

**JSC “National Company “KazMunayGas”**

**Consolidated financial statements**

*For the year ended December 31, 2017  
with independent auditors' report*

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Independent auditors’ report

**Consolidated financial statements**

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## Independent auditor's report

To the Shareholders and Management of "National Company "KazMunayGas" JSC

### Opinion

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

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

### Basis for opinion

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

### Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

## Key audit matter

## How our audit addressed the key audit matter

### ***Impairment of non-current assets***

We considered this matter to be one of the most significance in the audit due to materiality of the balances of non-current assets, including upstream, exploration and evaluation, downstream assets and investments in upstream joint ventures and associates, to the consolidated financial statements, the high level of subjectivity in respect of assumptions underlying impairment analysis and significant judgements and estimates made by management. In addition, the combination of volatility in oil prices and Tenge, increased inflation and cost of debt and uncertainty about future economic growth affects the Group's business prospects and therefore triggers potential impairment of the Group's assets.

Significant assumptions included discount rates, oil and petroleum product prices forecasts and inflation and exchange rate forecasts. Significant estimates included production forecast, future capital expenditure and oil and gas reserves available for development and production.

Information on non-current assets and the impairment tests performed is disclosed in Note 4 to the consolidated financial statements.

### ***Discontinued operations***

On 15 December 2016, the Group signed a share sale and purchase agreement (the SPA) to sell a 51% interest in KMG International NV (KMGI) subsidiary of the Group.

In 2017, all conditions precedent indicated in the SPA were executed and on 15 December 2017, the Group signed an addendum to the SPA and a conditional act of transfer of shares with an expectation to complete the transaction in June 2018.

We involved our business valuation specialists in the testing of impairment analysis and calculation of recoverable amount performed by management. We analyzed the assumptions underlying management forecast. We compared oil and petroleum products prices used in the calculation of recoverable amounts to available market forecasts.

We compared the discount rates and long-term growth rates to general market indicators and other available evidence.

We tested the mathematical integrity of the impairment models and assessed the sensitivity analysis.

We focused on the analysis of criteria for the classification of assets as held for sale, and operations as discontinued. We examined the SPA and an addendum to the SPA and obtained managements' assessment of the status of execution of conditions precedent to the transaction. We analysed the management's assessment of the fair value less cost to sell of KMGI's assets and liabilities that is based on the terms of the SPA.



This area was one of the most significance in our audit because of the uncertainty of completion of the sale of 51% interest in KMGI and the judgement required to assess whether or not the sale is highly probable. Such assessment impacts the measurement and presentation of assets of KMGI classified as held for sale and liabilities directly associated with them, and the results from discontinued operations, that are material to the consolidated financial statements.

Information associated with discontinued operations is disclosed in Note 5 to the consolidated financial statements; a description of the accounting policy and key judgements and estimates is included in Notes 3 and 4 to the consolidated financial statements.

### ***Compliance with loan covenants***

In accordance with the terms of certain financing arrangements, the Group should maintain and comply with certain financial and non-financial covenants. There is a higher likelihood that covenants impacted by trading volumes, revenue and profit may be breached particularly in subsidiaries impacted by volatility of oil prices and higher operating costs, therefore, we focused on this area during our audit. Breaching covenants could result in significant fines and penalties along with funding shortages. Cross default provisions are in place under the Group's financing arrangements. Compliance with the financing covenants is one of the matters of most significance in the audit since it can have a major impact on the going concern assumption used in the preparation of the consolidated financial statements, and on classification of interest-bearing liabilities in the consolidated statement of financial position.

Information on compliance with covenants is disclosed in Note 19 to the consolidated financial statements.

We examined the terms of financing arrangements. We compared data used in the calculations with the financial statements. We assessed arithmetic accuracy of financial covenants calculations.

### ***Other information included in the Group's 2017 annual report***

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

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

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

### ***Responsibilities of management and the Audit Committee for the consolidated financial statements***

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's consolidated financial reporting process.

### ***Auditor's responsibilities for the audit of the consolidated financial statements***

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



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

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

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Gulmira Turmagambetova.

*Ernst & Young LLP*



Gulmira Turmagambetova  
Auditor / General Director  
Ernst and Young LLP



Auditor qualification certificate  
No. 0000374 dated 21 February 1998

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

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12 March 2018



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

<i>In thousands of tenge</i>	<b>Note</b>	<b>As at December 31</b>	
		<b>2017</b>	<b>2016*</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	3,359,094,790	2,953,135,665
Exploration and evaluation assets	8	253,326,100	231,553,168
Investment property	9	27,423,225	29,480,044
Intangible assets	10	115,431,414	116,488,612
Long-term bank deposits	11	48,523,034	50,027,102
Investments in joint ventures and associates	12	3,810,351,341	3,706,276,810
Deferred income tax asset	31	65,135,777	71,909,033
VAT receivable		96,666,045	71,918,992
Advances for non-current assets		124,906,942	139,185,121
Loans and receivables due from related parties	15	672,448,689	565,994,497
Other financial assets	16	4,161,312	-
Other non-current assets		14,027,609	20,687,850
		<b>8,591,496,278</b>	<b>7,956,656,894</b>
<b>Current assets</b>			
Inventories	13	108,897,355	98,776,900
VAT receivable		68,245,090	68,719,671
Income tax prepaid		35,586,296	74,457,414
Trade accounts receivable	14	306,324,631	279,811,631
Short-term bank deposits	11	1,638,940,642	1,182,669,493
Loans and receivables due from related parties	15	169,501,500	135,673,233
Other current assets	14	167,916,249	149,079,608
Cash and cash equivalents	17	1,190,156,359	878,438,350
		<b>3,685,568,122</b>	<b>2,867,626,300</b>
Assets classified as held for sale	5	1,111,688,937	1,058,794,076
		<b>4,797,257,059</b>	<b>3,926,420,376</b>
<b>Total assets</b>		<b>13,388,753,337</b>	<b>11,883,077,270</b>

*The accounting policies and explanatory notes on pages 8 through 84 form an integral part of these consolidated financial statements.*

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

<i>In thousands of tenge</i>	<i>Note</i>	<b>As at December 31</b>	
		<b>2017</b>	<b>2016</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	18	709,344,505	696,376,625
Additional paid-in capital	18	243,876,410	243,655,405
Other equity		83,185	222,074
Currency translation reserve		1,298,442,284	1,372,771,521
Retained earnings		3,500,635,709	3,163,685,193
<b>Attributable to equity holders of the Parent Company</b>		<b>5,752,382,093</b>	<b>5,476,710,818</b>
Non-controlling interest	18	870,017,901	801,560,097
<b>Total equity</b>		<b>6,622,399,994</b>	<b>6,278,270,915</b>
<b>Non-current liabilities</b>			
Borrowings	19	3,399,487,735	2,706,101,321
Provisions	21	150,638,244	139,371,823
Deferred income tax liabilities	31	312,013,046	264,599,978
Financial guarantee		10,767,166	12,259,980
Prepayment on oil supply agreements	22	581,577,501	738,572,306
Other non-current liabilities		46,270,628	52,509,205
		<b>4,500,754,320</b>	<b>3,913,414,613</b>
<b>Current liabilities</b>			
Borrowings	19	763,955,792	366,438,649
Provisions	21	78,812,199	94,394,277
Income tax payable		7,705,079	2,301,839
Trade accounts payable	22	325,120,176	260,137,009
Other taxes payable	23	79,168,191	34,014,457
Financial guarantee		1,170,697	1,211,481
Prepayment on oil supply agreements	20	332,330,000	249,967,500
Other current liabilities	22	144,405,371	119,042,249
		<b>1,732,667,505</b>	<b>1,127,507,461</b>
Liabilities directly associated with the assets classified as held for sale	5	532,931,518	563,884,281
<b>Total liabilities</b>		<b>6,766,353,343</b>	<b>5,604,806,355</b>
<b>Total equity and liabilities</b>		<b>13,388,753,337</b>	<b>11,883,077,270</b>
<b>Book value per ordinary share</b>	18	<b>11,040</b>	<b>10,547</b>

\* Certain numbers shown here do not correspond to the consolidated financial statements for the year ended December 31, 2016 and reflect combination of notes made, refer to Note 2.

Executive vice-president – financial director

Vice-president – finance controller

Chief accountant

  
D.S. Karabayev

  
A.Zh. Beknazarova

  
Y.Y. Orynbayev

*The accounting policies and explanatory notes on pages 8 through 84 form an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

<i>In thousands of tenge</i>	<b>Note</b>	<b>For the years ended December 31</b>	
		<b>2017</b>	<b>2016</b>
Revenue	24	<b>2,458,835,090</b>	1,857,435,356
Cost of sales	25	<b>(2,379,902,871)</b>	(1,561,746,019)
<b>Gross profit</b>		<b>78,932,219</b>	295,689,337
General and administrative expenses	26	<b>(152,011,319)</b>	(117,675,164)
Transportation and selling expenses	27	<b>(288,527,270)</b>	(198,473,083)
Impairment of property, plant and equipment, intangible assets	28	<b>(25,641,552)</b>	(3,282,679)
Loss on disposal of property, plant and equipment, intangible assets and investment property, net		<b>(3,814,867)</b>	(5,620,831)
Other operating income		<b>20,164,501</b>	19,429,680
Other operating expenses		<b>(30,093,073)</b>	(14,821,567)
<b>Operating loss</b>		<b>(400,991,361)</b>	(24,754,307)
Net foreign exchange gain/(loss)		<b>67,182,980</b>	(12,894,441)
Finance income	29	<b>121,735,274</b>	167,891,688
Finance costs	29	<b>(294,897,464)</b>	(230,383,354)
Reversal/(impairment) of investments in joint ventures		<b>14,845,359</b>	(5,503,379)
Impairment of assets classified as held for sale		<b>(67,594)</b>	(92,601)
Impairment of loan given		<b>–</b>	(1,346,447)
Share in profit of joint ventures and associates, net	30	<b>414,565,236</b>	270,190,990
<b>(Loss)/profit before income tax</b>		<b>(77,627,570)</b>	163,108,149
Income tax expenses	31	<b>(192,029,803)</b>	(163,791,137)
<b>Loss for the year from continuing operations</b>		<b>(269,657,373)</b>	(682,988)
<b>Discontinued operations</b>			
Profit after income tax for the year from discontinued operations	5	<b>789,183,404</b>	360,854,031
<b>Net profit for the year</b>		<b>519,526,031</b>	360,171,043
<b>Net profit for the year attributable to:</b>			
Equity holders of the Parent Company		<b>437,485,878</b>	305,849,105
Non-controlling interest		<b>82,040,153</b>	54,321,938
		<b>519,526,031</b>	360,171,043

*The accounting policies and explanatory notes on pages 8 through 84 form an integral part of these consolidated financial statements.*



**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)**

<i>In thousands of tenge</i>	<b>Note</b>	<b>For the years ended December 31</b>	
		<b>2017</b>	<b>2016</b>
<b>Other comprehensive loss</b>			
<i>Other comprehensive loss to be reclassified to profit or loss in subsequent periods</i>			
Exchange differences on translation of foreign operations		(74,167,162)	(38,081,340)
Accumulated differences on translation of disposal group		(423,776)	-
<b>Other comprehensive loss to be reclassified to profit or loss in the year</b>		<b>(74,590,938)</b>	<b>(38,081,340)</b>
<i>Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods</i>			
Actuarial (loss)/gain on defined benefit plans of the Group		(1,148,036)	3,775,606
Actuarial loss on defined benefit plans of joint ventures		(173,333)	(127,142)
Write-off of deferred tax assets		(150,746)	-
Tax effect		8,642	(807,240)
<b>Other comprehensive (loss)/income not to be reclassified to profit or loss in the year</b>		<b>(1,463,473)</b>	<b>2,841,224</b>
<b>Other comprehensive loss for the year</b>		<b>(76,054,411)</b>	<b>(35,240,116)</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>443,471,620</b>	<b>324,930,927</b>
<b>Total comprehensive income for the year attributable to:</b>			
Equity holders of the Parent Company		361,870,465	275,618,617
Non-controlling interest		81,601,155	49,312,310
		<b>443,471,620</b>	<b>324,930,927</b>

Executive vice-president – financial director


  
D.S. Karabayev

Vice-president – finance controller


  
A.Zh. Beknazarova

Chief accountant


  
Y.Y. Orynbayev

*The accounting policies and explanatory notes on pages 8 through 84 form an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF CASH FLOWS**

<i>In thousands of tenge</i>	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>2016*</b>
<b>Cash flows from operating activities</b>		
Receipts from customers	5,634,357,593	5,210,416,312
Payments to suppliers	(3,715,959,005)	(2,572,353,624)
Other taxes and payments	(914,413,795)	(781,008,413)
Income taxes paid	(112,604,740)	(106,406,440)
Interest received	104,803,503	61,212,114
Interest paid	(216,639,835)	(197,781,984)
Payments to employees	(369,717,122)	(336,491,364)
Taxes received from Tax authorities	79,392,887	31,066,631
Other payments	(89,330,944)	(32,472,306)
<b>Net cash flows from operating activities</b>	<b>399,888,542</b>	<b>1,276,180,926</b>
<b>Cash flows from investing activities</b>		
Placement of bank deposits, net	(457,272,356)	(269,568,073)
Purchase of property, plant and equipment, intangible assets, investment property and exploration and evaluation assets	(464,352,881)	(464,811,894)
Proceeds from sale of property, plant and equipment, intangible assets, investment property and exploration and evaluation assets	1,408,198	1,379,771
Proceeds from sale of subsidiaries (Note 6)	9,151,261	—
Cash acquired with subsidiaries	180,678	—
Dividends received from joint ventures and associates	271,782,500	118,607,550
Acquisition of and contribution to joint ventures	(2,625)	(160,057,189)
Refund of contribution to joint ventures	1,714,856	1,672,268
Repayment of loans due from related parties	336,957	125,002,452
Acquisition of debt securities (Note 16)	(332,401)	—
Note receivable from associate	118,367	6,889,431
Loans given to related parties	(184,707,890)	(222,725,040)
<b>Net cash flows used in investing activities</b>	<b>(821,975,336)</b>	<b>(863,610,724)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings (Note 19)	1,508,170,132	316,799,290
Repayment of borrowings (Note 19)	(689,074,491)	(530,514,370)
Distributions to Samruk-Kazyna	—	(2,202,898)
Dividends paid to Samruk-Kazyna and National Bank of RK (Note 18)	(45,877,517)	(90,853,335)
Dividends paid to non-controlling interests (Note 18)	(12,415,761)	(5,248,975)
Issue of shares (Note 18)	1	1
<b>Net cash flows from / (used in) financing activities</b>	<b>760,802,364</b>	<b>(312,020,287)</b>
Effects of exchange rate changes on cash and cash equivalents	22,436,734	(3,531,543)
<b>Net change in cash and cash equivalents</b>	<b>361,152,304</b>	<b>97,018,372</b>
Cash and cash equivalents, at the beginning of the year	905,452,511	808,434,139
<b>Cash and cash equivalents, at the end of the year</b>	<b>1,266,604,815</b>	<b>905,452,511</b>

\* The Group changed method of presentation of consolidated statement of cash flows (Note 2).

Executive vice-president – financial director

Vice-president – finance controller

Chief accountant

  
D.S. Karabayev

  
A.Zh. Beknazarova

  
Y.Y. Orynbayev

The accounting policies and explanatory notes on pages 8 through 84 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

<i>In thousands of tenge</i>	Attributable to equity holder of the Parent Company					Total	Non-controlling interest	Total
	Share capital	Additional paid-in capital	Other equity	Currency translation reserve	Retained earnings			
<b>As at December 31, 2015</b>	696,363,445	243,655,405	3,110,573	1,405,325,707	2,988,542,754	5,336,997,884	753,179,913	6,090,177,797
Net profit for the year	–	–	–	–	305,849,105	305,849,105	54,321,938	360,171,043
Other comprehensive income	–	–	–	(32,554,186)	2,323,698	(30,230,488)	(5,009,628)	(35,240,116)
<b>Total comprehensive income for the year</b>	–	–	–	(32,554,186)	308,172,803	275,618,617	49,312,310	324,930,927
Contribution to share capital	13,180	–	–	–	–	13,180	–	13,180
Dividends	–	–	–	–	(59,748,893)	(59,748,893)	(5,167,227)	(64,916,120)
Distributions to Samruk-Kazyna	–	–	–	–	(22,401,021)	(22,401,021)	–	(22,401,021)
Transactions with Samruk-Kazyna	–	–	–	–	(50,871,857)	(50,871,857)	–	(50,871,857)
Recognition of share-based payments	–	–	891,404	–	–	891,404	518,777	1,410,181
Execution of share-based payments	–	–	(3,740,318)	–	–	(3,740,318)	3,740,318	–
Forfeiture of share-based payments	–	–	(39,585)	–	–	(39,585)	(23,038)	(62,623)
Change of share in subsidiaries	–	–	–	–	(8,593)	(8,593)	(956)	(9,549)
<b>As at December 31, 2016</b>	696,376,625	243,655,405	222,074	1,372,771,521	3,163,685,193	5,476,710,818	801,560,097	6,278,270,915

*The accounting policies and explanatory notes on pages 8 through 84 form an integral part of these consolidated financial statements.*



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

In thousands of tenge	Attributable to equity holder of the Parent Company					
	Share capital	Additional paid-in capital	Other equity	Currency translation reserve	Retained earnings	Non-controlling interest
As at December 31, 2016	696,376,625	243,655,405	222,074	1,372,771,521	3,163,685,193	801,560,097
Net profit for the year	-	-	-	-	437,485,878	82,040,153
Other comprehensive income	-	-	-	(74,329,237)	(1,286,176)	(438,998)
Total comprehensive income for the year	-	-	-	(74,329,237)	436,199,702	81,601,155
Contribution to share capital (Note 18)	12,967,880	221,005	-	-	-	-
Dividends (Note 18)	-	-	-	-	(45,878,887)	(13,269,562)
Distributions to Samruk-Kazyna (Note 18)	-	-	-	-	(23,634,306)	-
Transactions with Samruk-Kazyna (Note 18)	-	-	-	-	(29,735,993)	-
Recognition of share-based payments	-	-	-	-	-	-
Execution of share-based payments	-	-	(130,900)	-	-	130,900
Forfeiture of share-based payments	-	-	(7,989)	-	-	(4,689)
Change of share in subsidiaries	-	-	-	-	-	-
As at December 31, 2017	709,344,505	243,876,410	83,185	1,298,442,284	3,500,635,709	870,017,901
					5,752,382,093	6,622,399,994

Executive vice-president – financial director

Vice-president – finance controller

Chief accountant

D.S. Karabayev

A.Zh. Beknazarova

Y.Y. Orynbayev

The accounting policies and explanatory notes on pages 8 through 84 form an integral part of these consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the year ended December 31, 2017**

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**1. GENERAL**

JSC “National Company “KazMunayGas” (the “Company”, “KazMunayGas” or “Parent Company”) is a wholly owned state oil and gas enterprise of the Republic of Kazakhstan, which was established on February 27, 2002 as a closed joint stock company pursuant to the Decree No. 811 of the President of the Republic of Kazakhstan dated February 20, 2002 and the Resolution of the Government of the Republic of Kazakhstan (the “Government”) No. 248 dated February 25, 2002. The Company was formed as a result of the merger of National Oil and Gas Company Kazakhoil CJSC (“Kazakhoil”) and National Company Transport Nefti i Gaza CJSC (“TNG”). As the result of the merger, all assets and liabilities, including ownership interest in all entities owned by these companies, have been transferred to KazMunayGas. The Company was reregistered as a joint stock company in accordance with the legislation of the Republic of Kazakhstan in March 2004.

Starting from June 8, 2006, the sole shareholder of the Company was JSC “Kazakhstan Holding Company for State Assets Management “Samruk” (“Samruk”), which in October 2008 was merged with the state owned Sustainable Development Fund “Kazyna” and formed JSC “National Welfare Fund Samruk-Kazyna” (“Samruk-Kazyna”), now renamed to JSC “Sovereign Wealth Fund Samruk-Kazyna”. The Government is the sole shareholder of Samruk-Kazyna. On August 7, 2015 National Bank of Republic of Kazakhstan (“National Bank of RK”) purchased 10% plus one share of the Company from Samruk-Kazyna.

As at December 31, 2017, the Company has an interest in 52 operating companies (2016: 47) (jointly the “Group”).

The Company has its registered office in the Republic of Kazakhstan, Astana, Kabanbay Batyr avenue, 19.

The principal objective of the Group includes, but is not limited, to the following:

- participation in the Government activities relating to the oil and gas sector;
- representation of the state interests in subsoil use contracts through interest participation in those contracts; and
- corporate governance and monitoring of exploration, development, production, processing, transportation and sale of hydrocarbons and the designing, construction and maintenance of oil-and-gas pipeline and field infrastructure.

The consolidated financial statements comprise the financial statements of the Company and its controlled subsidiaries (*Note 34*).

These consolidated financial statements of the Group were approved for issue by the Executive vice-president – financial director, vice-president – financial controller and the Chief accountant on March 12, 2018.

**2. BASIS OF PREPARATION**

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

**Statement of compliance**

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

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Group consolidated financial statements are disclosed in *Note 4*.

The Group changed method of presentation of consolidated cash flow statement from indirect method to direct method for the period of January 1, 2017 to December 31, 2017 since the Group believes direct method is more relevant to users of consolidated financial statements. The Group adopted a method of presenting the consolidated cash flows statement on a retrospective basis.

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

Consolidated statement of financial position has been revised to combine certain items with similar nature.

