

**JSC “National Company “KazMunayGas”**

**Consolidated financial statements**

*For the year ended December 31, 2018  
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 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for opinion

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

### Key audit matters

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

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



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## Key audit matter

## How our audit addressed the key audit matter

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

We considered this matter to be one of the most significance in our audit due to materiality of the balances of non-current assets, including upstream, exploration and evaluation, downstream assets and investments in upstream and midstream 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.

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 analysis of the sensitivity of the results of impairment tests to the changes in assumptions.

We analysed disclosures on impairment test in the consolidated financial statements.



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### **Compliance with debt covenants**

In accordance with the terms of certain financing arrangements, the Group should 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 expenses, therefore, we focused on this area during our audit. Breaching covenants could result in 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 18* to the consolidated financial statements.

We examined the terms of financing arrangements and analysed financial and non-financial covenants, terms for early repayment and events of default. We examined the presence of confirmations received from banks related to compliance with financial covenants. We compared data used in the financial covenants calculations with the financial statements. We tested arithmetic accuracy of financial covenants calculations.

We analysed the disclosures in respect of debt covenants compliance in the consolidated financial statements of the Group.

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

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

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

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



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### ***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.



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- ▶ 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.



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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 МФЮ-2 No. 0000003 issued by the  
Ministry of finance of the Republic of  
Kazakhstan on July 15, 2005

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

12 March 2019



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

|  |      | As at December 31     |                       |
|--|------|-----------------------|-----------------------|
| <i>In thousands of tenge</i>                   | Note | 2018                  | 2017<br>(Restated)*   |
| <b>Assets</b>                                  |      |                       |                       |
| <b>Non-current assets</b>                      |      |                       |                       |
| Property, plant and equipment                  | 7    | 4,515,169,879         | 4,080,164,484         |
| Exploration and evaluation assets              | 8    | 189,799,553           | 253,326,100           |
| Investment property                            | 9    | 24,187,775            | 27,423,225            |
| Intangible assets                              | 10   | 173,077,337           | 185,205,427           |
| Long-term bank deposits                        | 11   | 52,296,877            | 48,523,034            |
| Investments in joint ventures and associates   | 12   | 4,895,444,182         | 3,823,629,586         |
| Deferred income tax asset                      | 30   | 97,881,412            | 98,680,503            |
| VAT receivable                                 |      | 113,073,093           | 96,666,045            |
| Advances for non-current assets                |      | 27,176,258            | 124,906,942           |
| Loans and receivables due from related parties | 15   | 638,527,897           | 672,448,689           |
| Other financial assets                         |      | 4,752,591             | 4,161,312             |
| Other non-current assets                       |      | 16,941,980            | 17,401,423            |
|  |      | <b>10,748,328,834</b> | <b>9,432,536,770</b>  |
| <b>Current assets</b>                          |      |                       |                       |
| Inventories                                    | 13   | 312,298,668           | 250,368,907           |
| VAT receivable                                 |      | 66,522,257            | 69,605,981            |
| Income tax prepaid                             |      | 53,142,708            | 36,134,973            |
| Trade accounts receivable                      | 14   | 493,977,474           | 467,867,255           |
| Short-term bank deposits                       | 11   | 386,459,273           | 1,638,940,642         |
| Loans and receivables due from related parties | 15   | 148,615,167           | 169,501,500           |
| Other current assets                           | 14   | 204,722,719           | 196,110,129           |
| Cash and cash equivalents                      | 16   | 1,539,452,842         | 1,263,987,456         |
|  |      | <b>3,205,191,108</b>  | <b>4,092,516,843</b>  |
| Assets classified as held for sale             | 5    | 61,759,624            | 24,904,588            |
|  |      | <b>3,266,950,732</b>  | <b>4,117,421,431</b>  |
| <b>Total assets</b>                            |      | <b>14,015,279,566</b> | <b>13,549,958,201</b> |

*The accounting policies and explanatory notes on pages 8 through 92 form an integral part of these consolidated financial statements.*

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


|   |      | As at December 31     |                       |
|---|------|-----------------------|-----------------------|
| <i>In thousands of tenge</i>  | Note | 2018                  | 2017<br>(Restated)*   |
| <b>Equity and liabilities</b>   |      |                       |                       |
| <b>Equity</b>   |      |                       |                       |
| Share capital   | 17   | 916,540,545           | 709,344,505           |
| Additional paid-in capital  | 17   | 40,794,146            | 243,876,410           |
| Other equity  |      | 83,185                | 83,185                |
| Currency translation reserve  |      | 1,764,108,464         | 1,295,091,189         |
| Retained earnings   |      | 4,341,062,348         | 3,665,191,668         |
| <b>Attributable to equity holders of the Parent Company</b>                 |      | <b>7,062,588,688</b>  | <b>5,913,586,957</b>  |
| Non-controlling interest  | 17   | 80,479,625            | 870,017,901           |
| <b>Total equity</b>   |      | <b>7,143,068,313</b>  | <b>6,783,604,858</b>  |
| <b>Non-current liabilities</b>  |      |                       |                       |
| Borrowings  | 18   | 3,822,647,614         | 3,417,111,859         |
| Provisions  | 20   | 229,797,170           | 203,774,487           |
| Deferred income tax liabilities   | 30   | 479,597,579           | 380,738,225           |
| Financial guarantees  |      | 11,501,379            | 10,767,166            |
| Prepayment on oil supply agreements   | 19   | 480,250,001           | 581,577,501           |
| Other non-current liabilities   |      | 40,261,965            | 46,426,823            |
|   |      | <b>5,064,055,708</b>  | <b>4,640,396,061</b>  |
| <b>Current liabilities</b>  |      |                       |                       |
| Borrowings  | 18   | 330,590,078           | 884,140,278           |
| Provisions  | 20   | 98,470,933            | 78,812,199            |
| Income tax payable  |      | 13,271,808            | 10,081,239            |
| Trade accounts payable  | 21   | 632,739,333           | 513,851,048           |
| Other taxes payable   | 22   | 105,026,042           | 101,198,347           |
| Financial guarantees  |      | 1,831,135             | 1,170,697             |
| Prepayment on oil supply agreements   | 19   | 384,200,000           | 332,330,000           |
| Other current liabilities   | 21   | 236,987,600           | 202,444,812           |
|   |      | <b>1,803,116,929</b>  | <b>2,124,028,620</b>  |
| Liabilities directly associated with the assets classified as held for sale | 5    | 5,038,616             | 1,928,662             |
| <b>Total liabilities</b>  |      | <b>6,872,211,253</b>  | <b>6,766,353,343</b>  |
| <b>Total equity and liabilities</b>   |      | <b>14,015,279,566</b> | <b>13,549,958,201</b> |
| <b>Book value per ordinary share</b>  | 17   | <b>11.424</b>         | <b>11.195</b>         |

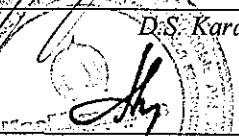
\*Certain numbers shown here do not correspond to the consolidated financial statements for the year ended December 31, 2017 and reflect adjustments made, refer to Note 5.


Deputy Chairman of the Management Board – Chief Financial Officer

Managing director – finance controller

Chief accountant

  
D.S. Karabayev

  
A.Zh. Beknazarova

  
Y.Y. Orynbayev

The accounting policies and explanatory notes on pages 8 through 92 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

| <i>In thousands of tenge</i>  | Note | For the years ended December 31 |                      |
|---|------|---------------------------------|----------------------|
|   |      | 2018                            | 2017<br>(Restated)*  |
| Revenue   | 23   | 6,988,964,296                   | 4,793,762,540        |
| Cost of sales   | 24   | (5,353,492,461)                 | (3,704,456,783)      |
| <b>Gross profit</b>   |      | <b>1,635,471,835</b>            | <b>1,089,305,757</b> |
| General and administrative expenses   | 25   | (247,127,562)                   | (200,433,904)        |
| Transportation and selling expenses   | 26   | (659,447,128)                   | (440,568,108)        |
| Impairment of property, plant and equipment, intangible assets                                    | 27   | (165,522,259)                   | (24,659,554)         |
| Loss on disposal of property, plant and equipment, intangible assets and investment property, net |      | (3,516,894)                     | (3,814,867)          |
| Other operating income  |      | 23,034,658                      | 20,164,501           |
| Other operating expenses  |      | (24,143,678)                    | (33,595,412)         |
| <b>Operating income</b>   |      | <b>558,748,972</b>              | <b>406,398,413</b>   |
| Net foreign exchange (loss)/gain  |      | (38,319,521)                    | 67,054,683           |
| Finance income  | 28   | 161,026,892                     | 122,573,831          |
| Finance costs   | 28   | (427,655,205)                   | (306,355,390)        |
| Reversal of impairment of investments in joint ventures   | 12   | -                               | 14,845,359           |
| Impairment of assets classified as held for sale  |      | (168,378)                       | (67,594)             |
| Net income on disposal of subsidiary  | 6    | 18,358,902                      | -                    |
| Share in profit of joint ventures and associates, net   | 29   | 697,326,157                     | 414,949,811          |
| <b>Profit before income tax</b>   |      | <b>969,317,819</b>              | <b>719,399,113</b>   |
| Income tax expenses   | 30   | (279,259,657)                   | (190,284,988)        |
| <b>Profit for the year from continuing operations</b>   |      | <b>690,058,162</b>              | <b>529,114,125</b>   |
| <b>Discontinued operations</b>  |      |                                 |                      |
| Profit/(loss) after income tax for the year from discontinued operations                          | 5    | 3,452,792                       | (3,666,118)          |
| <b>Net profit for the year</b>  |      | <b>693,510,954</b>              | <b>525,448,007</b>   |
| <b>Net profit/(loss) for the year attributable to:</b>  |      |                                 |                      |
| Equity holders of the Parent Company  |      | 695,863,672                     | 443,407,854          |
| Non-controlling interest  |      | (2,352,718)                     | 82,040,153           |
|   |      | <b>693,510,954</b>              | <b>525,448,007</b>   |

*The accounting policies and explanatory notes on pages 8 through 92 form an integral part of these consolidated financial statements.*

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

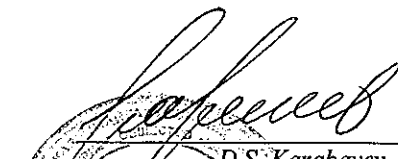
| <i>In thousands of tenge</i>  | Note | For the years ended December 31 |                     |
|---|------|---------------------------------|---------------------|
|   |      | 2018                            | 2017<br>(Restated)* |
| <b>Other comprehensive income</b>   |      |                                 |                     |
| <i>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods</i> |      |                                 |                     |
| Exchange differences on translation of foreign operations   |      | 479,195,360                     | (75,011,198)        |
| Accumulated differences on translation of disposal group  |      | (475,673)                       | (423,776)           |
| <b>Other comprehensive income/(loss) to be reclassified to profit or loss in the year</b>           |      | <b>478,719,687</b>              | <b>(75,434,974)</b> |
| <i>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods</i>      |      |                                 |                     |
| Actuarial loss on defined benefit plans of the Group  |      | (3,658,106)                     | (1,148,036)         |
| Actuarial loss on defined benefit plans of joint ventures   |      | (159,594)                       | (173,333)           |
| Write-off of deferred tax assets  |      | -                               | (150,746)           |
| Tax effect  |      | (85,489)                        | 8,642               |
| <b>Other comprehensive loss not to be reclassified to profit or loss in the year</b>                |      | <b>(3,903,189)</b>              | <b>(1,463,473)</b>  |
| <b>Other comprehensive income/(loss) for the year</b>   |      | <b>474,816,498</b>              | <b>(76,898,447)</b> |
| <b>Total comprehensive income for the year, net of tax</b>  |      | <b>1,168,327,452</b>            | <b>448,549,560</b>  |
| <b>Total comprehensive income for the year attributable to:</b>                                     |      |                                 |                     |
| Equity holders of the Parent Company  |      | 1,161,006,802                   | 366,948,405         |
| Non-controlling interest  |      | 7,320,650                       | 81,601,155          |
|   |      | <b>1,168,327,452</b>            | <b>448,549,560</b>  |

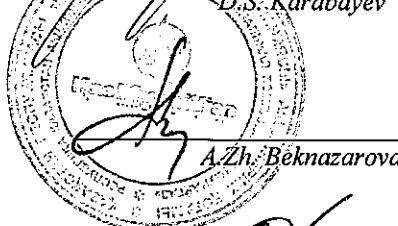
\*Certain numbers shown here do not correspond to the consolidated financial statements for the year ended December 31, 2017 and reflect adjustments made, refer to Note 5.

