allowed. The Group will adopt these amendments when they become effective.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**2. BASIS OF PREPARATION AND CHANGE IN THE GROUP'S ACCOUNTING POLICY (continued)****Standards issued but not yet effective (continued)***Amendments to IAS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

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

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement

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

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

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

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019. Early application is allowed. The Group does not expect that these amendments will have an effect on its financial statements.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

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

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

The amendments are applied retrospectively and are effective for annual periods beginning on or after 1 January 2019. Early application is allowed. Since the Group does not have such long-term investments in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

Annual IFRS improvements, 2015-2017 cycle (issued in December 2017)

These improvements comprise the following amendments:

IFRS 3 Business Combinations

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

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Early application is allowed. The amendments are currently not applicable to the Group but may apply to future transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**2. BASIS OF PREPARATION AND CHANGE IN THE GROUP'S ACCOUNTING POLICY (continued)****Standards issued but not yet effective (continued)***Annual IFRS improvements, 2015-2017 cycle (issued in December 2017) (continued)**IAS 12 Income Taxes*

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

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

IAS 23 Borrowing Costs

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

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

Comparative information

Certain amounts in the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income for the year ended 31 December 2017 have been reclassified in accordance with the format of presentation adopted in 2018.

The Group separated advances paid, deferred expenses, payables to employees from trade and other receivables and included them within other current assets. The Group also included other tax prepayments within other current assets. The Group separated payables to employees from trade and other payables and included them within other current liabilities together with other taxes payable.

The Group separated advances received for operating leases from long-term and short-term advances received:

<i>In thousands of tenge</i>	Initial classification	The amount of reclassification	Adjusted presentation
Consolidated statement of financial position as at 31 December 2017			
Current assets			
Trade and other accounts receivable	2,801,584	(149,562)	2,652,022
Other taxes prepaid	86,714	(86,714)	–
Other current assets	–	236,276	236,276
Non-current liabilities			
Contract liabilities	17,919,881	(10,572,730)	7,347,151
Long-term advances received for operating lease	–	10,572,730	10,572,730
Current liabilities			
Contract liabilities	5,973,294	(3,524,243)	2,449,051
Short-term advances received for operating lease	–	3,524,243	3,524,243
Trade and other accounts payable	2,171,324	(166,562)	2,004,762
Other taxes payable	92,078	(92,078)	–
Other current liabilities	–	258,640	258,640

The change did not affect net income, movements in equity for the period, or the Group's cash flows from operating, investing and financing activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**2. BASIS OF PREPARATION AND CHANGE IN THE GROUP'S ACCOUNTING POLICY (continued)****Comparative information**

The Group separated lease income from total revenue and disclosed it in a separate line in the consolidated statement of comprehensive income:

<i>In thousands of tenge</i>	Initial classification	The amount of reclassification	Adjusted presentation
Consolidated statement of comprehensive income for the year ended 31 December 2017			
Revenue	22,505,369	(229,212)	22,276,157
Rental income	—	229,212	229,212

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Foreign currency translation**

The consolidated financial statements are presented in Tenge, which is the Group's functional and presentation currency.

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Any exchange gains and losses arising from assets and liabilities denominated in foreign currencies subsequent to the date of the underlying transaction are credited or charged to the consolidated statement of comprehensive loss.

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.

Weighted average currency exchange rates established by the National Bank of the Republic of Kazakhstan are used as official currency exchange rates in the Republic of Kazakhstan.

The following exchange rates of major foreign currencies against the Kazakhstan tenge have been used in the preparation of these consolidated financial statements:

Exchange rate as at	31 December 2018	31 December 2017
US dollar	384,2	332,33
Euro	439,37	398,23
Great Britain Pound (GBP)	488,13	448,61

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of any decommissioning obligation, if any. Such cost includes the cost of replacement of equipment parts and borrowing costs in case of long-term construction projects if capitalization criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated statement of comprehensive income as incurred. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

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 is computed on a straight-line basis over the estimated useful life of the asset as follows:

	Useful lives (in years)
Buildings	8-50
Machinery and equipment	3-30
Vehicles	3-30
Other	3-20

The expected useful lives, residual lives and depreciation methods of property, plant and equipment are reviewed on an annual basis and, if necessary, respective changes are accounted for prospectively.

The carrying amount of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Cost related to repairs and renewals are charged when incurred and included either in cost of sales or general and administrative expenses, depending on the function of property, plant and equipment, unless they qualify for capitalisation.

Provision for mineral deposit recovery

Provision for mineral deposit recovery is recognized in relation to future liquidation and recovery of production assets at the end of their useful lives.

In accordance with the Ainazar field subsurface use contract the Group is obliged to liquidate consequences of its operations including removal or dismantlement of constructions and equipment on the contractual area. Provision for mineral raw materials field recovery is estimated on the basis of current judicial and constructive requirements, level of technologies and prices.

Since actual expenses for recovery may differ from their estimations due to changes in requirements and interpretations of legislation, technologies, prices and other condition, and these expenses will be incurred at a distant date, the carrying amount of provision is reviewed and adjusted on a regular basis in order to account such changes. As at 31 December 2018 the carrying amount of the provision for recovery of mineral raw materials field was 35,582 thousand tenge (31 December 2017: 47,674 thousand tenge).

Investment properties

Investment properties are measured initially at cost, including transaction costs less accumulated depreciation and impairment. When significant parts of investment property are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciate them appropriately. All other repair and maintenance costs are recognised in the consolidated statement of comprehensive income as incurred.

Depreciation of investment property is calculated on the basis of the straight-line method over the estimated useful lives of buildings and structures from 8 to 50 years.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of comprehensive income in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in the nature of use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the net book value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Intangible assets**

Intangible assets are stated at initial cost less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised on a straight-line basis over 2-15 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of comprehensive income in the expense category consistent with the function of the intangible assets.

Inventories

Inventories are valued at the lower of cost or net realisable value. Cost of inventory is determined based on FIFO method (first-in, first-out).

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Lease

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

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected directly in the consolidated statement of comprehensive income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as operating expenses in the consolidated statement of comprehensive income on a straight line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Taxes*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 rate and tax law used to compute the amount are those that are enacted or substantially enacted by the reporting date.

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 consolidated financial reporting purposes.

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

Deferred tax liabilities are recognised for all taxable temporary differences:

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

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets 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 carryforward of unused tax assets and unused tax losses can be utilized:

- Except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that and, at the time of the transaction, affects neither net 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 reverse 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 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 the deferred tax asset to be recovered.

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

Deferred tax relating to items recognised directly in equity is recognised 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 income taxes relate to the same taxable entity and the same taxation authority.

Value added tax (VAT)

Value added tax related to sales is payable to tax authorities on delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on sales and purchases on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a net basis.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal or its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Impairment losses of continuing operations are recognised in the consolidated statement of comprehensive income in expense categories consistent with the intended purpose of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, 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 CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of comprehensive income unless the asset is carried at a revalued amount. In this case the reversal is treated as a revaluation increase.