Effect on consolidated statement of financial position as at December 31, 2017:

<i>In thousands of tenge</i>	<i>As previously</i>	<i>Reclassifications</i>	<i>As reclassified</i>
<b>Assets</b>			
<b>Non-current assets</b>			
Bonds receivable from Samruk-Kazyna	37,683,003	(37,683,003)	-
Note receivable from a shareholder of a joint venture	16,695,758	(16,695,758)	-
Note receivable from associate	34,837,804	(34,837,804)	-
Loans due from related parties	476,777,932	(476,777,932)	-
Loans and receivable due from related parties	-	565,994,497	565,994,497
<b>Current assets</b>			
Bonds receivable from Samruk-Kazyna	4,440,000	(4,440,000)	-
Note receivable from a shareholder of a joint venture	17,617,100	(17,617,100)	-
Loans due from related parties	113,616,133	(113,616,133)	-
Loans and receivable due from related parties	-	135,673,233	135,673,233

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

**Foreign currency translation***Functional and presentation currency*

Items included in the financial statements of each of the Group's entities included in these consolidated financial statements are measured using the currency of the primary economic environment in which the entities operate ("the functional currency"). The consolidated financial statements are presented in Kazakhstan tenge ("tenge" or "KZT"), which is the Company's functional currency.

*Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.



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

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**2. BASIS OF PREPARATION (continued)****Foreign currency translation (continued)***Group Companies*

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

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

*Exchange rates*

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

The currency exchange rate of KASE as at December 31, 2017 was 332.33 tenge to 1 US dollar. This rate was used to translate monetary assets and liabilities denominated in United States dollars (“US dollar”) as at December 31, 2017 (2016: 333.29 tenge to 1 US dollar). The currency exchange rate of KASE as at March 12, 2018 was 320.55 tenge to 1 US dollar.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****New and amended standards and interpretations**

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2016, except for the adoption of new standards and interpretations effective as of January 1, 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2017, they do not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

*Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative*

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period in *Note 19*.

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

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

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

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****New and amended standards and interpretations (continued)***Annual improvements 2014-2016 cycle*

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

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

**Standards issued but not yet effective**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are listed below, are those that the Group reasonably expects will have an impact on the disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards, if applicable, when they become effective.

- *IFRS 9 Financial Instruments (January 1, 2018);*
- *IFRS 15 Revenue from Contracts with Customers (January 1, 2018);*
- *IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2 (January 1, 2018);*
- *IFRS 16 Leases (January 1, 2019);*
- *Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;*
- *IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (January 1, 2018);*
- *IFRIC Interpretation 23 Uncertainty over Income Tax Treatment (January 1, 2019);*
- *IFRS 1 First-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first-time adopters (January 1, 2018);*
- *IAS 28 Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice (January 1, 2018);*
- *Transfers of Investment Property – Amendments to IAS 40*

**IFRS 9 Financial Instruments**

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. The Group plans to adopt the new standard on the required effective date and will not restate comparative information.

As at the reporting date the Group has not completed detailed impact assessment of all three aspects of IFRS 9. This assessment may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when IFRS 9 is fully adopted.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Standards issued but not yet effective (continued)*****IFRS 9 Financial Instruments (continued)****(a) Classification and measurement*

The Group expects to continue measuring at fair value all financial assets currently held at fair value. The Group continues assessment of the possible effect.

Trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

*(b) Impairment*

IFRS 9 requires the Group to record expected credit losses on all of loans, trade receivables, deposits, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The Group is currently developing unified approach for all the entities within the Group with respect to application of IFRS 9 and as at the date of these financial statements continues to analyze all available information in order to assess the effect of IFRS 9 adoption.

*(c) Hedge accounting*

The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Group's financial statements.

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

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

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. During 2017, the Group performed a detailed analysis of IFRS 15 and decided to apply a modified retrospective application.

The Group operates in sale of crude oil, refined products, gas and other products and rendering of services, such as oil and gas transportation, refining and oil support services.

*(a) Sale of goods*

For contracts with customers in which the sale of goods is generally expected to be the only performance obligation, adoption of IFRS 15 is not expected to have any material impact on the Group's revenue and profit or loss. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on signing of act of acceptance.

*(b) Rendering of services*

The Group fulfills performance obligation on a monthly basis and recognizes revenue from rendering of oil and gas transportation services, based on the actual volumes of services rendered. Revenue from refining and oil support services is recognized over time given that the buyer simultaneously receives and consumes the benefits provided by the Group. It is expected that the application of IFRS 15 to service contracts will not affect the Group's revenue and profit or loss.



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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Standards issued but not yet effective (continued)*****IFRS 15 Revenue from Contracts with Customers (continued)******(c) Presentation and disclosure requirements***

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that the impact of some of these disclosures requirements will not be significant.

In 2017 the Group continued testing of appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of December 31, 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

Generally, there is a presumption that a majority of voting rights result 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 and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, revenue and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Profit or loss and each component of other comprehensive income are attributable to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interest 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 balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full. 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.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income (“OCI”). If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

*Business combinations achieved in stages*

The acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

In a business combination achieved in stages the acquirer recognises goodwill as of the acquisition date measured as the excess of (a) over (b) below:

- (a) the aggregate of:
  - (i) the consideration transferred measured in accordance with this IFRS 3 *Business Combinations*, which generally requires acquisition-date fair value;
  - (ii) the amount of any non-controlling interest in the acquiree measured in accordance with this IFRS; and
  - (iii) the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.
- (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Business combinations and goodwill (continued)***Acquisition of subsidiaries in accordance with the Shareholder instructions*

In acquisitions of subsidiaries from third parties made in accordance with the Shareholder instructions, the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed is recognised directly in equity as a distribution to the Parent Company.

*Acquisition of subsidiaries from parties under common control*

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

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

The consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

**Undivided interest in jointly controlled operations**

The Group has undivided interest in jointly controlled operations.

Upon acquisition the Group shall recognize in relation to its interest in joint operations its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly. Subsequently, the Group shall recognize its revenue from the sale of its share of the output arising from the joint operations; its share of the revenue from the sale of the output by the joint operations; and its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in the joint operations in accordance with its accounting policy.

When the Group does not share the joint control over joint operations, it follows the accounting of the parties that share control as discussed in next paragraphs.

**Investment in associates and joint ventures**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but which does not comprise control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its joint ventures and associates are accounted for using the equity method. Under the equity method, the investment in a joint venture or an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the joint venture or associate since the acquisition date. Goodwill relating to the joint venture or associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Investment in associates and joint ventures (continued)**

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the joint venture or associate, deducted by the amount of dividends declared from joint venture or associate to the Group. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the joint venture or associate, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the joint venture or associate are eliminated to the extent of the interest in the joint venture or associate.

The aggregate of the Group's share in profit or loss of a joint venture and an associate is shown on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interest in the subsidiaries of the joint venture or associate. The financial statements of the joint venture or associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring their accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its joint venture or associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture or associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognizes the loss as 'Impairment of investment in joint venture or associate' in the statement of profit or loss.

Upon loss of joint control over the joint venture or significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture or associate upon loss of joint control or significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

**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 realized or intended to sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realized within 12 (twelve) months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 (twelve) months after the reporting period.

All other assets are classified as non-current. A liability is current when:

- it is expected to be settled in normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within 12 (twelve) months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least 12 (twelve) months after the reporting period.

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



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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Oil and natural gas exploration, evaluation and development expenditure***Costs incurred before obtaining subsoil use rights (licenses)*

Costs incurred before obtaining full subsoil use rights (licenses) are expensed in the period in which they are incurred, except when costs are incurred after signing preliminary agreements with the Government of the Republic of Kazakhstan, in such cases costs incurred after this date are capitalized.

*Subsoil use rights and property acquisition costs*

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

*Exploration and evaluation costs*

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

*Development costs*

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells and unforeseen technical problems, is capitalized within oil and gas development assets.

**Oil and gas assets and other property, plant and equipment**

Oil and gas assets and other property, plant and equipment are stated at cost less accumulated depreciation, depletion and impairment ("DD&A").

The initial cost of an asset comprises its purchase price or construction cost, borrowing cost for long-term construction or development project, if recognition criteria is met, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligation, if there is any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Oil and gas assets are depreciated using a unit-of-production method, whereas tangible assets are depreciated over proved developed reserves and intangible assets – over proved reserves. Certain oil and gas assets with useful lives less than the remaining life of the fields or term of the subsoil use contract are depreciated on a straight-line basis over useful lives of 4-10 years.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Oil and gas assets and other property, plant and equipment (continued)**

Property, plant and equipment other than oil and gas assets principally comprise buildings, machinery and equipment which are depreciated on a straight-line basis over the expected remaining useful average lives as follows:

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Refinery assets	4-100 years
Pipelines	2-30 years
Buildings and improvements	2-100 years
Machinery and equipment	2-30 years
Vehicles	3-35 years
Other	2-20 years

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

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

An item of property, plant and equipment, inclusive of production wells which stop producing commercial quantities of hydrocarbons and are scheduled for abandonment, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period the item is derecognized.

**Intangible assets**

Intangible assets are stated at cost, less accumulated amortization and accumulated impairment losses. Intangible assets include expenditure on acquiring subsoil use rights for oil and natural gas exploration, evaluation and development, computer software and goodwill. Intangible assets acquired separately from a business are carried initially at cost. The initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Intangible assets, except for goodwill and subsoil use rights, are amortized on a straight-line basis over the expected remaining useful life. The expected useful lives of the assets are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively. Computer software costs have an estimated useful life of 3 to 7 years. The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is tested for impairment annually (as at December 31) and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

**Investment properties**

Investment property is initially measured at cost, including transaction costs. Transaction costs shall be included in the initial measurement.

Since the Group adopted cost model, after initial recognition, investment property is accounted for in accordance with the cost model as set out in IAS 16 *Property, Plant and Equipment* – cost less accumulated depreciation and less accumulated impairment losses.

The depreciation is calculated based on straight line method basis over the expected remaining useful average life of 2-100 years.

At each reporting date, the Group determines the fair value of investment property and in the event that the fair value of the asset exceeds its fair value, the difference is recognized in profit and loss.

Investment property derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of investment property and recognised in profit or loss in the period of the retirement or disposal.

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

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

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Impairment losses of continuing operations are recognized in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of 5 (five) years. For longer periods, a long-term growth rate is calculated and applied to projected future cash flows after the fifth year.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized 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 recognized. 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 accumulated depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of comprehensive income.

**Impairment of exploration and evaluation assets**

Exploration and evaluation assets are tested for impairment when reclassified to oil and gas development tangible or intangible assets or whenever facts and circumstances indicate impairment. One or more of the following facts and circumstances indicate that the Group should test exploration and evaluation assets for impairment (the list is not exhaustive):

- the period for which the Group entity has the right to explore and appraise in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on the further exploration for and evaluation of hydrocarbon resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of hydrocarbon resources in the specific area have not led to the discovery of commercial viable quantities of hydrocarbon resources and the Group entity has decided to discontinue such activities in the specific area;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

**Non-current assets held for sale and discontinued operations**

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Non-current assets held for sale and discontinued operations (continued)**

In the consolidated statement of comprehensive income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated statement of comprehensive income.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

**Asset retirement obligation (decommissioning)**

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

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

- (a) changes in the provision are added to, or deducted from, the cost of the related asset in the current period;
- (b) the amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the provision exceeds the carrying amount of the asset, the excess is recognized immediately in the consolidated statement of comprehensive income; and
- (c) if the adjustment results in an addition to the cost of an asset, the Group considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Group tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss, in accordance with IAS 36.

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

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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

The Group financial assets include cash and cash equivalents, short-term bank deposits, bonds receivable from the Parent Company, note receivable from associate, note receivable from a shareholder of a joint venture, loans due from related parties and trade accounts receivable.

***Subsequent measurement***

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



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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial assets (continued)***Subsequent measurement (continued)**Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the consolidated statement of financial position at fair value with net changes in fair value presented as finance costs or finance income through profit or loss.

The consolidated statement of financial position at fair value with changes in fair value recognized in finance income or finance costs in the consolidated statement of comprehensive income. Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IAS 39 is satisfied.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

The Group evaluated its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, these investments cannot reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Re-assessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized 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 of trade and other receivables are recognized in general and administrative expenses. The losses arising from impairment of loans receivable are recognized in finance costs.

*Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees 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 as finance costs.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial assets (continued)***Subsequent measurement (continued)**Available-for-sale financial investments*

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognised in other comprehensive income and credited in the available-for-sale revaluation reserve until the investment is derecognized, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale revaluation reserve to finance costs in the consolidated statement of comprehensive income. Interest earned whilst holding available-for-sale financial investments is reported as finance income using the EIR method.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognised in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of comprehensive income.

*Derecognition*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized 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 of consideration that the Group could be required to repay.

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

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

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred ‘loss event’), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortized cost*

For financial assets carried at amortized cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in current period expenses. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the consolidated statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. The present value of the estimated future cash flows is discounted at the financial asset’s original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

*Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. ‘Significant’ is evaluated against the original cost of the investment and ‘prolonged’ against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of comprehensive income – is removed from other comprehensive and recognised in profits or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in other comprehensive income.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial assets (continued)***Impairment of financial assets (continued)**Available-for-sale financial investments (continued)*

In the case of debt instruments classified as available-for-sale, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of comprehensive income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of comprehensive income, the impairment loss is reversed through profits or loss.

**Inventories**

Inventories are stated at the lower of cost and net realizable value on a first-in first-out (“FIFO”) basis. Cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition. The cost of crude oil and refined products is the cost of production, including the appropriate proportion of depreciation, depletion and amortization and overheads based on normal capacity. Net realizable value of crude oil and refined products is based on estimated selling price in the ordinary course of business less any costs expected to be incurred to complete the sale.

**Value added tax (VAT)**

The tax authorities permit the settlement of VAT on sales and purchases on a net basis. VAT receivable represents VAT on domestic purchases net of VAT on domestic sales. Export sales are zero rated.

**Cash and cash equivalents**

Cash and cash equivalents include cash in bank and cash on hand, demand deposits with banks with original maturities of 3 (three) months or less.

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

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group’s financial liabilities include trade and other payables, bank overdraft, loans and borrowings and derivative financial instruments.



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

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

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

*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.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in profit or loss.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

*Trade and other payables*

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the EIR.

*Loans and borrowings*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR. Gains and losses are recognized in the consolidated statement of comprehensive income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized 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 costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 (twelve) months after the reporting date. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs are recognized as an expense when incurred.

*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.

*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 recognized in profit or 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.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial liabilities (continued)***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 in an active market, the fair value is determined 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; a discounted cash flow analysis or other valuation models.

**Provisions**

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

*Provision for obligations to the Government*

The Government assigns various sponsorship and financing obligations to the Group. Management of the Group believes that such Government's assignments represent constructive obligations of the Group and require recognition on the basis of respective resolution of the Government. Furthermore, as the Government is the ultimate controlling party of the Group, the expenditures on these assignments are recognized as other distributions to the Shareholder directly in the equity.

**Employee benefits***Pension scheme*

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state – managed retirement benefit schemes are dealt with as defined contribution plans where the Group's obligations under the scheme are equivalent to those arising in a defined contribution retirement benefit plan.

*Long-term employee benefits*

The Group provides long-term employee benefits to employees before, on and after retirement, in accordance with the collective agreements between the Group entities and their employees. The collective agreement provides for certain one-off retirement payments, financial aid for employees' disability, anniversaries, funeral and other benefits. The entitlement to benefits is usually conditional on the employee remaining in service up to retirement age.

The expected costs of the benefits associated with one-off retirement payments are accrued over the period of employment using the same accounting methodology as used for defined benefit post-employment plans with defined payments upon the end of employment. Actuarial gains and losses arising in the year are taken to other comprehensive income. For this purpose, actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred. Other movements are recognised in the current period, including current service cost, any past service cost and the effect of any curtailments or settlements.

The most significant assumptions used in accounting for defined benefit obligations are discount rate and mortality assumptions. The discount rate is used to determine the net present value of future liabilities and each year the unwinding of the discount on those liabilities is charged to the consolidated statement of comprehensive income as finance costs. The mortality assumption is used to project the future stream of benefit payments, which is then discounted to arrive at a net present value of liabilities.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Employee benefits (continued)***Long-term employee benefits (continued)*

Employee benefits other than one-off retirement payments are considered as other long-term employee benefits. The expected cost of these benefits is accrued over the period of employment using the same accounting methodology as used for the defined benefit plan.

These obligations are valued by independent qualified actuaries on an annual basis.

**Revenue recognition**

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

*Sale of goods*

Revenue from the sale of crude oil, refined products, gas and other products is recognized when delivery has taken place and risks and rewards of ownership of the goods have passed to the buyer.

*Rendering of services*

Revenue from rendering of services, such as transportation, refining and oil support services, is recognized when the services have been performed.

*Interest income*

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

**Expense recognition**

Expenses are recognized as incurred and are reported in the consolidated financial statements in the period to which they relate on an accrual basis.

**Income taxes**

Income tax for the year comprises current income tax, excess profit tax and deferred tax.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of comprehensive income.

Excess profit tax (“EPT”) is treated as an income tax and forms part of income tax expense. In accordance with the applicable tax legislation, the Group accrues and pays EPT in respect of each subsoil use contract, at varying rates based on the ratio of aggregate annual income to deductions for the year for a particular subsoil use contract. The ratio of aggregate annual income to deductions in each tax year triggering the application of EPT is 1.25:1. EPT rates are applied to the part of the taxable income (taxable income after corporate income tax and allowable adjustments) related to each subsoil use contract in excess of 25% of the deductions attributable to each contract.

Deferred tax is calculated with respect to both corporate income tax (“CIT”) and EPT. Deferred EPT is calculated on temporary differences for assets allocated to subsoil use contracts at the expected rate of EPT to be paid under the contract.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Income taxes (continued)**

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

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

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

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized 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 income 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 income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of comprehensive income.

Deferred income tax assets and deferred income 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.

**Equity***Non-controlling interest*

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity of the Company's owners. Total comprehensive income is attributed to the Company's owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

*Share based payments*

Employees of some Group entities receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments of a subsidiary in which they are employed ('equity-settled transactions').

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined using an appropriate pricing model.



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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Equity (continued)***Share based payments (continued)*

The cost of equity-settled transactions is recognized, together with a corresponding increase in other equity reserves, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

*Dividends*

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorized for issue.

*Other distributions to the Shareholder*

Expenditures incurred by the Group based on the respective resolution of the Government or decision and instructions of Samruk-Kazyna are accounted for as other distributions through equity. Such expenditures include costs associated with non-core activity of the Group (construction of social assets) and acquisitions of investments.

**Subsequent events**

The results of post-year-end events that provide evidence of conditions that existed at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

**4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities and assets, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

**Oil and gas reserves**

Oil and gas reserves are a material factor in the Group's computation of depreciation, depletion and amortization expenses. The Group estimates its oil and gas reserves in accordance with the methodology of the Society of Petroleum Engineers ("SPE"). In estimating its reserves under SPE methodology, the Group uses long-term planning prices. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year-end spot prices. Management believes that long-term planning price assumptions, which are also used by management for their business planning and investment decisions are more consistent with the long-term nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves.

All reserve estimates involve some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

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

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**4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****Oil and gas reserves (continued)**

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub-classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability.

Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data, availability of new data, or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for Depreciation Depletion & Amortization (DD&A) in relation to oil and gas production assets. The Group has included in proved reserves only those quantities that are expected to be produced during the initial subsoil use contract period. This is due to the uncertainties surrounding the outcome of such renewal procedures, since the renewal is ultimately at the discretion of the Government. An increase in the Group's subsoil use contract periods and corresponding increase in reported reserves would generally lead to lower DD&A expense and could materially affect earnings. A reduction in proved developed reserves will increase DD&A expense (assuming constant production), reduce income and could also result in an immediate write-down of the property's book value. Given the relatively small number of producing fields, it is possible that any changes in reserve estimates year on year could significantly affect prospective charges for DD&A.

**Recoverability of oil and gas assets, downstream, refining and other assets**

The Group assesses assets or CGU for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term oil prices, discount rates, future capital requirements, operating performance (including production and sales volumes) that are subject to risk and uncertainty. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered to be impaired and is written down to its recoverable amount. In assessing recoverable amount the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is identified as the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general.

As at December 31, 2017 the Group did not carry out an assessment due to absence of impairment or impairment reversal indicators.

As at December 31, 2017 further decreased levels of drilling services provided and increases in inflation rate and cost of capital indicated that Group's cash generating units may be impaired. Therefore, for the year ended December 31, 2017 management has carried out a formal assessment of the recoverable amount of its assets. An impairment loss of 23,309,760 thousand tenge (Note 7), mainly related to property, plant and equipment of Oil Transport Corporation (OTC) and PNHZ was recognized in the consolidated financial statements.

OTC calculates recoverable amount using a discounted cash flow model. The discount rate from 12.77% to 16.01% was derived from the CGU's pre-tax weighted average cost of capital. The five-year business plans, which are approved on an annual basis, are the primary source of information. They contain forecasts of transport services volumes, revenues, costs and capital expenditure. Various assumptions such as tariff for the service and cost inflation rates take into account existing prices, foreign exchange rates, other macroeconomic factors and historical trends and variability. Most of the projections beyond the five-year period were inflated using available inflation estimates.

The Group performed its annual impairment test of Pavlodar oil chemistry refinery LLP (“PNHZ”) in December 2017 and 2016. The Group considers the forecast refinery margins and production volumes, among other factors, when reviewing for indicators of impairment. Before performing this test, the Group impaired specific work in progress that was not considered as part of PNHZ CGU (Note 10).

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

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**4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****Recoverability of oil and gas assets, downstream, refining and other assets (continued)**

PNHZ calculates recoverable amount using a discounted cash flow model. The discount rate was calculated on the weighted average cost of capital before taxes. The weighted average cost of capital takes into account both borrowed and own capital. The cost of equity is derived from the expected return on investment. The cost of debt capital is based on interest-bearing loans that PNHZ is obliged to maintain. The inherent risk was included by applying an individual beta factor. The beta factor was estimated based on the publicly available market data. Forecasted cash flows till to 2036 were based on five-years business plan of PNHZ till 2021, which assumes current management estimates on potential changes in operating and capital costs. The significant part of those cash flows after 2021 was forecasted by applying expected inflation rate, excluding capital costs, which are based on the best estimate of management as of valuation date.

As of December 31, 2017 the Group has material goodwill related to acquisitions of PNHZ (*Note 10*).

