



**North-West Pipeline Company
MunaiTas JSC**

Financial statements for the year ended
31 December 2016

NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016	1
INDEPENDENT AUDITORS' REPORT	2-3
FINANCIAL STATEMENTS	
Statement of financial position	4
Statement of profit or loss and other comprehensive income	5
Statement of changes in equity	6
Statement of cash flows	7
Notes to the financial statements	8-34

NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Management is responsible for preparation of the financial statements that present fairly the financial position of North-West Pipeline Company MunaiTas JSC (the "Company") as of 31 December 2016, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, the management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions impacting Company's financial position and financial performance;
- making an assessment of the Company's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls throughout the Company;
- maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- maintaining statutory accounting records in compliance with Kazakhstani legislation and accounting standards;
- taking reasonably available steps to safeguard the assets of the Company; and
- preventing and detecting fraud and other irregularities.

Management on 27 January 2017 approved these financial statements of the Company for the year ended 31 December 2016.

Signed on behalf of the management:



Shayakhmetov B.Sh.
General Director

27 January 2017
Almaty, Republic of Kazakhstan



Koshkarova A.A.
Chief Accountant

27 January 2017
Almaty, Republic of Kazakhstan



INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of JSC "North-West Pipeline Company MunaiTas"

We have audited the accompanying financial statements of JSC "North-West Pipeline Company MunaiTas" (the "Company"), which comprise the statement of financial position as at 31 December 2016 and the statements of profit and loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing, as adopted in the Republic of Kazakhstan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

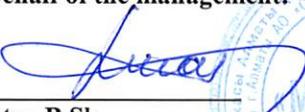
STATEMENT OF FINANCIAL POSITION

AS OF 31 DECEMBER 2016

(in thousands of Kazakhstani Tenge)

	Notes	31 December 2016	31 December 2015
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	6	26,126,977	25,156,904
Intangible assets		28,067	26,980
Other non-current assets	7	246,815	277,293
Total non-current assets		26,401,859	25,461,177
CURRENT ASSETS			
Inventories	7	42,468	42,409
Trade receivables		9,948	28,955
Current income tax prepaid		239,804	-
Short-term financial investments	9	-	7,447,152
Other current assets		35,152	103,395
Cash and cash equivalents	8	11,061,689	1,033,542
Total current assets		11,389,061	8,655,453
TOTAL ASSETS		37,790,920	34,116,630
EQUITY AND LIABILITIES			
EQUITY			
Share capital	10	48,600	48,600
Retained earnings		20,866,342	18,685,021
Revaluation reserve	11	9,924,780	8,556,588
Total equity		30,839,722	27,290,209
NON-CURRENT LIABILITIES			
Asset retirement obligation	13	1,001,634	1,092,018
Deferred tax liability	19	4,564,293	4,479,853
Total non-current liabilities		5,565,927	5,571,871
CURRENT LIABILITIES			
Current income tax payable		-	70,716
Value added tax payable		142,366	154,975
Trade payables		197,022	139,745
Advances received	14	855,920	760,924
Other current liabilities		189,963	128,190
Total current liabilities		1,385,271	1,254,550
TOTAL EQUITY AND LIABILITIES		37,790,920	34,116,630

Signed on behalf of the management:


 Shayakhmetov B.Sh.
 General Director

27 January 2017
 Almaty, Republic of Kazakhstan




 Koshkarova A.A.
 Chief Accountant

27 January 2017
 Almaty, Republic of Kazakhstan

The notes set out on pages 8-34 form an integral part of these financial statements.

NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of Kazakhstani Tenge)

	Notes	2016	2015
REVENUE	15	10,896,411	8,680,832
COST OF SERVICES	16	<u>(4,879,312)</u>	<u>(4,477,040)</u>
GROSS PROFIT		6,017,099	4,203,792
General and administrative expenses	17	(869,194)	(795,504)
Income from revaluation of property, plant and equipment	6	193,576	-
Expense from revaluation of property, plant and equipment	6	(54,413)	-
Expenses from impairment of assets	6	(292,792)	-
Other income, net		<u>9,303</u>	<u>1,212</u>
OPERATING PROFIT		5,003,579	3,409,500
Finance costs	13	(84,849)	(78,012)
Finance income	18	899,679	159,539
Foreign exchange (loss)/gain, net		<u>(23,143)</u>	<u>3,227,539</u>
PROFIT BEFORE TAX		5,795,266	6,718,566
Income tax expense	19	<u>(1,213,960)</u>	<u>(1,353,685)</u>
PROFIT FOR THE YEAR		<u>4,581,306</u>	<u>5,364,881</u>
OTHER COMPREHENSIVE INCOME			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Net profit on revaluation of property, plant and equipment	6	2,180,027	-
Net gain from change in estimates for asset retirement obligations	13	175,233	136,601
Income tax expense	19	<u>(471,053)</u>	<u>(27,320)</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR AFTER TAX		<u>1,884,207</u>	<u>109,281</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>6,465,513</u>	<u>5,474,162</u>

Signed on behalf of the management:


Shayakhmetov B.Sh.
General Director

27 January 2017
Almaty, Republic of Kazakhstan




Koshkarova A.A.
Chief Accountant

27 January 2017
Almaty, Republic of Kazakhstan

The notes set out on pages 8-34 form an integral part of these financial statements.

NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of Kazakhstani Tenge)

	Share capital	Revaluation reserve	Retained earnings	Total equity
Balance at 1 January 2015	48,600	8,887,840	16,281,607	25,218,047
Profit for the year	-	-	5,364,881	5,364,881
Other comprehensive income for the year	-	109,281	-	109,281
Realised reserve less tax	-	(440,533)	440,533	-
Dividends declared	-	-	(3,402,000)	(3,402,000)
Balance at 31 December 2015	48,600	8,556,588	18,685,021	27,290,209
Profit for the year	-	-	4,581,306	4,581,306
Other comprehensive income for the year	-	1,884,207	-	1,884,207
Realised reserve less tax	-	(516,015)	516,015	-
Dividends declared	-	-	(2,916,000)	(2,916,000)
Balance at 31 December 2016	48,600	9,924,780	20,866,342	30,839,722

Signed on behalf of the management:


Shayakhmetov B.Sh.
General Director

27 January 2017
Almaty, Republic of Kazakhstan




Koshkarova A.A.
Chief Accountant

27 January 2017
Almaty, Republic of Kazakhstan

The notes set out on pages 8-34 form an integral part of these financial statements.