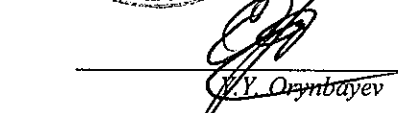
Deputy Chairman of the Management Board – Chief Financial Officer

Managing director – finance controller

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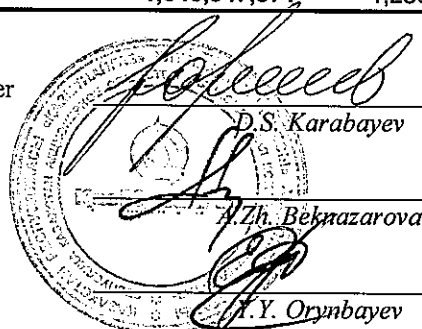
**CONSOLIDATED STATEMENT OF CASH FLOWS**

| <i>In thousands of tenge</i>  | <b>For the years ended December 31</b> |                      |
|---|--|----------------------|
|   | <b>2018</b>                            | <b>2017</b>          |
| <b>Cash flows from operating activities</b>   |  |                      |
| Receipts from customers   | 7,619,487,095                          | 5,634,357,593        |
| Payments to suppliers   | (5,097,946,002)                        | (3,715,959,005)      |
| Other taxes and payments  | (1,257,586,494)                        | (914,413,795)        |
| Income taxes paid   | (186,199,158)                          | (112,604,740)        |
| Interest received   | 134,364,944                            | 104,803,503          |
| Interest paid   | (248,341,171)                          | (216,639,835)        |
| Payments to employees   | (387,218,685)                          | (369,717,122)        |
| Taxes received from Tax authorities   | 29,875,789                             | 79,392,887           |
| Social payments and pension funds   | (52,368,596)                           | (51,613,541)         |
| Other payments  | (100,077,386)                          | (37,717,403)         |
| <b>Net cash flows from operating activities</b>   | <b>453,990,336</b>                     | <b>399,888,542</b>   |
| <b>Cash flows from investing activities</b>   |  |                      |
| Withdrawal/(placement) of bank deposits, net  | 1,295,272,246                          | (457,272,356)        |
| Purchase of property, plant and equipment, intangible assets, investment property and exploration and evaluation assets           | (430,306,245)                          | (464,352,881)        |
| Proceeds from sale of property, plant and equipment, intangible assets, investment property and exploration and evaluation assets | 8,710,820                              | 1,408,198            |
| Proceeds from disposal of subsidiaries (Note 6)   | 18,111,600                             | 9,151,261            |
| Cash acquired with subsidiaries   | –                                      | 180,678              |
| Dividends received from joint ventures and associates   | 160,060,909                            | 271,782,500          |
| Acquisition of and contribution to joint ventures   | (1,467,361)                            | (2,625)              |
| Proceeds from disposal of joint ventures (Note 5)   | 2,000,000                              | –                    |
| Refund of contribution to joint ventures  | 93,072,267                             | 1,714,856            |
| Loans given to related parties  | (64,716,059)                           | (184,707,890)        |
| Repayment of loans due from related parties   | 40,983,976                             | 455,324              |
| Refund/(acquisition) of debt securities   | 243,942                                | (332,401)            |
| Note receivable from a shareholder of a joint venture (Note 31)   | 29,174,223                             | –                    |
| <b>Net cash flows from/(used in) investing activities</b>   | <b>1,151,140,318</b>                   | <b>(821,975,336)</b> |
| <b>Cash flows from financing activities</b>   |  |                      |
| Proceeds from borrowings (Note 18)  | 1,249,906,641                          | 1,508,170,132        |
| Repayment of borrowings (Note 18)   | (2,069,977,321)                        | (689,074,491)        |
| Dividends paid to Samruk-Kazyna and National Bank of RK (Note 17)   | (36,273,040)                           | (45,877,517)         |
| Dividends paid to non-controlling interests (Note 17)   | (6,389,605)                            | (12,415,761)         |
| Share buyback by subsidiary (Note 17)   | (642,524,031)                          | –                    |
| Issue of shares (Note 17)   | 7                                      | 1                    |
| <b>Net cash flows (used in)/from financing activities</b>   | <b>(1,505,257,349)</b>                 | <b>760,802,364</b>   |
| Effects of exchange rate changes on cash and cash equivalents   | 179,467,721                            | 22,436,734           |
| Change in allowance for expected credit losses  | (97,970)                               | –                    |
| <b>Net change in cash and cash equivalents</b>  | <b>279,243,056</b>                     | <b>361,152,304</b>   |
| Cash and cash equivalents, at the beginning of the year   | 1,266,604,815                          | 905,452,511          |
| <b>Cash and cash equivalents, at the end of the year</b>  | <b>1,545,847,871</b>                   | <b>1,266,604,815</b> |

Deputy Chairman of the Management Board – Chief Financial Officer

Managing director – finance controller

Chief accountant



D.S. Karabayev  
A.Zh. Beknazarova  
A.Y. Orynbayev

*The accounting policies and explanatory notes on pages 8 through 92 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, 2016 (restated) (Note 5)</b> | 696,376,625   | 243,655,405                | 222,074      | 1,370,264,462                | 3,322,319,176     | 5,632,837,742 | 801,560,097              | 6,434,397,839 |
| Net profit for the year                            | –   | –                          | –            | –                            | 443,407,854       | 443,407,854   | 82,040,153               | 525,448,007   |
| Other comprehensive income                         | –   | –                          | –            | (75,173,273)                 | (1,286,176)       | (76,459,449)  | (438,998)                | (76,898,447)  |
| <b>Total comprehensive income for the year</b>     | –   | –                          | –            | (75,173,273)                 | 442,121,678       | 366,948,405   | 81,601,155               | 448,549,560   |
| Contribution to share capital                      | 12,967,880  | 221,005                    | –            | –                            | –                 | 13,188,885    | –                        | 13,188,885    |
| Dividends  | –   | –                          | –            | –                            | (45,878,887)      | (45,878,887)  | (13,269,562)             | (59,148,449)  |
| Distributions to Samruk-Kazyna                     | –   | –                          | –            | –                            | (23,634,306)      | (23,634,306)  | –                        | (23,634,306)  |
| Transactions with Samruk-Kazyna (Note 17)          | –   | –                          | –            | –                            | (29,735,993)      | (29,735,993)  | –                        | (29,735,993)  |
| Execution of share-based payments                  | –   | –                          | (130,900)    | –                            | –                 | (130,900)     | 130,900                  | –             |
| Forfeiture of share-based payments                 | –   | –                          | (7,989)      | –                            | –                 | (7,989)       | (4,689)                  | (12,678)      |
| <b>As at December 31, 2017 (restated)</b>          | 709,344,505   | 243,876,410                | 83,185       | 1,295,091,189                | 3,665,191,668     | 5,913,586,957 | 870,017,901              | 6,783,604,858 |

*The accounting policies and explanatory notes on pages 8 through 92 form an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)**

| <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, 2017 (restated) (Note 5)</b> | <b>709,344,505</b>                                  | <b>243,876,410</b>         | <b>83,185</b> | <b>1,295,091,189</b>         | <b>3,665,191,668</b> | <b>5,913,586,957</b> | <b>870,017,901</b>       | <b>6,783,604,858</b> |
| Changes in accounting policy (Note 3)              | –   | –                          | –             | –                            | (12,391,462)         | (12,391,462)         | (6,195)                  | (12,397,657)         |
| <b>As at January 1, 2018 (restated)</b>            | <b>709,344,505</b>                                  | <b>243,876,410</b>         | <b>83,185</b> | <b>1,295,091,189</b>         | <b>3,652,800,206</b> | <b>5,901,195,495</b> | <b>870,011,706</b>       | <b>6,771,207,201</b> |
| Net profit for the year                            | –   | –                          | –             | –                            | 695,863,672          | 695,863,672          | (2,352,718)              | 693,510,954          |
| Other comprehensive income                         | –   | –                          | –             | 469,017,275                  | (3,874,145)          | 465,143,130          | 9,673,368                | 474,816,498          |
| <b>Total comprehensive income for the year</b>     | <b>–</b>  | <b>–</b>                   | <b>–</b>      | <b>469,017,275</b>           | <b>691,989,527</b>   | <b>1,161,006,802</b> | <b>7,320,650</b>         | <b>1,168,327,452</b> |
| Contribution to share capital (Note 17)            | 207,196,040   | (203,082,264)              | –             | –                            | –                    | 4,113,776            | –                        | 4,113,776            |
| Dividends (Note 17)                                | –   | –                          | –             | –                            | (36,271,669)         | (36,271,669)         | (6,200,599)              | (42,472,268)         |
| Distributions to Samruk-Kazyna (Note 17)           | –   | –                          | –             | –                            | (27,383,179)         | (27,383,179)         | –                        | (27,383,179)         |
| Transactions with Samruk-Kazyna (Note 17)          | –   | –                          | –             | –                            | (88,545,678)         | (88,545,678)         | –                        | (88,545,678)         |
| Acquisition of subsidiaries                        | –   | –                          | –             | –                            | –                    | –                    | 345,040                  | 345,040              |
| Share buyback by subsidiary (Note 17)              | –   | –                          | –             | –                            | 148,473,141          | 148,473,141          | (790,997,172)            | (642,524,031)        |
| <b>As at December 31, 2018</b>                     | <b>916,540,545</b>                                  | <b>40,794,146</b>          | <b>83,185</b> | <b>1,764,108,464</b>         | <b>4,341,062,348</b> | <b>7,062,588,688</b> | <b>80,479,625</b>        | <b>7,143,068,313</b> |

Deputy Chairman of the Management Board – Chief Financial Officer

  
 D.S. Karabayev  
  
 Zh. Beknazarova

Managing director – finance controller

Chief accountant

  
 Y.Y. Orynbayev

The accounting policies and explanatory notes on pages 8 through 92 form an integral part of these consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the year ended December 31, 2018**

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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, 2018, the Company has an interest in 57 operating companies (2017: 52) (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 33*).

These consolidated financial statements of the Group were approved for issue by the Deputy Chairman of the Management Board – Chief Financial Officer, Managing director – financial controller and the Chief accountant on March 12, 2019.

**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*.



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

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**2. BASIS OF PREPARATION (continued)****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.

*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, 2018 was 384.20 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, 2018 (2017: 332.33 tenge to 1 US dollar). The currency exchange rate of KASE as at March 12, 2019 was 377.99 tenge to 1 US dollar.

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

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**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, 2017, except for the adoption of new standards and interpretations effective as of January 1, 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*. The nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group.

*IFRS 15 Revenue from Contracts with Customers*

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

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

The Group adopted IFRS 15 using the retrospective modified method. The effect of transition on the current period has not been disclosed as the standard provides an optional practical expedient. The Group did not apply any of the other available optional practical expedients.

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

*(a) Sale of goods*

The Group's contracts with customers for the sale of goods generally include one performance obligation. The Group has concluded that revenue from sale of goods should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

*(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. The adoption of IFRS 15 did not have an impact on the Group's revenue and profit or loss from rendering of services.

*(c) Advances received from customers*

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****New and amended standards and interpretations (continued)***IFRS 9 Financial Instruments*

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

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

The Group did not restate the comparative information for the annual period beginning January 1, 2017 and recognised the adjustment to the opening balance of retained earnings and non-controlling interest as at January 1, 2018.

*(a) Classification and measurement*

Under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Group's debt financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and other receivables, loans due from related parties and bank deposits;
- Debt instruments at FVPL. This category includes certain loans due from related parties, which contain embedded derivative financial instruments, and coupon bonds included in other financial assets.

The Group does not have financial assets at FVOCI.

The Group accounts the financial guarantee contracts after initial recognition at the higher of the initially recognized amount and the amount of the estimated provision for expected credit losses. As a result, the Group has adjusted the balance of retained earnings as of January 1, 2018 and financial guarantees by 778,986 thousand tenge.

The assessment of the Group's business models was made as of the date of initial application, January 1, 2018, and then applied retrospectively to those financial assets that were not derecognised before January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

*(b) Impairment*

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****New and amended standards and interpretations (continued)***IFRS 9 Financial Instruments (continued)*

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

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of IFRS 9 resulted in increases in impairment allowances of the Group's debt financial assets. As a result of this increase, the Group adjusted the balance of retained earnings and non-controlling interest as at January 1, 2018 in the consolidated statement of changes in equity for ECL for financial assets at amortized cost.

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

| <i>In thousands of tenge</i>                             | <b>As at<br/>December 31,<br/>2017 (restated)</b> | <b>Effects of<br/>adoption<br/>of IFRS 9</b> | <b>As at<br/>January 1,<br/>2018</b> |
|--|---|--|--------------------------------------|
| <b>Assets</b>  |   |  |                                      |
| <b>Non-current assets</b>                                |   |  |                                      |
| Long-term bank deposits                                  | 48,523,034  | (50,597)                                     | 48,472,437                           |
| Investments in joint ventures and associates (Note 12)   | 3,823,629,586                                     | (3,236,742)                                  | 3,820,392,844                        |
| Loans and receivables due from related parties (Note 15) | 672,448,689                                       | (3,219,907)                                  | 669,228,782                          |
| At amortized cost  | 672,448,689                                       | (172,613,056)                                | 499,835,633                          |
| At fair value through profit or loss                     | –   | 169,393,149                                  | 169,393,149                          |
| Other non-current assets                                 | 17,401,423  | (2,564)                                      | 17,398,859                           |
| <b>Current assets</b>                                    |   |  |                                      |
| Trade accounts receivable (Note 14)                      | 467,867,255                                       | (3,651,747)                                  | 464,215,508                          |
| At cost  | 525,773,611                                       | –  | 525,773,611                          |
| Less: allowance for expected credit losses               | (57,906,356)                                      | (3,651,747)                                  | (61,558,103)                         |
| Short-term bank deposits                                 | 1,638,940,642                                     | (42,628)                                     | 1,638,898,014                        |
| Loans and receivables due from related parties (Note 15) | 169,501,500                                       | (1,391,063)                                  | 168,110,437                          |
| At amortized cost  | 169,501,500                                       | (93,491,703)                                 | 76,009,797                           |
| At fair value through profit or loss                     | –   | 92,100,640                                   | 92,100,640                           |
| Other current assets (Note 14)                           | 196,110,129                                       | (6,232)                                      | 196,103,897                          |
| At cost  | 258,880,270                                       | –  | 258,880,270                          |
| Less: allowance for expected credit losses               | (62,770,141)                                      | (6,232)                                      | (62,776,373)                         |
| Cash and cash equivalents                                | 1,263,987,456                                     | (17,191)                                     | 1,263,970,265                        |
| <b>Equity and liabilities</b>                            |   |  |                                      |
| <b>Equity</b>  |   |  |                                      |
| Retained earnings  | 3,665,191,668                                     | (12,391,462)                                 | 3,652,800,206                        |
| Non-controlling interest                                 | 870,017,901                                       | (6,195)                                      | 870,011,706                          |

**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)***IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

*Amendments to IAS 40 Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

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

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

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

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****New and amended standards and interpretations (continued)**

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

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the Group’s consolidated financial statements.

**Standards that have been issued but not yet effective**

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

- IFRS 17 *Insurance Contracts*;
- IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment*;
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*;
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*;
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*;
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*;
- Amendments to IFRS 3 *Business Combinations*
- Amendments to IAS 1 and IAS 8: *Definition of Material*;
- IFRS 3 *Business Combinations* (Annual Improvements 2015-2017 Cycle (issued in December 2017));
- IFRS 11 *Joint Arrangements* (Annual Improvements 2015-2017 Cycle (issued in December 2017));
- IAS 12 *Income Taxes* (Annual Improvements 2015-2017 Cycle (issued in December 2017));
- IAS 23 *Borrowing costs* (Annual Improvements 2015-2017 Cycle (issued in December 2017));

**IFRS 16 Leases**

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of ‘low-value’ assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. The lease term will correspond to the duration of the contracts signed except in cases where the Group is reasonably certain that it will exercise contractual extension options.

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

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

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

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

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

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

During 2018, the Group has performed a detailed assessment of IFRS 16 impact. The Group does not expect a significant impact of the application of IFRS 16 on the consolidated financial statements.

*IFRIC Interpretation 23 Uncertainty over Income Tax Treatment*

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

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

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

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

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

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

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

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of December 31, 2018. 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)****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 IFRS 9 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 IFRS 9, 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 off 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 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 consolidated statement of comprehensive income.

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:

|                            |             |
|----------------------------|-------------|
| 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  |

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)****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 based on the appropriate depreciation method.

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 subsequently measured at amortised cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVPL).

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

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

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

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial assets (continued)*****Initial recognition and measurement (continued)***

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.

**Subsequent measurement**

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

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through profit or loss

The Group does not have financial assets at fair value through other comprehensive income.