As at December 31, 2017 recoverable amount of PNHZ CGU amounted to 432,622,355 thousand tenge (in 2016: 315,402,461 thousand tenge). It was calculated based on fair value less costs to sell. The fair value less costs to sell calculation is based on a discounted cash flow model. Cash flows assume the highest and best use of assets by independent market participants, i.e. other companies of the same industry in the existing economic environment. The discount rate applied to the cash flow projections is 13.25% (in 2016: 11.58%), and cash flows beyond the five-year period are extrapolated using a 2.78% growth rate (in 2016: 4.99%).

Based on the results of impairment test no impairment of PNHZ goodwill was identified in 2017.

*Key assumptions used in calculating fair value less costs to sell*

The key assumptions used in calculating fair value less costs to sell use for PNHZ are as follows:

- volumes of crude oil and oil products output;
- capital expenditures for 2018-2036;
- price of crude oil and oil products;
- discount rates.

Volumes of crude oil and oil products output

Volumes of crude oil and oil products output – are the forecasts of PNHZ with respect to the output of oil products during processing one ton of crude oil before and after modernization of PNHZ.

Capital expenditures

Capital expenditures – costs: a) on reconstruction and modernization of PNHZ; b) necessary to maintain the current condition of the asset.

Prices of Crude oil and oil products in the local market

Prices of crude oil and oil products in the local market – the prices which are based on the assessment of the management of the Group's on purchase of crude oil from local oil producers and sales of oil products to local customers.

Discount rates

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the PNHZ and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by PNHZ investors. The cost of debt is based on the interest-bearing borrowings the PNHZ is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

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

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**4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****Recoverability of downstream, refining and other assets (continued)***Sensitivity to changes in assumptions*

Results of the assessment of recoverable amount of goodwill from acquisition of PNHZ are sensitive to changes in key assumptions, in particular, assumptions related to changes in WACC discount rates and target EBITDA in terminal period. Increase in discount rates by 1.0% from 13.25% to 14.25%, would result in recoverable amount of goodwill decrease by 40,369,592 thousand tenge. Decrease of target cash flow projections in terminal period by 5% from 23% to 18% would result in decrease of the recoverable value of goodwill for 3,993,727 thousand tenge.

**Assets retirement obligations***Oil and gas production facilities*

Under the terms of certain subsoil use contracts, legislation and regulations the Group has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Group's obligation relates to the ongoing closure of all non-producing wells and final closure activities such as removal of pipes, buildings and recultivation of the contract territories, and also obligations to dismantle and remove tangible assets and restore territory at each production site. Since the subsoil use contract terms cannot be extended at the discretion of the Group, the settlement date of the final closure obligations has been assumed to be the end of each subsoil use contract period. If the asset retirement obligations were to be settled at the end of the economic life of oil and gas field, the recorded obligation would increase significantly due to the inclusion of all abandonment and closure costs. The extent of the Group's obligations to finance the abandonment of wells and for final closure costs depends on the terms of the respective subsoil use contracts and current legislation.

Where neither subsoil use contracts nor legislation include an unambiguous obligation to undertake or finance such final abandonment and closure costs at the end of the subsoil use contract term, no liability has been recognized. There is some uncertainty and significant judgment involved in making such a determination. Management's assessment of the presence or absence of such obligations could change with shifts in policies and practices of the Government or in the local industry practice.

The Group calculates asset retirement obligations separately for each contract. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market.

At each reporting date the Group reviews site restoration provisions, and adjusts them to reflect the current best estimate in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*.

Estimating the future closure costs involves significant estimates and judgments by management. Most of these obligations are many years in the future and, in addition to ambiguities in the legal requirements, the Group's estimate can be affected by changes in asset removal technologies, costs and industry practice. Uncertainties related to the final closure costs are mitigated by the effects of discounting the expected cash flows. The Group estimates future well abandonment cost using current year prices and the average long-term inflation rate.

The long-term inflation and discount rates used to determine the obligation in the consolidated statement of financial position across the Group entities at December 31, 2017 were in the range from 2.01% to 5.57% and from 5.17% to 10.00%, respectively (2016: from 2.04% to 6.7% and from 5.5% to 10.15%). Movements in the provision for asset retirement obligations are disclosed in *Note 21*.

*Major oil and gas pipelines*

According to the Law of the Republic of Kazakhstan *On Major Pipelines* which was made effective on July 4, 2012 mainly the Group's two subsidiaries, JSC KazTransOil and Intergas Central Asia JSC, the subsidiary of KazTransGaz JSC, have legal obligation to decommission its major oil pipelines at the end of their operating life and to restore the land to its original condition. Asset retirement obligation is calculated based on estimate of the work to decommission and rehabilitate. As at December 31, 2017 the carrying amounts of the Group's asset retirement obligations relating to decommissioning of pipelines and land were 65,139,689 thousand tenge (December 31, 2016: 59,539,785 thousand tenge) (*Note 21*).

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

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**4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****Environmental remediation**

The Group also makes judgments and estimates in establishing provisions for environmental remediation obligations. Environmental expenditures are capitalized or expensed depending upon their future economic benefit. Expenditures that relate to an existing condition caused by past operations and do not have a future economic benefit are expensed.

Liabilities are determined based on current information about costs and expected plans for remediation and are recorded on an undiscounted basis if the timing of the procedures has not been agreed with the relevant authorities. The Group's environmental remediation provision represents management best estimate based on an independent assessment of the anticipated expenditure necessary for the Group to remain in compliance with the current regulatory regime in Kazakhstan and Europe. The Group has classified this obligation as non-current except for the portion of costs, included in the annual budget for 2017. For environmental remediation provisions, actual costs can differ from estimates because of changes in laws and regulations, public expectations, discovery and analysis of site conditions and changes in clean-up technology. Movements in the provision for environmental remediation obligations are disclosed in *Note 21*.

**Employee benefits**

The cost of defined long-term employee benefits before, on and after retirement and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases.

Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

**Taxation**

In assessing tax risks, management considers to be probable obligations the known areas of tax positions which the Group would not appeal or does not believe it could successfully appeal, if assessed by tax authorities. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, amendments to the taxation terms of the Group's subsoil use contracts, the determination of expected outcomes from pending tax proceedings and current outcome of ongoing compliance audits by tax authorities. The provision for tax risks disclosed under other provisions or provisions for taxes in *Note 21*. Further uncertainties related to taxation are disclosed in *Note 35*.

Taxable income is computed in accordance with the tax legislation enacted as at January 1, 2017. Deferred tax is calculated with respect to both CIT and EPT. Deferred CIT and EPT are calculated on temporary differences for assets and liabilities allocated to subsoil use contracts at the expected rates that were enacted by the tax authorities as at December 31, 2017.

Deferred tax assets are recognized for all allowances and unused tax losses to the extent that it is probable that taxable temporary differences and business nature of such expenses will be proved. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognized deferred tax assets as at December 31, 2017 was 65,135,777 thousand tenge (2016: 71,909,033 thousand tenge). Further details are disclosed in *Note 31*.

**Fair value of financial instruments**

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Further details are disclosed in *Note 33*.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****Operating lease commitments – the Group as lessee**

The Group has entered into office space and car leases. The Group has determined that the lessor retains all the significant risks and rewards of ownership of office spaces and cars and so accounts for them as operating leases in the consolidated financial statements

**Useful lives of property, plant and equipment**

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for prospectively as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

**Fair values of assets and liabilities acquired in business combinations**

The Group is required to recognize separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions.

**Discontinued operations**

In September 2015, the Group developed a new privatization plan which was subsequently approved by the Government in December 2015. The new privatization plan envisages sale of certain assets including 51% share in KMG International N.V. group (KMG I). On December 15, 2016, following this plan the Group signed share sale and purchase agreement (the SPA) to sell a 51% interest in KMG I. During 2017 all conditions precedent indicated in SPA were executed. On December 15, 2017, in order to maintain the previously agreed terms of the deal with the buyer, the Group signed an addendum to SPA and conditional act of transfer of shares of KMGI with an expectation to complete the transaction in June 2018.

The Group estimated fair value of the 51% share in KMG I at 680,000 thousand US dollars (equivalent of 225,984,400 thousand tenge).

The Group considered the subsidiary to meet the criteria to be classified as discontinued operations for the following reasons:

- KMG I is available for immediate sale and can be sold in its current condition;
- the actions to complete the sale were initiated and expected to be completed within one year.

Additional disclosures are provided in *Note 5*.

**5. DISCONTINUED OPERATIONS AND ASSETS CLASSIFIED AS HELD FOR SALE**

The assets and liabilities, classified as discontinued operations and assets classified as held for sale as at December 31, 2017 and the results for 2017 are as follows:

	December 31, 2017			
	Assets classified as held for sale	Liabilities directly associated with the assets classified as held for sale	Net assets directly associated with the disposal group	Profit/(loss) after income tax for 2017 from discontinued operation
<i>In thousands of tenge</i>				
KMG International N.V.	1,086,784,349	531,002,856	555,781,493	792,849,522
Other assets*	24,904,588	1,928,662	22,975,926	(3,666,118)
<b>Total</b>	<b>1,111,688,937</b>	<b>532,931,518</b>	<b>578,757,419</b>	<b>789,183,404</b>

\* Other assets include Kazakh British Technical University JSC (KBTU) and KMG Usturt LLP. The loss after tax include result from sale of 100% of shares of EurasiaAir JSC (Note 6).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****5. DISCONTINUED OPERATIONS AND ASSETS CLASSIFIED AS HELD FOR SALE (continued)**

The assets and liabilities, classified as discontinued operations and assets classified as held for sale as at December 31, 2016 and the results for 2016 are as follows:

<i>In thousands of tenge</i>	December 31, 2016		Net assets directly associated with the disposal group	Profit/(loss) after income tax for 2016 from discontinued operation
	Assets classified as held for sale	Liabilities directly associated with the assets classified as held for sale		
KMG International N.V.	1,014,948,431	550,226,128	464,722,303	368,199,241
Other assets*	43,845,645	13,658,153	30,187,492	(7,345,210)
<b>Total</b>	<b>1,058,794,076</b>	<b>563,884,281</b>	<b>494,909,795</b>	<b>360,854,031</b>

\* Other assets include EurasiaAir JSC, Kazakh British Technical University JSC (KBTU) and AZPM LLP.

**KMG International N.V. (KMG I)**

The results of KMG I for the years ended December 31, 2017 and 2016 are presented below:

<i>In thousands of tenge</i>	2017		2016	
	Before elimination	After elimination*	Before elimination	After elimination*
Revenue	2,724,172,080	2,334,927,450	1,943,293,716	1,695,688,049
Cost of sales	(2,594,154,170)	(1,416,186,062)	(1,833,990,709)	(1,193,961,256)
<b>Gross profit</b>	<b>130,017,910</b>	<b>918,741,388</b>	<b>109,303,007</b>	<b>501,726,793</b>
General and administrative expenses	(48,422,585)	(48,422,585)	(50,098,705)	(50,098,705)
Transportation and selling expenses	(60,408,688)	(60,408,688)	(59,423,245)	(59,423,245)
Impairment recognized on the re-measurement to fair value less costs to sell	(5,921,976)	(5,921,976)	(10,327,447)	(10,327,447)
Reversal/(impairment) of property, plant and equipment and intangible assets, other than goodwill	981,997	981,997	(3,982,106)	(3,982,106)
Other operating losses	(3,502,338)	(3,502,337)	(2,204,976)	(2,204,976)
<b>Operating profit</b>	<b>12,744,320</b>	<b>801,467,799</b>	<b>(16,733,472)</b>	<b>375,690,314</b>
Net foreign exchange loss	(128,297)	(128,297)	(2,272,190)	(2,272,190)
Finance income	838,557	838,557	452,245	452,245
Finance costs	(11,457,926)	(11,457,926)	(10,436,587)	(10,436,587)
Share in profit of joint ventures and associates, net	384,575	384,574	1,175,613	1,175,613
<b>Profit/(loss) before income tax for the year from discontinued operations</b>	<b>2,381,229</b>	<b>791,104,707</b>	<b>(27,814,391)</b>	<b>364,609,395</b>
Income tax benefit	1,744,815	1,744,815	3,589,846	3,589,846
<b>Profit/(loss) after income tax for the year from discontinued operations</b>	<b>4,126,044</b>	<b>792,849,522</b>	<b>(24,224,545)</b>	<b>368,199,241</b>

\* The results are presented after eliminations of intergroup transactions (for 2017: 389,244,630 thousand tenge of revenue and 1,177,968,108 thousand tenge of cost of sales; for 2016: 247,605,667 thousand tenge of revenue and 640,029,453 thousand tenge of cost of sales).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****5. DISCONTINUED OPERATIONS AND ASSETS CLASSIFIED AS HELD FOR SALE (continued)****KMG International N.V. (KMG I) (continued)**

The major classes of assets and liabilities of KMG I, classified as held for sale as at December 31, 2017 and 2016 are as follows:

<i>In thousands of tenge</i>	<b>2017*</b>	<b>2016*</b>
<b>Assets</b>		
Property, plant and equipment	559,864,830	585,545,785
Intangible assets	69,774,013	73,932,864
Investment in associate	13,278,245	12,644,023
Deferred tax asset	33,544,726	34,545,175
Inventories	141,471,552	115,234,684
Trade accounts receivable	161,542,624	128,944,234
Other non-current assets	3,373,814	2,949,283
Other current assets	30,103,448	36,148,634
Cash and cash equivalents	73,831,097	25,003,749
<b>Assets classified as held for sale</b>	<b>1,086,784,349</b>	<b>1,014,948,431</b>
<b>Liabilities</b>		
Borrowings	137,808,610	201,868,754
Deferred income tax liabilities	68,725,179	72,935,184
Provisions	53,136,243	50,706,074
Trade accounts payable	188,730,872	142,278,168
Other taxes payable	24,406,316	17,704,032
Other non-current liabilities	156,195	141,648
Other current liabilities	58,039,441	64,592,268
<b>Liabilities directly associated with the assets classified as held for sale</b>	<b>531,002,856</b>	<b>550,226,128</b>
<b>Net assets directly associated with the disposal group</b>	<b>555,781,493</b>	<b>464,722,303</b>

\* Assets and liabilities are presented after eliminations of intergroup transactions.

The net cash flows incurred by KMG I are as follows:

<i>In thousands of tenge</i>	<b>2017*</b>	<b>2016*</b>
Operating	145,378,203	57,998,062
Investing	(33,401,027)	(34,273,788)
Financing	(63,997,439)	(32,809,432)
<b>Net cash inflows/(outflows)</b>	<b>47,979,737</b>	<b>(9,085,158)</b>

\* Cash flows are presented before eliminations of intergroup transactions.

As at December 31, 2017, items of property, plant and equipment with the net book value of 346,416,024 thousand tenge related to discontinued operations (2016: 372,054,627 thousand tenge) were pledged as collateral to secure borrowings and payables of KMG I.

As at December 31, 2017 KMG I has pledged trade accounts receivable and inventory of approximately 58,115,548 thousand tenge and 111,843,564 thousand tenge, respectively, as a collateral under its borrowings (2016: 87,648,449 thousand tenge and 72,640,966 thousand tenge) related to discontinued operations.

As at December 31, 2017 the initial cost and correspondingly accumulated depreciation of fully depreciated but still in use property, plant and equipment were 201,459,026 thousand tenge (2016: 174,340,401 thousand tenge).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****6. LOSS OF CONTROL**

On November 8, 2017 Company completed the sale of 100% of shares of EurasiaAir JSC, which was classified as discontinued operations, for 11,850,000 thousand tenge.

At the date of loss of control net assets of EurasiaAir JSC were as follows:

<i>In thousands of tenge</i>	<b>Net assets at the date of disposal</b>
Property, plant and equipment	10,367,360
Intangible assets	41,901
Trade accounts receivable	2,824,184
Cash	3,339,751
Other current assets	706,204
	<b>17,279,400</b>
Deferred income tax liabilities	2,381,767
Trade accounts payable	2,306,514
Current liabilities	752,353
	<b>5,440,634</b>
<b>Net assets</b>	<b>11,838,766</b>

The resulting gain on disposal of investment amounted to 11,234 thousand tenge and was included into the profit from discontinued operations.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 7. PROPERTY, PLANT AND EQUIPMENT

<i>In thousands of tenge</i>	Oil and gas assets	Pipelines	Refinery assets	Buildings and improvements	Machinery and equipment	Vehicles	Other	Capital work in progress	Total
<b>Net book value as at December 31, 2015 (restated)</b>	879,613,848	606,283,140	247,532,399	184,750,124	260,127,436	76,049,925	23,825,549	383,160,263	2,661,342,684
Foreign currency translation	(10,971,334)	–	–	(1,432,872)	(417,878)	(750,283)	(285,909)	98,148	(13,760,128)
Change in estimate	(8,500,916)	(6,079,200)	–	(53,279)	–	–	–	–	(14,633,395)
Additions	83,804,363	2,590,183	692,596	2,288,823	6,554,473	2,536,240	5,060,421	422,448,504	525,975,603
Additions on finance lease	–	–	871,933	–	–	–	–	–	871,933
Disposals	(5,646,977)	(1,734,827)	(1,377,061)	(1,301,727)	(1,893,889)	(4,340,763)	(2,203,070)	(14,650,326)	(33,148,440)
Depreciation charge	(67,800,045)	(22,759,956)	(26,768,931)	(17,306,955)	(26,465,714)	(7,973,698)	(5,998,828)	–	(175,074,127)
Accumulated depreciation and impairment on disposals	5,587,411	1,665,595	917,594	611,453	1,707,023	4,159,902	1,965,237	3,252,309	19,866,524
(Impairment) / reversal of impairment (Note 28)	1,113,617	(1,206,581)	–	405,314	(641,489)	(918,887)	(544,666)	(1,457,438)	(3,250,130)
Transfers to discontinued operations	(84,640)	–	–	(4,203,451)	(926,578)	(150,232)	(2,018,896)	(4,135,805)	(11,519,602)
Transfers from inventory, net	15,838	489,059	155,774	1,246	81,689	30,694	19,292	1,297,315	2,090,907
Transfer to assets held for sale, net	(19,911)	–	(17,055)	(113,630)	(2,076)	(210,124)	(203)	–	(362,999)
Transfers (to)/from investment property (Note 9)	–	–	–	(200,042)	(363)	–	967	–	(199,438)
Transfers (to)/from intangible assets, net (Note 10)	1,915	–	–	–	–	–	–	(695,965)	(694,050)
Transfer to exploration and evaluation assets (Note 8)	(3,446,255)	–	–	–	–	–	–	(923,422)	(4,369,677)
Transfers and reclassifications	3,966,096	64,031,658	93,630,122	48,909,084	39,723,354	1,189,883	13,589,517	(265,019,514)	–
<b>Net book value as at December 31, 2016</b>	<b>877,633,010</b>	<b>643,279,071</b>	<b>315,637,371</b>	<b>212,354,088</b>	<b>277,846,188</b>	<b>69,602,457</b>	<b>33,409,411</b>	<b>523,374,069</b>	<b>2,953,135,665</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 7. PROPERTY, PLANT AND EQUIPMENT (continued)

<i>In thousands of tenge</i>	Oil and gas assets	Pipelines	Refinery assets	Buildings and improvements	Machinery and equipment	Vehicles	Other	Capital work in progress	Total
<b>Net book value as at December 31, 2016</b>	877,633,010	643,279,071	315,637,371	212,354,088	277,846,188	69,602,457	33,409,411	523,374,069	2,953,135,665
Foreign currency translation	(2,413,467)	–	–	(395,815)	413,356	(98,328)	192,521	(413,504)	(2,715,237)
Change in estimate	247,396	(199,915)	–	(4,855)	–	–	–	–	42,626
Additions	27,176,012	16,878,787	297,455	8,086,249	6,334,531	8,087,416	2,684,947	531,171,597	600,716,994
Disposals	(17,371,754)	(1,153,877)	(2,647,246)	(4,304,287)	(3,035,202)	(1,423,630)	(2,846,129)	(1,458,232)	(34,240,357)
Depreciation charge	(62,017,598)	(23,892,749)	(32,550,787)	(16,018,534)	(28,137,845)	(7,845,341)	(5,169,968)	–	(175,632,622)
Accumulated depreciation and impairment on disposals	14,880,689	858,685	2,517,354	4,033,279	2,433,160	1,259,612	2,671,583	760,282	29,414,644
Impairment (Note 28)	–	(1,321)	–	(1,343,255)	(1,431,137)	(1,907,846)	(947,310)	(17,678,891)	(23,309,760)
Transfers (to)/from inventory, net	(1,688)	(52,019)	13,086,516	1,060	34,440	240	1,278	166,149	13,235,976
Transfer to discontinued operations and assets held for sale, net	(170,291)	–	(3,908,276)	(3,553,089)	(242,126)	(123,814)	(97,736)	(60)	(8,095,392)
Transfers to investment property (Note 9)	–	–	–	(251,422)	(13,059)	–	(746)	(357,143)	(622,370)
Transfers (to)/from intangible assets, net (Note 10)	(210,414)	–	–	–	–	–	1,577	(1,507,120)	(1,715,957)
Transfer from exploration and evaluation assets (Note 8)	8,880,580	–	–	–	–	–	–	–	8,880,580
Transfers and reclassifications	82,273,967	104,461,699	194,362,603	14,756,917	98,323,465	5,664,728	3,352,591	(503,195,970)	–
<b>Net book value as at December 31, 2017</b>	<b>928,906,442</b>	<b>740,178,361</b>	<b>486,794,990</b>	<b>213,360,336</b>	<b>352,525,971</b>	<b>73,215,494</b>	<b>33,252,019</b>	<b>530,861,177</b>	<b>3,359,094,790</b>
At cost	1,895,494,619	897,214,797	670,697,037	361,025,155	567,043,377	172,744,554	82,087,998	572,214,596	5,218,522,133
Accumulated depreciation and impairment	(966,588,177)	(157,036,436)	(183,902,047)	(147,664,819)	(214,517,406)	(99,529,060)	(48,835,979)	(41,353,419)	(1,859,427,343)
<b>Net book value as at December 31, 2017</b>	<b>928,906,442</b>	<b>740,178,361</b>	<b>486,794,990</b>	<b>213,360,336</b>	<b>352,525,971</b>	<b>73,215,494</b>	<b>33,252,019</b>	<b>530,861,177</b>	<b>3,359,094,790</b>
At cost	1,796,687,457	776,793,501	473,343,599	350,113,598	466,840,617	161,145,408	79,902,688	547,812,419	4,652,639,287
Accumulated depreciation and impairment	(919,054,447)	(133,514,430)	(157,706,228)	(137,759,510)	(188,994,429)	(91,542,951)	(46,493,277)	(24,438,350)	(1,699,503,622)
<b>Net book value as at December 31, 2016</b>	<b>877,633,010</b>	<b>643,279,071</b>	<b>315,637,371</b>	<b>212,354,088</b>	<b>277,846,188</b>	<b>69,602,457</b>	<b>33,409,411</b>	<b>523,374,069</b>	<b>2,953,135,665</b>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****7. PROPERTY, PLANT AND EQUIPMENT (continued)**

In 2017, the Group capitalized in the carrying amount of property, plant and equipment borrowing costs at the average interest rate of 3.36% in the amount of 29,962,865 thousand tenge which are related to the construction of assets (2016: 28,515,460 thousand tenge at the average interest rate of 2.42%).