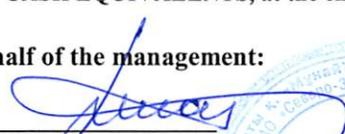
NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

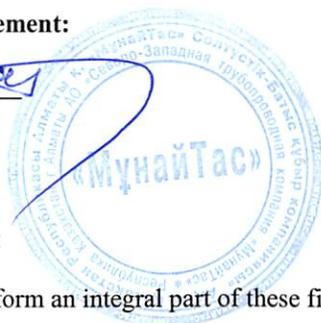
(in thousands of Kazakhstani Tenge)

	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit for the period before tax		5,795,266	6,718,566
Adjustments for:			
Depreciation and amortisation	16, 17	2,038,916	2,054,370
Income from revaluation of property, plant and equipment		(193,576)	-
Expense from revaluation of property, plant and equipment		54,413	-
Impairment of assets		292,792	-
Provision for inventories		22,446	-
Finance income		(899,679)	(159,539)
Finance costs		84,849	78,012
Foreign exchange loss/(gain), net		23,143	(3,188,649)
Operating cash flows before working capital changes		7,218,570	5,502,760
Change in trade receivables		19,007	(25,020)
Change in inventories		(22,505)	(33,391)
Change in other current assets		68,243	(34,669)
Change in VAT payable		(12,609)	(74,632)
Change in trade payables		57,277	(12,395)
Change in advances received		94,996	(31,225)
Change in other current liabilities		61,773	(23,429)
Cash from operating activities		7,484,752	5,267,999
Income tax paid		(1,772,214)	(1,642,549)
Net cash generated from operating activities		5,712,538	3,625,450
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment and intangible assets		(983,681)	(337,450)
Placement of short-term bank deposits		(6,196,542)	(11,858,871)
Withdrawal of short-term bank deposits		13,750,668	9,479,297
Interests from deposits		767,150	111,180
Other		(105,986)	-
Net cash generated from/(used in) investing activities		7,231,609	(2,605,844)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid	12	(2,916,000)	(3,402,000)
Net cash used in financing activities		(2,916,000)	(3,402,000)
Effect of exchange rate changes on cash and cash equivalents		-	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		10,028,147	(2,382,394)
CASH AND CASH EQUIVALENTS, at the beginning of the year		1,033,542	3,415,936
CASH AND CASH EQUIVALENTS, at the end of the year	8	11,061,689	1,033,542

Signed on behalf of the management:


Shayakhmetov B.Sh.
General Director

27 January 2017
Almaty, Republic of Kazakhstan




Koshkarova A.A.
Chief Accountant

27 January 2017
Almaty, Republic of Kazakhstan

The notes set out on pages 8-34 form an integral part of these financial statements.

NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. NATURE OF ACTIVITY

North-West Pipeline Company Munaitas JSC (the “Company”) was incorporated on 11 December 2001 in accordance with the legislation of the Republic of Kazakhstan. The Company is a joint venture of KazTransOil JSC (the “KazTransOil”), a subsidiary of National Company KazMunaiGas JSC (the “KazMunaiGas”) and CNPC Exploration and Development Company Ltd. (the “CNPC E&D”), a subsidiary of CNPC, owning 51% and 49% shares in the share capital, respectively. The Company is jointly controlled by KazTransOil and CNPC E&D on an equal basis in accordance with the constituent documents. KazTransOil is ultimately controlled by NWF Samruk-Kazyna JSC, which is owned by the Government of the Republic of Kazakhstan and the ultimate controlling party of CNPC E&D is CNPC, a state company of China.

The Company was founded to construct and operate the oil pipeline Kenkiyak (Aktobe oblast) – Atyrau (Atyrau oblast) located in the West Kazakhstan. On 18 June 2004 the Company put the pipeline into operation. The Company is considered as a monopolist and, accordingly, is subject to be governed by the Committee of the Republic of Kazakhstan on regulation of natural monopolies (the “Committee”). The Committee approves tariff rates, which are based on return of capital for assets used.

The Company’s registered address is: 29D, Satpayev av., Almaty, Republic of Kazakhstan.

2. FINANCIAL STATEMENTS PRESENTATION

Compliance report

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The Company’s financial statements are prepared under the historical cost convention, as modified by the valuation of financial instruments and revaluation of property, plant and equipment. The principal accounting policies applied in the preparation of these financial statements are set out below in Note 4. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to new and revised standards adopted by the Company in Note 3).

Use of estimates and assumptions

Preparation of the financial statements in accordance with IFRS assumes that the management makes the estimates and assumptions that affect the assets and liabilities recognised in the financial statements and income and expenses and disclosure of contingent assets and liabilities during the subsequent financial period. Estimates and judgements are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also uses professional judgements and estimates in the process of applying the accounting policies. Due to uncertainty specific to such estimates, actual results reflected in future accounting periods may be based on amounts, which differ from these estimates. Important accounting estimates and professional judgements are presented in Note 5.

Functional and presentation currency

The functional and presentation currency of the Company which reflects the Company’s operations economic nature is Kazakhstani Tenge (“tenge”). All amounts in those financial statements are presented in thousands of Tenge, unless otherwise stated.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The following amendments to standards became effective for the Company from 1 January 2016, but did not have any material impact on the Company:

- IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative – Amendments to IAS 1 (issued in December 2014 and effective for annual periods beginning on or after 1 January 2016).
- Investment Entities: Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods beginning on or after 1 January 2016).

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and which the Company has not early adopted. The Company is currently assessing the impact of the standards on its financial statements.

- IFRS 9 “Financial Instruments: Classification and Measurement” (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018).
- IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018).
- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRS 16 “Leases” (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019).
- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).

3 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

The following standards and interpretations are not expected to have any material impact on the Company's financial statements when adopted.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 (issued on 8 December 2016 and effective regarding application of amendments to IFRS 12 – for annual periods beginning on or after 1 January 2017, regarding application of amendments to IFRS 1 and IAS 28 – for annual periods beginning on or after 1 January 2018).
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers to or from investment property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Company's financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

Property, plant and equipment

Property, plant and equipment, except for construction in progress, upon recognition as an asset are stated at revalued cost less accumulated depreciation and provision for impairment, if any.