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

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

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

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

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

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

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

Subsequent measurement

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

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

The category of financial assets measured at amortized cost is most relevant to the Group, and therefore applies to all current financial assets of the Group.

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

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

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

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

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

Trade and other accounts receivable

Trade and other accounts receivable 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 measured at amortised cost using the effective interest rate method, and impairment requirements are applied to them. 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 amortization is included in finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income in general and administrative expenses.

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; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes 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 that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

Cash and cash equivalents

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

Balances restricted within 12 (twelve) months after the reporting date are recorded as a separate item within non-current assets.

Financial liabilities*Initial recognition and measurement*

Financial liabilities within the scope of IAS 9 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, payables or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include trade and other payables, loans received, finance lease liabilities and financial guarantee obligation.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Gains or losses on liabilities held for trading are recognised in the consolidated statement of comprehensive income.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liabilities as at fair value through profit or loss.

Loans and borrowings

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

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

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial liabilities (continued)*****Derecognition***

A financial liability is derecognized 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 loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if,

- There is a currently enforceable legal right to offset the recognised amounts; and
- There is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded at an active market, the fair value is determined by using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

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

- Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2 – valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – 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 assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Allowances

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as finance costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Revenue and expense recognition***Revenue from contracts with customers*

The Group's activities are related to the provision of cargo transportation services, service fleet services, as well as transportation management services. Revenue under contracts with customers is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, irrespective of the period of payment. Revenue is measured at fair value of consideration received or receivable, taking into account payment terms defined in a contract and net of taxes or duties. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

The Group provides freight transportation, service fleet and transportation management services, which are either provided separately or included in a comprehensive agreement. The Group recognizes revenue from these services based on the degree of completeness of a particular operation, assessed proportionally to the share of actually provided services in the total scope of services to be provided under the contract, as the buyer simultaneously receives and consumes benefits provided by the Group.

The Group recognizes revenue from services rendered on transportation of crude oil and other goods upon the fact of transportation services implementation, based on the volumes of goods, accepted and agreed by all transaction parties, and fixed tariffs, established in the contracts between the Group and freighters.

Lease element in contracts with customers

The Group may enter into an agreement involving one or several interrelated operations, which in its legal form is not a lease agreement, but transfers the right to use the asset in exchange for a payment or a series of payments. The Group may transfer such a right to use the asset to another organization along with related services.

The Group separates payments related to the lease element and related to other elements of the agreement, based on the relative fair value of all elements.

Significant financing component

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

The Group also received long-term advance payments from customers in case of transportation management services. To reflect the significant component of financing, the transaction price under such agreements is discounted using the rate that would be applied for a separate financing operation between the Group and its customers at the time of signing the agreement.

Trade accounts receivable

Trade receivables represent the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Expenses

Expenses are accounted for at the time the actual flow of the related goods or services occur, regardless of whether payment is made, and are reported in the consolidated financial statements in the period to which they relate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of a qualified asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

Current versus non-current classification

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

- Expected to be realised or intended to sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ASSUMPTIONS

The Group uses estimates and judgements, which exert an influence on assets and liabilities stated in the consolidated financial statements during the next financial year. Estimates and judgements are subject to constant critical analysis and are based on the past experience of the management and other factors including expectations regarding future events, which, as deemed, are reasonable in the existing circumstances. The management also uses certain judgements, except for those requiring estimates, in the process of application of accounting policies. Judgements that have the most significant effect on amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Useful life of property, plant and equipment

The Group assessed useful lives of items of property, plant and equipment using professional judgement based on the experience regarding similar assets. Future economic benefits related to these assets will mainly flow as a result of their use. However, other factors, such as technical or commercial obsolescence, as well as equipment deterioration often result in a decrease in economic benefits associated with these assets. The Management assesses the remaining useful lives of property, plant and equipment based on the current condition of the assets, and subject to the accounting period during which these assets will bring economic benefits to the Group. At that, the following major factors are taken into account: (a) the expected life of assets; (b) the expected physical wear, which depends on the performance characteristics and maintenance program; and (c) the obsolescence of assets subject to technological and commercial review as a result of changes in the market conditions.

Impairment of non-current assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, also in cases when circumstances indicate that its carrying value may be impaired, the Group estimates the asset's recoverable amount. When analysing indicators of impairment, the Group, among other factors, takes into account the demand for transportation of oil and cargo, and the lease of tugboats and barges in the Caspian, Mediterranean and Black Seas.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ASSUMPTIONS (continued)****Impairment of non-current assets (continued)**

The management tested fixed assets (vehicles – marine vessels) and investment property of the Group for impairment as at 31 December 2018.

The Group carried out a test for impairment of assets for which indicators of potential impairment were identified. The Group divided these assets into the following cash-generating units:

- Investment property – office building.
- Fixed assets – service fleet: tugs “Irtysh”, “Ural”, “Yessil”, “Tobol”, eight self-unloading barges of KMG 101-108.
- Fixed assets – oil tanker “Aktau”.
- Fixed assets – Aframax oil tankers “Altai” and “Alatau”.

Investment property – office building

As at 31 December 2018 the recoverable amount of the investment property amounted to 485,441 thousand tenge. It has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows were calculated to reflect the stability of the leased premises and the gradual increase in rental payments. The discount rate applied to the cash flow projections is 16.66%, and cash flows beyond the five-year period are extrapolated using a 5% growth rate that is consistent with the long-term average growth rate of the industry. As a result of this analysis, in the current year, management recognized an impairment loss in the amount of 1,276,295 thousand tenge.

Service fleet

In view of the idle service fleet and a decrease in demand in the Caspian Sea, the management of the Group has fully impaired the carrying value of the service fleet in the amount of 1,021,085 thousand tenge as at 31 December 2018. As at 31 December 2018, the Group does not see clear prospects for operating the service fleet.

Oil tanker “Aktau”

As at 31 December 2018, the recoverable amount of Aktau tanker amounted to 3,076,247 thousand tenge. It has been determined based on the tanker’s value in use calculation using cash flow projections from financial budgets of the Group. The cash flow projections were based on the useful life of the tanker until 2031. The projected cash flows were calculated in order to reflect the gradual drop in oil transportation volumes due to the obsolescence of the tanker. The discount rate applied to the cash flow projections is 13.38%. The cash flows in the forecast period were recorded with consideration of expected price changes adjusted for inflation. As a result of this analysis, in the current year, management recognized a tanker impairment loss in the amount of 361,445 thousand tenge. The main significant assumptions used in the valuation technique are the volumes of oil transportation. The volume of oil transportation has been decreasing since 2027, taking into account the technical capabilities of the tanker. A decrease in the volume of oil transportation within the allowable limits of 10% will result in an additional impairment loss in the amount of 715,640 thousand tenge.

Altai and Alatau oil tankers

At 31 December 2018, the recoverable amount of tankers exceeded their carrying value. Accordingly, the Group did not accrue Aframax tankers impairment losses. The recoverable amount of tankers has been determined based on a value in use calculation using cash flow projections. The cash flow projections were based on the useful life of the tanker until 2036.