As at December 31, 2017, items of property, plant and equipment with the net book value of 594,020,576 thousand tenge (2016: 483,908,126 thousand tenge) were pledged as collateral to secure borrowings and payables of the Group.

Additions to capital work in progress are mainly related to capital repair of main gas pipelines of Intergas Central Asia JSC, the subsidiary of KTG, development drilling at Ozenmunaigas and Embamunaigas subsidiaries and modernization projects of the Group refineries located in Atyrau and Pavlodar.

As at December 31, 2017 the cost of fully depreciated but still in use property, plant and equipment were 88,901,167 thousand tenge (2016: 81,065,726 thousand tenge).

**Impairment of property, plant and equipment**

In 2017, the Group recorded net impairment loss of 23,309,760 thousand tenge, which is mainly attributable to impairment of capital work in progress of PNHZ in the amount of 15,226,880 thousand tenge associated with change in configuration of modernization project and impairment of property, plant and equipment of OTC in the amount of 5,039,820 thousand tenge (*Note 4*).

In 2016, the Group recorded net impairment loss of 3,250,130 thousand tenge, which is mainly attributable to impairment of property, plant and equipment of ANS in the amount of 3,036,355 thousand tenge.

**8. EXPLORATION AND EVALUATION ASSETS**

<i>In thousands of tenge</i>	<b>Tangible</b>	<b>Intangible</b>	<b>Total</b>
<b>Net book value as at December 31, 2015</b>	169,094,278	39,431,785	208,526,063
Foreign currency translation	(677,712)	(339,900)	(1,017,612)
Additions	21,130,985	3,484,421	24,615,406
Transfer from property, plant and equipment ( <i>Note 7</i> )	4,369,677	–	4,369,677
Disposals	(18,734)	(4,857,647)	(4,876,381)
Change in estimate	(63,985)	–	(63,985)
<b>Net book value as at December 31, 2016</b>	<b>193,834,509</b>	<b>37,718,659</b>	<b>231,553,168</b>
Foreign currency translation	(94,631)	(52,800)	(147,431)
Additions	33,075,420	344,512	33,419,932
Transfer to property, plant and equipment ( <i>Note 7</i> )	(8,880,580)	–	(8,880,580)
Disposals	(104,945)	(557,243)	(662,188)
Transfers to discontinued operations and assets held for sale, net	–	(1,030,477)	(1,030,477)
Impairment ( <i>Note 28</i> )	(802,687)	(10,761)	(813,448)
Change in estimate	(112,876)	–	(112,876)
Transfers and reclassifications	(1,261,185)	1,261,185	–
<b>Net book value as at December 31, 2017</b>	<b>215,653,025</b>	<b>37,673,075</b>	<b>253,326,100</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****8. EXPLORATION AND EVALUATION ASSETS (continued)**

As at December 31, 2017 and 2016 the exploration and evaluation assets are represented by the following projects:

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
Project N	<b>85,093,174</b>	84,350,943
Pearls	<b>35,069,407</b>	34,328,596
Zhambyl	<b>33,396,110</b>	31,946,639
Urikhtau	<b>27,685,604</b>	30,326,087
Satpayev	<b>33,791,001</b>	14,653,706
Other	<b>38,290,804</b>	35,947,197
	<b>253,326,100</b>	231,553,168

Exploration costs on Pearls and Satpayev projects are financed by project partners other than the Group. Respective financial liabilities are recognized within borrowings (Note 19). The repayment of the financing for these projects depends on the identification of commercially recoverable reserves.

**9. INVESTMENT PROPERTY**

<i>In thousands of tenge</i>	<b>Total</b>
<b>Net book value as at December 31, 2015</b>	29,260,917
Additions	565,862
Depreciation charge	(722,174)
Disposals	(47)
Transfers from assets classified as held for sale	174,243
Transfer from property, plant and equipment (Note 7)	199,438
Transfers from inventory	1,805
<b>Net book value as at December 31, 2016</b>	29,480,044
Depreciation charge	(703,010)
Disposals	(233,132)
Impairment (Note 28)	(1,518,344)
Transfers to assets classified as held for sale	(224,703)
Transfer from property, plant and equipment (Note 7)	622,370
<b>Net book value as at December 31, 2017</b>	<b>27,423,225</b>
At cost	<b>32,473,275</b>
Accumulated depreciation and impairment	<b>(5,050,050)</b>
<b>Net book value as at December 31, 2017</b>	<b>27,423,225</b>
At cost	32,589,798
Accumulated depreciation and impairment	(3,109,754)
<b>Net book value as at December 31, 2016</b>	29,480,044

Investment property is mainly represented by Emerald Quarter office building leased under operating lease terms. The management of the Group believes that as at December 31, 2017 the fair value of this building is 24,219,173 thousand tenge (2016: 26,723,865 thousand tenge). The fair value of investment property was based on the market price of the office property (Note 33).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****10. INTANGIBLE ASSETS**

<i>In thousands of tenge</i>	<b>Goodwill</b>	<b>Software</b>	<b>Other</b>	<b>Total</b>
<b>Net book value as at December 31, 2015</b>	90,003,639	11,013,606	18,928,126	119,945,371
Foreign currency translation	–	(1,164)	(1,396,052)	(1,397,216)
Additions	–	2,474,012	511,244	2,985,256
Disposals	–	(2,357,734)	(477,764)	(2,835,498)
Amortization charge	–	(3,620,391)	(1,936,237)	(5,556,628)
Accumulated amortization and impairment on disposals	–	2,343,001	452,278	2,795,279
Impairment	–	(32,549)	–	(32,549)
Transfer from property, plant and equipment, net ( <i>Note 7</i> )	–	691,448	2,602	694,050
Transfers to discontinued operations	–	(100,373)	(9,080)	(109,453)
Transfers and reclassifications	–	8,236	(8,236)	–
<b>Net book value as at December 31, 2016</b>	90,003,639	10,418,092	16,066,881	116,488,612
Foreign currency translation	–	(53,462)	125,676	72,214
Additions	–	2,296,273	728,041	3,024,314
Disposals	–	(830,439)	(208,287)	(1,038,726)
Amortization charge	–	(3,681,446)	(1,961,809)	(5,643,255)
Accumulated amortization and impairment on disposals	–	353,851	192,529	546,380
Transfers (to)/from inventory, net	–	(47)	265,965	265,918
Transfer from property, plant and equipment, net ( <i>Note 7</i> )	–	1,083,277	632,680	1,715,957
Transfers and reclassifications	–	91,996	(91,996)	–
<b>Net book value as at December 31, 2017</b>	90,003,639	9,678,095	15,749,680	115,431,414
At cost	125,324,547	37,842,270	23,833,222	187,000,039
Accumulated amortization and impairment	(35,320,908)	(28,164,175)	(8,083,542)	(71,568,625)
<b>Net book value as at December 31, 2017</b>	90,003,639	9,678,095	15,749,680	115,431,414
At cost	126,946,769	33,487,005	24,072,716	184,506,490
Accumulated amortization and impairment	(36,943,130)	(23,068,913)	(8,005,835)	(68,017,878)
<b>Net book value as at December 31, 2016</b>	90,003,639	10,418,092	16,066,881	116,488,612

Carrying amount of goodwill is allocated to each of the group of cash-generating units as follows:

<b>Cash-generating unit</b>	<b>2017</b>	<b>2016</b>
Cash-generating units of PNHZ	88,553,296	88,553,296
Gas stations	1,450,343	1,450,343
<b>Total goodwill</b>	<b>90,003,639</b>	<b>90,003,639</b>

**PNHZ**

In 2017 and 2016, based on the impairment test results, no impairment of PNHZ goodwill was recognized.

For the detailed discussion of testing goodwill for impairment refer to *Note 4*.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****11. BANK DEPOSITS**

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
Denominated in US dollar	<b>1,656,762,879</b>	1,202,060,798
Denominated in tenge	<b>28,228,345</b>	28,256,972
Denominated in other currency	<b>2,472,452</b>	2,378,825
	<b>1,687,463,676</b>	1,232,696,595

As at December 31, 2017, the weighted average interest rate for long-term bank deposits was 1.07% in US dollars and 2.29% in tenge, respectively (2016: 1.16% in US dollars and 4.87% in tenge, respectively).

As at December 31, 2017, the weighted average interest rate for short-term bank deposits was 1.65% in US dollars, 7.51% in tenge and 0.65% in other foreign currencies, respectively (2016: 1.84% in US dollars, 12.13% in tenge and 0.36% in other foreign currencies, respectively).

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
Maturities under 1 year	<b>1,638,940,642</b>	1,182,669,493
Maturities between 1 and 2 years	<b>835,902</b>	178,088
Maturities over 2 years	<b>47,687,132</b>	49,849,014
	<b>1,687,463,676</b>	1,232,696,595

As at December 31, 2017 bank deposits include mainly cash pledged as collateral of 62,072,850 thousand tenge (2016: 108,695,345 thousand tenge), which are represented mainly by 14,903,887 thousand tenge (2016: 63,718,200 thousand tenge) pledged with SB Sberbank Russia JSC until execution of obligations (March 1, 2018) by Atyrau Oil Refinery LLP (ANPZ) on loans received from this bank on construction of the deep oil processing plant at Atyrau Oil Refinery and 32,100,440 thousand tenge (2016: 33,276,000 thousand tenge) at restricted bank accounts designated as a liquidation fund per requirements of subsoil use contracts.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES**

In thousands of tenge	Main activity	Place of business	December 31, 2017		December 31, 2016	
			Carrying value	Percentage ownership	Carrying value	Percentage ownership
<b>Joint ventures</b>						
Kashagan B.V.	Oil and gas exploration and production	Kazakhstan	1,743,495,073	50.00%	1,759,152,117	50.00%
Tengizchevroil LLP	Oil and gas exploration and production	Kazakhstan	1,353,084,254	20.00%	1,154,183,137	20.00%
Mangistau Investments B.V.	Oil and gas development and production	Kazakhstan	135,780,525	50.00%	191,813,452	50.00%
Ural Group Limited BVI	Oil and gas exploration and production	Kazakhstan	78,031,456	50.00%	72,898,443	50.00%
KazGerMunay LLP	Oil and gas exploration and production	Kazakhstan	47,537,370	50.00%	71,109,842	50.00%
Valsera Holding BV	Oil refining	Kazakhstan	36,736,906	50.00%	27,044,986	50.00%
KazRosGas LLP	Processing and sale of natural gas and refined gas products	Kazakhstan	33,760,512	50.00%	79,658,348	50.00%
Kazakhoil-Aktobe LLP	Production of crude oil	Kazakhstan	22,715,643	50.00%	39,503,663	50.00%
Beineu-Shymkent Pipeline LLP	Construction and operation of the gas pipeline	Kazakhstan	17,700,751	50.00%	–	50.00%
Teniz Services LLP	Design, construction and operation of infrastructure facilities, support of offshore oil operations	Kazakhstan	6,134,421	48.996%	6,195,807	48.996%
Other			22,648,911		21,839,079	
<b>Associates</b>						
PetroKazakhstan Inc. ("PKI")	Exploration, production and processing of oil and gas	Kazakhstan	115,920,426	33.00%	144,252,432	33.00%
Caspian Pipeline Consortium (CPC)	Transportation of liquid hydrocarbons	Kazakhstan / Russia	195,094,592	20.75%	137,035,180	20.75%
Other			1,710,501		1,590,324	
			3,810,351,341		3,706,276,810	

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)**

All of the above joint ventures and associates are strategic for the Group’s business.

As at December 31, 2017, the Group’s share in unrecognized losses of joint ventures and associates was equal to 175,622,640 thousand tenge (December 31, 2016: 357,813,869 thousand tenge). The Group’s change in share of unrecognized losses of joint ventures and associates for 2017 was 182,191,229 thousand tenge (2016: 174,756,859 thousand tenge).

The following table summarizes the movements in the investments in 2017 and 2016:

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
<b>At January 1</b>	<b>3,706,276,810</b>	3,422,939,745
Share in profits of joint ventures and associates, net ( <i>Note 30</i> )	<b>414,565,236</b>	270,190,990
Additional contributions without change in ownership	–	165,401,066
Refund of contributions without change in ownership	<b>(1,714,856)</b>	(1,925,543)
Dividends received	<b>(271,782,500)</b>	(118,607,550)
Change in dividends receivable	<b>(39,889,075)</b>	10,160,358
Adjustment of unrealized income*	<b>(20,722,048)</b>	–
Acquisitions	<b>2,625</b>	87
Reversal/(impairment) of investments	<b>14,845,359</b>	(5,503,379)
Other changes in the equity of the joint venture	<b>10,629,606</b>	8,475,525
Transfers to assets classified as held for sale	<b>(66,899)</b>	–
Foreign currency translation	<b>(1,792,917)</b>	(44,854,489)
<b>At December 31</b>	<b>3,810,351,341</b>	3,706,276,810

\* *Adjustment of unrealized income represents elimination of unrealized profit from sale of inventory from the Group to JV made by the Group when using the equity method.*

In 2016, additional contributions without change in ownership mainly relates to the cash calls for Kashagan project (159,758,211 thousand tenge or 469,556 thousand US dollars).



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)**

The following tables illustrate summarized financial information of material joint ventures, based on financial statements of these entities for 2017:

<i>In thousands of tenge</i>	<b>KMG Kashagan B.V.</b>	<b>Tengizchevroil LLP</b>	<b>Mangistau Investments B.V.</b>	<b>Ural Group Limited BVI</b>	<b>KazGerMunay LLP</b>	<b>Valsera Holding BV</b>
Non-current assets	4,181,690,783	8,719,901,854	393,188,438	219,833,754	131,809,168	417,762,488
Current assets, including	172,993,385	1,527,676,810	66,799,332	57,066	46,380,639	55,449,428
Cash and cash equivalents	49,409,827	748,523,476	3,090,429	48,894	37,913,868	17,662,733
Non-current liabilities, including	(563,262,794)	(2,507,495,652)	(66,129,352)	(63,640,210)	(28,691,378)	(210,750)
Non-current financial liabilities	–	(1,329,320,000)	–	(54,732,538)	–	–
Current liabilities, including	(304,431,229)	(974,661,744)	(122,297,369)	(187,698)	(54,423,690)	(399,527,354)
Current financial liabilities	(272,147,696)	(31,718,905)	–	–	–	(327,331,592)
<b>Equity</b>	<b>3,486,990,145</b>	<b>6,765,421,268</b>	<b>271,561,049</b>	<b>156,062,912</b>	<b>95,074,739</b>	<b>73,473,812</b>
Share of ownership	50%	20%	50%	50%	50%	50%
<b>Carrying amount of the investments as at December 31, 2017</b>	<b>1,743,495,073</b>	<b>1,353,084,254</b>	<b>135,780,525</b>	<b>78,031,456</b>	<b>47,537,370</b>	<b>36,736,906</b>
Revenue	183,119,424	4,357,947,405	635,902,730	7,806	184,616,262	60,807,978
Depreciation, depletion and amortization	(90,257,871)	(560,816,868)	(62,190,091)	(19,797)	(34,072,143)	(5,026,754)
Finance income	1,024,605	22,006,884	125,989	16,556	1,306,260	411,019
Finance costs	(36,556,637)	(127,134,154)	(5,787,751)	(1,890,789)	(1,014,422)	(65,961)
Income tax expense	(3,749,814)	(621,385,125)	(34,036,342)	(690,912)	(53,071,478)	(4,373,083)
<b>Profit/(loss) for the year from continuing operations</b>	<b>(20,416,709)</b>	<b>1,449,898,428</b>	<b>99,210,060</b>	<b>(3,754,422)</b>	<b>35,426,899</b>	<b>19,501,556</b>
Other comprehensive (loss)/income	(10,897,380)	7,517,157	(228,950)	(218,852)	(664,344)	(117,716)
<b>Total comprehensive income/(loss)</b>	<b>(31,314,089)</b>	<b>1,457,415,585</b>	<b>98,981,110</b>	<b>(3,973,274)</b>	<b>34,762,555</b>	<b>19,383,840</b>
Dividends received	–	79,694,300	105,523,482	–	40,445,243	2,377,123

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)**

The following tables illustrate summarized financial information of material joint ventures, based on financial statements of these entities for 2017:

<i>In thousands of tenge</i>	<b>KazRosGas LLP</b>	<b>KazakhOil-Aktobe LLP</b>	<b>Beineu-Shymkent Pipeline LLP</b>	<b>TenizService LLP</b>	<b>Asia Gas Pipeline LLP (AGP)</b>
Non-current assets	27,017,765	49,853,017	442,256,509	514,174,591	1,572,551,905
Current assets, including	150,968,308	19,768,150	139,271,512	72,382,243	519,332,547
Cash and cash equivalents	30,876,542	6,003,873	71,938,622	4,636,467	9,069,756
Non-current liabilities, including	–	(7,430,578)	(464,526,731)	(419,764,043)	(2,058,444,374)
Non-current financial liabilities	–	–	(457,760,112)	(12,536,470)	(2,015,735,146)
Current liabilities, including	(89,020,954)	(16,759,302)	(110,972,112)	(154,272,542)	(331,505,536)
Current financial liabilities	–	(6,847,436)	(91,094,674)	(7,290,228)	(297,653,555)
<b>Equity</b>	<b>108,965,119</b>	<b>45,431,287</b>	<b>6,029,178</b>	<b>12,520,249</b>	<b>(298,065,458)</b>
Share of ownership	50%	50%	50%	48.996%	50%
Accumulated unrecognized share of losses	–	–	–	–	149,032,729
Consolidation adjustments	(20,722,048)	–	14,686,162	–	–
<b>Carrying amount of the investments as at December 31, 2017</b>	<b>33,760,512</b>	<b>22,715,643</b>	<b>17,700,751</b>	<b>6,134,421</b>	<b>–</b>
Revenue	243,526,652	56,046,725	79,096,648	3,466,618	587,428,795
Depreciation, depletion and amortization	(638,139)	(17,062,183)	(13,235,308)	(378,038)	(64,332,618)
Finance income	2,488,969	212,438	20,952	38,606	3,757,049
Finance costs	(13,361,780)	(2,472,632)	(24,649,158)	(116,278)	(86,077,312)
Income tax expense	(11,906,811)	2,415,969	–	(645,283)	(89,287,214)
<b>Profit/(loss) for the year from continuing operations</b>	<b>17,244,090</b>	<b>(33,576,039)</b>	<b>38,484,528</b>	<b>3,374,702</b>	<b>269,647,198</b>
Other comprehensive (loss)/income	(1,939,339)	–	–	–	–
<b>Total comprehensive income/(loss)</b>	<b>15,304,751</b>	<b>(33,576,039)</b>	<b>38,484,528</b>	<b>3,374,702</b>	<b>269,647,198</b>
Change in unrecognized share of losses	–	–	19,910,964	–	134,823,599
Dividends received	18,647,418	–	–	–	–

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)**

The following tables illustrate summarized financial information of material joint ventures, based on financial statements of these entities for 2016:

<i>In thousands of tenge</i>	<b>KMG Kashagan B.V.</b>	<b>Tengizchevroil LLP</b>	<b>Mangistau Investments B.V.</b>	<b>Ural Group Limited BVI</b>	<b>KazGerMunay LLP</b>	<b>Valsera Holding BV</b>
Non-current assets	4,272,763,806	6,865,450,041	395,489,866	215,892,000	152,790,499	236,339,155
Current assets, including	174,986,584	2,424,218,478	95,375,850	310,850	50,846,056	91,231,530
Cash and cash equivalents	86,451,093	1,795,549,215	3,870,651	297,396	39,694,839	76,650,503
Non-current liabilities, including	(601,418,805)	(2,456,711,253)	(65,632,702)	(68,663,338)	(27,510,090)	(227,305,975)
Non-current financial liabilities	(250,522,762)	(1,333,160,000)	–	(57,970,000)	–	–
Current liabilities, including	(328,027,351)	(1,062,041,583)	(41,606,110)	(1,742,626)	(33,906,781)	(46,174,738)
Current financial liabilities	(271,597,355)	(34,823,472)	–	–	–	–
<b>Equity</b>	<b>3,518,304,234</b>	<b>5,770,915,683</b>	<b>383,626,904</b>	<b>145,796,886</b>	<b>142,219,684</b>	<b>54,089,972</b>
Share of ownership	50%	20%	50%	50%	50%	50%
<b>Carrying amount of the investments as at December 31, 2016</b>	<b>1,759,152,117</b>	<b>1,154,183,137</b>	<b>191,813,452</b>	<b>72,898,443</b>	<b>71,109,842</b>	<b>27,044,986</b>
Revenue	16,419,924	3,568,833,894	532,016,705	39,899	157,268,631	52,340,852
Depreciation, depletion and amortization	(10,493,810)	(453,762,627)	(55,342,813)	(29,672)	(36,325,000)	(4,465,956)
Finance income	903,219	9,238,666	52,201	17,221	946,000	328,489
Finance costs	(40,494,823)	(172,523,889)	(4,942,864)	(1,652,398)	(1,231,000)	(46,426)
Income tax benefit/(expense)	58,587,222	(316,950,160)	(20,804,933)	(187,093)	(19,873,000)	(7,230,337)
<b>Profit/(loss) for the year from continuing operations</b>	<b>15,451,774</b>	<b>739,551,980</b>	<b>59,532,404</b>	<b>(3,155,114)</b>	<b>10,259,065</b>	<b>20,828,376</b>
Other comprehensive (loss)/income	(66,056,550)	(109,061,451)	(294,736)	(2,751,222)	(2,644,700)	40,452
<b>Total comprehensive (loss)/income</b>	<b>(50,604,776)</b>	<b>630,490,529</b>	<b>59,237,668</b>	<b>(5,906,336)</b>	<b>7,614,365</b>	<b>20,868,828</b>
Dividends received	–	–	44,347,360	–	27,514,925	–