Property, plant and equipment are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for property, plant and equipment included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset or as the asset is used by the Company; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Costs of minor repairs and day-to-day maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss for the year within other operating income or costs.

Depreciation

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their revalued amounts to their residual values over their estimated useful lives:

	Useful lives (in years)
Buildings and constructions	5-50
Oil pipeline	15-30
Machinery and equipment	3-30
Other	2-12

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Company expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Intangible assets

The Company's intangible assets have definite useful lives and primarily include capitalised computer software and licences.

Intangible assets are recorded at purchase cost and amortised using the straight-line method over their estimated economic useful lives of six years. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Inventories

Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Financial instruments

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest re-pricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and liabilities

(i) Classification of financial assets

Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

The Company's financial assets are represented by "loans and receivables" category and include restricted cash, trade and other financial receivables and cash and cash equivalents (Note 8).

(ii) Classification of financial liabilities

Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost.

The Company's financial liabilities are represented by "other financial liabilities" category and include trade payables.

(iii) Initial recognition of financial instruments

Trading investments, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Company commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial instruments included to "receivables" and "other financial liabilities" categories are subsequently carried at amortised cost using the effective interest rate method.

(iv) Derecognition of financial assets

The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control over such financial assets.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Trade receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Company determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Company considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Value added tax

Value added tax (“VAT”) related to sales is payable to tax authorities when goods are shipped or services are rendered. Input VAT is reclaimable against output VAT upon receipt of a tax invoice from a supplier. The tax legislation permits the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases, which have not been settled at the statement of financial position date is recognised in the statement of financial position on a net basis.

Trade payables

Trade payables are accrued when the counterparty has performed its obligations under the contract. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Advances received are stated at actual amounts received from third parties.

Provisions for liabilities and charges

Provisions for liabilities and charges are recognised when the Company has a present obligation (legal or constructive) as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be insignificant.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Income tax

Income taxes have been provided for in the financial statements in accordance with Kazakhstani legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the statement of comprehensive income unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than income tax are recorded within operating expenses.

Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions

The Company's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than income tax are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Foreign currency transactions

The Company's monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into tenge at the market rate quoted by the "Kazakhstan Stock Exchange" JSC at the reporting date. Foreign currency transactions are accounted for using the exchange rate of the Bank at the dates of transactions. Foreign exchange gains and losses arising as of the settlement date on these transactions, as well as resulting from the restatement of monetary assets and liabilities denominated in foreign currency are recorded within profit and loss.

NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As of 31 December 2016 the official exchange rate used for revaluing foreign currency balances was 333.29 tenge for USD 1 (31 December 2015: 339.47 tenge for USD 1). Exchange restrictions and currency controls exist relating to converting tenge into other currencies. Currently, tenge is not freely convertible in most countries outside of the Republic of Kazakhstan.

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends

Dividends are recorded as a liability and deducted from equity at the end of reporting period only if they are declared before or on the end of reporting period. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue can be measured reliably. Revenue from oil transportation services is recognized, when oil is supplied through the oil pipeline. Revenue is shown net of VAT and is measured at fair value of the consideration received or receivable. Revenue is determined based on tariffs for the services of oil delivery through oil pipelines in the internal market approved by the Committee, and based on export tariffs approved by Company's shareholders.

Employee benefits

Wages, salaries, contributions to pension funds, paid annual leave and sick leave, bonuses, and other benefits are accrued in the year in which the associated services are rendered by the employees of the Company.

In accordance with the legal requirements of the Republic of Kazakhstan, the Company withholds pension contributions from employees' salaries and transfers them into state pension fund. As pension contributions transferred, the Company does not have further pension obligations. Upon retirement of employees, all pension payments are administered by such pension fund directly.

Technological oil line fill

In order to ensure continuity of the technological process of pumping the oil and in accordance with technical agreement on acceptance, transportation and delivery of the oil, which is part of the oil transportation contract, the Kenkiyak-Kumkol pipeline is filled with oil provided by the Company's Customers. The Company holds in custody the entire volume of the technological oil provided by the Customers, and in case of the pipeline's decommissioning or in case of ceasing the contractual arrangements, the Company shall return the oil to its owners.

The Company does to recognise any asset of liability for such oil line fill at the reporting date.

NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Positive or negative unbalanced oil weight

In accordance with the Preliminary National Standard of the Republic of Kazakhstan (PNS RK) # 43-2015 'Mainland Pipelines. Instruction on accounting for oil', on a monthly basis, the Company performs stock count of the oil's weight in the pipeline. The oil's weight filling the line part of the oil pipeline is determined based on the volume of the oil in the pipeline multiplied by the average density that takes into account temperature and pressure coefficients (hereinafter 'stock count results'). The calculation is made for separate segments of the oil pipeline, and the resulting measures are added and rounded to the whole figure.

In addition, on monthly basis the Company reconciles the volumes of transported oil for a given month with the customers (hereinafter "reconciliation"). Such reconciliation contains information on oil's balance in metric tonnes in the beginning of the month, quantities of oil accepted and delivered, as well as on the losses and balance of the oil at the end of the month.

The difference between the reconciliation for the month and the stock count results represents a positive or negative unbalanced weight of the oil.

The Company does not recognise the positive unbalanced weight of the oil (excess) in the financial statements. The negative unbalanced weight of the oil should be accounted for in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

Related parties

Related parties include the Company's shareholders, key management personnel and entities wherein the shareholders or key management personnel of the Company have an interest that ensures significant influence on such entities.

5. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Company makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies.

Judgements that have the most significant effect on the amounts recognised in the 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

Assessment of useful lives of property, plant and equipment is subject to judgement based on the management's experience of using similar assets. Future economic benefits from assets are mainly gained through their usage. Nevertheless other factors such as technical and commercial obsolescence and wear and tear often lead to decrease of economic benefits to be derived from the assets. Management assesses the remaining useful life of the assets based on their current technical conditions and expected period during which these assets will bring such benefits to the Company. The following key factors should be considered: (a) expected use of assets; (b) estimated wear and tear which depends on operational factors and operational programs; (c) technical and commercial obsolescence as a result of changes in market conditions.

NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

5 CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Revaluation of property, plant and equipment

The Company's property, plant and equipment are carried at fair value based on reports provided by an independent appraisal company having appropriate professional qualification and recent experience in the valuation of similar assets within similar location, the Kazakhstan Business Service Company, as at 31 July 2016. Fair value was determined in accordance with effective legislation of the Republic of Kazakhstan and standards of the International Valuation Standards Committee.

Due to specifics of property, plant and equipment, their fair value is assessed based on different valuation techniques, which are most suitable in each case.

Thus, following methods were selected to estimate fair value:

- Land plots – depreciated replacement cost method;
- Buildings and constructions – depreciated replacement cost method;
- Special property (property, for which there is no or limited active market) – depreciated replacement cost method;
- Assets having secondary market (vehicles) – comparison approach.

The resulted fair value of all revalued property, plant and equipment has been agreed with potential profitability of the Company, taking into account its production potential.

The fair value levels are categorised as follows:

- Quoted (unadjusted) prices for identical assets in active markets (Level 1);
- Inputs different from quoted prices included to Level 1 from observable markets on assets both directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Unobservable market data (i.e. unobservable inputs) (Level 3).

The analysis of non-financial assets recorded at fair value in accordance with the fair value hierarchy as at 31 December 2016 is as follows:

<i>In thousands of Kazakhstani Tenge</i>	Level 1	Level 2	Level 3	Total
Land	-	-	679,537	679,537
Oil pipeline	-	-	18,998,580	18,998,580
Buildings and constructions	-	-	2,880,933	2,880,933
Machinery and equipment	-	19,892	2,875,405	2,895,297
Other	-	66,172	82,497	148,669
Construction in progress	-	-	523,961	523,961
Total	-	86,064	26,040,913	26,126,977

The fair value of assets has been estimated as follows:

The 2 level fair value of the assets, for which there is an active market, was determined using market approach based on comparable market transactions adjusted for respective differences.

NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

5 CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

The 3 level fair value of these assets, for which a large number of similar sales was observed in local market, was determined using costs approach based on residual replacement cost or reproduction cost. The amortized replacement or reproduction cost was estimated using the following methods:

(i) The method of consolidated summarized indexes of replacement/reproduction cost. In accordance with this method, replacement/reproduction cost is estimated as physical parameter (length, area, volume), multiplied by replacement/reproduction cost per unit, which is determined based on the data of "KO-Invest" manual, accordingly adjusted for differences.

(ii) Direct recalculation method. In accordance with this method, replacement/reproduction cost is estimated based on producer's price plus transportation costs, expenses for design, installation and all other relevant costs.

(iii) Initial cost indexation. This method has been applied in those cases, when there was authentic information for using the method of consolidated summarized indexes of replacement/reproduction cost and direct recalculation method. Initial cost was adjusted upon the level of current prices using inflation rates effective during period from asset acquisition date to the assessment date published by Statistics Agency of the Republic of Kazakhstan.

For the calculation of the fair value of assets estimated using cost approach, an appraiser assessed their recoverability through the discounted cash flows method. For these purposes, all Company's assets were united into one cash generating unit, for which future cash flows analysis has been performed in order to determine the value in use of these assets. When value in use is estimated, future cash flows are discounted at discounting rate before tax, which recorded the market assessment of the time cost of money and risks inherent to the Company at revaluation date.

Upon comparison of the cost approach results and cost of discounted cash flow determined according to the income method, management has concluded that the Group's property, plant and equipment are not subject to additional external impairment, and the cost approach will be used for valuation.

During 2016 and 2015 there were no transfers from or to Levels 1 and 2.

Provisions

The Company's operating activities are subject to compliance with various environmental laws and regulations. The Company estimates the provision for decommissioning of the pipeline based on management's understanding of various legislative requirements and internal engineering assessments. A provision is recorded using the net present value of liquidation costs for assets to be decommissioned at reporting date. Actual costs incurred in future periods may substantially differ from the amounts of provision recorded. In addition, future changes in environmental laws and regulations, estimated pipeline removal terms and discount rates may affect the carrying value of this provision.

Contingent liabilities

By their nature, contingent liabilities will be settled when one or several events in the future will or will not take place. The assessment of contingent liabilities involves a degree of judgement in regards of the results of future events.

Related party transactions

In the normal course of business, the Company enters into transactions with its related parties. The judgement is applied to determine whether the cost of transactions is market or non-market in the case when there is no active market for such transactions. The judgement is based on prices under similar transactions with non-related parties.

NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

6. PROPERTY, PLANT AND EQUIPMENT

Below presented are movements in the carrying value of property, plant and equipment at revalued amount:

<i>In thousands of Kazakhstani Tenge</i>	Buildings and construction	Pipeline	Machinery and equipment	Other	Construction in progress	Total
At 1 January 2015	3,000,800	23,792,951	2,562,120	459,098	-	29,814,969
Additions	34,181	-	269,459	26,742	31,504	361,886
Disposals	-	(286)	(11,229)	(2,819)	-	(14,334)
Transfers	-	-	-	9,004	(9,004)	-
At 31 December 2015	3,034,981	23,792,665	2,820,350	492,025	22,500	30,162,521
Additions	-	-	170,008	14,962	794,253	979,223
Disposals	-	-	-	(1,663)	-	(1,663)
Revaluation of initial cost	226,272	302,029	1,202,735	448,991	-	2,180,027
Write-down of accumulated depreciation on revaluation through the initial cost	(305,997)	(4,747,285)	(1,063,829)	(95,879)	-	(6,212,990)
Reversal of impairment loss, net	13,567	-	136,267	(10,671)	-	139,163
At 31 December 2016	2,968,823	19,347,409	3,265,531	847,765	816,753	27,246,281
Accumulated depreciation and impairment						
At 1 January 2015	(144,088)	(2,241,776)	(529,646)	(53,050)	-	(2,968,560)
Charged for the year	(103,394)	(1,582,431)	(336,139)	(29,141)	-	(2,051,105)
Disposals	-	-	11,229	2,819	-	14,048
At 31 December 2015	(247,482)	(3,824,207)	(854,556)	(79,372)	-	(5,005,617)
Charged for the year	(146,405)	(1,271,907)	(579,507)	(37,729)	-	(2,035,548)
Depreciation on disposals	-	-	-	1,663	-	1,663
Write-down of accumulated depreciation on revaluation	305,997	4,747,285	1,063,829	95,879	-	6,212,990
Impairment losses	-	-	-	-	(292,792)	(292,792)
At 31 December 2016	(87,890)	(348,829)	(370,234)	(19,559)	(292,792)	(1,119,304)
Residual value						
At 31 December 2015	2,787,499	19,968,458	1,965,794	412,653	22,500	25,156,904
At 31 December 2016	2,880,933	18,998,580	2,895,297	828,206	523,961	26,126,977

Depreciation charge is allocated to the following items:

<i>In thousands of Kazakhstani Tenge</i>	2016	2015
Cost of services	2,013,079	2,030,993
General and administrative expenses	22,469	20,112
Total	2,035,548	2,051,105

NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

According to the investment plans of the Company, there is a development of project “The Second phase of the second stage of construction of Kazakhstan-China pipeline” for the increase of pipeline throughput capacity.