The key assumptions used to calculate the recoverable amount are as follows:

Freight rate – to calculate the recoverable amount, the Group used the average freight rate for 2018 in the amount of USD 8.73 per ton of crude oil (equivalent of KZT 3,351). A decrease in the freight rate within the allowable limits by 5% will result in a loss from impairment of tankers in the amount of 7,706,004 thousand tenge.

Discount rate – the discount rate of 9.98% has been adjusted to reflect the current market assessment of the risks specific to the Group, and was estimated based on the weighted average cost of capital for the industry. The rate was calculated in US dollars, as cash flows were projected in US dollars, and the Group’s activities related to these tankers are conducted in an environment where the US dollar is the main currency of cash flows. Further changes to the discount rate may be necessary in the future to reflect changing risks for the industry and changes to the weighted average cost of capital. Increase in the discount rate by 1% will result in an impairment loss in the amount of 1,082,034 thousand tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**5. PROPERTY, PLANT AND EQUIPMENT**

Movement of property, plant and equipment for the year ended 31 December 2018 is presented as follows:

<i>In thousands of tenge</i>	Land	Buildings	Machinery and equipment	Vehicles	Other	Construction in progress	Total
Cost							
As at 1 January 2017	2,362	644,236	2,309,758	62,631,695	260,871	86,235	65,935,157
Additions	–	–	–	4,613,792	15,719	19,210,520	23,840,031
Disposals	–	–	–	–	(16,467)	–	(16,467)
Transfer	–	–	(1,637)	65,278	1,637	(65,278)	–
Foreign currency translation	–	–	–	(120,706)	(371)	–	(121,077)
As at 31 December 2017	2,362	644,236	2,308,121	67,190,059	261,389	19,231,477	89,637,644
Additions	–	–	–	2,172,034	29,576	15,185,125	17,386,735
Disposals	–	–	–	(259,309)	(16,459)	–	(275,768)
Transfer from investment property (Note 6)	–	381,043	–	–	–	–	381,043
Transfer from construction in progress	–	–	–	34,352,174	–	(34,352,174)	–
Foreign currency translation	–	–	–	6,478,883	1,273	–	6,480,156
As at 31 December 2018	2,362	1,025,279	2,308,121	109,933,841	275,779	64,428	113,609,810
Accumulated depreciation and impairment							
As at 1 January 2017	–	(20,595)	(1,556,968)	(19,184,901)	(176,099)	(36,413)	(20,974,976)
Accruals	–	(13,073)	(187,312)	(3,021,095)	(31,312)	–	(3,252,792)
Disposals	–	–	–	–	16,467	–	16,467
Impairment charge	–	–	–	(46,238)	–	–	(46,238)
Foreign currency translation	–	–	–	(4,054)	(16)	–	(4,070)
As at 31 December 2017	–	(33,668)	(1,744,280)	(22,256,288)	(190,960)	(36,413)	(24,261,609)
Accruals	–	(14,318)	(180,410)	(4,559,698)	(37,580)	–	(4,792,006)
Disposals	–	–	–	259,309	16,368	–	275,677
Transfer from investment property (Note 6)	–	(27,295)	–	–	–	–	(27,295)
Impairment charge	–	–	(364,558)	(1,017,972)	–	–	(1,382,530)
Foreign currency translation	–	–	–	(2,058,732)	(769)	–	(2,059,501)
As at 31 December 2018	–	(75,281)	(2,289,248)	(29,633,381)	(212,941)	(36,413)	(32,247,264)
Carrying amount							
As at 31 December 2017	2,362	610,568	563,841	44,933,771	70,429	19,195,064	65,376,035
As at 31 December 2018	2,362	949,998	18,873	80,300,460	62,838	28,015	81,362,546

The Group has an office building in Aktau, Kazakhstan, the initial cost of which amounted to 2,864,351 thousand tenge. The Group uses part of the building, whose net book value as at 31 December 2018 amounts to 898,459 thousand tenge for own needs (as at 31 December 2017: 556,275 thousand tenge). During the year, the Group occupied parking spaces in the underground parking, as a result of which a part of the net book value in the amount of 353,748 thousand tenge was transferred to fixed assets.

The Group leases out to related parties a part of the building, the net book value of which amounts to 485,441 thousand tenge as at 31 December 2018. This part of the building was classified by the Group as investment property less accrued impairment in the amount of 1,276,295 thousand tenge as at 31 December 2018 (Note 6).

During 2018, the Group put into operation three self-propelled barges No. 852 – Barys, No. 853 – Berkut and No. 854 – Sunkar, the initial value of which amounted to 34,352,174 thousand tenge. According to the Group's estimate, the useful life of these vessels is 15 years.

As at 1 January 2018, the Group capitalized interest on the contract liability within fixed assets in the amount of 432,591 thousand tenge, at the date of transition to IFRS 15. Also, in 2018, the Group capitalized interest in the amount of 101,658 thousand tenge within fixed assets during the period of construction of vessels No. 852 – Barys, No. 853 – Berkut and No. 854 – Sunkar.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**5. PROPERTY, PLANT AND EQUIPMENT (continued)**

In 2018, the Group capitalized customs duty associated with the transportation of three self-propelled barges in the amount of 1,648,484 thousand tenge within fixed assets (in 2017: KZT 0).

The vehicles include tugboats EMBA, TALAS and IRGIZ used by the Group under a finance lease agreement concluded with Islamic Bank “Al Hilal” JSC. As at 31 December 2018, the carrying amount of these vessels was 5,973,138 thousand tenge (as at 31 December 2017: 4,165,915 thousand tenge). Purchases of property, plant and equipment during the year comprised IRGIZ tugboat under finance lease agreement in the amount of 2,084,038 thousand tenge (2017: EMBA and TALAS tugboats in the amount of 4,236,524 thousand tenge). Tugboats serve as collateral for the relevant obligations under finance lease agreements.

In 2018, the Group performed a test for the impairment of fixed assets (marine vessels). As a result of the impairment test, the tanker “Aktau” was impaired for a total amount of 361,445 thousand tenge (in 2017: tanker “Aktau” – 46,237 tenge). Also, as a result of the test for impairment, the Group recognized impairment of tugboats Irtysh, Ural, Yessil, Tobol and eight self-unloading barges of KMG 101-108 in the amount of 1,021,085 thousand tenge (in 2017: nil).

As at 31 December 2018 property, plant and equipment with the cost of 1,817,898 thousand tenge were fully depreciated (as at 31 December 2017: 1,802,774 thousand tenge).

6. INVESTMENT PROPERTY

The movements in investment property for the year ended 31 December 2018 were as follows:

In thousands of tenge

Initial cost	
As at 1 January 2017	2,277,770
Additions	–
As at 31 December 2017	2,277,770
Additions	963
Transfer to property, plant and equipment (Note 5)	(381,043)
As at 31 December 2018	1,897,690
Accumulated depreciation	
As at 1 January 2017	(72,127)
Charge	(45,556)
As at 31 December 2017	(117,683)
Charge	(45,566)
Transfer to property, plant and equipment (Note 5)	27,295
Impairment charge	(1,276,295)
As at 31 December 2018	(1,412,249)
Carrying amount	
As at 31 December 2017	2,160,087
As at 31 December 2018	485,441

Investment property of the Group comprises a part of an office building built in May 2015 by Taymas Construction Company LLP in Aktau, Kazakhstan.