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)**

The following tables illustrate summarized financial information of material joint ventures, based on financial statements of these entities for 2016:

<i>In thousands of tenge</i>	<b>KazRosGas LLP</b>	<b>Kazakhoil-Aktobe LLP</b>	<b>Beineu-Shymkent Pipeline LLP</b>	<b>Tenizservice LLP</b>	<b>Asia Gas Pipeline LLP (AGP)</b>
Non-current assets	9,641,413	85,936,432	449,074,109	257,098,119	1,691,909,542
Current assets, including	244,478,957	28,462,628	115,813,128	31,907,475	529,037,901
Cash and cash equivalents	62,379,300	10,749,817	56,148,742	6,423,515	64,862,965
Non-current liabilities, including	(454,608)	(7,586,856)	(474,773,724)	(242,533,551)	(2,466,567,228)
Non-current financial liabilities	–	–	(467,117,974)	11,655,148	(2,433,422,400)
Current liabilities, including	(94,349,066)	(27,804,878)	(129,935,447)	(33,826,507)	(322,092,871)
Current financial liabilities	–	–	(11,384,051)	4,558,879	(281,792,538)
<b>Equity</b>	<b>159,316,696</b>	<b>79,007,326</b>	<b>(39,821,934)</b>	<b>12,645,536</b>	<b>(567,712,656)</b>
Share of ownership	50%	50%	50%	48.996%	50%
Accumulated unrecognized share of losses	–	–	19,910,968	–	283,856,328
<b>Carrying amount of the investments as at December 31, 2016</b>	<b>79,658,348</b>	<b>39,503,663</b>	<b>–</b>	<b>6,195,807</b>	<b>–</b>
Revenue	231,655,238	54,593,234	33,827,305	3,304,883	551,219,060
Depreciation, depletion and amortization	(717,333)	(16,043,932)	(9,378,998)	(385,920)	(59,269,618)
Finance income	6,256,417	524,548	24	17,777	3,949,093
Finance costs	(100,133)	(1,006,373)	(11,103,332)	(2,806)	(85,771,582)
Income tax benefit/(expense)	(14,443,039)	(12,179,837)	–	(479,326)	(80,881,044)
<b>Profit/(loss) for the year from continuing operations</b>	<b>37,294,835</b>	<b>(23,070,957)</b>	<b>14,989,344</b>	<b>2,756,175</b>	<b>304,750,874</b>
Other comprehensive (loss)/income	(285,886)	–	–	–	–
<b>Total comprehensive (loss)/income</b>	<b>37,008,949</b>	<b>(23,070,957)</b>	<b>14,989,344</b>	<b>2,756,175</b>	<b>304,750,874</b>
Change in unrecognized share of losses	–	–	10,947,110	–	152,375,437
Dividends received	36,252,976	6,734,600	–	–	–

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)**

The following tables illustrate summarized financial information about a material associates, based on its financial statements for 2017:

<i>In thousands of tenge</i>	<b>2017</b>	
	PKI	CPC
Non-current assets	356,151,959	2,042,156,419
Current assets	84,903,668	95,627,293
Non-current liabilities	(59,122,504)	(756,148,455)
Current liabilities	(30,659,104)	(595,179,435)
<b>Equity</b>	<b>351,274,019</b>	<b>786,455,822</b>
Share of ownership	33%	20.75%
Goodwill	–	31,905,009
<b>Carrying amount of the investment as at December 31</b>	<b>115,920,426</b>	<b>195,094,592</b>
Revenue	137,911,562	647,477,562
Profit for the year	21,920,516	263,450,520
Other comprehensive (loss)/income	(991,827)	16,353,875
<b>Total comprehensive income</b>	<b>20,928,689</b>	<b>279,804,395</b>
Dividends received	20,453,367	–

The following tables illustrate summarized financial information about a material associates, based on its financial statements for 2016:

<i>In thousands of tenge</i>	<b>2016</b>	
	PKI	CPC
Non-current assets	459,502,915	2,099,989,380
Current assets	97,178,710	86,254,119
Non-current liabilities	(99,253,349)	(1,139,220,549)
Current liabilities	(20,299,694)	(540,815,685)
<b>Equity</b>	<b>437,128,582</b>	<b>506,207,265</b>
Share of ownership	33%	20.75%
Goodwill	–	31,997,172
<b>Carrying amount of the investment as at December 31</b>	<b>144,252,432</b>	<b>137,035,180</b>
Revenue	128,809,187	546,965,806
(Loss)/profit for the year	(47,908,279)	390,880,208
Other comprehensive (loss)/income	(10,771,298)	79,529,104
<b>Total comprehensive (loss)/income</b>	<b>(58,679,577)</b>	<b>470,409,312</b>
Change in unrecognized share of losses	–	6,198,893

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)**

The following tables illustrate aggregate financial information of individually immaterial joint ventures (the Group's proportional share):

<i>In thousands of tenge</i>	2017	2016
Non-current assets	125,404,236	137,412,947
Current assets	37,468,195	32,551,366
Non-current liabilities	(127,415,389)	(146,407,855)
Current liabilities	(35,006,253)	(51,571,034)
Goodwill	172,214	172,214
Impairment	(3,635,227)	(3,635,227)
Accumulated unrecognized share of losses	(25,661,135)	(53,316,668)
<b>Carrying amount of the investments as at December 31</b>	<b>22,648,911</b>	<b>21,839,079</b>
Profit for the year from continuing operations	18,233,038	12,463,584
Other comprehensive income/(losses)	497,482	(120,785)
Total comprehensive income	18,730,520	12,342,799
Unrecognized share of income	13,600,372	5,906,724

The following tables illustrate aggregate financial information of individually immaterial associates (the Group's proportional share):

<i>In thousands of tenge</i>	2017	2016
Non-current assets	8,518,491	6,880,547
Current assets	1,663,030	2,707,872
Non-current liabilities	(5,599,325)	(4,848,556)
Current liabilities	(3,800,471)	(3,720,029)
Impairment	–	(159,415)
Accumulated unrecognized share of losses	(928,776)	(729,905)
<b>Carrying amount of the investments as at December 31</b>	<b>1,710,501</b>	<b>1,590,324</b>
Profit/losses for the year from continuing operations	51,773	(514,758)
<b>Total comprehensive income/(losses)</b>	<b>51,773</b>	<b>(514,758)</b>
Unrecognized share of losses	(198,871)	(671,305)

**13. INVENTORIES**

<i>In thousands of tenge</i>	2017	2016
Materials and supplies	58,212,821	61,605,528
Refined products	30,129,849	14,504,132
Gas products	15,689,458	20,579,927
Crude oil	12,237,322	8,525,374
Less: provision for obsolete inventory	(7,372,095)	(6,438,061)
	<b>108,897,355</b>	<b>98,776,900</b>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****14. TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS**

<i>In thousands of tenge</i>	2017	2016
Advances paid and prepaid expenses	85,533,159	89,388,255
Taxes receivable, other than VAT	23,492,489	34,330,632
Dividends receivable	29,009,976	3,242,634
Restricted cash	13,056,590	1,380,977
Other current assets	34,738,931	27,208,178
Less: allowance for impairment	(17,914,896)	(6,471,068)
<b>Total other current assets</b>	<b>167,916,249</b>	<b>149,079,608</b>
Trade accounts receivable	317,477,806	290,199,726
Less: allowance for impairment	(11,153,175)	(10,388,095)
<b>Trade accounts receivable</b>	<b>306,324,631</b>	<b>279,811,631</b>

As at December 31, 2017 and 2016 the above assets were non-interest bearing.

In 2017 Specialized Interdistrict Economic Court of Astana approved settlement agreements related to the civil cases on the statement of claim of the Company, KazMunayGas–refining and marketing JSC and Delta Bank JSC (“Delta Bank”) on recovery of bank deposits and penalty interests, according to which Delta Bank had to make payments within six months. Due to the uncertainty regarding the payment from Delta Bank, the Group accrued 100% provision for impairment of the deposits in the total amount of 36,161 thousand US dollars (equivalent to 11,637,410 thousand tenge) (Note 29). In connection with the revocation of the Delta Bank license by National Bank of RK, the Group reclassified deposits in restricted cash.

Movements in the allowance for impairment of trade accounts receivable and other current assets were as follows:

<i>In thousands of tenge</i>	Individually impaired
<b>As at December 31, 2015</b>	13,602,754
Charge for the year	9,141,218
Recovered	(3,565,932)
Written off	(1,794,727)
Discontinued operations	(419,627)
Foreign currency translation	(104,523)
<b>As at December 31, 2016</b>	16,859,163
Charge for the year	7,812,444
Recovered	(6,519,114)
Written off	(977,097)
Transfers and reclassifications	11,855,869
Foreign currency translation	36,806
<b>As at December 31, 2017</b>	<b>29,068,071</b>

As at December 31, the ageing analysis of trade accounts receivable is as follows:

<i>In thousands of tenge</i>	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-60 days	61-90 days	91-120 days	>120 days
2017	306,324,631	231,716,027	6,164,625	36,318,632	15,059,406	1,533,783	15,532,158
2016	279,811,631	261,776,745	3,577,040	7,558,909	4,342,068	906,982	1,649,887

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****15. LOANS AND RECEIVABLES DUE FROM RELATED PARTIES**

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
Loans due from related parties	<b>785,593,140</b>	640,650,266
Note receivable from a shareholder of a joint venture	<b>38,014,555</b>	34,312,858
Bonds receivable from Samruk-Kazyna	<b>18,342,494</b>	42,123,003
Less: allowance for impairment of loans to related parties	<b>–</b>	(15,418,397)
	<b>841,950,189</b>	701,667,730

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
Loans due from related parties in tenge	<b>471,798,857</b>	403,380,730
Loans due from related parties in US dollars	<b>311,340,691</b>	220,434,656
Note receivable from a shareholder of a joint venture in US dollars	<b>38,014,555</b>	34,312,858
Bonds receivable from Samruk-Kazyna in tenge	<b>18,342,494</b>	42,123,003
Loans due from related parties in other foreign currencies	<b>2,453,592</b>	1,416,483
	<b>841,950,189</b>	701,667,730

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
Current portion	<b>169,501,500</b>	135,673,233
Non-current portion	<b>672,448,689</b>	565,994,497
	<b>841,950,189</b>	701,667,730

Loans due from related parties are stated at amortized cost.

Since the Group acquired remaining 49% of interest in KS EP and it became a subsidiary, the balance of loan from KS EP, including the allowance for impairment was fully eliminated.

*Note receivable from a shareholder of a joint venture*

In 2007, the Group acquired a 50% interest in a jointly controlled entity, CITIC Canada Energy Limited (“CCEL”), whose investments are involved in oil and natural gas production in the Western Kazakhstan, from its co-investor, State Alliance Holdings Limited, a holding company ultimately belonging to CITIC Group (“CITIC”), and listed on the Hong Kong Stock Exchange.

CCEL is contractually obliged to declare dividends on an annual basis based on available distributable equity. At the same time, for the period until 2020 KMG EP is contractually obliged to transfer any dividends received from CCEL, in excess of a guaranteed amount, to CITIC, up to the total maximum amount, which is equal to 508.8 million US dollars (169,101 million tenge) as at December 31, 2017 (2016: 512.3 million US dollars or 170,760 million tenge). The total maximum amount represents the balance of KMG EP’s share of the original purchase price funded by CITIC plus accrued interest. KMG EP has no obligation to pay amounts to CITIC unless it receives an equivalent amount from CCEL. Accordingly, the Group recognizes in its consolidated statement of financial position only the right to receive dividends from CCEL in the guaranteed amount of 26.9 million US dollars which yields an effective interest rate of 15% per annum on an annual basis until 2020, plus the right to retain any dividends in excess of the total maximum guaranteed amount. The carrying amount of this receivable at December 31, 2017, was equal to 114 million US dollars (38,014,555 thousand tenge) (2016: 103 million US dollars or 34,312,858 thousand tenge).

In addition, KMG EP has the right, subject to certain conditions precedent, to exercise a put option and return the investment to CITIC in exchange for 150 million US dollars plus annual interest of 8% less the cumulative amount of the guaranteed payments received.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****16. OTHER FINANCIAL ASSETS**

In October 2017, the Group noted indicators of impairment on deposits and cash on current accounts held in Bank RBK JSC of 27,889,370 thousand tenge. Based on an analysis of the recoverability of the deposits, the Group recognised a loss on impairment on deposits of 6,972,343 thousand tenge (Note 29). As result, the carrying amount of deposits and cash on current accounts comprised 20,917,027 thousand tenge.

In November 2017, National Bank of RK jointly with the Government of the Republic of Kazakhstan and Kazakhmys Corporation LLC (KCC), a third party, signed a framework agreement on improving the conditions of Bank RBK JSC. Pursuant to a resolution of the government dated November 7, 2017, on December 29, 2017, the Group's deposits and cash on current accounts held in Bank RBK JSC with carrying amount of 27,889,370 thousand tenge were converted to 15 year coupon bonds at par value of 1 tenge each bearing 0.01% per annum. Under this framework agreement, KCC guaranteed to repay 7,666,949 thousand tenge at the end of five years. As a result, coupon bonds were initially recognised at a fair value of 4,161,312 thousand tenge. The fair value was determined by discounting future cash flows for the bonds using a discount rate of 13.0% and maturity date of five years. The difference between carrying amount of deposits and cash and the fair value of coupon bonds in the amount of 16,755,715 thousand tenge was recognised as a transaction with the shareholder by the Group in the consolidated statement of changes in equity (Note 18).

**17. CASH AND CASH EQUIVALENTS**

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
Term deposits with banks – US dollars	<b>790,300,142</b>	435,939,051
Term deposits with banks – tenge	<b>115,103,490</b>	180,075,718
Current accounts with banks – US dollars	<b>250,473,444</b>	245,711,146
Current accounts with banks – tenge	<b>30,272,279</b>	13,214,622
Current accounts with banks – other currencies	<b>2,139,505</b>	1,893,667
Term deposits with banks – other currencies	<b>43,535</b>	37,995
Cash-on-hand	<b>1,823,964</b>	1,566,151
	<b>1,190,156,359</b>	878,438,350
Cash and cash equivalents attributable to discontinued operations	<b>76,448,456</b>	27,014,161
	<b>1,266,604,815</b>	905,452,511

Term deposits with banks are made for various periods of between one day and three months, depending on the immediate cash requirements of the Group. As at December 31, 2017, the weighted average interest rate for time deposits with banks was 1.04% in US dollars and 7.85% in tenge, respectively (2016: 0.61% in US dollars and 8.15% in tenge, respectively).

As at December 31, 2017 and 2016 cash and cash equivalents were not pledged as collateral.

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

Total number of outstanding, issued and paid shares comprises:

	December 31, 2015	Issued in 2016	December 31, 2016	Issued in 2017	December 31, 2017
<b>Number of shares issued and paid, including</b>	<b>584,207,465</b>	<b>5,272</b>	<b>584,212,737</b>	<b>5,187,152</b>	<b>589,399,889</b>
Par value of 27,726.63 tenge	137,900	–	137,900	–	137,900
Par value of 5,000 tenge	59,707,029	–	59,707,029	–	59,707,029
Par value of 2,500 tenge	65,911,763	5,272	65,917,035	5,187,152	71,104,187
Par value of 2,451 tenge	1	–	1	–	1
Par value of 1,000 tenge	1	–	1	–	1
Par value of 921 tenge	1	–	1	–	1
Par value of 858 tenge	1	–	1	–	1
Par value of 838 tenge	1	–	1	–	1
Par value of 704 tenge	1	–	1	–	1
Par value of 592 tenge	1	–	1	–	1
Par value of 500 tenge	458,450,766	–	458,450,766	–	458,450,766
<b>Share capital (000'tenge), including</b>	<b>696,363,445</b>	<b>13,180</b>	<b>696,376,625</b>	<b>12,967,880</b>	<b>709,344,505</b>
Par value of 27,726.63 tenge	3,823,502	–	3,823,502	–	3,823,502
Par value of 5,000 tenge	298,535,145	–	298,535,145	–	298,535,145
Par value of 2,500 tenge	164,779,408	13,180	164,792,588	12,967,880	177,760,468
Par value of 2,451 tenge	2	–	2	–	2
Par value of 1,000 tenge	1	–	1	–	1
Par value of 921 tenge	1	–	1	–	1
Par value of 858 tenge	1	–	1	–	1
Par value of 838 tenge	1	–	1	–	1
Par value of 704 tenge	1	–	1	–	1
Par value of 592 tenge	1	–	1	–	1
Par value of 500 tenge	229,225,382	–	229,225,382	–	229,225,382

**Share capital**

In 2017 the Company issued 5,187,152 common shares. As consideration, the Company received high, medium and low pressure gas pipelines and associated facilities for 12,967,880 thousand tenge that were previously recognized as additional paid-in capital and cash for 1 thousand tenge.

In 2016 the Company issued 5,272 common shares. As consideration for these common shares the Company received building in Kyzylorda for 13,180 thousand tenge and cash for 1 thousand tenge.

As at December 31, 2017, 260,159,707 common shares were authorized, but not issued (2016: 265,346,859 common shares).

**Additional paid-in capital**

In 2017 the Group increased additional paid in capital in the amount of 13,188,885 thousand tenge, which represents the fair value of gas pipelines contributed by the Government on trust management terms, which serves as a short-term mechanism until the legal title for the pipelines transfers to the Group.

**Transactions with Samruk-Kazyna**

In 2017, Samruk-Kazyna changed conditions of the prospectus of the second bond issue, according to which the coupon on the bonds was reduced from 4.00% to 0.50%. In this regard, the Company recognized a modification of the debt and recognized the effect of modification of 24,019,820 thousand tenge through equity, at the new market rates.

In 2017 the Company provided interest free loan to Samruk-Kazyna, the difference between fair value and nominal value of the loan amounting 5,716,173 thousand tenge (2016: 50,871,857 thousand tenge) recognized as transaction with Samruk-Kazyna in the consolidated statement of changes in equity.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****18. EQUITY (continued)****Distributions to Samruk-Kazyna**

In 2017 distributions to Samruk-Kazyna includes: accrual of provision for construction of the Palace of martial arts in Astana city in the amount of 5,544,234 thousand tenge (2016: 14,275,013 thousand tenge), the results of operations of PSA LLP (subsidiary of the Group) in the total amount of 5,792,675 thousand tenge (2016: 5,852,146 thousand tenge) and the adjustment of the fair value of cost of gas pipelines received as a payment for the issued common shares of 514 thousand tenge.

In 2017 due to transferring obligations for reconstruction of the trade and exhibition center in Moscow to Corporate Fund “TVC Kazakhstan”, the Company reversed previously recognized provision of 4,458,832 thousand tenge.

As at December 31, 2017 the Group recognized the discount on purchased bonds of “Special financial company DSFK” LLP through retained earnings in the amount of 16,755,715 thousand tenge (*Note 16*).

**Dividends**

In 2017, based on the decision of Samruk-Kazyna and National Bank of RK, the Company declared and paid dividends for 2016 in the amount of 11.32 tenge per common share in the total amount of 6,672,007 thousand tenge and dividends for 2013 in the amount of 66.52 tenge per common share in the total amount of 39,206,880 thousand tenge.

In 2017 the Group declared dividends of 13,269,562 thousand tenge to the holders of non-controlling interest in KMG EP and KTO (subsidiaries of the Group). As at December 31, 2017 the dividends payable by the Group to the holders of non-controlling interest is 1,850,141 thousand tenge (as at December 31, 2016: 1,862,166 thousand tenge).

**Book value per share**

In accordance with the decision of KASE dated October 4, 2010 financial statements shall disclose book value per share (ordinary and preferred) as of the reporting date, calculated in accordance with the KASE rules.