The operator of the project for development of documentation is “Kazakstan-China Pipeline” LLP (KCP), which is developing the design and survey work to increase the volume of oil transportation on the sites of Kenkiyak-Atyrau pipeline owned by the Company and Kenkiyak-Kumkol pipeline owned by KCP.

During 2016, the Company and KCP agreed that the Company will purchase from KCP a part of project documents relating to the site of Kenkiyak-Atyrau pipeline. In the second quarter of 2016, KCP has transferred to the Company these documents for the amount of Tenge 519,162 thousand.

As at 31 December 2016, the Company’s management estimated the recoverable cost of these project documents and concluded that due to the need in update of a part of project documents, as well as due to changes in Company’s plans with respect to the implementation of this project, the cost of this asset shall be decreased by Tenge 292,792 thousand.

Revaluation of property, plant and equipment

Property, plant and equipment were revalued at 31 July 2016. Increase from revaluation was estimated at Tenge 2,319,190 thousand, income of Tenge 2,180,027 thousand was recognised through other comprehensive income, income of Tenge 193,576 thousand was recognised in the statement of profit or loss as reversal of previous losses, and impairment loss of Tenge 54,413 thousand was recognised in the statement of profit or loss (Note 5).

Below is carrying amount to be recorded, if Company’s assets were carried at historical cost:

	Buildings and constructions	Pipeline	Machinery and equipment	Other	Construction in progress	Total
Cost						
At 31 December 2016	<u>2,487,483</u>	<u>22,858,369</u>	<u>5,454,432</u>	<u>341,248</u>	<u>523,961</u>	<u>31,665,493</u>
Accumulated depreciation						
At 31 December 2016	<u>(1,134,759)</u>	<u>(12,372,708)</u>	<u>(3,943,701)</u>	<u>(239,691)</u>	<u>-</u>	<u>(17,690,859)</u>
Residual value						
At 31 December 2016	<u>1,352,724</u>	<u>10,485,661</u>	<u>1,510,731</u>	<u>101,557</u>	<u>523,961</u>	<u>13,974,634</u>

As at 31 December 2016 and 31 December 2015, the Company had no restrictions to use property, plant and equipment.

NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

7. INVENTORIES

<i>In thousands of Kazakhstani Tenge</i>	31 December 2016	31 December 2015
Current portion:		
Spare parts	33,165	31,052
Materials	9,132	10,933
Fuel	171	424
Total	42,468	42,409
Non-current portion:		
Spare parts	246,815	277,293

Non-current inventories are spare parts designated for current repair of the pipeline in subsequent periods.

8. CASH AND CASH EQUIVALENTS

<i>In thousands of Kazakhstani Tenge</i>	31 December 2016	31 December 2015
Cash on bank deposits with maturity less than three months, in tenge	10,400,000	-
Cash at bank accounts, in tenge	660,416	1,032,473
Special bank deposit, in tenge	1,109	573
Cash on hand, in tenge	164	496
Total	11,061,689	1,033,542

Cash on bank deposits have maturities of less than here months as at opening date.

As at 31 December 2016 and 31 December 2015, cash and cash equivalents were denominated in tenge.

Cash at special bank account represents an amount that, according to the legislation of the Republic of Kazakhstan, shall be deposited in a special bank account in order to receive permission for expatriate personnel to work for the Company in Kazakhstan. That deposit will be available when the Company ceases to involve expatriate personnel in Kazakhstan.

9. SHORT-TERM FINANCIAL INVESMENTS

<i>In thousands of Kazakhstani Tenge</i>	31 December 2016	31 December 2015
Short-term financial investments	-	7,447,152
	31 December 2016	31 December 2015
US Dollars	-	6,947,152
Kazakhstani Tenge	-	500,000
Total	-	7,447,152

NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

9 SHORT-TERM FINANCIAL INVESTMENTS (CONTINUED)

As at 31 December 2015 the Company had short-term deposits placed with Halyk Bank JSC in the amount of USD 11,756 thousand with the interest rates of 1.2% to 1.5% per annum and maturities of more than three months and less than one year, and tenge deposit in the amount of Tenge 500,000 thousand with the interest rate of 8%.

Also, as at 31 December 2015 the Company had short-term deposits placed with Kazinvestbank JSC in the amount of USD 8,708 thousand with the interest rates of 2.2% to 2.5% per annum and maturities of more than three months and less than one year.

10. SHARE CAPITAL

At 31 December 2016 the total registered quantity of ordinary shares was 243 thousand shares with the par value of Tenge 200 per share (2015: 243 thousand shares). All issued ordinary shares were fully paid. Each ordinary share equals one vote.

Presented below is the shareholding structure of the Company at 31 December 2016 and 2015:

<i>In thousands of Kazakhstani Tenge</i>	31 December 2016		31 December 2015	
	Ownership percentage	Amount	Ownership percentage	Amount
KazTransOil	51%	24,786	51%	24,786
CNPC E&D	49%	23,814	49%	23,814
Total	100%	48,600	100%	48,600

11. REVALUATION RESERVE

<i>In thousands of Kazakhstani Tenge</i>	2016	2015
Balance at beginning of year	8,556,588	8,887,840
Revaluation of property, plant and equipment	2,180,027	-
Changes in estimates of provision for asset retirement obligations	175,233	136,601
Deferred tax liability arising on revaluation and change in estimate of provision for asset retirement obligation	(471,053)	(27,320)
Realised reserve less tax	(516,015)	(440,533)
At the end of year	9,924,780	8,556,588

12. DIVIDENDS

On 28 April 2016 the Company declared dividends of Tenge 2,916,000 thousand which were fully paid on 2 June 2016.