**Financial assets at amortised cost (debt instruments)**

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

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

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

The Group's financial assets at amortised cost include trade and other receivables, loans due from related parties and bank deposits.

**Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include certain loans due from related parties, which contain embedded derivative financial instruments, and coupon bonds included in other financial assets mandatorily required to be measured at fair value. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

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



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

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

A financial asset is primarily derecognised (removed from the consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired

Or

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**Impairment of financial assets**

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

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

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****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 are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans borrowings and payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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, loans and borrowings and derivative financial instruments.

***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 IFRS 9. 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.

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

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

*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.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****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 Shareholders 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.

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.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Employee benefits (continued)****Revenue recognition**

Revenues are recognized when (or as) the Group satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset, which usually occurs when the title is passed, provided that the contract price is fixed or determinable and collectability of the receivable is reasonably assured. Specifically, domestic sales of crude oil and gas, as well as petroleum products and materials are usually recognized when title passes. For export sales, title generally passes at the border of the Republic of Kazakhstan. Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts, volume rebates and reimbursable taxes.

Sales of support services are recognized as services are performed provided that the service price can be determined and no significant uncertainties regarding the receipt of revenues exist.

**Interest income and costs**

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 consolidated statement of comprehensive income.

**Trade receivables**

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

**Contract liabilities**

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

**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 Shareholders*

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)****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, 2018, the Group recognized the impairment of exploration and evaluation assets of 107,745,422 thousand tenge, which mainly relates to projects N and Satpayev of 67,897,096 thousand tenge and 34,538,813 thousand tenge, respectively, due to planned withdrawal from projects and return of the contract territories to the Government (Note 8).

As at December 31, 2018, the Group performed its annual impairment tests of downstream, refining and other assets due to existence of impairment indicators. The Group considered forecasted refinery margins and production volumes, among other factors, when reviewing for indicators of impairment.

As a result of the impairment analysis of the recoverable amount of downstream, refining and other assets an impairment charge of 56,239,175 thousand tenge was recognized in the consolidated financial statements for the year ended December 31, 2018. The impairment charge was allocated to the property, plant and equipment (Note 7) and the intangible assets (Note 10), and mainly relates to impairment of KMGI's Refining, Petrochemical, Bulgaria and Other CGUs.

The present value of the free cash flows was determined using discounted cash flows from financial budgets approved by senior management covering a five-year period. As a result, the impairment loss attributable to KMGI's CGUs amounted to 43,701,700 thousand tenge was recognized, of which 21,195,263 thousand tenge was allocated to the property, plant and equipment and 22,506,437 thousand tenge was allocated to the intangible assets.

The recoverable amount of CGUs of KMGI has been determined based on fair value less costs of disposal, which is the present value of the free cash flows adjusted by the present value of the residual value. The key assumptions used in the fair value less costs to sell calculations for the above-mentioned CGUs are operating profit, discount rates and growth rate used to extrapolate cash flows beyond the budget period. The discount rate applied to cash flow projections for Refining and Petrochemical CGUs is 9.7% (2017: 9.0%) and cash flows beyond the 5-year period are extrapolated using a 1.9% growth rate that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 7.8% (2017: 7.5%). As to Bulgaria CGU, the discount rate applied to cash flow projections is 9.8 % (2017: 9.1%) and cash flows beyond the 5-year period are extrapolated using a 1.9% growth rate that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 7.9% (2017: 7.6%).



**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)**

As of December 31, 2018 the Group has material goodwill related to acquisitions of Pavlodar oil chemistry refinery LLP ("PNHZ") of 88,553,296 thousand tenge (*Note 10*).

The Group performed annual impairment test of the goodwill related to acquisition of PNHZ in December 2018 and 2017. The Group considers the forecast for oil processing volumes, oil processing tariffs, capital expenditures, among other factors, when reviewing for indicators of impairment.

PNHZ calculates recoverable amount using a discounted cash flow model. The discount rate of 9.7% 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 2037 were based on five-years business plan of PNHZ till 2023, which assumes current management estimates on potential changes in operating and capital costs. The significant part of those cash flows after 2023 was forecasted by applying expected inflation rate of 2.77% (2017: 2.78%), excluding capital costs, which are based on the best estimate of management as of valuation date.

As at December 31, 2018 the recoverable amount of goodwill, which was determined based on value in use, exceeded its book value. Therefore, as of December 31, 2018 no impairment of PNHZ goodwill was recognised.

*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 9.7% to 10.7% and decrease of target EBITDA in terminal period by 5% from 43% to 38% would not result in decrease of the recoverable amount of PNHZ.

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

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**4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****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, 2018 were in the range from 2.02% to 5.96% and from 5.5% to 10.00%, respectively (2017: from 2.01% to 5.57% and from 5.17% to 10.00%). As at December 31, 2018 the carrying amounts of the Group's asset retirement obligations relating to decommissioning of oil and gas facilities were 36,288,479 thousand tenge (December 31, 2017: 35,406,646 thousand tenge) (*Note 20*).

*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, 2018 the carrying values of the Group's asset retirement obligations relating to decommissioning of pipelines and land were 79,947,684 thousand tenge (December 31, 2017: 65,139,689 thousand tenge) (*Note 20*).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****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 2018. 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 20*.

**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 20*. Further uncertainties related to taxation are disclosed in *Note 34*.

Taxable income is computed in accordance with the tax legislation enacted as at January 1, 2018. 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, 2018.

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, 2018 was 97,881,412 thousand tenge (2017: 98,680,503 thousand tenge). Further details are disclosed in *Note 30*.

**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 32*.

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

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**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.

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

As of December 31, 2018, the Group ceased to classify KMG International N.V. (KMGI) as discontinued operation as the participants did not complete procedures provided by sale and purchase agreement (the SPA) to sell a 51% interest in KMG I by the long stop date and the transaction was automatically terminated. As a result, KMGI does not meet the criteria of IFRS 5. The assets and liabilities of KMGI were transferred from discontinued operations to continuing operations.

Additionally, the Group made reclassification of gas transportation costs from cost of sales to transportation and selling expenses (2017: 91,632,150 thousand tenge).

Also, the Group made reclassifications to the December 31, 2017 and for the year ended December 31, 2017 amounts in Segment reporting disclosure to conform to the current year presentation.

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

The effect of the change on comparative data is tabulated below.

| <i>In thousands of tenge</i>  | 2017                 |                     |                   | After restatement    |
|---|----------------------|---------------------|-------------------|----------------------|
|   | Before restatement   | Restatement<br>KMGI | Other             |                      |
| Revenue   | 2,458,835,090        | 2,334,927,450       | –                 | 4,793,762,540        |
| Cost of sales   | (2,379,902,871)      | (1,416,186,062)     | 91,632,150        | (3,704,456,783)      |
| <b>Gross profit</b>   | <b>78,932,219</b>    | <b>918,741,388</b>  | <b>91,632,150</b> | <b>1,089,305,757</b> |
| General and administrative expenses   | (152,011,319)        | (48,422,585)        | –                 | (200,433,904)        |
| Transportation and selling expenses   | (288,527,270)        | (60,408,688)        | (91,632,150)      | (440,568,108)        |
| Impairment of property, plant and equipment, intangible assets                                    | (25,641,552)         | 981,998             | –                 | (24,659,554)         |
| Loss on disposal of property, plant and equipment, intangible assets and investment property, net | (3,814,867)          | –                   | –                 | (3,814,867)          |
| Other operating income  | 20,164,501           | –                   | –                 | 20,164,501           |
| Other operating expenses  | (30,093,073)         | (3,502,339)         | –                 | (33,595,412)         |
| <b>Operating (loss)/profit</b>  | <b>(400,991,361)</b> | <b>807,389,774</b>  | <b>–</b>          | <b>406,398,413</b>   |
| Net foreign exchange gain/(loss)  | 67,182,980           | (128,297)           | –                 | 67,054,683           |
| Finance income  | 121,735,274          | 838,557             | –                 | 122,573,831          |
| Finance costs   | (294,897,464)        | (11,457,926)        | –                 | (306,355,390)        |
| Reversal/(impairment) of investments in joint ventures  | 14,845,359           | –                   | –                 | 14,845,359           |
| Impairment of assets classified as held for sale  | (67,594)             | –                   | –                 | (67,594)             |
| Share in profit of joint ventures and associates, net   | 414,565,236          | 384,575             | –                 | 414,949,811          |
| <b>(Loss)/profit before income tax</b>  | <b>(77,627,570)</b>  | <b>797,026,683</b>  | <b>–</b>          | <b>719,399,113</b>   |
| Income tax expenses   | (192,029,803)        | 1,744,815           | –                 | (190,284,988)        |
| <b>Loss/profit for the year from continuing operations</b>  | <b>(269,657,373)</b> | <b>798,771,498</b>  | <b>–</b>          | <b>529,114,125</b>   |
| <b>Discontinued operations</b>  |                      |                     |                   |                      |
| Profit/(loss) after income tax for the year from discontinued operations                          | 789,183,404          | (792,849,522)       | –                 | (3,666,118)          |
| <b>Net profit for the year</b>  | <b>519,526,031</b>   | <b>5,921,976</b>    | <b>–</b>          | <b>525,448,007</b>   |
| <b>Net profit for the year attributable to:</b>   |                      |                     |                   |                      |
| Equity holders of the Parent Company  | 437,485,878          | 5,921,976           | –                 | 443,407,854          |
| Non-controlling interest  | 82,040,153           | –                   | –                 | 82,040,153           |
|   | <b>519,526,031</b>   | <b>5,921,976</b>    | <b>–</b>          | <b>525,448,007</b>   |

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

| <i>In thousands of tenge</i>                   | As at December 31, 2017 |                 |                   |
|--|-------------------------|-----------------|-------------------|
|  | Before restatement      | Restatement     | After restatement |
| <b>Assets</b>                                  |                         |                 |                   |
| <b>Non-current assets</b>                      |                         |                 |                   |
| Property, plant and equipment                  | 3,359,094,790           | 721,069,694     | 4,080,164,484     |
| Exploration and evaluation assets              | 253,326,100             | —               | 253,326,100       |
| Investment property                            | 27,423,225              | —               | 27,423,225        |
| Intangible assets                              | 115,431,414             | 69,774,013      | 185,205,427       |
| Long-term bank deposits                        | 48,523,034              | —               | 48,523,034        |
| Investments in joint ventures and associates   | 3,810,351,341           | 13,278,245      | 3,823,629,586     |
| Deferred income tax asset                      | 65,135,777              | 33,544,726      | 98,680,503        |
| VAT receivable                                 | 96,666,045              | —               | 96,666,045        |
| Advances for non-current assets                | 124,906,942             | —               | 124,906,942       |
| Loans and receivables due from related parties | 672,448,689             | —               | 672,448,689       |
| Other financial assets                         | 4,161,312               | —               | 4,161,312         |
| Other non-current assets                       | 14,027,609              | 3,373,814       | 17,401,423        |
|  | 8,591,496,278           | 841,040,492     | 9,432,536,770     |
| <b>Current assets</b>                          |                         |                 |                   |
| Inventories                                    | 108,897,355             | 141,471,552     | 250,368,907       |
| VAT receivable                                 | 68,245,090              | 1,360,891       | 69,605,981        |
| Income tax prepaid                             | 35,586,296              | 548,677         | 36,134,973        |
| Trade accounts receivable                      | 306,324,631             | 161,542,624     | 467,867,255       |
| Short-term bank deposits                       | 1,638,940,642           | —               | 1,638,940,642     |
| Loans and receivables due from related parties | 169,501,500             | —               | 169,501,500       |
| Other current assets                           | 167,916,249             | 28,193,880      | 196,110,129       |
| Cash and cash equivalents                      | 1,190,156,359           | 73,831,097      | 1,263,987,456     |
|  | 3,685,568,122           | 406,948,721     | 4,092,516,843     |
| <b>Assets classified as held for sale</b>      | 1,111,688,937           | (1,086,784,349) | 24,904,588        |
|  | 4,797,257,059           | (679,835,628)   | 4,117,421,431     |
| <b>Total assets</b>                            | 13,388,753,337          | 161,204,864     | 13,549,958,201    |

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

| <i>In thousands of tenge</i>  | As at December 31, 2017 |                    |                       |
|---|-------------------------|--------------------|-----------------------|
|   | Before restatement      | Restatement        | After restatement     |
| <b>Equity and liabilities</b>   |                         |                    |                       |
| <b>Equity</b>   |                         |                    |                       |
| Share capital   | 709,344,505             | —                  | 709,344,505           |
| Additional paid-in capital  | 243,876,410             | —                  | 243,876,410           |
| Other equity  | 83,185                  | —                  | 83,185                |
| Currency translation reserve  | 1,298,442,284           | (3,351,095)        | 1,295,091,189         |
| Retained earnings   | 3,500,635,709           | 164,555,959        | 3,665,191,668         |
| <b>Attributable to equity holders of the Parent Company</b>                 | <b>5,752,382,093</b>    | <b>161,204,864</b> | <b>5,913,586,957</b>  |
| Non-controlling interest  | 870,017,901             | —                  | 870,017,901           |
| <b>Total equity</b>   | <b>6,622,399,994</b>    | <b>161,204,864</b> | <b>6,783,604,858</b>  |
| <b>Non-current liabilities</b>  |                         |                    |                       |
| Borrowings  | 3,399,487,735           | 17,624,124         | 3,417,111,859         |
| Provisions  | 150,638,244             | 53,136,243         | 203,774,487           |
| Deferred income tax liabilities   | 312,013,046             | 68,725,179         | 380,738,225           |
| Financial guarantees  | 10,767,166              | —                  | 10,767,166            |
| Prepayment on oil supply agreements   | 581,577,501             | —                  | 581,577,501           |
| Other non-current liabilities   | 46,270,628              | 156,195            | 46,426,823            |
|   | <b>4,500,754,320</b>    | <b>139,641,741</b> | <b>4,640,396,061</b>  |
| <b>Current liabilities</b>  |                         |                    |                       |
| Borrowings  | 763,955,792             | 120,184,486        | 884,140,278           |
| Provisions  | 78,812,199              | —                  | 78,812,199            |
| Income tax payable  | 7,705,079               | 2,376,160          | 10,081,239            |
| Trade accounts payable  | 325,120,176             | 188,730,872        | 513,851,048           |
| Other taxes payable   | 79,168,191              | 22,030,156         | 101,198,347           |
| Financial guarantees  | 1,170,697               | —                  | 1,170,697             |
| Prepayment on oil supply agreements   | 332,330,000             | —                  | 332,330,000           |
| Other current liabilities   | 144,405,371             | 58,039,441         | 202,444,812           |
|   | <b>1,732,667,505</b>    | <b>391,361,115</b> | <b>2,124,028,620</b>  |
| Liabilities directly associated with the assets classified as held for sale | 532,931,518             | (531,002,856)      | 1,928,662             |
| <b>Total liabilities</b>  | <b>6,766,353,343</b>    | <b>—</b>           | <b>6,766,353,343</b>  |
| <b>Total equity and liabilities</b>   | <b>13,388,753,337</b>   | <b>161,204,864</b> | <b>13,549,958,201</b> |

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

As at December 31, 2018, the Group decided to sell 100% interest in KMG Retail LLP (KMG Retail). The disposal of KMG Retail is due to be completed in 2019 and, as at December 31, 2018, the procedures for the sale were in progress. The disposal of KMG Retail is in accordance with the Governmental plan on the privatization of state owned companies. The Group considers it as a disposal group held for sale.