<i>In thousands of tenge</i>	2017	2016
Total assets	13,388,753,337	11,883,077,270
Less: intangible assets	115,431,414	116,488,612
Less: total liabilities	6,766,353,343	5,604,806,355
<b>Net assets</b>	<b>6,506,968,580</b>	<b>6,161,782,303</b>
Number of ordinary shares	589,399,889	584,212,737
<b>Book value per ordinary share</b>	<b>11,040</b>	<b>10,547</b>

**Earnings per share**

<i>In thousand tenge</i>	2017	2016
Weighted average number of common shares for basic and diluted earnings per share	588,967,626	584,210,540
Basic and diluted share in net profit for the period	0.882	0.617
Basic and diluted share in loss from continuing operations	(0.458)	(0.001)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****18. EQUITY (continued)****Non-controlling interest**

The following tables illustrate information of subsidiaries in which the Group has significant non-controlling interests:

	Country of incorporation and operation	2017		2016	
		Share	Carrying value	Share	Carrying value
KazMunayGas Exploration Production JSC	Kazakhstan	<b>36.99%</b>	779,932,098	36.98%	715,007,274
Rompetrol Downstream S.R.L.	Romania	<b>45.37%</b>	46,577,301	45.37%	41,753,314
KazTransOil JSC	Kazakhstan	<b>10.00%</b>	42,861,526	10.00%	42,221,868
Rompetrol Petrochemicals S.R.L.	Romania	<b>45.37%</b>	8,698,505	45.37%	11,002,892
Rompetrol Rafinare S.A.	Romania	<b>45.37%</b>	705,953	45.37%	1,775,348
Rompetrol Vega	Romania	<b>45.37%</b>	(19,743,196)	45.37%	(20,763,577)
Other			10,985,714		10,562,978
			<b>870,017,901</b>		<b>801,560,097</b>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****18. EQUITY (continued)****Non-controlling interest (continued)**

The following tables illustrate summarized financial information of subsidiaries on a stand-alone basis, in which the Group has significant non-controlling interests as at December 31, 2017 and for the year then ended:

<i>In thousands of tenge</i>	KazMunayGas Exploration Production JSC	KazTransOil JSC	Rompetrol Rafinare S.A.	Rompetrol Downstream S.R.L.	Rompetrol Vega	Rompetrol Petrochemicals S.R.L.
<b>Summarized statement of financial position</b>						
Non-current assets	771,619,013	450,725,408	219,853,770	119,373,059	21,456,147	3,417,387
Current assets	1,562,165,394	99,864,145	213,572,571	121,460,853	9,847,562	25,180,684
Non-current liabilities	(53,790,289)	(60,818,542)	(50,695,215)	(13,368,325)	(24,447,296)	(2,679,868)
Current liabilities	(171,271,707)	(65,826,269)	(381,175,202)	(124,808,982)	(50,370,467)	(6,746,676)
<b>Total equity</b>	<b>2,108,722,411</b>	<b>423,944,742</b>	<b>1,555,924</b>	<b>102,656,605</b>	<b>(43,514,054)</b>	<b>19,171,527</b>
<b>Attributable to:</b>						
Equity holder of the Parent Company	1,328,790,313	381,083,216	849,971	56,079,304	(23,770,857)	10,473,022
Non-controlling interest	779,932,098	42,861,526	705,953	46,577,301	(19,743,197)	8,698,505
<b>Summarized statement of comprehensive income</b>						
Revenue	954,505,779	222,449,953	868,442,783	402,786,476	56,963,700	65,575,792
<b>Profit/(loss) for the year from continuing operations</b>	<b>195,361,299</b>	<b>65,889,883</b>	<b>(1,696,400)</b>	<b>10,744,848</b>	<b>2,060,006</b>	<b>(4,905,225)</b>
<b>Total comprehensive income/(loss) for the year, net of tax</b>	<b>194,983,214</b>	<b>66,003,468</b>	<b>(2,356,951)</b>	<b>10,632,091</b>	<b>2,248,922</b>	<b>(5,078,872)</b>
<b>Attributable to:</b>						
Equity holder of the Parent Company	122,875,728	59,403,121	(1,287,556)	5,808,104	1,228,541	(2,774,485)
Non-controlling interest	72,107,486	6,600,347	(1,069,395)	4,823,987	1,020,381	(2,304,387)
Dividends declared to non-controlling interests	(7,308,873)	(5,960,689)	–	–	–	–
<b>Summarized cash flow information</b>						
Operating activity	234,062,986	98,945,565	35,473,676	20,967,248	1,223,370	(1,227)
Investing activity	44,736,436	(67,271,259)	(36,389,078)	(2,622,275)	(1,216,751)	2
Financing activity	(18,905,604)	(59,617,355)	(660,692)	(17,790,242)	7,389	(268)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>259,551,871</b>	<b>(28,423,901)</b>	<b>(1,576,094)</b>	<b>554,731</b>	<b>14,008</b>	<b>(1,493)</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****18. EQUITY (continued)****Non-controlling interest (continued)**

The following tables illustrate summarized financial information of subsidiaries on a stand-alone basis, in which the Group has significant non-controlling interests as at December 31, 2016 and for the year then ended:

<i>In thousands of tenge</i>	KazMunayGas Exploration Production JSC	KazTransOil JSC	Rompetrol Rafinare S.A.	Rompetrol Downstream S.R.L.	Rompetrol Vega	Rompetrol Petrochemicals S.R.L.
<b>Summarized statement of financial position</b>						
Non-current assets	738,093,000	426,739,640	267,716,078	119,113,167	21,101,988	4,300,369
Current assets	1,372,383,000	112,883,363	137,535,233	80,502,620	7,633,039	22,852,248
Non-current liabilities	(49,282,000)	(57,652,505)	(74,068,991)	(57,160,652)	(22,265,502)	(2,828,719)
Current liabilities	(127,682,000)	(61,396,189)	(327,269,445)	(50,430,727)	(52,232,554)	(73,495)
<b>Total equity</b>	<b>1,933,512,000</b>	<b>420,574,309</b>	<b>3,912,875</b>	<b>92,024,408</b>	<b>(45,763,029)</b>	<b>24,250,403</b>
<b>Attributable to:</b>						
Equity holder of the Parent Company	1,218,504,726	378,352,441	2,137,527	50,271,094	(24,999,452)	13,247,511
Non-controlling interest	715,007,274	42,221,868	1,775,348	41,753,314	(20,763,577)	11,002,892
<b>Summarized statement of comprehensive income</b>						
Revenue	727,154,000	207,107,815	726,258,178	247,673,492	49,722,055	–
<b>Profit/(loss) for the year from continuing operations</b>	<b>131,576,000</b>	<b>67,615,565</b>	<b>(4,862,301)</b>	<b>12,978,277</b>	<b>12,529,909</b>	<b>(2,865,715)</b>
<b>Total comprehensive income/(loss) for the year, net of tax</b>	<b>120,368,000</b>	<b>67,963,961</b>	<b>(5,675,817)</b>	<b>2,344,256</b>	<b>4,486,614</b>	<b>(2,046,509)</b>
<b>Attributable to:</b>						
Equity holder of the Parent Company	76,087,439	61,167,565	(3,100,588)	1,280,620	2,450,950	(1,117,967)
Non-controlling interest	44,280,561	6,796,396	(2,575,229)	1,063,636	2,035,664	(928,542)
Dividends declared to non-controlling interests	(51,573)	(5,115,654)	–	–	–	–
<b>Summarized cash flow information</b>						
Operating activity	175,322,000	90,976,610	60,338,009	12,991,805	60,117	(29,683)
Investing activity	(252,679,000)	(20,217,330)	(25,786,852)	(4,953,041)	(61,321)	7
Financing activity	(2,265,000)	(51,166,084)	(31,812,694)	(7,598,919)	115	(495)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(75,219,000)</b>	<b>18,874,141</b>	<b>2,738,463</b>	<b>439,845</b>	<b>(1,089)</b>	<b>(30,171)</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****19. BORROWINGS**

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
Fixed interest rate borrowings	<b>3,137,181,680</b>	2,099,674,818
Weighted average interest rates	<b>6.30%</b>	7.93%
Floating interest rate borrowings	<b>1,026,261,847</b>	972,865,152
Weighted average interest rates	<b>5.21%</b>	4.57%
	<b>4,163,443,527</b>	3,072,539,970

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
US dollar – denominated borrowings	<b>3,942,714,607</b>	2,846,125,693
Tenge – denominated borrowings	<b>220,728,920</b>	226,414,277
	<b>4,163,443,527</b>	3,072,539,970

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
Current portion	<b>763,955,792</b>	366,438,649
Non-current portion	<b>3,399,487,735</b>	2,706,101,321
	<b>4,163,443,527</b>	3,072,539,970

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****19. BORROWINGS (continued)**

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

<b>Bonds</b>	<b>Issuance amount</b>	<b>Redemption date</b>	<b>Interest</b>	<b>As at December 31</b>	
				<b>2017</b>	<b>2016</b>
Bonds LSE 2008	1.6 billion USD	2018	9.125%	<b>530,055,240</b>	529,821,083
Bonds LSE 2010	1.5 billion USD	2020	7.00%	<b>454,158,285</b>	453,732,442
Bonds LSE 2010	1.25 billion USD	2021	6.375%	<b>374,885,399</b>	375,026,800
Bonds LSE 2013	2 billion USD	2043	5.75%	<b>166,367,016</b>	166,991,558
Bonds LSE 2013	1 billion USD	2023	4.4%	<b>133,839,108</b>	134,371,387
Bonds LSE 2014	1 billion USD	2044	6.00%	<b>9,682,106</b>	9,736,418
Bonds LSE 2014	0.5 billion USD	2025	4.875%	<b>40,464,693</b>	40,558,524
Bonds ISE 2017	0.750 billion USD	2027	4.375%	<b>251,244,525</b>	—
Bonds LSE 2017	0.5 billion USD	2022	3.875%	<b>166,818,793</b>	—
Bonds LSE 2017	1 billion USD	2027	4.75%	<b>332,127,939</b>	—
Bonds LSE 2017	1.25 billion USD	2047	5.75%	<b>412,643,834</b>	—
Bonds KASE 2009	120 billion KZT	2019	6M Libor+8.5%	<b>73,636,569</b>	110,551,375
Bonds KASE 2010	100 billion KZT	2017	7%	—	94,483,326
Bonds LSE 2007	600 million USD	2017	6.375%	—	42,929,372
Others				<b>13,276,427</b>	13,193,743
<b>Total</b>				<b>2,959,199,934</b>	<b>1,971,396,028</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****19. BORROWINGS (continued)**

Loans	Issuance amount	Redemption date	Interest	As at December 31	
				2017	2016
Development bank of Kazakhstan JSC	1.1 billion USD	2023-2025	4% + 6M Libor – 7.72%	<b>294,631,602</b>	319,055,961
The Export-Import Bank of China	1 billion USD	2027	6M Libor + 4.1%	<b>340,200,397</b>	245,894,740
Sberbank Russia	400 million USD	2024	12M Libor + 3.5%	<b>134,039,138</b>	134,557,235
Development bank of Kazakhstan JSC	140 billion KZT	2022-2027	7%-10.2%	<b>115,480,135</b>	103,733,280
Loan from partners (Project Pearl)	Financing for share of costs KMT in execution of subsoil use contract	From beginning of commercial exploration	6M Libor + 1%	<b>87,370,787</b>	84,876,946
The Syndicate of banks	200 million USD	revolving line of credit	1 M Libor + 2.0 %	–	53,541,383
European Bank for Reconstruction and Development	68 billion KZT	2023	3 M CPI + 3.15%	<b>65,373,153</b>	46,322,433
Japan Bank for International Cooperation	298 million USD	2025	6M Libor + 1.10% - 4.64%	<b>62,386,497</b>	42,632,934
Loan from partners (Project Satpayev)	Financing for share of costs KMT in execution of subsoil use contract	From beginning of commercial exploration	12M Libor + 1.5%	<b>51,214,229</b>	28,128,262
Halyk bank JSC	70 million USD	2018	5%	<b>23,315,765</b>	23,393,933
Halyk bank JSC	5 billion KZT	2018	13%-15%	<b>3,137,832</b>	5,018,872
Other	–	–	–	<b>27,094,058</b>	13,987,963
<b>Total</b>				<b>1,204,243,593</b>	1,101,143,942

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****19. BORROWINGS (continued)**

On April 19, 2017, the Company completed the placement of the Eurobonds under the 10.5 billion US dollars Global Medium Term Notes Programme established by the Company and KazMunayGaz Finance Sub B.V. (subsidiary of the Company), in an aggregate principal amount of 2.75 billion US dollars (equivalent to 854,315,237 thousand tenge). The Eurobonds were issued in three series, comprising (i) 500,000 thousand US dollars 3.875% Notes due 2022; (ii) 1,000,000 thousand US dollars 4.75% Notes due 2027; and (iii) US 1,250,000 thousand US dollars 5.75% Notes due 2047.

On September 26, 2017 KazTransGas (“KTG”) placed Eurobonds for a total amount of 750 million US dollars (equivalent to: 254,760,086 thousand tenge) with a rate of 4.375% per annum.

On May 10, 2017 Intergas Central Asia JSC (“ICA”), the subsidiary of KTG, executed full redemption of Eurobonds in the amount of 131,875 thousand US dollars (equivalent to 41,948,009 thousand tenge), including accrued interest.

In accordance with loan agreement in July 2017 KTG received a loan from Citibank NA, VTB Bank and ING Bank in the amount of 750,000 thousand US dollars (equivalent to 245,670,000 thousand tenge) and fully repaid it on September 29, 2017.

In accordance with the loan agreement in May 2017 ICA received a loan from the European Bank for Reconstruction and Development in the amount of 25,254,400 thousand tenge (equivalent to 80,000 thousand US dollars).

In 2017 Atyrau Refinery LLP (“ANPZ”) received a loan from Halyk bank JSC for refinancing loan from Development Bank of Kazakhstan JSC (“DBK”) in the amount of 70,000 thousand US dollars (equivalent to 22,929,200 thousand tenge) and fully repaid the currying amount as at December 31, 2016.

In 2017 the Group received borrowings from DBK in the total amount of 32,133,178 thousand tenge and redeemed borrowings in the total amount of 68,117,408 thousand tenge, including interest. Additionally, the Group made a partial repayment of issued bonds held by DBK in the amount of 44,100,170 thousand tenge, including interest.

**Changing in liabilities arising from financing activities**

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
On January 1	<b>3,072,539,970</b>	3,228,868,689
Received by cash	<b>1,486,657,266</b>	282,825,891
Repayment of debt related to letter of credit	<b>135,393,336</b>	131,700,644
Interest paid	<b>(206,445,230)</b>	(187,876,330)
Repayment of principal	<b>(596,156,305)</b>	(470,450,822)
Interest accrued	<b>199,568,750</b>	171,351,678
Interest capitalized	<b>26,532,343</b>	26,165,707
Discount	<b>(15,551,555)</b>	–
Amortization of discount	<b>10,927,921</b>	14,933,481
Derecognition of liabilities	–	(62,513,395)
Foreign currency translation	<b>53,658,844</b>	(50,593,081)
Other	<b>(3,681,813)</b>	(11,872,492)
<b>On December 31</b>	<b>4,163,443,527</b>	3,072,539,970
Current portion	<b>763,955,792</b>	366,438,649
Non-current portion	<b>3,399,487,735</b>	2,706,101,321

In 2016, the Company acquired 27% share in project Zhambyl from KC Kazakh B.V. Wherein, based on the agreement, the loan received from KC Kazakh B.V. on financing Company’s share in project Zhambyl was written-off. As the result, the Group recognized income in the amount of 62,513,395 thousand tenge (Note 29).

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

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**19. BORROWINGS (continued)****Covenants**

The Group has limitations in terms of the acceptance of debt obligations according to the documentation of international bonds issues. Thus, the debt increase is limited to the need to comply with a financial ratio, which is defined as the ratio of consolidated net debt to the total amount of the consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) with a threshold value of 3.5. As of December 31, 2017 and December 31, 2016, the Group complies with this restrictive condition.

Also, the Group is required to ensure execution of the financial and non-financial covenants under the terms of the loan agreements. Failure to comply with financial covenants gives the lenders the right to demand early repayment of loans. As of December 31, 2017 and December 31, 2016, the Group complied with all financial and non-financial covenants.

**Hedge of net investment in the foreign operations**

As at December 31, 2017 certain borrowings denominated in foreign currency were designated as hedge instrument for the net investment in the foreign operations. In 2017, income of 67,150,614 thousand tenge (2016: income of 37,952,320 thousand tenge) on the translation of these borrowings were transferred to other comprehensive income and offset the loss on translation of foreign operations.

**20. OIL SUPPLY AGREEMENT**

In 2016 the Group entered into long-term crude oil and liquefied petroleum gas (“LPG”) supply agreement, which involve the prepayment. The total minimum delivery volume approximates 38 million tons of crude oil and 1 million tons of LPG in the period from the date of the contract to March 2021.

As part of this transaction in 2017, the Group received prepayment of 488,536 thousand US dollars (equivalent of 159,301,819 thousand tenge at the date of transaction) (2016: 2,966,005 thousand US dollars or 1,012,020,000 thousand tenge) net of transaction costs.

The agreement stipulates pricing calculation with reference to market quotes and prepayments are settled through physical deliveries of crude oil and LPG.

The Group considers this agreement to be regular way agreement to deliver non-financial items in accordance with the Group’s expected sale requirements.

As of December 31, 2017 the Group has partially settled the prepayments by oil supply in the total amount of 750,000 thousand US dollars.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****21. PROVISIONS**

<i>In thousands of tenge</i>	<b>Asset retirement obligations</b>	<b>Provision for environmental obligation</b>	<b>Provision for taxes</b>	<b>Provision for gas transportation</b>	<b>Employee benefit obligations</b>	<b>Other</b>	<b>Total</b>
<b>As at December 31, 2015</b>	104,129,250	17,756,301	63,228,322	24,813,178	35,072,962	21,936,762	266,936,775
Foreign currency translation	(365,138)	–	(9,212)	–	–	(3,740)	(378,090)
Change in estimate	(18,428,561)	(3,365,970)	–	–	–	–	(21,794,531)
Unwinding of discount	8,158,788	1,251,920	–	–	2,608,255	39,655	12,058,618
Provision for the year	1,044,732	10,187	9,274,588	–	(2,491,391)	15,584,607	23,422,723
Recovered	(1,167,110)	–	(20,989,376)	(451,720)	–	(930,923)	(23,539,129)
Unused amounts reversed	(48,750)	–	–	–	–	–	(48,750)
Use of provision	(1,779,270)	(1,273,771)	(3,457,469)	–	(2,811,727)	(13,569,279)	(22,891,516)
<b>As at December 31, 2016</b>	<b>91,543,941</b>	<b>14,378,667</b>	<b>48,046,853</b>	<b>24,361,458</b>	<b>32,378,099</b>	<b>23,057,082</b>	<b>233,766,100</b>
Foreign currency translation	11,125	–	15,139	–	–	(11,503)	14,761
Change in estimate	(1,248,282)	(458,178)	–	(70,170)	–	62,521	(1,714,109)
Unwinding of discount	8,332,664	1,808,777	–	–	3,039,887	68,786	13,050,114
Provision for the year	3,488,113	8,688,672	7,305,466	–	3,452,764	10,149,672	33,084,687
Recovered	(678,001)	–	(16,528,169)	–	–	(4,840,286)	(22,046,456)
Use of provision	(903,225)	(1,163,683)	(11,161,919)	–	(3,090,513)	(10,294,174)	(26,613,514)
Transfers and reclassifications	–	(33,258)	–	–	–	(57,882)	(91,140)
<b>As at December 31, 2017</b>	<b>100,546,335</b>	<b>23,020,997</b>	<b>27,677,370</b>	<b>24,291,288</b>	<b>35,780,237</b>	<b>18,134,216</b>	<b>229,450,443</b>

As at December 31, 2017 other provisions include provision for construction of the Palace of martial arts in the amount 11,155,740 thousand tenge (2016: 11,303,508 thousand tenge).

Provision for gas transportation relates to the Group's commitment on reimbursement of losses incurred by PetroChina. Under the agreement on gas borrowing the Group has commitments to PetroChina to reimburse the supported costs and losses incurred by PetroChina due to gas borrowing and its return.

As at December 31, 2017 asset retirements obligations include asset retirement obligations relating to decommissioning of pipelines and land of JSC KazTransOil and Intergas Central Asia JSC in the total amount of 65,139,689 thousand tenge (2016: 59,539,785 thousand tenge) (Note 4).

Current portion and long-term portion are segregated as follows:

<i>In thousands of tenge</i>	<b>Asset retirement obligations</b>	<b>Provision for environmental obligation</b>	<b>Provision for taxes</b>	<b>Provision for gas transportation</b>	<b>Employee benefit obligations</b>	<b>Other</b>	<b>Total</b>
<b>As at December 31, 2017</b>							
Current portion	1,543,004	5,921,263	27,677,370	24,291,288	2,688,942	16,690,332	78,812,199
Long-term portion	99,003,331	17,099,734	–	–	33,091,295	1,443,884	150,638,244
<b>Provision as at December 31, 2017</b>	<b>100,546,335</b>	<b>23,020,997</b>	<b>27,677,370</b>	<b>24,291,288</b>	<b>35,780,237</b>	<b>18,134,216</b>	<b>229,450,443</b>
<b>As at December 31, 2016</b>							
Current portion	819,946	487,031	48,046,853	24,361,458	2,380,419	18,298,570	94,394,277
Long-term portion	90,723,995	13,891,636	–	–	29,997,680	4,758,512	139,371,823
<b>As at December 31, 2016</b>	<b>91,543,941</b>	<b>14,378,667</b>	<b>48,046,853</b>	<b>24,361,458</b>	<b>32,378,099</b>	<b>23,057,082</b>	<b>233,766,100</b>

A description of significant provisions, including critical estimates and judgments used, is included in Note 4.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****22. TRADE ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES**

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
Advances received	<b>48,632,581</b>	30,463,723
Due to employees	<b>54,428,090</b>	46,867,358
Dividends payable	<b>1,851,512</b>	1,862,166
Other	<b>39,493,188</b>	39,849,002
<b>Total other current liabilities</b>	<b>144,405,371</b>	119,042,249
<b>Trade accounts payable</b>	<b>325,120,176</b>	260,137,009

Trade accounts payable is denominated in the following currencies as of December 31:

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
Tenge	<b>218,724,670</b>	210,992,037
US dollars	<b>100,999,516</b>	36,935,083
Euro	<b>672,143</b>	219,061
Other currency	<b>4,723,847</b>	11,990,828
<b>Total</b>	<b>325,120,176</b>	260,137,009

As at December 31, 2017 and 2016, trade accounts payable and other current liabilities were not interest bearing.