On 22 April 2015 the Company declared dividends of Tenge 3,402,000 thousand which were fully paid on 10 June 2015.

NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

13. PROVISION FOR ASSET RETIREMENT OBLIGATION

<i>In thousands of Kazakhstani Tenge</i>	31 December 2016	31 December 2015
At 1 January	1,092,018	1,150,607
Change in estimates	(175,233)	(136,601)
Provision charge	<u>84,849</u>	<u>78,012</u>
At 31 December	<u>1,001,634</u>	<u>1,092,018</u>

In accordance with Law of the Republic of Kazakhstan “On Main Pipeline” No. 21-V dated 22 June 2012, the Company is under a legal obligation to dismantle and liquidate the pipeline, as well as to restore the land. As at 31 December 2015 and 31 December 2016, the Company made best estimation of asset retirement obligation and recognised liabilities in the Statement of Financial Position.

During 2016, the Company change the estimate in maturity of asset retirement obligations that led to the decrease in carrying amount of liability. The estimated maturity date of obligation is the end of pipeline operation term – i.e year 2038.

14. ADVANCES RECEIVED

<i>In thousands of Kazakhstani Tenge</i>	31 December 2016	31 December 2015
Advances from related parties (Note 20)	755,193	678,981
Advances from third parties	<u>100,727</u>	<u>81,943</u>
Total	<u>855,920</u>	<u>760,924</u>

15. REVENUE

<i>In thousands of Kazakhstani Tenge</i>	2016	2015
Sales to related parties (Note 20)	9,275,459	6,828,840
Sales to third parties	<u>1,620,952</u>	<u>1,851,992</u>
Total	<u>10,896,411</u>	<u>8,680,832</u>

16. COST OF SALES

<i>In thousands of Kazakhstani Tenge</i>	2016	2015
Depreciation and amortisation	2,014,833	2,032,746
Pipeline maintenance	1,164,076	940,939
Minor repairs of facilities	451,266	280,186
Property tax	361,623	370,735
Security services	269,722	266,006
Payroll and related taxes	223,340	210,651
Maintenance of communication equipment	74,011	64,528
Insurance of pipeline	52,816	46,391
Air patrol of pipeline	39,060	48,231
Materials	35,858	20,500
Other	<u>192,707</u>	<u>196,127</u>
Total	<u>4,879,312</u>	<u>4,477,040</u>

NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

17. GENERAL AND ADMINISTRATIVE EXPENSES

<i>In thousands of Kazakhstani Tenge</i>	2016	2015
Payroll and related taxes	524,672	490,073
Vacation reserve	73,196	67,079
Office rent	69,115	65,904
Consulting services expenses	45,929	34,679
Transport repair expenses	34,874	27,428
Business trip expenses	27,239	25,360
Provision for inventories	24,446	-
Depreciation and amortisation	24,083	21,624
Communication expenses	6,221	6,307
Entertainment expense	1,521	8,107
Taxes other than income tax	1,390	2,450
Bank charges	2,039	2,131
Other	34,469	44,362
Total	869,194	795,504

18. FINANCE INCOME

Finance income include interest on deposit for 2016 and 2015.

19. INCOME TAX

Income tax expense includes following:

<i>In thousands of Kazakhstani Tenge</i>	2016	2015
Current income tax expense	1,600,573	1,736,031
Deferred income tax benefit	(386,613)	(382,346)
Income tax expense	1,213,960	1,353,685

Reconciliation between the expected and the actual taxation charge is provided below:

<i>In thousands of Kazakhstani Tenge</i>	2016	2015
Profit before tax	5,795,266	6,718,566
Effective tax rate	20%	20%
Expected charge at rate of 20%	1,159,053	1,343,713
Tax effect of non-deductible expenses	54,907	9,972
Income tax expense for the year	1,213,960	1,353,685

NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

19 INCOME TAX (CONTINUED)

	1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2016
<i>In thousands of Kazakhstani Tenge</i>				
Tax effect of temporary differences:				
Provision for asset retirement obligation	218,404	16,968	(35,047)	200,326
Provision for unused vacation	13,935	12,983	-	26,918
Provision for inventory	-	4,893	-	4,893
Other	(4,209)	5,488	-	1,279
Gross deferred tax asset	228,130	40,332	(35,047)	233,415
Deferred tax liability from: Property, plant and equipment and intangible assets	(4,707,983)	346,281	(436,006)	(4,797,708)
Gross deferred tax liability	(4,707,983)	346,281	(436,006)	(4,797,708)
Less: offset against deferred tax asset	228,130	40,332	(35,047)	233,415
Deferred income tax, net	(4,479,853)	386,613	(471,053)	(4,564,293)
	1 January 2015	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2015
<i>In thousands of Kazakhstani Tenge</i>				
Tax effect of temporary differences:				
Provision for asset retirement obligation	230,122	15,602	(27,320)	218,404
Provision for unused vacation	11,235	2,700	-	13,935
Other	3,449	(7,658)	-	(4,209)
Gross deferred tax asset	244,806	10,644	(27,320)	228,130
Deferred tax liability from: Property, plant and equipment and intangible assets	(5,079,685)	371,702	-	(4,707,983)
Gross deferred tax liability	(5,079,685)	371,702	-	(4,707,983)
Less: offset against deferred tax asset	244,806	10,644	(27,320)	228,130
Deferred income tax, net	(4,834,879)	382,346	(27,320)	(4,479,853)

NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

20. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

The related parties include Company's shareholders, affiliates or companies over which the Company or its shareholders have a significant influence, and key management personnel.

The nature of relations with those related parties with whom the Company entered into significant transactions or had significant balances outstanding at 31 December 2016 and 2015 is presented below.