The assets and liabilities, classified as discontinued operations, disposal group held for sale and assets classified as held for sale as at December 31, 2018 and 2017 and the results for 2018 and 2017 are as follows:

| <i>In thousands of tenge</i>            | December 31, 2018                  |   |  | Profit/(loss) after income tax for 2018 from discontinued operation* |
|---|------------------------------------|---|--|--|
|   | 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 |  |
| KMG Retail                              | 43,650,757                         | 379,959   | 43,270,798   | -  |
| Kazakh British Technical University JSC | 15,704,016                         | 4,658,657   | 11,045,359   | (4,300,744)  |
| Other assets                            | 2,404,851                          | -   | 2,404,851  | 7,753,536  |
| <b>Total</b>                            | <b>61,759,624</b>                  | <b>5,038,616</b>  | <b>56,721,008</b>                                      | <b>3,452,792</b>   |

\* The profit after tax includes result from sale of 50% of shares of KMG Usturt LLP of 7,753,536 thousand tenge.

| <i>In thousands of tenge</i>            | December 31, 2017                  |   |  | Profit/(loss) after income tax for 2017 from discontinued operation |
|---|------------------------------------|---|--|---|
|   | 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 |   |
| Kazakh British Technical University JSC | 16,802,937                         | 1,924,801   | 14,878,136   | (2,612,344)   |
| Other assets*                           | 8,101,651                          | 3,861   | 8,097,790  | (1,053,774)   |
| <b>Total</b>                            | <b>24,904,588</b>                  | <b>1,928,662</b>  | <b>22,975,926</b>                                      | <b>(3,666,118)</b>  |

\* Other assets include KMG Usturt LLP. The loss after tax include result from sale of 100% of shares of EurasiaAir JSC.



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

As of 31 December 2017, KazTransGas JSC had 100% legal ownership in KazTransGas Tbilisi LLC (KTG Tbilisi). On 16 March 2009 the City Court of Kutaisi disqualified KTG from exercising rights that give it the ability to direct the relevant activities of KTG Tbilisi. As a result, the Group lost control over KTG Tbilisi and ceased consolidation since the date of loss of control.

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

*EurasiaAir JSC*

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, 2016 (restated)</b> | 913,553,340        | 682,347,991        | 844,276,639        | 291,310,822                | 317,213,403             | 70,860,293        | 42,427,905        | 538,209,807              | 3,700,200,200        |
| Foreign currency translation                             | (2,515,081)        | (139,788)          | (1,935,081)        | (659,888)                  | 263,209                 | (110,130)         | 176,257           | (441,794)                | (5,362,296)          |
| Change in estimate                                       | 247,396            | (199,915)          | —                  | (4,855)                    | —                       | —                 | —                 | —                        | 42,626               |
| Additions  | 27,268,292         | 17,102,149         | 19,859,406         | 8,134,182                  | 6,465,614               | 8,143,501         | 2,911,244         | 539,998,474              | 629,882,862          |
| Disposals  | (17,371,754)       | (1,153,877)        | (2,647,246)        | (5,617,395)                | (4,286,030)             | (2,831,626)       | (7,143,352)       | (1,458,558)              | (42,509,838)         |
| Depreciation charge                                      | (62,017,598)       | (25,537,150)       | (72,918,942)       | (19,439,723)               | (32,306,853)            | (8,306,739)       | (7,467,173)       | —                        | (227,994,178)        |
| Accumulated depreciation and impairment on disposals     | 14,880,689         | 858,685            | 2,517,354          | 4,973,030                  | 3,617,468               | 2,482,071         | 6,866,877         | 760,282                  | 36,956,456           |
| Impairment, net (Note 27)                                | —                  | (1,321)            | —                  | (1,438,795)                | (1,431,137)             | (1,907,846)       | (947,310)         | (16,601,353)             | (22,327,762)         |
| 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 assets held for sale, net                    | (170,291)          | —                  | (3,908,276)        | (3,553,089)                | (242,126)               | (123,814)         | (97,543)          | (60)                     | (8,095,199)          |
| Transfers to investment property (Note 9)                | —                  | —                  | —                  | (251,422)                  | (13,059)                | —                 | (746)             | (357,143)                | (622,370)            |
| Transfers to intangible assets, net (Note 10)            | (210,414)          | —                  | —                  | —                          | (306,185)               | —                 | 1,577             | (1,607,551)              | (2,122,573)          |
| Transfer from exploration and evaluation assets (Note 8) | 8,880,580          | —                  | —                  | —                          | —                       | —                 | —                 | —                        | 8,880,580            |
| Transfers and reclassifications                          | 82,278,206         | 104,461,699        | 194,362,603        | 16,688,265                 | 100,817,946             | 5,829,070         | 6,031,631         | (510,469,420)            | —                    |
| <b>Net book value as at December 31, 2017 (restated)</b> | <b>964,821,677</b> | <b>777,686,454</b> | <b>992,692,973</b> | <b>290,142,192</b>         | <b>389,826,690</b>      | <b>74,035,020</b> | <b>42,760,645</b> | <b>548,198,833</b>       | <b>4,080,164,484</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, 2017 (restated)</b> | 964,821,677          | 777,686,454        | 992,692,973          | 290,142,192                | 389,826,690             | 74,035,020         | 42,760,645         | 548,198,833              | 4,080,164,484        |
| Foreign currency translation                             | 90,853,625           | 5,660,453          | 76,742,904           | 11,116,278                 | 6,037,316               | 5,129,651          | 1,892,705          | 2,974,775                | 200,407,707          |
| Change in estimate                                       | (2,105,381)          | 7,677,668          | –                    | (5,480)                    | –                       | –                  | –                  | –                        | 5,566,807            |
| Additions  | 24,266,641           | 5,285,309          | 22,148,882           | 1,273,185                  | 9,482,265               | 12,958,217         | 4,597,683          | 497,656,645              | 577,668,827          |
| Disposals  | (17,127,788)         | (3,442,392)        | (1,908,557)          | (6,912,961)                | (5,329,012)             | (3,183,271)        | (4,463,296)        | (2,406,533)              | (44,773,810)         |
| Depreciation charge                                      | (73,552,418)         | (28,113,746)       | (98,975,087)         | (20,840,310)               | (36,371,896)            | (10,603,399)       | (8,749,722)        | –                        | (277,206,578)        |
| Accumulated depreciation and impairment on disposals     | 12,602,978           | 3,009,107          | 1,905,005            | 4,154,861                  | 4,443,643               | 2,984,789          | 3,595,611          | 568,706                  | 33,264,700           |
| Impairment, net (Note 27)                                | (3,650,462)          | (2,918)            | –                    | (11,557,416)               | (11,710,377)            | (2,853,446)        | (850,520)          | (2,978,033)              | (33,603,172)         |
| Transfers (to)/from inventory, net                       | 45,005               | (101,226)          | 4,145,268            | (3,911)                    | 176,909                 | 25,251             | (11,675)           | 3,015,167                | 7,290,788            |
| Transfer to assets held for sale, net                    | (9,847,451)          | (2,401)            | (353,572)            | (20,347,954)               | (1,846,364)             | (191,870)          | (1,492,186)        | (1,508,610)              | (35,590,408)         |
| Transfers from/(to) investment property (Note 9)         | –                    | –                  | –                    | 353,748                    | –                       | –                  | –                  | (174,395)                | 179,353              |
| Transfers (to)/from intangible assets, net (Note 10)     | (97,479)             | –                  | –                    | –                          | –                       | –                  | 844                | (1,702,003)              | (1,798,638)          |
| Transfer from exploration and evaluation assets (Note 8) | 3,113,094            | –                  | –                    | –                          | –                       | –                  | –                  | 486,725                  | 3,599,819            |
| Transfers and reclassifications                          | 92,353,969           | 20,156,952         | 554,806,151          | 15,831,768                 | 39,892,476              | 38,259,963         | 6,844,307          | (768,145,586)            | –                    |
| <b>Net book value as at December 31, 2018</b>            | <b>1,081,676,010</b> | <b>787,813,260</b> | <b>1,551,203,967</b> | <b>263,204,000</b>         | <b>394,601,650</b>      | <b>116,560,905</b> | <b>44,124,396</b>  | <b>275,985,691</b>       | <b>4,515,169,879</b> |
| <b>At cost</b>   | <b>2,154,422,391</b> | <b>985,786,837</b> | <b>2,381,309,129</b> | <b>526,180,012</b>         | <b>720,221,183</b>      | <b>234,740,198</b> | <b>121,457,807</b> | <b>324,850,390</b>       | <b>7,448,967,947</b> |
| Accumulated depreciation and impairment                  | (1,072,746,381)      | (197,973,577)      | (830,105,162)        | (262,976,012)              | (325,619,533)           | (118,179,293)      | (77,333,411)       | (48,864,699)             | (2,933,798,068)      |
| <b>Net book value as at December 31, 2018</b>            | <b>1,081,676,010</b> | <b>787,813,260</b> | <b>1,551,203,967</b> | <b>263,204,000</b>         | <b>394,601,650</b>      | <b>116,560,905</b> | <b>44,124,396</b>  | <b>275,985,691</b>       | <b>4,515,169,879</b> |
| <b>At cost</b>   | <b>1,933,302,473</b> | <b>948,285,942</b> | <b>1,647,460,104</b> | <b>522,194,571</b>         | <b>665,119,609</b>      | <b>179,514,781</b> | <b>111,071,162</b> | <b>599,852,820</b>       | <b>6,606,801,462</b> |
| Accumulated depreciation and impairment                  | (968,480,796)        | (170,599,488)      | (654,767,131)        | (232,052,379)              | (275,292,919)           | (105,479,761)      | (68,310,517)       | (51,653,987)             | (2,526,636,978)      |
| <b>Net book value as at December 31, 2017 (restated)</b> | <b>964,821,677</b>   | <b>777,686,454</b> | <b>992,692,973</b>   | <b>290,142,192</b>         | <b>389,826,690</b>      | <b>74,035,020</b>  | <b>42,760,645</b>  | <b>548,198,833</b>       | <b>4,080,164,484</b> |

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

In 2018, the Group capitalized in the carrying amount of property, plant and equipment borrowing costs at the average interest rate of 2.75% of 21,715,478 thousand tenge which are related to the construction of assets (2017: 26,532,343 thousand tenge at the average interest rate of 3.36%).

As at December 31, 2018, items of property, plant and equipment with the net book value of 1,108,419,494 thousand tenge (2017: 940,436,600 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 refinery located in Atyrau.

As at December 31, 2018 the cost of fully depreciated but still in use property, plant and equipment were 334,533,355 thousand tenge (2017: 290,360,193 thousand tenge).

**Impairment of property, plant and equipment**

In 2018, the Group recorded net impairment loss of 33,603,172 thousand tenge, which mainly consists of impairment of property, plant and equipment of KMGI of 21,195,263 thousand tenge (*Note 4*).

In 2017, the Group recorded net impairment loss of 22,327,762 thousand tenge, which is mainly attributable to impairment of capital work in progress of PNHZ of 15,226,880 thousand tenge associated with change in configuration of modernization project and impairment of property, plant and equipment of Oil Transport Corporation LLP, subsidiary of the Group of 5,039,820 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, 2016</b>                      | 193,834,509        | 37,718,659        | 231,553,168        |
| Foreign currency translation                                       | (94,631)           | (52,800)          | (147,431)          |
| Additions  | 33,075,420         | 344,512           | 33,419,932         |
| Change in estimate   | (112,876)          | —                 | (112,876)          |
| Disposals  | (104,945)          | (557,243)         | (662,188)          |
| Impairment ( <i>Note 27</i> )                                      | (802,687)          | (10,761)          | (813,448)          |
| Transfers to discontinued operations and assets held for sale, net | —                  | (1,030,477)       | (1,030,477)        |
| Transfer to property, plant and equipment ( <i>Note 7</i> )        | (8,880,580)        | —                 | (8,880,580)        |
| 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> |
| Foreign currency translation                                       | 1,373,151          | 699,050           | 2,072,201          |
| Additions  | 46,007,593         | 180,409           | 46,188,002         |
| Change in estimate   | 24,525             | —                 | 24,525             |
| Disposals  | (1,313,724)        | (4,678)           | (1,318,402)        |
| Accumulated impairment on disposals                                | 957,225            | 4,678             | 961,903            |
| Impairment ( <i>Note 27</i> )                                      | (96,179,870)       | (11,565,552)      | (107,745,422)      |
| Transfer to assets held for sale                                   | (102,208)          | —                 | (102,208)          |
| Transfers to inventory   | (7,327)            | —                 | (7,327)            |
| Transfer to property, plant and equipment ( <i>Note 7</i> )        | (3,599,819)        | —                 | (3,599,819)        |
| <b>Net book value as at December 31, 2018</b>                      | <b>162,812,571</b> | <b>26,986,982</b> | <b>189,799,553</b> |

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

As at December 31, 2018 and 2017 the exploration and evaluation assets are represented by the following projects:

| <i>In thousands of tenge</i> | <b>2018</b>        | <b>2017</b> |
|------------------------------|--------------------|-------------|
| Zhambyl                      | <b>50,178,004</b>  | 33,396,110  |
| Pearls                       | <b>36,486,151</b>  | 35,069,407  |
| Urikhtau                     | <b>30,468,566</b>  | 27,589,717  |
| Project N                    | –                  | 66,257,807  |
| Satpayev                     | –                  | 33,791,001  |
| Other                        | <b>72,666,832</b>  | 57,222,058  |
|                              | <b>189,799,553</b> | 253,326,100 |

As at December 31, 2018 the Group recognized the impairment of exploration and evaluation assets for the projects N and Satpayev of 67,897,096 thousand tenge and 34,538,813 thousand tenge. The impairment is related to the planned withdrawal from projects and returning of contract territories to the Government. In addition, the Group derecognized of loan from ONGC Videsh, a partner in the Satpayev project, for the total amount of 53,263,339 thousand tenge, including an interest (*Notes 18 and 28*).