**23. OTHER TAXES PAYABLE**

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
Rent tax on crude oil export	<b>27,365,236</b>	5,189,479
Mineral extraction tax	<b>26,160,637</b>	4,488,819
Individual income tax	<b>6,580,681</b>	5,936,494
Withholding tax from non-residents	<b>4,545,294</b>	4,418,027
VAT	<b>3,974,550</b>	4,375,978
Excise tax	<b>174,445</b>	107,067
Other	<b>10,367,348</b>	9,498,593
	<b>79,168,191</b>	34,014,457

**24. REVENUE**

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
Sales of crude oil, gas and gas products	<b>1,568,121,307</b>	1,040,462,377
Transportation fee	<b>332,325,696</b>	322,341,649
Sales of refined products	<b>307,968,038</b>	293,076,283
Refining of oil and oil products	<b>129,066,720</b>	99,137,367
Quality bank for crude oil	<b>(21,523,472)</b>	(19,864,051)
Other revenue	<b>142,876,801</b>	122,281,731
	<b>2,458,835,090</b>	1,857,435,356

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****25. COST OF SALES**

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
Crude oil, gas and gas products	<b>1,316,053,757</b>	684,684,553
Payroll	<b>293,258,611</b>	281,672,842
Depreciation, depletion and amortization	<b>161,529,007</b>	167,171,547
Materials and supplies	<b>132,338,829</b>	102,086,971
Transportation costs	<b>107,145,222</b>	47,654,973
Mineral extraction tax	<b>93,568,542</b>	40,676,527
Other taxes	<b>58,901,234</b>	53,593,187
Electricity	<b>39,834,721</b>	37,924,337
Repair and maintenance	<b>38,342,873</b>	32,546,598
Other	<b>138,930,075</b>	113,734,484
	<b>2,379,902,871</b>	1,561,746,019

**26. GENERAL AND ADMINISTRATIVE EXPENSES**

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
Payroll	<b>60,493,943</b>	55,055,626
Social payments, out of payroll	<b>27,846,328</b>	6,249,461
Consulting services	<b>14,189,627</b>	11,969,388
Depreciation and amortization	<b>13,181,361</b>	6,748,431
Other taxes	<b>12,707,667</b>	8,195,559
VAT that cannot be offset	<b>7,922,727</b>	1,252,092
Charitable donations and sponsorship	<b>1,086,187</b>	1,544,528
Allowance for impairment of trade accounts receivable	<b>1,413,805</b>	3,614,402
Allowance for impairment of long term advances	<b>1,187,695</b>	2,000,000
(Reversal of)/allowance for impairment of other current assets	<b>(120,475)</b>	1,867,627
Allowance for obsolete inventories	<b>1,498,700</b>	1,058,595
Reversal of impairment of VAT receivable	<b>(24,157,581)</b>	(3,417,616)
Reversal of allowance for fines, penalties and tax provisions	<b>(4,212,497)</b>	(10,849,789)
Other	<b>38,973,832</b>	32,386,860
	<b>152,011,319</b>	117,675,164

**27. TRANSPORTATION AND SELLING EXPENSES**

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
Customs duty	<b>105,302,356</b>	84,119,112
Rent tax on crude oil export	<b>83,182,715</b>	19,981,204
Transportation	<b>74,717,067</b>	67,903,136
Payroll	<b>6,364,942</b>	6,834,599
Depreciation and amortization	<b>4,457,466</b>	6,408,306
Other	<b>14,502,724</b>	13,226,726
	<b>288,527,270</b>	198,473,083

**28. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND GOODWILL, NET**

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
Property, plant and equipment (Note 7)	<b>23,309,760</b>	3,250,130
Exploration and evaluation assets (Note 8)	<b>813,448</b>	–
Investment property (Note 9)	<b>1,518,344</b>	–
Intangible assets (Note 10)	<b>–</b>	32,549
	<b>25,641,552</b>	3,282,679

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****29. FINANCE INCOME / FINANCE COST****Finance income**

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
Interest income on bank deposits, loans and bonds	<b>79,062,673</b>	75,638,208
Amortization of discount on loans due from related parties	<b>39,159,971</b>	21,378,184
Derecognition of liabilities	–	62,513,395
Other	<b>3,512,630</b>	8,361,901
	<b>121,735,274</b>	167,891,688

**Finance costs**

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
Interest on loans and debt securities issued	<b>199,568,750</b>	171,351,678
Impairment of bank deposits (Notes 14 and 16)	<b>18,609,753</b>	–
Interest under oil supply agreement	<b>26,473,457</b>	18,628,247
Unwinding of discount on asset retirement obligations and provision for environmental obligation	<b>9,941,441</b>	9,410,708
Amortization of discount on loans and debt securities issued	<b>10,927,921</b>	14,933,481
Discount on assets with non-market interest rate	<b>6,155,426</b>	4,077,354
Other	<b>23,220,716</b>	11,981,886
	<b>294,897,464</b>	230,383,354

**30. SHARE IN PROFIT OF JOINT VENTURES AND ASSOCIATES, NET**

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
Tengizchevroil LLP	<b>289,979,686</b>	147,910,396
Caspian Pipeline Consortium	<b>54,665,983</b>	74,908,750
Mangistau Investments B.V.	<b>49,605,030</b>	29,766,202
KazGerMunay LLP	<b>17,713,450</b>	5,129,532
Valsera Holdings B.V.	<b>9,750,778</b>	10,414,188
KazRosGas LLP	<b>8,622,045</b>	18,647,418
PetroKazakhstan Inc.	<b>7,233,770</b>	(15,809,732)
Kazakhoil-Aktobe LLP	<b>(16,788,020)</b>	(11,535,479)
Kashagan B.V.	<b>(10,208,354)</b>	7,725,887
Ural Group Limited	<b>(1,877,211)</b>	(1,577,557)
Beineu-Shymkent Pipeline	<b>(668,700)</b>	(3,452,438)
Share in (loss)/profit of other joint ventures and associates	<b>6,536,779</b>	8,063,823
	<b>414,565,236</b>	270,190,990

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

As at December 31, 2017 income taxes prepaid of 35,586,296 thousand tenge (2016: 74,457,414 thousand tenge) are represented by corporate income tax. As at December 31, 2017 income taxes payable in the amount of 7,705,079 thousand tenge (2016: 2,301,839 thousand tenge) are represented mainly by corporate income tax.

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

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
<b>Current income tax</b>		
Corporate income tax	<b>110,916,307</b>	80,090,378
Excess profit tax	<b>5,136,675</b>	(1,128,184)
Withholding tax on dividends and interest income	<b>21,967,459</b>	4,637,262
<b>Deferred income tax</b>		
Corporate income tax	<b>25,449,497</b>	45,733,941
Excess profit tax	<b>(1,275,303)</b>	15,543,024
Withholding tax on dividends and interest income	<b>29,835,168</b>	18,914,716
<b>Income tax expenses</b>	<b>192,029,803</b>	163,791,137

According to the 2006 amendments to the tax legislation, which were effective starting from the fiscal years beginning on January 1, 2007, dividends received from Kazakhstan taxpayers were exempt from income tax withheld at the source of payment. Therefore, in 2006 the Group reversed the deferred tax liability on undistributed profits of subsidiaries, joint ventures and associates registered in the Republic of Kazakhstan, which was recognized in prior years. However, during 2007-2017 the Group was receiving dividends from Tengizchevroil LLP (20% joint venture of the Group, a Kazakhstan taxpayer) net of withholding tax since there is uncertainty whether the withholding tax exemption is applicable for the stable tax regime of Tengizchevroil LLP. The Group was challenging withholding of the tax on those dividends, but has not managed to convince Tengizchevroil LLP and the tax authorities that withholding tax should not be applied. Therefore, Management of the Group recognizes the deferred income tax withholding on its interest in undistributed retained earnings of Tengizchevroil LLP as its current best estimate is that the Group will continue to receive dividends net of withholding tax in future years.

A reconciliation of income tax expenses applicable to profit before income tax at the statutory income tax rate (20% in 2017 and 2016) to income tax expenses was as follows for the years ended December 31:

<i>In thousands of tenge</i>	<b>2017</b>	<b>2016</b>
(Loss)/profit before income tax from continuing operations	<b>(77,627,570)</b>	163,108,149
Profit before income tax from discontinued operations	<b>787,700,098</b>	357,713,188
Statutory tax rate	<b>20%</b>	20%
<b>Income tax expense on accounting profit</b>	<b>142,014,506</b>	104,164,267
Share in profit of joint ventures and associates non-taxable or taxable at different rates	<b>(39,416,094)</b>	(31,851,639)
Other non-deductible expenses and non-taxable income	<b>118,322,604</b>	71,705,991
Excess profit tax	<b>3,861,372</b>	14,414,840
Effect of different corporate income tax rates	<b>4,403,939</b>	3,133,154
Change in unrecognized deferred tax assets	<b>(38,639,830)</b>	(916,319)
	<b>190,546,497</b>	160,650,294
Income tax expenses reported in the consolidated statement of comprehensive income	<b>192,029,803</b>	163,791,137
Income tax benefit attributable to discontinued operations	<b>(1,483,306)</b>	(3,140,843)
	<b>190,546,497</b>	160,650,294

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

Deferred tax balances, calculated by applying the statutory tax rates effective at the respective reporting dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the consolidated financial statements, are comprised of the following at December 31:

<i>In thousands of tenge</i>	2017 Corporate income tax	2017 Excess profit tax	2017 Withholding tax	2017 Total	2016 Corporate income tax	2016 Excess profit tax	2016 Withholding tax	2016 Total
<b>Deferred tax assets</b>								
Property, plant and equipment	39,746,752	(2,213,776)	–	37,532,976	37,366,506	(1,899,726)	–	35,466,780
Tax loss carryforward	445,661,327	–	–	445,661,327	430,057,756	–	–	430,057,756
Employee related accruals	7,016,794	233,019	–	7,249,813	6,801,380	46,020	–	6,847,400
Impairment of financial assets	4,177	–	–	4,177	–	–	–	–
Environmental liability	4,249,110	217,257	–	4,466,367	3,563,499	245	–	3,563,744
Other	36,961,737	1,344,719	–	38,306,456	27,424,474	162,597	–	27,587,071
Less: unrecognized deferred tax assets	(443,527,871)	–	–	(443,527,871)	(404,888,041)	–	–	(404,888,041)
Less: deferred tax assets offset with deferred tax liabilities	(24,557,468)	–	–	(24,557,468)	(26,725,677)	–	–	(26,725,677)
<b>Deferred tax assets</b>	<b>65,554,558</b>	<b>(418,781)</b>	<b>–</b>	<b>65,135,777</b>	<b>73,599,897</b>	<b>(1,690,864)</b>	<b>–</b>	<b>71,909,033</b>
<b>Deferred tax liabilities</b>								
Property, plant and equipment	117,769,984	15,712,243	–	133,482,227	102,407,438	15,716,011	–	118,123,449
Undistributed earnings of joint venture	–	–	202,962,639	202,962,639	–	–	173,127,471	173,127,471
Other	125,648	–	–	125,648	74,735	–	–	74,735
Less: deferred tax assets offset with deferred tax liabilities	(24,557,468)	–	–	(24,557,468)	(26,725,677)	–	–	(26,725,677)
<b>Deferred tax liabilities</b>	<b>93,338,164</b>	<b>15,712,243</b>	<b>202,962,639</b>	<b>312,013,046</b>	<b>75,756,496</b>	<b>15,716,011</b>	<b>173,127,471</b>	<b>264,599,978</b>
<b>Net deferred tax liability</b>	<b>27,783,606</b>	<b>16,131,024</b>	<b>202,962,639</b>	<b>246,877,269</b>	<b>2,156,599</b>	<b>17,406,875</b>	<b>173,127,471</b>	<b>192,690,945</b>

Deferred corporate income tax and excess profit tax are determined with reference to individual subsoil use contracts. Deferred corporate income tax is also determined for activities outside of the scope of subsoil use contracts. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Unrecognized deferred tax asset arising mainly from tax losses carry forward amounted to 443,527,871 thousand tenge as at December 31, 2017 (2016: 404,888,041 thousand tenge).

Tax losses carry forward as at December 31, 2017 in the Republic of Kazakhstan expire for tax purposes ten years from the date they are incurred.

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

The movements in the deferred tax liability/(asset) were as follows:

<i>In thousands of tenge</i>	2017 Corporate income tax	2017 Excess profit tax	2017 Withholding tax	2017 total	2016 Corporate income tax	2016 Excess profit tax	2016 Withholding tax	2016 total
<b>Net deferred tax liability/(asset) as at January 1</b>	<b>2,156,599</b>	<b>17,406,875</b>	<b>173,127,471</b>	<b>192,690,945</b>	(44,648,144)	1,863,851	154,212,755	111,428,462
Foreign currency translation	35,406	(548)	—	34,858	258,403	—	—	258,403
Discontinued operations	—	—	—	—	5,159	—	—	5,159
Charge to the consolidated statement of comprehensive income	25,591,601	(1,275,303)	29,835,168	54,151,466	46,541,181	15,543,024	18,914,716	80,998,921
<b>Net deferred tax liability/(asset) as at December 31</b>	<b>27,783,606</b>	<b>16,131,024</b>	<b>202,962,639</b>	<b>246,877,269</b>	<b>2,156,599</b>	<b>17,406,875</b>	<b>173,127,471</b>	<b>192,690,945</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****32. RELATED PARTY DISCLOSURES**

Related party transactions were made on terms agreed to between the parties that may not necessarily be at market rates, except for certain regulated services, which are provided based on the tariffs available to related and third parties.

The following table provides the balances of transactions with related parties as at December 31, 2017 and 2016:

<i>In thousands of tenge</i>		<b>Due from related parties</b>	<b>Due to related parties</b>	<b>Cash and deposits placed with related parties</b>	<b>Borrowings payable to related parties</b>
Samruk-Kazyna entities	<b>2017</b>	<b>289,084,327</b>	<b>1,703,093</b>	<b>53,959</b>	<b>–</b>
	2016	250,189,225	1,755,168	227,330	–
Associates	<b>2017</b>	<b>154,953,597</b>	<b>3,747,640</b>	<b>–</b>	<b>–</b>
	2016	196,364,723	6,519,184	–	–
Other state-controlled parties	<b>2017</b>	<b>–</b>	<b>8,752,609</b>	<b>2,675,566</b>	<b>489,948,733</b>
	2016	–	8,783,316	308,652	539,518,308
Joint ventures in which the Group is a venturer	<b>2017</b>	<b>556,563,795</b>	<b>194,182,312</b>	<b>–</b>	<b>–</b>
	2016	426,310,101	148,065,653	–	–

**Due from related parties**

In 2017 the Company provided the additional interest free loan to the Samruk-Kazyna in the amount of 47,019,835 thousand tenge. The difference between fair value and nominal value of the loan amounting 5,716,173 thousand tenge recognized as transaction with Samruk-Kazyna in the consolidated statement of changes in equity.

As at December 31, 2017 changes in due from associates mainly related to the repayment of interest of the right to claim payments under “Kazakhstan Note” in the amount of 35,142,983 thousand tenge.

As at December 31, 2017 increase in due from joint ventures mainly due to providing additional interest free loan to the BeineuShymkent Pipelines LLP in the amount of 136,962,378 thousand tenge and decreasing of trade accounts receivable for goods and services of Tengizchevroil LLP and Asia Gas Pipeline LLP in the amount of 14,765,262 thousand tenge and 1,528,599 thousand tenge, respectively.

**Due to related parties**

As at December 31, 2017 changes of due to joint ventures mainly include increasing of trade payable for goods and services to Asia Gas Pipeline LLP, Tengizchevroil LLP, Mangistaumunaigaz JSC and BeineuShymkent Pipelines LLP in the amount of 13,877,072 thousand tenge, 13,456,982 thousand tenge, 3,445,528 thousand tenge and 10,415,360 thousand tenge, respectively (2016: 13,277,218 thousand tenge, 14,256,155 thousand tenge, 39,831 thousand tenge и 46,509,577 thousand tenge, respectively).

**Borrowings payable to related parties**

In 2017 the Group redeemed bonds and loans payable to DBK in the total amount of 112,217,578 thousand tenge including interest.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****32. RELATED PARTY DISCLOSURES (continued)**

The following table provides the total amount of transactions, which have been entered into with related parties during 2017 and 2016:

<i>In thousands of tenge</i>		<b>Sales to related parties</b>	<b>Purchases from related parties</b>	<b>Interest earned from related parties</b>	<b>Interest incurred to related parties</b>
Samruk-Kazyna entities	<b>2017</b>	<b>66,161,168</b>	<b>29,896,957</b>	<b>28,364,559</b>	<b>–</b>
	<b>2016</b>	<b>64,283,484</b>	<b>28,166,784</b>	<b>14,325,455</b>	<b>4,089,541</b>
Associates	<b>2017</b>	<b>9,597,880</b>	<b>38,647,833</b>	<b>10,413,919</b>	<b>–</b>
	<b>2016</b>	<b>25,429,144</b>	<b>61,467,268</b>	<b>13,417,271</b>	<b>4,379,044</b>
Other state-controlled parties	<b>2017</b>	<b>–</b>	<b>2,942,341</b>	<b>–</b>	<b>25,694,310</b>
	<b>2016</b>	<b>–</b>	<b>4,764,444</b>	<b>–</b>	<b>25,424,702</b>
Joint ventures in which the Group is a venturer	<b>2017</b>	<b>318,154,537</b>	<b>1,000,163,766</b>	<b>25,869,046</b>	<b>10,769,061</b>
	<b>2016</b>	<b>303,010,916</b>	<b>624,153,438</b>	<b>26,462,248</b>	<b>4,917,734</b>

Purchase transactions with Samruk-Kazyna, other state-controlled entities and joint ventures are mainly represented by transactions of the Group with NC Kazakhstan Temir Zholy JSC (railway services), NC Kazakhtelecom JSC (telecommunication services), NAC Kazatomprom JSC (energy services), KEGOC JSC (energy supply), Kazpost JSC (postal services) and Samruk-Energo JSC (energy supply). In addition, the Group sells and purchases crude oil and natural gas, refined products and provides transportation services to and from Samruk-Kazyna entities, associates and joint ventures.

**Key management employee compensation**

Total compensation to key management personnel, including key management personnel of subsidiaries, included in general and administrative expenses in the accompanying consolidated statement of comprehensive income was equal to 9,022,125 thousand tenge and 9,797,411 thousand tenge for the years ended December 31, 2017 and 2016, respectively. Compensation to key management personnel consists of contractual salary and performance bonus based on operating results.

**33. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES**

The Group's principal financial instruments mainly consist of borrowings, cash and cash equivalents, short term bank deposits as well as accounts receivable and accounts payable. The Group is exposed to interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group further monitors the market risk and liquidity risk arising from all financial instruments.

**Market risk**

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency, and securities, all of which are exposed to general and specific market movements. The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing appropriate margin and collateral requirements.

The sensitivity analyses in the following sections relate to the position as of December 31, 2017 and 2016.

*Foreign currency risk*

As a result of significant borrowings and accounts payable denominated in the US dollars, the Group's consolidated statement of financial position can be affected significantly by movement in the US dollar / tenge exchange rates. The Group also has transactional currency exposures. Such exposure arises from revenues in the US dollars.

The Group has a policy on managing its foreign currency risk in US dollar by matching US dollar denominated financial assets with US dollar denominated financial liabilities and/or by designating hedge between non-financial assets and financial liabilities.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****33. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)****Market risk (continued)***Foreign currency risk (continued)*

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before income tax (due to changes in the fair value of monetary assets and liabilities). The sensitivity of possible the changes in exchange rates for other currencies are not considered due to its insignificance to the consolidated financial results of Group's operations.

<i>In thousands of tenge</i>	<b>Increase/ decrease in tenge to US dollar exchange rate</b>	<b>Effect on profit before tax</b>
<b>2017</b>	<b>+10%</b>	<b>(96,952,960)</b>
	<b>-10%</b>	<b>96,952,960</b>
<b>2016</b>	<b>+13%</b>	<b>(118,409,921)</b>
	<b>-13%</b>	<b>118,409,921</b>

*Interest rate risk*

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term borrowings with floating interest rates.

The Group's policy is to manage its interest rate cost using a mix of fixed and variable rate borrowings.

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

<i>In thousands of tenge</i>	<b>Increase/ decrease in basis points</b>	<b>Effect on profit before tax</b>
<b>2017</b>		
LIBOR	<b>+0.70</b>	<b>(6,775,665)</b>
	<b>-0.08</b>	<b>762,459</b>
<b>2016</b>		
LIBOR	<b>+0.60</b>	<b>(5,598,880)</b>
	<b>-0.08</b>	<b>746,405</b>

**Credit risk**

The Group trades only with recognized, creditworthy parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in *Note 17*. There are no significant concentrations of credit risk within the Group.

With respect to credit risks arising on other financial assets of the Group, which comprise cash and cash equivalents, bank deposits, trade accounts receivable, bonds receivable, loans and notes receivable and other financial assets, the Group's exposure to credit risks arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****33. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)****Credit risk (continued)**

The table below shows the balances of major subsidiaries' cash and cash equivalents, short-term and long-term deposits (Notes 11 and 17) held in banks at the reporting date using the Standard and Poor's and Fitch's credit ratings.

Banks	Location	Rating <sup>1</sup>		2017	2016
		2017	2016		
Halyk Bank	Kazakhstan	BB (stable)	BB (negative)	622,826,562	716,187,314
Bank of Tokyo-Mitsubishi UFJ	Japan	A (stable)	A (stable)	464,530,245	–
Mizuho Bank Ltd	Japan	A (stable)	A (stable)	373,029,697	–
Sumitomo Mitsui Banking Corporation	Japan	A (positive)	A (positive)	–	287,848,285
HSBC	United Kingdom	AA- (stable)	AA- (negative)	113,090,248	166,649,716
BNP Paribas	United Kingdom	BB+ (stable)	A (stable)	161,740,102	166,295,295
Kazkommertsbank	Kazakhstan	B+ (negative)	B- (negative)	78,656,996	165,771,106
Societe Generale	Switzerland	A (stable)	A (stable)	164,779,167	162,461,529
Societe Generale	United Kingdom	A (stable)	A (stable)	314,733,898	–
ING Bank	The Netherlands	A+ (stable)	A (stable)	170,353,494	161,907,378
Sberbank of Russia	Kazakhstan	BB+ (positive)	BBB-	23,148,486	63,718,200
Altyn Bank	Kazakhstan	BB (positive)	BB (negative)	21,965,792	45,247,477
RBK Bank	Kazakhstan	CCC+ (negative)	B- (stable)	10	29,919,368
Credit Suisse	British Virgin Islands	A (stable)	A (stable)	39,338,017	25,472,932
Citibank	United Kingdom	A+ (stable)	A (stable)	46,678,682	19,984,012
Citibank	Kazakhstan	A+(stable)	A+(stable)	2,032,358	12,509,234
Citibank	United Arab Emirates	A+(stable)	A (stable)	50,034,359	–
Delta Bank	Kazakhstan	D	CCC+	–	11,984,344
Deutsche Bank	the Netherlands and the		(developing)	–	
	United Kingdom	A- (negative)	BBB+ (positive)	88,990,995	10,935,579
Rabobank	The Netherlands	A+ (positive)	A+ (stable)	81,922,668	21,905,818
ABN Amro Bank	The Netherlands	A (positive)	A (stable)	33,354,442	–
ATF Bank	Kazakhstan	B (negative)	B (negative)	5,301,656	9,707,001
Tsesnabank	Kazakhstan	B+ (negative)	B+ (negative)	1,140,857	2,818,521
Forte Bank	Kazakhstan	B (positive)	B (stable)	3,723,436	2,166,169
BankCenterCredit	Kazakhstan	B (stable)	B (stable)	1,946	1,289,220
Eurasian Bank	Kazakhstan	B (negative)	B (stable)	40,845	614,348
Other banks				14,381,113	24,175,948
				<b>2,875,796,071</b>	<b>2,109,568,794</b>

Continued support by the state bodies of the Republic of Kazakhstan is a key assumption in management's conclusions that no impairment allowance is required, and is based on management's review of all available information at the date of approval of the consolidated financial statements.