Accounts receivable from and advances given by related parties were as follows:

<i>In thousands of Kazakhstani Tenge</i>	Nature of relations	2016	2015
KazTransOil JSC	Shareholder	9	7
Embamunaigas JSC	Company under control of Samruk-Kazyna	-	14,208
EuroAsia Air JSC	Company under control of Samruk-Kazyna	-	5,600
Total		9	19,815

Trade accounts payable to related parties were as follows:

<i>In thousands of Kazakhstani Tenge</i>	Nature of relations	2016	2015
KazTransOil JSC	Shareholder	108,647	92,127
KMG Security LLP	Company under control of Samruk-Kazyna	19,873	19,873
EuroAsia Air JSC	Company under control of Samruk-Kazyna	11,752	-
SemserOrt Sondyrushy LLP	Company under control of Samruk-Kazyna	5,301	4,955
Total		145,573	116,955

Outstanding balances on advances received from related parties were as follows:

<i>In thousands of Kazakhstani Tenge</i>	Nature of relations	2016	2015
CNPC Aktobemunaigas JSC	Company under control of CNPC	296,618	287,238
Mangistaumunaigas JSC	Company under control of Samruk-Kazyna	260,112	190,070
Kazakhturkmunai LLP	Company under control of Samruk-Kazyna	93,854	36,996
Kazakhoil Aktobe LLP	Jointly controlled company of Samruk-Kazyna	80,676	164,677
Embamunaigas JSC	Company under control of Samruk-Kazyna	23,850	-
Urihtau Operating LLP	Company under control of Samruk-Kazyna	83	-
Total		755,193	678,981

NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

20. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Trade transactions with related parties for the year ended 31 December 2016 were as follows:

<i>In thousands of Kazakhstani Tenge</i>	Nature of relations	2016	2015
CNPC Aktobemunaigas JSC	Company under control of CNPC	4,497,353	2,679,994
Mangistaumunaigas JSC	Company under control of Samruk-Kazyna	2,384,242	1,878,882
Kazakhoil Aktobe LLP	Jointly controlled company of Samruk-Kazyna	1,127,109	1,130,753
Embamunaigas JSC	Company under control of Samruk-Kazyna	732,718	774,450
Kazakhturkmunai LLP	Company under control of Samruk-Kazyna	409,047	364,761
Ozenmunaigas JSC	Company under control of Samruk-Kazyna	124,990	-
Total		9,275,459	6,828,840

Purchase transactions with related parties for the year ended 31 December 2016 were as follows:

<i>In thousands of Kazakhstani Tenge</i>	Nature of relations	2016	2015
<i>Pipeline maintenance:</i>			
KazTransOil JSC	Shareholder	1,164,076	940,939
<i>Security services:</i>			
KMG Security LLP	Company under control of Samruk-Kazyna	212,922	212,922
SemserOrt Sondyrushy LLP	Company under control of Samruk-Kazyna	56,800	53,084
<i>Other services:</i>			
EuroAsia Air JSC	Company under control of Samruk-Kazyna	39,060	48,231
KazTransOil JSC	Shareholder	5,878	5,854
Total		1,478,736	1,261,030

Terms and conditions of related party transactions

The outstanding balances at the end of year do not have collateral, and settlements are performed in cash. No warranties have been provided or received with regards to trade receivables from related parties. The management is unable to predict the extent of changes or to assess the impact of such changes on these financial statements.

Key management personnel compensation

Key management personnel consists of Company's management, which comprised 3 persons as of 31 December 2016 (2015: 3 persons). The total compensation to the key management personnel which is included in general and administrative expenses in the statement of profit or loss and other comprehensive income was Tenge 71,851 thousand for 2016 (2015: Tenge 70,502 thousand). Compensation payable to the key management personnel for fulfilment of their executive management functions consists of contractual salary, bonuses, vacation payments and financial aid.

21. CONTINGENCIES AND COMMITMENTS

Political and economic situation in Kazakhstan

In general, the economy of the Republic of Kazakhstan continues to display characteristics of an emerging market. Its economy is particularly sensitive to fluctuations on oil and gas prices. These characteristics include, but are not limited to, the existence of national currency that is not freely convertible outside of the country and a low level of liquidity of securities market.

On 20 August 2015 the National Bank and the Government of the Republic of Kazakhstan made a resolution about discontinuation of supporting the exchange rate of Tenge and implement of new monetary policy, which is based on inflation targeting regime, cancellation of exchange rate trading band and start a free floating exchange rate. As the result, during the period of August 2015 – September 2016 the exchange rate of Tenge has varied from 187 to 333.29 tenge per 1 US Dollar. Therefore, uncertainty exists in relation to exchange rate of Tenge and future actions of National Bank and the Government of the Republic of Kazakhstan and the impact of these factors on the economy of the Republic of Kazakhstan.

In mid-January 2016, Standard & Poor's materially lowered its oil price assumptions for the period 2016-2019. Since Kazakhstan's economy depends heavily on the oil sector S&P now expects GDP to stagnate or to increase insignificantly.

Accordingly, in February 2016 Standard & Poor's Ratings Services lowered its long-term foreign and local currency sovereign credit ratings on the Republic of Kazakhstan from BBB+ to BBB. At the same time, S&P lowered the short-term foreign and local currency ratings to 'A-3' from 'A-2' and the Kazakhstan national scale rating to 'kzAA' from 'kzAA+'. The outlook on the long-term ratings is negative.

The negative outlook reflects S&P's view of risks to Kazakhstan's external and monetary profiles under the current weak and volatile global commodity environment.

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. This operating environment has a significant impact on the Company's operations and financial position. Management is taking necessary measures to ensure sustainability of the Company's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

Additionally, the oil and gas sector in the Republic of Kazakhstan is still impacted by political, legislative, fiscal and regulatory developments. The prospects for future economic stability in the Republic of Kazakhstan are largely dependent upon the effectiveness of economic measures undertaken by the Government, together with legal, controlling and political developments, which are beyond the Company's control.

Tax legislation

Kazakhstani tax legislation is subject to varying interpretations and frequent changes. Management's interpretation of such legislation as applied to the transactions of the Company may be challenged by the relevant authorities which have right to impose fines and penalties. From the recent events in the Republic of Kazakhstan it can be assumed that tax authorities take more aggressive approach in their interpretation of the legislation and estimates, and, as a result, may challenge the transactions which had not been challenged in the past. Tax periods remain open to review by the tax authorities for five years after the year when tax review was conducted. Under certain circumstances, reviews may cover longer periods.

NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

21 CONTINGENCIES AND COMMITMENTS (CONTINUED)

While the Company's management believes that it has created adequate reserves for tax liabilities as at the reporting date based on its interpretation of the tax legislation, the facts above might expose the Company to additional financial risks.