Exploration costs on Pearls project is financed by project partners other than the Group. Respective financial liabilities are recognized within borrowings (*Note 18*). The repayment of the financing for these project 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, 2016</b>                 | <b>29,480,044</b> |
| Depreciation charge   | (703,010)         |
| Disposals   | (238,712)         |
| Impairment ( <i>Note 27</i> )                                 | (1,518,344)       |
| Transfers to assets classified as held for sale               | (224,703)         |
| Transfer from property, plant and equipment ( <i>Note 7</i> ) | 622,370           |
| Depreciation and impairment on disposals                      | 5,580             |
| <b>Net book value as at December 31, 2017</b>                 | <b>27,423,225</b> |
| Additions   | 2,362             |
| Depreciation charge   | (668,071)         |
| Disposals   | (1,001,282)       |
| Impairment ( <i>Note 27</i> )                                 | (1,537,662)       |
| Transfers from assets classified as held for sale             | 17                |
| Depreciation and impairment on disposals                      | 148,539           |
| Transfer to property, plant and equipment ( <i>Note 7</i> )   | (179,353)         |
| <b>Net book value as at December 31, 2018</b>                 | <b>24,187,775</b> |
| At cost   | 31,267,724        |
| Accumulated depreciation and impairment                       | (7,079,949)       |
| <b>Net book value as at December 31, 2018</b>                 | <b>24,187,775</b> |
| At cost   | 32,473,275        |
| Accumulated depreciation and impairment                       | (5,050,050)       |
| <b>Net book value as at December 31, 2017</b>                 | <b>27,423,225</b> |

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, 2018 the book value of this building of 23,386,606 thousand tenge (2017: 24,219,173 thousand tenge) approximates its fair value. The fair value of investment property was based on the market price of the office property (*Note 32*).

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

| <i>In thousands of tenge</i>                                   | <b>Goodwill</b>    | <b>Marketing related intangible assets</b> | <b>Software</b>   | <b>Other</b>      | <b>Total</b>       |
|--|--------------------|--|-------------------|-------------------|--------------------|
| <b>Net book value as at December 31, 2016 (restated)</b>       | 98,722,172         | 50,458,106                                 | 14,771,526        | 23,596,236        | 187,548,040        |
| Foreign currency translation                                   | (25,113)           | (168,846)                                  | (72,361)          | 113,520           | (152,800)          |
| Additions  | —                  | —  | 2,452,463         | 2,885,360         | 5,337,823          |
| Disposals  | —                  | —  | (1,002,607)       | (2,416,474)       | (3,419,081)        |
| Amortization charge  | —                  | (1,225,720)                                | (5,516,928)       | (2,681,133)       | (9,423,781)        |
| Accumulated amortization and impairment on disposals           | —                  | —  | 526,019           | 2,400,716         | 2,926,735          |
| Transfer from property, plant and equipment, net (Note 7)      | —                  | —  | 1,303,704         | 818,869           | 2,122,573          |
| Transfers (to)/from inventory, net                             | —                  | —  | (47)              | 265,965           | 265,918            |
| Transfers and reclassifications                                | —                  | —  | 1,219,241         | (1,219,241)       | —                  |
| <b>Net book value as at December 31, 2017 (restated)</b>       | 98,697,059         | 49,063,540                                 | 13,681,010        | 23,763,818        | 185,205,427        |
| Foreign currency translation                                   | 1,356,868          | 5,509,885                                  | 586,490           | 2,411,990         | 9,865,233          |
| Additions  | —                  | —  | 2,265,736         | 4,095,854         | 6,361,590          |
| Disposals  | —                  | —  | (3,289,964)       | (542,062)         | (3,832,026)        |
| Amortization charge  | —                  | 1,658,952                                  | (6,538,095)       | (2,502,750)       | (7,381,893)        |
| Accumulated amortization and impairment on disposals           | —                  | —  | 3,286,036         | 539,552           | 3,825,588          |
| Impairment (Note 27)   | —                  | (22,506,437)                               | (58,488)          | (71,078)          | (22,636,003)       |
| Transfers to assets held for sale                              | —                  | —  | (41,587)          | (87,630)          | (129,217)          |
| Transfer (to)/from property, plant and equipment, net (Note 7) | —                  | —  | 1,821,237         | (22,599)          | 1,798,638          |
| Transfers and reclassifications                                | —                  | (361,947)                                  | 1,717,075         | (1,355,128)       | —                  |
| <b>Net book value as at December 31, 2018</b>                  | <b>100,053,927</b> | <b>33,363,993</b>                          | <b>13,429,450</b> | <b>26,229,967</b> | <b>173,077,337</b> |
| At cost  | 169,138,581        | 58,164,422                                 | 62,322,145        | 81,194,699        | 370,819,847        |
| Accumulated amortization and impairment                        | (69,084,654)       | (24,800,429)                               | (48,892,695)      | (54,964,732)      | (197,742,510)      |
| <b>Net book value as at December 31, 2018</b>                  | <b>100,053,927</b> | <b>33,363,993</b>                          | <b>13,429,450</b> | <b>26,229,967</b> | <b>173,077,337</b> |
| At cost  | 167,781,714        | 50,312,768                                 | 57,238,047        | 71,161,999        | 346,494,528        |
| Accumulated amortization and impairment                        | (69,084,655)       | (1,249,228)                                | (43,557,037)      | (47,398,181)      | (161,289,101)      |
| <b>Net book value as at December 31, 2017</b>                  | <b>98,697,059</b>  | <b>49,063,540</b>                          | <b>13,681,010</b> | <b>23,763,818</b> | <b>185,205,427</b> |

In 2018, the Group recorded net impairment loss of 22,636,003 thousand tenge, which mainly consists of impairment of intangible assets of KMGI of 22,506,437 thousand tenge (Note 4).

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

| <b>Cash-generating unit</b>   | <b>2018</b>        | <b>2017</b>       |
|-------------------------------|--------------------|-------------------|
| Downstream Romania            | 1,144,532          | 990,011           |
| Other                         | 8,905,756          | 7,703,409         |
| Cash-generating units of KMGI | 10,050,288         | 8,693,420         |
| Cash-generating units of PNHZ | 88,553,296         | 88,553,296        |
| Other                         | 1,450,343          | 1,450,343         |
| <b>Total goodwill</b>         | <b>100,053,927</b> | <b>98,697,059</b> |

In 2018 and 2017, 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>2018</b>        | <b>2017<br/>(restated)</b> |
|--|--------------------|----------------------------|
| Denominated in US dollar                   | <b>414,578,028</b> | 1,656,762,879              |
| Denominated in tenge                       | <b>22,030,800</b>  | 28,228,345                 |
| Denominated in other currency              | <b>2,707,317</b>   | 2,472,452                  |
| Less: allowance for expected credit losses | <b>(559,995)</b>   | —                          |
|  | <b>438,756,150</b> | 1,687,463,676              |

As at December 31, 2018, the weighted average interest rate for long-term bank deposits was 1.05% in US dollars and 3.73% in tenge, respectively (2017: 1.07% in US dollars and 2.29% in tenge, respectively).

As at December 31, 2018, the weighted average interest rate for short-term bank deposits was 2.40% in US dollars, 8.20% in tenge and 0.06% in other foreign currencies, respectively (2017: 1.65% in US dollars, 7.51% in tenge and 0.65% in other foreign currencies, respectively).

| <i>In thousands of tenge</i>     | <b>2018</b>        | <b>2017<br/>(restated)</b> |
|----------------------------------|--------------------|----------------------------|
| Maturities under 1 year          | <b>386,459,273</b> | 1,638,940,642              |
| Maturities between 1 and 2 years | <b>155,374</b>     | 835,902                    |
| Maturities over 2 years          | <b>52,141,503</b>  | 47,687,132                 |
|                                  | <b>438,756,150</b> | 1,687,463,676              |

As at December 31, 2018 bank deposits include cash pledged as collateral of 51,538,042 thousand tenge (2017: 62,731,076 thousand tenge), which are represented mainly by 37,729,472 thousand tenge (2017: 32,100,440 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, 2018 |                      | December 31, 2017 (restated) |                      |
|-----------------------------------|---|---------------------|-------------------|----------------------|------------------------------|----------------------|
|                                   |   |                     | Carrying value    | Percentage ownership | Carrying value               | Percentage ownership |
| <b>Joint ventures</b>             |   |                     |                   |                      |                              |                      |
| Kashagan B.V.                     | Oil and gas exploration and production  | Kazakhstan          | 2,053,620,654     | 50.00%               | 1,743,495,073                | 50.00%               |
| Tengizchevroil LLP                | Oil and gas exploration and production  | Kazakhstan          | 1,970,532,677     | 20.00%               | 1,353,084,254                | 20.00%               |
| Mangistau Investments B.V.        | Oil and gas development and production  | Kazakhstan          | 138,549,106       | 50.00%               | 135,780,525                  | 50.00%               |
| Ural Group Limited BVI            | Oil and gas exploration and production  | Kazakhstan          | 70,873,763        | 50.00%               | 78,031,456                   | 50.00%               |
| KazRosGas LLP                     | Processing and sale of natural gas and refined gas products   | Kazakhstan          | 65,116,023        | 50.00%               | 33,760,512                   | 50.00%               |
| KazGerMunay LLP                   | Oil and gas exploration and production  | Kazakhstan          | 38,349,303        | 50.00%               | 47,537,370                   | 50.00%               |
| Beineu-Shymkent Pipeline LLP      | Construction and operation of the gas pipeline  | Kazakhstan          | 34,410,647        | 50.00%               | 17,700,751                   | 50.00%               |
| Kazakhoil-Aktobe LLP              | Production of crude oil   | Kazakhstan          | 25,772,828        | 50.00%               | 22,715,643                   | 50.00%               |
| Valsera Holding BV                | Oil refining  | Kazakhstan          | 23,790,499        | 50.00%               | 36,736,906                   | 50.00%               |
| Teniz Services LLP                | Design, construction and operation of infrastructure facilities, support of offshore oil operations | Kazakhstan          | 16,944,634        | 48.996%              | 6,134,421                    | 48.996%              |
| Other                             |   |                     | 28,258,386        |                      | 22,648,911                   |                      |
| <b>Associates</b>                 |   |                     |                   |                      |                              |                      |
| Caspian Pipeline Consortium (CPC) | Transportation of liquid hydrocarbons   | Kazakhstan / Russia | 289,586,075       | 20.75%               | 195,094,592                  | 20.75%               |
| PetroKazakhstan Inc. ("PKI")      | Exploration, production and processing of oil and gas   | Kazakhstan          | 116,577,237       | 33.00%               | 115,920,426                  | 33.00%               |
| Other                             |   |                     | 23,062,350        |                      | 14,988,746                   |                      |
|                                   |   |                     | 4,895,444,182     |                      | 3,823,629,586                |                      |



**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, 2018, the Group's share in unrecognized losses of joint ventures and associates was equal to 77,440,255 thousand tenge (December 31, 2017: 175,622,640 thousand tenge). The Group's change in share of unrecognized losses of joint ventures and associates for 2018 was 98,182,385 thousand tenge (2017: 182,191,229 thousand tenge).

The following table summarizes the movements in the investments in 2018 and 2017:

| <i>In thousands of tenge</i>                                     | 2018                 | 2017                 |
|--|----------------------|----------------------|
| <b>At January 1 (restated)</b>                                   | <b>3,823,629,586</b> | <b>3,718,920,499</b> |
| Effect of adoption of IFRS 9 as at January 1, 2018 (Note 3)      | (3,236,742)          | —                    |
| Share in profits of joint ventures and associates, net (Note 29) | 697,326,157          | 414,949,811          |
| Other changes in the equity of the joint venture                 | 493,831              | 10,629,606           |
| Acquisition, net   | 3,084,232            | 2,625                |
| Dividends received   | (159,987,874)        | (271,782,500)        |
| Change in dividends receivable                                   | 3,701,678            | (39,889,075)         |
| Contribution without change in ownership                         | 1,467,250            | —                    |
| Refund of contribution without change in ownership               | (93,072,267)         | (1,714,856)          |
| Adjustment of non-realizable profit*                             | 17,070,909           | (20,722,047)         |
| Reversal of impairment of investments                            | —                    | 14,845,359           |
| Transfers to assets classified as held for sale                  | —                    | (66,899)             |
| Foreign currency translation                                     | 604,967,422          | (1,542,937)          |
| <b>At December 31</b>  | <b>4,895,444,182</b> | <b>3,823,629,586</b> |

\* 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 January, 2018 the Group completed the sale of 50% interest in KMG Usturt LLP classified as discontinued operations and recognized its retained 50% interest at its fair value of 4,132,654 thousand tenge as investment in joint venture.

In 2018, refund of contribution without change in ownership mainly relates to the partially withdrawal of investment in MIBV of 249,312 thousand US dollars (equivalent to 92,582,309 thousand tenge).