<i>In thousands of tenge</i>	2018	2017
Income from investment property (Note 22)	228,931	229,212
Direct operating expenses (including repair and technical maintenance), which resulted in deriving of lease income (included within cost)	(188,393)	(174,162)
Profit from investment property	40,538	55,050

As at 31 December 2018 and 2017, the fair value of investment property approximates its carrying amount.

No restrictions on the sale of its investment property is imposed on the Group. The Group also has no contractual obligations for the acquisition, construction or improvement of investment property.

As a result of the impairment test, the Group recognized impairment in the amount of 1,276,295 thousand tenge (2017: nil) (Note 4).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**7. INTANGIBLE ASSETS**

Movement of intangible assets for the year ended 31 December 2018 is presented as follows:

<i>In thousands of tenge</i>	Computer software	Other	Total
Cost			
As at 1 January 2017	347,157	140,872	488,029
Additions	18,288	–	18,288
Other internal transfers	–	644	644
Disposals	(630)	(683)	(1,313)
Foreign currency translation	(700)	–	(700)
As at 31 December 2017	364,115	140,833	504,948
Additions	22,745	3,107	25,852
Foreign currency translation	5,431	–	5,431
As at 31 December 2018	392,291	143,940	536,231
Accumulated depreciation			
As at 1 January 2017	(228,392)	(76,598)	(304,990)
Charge	(43,250)	(6,607)	(49,857)
Foreign currency translation	596	–	596
As at 31 December 2017	(271,046)	(83,205)	(354,251)
Charge	(42,857)	(6,080)	(48,937)
Foreign currency translation	(2,867)	–	(2,867)
As at 31 December 2018	(316,770)	(89,285)	(406,055)
Carrying amount			
As at 31 December 2017	93,069	57,628	150,697
As at 31 December 2018	75,521	54,655	130,176

8 ADVANCES PAID FOR NON-CURRENT ASSETS

On 28 July 2016, the Group in a consortium with Blue Water Shipping signed an agreement with Tengizchevroil (TCO) for the transportation of modules for the Future Growth Project (FGP). The Group entered into an agreement with Vard Group AS for the construction of three self-propelled barges No. 852, No. 853 and No. 854, worth USD 24,4 million each. In this connection, the Group classified FGP advances as long-term advances. The terms of payment included advance payments of 20%, 30%, 25% and 25%, depending on the amount of performed work negotiated in the contract. TCO reimbursed the costs of construction of self-propelled barges, in turn, the Group worked with Vard Group AS on a prepayment basis.

According to the agreement with TCO, the costs of construction of self-propelled barges are fully reimbursed by the future provision of services for managing the transportation of structural modules and leasing out of newly built self-propelled barges to TCO. Thus, the Group received advances from TCO, and paid an advance to Bue Bulkers Limited for supervision and to Vard Group AS for the construction of self-propelled barges.

Construction of self-propelled barges No. 852, No. 853 was completed in August 2017, and vessel No. 854 was completed in January 2018. During 2018, the Group put all three vessels into service after they were delivered to Kazakhstan. Accordingly, advances paid for non-current assets were utilized against the vessels supplied.

9. INVENTORIES

As at 31 December 2018 and 31 December 2017 inventory is presented as follows:

<i>In thousands of tenge</i>	31 December 2018	31 December 2017
Fuel	498,105	527,335
Spare parts	56,069	51,495
Limestone	4,486	4,486
Other materials	99,597	116,231
	658,257	699,547

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**10. TRADE AND OTHER RECEIVABLES**

As at 31 December 2018 and 31 December 2017 trade and other accounts receivable are presented as follows:

<i>In thousands of tenge</i>	31 December 2018	31 December 2017
Trade accounts receivable	12,307,982	2,651,866
Other accounts receivable	482,259	56,611
Less: Allowance for expected credit losses	(123,179)	(56,455)
	12,667,062	2,652,022

Trade receivables resulted from the recognition of revenue from contracts with customers in accordance with IFRS 15.

The main portion of other receivables comprises insurance claim payment from Standard Club UK Ltd. on the insured event of damage caused to the Federal State Unitary Enterprise "Rosmorport" in the amount of 400,774 thousand tenge. Insurance proceeds are denominated in USD dollars.

As at 31 December 2018 and 31 December 2017, trade and other accounts receivable are expressed in the following currencies:

<i>In thousands of tenge</i>	31 December 2018	31 December 2017
US dollars	12,355,347	2,495,221
KZT	311,715	156,801
	12,667,062	2,652,022

The average maturity of accounts receivable is 30 days. In 2018 and 2017, interest on unpaid balances were not accrued.

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

<i>In thousands of tenge</i>	2018	2017
Allowance for expected credit losses as at 1 January	56,455	56,220
Charge for the year	35,107	6,611
Write-off for the year	(3,539)	(6,212)
Foreign exchange difference	35,156	(164)
Allowance for expected credit losses as at 31 December	123,179	56,455

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				
			31-60 days	61-90 days	91-120 days	121-360 days	More than 361 days
2018	12,667,062	12,085,557	93,139	18,489	12,949	456,928	–
2017	2,652,022	1,634,959	522,394	145,844	130,174	146,962	71,689

11. OTHER CURRENT ASSETS

As at 31 December 2018 and 31 December 2017 other current assets were presented as follows:

<i>In thousands of tenge</i>	31 December 2018	31 December 2017
Other taxes prepaid	205,084	86,714
Advances paid	164,191	108,241
Deferred expenses	43,767	27,545
Due from employees	7,499	13,776
	420,541	236,276

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**12. SHORT-TERM BANK DEPOSITS**

As at 31 December 2018 and 31 December 2017 short-term bank deposits were presented as follows:

Bank name	Currency	Date of placement	Maturity date	Interest rate	31 December 2018	31 December 2017
Islamic Bank Al Hilal JSC	US dollars	4 August 2017	13 July 2018	2.93%	–	332,330
Tsesnabank JSC	US dollars	12 December 2017	4 April 2018	3.00%	–	66,466
					–	398,796

Interest income accrued in 2018 amounted to 45,609 thousand tenge (2017: 52,342 thousand tenge) (Note 26).

Restricted cash

As at 31 December 2018 cash restricted in use in the amount of 1,704,807 thousand tenge (as at 31 December 2017: 666,233 thousand tenge) (equivalent to 2 million US dollars) comprises a deposit with an estimated profit of 3.02% per annum placed with Islamic Bank “Al Hilal” JSC in the amount of 768,400 thousand tenge (2 million US dollars) mandatory under the finance lease agreement and Escrow account at Altyn Bank JSC (SB “Halyk Bank of Kazakhstan” JSC) in the amount of 935,407 thousand tenge (2,435 thousand US dollars) opened as collateral for the proper performance of its obligations under the Consortium Agreement with Blue Water LLC Shipping Kazakhstan.