Legal proceedings

During the Company's normal business, it can be subject to the litigations and claims. Management believes that final liability, if any results from such litigations and claims, will not have a material adverse effect on the Company's financial position or principal activities.

Environmental and site restoration obligations

The Company believes it is currently in compliance with all existing Republic of Kazakhstan environmental laws and regulations. However, Kazakhstan environmental laws and regulations may change in the future. The Company is unable to predict the timing or extent to which these environmental laws and regulations may change. Such change, if it occurs, may require the Company to modernize technology to meet more stringent standards.

Insurance

The Company has insurance of civil liability of owners of vehicles. The Company also provides insurance against accidents and sudden diseases, third parties obligations (life, health and property) and has environmental insurance due to its main activities.

Oil for pipeline filling

The Company obtained oil for the pipeline filling required for its operation from the customers free of charge under the oil transportation contracts. The Company is fully liable for such oil safety and shall return it to the owners in case of the pipeline decommissioning or upon expiration of the oil transportation contracts. The Company did not record any assets or liabilities in respect to this oil filled at the reporting date. As of 31 December 2016, oil for the pipeline filling was 104 thousand tons (2015: 107 thousand tons).

Sales agreements

For the next year, the Company signed agreements for the following guaranteed minimum crude oil volume transported through the pipeline:

	<u>Oil per year (th. tons)</u>
2017	<u>1,918</u>

If the Company is not able to transport such minimum oil volume, it may be imposed to penalties in the amount of non-rendered services.

Contractual commitments

As of 31 December 2016 the Company does not have capital construction commitments or commitments to purchase non-current assets.

NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

In the normal course of business, the Company is subject to currency, credit and operational risks. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company does not use any derivative financial instruments to hedge risk exposures.

Main categories of financial instruments

<i>In thousands of Kazakhstani Tenge</i>	31 December 2016	31 December 2015
<i>Loans and receivables</i>		
Trade receivables	9,948	28,955
Cash and cash equivalents	11,061,689	1,033,542
Short-term financial investments	-	7,447,152
Total financial assets	11,071,637	8,509,649
<i>Other financial liabilities</i>		
Trade payables	197,022	139,745
Total financial liabilities	197,022	139,745

Currency risk

As at 31 December 2016, the Company had no foreign currency denominated financial assets or liabilities.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial liabilities as they mature. The Company controls the risk of insufficient cash using the current liquidity planning instrument. This instrument is used for maturity analysis, as well as to forecast cash flows from operating activities.

For these purposes, the Company has developed a range of internal regulations, aimed at establishing control procedures for appropriate placing of temporary excess cash, invoice processing and payments, as well as preparation of operational budgets.

The table below provides analysis of the Company's financial liabilities by relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The fair value of Company's financial liabilities at 31 December 2016 falls within Level 3 hierarchy. The data provided based on the undiscounted cash flows of financial statements of the Company based on the earliest date on which the Company can be required to pay.

<i>In thousands of Kazakhstani Tenge 31 December 2016</i>	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-3 years	Over 3 years
Financial payables	(197,022)	(197,022)	(197,022)	-	-	-
Total financial liabilities	(197,022)	(197,022)	(197,022)	-	-	-

NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

22 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

<i>In thousands of Kazakhstani Tenge 31 December 2015</i>	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-3 years	Over 3 years
Financial payables	(139,745)	(139,745)	(139,745)	-	-	-
Total financial liabilities	(139,745)	(139,745)	(139,745)	-	-	-

Credit risk

Financial assets which are potentially subject to credit risk mainly consist of cash, bank deposits and trade receivables. The total carrying value of cash, bank deposits and trade receivables is Tenge 11,071,473 thousand and represents the maximum amount exposed to credit risk (2015: Tenge 8,509,153 thousand).

Cash is placed with financial institutions which are considered to have minimal risk of default at the moment of placement.

Analysis of financial assets by credit quality based on S&P rating as of 31 December 2016 is as follows:

<i>In thousands of Kazakhstani Tenge</i>		31 December 2016	31 December 2015
<i>Cash and cash equivalents</i>			
BB/negative/B, NP	Halyk Bank of Kazakhstan JSC Bank of China in Kazakhstan	11,054,175	1,032,911
A/stable/A1	SB JSC*	83	94
Unrated**	KazInvestBank JSC	405	36
B-/negative/C, kzB+	Kazkommertsbank JSC	6,862	5
Total cash and cash equivalents		11,061,525	1,033,046
<i>Short-term financial investments</i>			
BB/negative/B, NP	Halyk Bank of Kazakhstan JSC	-	4,490,960
Unrated**	KazInvestBank JSC	-	2,956,192
Total short-term financial investments		-	7,447,152
Trade receivables	Unrated	9,948	28,955
Total financial assets		11,071,473	8,509,153

* Rating is given for the international bank. Rating for the Kazakhstani branch of the bank is unavailable.

** In accordance with the Resolution of the Management Board of the National Bank of RK dated 26 December 2016, it was resolved to cancel the license of Kazinvestbank JSC for banking and other transactions in securities market. The Company did not create provision for the impairment of cash, as it intends to return funds.

22 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Interest rate risk

As at 31 December 2016 the Company did not have outstanding borrowings or other interest bearing obligations. Accordingly, at 31 December 2016 the Company was not exposed to interest rate risk.

Operational risk

Operational risk is the risk that the Company may incur financial loss caused by business interruption or potential damage of the Company's property as a result of natural disasters or technological emergencies.

As of 31 December 2016 management believes that the Company has adequate insurance policy for civil liability and loss of assets.

23. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other partners and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The amount of capital that the Company managed as of 31 December 2016 was Tenge 30,839,722 thousand (2015: Tenge 27,290,209 thousand).

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price of a financial instrument.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs).

All financial instruments of the Company are carried at amortised cost. Their fair values were determined using level 3 measurements of the fair value hierarchy, based on the available market data or relevant valuation techniques.

However, judgement is required to interpret market data to determine the estimated fair value. The Republic of Kazakhstan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions, and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on the credit risk of the counterparty. Due to the short-term nature of trade receivables, their carrying amount approximates their fair value.

NORTH-WEST PIPELINE COMPANY MUNAITAS JSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

24 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial liabilities carried at amortised cost

The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Due to the short-term nature of trade payables, their carrying amount approximates their fair value.

25. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorized for issue by the Company management on 27 January 2017.