**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 2018:

| <i>In thousands of tenge</i>                                     | KMG<br>Kashagan B.V. | Tengizchevroil<br>LLP | Mangistau<br>Investments<br>B.V. | Ural Group<br>Limited BVI | KazRosGas<br>LLP | KazGerMunay<br>LLP |
|--|----------------------|-----------------------|----------------------------------|---------------------------|------------------|--------------------|
| Non-current assets   | 4,615,350,034        | 12,922,782,151        | 407,889,222                      | 239,906,752               | 11,563,268       | 131,605,781        |
| Current assets, including  | 382,203,313          | 1,057,015,650         | 72,748,154                       | 216,436                   | 141,406,117      | 75,130,694         |
| Cash and cash equivalents  | 111,111,793          | 203,864,204           | 15,318,295                       | 183,268                   | 19,910,166       | 64,920,579         |
| Non-current liabilities,<br>including                            | (705,485,713)        | (2,780,571,044)       | (125,106,193)                    | (98,144,576)              | (132,933)        | (43,798,416)       |
| Non-current financial<br>liabilities                             | (778,005)            | (1,536,800,000)       | (49,946,000)                     | (73,499,832)              | –                | –                  |
| Current liabilities, including                                   | (184,826,326)        | (1,346,563,370)       | (77,576,017)                     | (231,086)                 | (22,604,406)     | (86,239,453)       |
| Current financial liabilities                                    | (194,405)            | (36,669,585)          | (450,838)                        | –                         | –                | –                  |
| Equity   | 4,107,241,308        | 9,852,663,387         | 277,955,166                      | 141,747,526               | 130,232,046      | 76,698,606         |
| Share of ownership   | 50%                  | 20%                   | 50%                              | 50%                       | 50%              | 50%                |
| Consolidation<br>adjustments                                     |                      |                       | (428,477)                        |                           |                  |                    |
| Carrying amount of the<br>investments as at<br>December 31, 2018 | 2,053,620,654        | 1,970,532,677         | 138,549,106                      | 70,873,763                | 65,116,023       | 38,349,303         |
| Revenue  | 438,661,981          | 5,941,473,680         | 839,355,579                      | 910                       | 244,345,942      | 234,731,877        |
| Depreciation, depletion and<br>amortization                      | (180,246,167)        | (685,434,320)         | (60,372,607)                     | (13,647)                  | (134,221)        | (33,375,620)       |
| Finance income   | 2,954,245            | 19,426,149            | 857,165                          | –                         | 1,255,256        | 1,118,972          |
| Finance costs  | (42,365,603)         | (136,761,388)         | (8,006,216)                      | (9,030,856)               | (377,474)        | (1,062,040)        |
| Income tax expense   | (38,996,165)         | (941,034,055)         | (56,904,222)                     | (1,787,666)               | (13,163,276)     | (95,495,955)       |
| Profit/(loss) for the year<br>from continuing<br>operations      | 68,067,125           | 2,195,745,777         | 193,706,740                      | (37,644,822)              | 10,508,557       | 55,829,471         |
| Other comprehensive<br>(loss)/income                             | 552,184,036          | 1,270,679,343         | (319,188)                        | 22,022,588                | 17,231,401       | 4,809,306          |
| Total comprehensive<br>income/(loss)                             | 620,251,161          | 3,466,425,120         | 193,387,552                      | (15,622,234)              | 27,739,958       | 60,638,777         |
| Dividends received   | –                    | 64,671,230            | –                                | –                         | 14,180,747       | 42,706,039         |

**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 2018:

| <i>In thousands of tenge</i>   | Beineu-Shymkent<br>Pipeline LLP | Kazakhoil-Aktobe<br>LLP | Valsera Holding<br>BV          | TenizService LLP             | Asia Gas Pipeline<br>LLP (AGP)     |
|--|---------------------------------|-------------------------|--------------------------------|------------------------------|------------------------------------|
| Non-current assets   | 441,702,597                     | 58,963,750              | 610,463,946                    | 520,241,619                  | 1,460,389,311                      |
| Current assets, including<br><i>Cash and cash equivalents</i>                  | 198,892,090<br>139,385,092      | 19,332,346<br>5,526,457 | 56,343,094<br>25,283,142       | 53,449,332<br>792,316        | 548,678,667<br>14,907,351          |
| Non-current liabilities, including<br><i>Non-current financial liabilities</i> | (496,647,747)<br>(487,372,508)  | (10,743,622)<br>-       | (482,302,718)<br>(481,398,340) | (299,006,857)<br>(3,836,367) | (1,710,805,217)<br>(1,642,324,364) |
| Current liabilities, including<br><i>Current financial liabilities</i>         | (104,497,970)<br>(93,023,928)   | (16,006,818)<br>-       | (129,621,048)<br>(27,818,377)  | (240,100,385)<br>(3,847,062) | (390,294,167)<br>(363,250,433)     |
| Equity   | 39,448,970                      | 51,545,656              | 54,883,274                     | 34,583,709                   | (92,031,406)                       |
| Share of ownership   | 50%                             | 50%                     | 50%                            | 49.996%                      | 50%                                |
| Accumulated unrecognized share<br>of losses                                    |                                 |                         |                                |                              | 46,015,703                         |
| Consolidation adjustments  | 14,686,162                      |                         | (3,651,138)                    |                              |                                    |
| <b>Carrying amount of the<br/>investments as at<br/>December 31, 2018</b>      | <b>34,410,647</b>               | <b>25,772,828</b>       | <b>23,790,499</b>              | <b>16,944,634</b>            | <b>-</b>                           |
| Revenue  | 150,792,512                     | 61,837,709              | 93,341,563                     | 173,006,463                  | 766,661,140                        |
| Depreciation, depletion and<br>amortization                                    | (15,539,954)                    | (5,036,547)             | (9,279,923)                    | (108,004,930)                | (83,522,784)                       |
| Finance income   | 303,121                         | 180,053                 | 108,446                        | 539                          | 7,479,643                          |
| Finance costs  | (28,276,665)                    | (740,071)               | (4,104,829)                    | (19,467,627)                 | (100,922,040)                      |
| Income tax expense   | -                               | (21,359,961)            | 8,630,359                      | (1,249,473)                  | -                                  |
| <b>Profit/(loss) for the year from<br/>continuing operations</b>               | <b>33,419,792</b>               | <b>18,114,370</b>       | <b>(15,978,300)</b>            | <b>28,363,442</b>            | <b>211,332,190</b>                 |
| Other comprehensive (loss)/income -  |                                 | -                       | -                              | -                            | -                                  |
| <b>Total comprehensive<br/>income/(loss)</b>                                   | <b>33,419,792</b>               | <b>18,114,370</b>       | <b>(15,978,300)</b>            | <b>28,363,442</b>            | <b>211,332,190</b>                 |
| Change in unrecognized share of<br>losses                                      | -                               | -                       | -                              | -                            | 105,666,095                        |
| Dividends received   | -                               | 6,000,000               | 1,306,120                      | 2,596,780                    | -                                  |

**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<br/>Kashagan B.V.</b> | <b>Tengizchevroil<br/>LLP</b> | <b>Mangistau<br/>Investments<br/>B.V.</b> | <b>Ural Group<br/>Limited BVI</b> | <b>KazRosGas<br/>LLP</b> | <b>KazGerMunay<br/>LLP</b> |
|--|------------------------------|-------------------------------|---|-----------------------------------|--------------------------|----------------------------|
| Non-current assets   | 4,181,690,783                | 8,719,901,854                 | 393,188,438                               | 219,833,754                       | 27,017,765               | 131,809,168                |
| Current assets, including                                  | 172,993,385                  | 1,527,676,810                 | 66,799,332                                | 57,066                            | 150,968,308              | 46,380,639                 |
| Cash and cash equivalents                                  | 49,409,827                   | 748,523,476                   | 3,090,429                                 | 46,894                            | 30,876,542               | 37,913,868                 |
| Non-current liabilities, including                         | (563,262,794)                | (2,507,495,652)               | (66,129,352)                              | (63,640,210)                      | —                        | (28,691,378)               |
| 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)                         | (69,020,954)             | (54,423,690)               |
| Current financial liabilities                              | (272,147,696)                | (31,718,905)                  | —   | —                                 | —                        | —                          |
| Equity   | 3,486,990,145                | 6,765,421,268                 | 271,561,049                               | 156,062,912                       | 108,965,119              | 95,074,739                 |
| Share of ownership   | 50%                          | 20%                           | 50%                                       | 50%                               | 50%                      | 50%                        |
| Consolidation adjustments                                  |                              |                               |   |                                   | (20,722,048)             |                            |
| Carrying amount of the investments as at December 31, 2017 | 1,743,495,073                | 1,353,084,254                 | 135,780,525                               | 78,031,456                        | 33,760,512               | 47,537,370                 |
| Revenue  | 183,119,424                  | 4,357,947,405                 | 635,902,730                               | 7,806                             | 243,526,652              | 184,616,262                |
| Depreciation, depletion and amortization                   | (90,257,871)                 | (560,816,868)                 | (62,190,091)                              | (19,797)                          | (638,139)                | (34,072,143)               |
| Finance income   | 1,024,605                    | 22,006,884                    | 125,989                                   | 16,556                            | 2,488,969                | 1,306,260                  |
| Finance costs  | (36,556,637)                 | (127,134,154)                 | (5,787,751)                               | (1,890,789)                       | (13,361,780)             | (1,014,422)                |
| Income tax expense   | (3,749,814)                  | (621,385,125)                 | (34,036,342)                              | (690,912)                         | (11,906,811)             | (53,071,478)               |
| Profit/(loss) for the year from continuing operations      | (20,416,709)                 | 1,449,898,428                 | 99,210,060                                | (3,754,422)                       | 17,244,090               | 35,426,899                 |
| Other comprehensive (loss)/income                          | (10,897,380)                 | 7,517,157                     | (228,950)                                 | (218,852)                         | (1,939,339)              | (664,344)                  |
| Total comprehensive income/(loss)                          | (31,314,089)                 | 1,457,415,585                 | 98,981,110                                | (3,973,274)                       | 15,304,751               | 34,762,555                 |
| Dividends received   | —                            | 79,694,300                    | 105,523,482                               | —                                 | 18,647,418               | 40,445,243                 |

**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>  | Beineu-Shymkent<br>Pipeline LLP | KazakhOil-Aktobe<br>LLP | Valsera Holding<br>BV | TenizService LLP | Asia Gas Pipeline<br>LLP (AGP) |
|---|---------------------------------|-------------------------|-----------------------|------------------|--------------------------------|
| Non-current assets  | 442,256,509                     | 49,853,017              | 417,762,488           | 514,174,591      | 1,572,551,905                  |
| Current assets, including   | 139,271,512                     | 19,768,150              | 55,449,428            | 72,382,243       | 519,332,547                    |
| <i>Cash and cash equivalents</i>  | 71,938,622                      | 6,003,873               | 17,662,733            | 4,636,467        | 9,069,756                      |
| Non-current liabilities, including  | (464,526,731)                   | (7,430,578)             | (210,750)             | (419,764,043)    | (2,058,444,374)                |
| <i>Non-current financial liabilities</i>                                  | (457,760,112)                   | —                       | —                     | (12,536,470)     | (2,015,735,146)                |
| Current liabilities, including  | (110,972,112)                   | (16,759,302)            | (399,527,354)         | (154,272,542)    | (331,505,536)                  |
| <i>Current financial liabilities</i>                                      | (91,094,674)                    | (6,847,436)             | (327,331,592)         | (7,290,228)      | (297,653,555)                  |
| <b>Equity</b>   | 6,029,178                       | 45,431,287              | 73,473,812            | 12,520,249       | (298,065,458)                  |
| Share of ownership  | 50%                             | 50%                     | 50%                   | 48.996%          | 50%                            |
| Accumulated unrecognized share<br>of losses                               | —                               | —                       | —                     | —                | 149,032,729                    |
| Consolidation adjustments   | 14,686,162                      | —                       | —                     | —                | —                              |
| <b>Carrying amount of the<br/>investments as at<br/>December 31, 2017</b> | 17,700,751                      | 22,715,643              | 36,736,906            | 6,134,421        | —                              |
| Revenue   | 79,096,648                      | 56,046,725              | 60,807,978            | 3,466,618        | 587,428,795                    |
| Depreciation, depletion and<br>amortization                               | (13,235,308)                    | (17,062,183)            | (5,026,754)           | (378,038)        | (64,332,618)                   |
| Finance income  | 20,952                          | 212,438                 | 411,019               | 38,606           | 3,757,049                      |
| Finance costs   | (24,649,158)                    | (2,472,632)             | (65,961)              | (116,278)        | (86,077,312)                   |
| Income tax expense  | —                               | 2,415,969               | (4,373,083)           | (645,283)        | (89,287,214)                   |
| <b>Profit/(loss) for the year from<br/>continuing operations</b>          | 38,484,528                      | (33,576,039)            | 19,501,556            | 3,374,702        | 269,647,198                    |
| Other comprehensive (loss)/income   | —                               | —                       | (117,716)             | —                | —                              |
| <b>Total comprehensive<br/>income/(loss)</b>                              | 38,484,528                      | (33,576,039)            | 19,383,840            | 3,374,702        | 269,647,198                    |
| Change in unrecognized share of<br>losses                                 | 19,910,964                      | —                       | —                     | —                | 134,823,599                    |
| Dividends received  | —                               | —                       | 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 associates, based on their financial statements for 2018:

| <i>In thousands of tenge</i>                               | 2018                 |                    |
|--|----------------------|--------------------|
|  | CPC                  | PKI                |
| Non-current assets   | 2,147,362,033        | 410,710,323        |
| Current assets   | 105,910,109          | 91,814,964         |
| Non-current liabilities                                    | (350,304,339)        | (45,218,035)       |
| Current liabilities  | (685,130,029)        | (104,042,897)      |
| <b>Equity</b>  | <b>1,217,837,774</b> | <b>353,264,355</b> |
| Share of ownership   | 20.75%               | 33%                |
| Goodwill   | 36,884,737           | –                  |
| <b>Carrying amount of the investment as at December 31</b> | <b>289,586,075</b>   | <b>116,577,237</b> |
| Revenue  | 757,734,286          | 163,262,937        |
| Profit for the year  | 279,347,471          | 44,213,819         |
| Other comprehensive income                                 | 176,033,171          | 40,885,518         |
| <b>Total comprehensive income</b>                          | <b>455,380,642</b>   | <b>85,099,337</b>  |
| Dividends received   | –                    | 24,913,688         |

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

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

**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>                                | 2018              | 2017              |
|---|-------------------|-------------------|
| Non-current assets  | 121,290,124       | 125,404,236       |
| Current assets  | 45,979,030        | 37,468,195        |
| Non-current liabilities                                     | (131,979,834)     | (127,415,389)     |
| Current liabilities   | (37,995,326)      | (35,006,253)      |
| Goodwill  | 4,049,743         | 172,214           |
| Impairment  | (3,635,227)       | (3,635,227)       |
| Accumulated unrecognized share of losses                    | (30,549,876)      | (25,661,135)      |
| <b>Carrying amount of the investments as at December 31</b> | <b>28,258,386</b> | <b>22,648,911</b> |
| Profit for the year from continuing operations              | 1,998,611         | 18,233,038        |
| Other comprehensive (loss)/income                           | (667,887)         | 497,482           |
| Total comprehensive income                                  | 1,330,724         | 18,730,520        |
| Unrecognized share of (loss)/income                         | (4,807,477)       | 13,600,372        |

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

| <i>In thousands of tenge</i>                                | 2018              | 2017              |
|---|-------------------|-------------------|
| Non-current assets  | 29,047,283        | 24,817,616        |
| Current assets  | 50,177,839        | 36,648,406        |
| Non-current liabilities                                     | (10,469,161)      | (12,034,563)      |
| Current liabilities   | (46,568,287)      | (35,371,489)      |
| Accumulated unrecognized share of losses                    | (874,676)         | (928,776)         |
| <b>Carrying amount of the investments as at December 31</b> | <b>23,062,350</b> | <b>14,988,746</b> |
| Profit/losses for the year from continuing operations       | 3,253,882         | 436,348           |
| Other comprehensive income                                  | 3,356,672         | 249,981           |
| Total comprehensive income                                  | 6,610,554         | 686,329           |
| Unrecognized share of income/(loss)                         | 4,200             | (198,871)         |

**13. INVENTORIES**

| <i>In thousands of tenge</i>           | 2018               | 2017<br>(restated) |
|--|--------------------|--------------------|
| Materials and supplies                 | 122,019,086        | 106,085,622        |
| Refined products                       | 117,350,445        | 94,899,304         |
| Gas products                           | 57,761,746         | 15,689,458         |
| Crude oil                              | 39,435,551         | 51,124,918         |
| Less: provision for obsolete inventory | (24,268,160)       | (17,430,395)       |
|  | <b>312,298,668</b> | <b>250,368,907</b> |

As at December 31, 2018 inventories of 123,973,272 thousand tenge are pledged as collateral (as at December 31, 2017: 111,843,564 thousand tenge).