<sup>1</sup> Source: Interfax – Kazakhstan, Factivia, official sites of the banks as at December 31 of the respective year.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****33. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)****Liquidity risk**

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

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

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

<i>In thousands of tenge</i>	On demand	Due later than one month but not later than three months	Due later than three month but not later than one year	Due later than one year but not later than five years	Due after 5 years*	Total
<b>As at December 31, 2017</b>						
Borrowings	64,747,057	80,704,232	866,153,813	2,199,515,008	2,809,218,719	6,020,338,829
Financial guarantee	–	1,422,943	4,268,829	35,591,168	64,859,263	106,142,203
Trade accounts payable	82,376,845	168,111,759	82,358,616	–	–	332,847,020
	<b>147,123,702</b>	<b>250,238,934</b>	<b>952,781,258</b>	<b>2,235,106,176</b>	<b>2,874,077,982</b>	<b>6,459,328,052</b>
<b>As at December 31, 2016</b>						
Borrowings	77,329,131	7,427,151	401,808,523	2,659,303,198	1,148,165,669	4,294,033,672
Financial guarantee	–	–	5,692,025	91,072,398	142,300,622	239,065,044
Trade accounts payable	119,638,134	118,852,271	40,736,206	–	–	279,226,611
	<b>196,967,265</b>	<b>126,279,422</b>	<b>448,236,754</b>	<b>2,750,375,596</b>	<b>1,290,466,291</b>	<b>4,812,325,327</b>

\*The Group excludes from maturity profile table the loans payable to project partners under the carry-in financing agreements (*Note 19*), due to the uncertainty of maturity of these loans.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****33. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)****Fair values of financial instruments and investment property**

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

	2017				
	Carrying amount	Fair value	Fair value by level of assessment		
			Quotations in an active market (Level 1)	From the observed market (Level 2)	Based on the significant amount of unobserved (Level 3)
<i>In thousands of tenge</i>					
Bonds receivable from Samruk-Kazyna	18,342,494	21,807,281	–	21,807,281	–
Fixed interest rate borrowings	3,137,181,680	3,230,351,979	2,996,477,908	233,874,071	–
Financial guarantee	11,937,863	11,937,863	–	11,937,863	–
Investment property	27,423,225	30,263,855	–	30,263,855	–

  

	2016				
	Carrying amount	Fair value	Fair value by level of assessment		
			Quotations in an active market (Level 1)	From the observed market (Level 2)	Based on the significant amount of unobserved (Level 3)
<i>In thousands of tenge</i>					
Bonds receivable from Samruk-Kazyna	42,123,003	63,663,823	–	63,663,823	–
Fixed interest rate borrowings	2,099,674,818	2,250,517,072	1,945,130,199	305,386,873	–
Financial guarantee	13,471,461	13,471,461	–	13,471,461	–
Investment property	29,480,044	29,987,922	–	29,987,922	–

The fair value of bonds receivable from the Samruk-Kazyna and fixed-rate borrowings have been calculated by discounting the expected future cash flows at market interest rates.

During the reporting period no transfers between Level 1 and Level 2 of the fair value assessment were made.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****34. CONSOLIDATION**

The following direct significant subsidiaries have been included in these consolidated financial statements:

Significant entities	Main activity	Country of incorporation	Percentage ownership	
			2017	2016
KazMunayGas Exploration Production JSC (“KMG EP”)	Exploration and production	Kazakhstan	63.01%	63.02%
KazTransGas JSC (“KTG”)	Gas transportation	Kazakhstan	100.00%	100.00%
KazTransOil JSC (“KTO”)	Oil transportation	Kazakhstan	90.00%	90.00%
KazMunayGas – refining and marketing JSC (“KMG RM”)	Refinery and marketing of oil products	Kazakhstan	–	100.00%
Atyrau Refinery LLP	Refinery	Kazakhstan	99.53%	–
Pavlodar oil chemistry refinery LLP	Refinery	Kazakhstan	100.00%	–
KazMunayGas Onimder LLP	Marketing of oil products	Kazakhstan	100.00%	–
KazMunayTeniz LLP (“KMT”)	Exploration and production	Kazakhstan	100.00%	100.00%
KazMunayGas-Service LLP (“KMGS”)	Service projects	Kazakhstan	100.00%	100.00%
Cooperative KazMunayGas PKI U.A.	Refinery and marketing of oil products	Netherlands	100.00%	100.00%
KMG International N.V. (“KMG I”)	Refinery and marketing of oil products	Romania	100.00%	100.00%
KMG Karachaganak LLP	Exploration and production	Kazakhstan	100.00%	100.00%
KazMorTransFlot LLP	Oil transportation and construction	Kazakhstan	100.00%	100.00%
KMG Drilling&Services LLP	Drilling services	Kazakhstan	100.00%	100.00%

In December, 2017 in accordance with the Resolution of the Government of RK the Company reorganized KMG RM through the merger with the Company.

**35. CONTINGENT LIABILITIES AND COMMITMENTS****Operating environment**

Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

**Commodity price risk**

The Group generates most of its revenue from the sale of commodities, primarily crude oil and oil products. Historically, the prices of these products have been volatile and have fluctuated widely in response to changes in supply and demand, market uncertainty, the performance of the global or regional economies and cyclicalities in industries.

Prices may also be affected by government actions, including the imposition of tariffs and import duties, speculative trades, an increase in capacity or an oversupply of the Group’s products in its main markets. These external factors and the volatility of the commodity markets make it difficult to estimate future prices.

A substantial or extended decline in commodity prices would materially and adversely affect the Group’s business and the consolidated financial results and cash flows of operations. The Group does not hedge significantly its exposure to the risk of fluctuations in the price of its products.

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

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**35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****Taxation**

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Due to 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 December 31, 2017.

As at December 31, 2017, Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained, except as provided for or otherwise disclosed in these consolidated financial statements.

*2009-2012 Comprehensive tax audit of KMG EP*

On December 11, 2017 the final decision of the Supreme Court related to the Company's appeal of the tax audit results for 2009 to 2012 tax years was issued and final assessment amounted to 6,534,000 thousand tenge that includes principal, fines and penalties. Accordingly, the tax provision in the amount of 7,031,000 thousand tenge was reversed in these consolidated financial statement.

*Value-added-tax (VAT) recoverability of KMG EP*

In May and June 2017 EmbaMunaiGas JSC and OzenMunaiGas JSC received acts of tax audits for the period 2012 to 2015 that confirmed the Company's right to reimburse VAT receivable for the amounts of 4,033,000 thousand tenge and 26,073,000 thousand tenge, respectively. The tax acts also confirmed that 2,053,000 thousand tenge and 2,006,000 thousand tenge of VAT were not recoverable for EmbaMunaiGas JSC and OzenMunaiGas JSC, respectively.

In these consolidated financial statements, the Group has reversed 30,106,000 thousand tenge of previously accrued VAT allowance. Total remaining VAT allowance as at December 31, 2017 is 10,668,000 thousand tenge.

**Transfer pricing control**

Transfer pricing control in Kazakhstan has a very wide scope and applies to many transactions that directly or indirectly relate to international business regardless of whether the transaction participants are related or not. The transfer pricing legislation requires that all taxes applicable to transaction participants are related or not. The transfer pricing legislation requires that all taxes applicable to a transaction should be calculated based on market price determined in accordance with the arm's length principle.

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

Because of the uncertainties associated with the Kazakhstan transfer pricing legislation, there is a risk that the tax authorities may take a position that differs from the Group's position, which could result in additional taxes, fines and interest at December 31, 2017.

As at December 31, 2017 management believes that its interpretation of the transfer pricing legislation is appropriate and that it is probable that the Group's positions with regard to transfer pricing will be sustained.

**Cost recovery audits**

Under the base principles of the production sharing agreements, the Government transferred to contractors the exclusive rights to conduct activities in the subsurface use area, but did not transfer rights to this subsurface use area either to ownership or lease. Thus, all extracted and processed oil (i.e. the hydrocarbons produced) are the property of the Government. Works are carried out on the basis of compensation and the Government pays the contractors not in cash but in the form of the portion of oil production, thereby allowing the contractors to recover their costs and earn profit.

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

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**35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****Cost recovery audits (continued)**

In accordance with the production sharing agreements not all costs incurred by the contractors could be reimbursed. Certain expenditures need to be approved by the authorized bodies. The authorized bodies conduct the cost recovery audits. In accordance with the costs recovery audits completed prior to December 31, 2017 certain amounts of the costs incurred by contractors were assessed as non-recoverable. The parties to the production sharing agreements are in negotiations with respect to the recoverability of those costs.

As of December 31, 2017 the Group's share in the total disputed amounts of costs is 242,915,341 thousand tenge (2016: 201,091,569 thousand tenge). The Group and its partners under the production sharing agreements are in negotiation with the Government with respect to the recoverability of these costs.

**KMG Drilling & Services LLP (KMG D&S) litigations with Consortium of companies Ersai Caspian Contractor LLP and Caspian Offshore and Marine Construction LLP**

KMG D&S (subsidiary of the Group) is involved in arbitration proceedings with Consortium of companies Ersai Caspian Contractor LLP and Caspian Offshore and Marine Construction LLP (further – “Consortium”) according to purchase contract on construction of JUDR, which is handled by the London Court of International Arbitration. Operative part of the Statement of case includes the following Claimant's demands:

- Declaration of project change in consequence of changes in the requirements of regulatory bodies, increase of Contract price due to such changes, compensation of consequential damages;
- Extension of JUDR delivery date due to permissible delays;
- Declaration by KMG D&S of delay of signing the works acceptance certificates and payment of key stages 5,6,7 of JUDR construction and recovery of damages in respect of delayed payments;
- Damage compensation resulting from increase of Contract price, breach of Contract, as well as exchange rate adjustments and Consortium's additional charges.

In 2017 Consortium increased the amount of claim up to 192,114 thousand US dollars (equivalent to 63,845,287 thousand tenge).

The Group does not agree with the claim and upon completion of the analysis of the case will start to develop the defence's arguments. Legal and technical consultants, independent experts are involved for protection the Group's corporate interests.

There is uncertainty about the result of judicial proceedings. As of December 31, 2017 the Group didn't recognize the provision for given claim.

**Kazakhstan local market obligation**

The Government requires oil companies in the Republic of Kazakhstan to supply a portion of the products to meet the Kazakhstan domestic energy requirement on an annual basis, mainly to maintain oil products supply balance on the local market and to support agricultural producers during the spring and autumn sowing and harvest campaigns.

Kazakhstan local market oil prices are significantly lower than export prices and even lower than the normal domestic market prices determined in an arm-length transaction. If the Government does require additional crude oil to be delivered over and above the quantities currently supplied by the Group, such supplies will take precedence over market sales and will generate substantially less revenue than crude oil sold on the export market, which may materially and adversely affect the Group's business, prospects, consolidated financial position and results of operations.

In 2017, in accordance with its obligations, the Group delivered 5,407,526 tons of crude oil (2016: 3,236,644 tons), including joint ventures, to the Kazakhstan market.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****Commitments under subsoil use contracts**

As at December 31, 2017 the Group had the following commitments related to minimal working program in accordance with terms of licenses, production sharing agreements and subsoil use contracts, signed with the Government:

Year	Capital expenditures	Operational expenditures
2018	152,970,780	11,025,197
2019	17,589,628	5,460,210
2020	7,379,090	5,810,346
2021	3,001,137	4,144,631
2022-2048	9,805,472	15,386,914
<b>Total</b>	<b>190,746,107</b>	<b>41,827,298</b>

**Oil supply commitments**

As of December 31, 2017 the Group had commitments under the oil supply agreements in the total amount of 28.7 million ton (as at December 31, 2016: 28.1 million ton), including joint venture.

**Other contractual commitments**

As at December 31, 2017, the Group, including joint ventures, had other capital commitments of approximately 684,856,470 thousand tenge (2016: 1,100,442,105 thousand tenge), related to acquisition and construction of property, plant and equipment.

As at December 31, 2017, the Group had commitments in the total amount of 125,333,073 thousand tenge (2016: 151,079,503 thousand tenge) under the investment programs approved by the joint order of Ministry of Energy of RK and Committee on Regulation of Natural Monopolies and Protection of Competition of the Ministry of National Economy of RK and aimed at capital construction/reconstruction/overhaul/diagnostic of production facilities.

**Non-financial guarantees**

As of December 31, 2017 and 2016, the Group has outstanding performance guarantees issued in favour of third parties whereas it provides guarantee should its subsidiary, joint venture or associate fail to perform their obligations under the natural gas purchase-sale, transportation and other agreements.

As of the reporting date the management of the Group believes that there were no cases of non-performance from the guaranteed parties and, accordingly, no obligations related to the above stated non-financial contingencies were recognized.

**36. SEGMENT REPORTING**

Management of the Group analyzes the segment information based on IFRS numbers. Segment profits are considered based on gross profit and net profit results.

The Group's operating segments have their own structure and management according to the type of the produced goods and services provided. Moreover, all segments are strategic directions of the business which offer different types of the goods and serve different markets.

The Group's activity consists of four main operating segments: exploration and production of oil and gas, transportation of oil, transportation of gas, refining and trading of crude oil and refined products. The remaining operating segments have been aggregated and presented as other operating segment due to their insignificance.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****36. SEGMENT REPORTING (continued)**

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

<i>In thousands of tenge</i>	Exploration and production of oil and gas and trading of own refined products	Oil transportation	Gas trading and transportation	Refining and trading of crude oil and refined products	Other	Elimination	Total
Revenues from sales to external customers	114,153,662	199,081,114	522,205,420	1,525,574,911	97,819,983	–	2,458,835,090
Revenues from sales to other segments	981,455,736	50,139,885	30,382,814	378,119,454	44,584,007	(1,484,681,896)	–
<b>Total revenue</b>	<b>1,095,609,398</b>	<b>249,220,999</b>	<b>552,588,234</b>	<b>1,903,694,365</b>	<b>142,403,990</b>	<b>(1,484,681,896)</b>	<b>2,458,835,090</b>
<b>Gross profit</b>	<b>581,444,903</b>	<b>102,296,291</b>	<b>126,241,522</b>	<b>126,823,754</b>	<b>(2,647,908)</b>	<b>(855,226,343)</b>	<b>78,932,219</b>
Finance income	30,635,494	7,050,351	15,710,022	52,357,842	102,854,450	(86,872,885)	121,735,274
Finance costs	(15,996,844)	(5,241,821)	(35,846,120)	(88,515,042)	(224,664,707)	75,367,070	(294,897,464)
Depreciation, depletion and amortization	(69,207,237)	(31,696,855)	(30,456,725)	(37,973,497)	(12,544,828)	–	(181,879,142)
Impairment of property, plant and equipment, exploration and evaluation assets and intangible assets, excluding goodwill	(1,463,939)	(51,710)	(326,705)	(15,339,255)	(8,459,943)	–	(25,641,552)
Share in profit of joint ventures and associates, net	337,552,519	57,373,362	7,988,655	10,338,986	1,311,714	–	414,565,236
Income tax expenses	(107,279,249)	(19,633,566)	(24,678,324)	(17,926,627)	(22,512,037)	–	(192,029,803)
<b>Net profit for the year</b>	<b>295,007,049</b>	<b>124,319,958</b>	<b>46,797,287</b>	<b>125,666,735</b>	<b>(77,130,767)</b>	<b>4,865,769</b>	<b>519,526,031</b>
<b>Other segment information</b>							
Investments in joint ventures and associates	3,503,893,511	208,816,622	52,561,936	41,381,920	3,697,352	–	3,810,351,341
Capital expenditures	135,198,715	74,873,446	140,487,481	260,039,531	26,594,379	–	637,193,552
Allowances for obsolete inventories, doubtful accounts receivable, advances paid, and other assets	(4,390,424)	(4,288,838)	(9,231,998)	(5,327,690)	(13,201,216)	–	(36,440,166)
<b>Assets of the segment</b>	<b>6,542,104,710</b>	<b>904,925,698</b>	<b>1,444,619,613</b>	<b>3,624,699,943</b>	<b>2,363,946,296</b>	<b>(1,491,542,923)</b>	<b>13,388,753,337</b>
<b>Liabilities of the segment</b>	<b>629,755,726</b>	<b>186,128,956</b>	<b>760,480,222</b>	<b>2,743,729,400</b>	<b>3,878,415,567</b>	<b>(1,432,156,528)</b>	<b>6,766,353,343</b>

Eliminations represent the exclusion of intra-group turnovers.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****36. SEGMENT REPORTING (continued)**

Inter-segment transactions were made on terms agreed to between the segments that may not necessarily be at market rates, except for certain regulated services, which are provided based on the tariffs available to related and third parties. The following represents information about profit and loss, and assets and liabilities of operating segments of the Group for 2016:

<i>In thousands of tenge</i>	Exploration and production of oil and gas and trading of own refined products	Oil transportation	Gas trading and transportation	Refining and trading of crude oil and refined products	Other	Elimination	Total
Revenues from sales to external customers	112,656,378	188,176,142	483,593,658	992,583,481	80,425,697	–	1,857,435,356
Revenues from sales to other segments	739,286,768	45,849,567	18,364,837	58,996,031	42,593,080	(905,090,283)	–
Total revenue	851,943,146	234,025,709	501,958,495	1,051,579,512	123,018,777	(905,090,283)	1,857,435,356
Gross profit	419,643,185	97,474,945	153,714,720	132,766,007	(10,017,778)	(497,891,742)	295,689,337
Finance income	33,625,179	9,138,097	14,200,584	31,912,152	137,722,140	(58,706,464)	167,891,688
Finance costs	(13,229,134)	(4,829,755)	(27,210,248)	(45,814,320)	(194,230,327)	54,930,430	(230,383,354)
Depreciation, depletion and amortization	(77,003,750)	(31,799,193)	(28,652,432)	(34,080,013)	(9,057,477)	–	(180,592,865)
Impairment of property, plant and equipment, exploration and evaluation assets and intangible assets, excluding goodwill	(1,134,659)	(679,061)	1,575,152	(51)	(3,044,060)	–	(3,282,679)
Share in profit of joint ventures and associates, net	163,204,602	79,407,009	15,191,245	10,839,301	1,548,833	–	270,190,990
Income tax expenses	(76,672,148)	(13,941,937)	(26,531,702)	(19,297,752)	(27,347,598)	–	(163,791,137)
Net profit for the year	285,204,844	149,302,835	95,731,109	564,774,494	(697,184,832)	(37,657,407)	360,171,043
Other segment information							
Investments in joint ventures and associates	3,440,284,418	149,567,256	80,723,711	31,350,162	4,351,263	–	3,706,276,810
Capital expenditures	147,284,800	42,612,060	88,851,035	233,253,447	42,140,785	–	554,142,127
Allowances for obsolete inventories, doubtful accounts receivable, advances paid, and other assets	(19,786,389)	(2,470,383)	(8,329,262)	(5,933,387)	(2,196,200)	–	(38,715,621)
Assets of the segment	6,210,069,721	831,909,870	1,295,190,723	3,459,862,728	1,682,382,885	(1,596,338,657)	11,883,077,270
Liabilities of the segment	529,270,606	164,038,032	663,338,007	2,693,298,363	3,089,738,401	(1,534,877,054)	5,604,806,355

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

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**37. SUBSEQUENT EVENTS**

On December 8, 2017 KMG EP announced the launch of a conditional tender offer (the “Tender Offer”) to repurchase all of its outstanding GDRs at a price of 14.00 US Dollars per GDR. According to the result on extraordinary general meeting held on January 22, 2018 the Tender Offer became unconditional in all respects. On January 23, 2018 KMG EP announced the launch of an unconditional offer to repurchase all of its Common Shares (the “Share Offer”) placed on KASE at a price of 84.00 US dollars per Common Share payable in tenge. On February 19, 2018, the Share Offer was effected, as a result of which KMG EP has repurchased a total of 72,788,984 GDR on the over-the-counter basis, 61,281,070 GDRs on the Kazakhstan Stock Exchange and 320,688 common shares. Also, KMG EP repurchased 95,761 preferred shares from preferred shareholders, which from December 8, 2017 to January 8, 2018 exercised the Put Option Right which arose on the announcement of the Tender Offer. Thus, the Company and KMG EP own 47,194,539 common shares and 134,781,116 GDRs, which is approximately 99.2% of the issued common shares, as well as 2,168,908 preferred shares.

On January 19, 2018 the Company made a partial repayment of issued bonds held by Development Bank of Kazakhstan JSC in the amount of 17,197,293 thousand tenge.

On January 26, 2018 KazRosGaz LLP paid dividends to the Company in the amount of 14,180,747 thousand tenge.

On January 22, 2018 ANPZ paid principal and interest on loans received from DBK in the amount of 20,641,777 thousand tenge and 8,727,381 thousand tenge, respectively.