The remaining portion of cash restricted in use in the amount of 1,000,000 tenge represents a liquidation fund for the restoration of the Ainazar limestone quarry.

13. CASH AND CASH EQUIVALENTS

As at 31 December 2018 and 31 December 2017, cash and cash equivalents were as follows:

<i>In thousands of tenge</i>	31 December 2018	31 December 2017
Cash in bank in USD	3,157,953	1,433,280
Cash in bank in euro	427,555	413,427
Cash in bank in tenge	137,121	1,607,734
Cash in bank in other foreign currencies	31,177	43,076
	3,753,806	3,497,517

14. CHARTER CAPITAL

As at 31 December 2018 and 2017 the charter capital was fully paid and was presented as follows:

<i>In thousands of tenge</i>	Ownership, %	Amount
NC KMG	100	11,575,721
	100	11,575,721

During 2018 the Group did not declare or pay any dividends to the Parent (2017: 100,000 thousand tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**15. FINANCE LEASE LIABILITIES**

As at 31 December 2018 and 31 December 2017 finance lease liabilities are presented as follows:

<i>In thousands of tenge</i>	31 December 2018	31 December 2017
Minimum lease payments		
Within one year	2,136,311	1,326,288
More than one year but less than five years	4,888,542	3,427,118
Total minimum lease payments	7,024,853	4,753,406
Less finance costs	(535,253)	(517,189)
Present value of minimum lease payments	6,489,600	4,236,217
Present value of minimum lease payments		
Within one year	1,976,175	1,090,819
More than one year but less than five years	4,513,425	3,145,398
Present value of minimum lease payments	6,489,600	4,236,217

In July 2017, the Group entered into a finance lease agreement with Islamic Bank Al Hilal JSC to receive vehicles represented by EMBA, TALAS and IRGIZ tugboats used by the Group to provide services for TCO. According to the contract for the payment of rental payments, there is a grace period until July 2018. The finance lease term expires on 4 August 2021.

16. LOANS RECEIVED

As at 31 December 2018 and 31 December 2017, loans received were presented as follows:

<i>In thousands of tenge</i>	Currency	Maturity	Interest rate	31 December 2018	31 December 2017
NC KMG (Note 29)	US dollars	23 September 2023	4.46%	25,008,730	22,553,575
Less current portion				(2,346,693)	(4,749,654)
				22,662,037	17,803,921

On 13 September 2013 the Group entered into a loan agreement with NC KMG totalling USD 93,160 thousand and an effective interest rate of 4.46%. The loan was granted for refinancing of a loan from ATF Bank received for purchasing of two AFRAMAX type crude oil tankers "Altay" and "Alatau". In March 2018, the Group entered into supplementary agreements to the loan agreement stipulating a new repayment schedule. The loan principal for the Altai tanker is repaid in two equal payments of USD 18,114 thousand in March and September 2023, while the loan principal for the Alatau tanker is repaid in sixty equal monthly instalments of USD 506 thousand starting from 25 October 2018.

Under the new terms, the loan interest is paid on a monthly basis. Finance costs of this loan for the year ended 31 December 2018 amounted to 1,027,874 thousand tenge (for the year ended 31 December 2017: 1,027,712 thousand tenge). The change in the terms of the loan agreement did not lead to the derecognition of the current liability and recognition of a new one, nor did it have a significant effect on the amortized cost of loans.

Change in liabilities resulting from financing activities

As at 31 December, changes in liabilities resulting from financing activities comprised the following:

<i>In thousands of tenge</i>	1 January 2018	Cash flows	Interest paid	Change in the foreign exchange difference	Other	31 December 2018
Loans received	22,553,575	(698,016)	(1,286,309)	3,411,606	1,027,874	25,008,730
Finance lease liabilities	4,236,217	(849,598)	(190,825)	841,035	2,452,771	6,489,600
	26,789,792	(1,547,614)	(1,477,134)	4,252,641	3,480,645	31,498,330

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**16. LOANS RECEIVED (continued)****Change in liabilities resulting from financing activities (continued)**

<i>In thousands of tenge</i>	1 January 2016	Cash flows	Interest paid	Change in the foreign exchange difference	Other	31 December 2017
Loans received	25,805,978	(3,047,307)	(1,098,710)	(134,098)	1,027,712	22,553,575
Dividends payable	–	(100,000)	–	–	100,000	–
Finance lease liabilities	–	–	–	260	4,235,957	4,236,217
	25,805,978	(3,147,307)	(1,098,710)	(133,838)	5,363,669	26,789,792

The column “Other” includes the effect of declared dividends accrual, the effect of accrued but not yet paid interest and interest paid on loans received and finance lease liabilities.

Also, it includes recognition of new finance lease agreements.

17. ADVANCES RECEIVED FOR OPERATING LEASE

Advances received for operating leases are a part of the prepayment received from TCO for the lease of newly built Barys, Berkut and Sunkar self-propelled barges. In fact, this part of the prepayment was spent to build these vessels and it is assumed that the advance will be closed against the proceeds from the operating lease of these vessels. In 2018, in accordance with the contract with TCO for the transportation of structural modules, the Group transferred the vessels for an operating lease for a minimum rental period of 850 days for each vessel.

18. CONTRACT LIABILITIES

As at 31 December 2018 and 31 December 2017, contract liabilities were presented as follows:

<i>In thousands of tenge</i>	31 December 2018	31 December 2017
Advances received for building models transportation management services	9,731,271	9,796,202
Financial component on advances received for transportation management services	718,252	–
	10,449,523	9,796,202
Current	6,877,128	2,449,051
Non-current	3,572,395	7,347,151

Advances received for structural modules transportation management services are part of the prepayment received from TCO for structural modules transportation management services.

In fact, this part of the prepayment was spent to build self-propelled barges and it is assumed that the advance will be closed against the income from the structural modules transportation management services.

In 2018, in accordance with the contract with TCO for the transportation of construction modules, the Group started providing these services immediately after it transferred the self-propelled barges for operating lease to TCO. The period of transportation management services is 850 days for each vessel.

19. TRADE AND OTHER ACCOUNTS PAYABLE

As at 30 June 2018 and 31 December 2017 trade and other accounts payable are presented as follows:

<i>In thousands of tenge</i>	31 December 2018	31 December 2017
Trade accounts payable	8,090,512	1,988,571
Other payables	383,149	16,191
	8,473,661	2,004,762

The main portion of other payables comprises payables for damages caused to the Federal State Unitary Enterprise (FSUE) “Rosmorport” in the amount of 381,039 thousand tenge.