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

| <i>In thousands of tenge</i>               | 2018               | 2017<br>(restated) |
|--|--------------------|--------------------|
| Advances paid and prepaid expenses         | 96,510,307         | 95,623,362         |
| Taxes receivable, other than VAT           | 35,556,450         | 29,577,119         |
| Dividends receivable                       | 15,848,250         | 29,009,976         |
| Restricted cash                            | 15,321,248         | 13,056,590         |
| Other current assets                       | 70,014,639         | 91,613,222         |
| Less: allowance for expected credit losses | (28,528,175)       | (62,770,140)       |
| <b>Total other current assets</b>          | <b>204,722,719</b> | <b>196,110,129</b> |
| Trade accounts receivable                  | 540,669,346        | 525,773,611        |
| Less: allowance for expected credit losses | (46,691,872)       | (57,906,356)       |
| <b>Trade accounts receivable</b>           | <b>493,977,474</b> | <b>467,867,255</b> |

As at December 31, 2018 and 2017 the above assets were non-interest bearing.

As at December 31, 2018 trade accounts receivable of 72,694,539 thousand tenge are pledged as collateral (as at December 31, 2017: 58,115,548 thousand tenge).

In 2017 in connection with revocation of Delta Bank JSC ("Delta Bank") license by Nationak Bank of RK and due to the uncertainty regarding the refund of deposits placement in 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 28) and reclassified deposits in restricted cash.

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

| <i>In thousands of tenge</i>                                | Individually<br>impaired |
|---|--------------------------|
| <b>As at December 31, 2016 (restated)</b>                   | <b>101,519,156</b>       |
| Charge for the year   | 7,812,572                |
| Recovered   | (6,877,173)              |
| Written off   | (977,097)                |
| Transfers and reclassifications                             | 11,855,869               |
| Foreign currency translation                                | 7,343,169                |
| <b>As at December 31, 2017 (restated)</b>                   | <b>120,676,496</b>       |
| Effect of adoption of IFRS 9 as at January 1, 2018 (Note 3) | 3,657,979                |
| Charge for the year   | 7,614,405                |
| Recovered   | (7,878,517)              |
| Written off   | (59,879,599)             |
| Transfers and reclassifications                             | (1,756)                  |
| Foreign currency translation                                | 11,031,039               |
| <b>As at December 31, 2018</b>                              | <b>75,220,047</b>        |

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

| <i>In thousands of tenge</i> | Total       | Neither past<br>due nor<br>impaired | Past due but not impaired |               |               |             |            |
|------------------------------|-------------|-------------------------------------|---------------------------|---------------|---------------|-------------|------------|
|                              |             |                                     | <30 days                  | 30-60<br>days | 61-90<br>days | 91-120 days | >120 days  |
| 2018                         | 493,977,474 | 448,672,349                         | 23,935,096                | 5,017,636     | 4,504,153     | 4,821,665   | 7,026,575  |
| 2017                         | 467,867,255 | 365,858,374                         | 17,505,719                | 38,832,044    | 16,446,884    | 2,292,492   | 26,931,742 |



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

| <i>In thousands of tenge</i>  | 2018               | 2017               |
|---|--------------------|--------------------|
| Loans due from related parties at amortized cost                    | 495,868,960        | 785,593,140        |
| Loans due from related parties at fair value through profit or loss | 263,273,857        | –                  |
| Note receivable from a shareholder of a joint venture               | 16,599,343         | 38,014,555         |
| Bonds receivable from Samruk-Kazyna                                 | 15,363,814         | 18,342,494         |
| Less: allowance for expected credit losses                          | (3,962,910)        | –                  |
|   | <b>787,143,064</b> | <b>841,950,189</b> |

In accordance IFRS 9, the Group reclassified some of the loans as measured at fair value through profit or loss. The fair value of these loans was determined by discounting future cash flows.

| <i>In thousands of tenge</i>  | 2018               | 2017               |
|---|--------------------|--------------------|
| Loans due from related parties in tenge                             | 471,541,035        | 471,798,857        |
| Loans due from related parties in US dollars                        | 280,952,059        | 311,340,691        |
| Note receivable from a shareholder of a joint venture in US dollars | 16,599,343         | 38,014,555         |
| Bonds receivable from Samruk-Kazyna in tenge                        | 15,314,739         | 18,342,494         |
| Loans due from related parties in other foreign currencies          | 2,735,888          | 2,453,592          |
|   | <b>787,143,064</b> | <b>841,950,189</b> |

| <i>In thousands of tenge</i> | 2018               | 2017               |
|------------------------------|--------------------|--------------------|
| Current portion              | 148,615,167        | 169,501,500        |
| Non-current portion          | 638,527,897        | 672,448,689        |
|                              | <b>787,143,064</b> | <b>841,950,189</b> |

Movements in the allowance for expected credit losses of loans and receivables due from related parties were as follows:

| <i>In thousands of tenge</i>                                | Individually<br>impaired |
|---|--------------------------|
| <b>As at December 31, 2017</b>                              | –                        |
| Effect of adoption of IFRS 9 as at January 1, 2018 (Note 3) | 4,610,970                |
| Charge for the year   | 1,298,399                |
| Recovered   | (2,283,285)              |
| Foreign currency translation                                | 336,826                  |
| <b>As at December 31, 2018</b>                              | <b>3,962,910</b>         |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****16. CASH AND CASH EQUIVALENTS**

| <i>In thousands of tenge</i>                                      | <b>2018</b>          | <b>2017<br/>(restated)</b> |
|---|----------------------|----------------------------|
| Term deposits with banks – US dollars                             | 743,645,501          | 792,428,051                |
| Term deposits with banks – tenge                                  | 195,092,674          | 115,103,490                |
| Current accounts with banks – US dollars                          | 538,440,417          | 306,715,644                |
| Current accounts with banks – tenge                               | 39,136,851           | 30,398,564                 |
| Current accounts with banks – other currencies                    | 9,657,988            | 8,846,589                  |
| Term deposits with banks – other currencies                       | 3,491,994            | 3,279,100                  |
| Cash in transit   | 8,914,321            | 5,538,015                  |
| Cash-on-hand  | 1,204,285            | 1,683,787                  |
| Less: allowance for expected credit losses                        | (131,189)            | (5,784)                    |
|   | <b>1,539,452,842</b> | <b>1,263,987,456</b>       |
| Cash and cash equivalents attributable to discontinued operations | 6,395,029            | 2,617,359                  |
|   | <b>1,545,847,871</b> | <b>1,266,604,815</b>       |

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, 2018, the weighted average interest rate for time deposits with banks was 2.84% in US dollars, 7.58% in tenge and 0.07% in other currencies, respectively (2017: 1.04% in US dollars and 7.85% in tenge, respectively).

As at December 31, 2018 and 2017 cash and cash equivalents were not pledged as collateral.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****17. EQUITY**

Total number of outstanding, issued and paid shares comprises:

|  | December 31,<br>2016 | Issued<br>in 2017 | December 31,<br>2017 | Issued<br>in 2018 | December 31,<br>2018 |
|--|----------------------|-------------------|----------------------|-------------------|----------------------|
| <b>Number of shares issued and paid, including</b> | 584,212,737          | 5,187,152         | 589,399,889          | 20,719,604        | 610,119,493          |
| Par value of 27,726.63 tenge                       | 137,900              | —                 | 137,900              | —                 | 137,900              |
| Par value of 10,000 tenge                          | —                    | —                 | —                    | 20,719,604        | 20,719,604           |
| Par value of 5,000 tenge                           | 59,707,029           | —                 | 59,707,029           | —                 | 59,707,029           |
| Par value of 2,500 tenge                           | 65,917,035           | 5,187,152         | 71,104,187           | —                 | 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>        | 696,376,625          | 12,967,880        | 709,344,505          | 207,196,040       | 916,540,545          |
| Par value of 27,726.63 tenge                       | 3,823,502            | —                 | 3,823,502            | —                 | 3,823,502            |
| Par value of 10,000 tenge                          | —                    | —                 | —                    | 207,196,040       | 207,196,040          |
| Par value of 5,000 tenge                           | 298,535,145          | —                 | 298,535,145          | —                 | 298,535,145          |
| Par value of 2,500 tenge                           | 164,792,588          | 12,967,880        | 177,760,468          | —                 | 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 2018 the Company issued 20,719,604 common shares (2017: 5,187,152 common shares). As consideration the Company received received high, medium and low pressure gas pipelines and associated facilities for 207,196,033 thousand tenge (2017: 12,967,879 thousand tenge) that were previously recognized as additional paid-in capital and cash for 7 thousand tenge (2017: 1 thousand tenge). The gas pipelines were recognized as additional paid-in capital based on trust management agreement, which served as a mechanism until the legal title for pipelines transferred to the Group.

As at December 31, 2018, 239,440,103 common shares were authorized, but not issued (2017: 260,159,707 common shares).

**Additional paid-in capital**

In 2018 the Group increased additional paid in capital of 4,113,776 thousand tenge (2017: 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 mechanism until the legal title for pipelines transfers to the Group.

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

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**17. EQUITY (continued)****Transactions with Samruk-Kazyna**

In 2018 the Company extended the maturity period of the interest-free loan to Samruk-Kazyna and, accordingly, recognized modification of the debt. In addition, in 2018 the Company provided an additional interest-free loan to Samruk-Kazyna. The effect of debt modification and the difference between the fair value of the additionally provided loan and its nominal value was 88,545,678 thousand tenge (2017: 5,716,173 thousand tenge) that was recognized by the Company as the transaction with Samruk-Kazyna in the consolidated statement of changes in equity.

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.

**Distributions to Samruk-Kazyna**

In 2018 distributions to Samruk-Kazyna includes: recognizing liabilities for future financing of the construction of social facilities in the city of Turkestan under the social economic development of Turkestan region of 20,900,000 thousand tenge, the results of operations of PSA LLP (subsidiary of the Group) in the total amount of 6,473,432 thousand tenge and the adjustment of the fair value of cost of gas pipelines received as a payment for the issued common shares of 9,747 thousand tenge.

In 2017 distributions to Samruk-Kazyna includes: accrual of provision for construction of the Palace of martial arts in Astana city of 5,544,234 thousand tenge, the results of operations of PSA LLP in the total amount of 5,792,675 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 of 16,755,715 thousand tenge.

**Dividends**

In 2018, based on the decision of Samruk-Kazyna and National Bank of RK, the Company declared and paid dividends for 2017 of 61.54 tenge per common share in the total amount of 36,271,669 thousand tenge.

In 2018 the Group declared dividends in the total of 6,200,599 thousand tenge to the holders of non-controlling interest in KMG EP and KTO (subsidiaries of the Company). As at December 31, 2018 the dividends payable by the Group to the holders of non-controlling interest is 1,749,872 thousand tenge (as at December 31, 2017: 1,850,141 thousand tenge).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****17. EQUITY (continued)****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>         | <b>2018</b>           | <b>2017</b><br>(restated) |
|--------------------------------------|-----------------------|---------------------------|
| Total assets                         | <b>14,015,279,566</b> | 13,549,958,201            |
| Less: intangible assets              | <b>173,077,337</b>    | 185,205,427               |
| Less: total liabilities              | <b>6,872,211,253</b>  | 6,766,353,343             |
| <b>Net assets</b>                    | <b>6,969,990,976</b>  | 6,598,399,431             |
| Number of ordinary shares            | <b>610,119,493</b>    | <b>589,399,889</b>        |
| <b>Book value per ordinary share</b> | <b>11.424</b>         | <b>11.195</b>             |

**Earnings per share**

| <i>In thousand tenge</i>  | <b>2018</b>        | <b>2017</b><br>(restated) |
|---|--------------------|---------------------------|
| Weighted average number of common shares for basic and diluted earnings per share | <b>601,486,325</b> | 588,967,626               |
| Basic and diluted share in net profit for the period                              | <b>1.153</b>       | 0.892                     |
| Basic and diluted share in loss from continuing operations                        | <b>1.147</b>       | 0.898                     |

**Non-controlling interest**

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

|  |   | <b>2018</b>   |                       | <b>2017</b>  |                       |
|--|---|---------------|-----------------------|--------------|-----------------------|
|  | <b>Country of incorporation and operation</b> | <b>Share</b>  | <b>Carrying value</b> | <b>Share</b> | <b>Carrying value</b> |
| Rompetrol Downstream S.R.L.            | Romania                                       | <b>45.37%</b> | 49,330,095            | 45.37%       | 46,577,301            |
| KazTransOil JSC                        | Kazakhstan                                    | <b>10.00%</b> | 43,381,801            | 10.00%       | 42,861,526            |
| KazMunayGas Exploration Production JSC | Kazakhstan                                    | <b>0.50%</b>  | 9,055,928             | 36.99%       | 779,932,098           |
| Rompetrol Petrochemicals S.R.L.        | Romania                                       | <b>45.37%</b> | (3,316,099)           | 45.37%       | 8,698,505             |
| Rompetrol Rafinare S.A.                | Romania                                       | <b>45.37%</b> | (9,854,697)           | 45.37%       | 705,953               |
| Rompetrol Vega                         | Romania                                       | <b>45.37%</b> | (21,180,730)          | 45.37%       | (19,743,196)          |
| Other                                  |   |               | 13,063,327            |              | 10,985,714            |
|  |   |               | <b>80,479,625</b>     |              | <b>870,017,901</b>    |