The payables are denominated in Russian roubles. These payables are covered by an insurance certificate provided by Standard Club UK Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**19. TRADE AND OTHER ACCOUNTS PAYABLE (continued)**

As at 31 December 2018 and 31 December 2017, trade accounts payable are expressed in the following currencies:

<i>In thousands of tenge</i>	31 December 2018	31 December 2017
US dollars	7,625,537	1,660,732
KZT	436,354	220,553
Roubles	381,093	24,842
Euro	7,148	79,499
Other	23,529	19,136
	8,473,661	2,004,762

20. OTHER CURRENT LIABILITIES

As at 31 December 2018 and 31 December 2017, other current liabilities were as follows:

<i>In thousands of tenge</i>	31 December 2018	31 December 2017
VAT payable	595,539	–
Amounts due to employees	441,641	166,562
Other taxes payable	112,197	92,078
	1,149,377	258,640

21. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue for the years ended 31 December comprised the following:

<i>In thousands of tenge</i>	2018	2017
Type of services		
Revenue from crude oil transportation	20,781,257	16,459,036
Revenue from management of transportation of structural modules	7,397,557	–
Revenue from fleet lease services	1,207,690	1,037,728
Revenue from monitoring and elimination of open oil spill	836,719	2,838,652
Interest income from contract liabilities	422,343	–
Other	285,465	1,940,741
	30,931,031	22,276,157

Proceeds from transportation of crude oil are related to the provision of marine transportation services in the Caspian, Black and Mediterranean Sea. The main buyers of this service during 2018 were KMG Trading AG, Belvion Group Ltd and SOCAR LOGISTIC DMCC.

In 2018, the Group started providing structural modules transportation management services upon agreement with TCO. These services include management and operational and technical management services for leased self-propelled barges, as well as crewing arrangements.

Revenue from provision of service fleet services is represented by the Group's activities on providing services of towing vessels, supply vessels, and barges for the transportation of goods.

Also, in 2018, the Group rendered oil spill response services to Zhambyl Petroleum LLP. The Group acted in a consortium with KMG Systems & Services LLP and RSE on the right of economic management "Professional militarized emergency response service".

Revenues from all services of the Group, except for crude oil transportation services, are recognized over a period of time. Revenue from crude oil transportation services is recognized as transportation services are provided, based on the volumes accepted and agreed by all transaction parties, and fixed tariffs, established in the contracts between the Group and freighters.

During 2018, the Group recognized revenue in respect of the amounts included in the contract liabilities at the beginning of the year in the amount of 3,970,322 thousand tenge (2017: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**22. RENTAL INCOME**

Rental income for the years ended 31 December comprised the following:

<i>In thousands of tenge</i>	2018	2017
Income from transfer of self-propelled barges to operating lease	10,645,264	–
Income from transfer of tankers to operating lease	1,286,937	–
Income from investment property (Note 6)	228,931	229,212
	12,161,132	229,212

In 2018, the Group transferred its self-propelled barges to TCO for operating lease. Direct operating expenses (including repair and maintenance reflected in the cost of services rendered), which led to the receipt of rental income for 2018 amounted to 4,140,144 thousand tenge (2017: nil) (Note 23).

In 2018, the Group leased out five tankers to SOCAR LOGISTICS DMMC for operating lease. The lease term amounts to three years, however, according to the agreement, SOCAR LOGISTICS DMSC may extend the lease for another two years. Direct operating expenses (including repair and maintenance reflected in the cost of services rendered), which led to the receipt of rental income from tankers for 2018 amounted to 542,352 thousand tenge (2017: nil).

23. COST OF SERVICES RENDERED

Cost of services rendered for the years ended 31 December comprised the following:

<i>In thousands of tenge</i>	2018	2017
Transportation of crude oil	18,935,383	15,608,199
Lease of self-propelled barges (Note 22)	4,140,144	–
Management of transportation of structural modules	2,877,049	–
Expenses for service fleet and monitoring of open oil spill response	2,375,958	3,264,071
Lease of tankers	542,352	–
Maintenance of investment property	258,066	223,076
Demurrage	–	542,458
Other	24,524	4,222
	29,153,476	19,642,026

<i>In thousands of tenge</i>	2018	2017
Freight of tankers	6,169,426	3,890,255
Technical maintenance and management of tankers	5,906,612	2,361,543
Depreciation and amortisation	4,804,836	3,265,450
Fuel and other materials	3,737,279	1,948,224
Lease of fleet	3,387,696	2,198,444
Port charges	3,115,044	2,558,046
Salaries and related taxes	542,477	514,571
Third party services	456,528	682,937
Insurance expenses	219,348	221,024
Maintenance of investment property	206,001	174,162
Other taxes excluding income tax	61,993	72,531
Agency services for ships	44,153	25,376
Demurrage	–	542,458
Other	502,083	1,187,005
	29,153,476	19,642,026

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**24. GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses for the years ended 31 December comprised the following:

<i>In thousands of tenge</i>	2018	2017
Salary and related taxes	1,631,170	1,532,824
Other taxes	404,808	22,058
Provision for bonuses to management	262,136	–
Professional services	140,129	109,251
Business trips	136,483	154,140
Lease	130,593	116,110
Depreciation and amortisation	81,673	83,046
Social expenses	43,735	30,695
Repair and maintenance	39,722	31,892
Membership contributions	30,789	–
Insurance	24,955	24,169
Bank fees	24,679	21,111
Materials	21,088	17,918
Telecommunication services	20,901	22,257
Entertainment expenses	3,979	10,856
Other	158,247	114,280
	3,155,087	2,290,607

25. OTHER OPERATING INCOME/(EXPENSES)

Other operating income/(expenses) for the years ended 31 December 2018 and 2017 are as follows:

<i>In thousands of tenge</i>	2018	2017
Reimbursement of expenses	1,311,863	1,144,095
Income from fines and penalties	63,705	108,452
Other	48,398	21,738
	1,423,966	1,274,285
Other services from third parties	(497,035)	(451,319)
Other	(52,335)	(74,461)
	(549,370)	(525,780)

26. FINANCE INCOME/(COSTS)

Finance income/(costs) for the years ended 31 December 2018 and 2017 are as follows:

<i>In thousands of tenge</i>	2018	2017
Interest income (Note 12)	45,609	52,342
	45,609	52,342
Finance costs on loans obtained (Note 29)	(1,027,874)	(1,027,712)
Interest on revenue generating contracts	(606,345)	–
Finance costs on finance lease liabilities	(346,068)	–
Finance costs of finance guarantee obligations	(153,714)	(104,235)
Finance costs of amortization of other non-current liabilities	–	(5,929)
	(2,134,001)	(1,137,876)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**27. INCOME TAX**

Income tax costs for the years ended 31 December comprised the following:

<i>In thousands of tenge</i>	2018	2017
Current income tax expense	1,080,741	21,521
Adjustment with respect to current income tax for prior periods	238,752	–
Deferred tax expense	2,195,653	246,287
Adjustment of prior period deferred tax	–	52,857
	3,515,146	320,665

A reconciliation of income tax expenses applicable to income before taxation at the official income tax rate, with the income tax expenses benefit for the years ended 31 December is out below:

<i>In thousands of tenge</i>	2018	2017
Profit before taxation	6,457,277	73,870
Statutory tax rate	20%	20%
Income tax expense at the statutory rate	1,291,455	14,774
Losses of subsidiaries registered in countries with preferential taxation treatment	179,909	611,472
Adjustment with respect to current income tax for prior periods	238,752	–
Adjustment of deferred tax for prior period	–	52,857
Non-taxable income from vessels registered in RK	(275,632)	(375,206)
Unrecognised tax assets	–	(33,069)
Changes in tax legislation (Note 30)	1,716,895	–
Loss from impairment of property, plant and equipment	276,161	–
Other non-deductible expenses	87,606	49,837
Income tax expenses	3,515,146	320,665

Movement of deferred tax for the years ended 31 December is presented as follows:

<i>In thousands of tenge</i>	31 December 2018	Origination and reversal of temporary differences in the statement of comprehensive loss	31 December 2017	Origination and reversal of temporary differences in the statement of comprehensive income	31 December 2016
Deferred tax assets					
Contract liabilities	1,529,937	1,529,937	–	–	–
Allowance for expected credit losses	20,871	9,580	11,291	47	11,244
Provision for bonuses	52,427	52,427	–	(31,734)	31,734
Other charges	41,098	20,812	20,286	2,043	18,243
Deferred tax assets	1,644,333	1,612,756	31,577	(29,644)	61,221
Deferred tax liabilities					
Property, plant and equipment and investment property	4,299,019	3,808,409	490,610	269,500	221,110
Deferred tax liabilities	4,299,019	3,808,409	490,610	269,500	221,110
Net deferred tax liability	2,654,686	2,195,653	459,033	299,144	159,889

28. FINANCIAL GUARANTEE OBLIGATION

In June 2009, the Group issued a financial guarantee for the associate Mangistau Oblast Boat Yard LLP (hereinafter, “Boat Yard”) on the borrowing obtained from European Bank for Reconstruction and Development (the “EBRD”). According to the financial guarantee agreement, the Group is obliged to pay 30% of Boat Yard debt (proportionate to share in equity) in case that the Boat Yard is not able to repay the debt.

As at 31 December 2012 the Boat Yard failed to pay interest and principal to EBRD in time and violated certain obligations associated with the loan. Also, Topaz Energy, which owns a 50% stake in the Boat Yard, has withdrawn from the guarantee agreement. Thus, the share was distributed between the Group and Balykshy LLP in the amount of 30% and 20%, respectively. As a result, the Group owns 60% stake.

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

As at 31 December 2012 the Boat Yard's payables to EBRD amounted to USD 11,603,268. On 1 August 2013 the Group sold 30% of interest in the charter capital of Balykshy LLP. According to the terms and conditions of the financial guarantee agreement, the Group is not entitled to transfer the financial guarantee liability to the third parties without the consent of EBRD. As a result, the rights under the guarantee did not transfer to Balykshy LLP and the Group still bears responsibility for a 60% stake.

As at the date of issue of these consolidated financial statements, the Group did not receive a formal notification from EBRD regarding discharge of the Group from financial guarantee liabilities.

As at 31 December 2018, the financial guarantee liability amounts to 1,893,585 thousand tenge (31 December 2017: 1,490,919 thousand tenge). The Group recognized finance costs related to the accrual of interest in the amount of 153,714 thousand tenge (in 2017: 104,235 thousand tenge) and foreign exchange loss in the amount of 248,953 thousand tenge (2017: foreign exchange loss in the amount of 2,019 thousand tenge).

29. RELATED PARTIES DISCLOSURE

Related parties include key management personnel of the Group, entities in which a substantial interest in the voting power is owned, directly or indirectly, by the Group's key management personnel, NC KMG group companies and other companies under control of SWF Samruk-Kazyna.

Transactions with related parties are made at terms agreed between the parties that are not necessarily market conditions. Outstanding balances at the year-end are unsecured, non-interest bearing and settlement occurs in cash, except as indicated below. For the year ended 31 December 2018, the Group recorded expected credit losses on receivables related to receivables from related parties in the amount of 40,615 thousand tenge (31 December 2017: nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Significant related parties' transactions for the years ended 31 December 2018 and 2017, and balances as at 31 December 2018 and 31 December 2017 are as follows:

Revenue

<i>In thousands of tenge</i>	2018	2017
Companies controlled by SWF Samruk-Kazyna		
Port Kuryk LLP	17,283	–
Transtelecom JSC	9,633	–
NC Aktau International Sea Trade Port JSC	–	12,969
Companies under control or significant influence of NC KazMunayGas		
KazMunayGas Trading AG	11,034,034	10,038,399
Satpayev Operating LLP	–	2,838,652
Tengizchevroil LLP	19,141,256	1,004,806
Other	151,893	185,487
	30,354,099	14,080,313

Acquisitions

<i>In thousands of tenge</i>	2018	2017
Companies controlled by SWF Samruk-Kazyna		
NC Aktau International Sea Trade Port JSC	231,907	167,454
MAEC KazAtomProm JSC	21,555	19,589
Port Kuryk LLP	18,171	–
Other	17,146	9,846
Companies under control or significant influence of NC KazMunayGas		
KazMunayGas Trading AG	342,625	335,225
KMG Kashagan B.V.	231,276	–
TenizService LLP	38,408	34,142
Other	17,061	7,980
	918,149	574,236

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**29 RELATED PARTIES DISCLOSURES (continued)****Loans received and finance costs**

<i>In thousands of tenge</i>	2018	2017
NC KazMunayGas JSC		
Loans received (Note 16)	25,008,730	22,553,575
Finance costs (Note 26)	1,027,874	1,027,712

Trade and other accounts receivable

<i>In thousands of tenge</i>	31 December 2018	31 December 2017
Companies controlled by SWF Samruk-Kazyna		
Port Kuryk LLP	192	1,600
Transtelecom LLP	6,123	–
Samruk Energo JSC	–	5,019
Kazpost JSC	94	82
Companies under control or significant influence of NC KazMunayGas		
KazMunayGas Trading AG	3,380,576	864,413
Tengizchevroil LLP	6,469,691	596,639
Other	22,850	23,854
	9,879,526	1,491,607

Trade and other payables and advances received

<i>In thousands of tenge</i>	31 December 2018	31 December 2017
Companies controlled by SWF Samruk-Kazyna		
NAC KazAtomProm JSC	1,626	1,594
NC KTZh JSC	11,490	1,919
Other	551	–
Companies under control and significant influence of NC KazMunayGas		
Tengizchevroil LLP	23,734,655	23,893,176
KazMunayGas Service LLP	–	11,584
KMG Kashagan B.V.	89,706	–
TenizService LLP	8,548	2,964
Other	254	255
	23,846,830	23,911,492

Compensation to the key management personnel

As at 31 December 2018, key management personnel consisted of 4 persons (2017: 5 persons). Total compensation to the key management personnel for the year ended 31 December 2018, included in general and administrative expenses in the accompanying consolidated statement of comprehensive income is 332,797 thousand tenge (for 2017: 105,565 thousand tenge). In 2018, remuneration to key management personnel consists mainly of salaries and bonuses based on the results of the year (2017: mainly consists of salaries).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 COMMITMENTS AND CONTINGENCIES**Taxation**

Kazakhstan's tax, currency and customs legislation and regulations are subject to ongoing changes and varying interpretations. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. Recent events within Kazakhstan suggest that the tax authorities are taking a more assertive position in interpretation of the legislation and check of tax calculation. As consequence, tax bodies can make a complaint on those deals and methods of the account on which earlier they did not show claims. As such, significant additional taxes, penalties and interest may be assessed. 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. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual, including opinions on recording of income and expense and other items in the IFRS consolidated financial statements.

Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2018. As at 31 December 2018 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Company's tax, currency and customs positions will be sustained.

During 2016, there were changes in tax legislation affecting the Group, which entered into force on 1 January 2016.

In particular, a corporate tax on income from the transportation of goods earned by vessels registered in the international ship registry of the Republic of Kazakhstan is reduced by 100%. This means that such vessels are exempt from income tax.

In 2016, the Group re-registered its vessels in the international ship registry of the Republic of Kazakhstan.

At the time of re-registration, the Group had a balance of deferred tax liabilities in the amount of 2,001,678 thousand tenge relating to vessels. Due to changes in legislation, the balance of deferred tax liabilities relating to vessels registered in the international ship registry of the Republic of Kazakhstan was written off.

In 2018, the Group leased out these vessels. Since the Group has ceased to receive income from cargo transportation activities by these vessels, the income tax reduction by 100% was no longer applied. In connection with these changes in the applicable legislation, the Group once again recognized the balance of deferred tax liability in the amount of 1,716,895 thousand tenge relating to these vessels.

Legal claims

In the ordinary course of business, the Group is subject to legal actions and complaints. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group.

The Group assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its consolidated financial statements only where it is probable that actual events giving rise to liability will occur and the amount of the liability can be reliably estimated. No provision has been made in these consolidated financial statements as at 31 December 2018 and 2017 for legal actions and claims.

Environmental issues

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. Potential liabilities which may arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation cannot be reasonably estimated. In accordance with current legislation, management believes that there are no probable or possible liabilities that could have a material adverse effect on the Group's consolidated financial position and results of operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**30. COMMITMENTS AND CONTINGENCIES (continued)****Future operating lease commitments – Group as lessor**

The Group entered into a number of operating lease agreements for self-propelled barges and tankers. These lease agreements are concluded for periods ranging from 2 to 5 years. The minimum lease payments to be received in future periods under the operating lease agreements as well as contracts with customers containing leases as at 31 December amount to:

<i>In thousands of tenge</i>	2018	2017
Within one year	18,252,134	–
More than 1 year but less than 5 years	20,998,909	–
Over five years	–	–
	39,251,043	–

31. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Main financial instruments of the Group comprise cash and cash equivalents, short-term bank deposits, trade and other accounts receivable, trade and other accounts payable, loans obtained and finance guarantee obligations that arise directly from business operations. The Group did not trade financial instruments.

The Group is exposed to currency risk, credit risk and liquidity risk. The Group's management oversees the management of these risks.

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.

The Group monitors its risk of a shortage of funds using a liquidity planning tool. This instrument considers the term of settlement of financial investments and financial assets.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2018 based on contractual undiscounted payments.

<i>In thousands of tenge</i>	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
As at 31 December 2018						
Loans obtained	–	859,438	2,553,792	25,624,213	–	29,037,443
Finance lease liabilities	–	1,076,707	1,059,605	4,888,542	–	7,024,854
Financial guarantee obligations	1,893,585	–	–	–	–	1,893,585
Trade and other accounts payable	381,039	8,092,622	–	–	–	8,473,661
	2,274,624	10,028,767	3,613,397	30,512,755	–	46,429,543
As at 31 December 2017						
Loans obtained	–	2,953,434	2,414,575	16,140,327	3,638,048	25,146,384
Finance lease liabilities	–	–	661,232	4,092,174	–	4,753,406
Financial guarantee obligations	1,490,919	–	–	–	–	1,490,919
Trade and other accounts payable	54,409	1,950,353	–	–	–	2,004,762
	1,545,328	4,903,787	3,075,807	20,232,501	3,638,048	33,395,471

Currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of exchange rates changes. The Group's exposure to foreign currency risk mainly relates to the outstanding loans and the Group's trade accounts payable denominated in US dollars and Euro. Thus, changes in currency rates might have a significant effect to the Group's financial position.

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

The following table demonstrates the sensitivity to a reasonably possible changes in the US dollar and Euro exchange rates as at 31 December 2018 and 31 December 2017, with all the variables held constant, of the Group's profit before income tax (due to changes in the fair value of monetary assets and liabilities).

<i>In thousands of tenge</i>	31 December 2018		31 December 2017	
	Increase/ (decrease) in exchange rate	Effect on profit before tax	Increase/ (decrease) in exchange rate	Effect on loss before tax
US dollars	+14,00%	(3,049,268)	+10,00%	(2,558,583)
	-10,00%	2,178,049	-10,00%	2,558,583
Euro	+14,00%	55,136	+13,50%	45,063
	-10,00%	(39,383)	-9,50%	(31,711)

Credit risk

Generally, the credit risk arises on cash and cash equivalents and with respect to the clients including unsettled accounts receivable and confirmed transactions. With respect to the banks and financial institutions, only institutions with high rating are accepted. The Group renders its services only to several major clients with stable financial position and appropriate credit story. Carrying amount of cash and cash equivalents and accounts receivable less allowance for expected credit losses represent the maximal amount of credit risk exposure. The Group does not have the policy of assigning internal ratings and establishing credit limits for counterparties.

Fair value of financial instruments

Fair value is defined as the amount at which an instrument could be exchanged in a current transaction between knowledgeable willing parties according to arm's length conditions, other than in a forced or liquidation sale.

To calculate the fair value of financial instruments, the model of cash flow discounting at current interest rate is used considering the period remaining until repayment for financial instruments with similar terms and credit risk. In case of assets and liabilities for which fair values are disclosed in the financial statements, future cash flows are discounted using the average market rate of financial instruments with similar maturities based on statistics published by the National Bank of the Republic of Kazakhstan ("NBRK").

As at 31 December 2018 and 2017, the carrying amount of cash and cash equivalents, short-term bank deposits, trade and other receivables, trade payables, finance guarantee liabilities approximates to their fair values due to their short-term maturity. The fair value of loans received at the market rate of 5.5% is equal to 20,712,967 thousand tenge (2017: 17,402,912 thousand tenge at the rate of 6.8%).

Capital management

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.

The Group capital management strictly depends on the capital management strategy of the participant. Most of the capital management decisions are taken upon agreement with appropriate committees of the participant. To maintain and adjust the structure of the capital the participant may make increase the Group charter capital and/or authorize the Group to obtain debt financing from the third parties by providing guarantees for all existing external loans.

32. SUBSEQUENT EVENTS

In January 2019, the Group received an insurance claim payment on the insured event with FSUE "Rosmorport" (Notes 10, 19) and fully repaid its payables.