On December 8, 2017 KMG EP announced the launch of a conditional tender offer ("Tender Offer") to repurchase all of its outstanding GDRs at a price of 14.00 US dollars per GDR. On January 23, 2018 KMG EP also announced the launch of an offer to repurchase all of its common shares ("Share Offer") placed on KASE at a price of 84.00 US dollars per a common share. On February 19, 2018, the first settlement date of the Tender Offer and the Share Offer ("First settlement date"), KMG EP acquired 134,070,054 GDRs and 320,688 common shares. On April 5, 2018 KMG EP made the final settlement under the Tender Offer and the Share Offer for the repurchase of 1,384,856 GDRs and 15,896 ordinary shares. As part of the preferred stock repurchase program launched on August 13, 2018, as of December 31, 2018, KMG EP repurchased 1,123,705 preferred shares. As at December 31, 2018 the total amount of repurchases made up 642,524,031 thousand tenge.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****17. 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, 2018 and for the year then ended:

| <i>In thousands of tenge</i>                                      | Rompetrol<br>Downstream<br>S.R.L. | KazTransOil JSC    | KazMunayGas<br>Exploration<br>Production JSC | Rompetrol<br>Petrochemicals<br>S.R.L. | Rompetrol<br>Rafinare S.A. | Rompetrol Vega      |
|---|-----------------------------------|--------------------|--|---------------------------------------|----------------------------|---------------------|
| <b>Summarized statement of financial position</b>                 |                                   |                    |  |                                       |                            |                     |
| Non-current assets  | 115,877,750                       | 474,492,826        | 855,098,000                                  | —                                     | 226,762,227                | 25,545,771          |
| Current assets  | 130,109,065                       | 89,618,221         | 1,121,114,000                                | 14,248,524                            | 208,057,761                | 10,486,000          |
| Non-current liabilities   | (51,580,387)                      | (65,938,721)       | (59,533,000)                                 | (660,056)                             | (99,909,197)               | (28,236,610)        |
| Current liabilities   | (85,682,651)                      | (68,155,854)       | (192,006,000)                                | (20,897,159)                          | (356,630,592)              | (54,477,543)        |
| <b>Total equity</b>   | <b>108,723,777</b>                | <b>430,016,472</b> | <b>1,724,673,000</b>                         | <b>(7,308,691)</b>                    | <b>(21,719,801)</b>        | <b>(46,682,382)</b> |
| <b>Attributable to:</b>   |                                   |                    |  |                                       |                            |                     |
| Equity holder of the Parent Company                               | 59,393,682                        | 386,634,671        | 1,715,617,072                                | (3,992,592)                           | (11,865,104)               | (25,501,652)        |
| Non-controlling interest  | 49,330,095                        | 43,381,801         | 9,055,928                                    | (3,316,099)                           | (9,854,697)                | (21,180,730)        |
| <b>Summarized statement of comprehensive income</b>               |                                   |                    |  |                                       |                            |                     |
| Revenue   | 552,546,066                       | 225,399,570        | 1,189,392,526                                | 74,023,855                            | 1,198,576,436              | 78,746,181          |
| <b>Profit/(loss) for the year from continuing operations</b>      | <b>(10,086,648)</b>               | <b>61,167,599</b>  | <b>299,917,209</b>                           | <b>(27,398,422)</b>                   | <b>(22,770,776)</b>        | <b>3,207,505</b>    |
| <b>Total comprehensive income/(loss) for the year, net of tax</b> | <b>6,067,173</b>                  | <b>67,672,922</b>  | <b>334,746,590</b>                           | <b>(26,480,217)</b>                   | <b>(23,275,727)</b>        | <b>(3,168,328)</b>  |
| <b>Attributable to:</b>   |                                   |                    |  |                                       |                            |                     |
| Equity holder of the Parent Company                               | 3,314,497                         | 60,993,609         | 314,577,958                                  | (14,466,143)                          | (12,715,530)               | (1,730,858)         |
| Non-controlling interest  | 2,752,676                         | 6,679,313          | 20,168,632                                   | (12,014,074)                          | (10,560,197)               | (1,437,470)         |
| Dividends declared to non-controlling interests                   | —                                 | (6,152,969)        | (47,630)                                     | —                                     | —                          | —                   |
| <b>Summarized cash flow information</b>                           |                                   |                    |  |                                       |                            |                     |
| Operating activity  | 8,597,873                         | 97,452,915         | 276,069,616                                  | (523)                                 | 42,427,973                 | 1,652,819           |
| Investing activity  | (4,441,954)                       | (44,854,329)       | 164,486,925                                  | —                                     | (15,531,622)               | (1,667,023)         |
| Financing activity  | (4,304,211)                       | (61,540,496)       | (642,760,354)                                | (1,022)                               | (27,347,086)               | 38,082              |
| <b>Net increase/(decrease) in cash and cash equivalents</b>       | <b>(148,292)</b>                  | <b>(7,591,684)</b> | <b>(134,732,438)</b>                         | <b>(1,545)</b>                        | <b>(450,735)</b>           | <b>23,878</b>       |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****17. 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>                                      | Rompetrol<br>Downstream<br>S.R.L. | KazTransOil JSC     | KazMunayGas<br>Exploration<br>Production JSC | Rompetrol<br>Petrochemicals<br>S.R.L. | Rompetrol<br>Rafinare S.A. | Rompetrol Vega      |
|---|-----------------------------------|---------------------|--|---------------------------------------|----------------------------|---------------------|
| <b>Summarized statement of financial position</b>                 |                                   |                     |  |                                       |                            |                     |
| Non-current assets  | 119,373,059                       | 450,725,408         | 771,619,013                                  | 3,417,387                             | 219,853,770                | 21,456,147          |
| Current assets  | 121,460,853                       | 99,864,145          | 1,562,165,394                                | 25,180,684                            | 213,572,571                | 9,847,562           |
| Non-current liabilities   | (13,368,325)                      | (60,818,542)        | (53,790,289)                                 | (2,679,868)                           | (50,695,215)               | (24,447,296)        |
| Current liabilities   | (124,808,982)                     | (65,826,269)        | (171,271,707)                                | (6,746,676)                           | (381,175,202)              | (50,370,467)        |
| <b>Total equity</b>   | <b>102,656,605</b>                | <b>423,944,742</b>  | <b>2,108,722,411</b>                         | <b>19,171,527</b>                     | <b>1,555,924</b>           | <b>(43,514,054)</b> |
| <b>Attributable to:</b>   |                                   |                     |  |                                       |                            |                     |
| Equity holder of the Parent Company                               | 56,079,304                        | 381,083,216         | 1,328,790,313                                | 10,473,022                            | 849,971                    | (23,770,858)        |
| Non-controlling interest  | 46,577,301                        | 42,861,526          | 779,932,098                                  | 8,698,505                             | 705,953                    | (19,743,196)        |
| <b>Summarized statement of comprehensive income</b>               |                                   |                     |  |                                       |                            |                     |
| Revenue   | 402,786,476                       | 222,449,953         | 954,505,779                                  | 65,575,792                            | 868,442,783                | 56,963,700          |
| <b>Profit/(loss) for the year from continuing operations</b>      | <b>10,744,848</b>                 | <b>65,889,883</b>   | <b>195,361,299</b>                           | <b>(4,905,225)</b>                    | <b>(1,696,400)</b>         | <b>2,060,006</b>    |
| <b>Total comprehensive income/(loss) for the year, net of tax</b> | <b>10,632,091</b>                 | <b>66,003,468</b>   | <b>194,983,214</b>                           | <b>(5,078,872)</b>                    | <b>(2,356,951)</b>         | <b>2,248,922</b>    |
| <b>Attributable to:</b>   |                                   |                     |  |                                       |                            |                     |
| Equity holder of the Parent Company                               | 5,808,104                         | 59,403,121          | 122,875,728                                  | (2,774,485)                           | (1,287,556)                | 1,228,541           |
| Non-controlling interest  | 4,823,987                         | 6,600,347           | 72,107,486                                   | (2,304,387)                           | (1,069,395)                | 1,020,381           |
| Dividends declared to non-controlling interests                   | —                                 | (5,960,689)         | (7,308,873)                                  | —                                     | —                          | —                   |
| <b>Summarized cash flow information</b>                           |                                   |                     |  |                                       |                            |                     |
| Operating activity  | 20,967,248                        | 98,945,565          | 234,062,986                                  | (1,227)                               | 35,473,676                 | 1,223,370           |
| Investing activity  | (2,622,275)                       | (67,271,259)        | 44,736,436                                   | 2                                     | (36,389,078)               | (1,216,751)         |
| Financing activity  | (17,790,242)                      | (59,617,355)        | (18,905,604)                                 | (268)                                 | (660,692)                  | 7,389               |
| <b>Net increase/(decrease) in cash and cash equivalents</b>       | <b>554,731</b>                    | <b>(28,423,901)</b> | <b>259,551,871</b>                           | <b>(1,493)</b>                        | <b>(1,576,094)</b>         | <b>14,008</b>       |

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

| <i>In thousands of tenge</i>      | 2018                 | 2017<br>(restated)   |
|-----------------------------------|----------------------|----------------------|
| Fixed interest rate borrowings    | 3,029,688,051        | 3,137,181,680        |
| Weighted average interest rates   | 5.40%                | 6.30%                |
| Floating interest rate borrowings | 1,123,549,641        | 1,164,070,457        |
| Weighted average interest rates   | 4.60%                | 4.90%                |
|                                   | <b>4,153,237,692</b> | <b>4,301,252,137</b> |

| <i>In thousands of tenge</i>              | 2018                 | 2017<br>(restated)   |
|---|----------------------|----------------------|
| US dollar – denominated borrowings        | 3,927,512,182        | 4,069,683,277        |
| Tenge – denominated borrowings            | 207,275,842          | 220,728,920          |
| Other currencies – denominated borrowings | 18,449,668           | 10,839,940           |
|   | <b>4,153,237,692</b> | <b>4,301,252,137</b> |

| <i>In thousands of tenge</i> | 2018                 | 2017<br>(restated)   |
|------------------------------|----------------------|----------------------|
| Current portion              | 330,590,078          | 884,140,278          |
| Non-current portion          | 3,822,647,614        | 3,417,111,859        |
|                              | <b>4,153,237,692</b> | <b>4,301,252,137</b> |



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

As at December 31, 2018 and 2017, the debt securities issued and loans comprised:

| Bonds           | Issuance amount  | Redemption date | Interest      | As at December 31    |                      |
|-----------------|------------------|-----------------|---------------|----------------------|----------------------|
|                 |                  |                 |               | 2018                 | 2017                 |
| Bonds LSE 2008  | 1.6 billion USD  | 2018            | 9.125%        | —                    | 530,055,240          |
| Bonds LSE 2010  | 1.5 billion USD  | 2020            | 7.00%         | —                    | 454,158,285          |
| Bonds LSE 2010  | 1.25 billion USD | 2021            | 6.375%        | —                    | 374,885,399          |
| Bonds LSE 2013  | 2 billion USD    | 2043            | 5.75%         | —                    | 166,367,016          |
| Bonds LSE 2013  | 1 billion USD    | 2023            | 4.4%          | 155,214,093          | 133,839,108          |
| Bonds LSE 2014  | 1 billion USD    | 2044            | 6.00%         | 11,211,171           | 9,682,106            |
| Bonds LSE 2014  | 0.5 billion USD  | 2025            | 4.875%        | —                    | 40,464,693           |
| Bonds LSE 2017  | 0.5 billion USD  | 2022            | 3.88%         | 193,026,377          | 166,818,793          |
| Bonds LSE 2017  | 1 billion USD    | 2027            | 4.75%         | 384,383,982          | 332,127,939          |
| Bonds LSE 2017  | 1.25 billion USD | 2047            | 5.75%         | 477,346,937          | 412,643,834          |
| Bonds LSE 2018  | 0.5 billion USD  | 2025            | 4.75%         | 193,533,233          | —                    |
| Bonds LSE 2018  | 1.25 billion USD | 2030            | 5.375%        | 484,361,750          | —                    |
| Bonds LSE 2018  | 1.5 billion USD  | 2047            | 6.375%        | 576,570,945          | —                    |
| Bonds KASE 2009 | 120 billion KZT  | 2019            | 6M Libor+8.5% | 42,721,212           | 73,636,569           |
| Bonds ISE 2017  | 750 million USD  | 2027            | 4.375%        | 290,606,802          | 251,244,525          |
| Others          |                  |                 |               | 4,439,778            | 13,276,427           |
| <b>Total</b>    |                  |                 |               | <b>2,813,416,280</b> | <b>2,959,199,934</b> |

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

| Loans  | Issuance amount   | Redemption date                          | Interest   | As at December 31    |                      |
|--|---|--|--|----------------------|----------------------|
|  |   |  |  | 2018                 | 2017<br>(restated)   |
| Development bank of Kazakhstan JSC               | 1.1 billion USD   | 2023-2025                                | 6M Libor + 4.5% – 5%                             | 292,593,716          | 294,631,602          |
| The Export-Import Bank of China                  | 1 billion USD   | 2027                                     | 6M Libor + 4.1%                                  | 398,978,377          | 340,200,397          |
| Sberbank Russia                                  | 400 million USD   | 2024                                     | 12M Libor + 3.5%                                 | –                    | 134,039,138          |
| Development bank of Kazakhstan JSC               | 152 billion KZT   | 2022-2027                                | 7%-10.2%   | 120,225,114          | 115,480,135          |
| 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%                                    | 106,245,659          | 87,370,787           |
| Syndicated loan                                  | 360 million USD   | 2021                                     | 1M Libor + 2.5%, 1M Libor + 2.75%, 1M Robor + 2% | 98,831,224           | 82,746,607           |
| Japan Bank for International Cooperation         | 298 million USD   | 2025                                     | 4.64%, 6M Libor + 1.10%                          | 76,452,246           | 62,386,497           |
| The Syndicate of banks                           | 200 million USD   | 2021                                     | 3M Libor + 1.35%                                 | 76,625,221           | –                    |
| European Bank for Reconstruction and Development | 68 billion KZT  | 2023                                     | 3M CPI + 3.15%                                   | 54,408,393           | 65,373,153           |
| BNP Paribas                                      | 368 million USD   | 2019                                     | COF (3.45%) + 0.25%                              | 25,198,910           | 14,117,942           |
| European Bank for Reconstruction and Development | 39 billion KZT  | 2026                                     | ½ of the prevailing Base interest rate + 3.15%   | 20,359,038           | 15,620,206           |
| Club loan (Raiffeisen/BCR/ING/Unicredit)         | 200 million USD   | 2019                                     | 3M Libor + 2.5%                                  | 17,683,958           | 35,696,909           |
| 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%                                 | –                    | 51,214,229           |
| Halyk bank JSC                                   | 70 million USD  | 2019                                     | 5%   | 26,938,823           | 23,315,765           |
| Other  | –   | –  | –  | 25,280,733           | 19,858,836           |
| <b>Total</b>                                     |   |  |  | <b>1,339,821,412</b> | <b>1,342,052,203</b> |

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

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**18. BORROWINGS (continued)**

On April 24, 2018, 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 KazMunaiGaz Finance Sub B.V. (subsidiary of the Company), in an aggregate principal amount of 3.25 billion US dollars. The Eurobonds were issued in three series, comprising (i) 500,000 thousand US dollars 4.750% Notes due 2025 (equivalent to 163,260,000 thousand tenge); (ii) 1,250,000 thousand US dollars 5.375% Notes due 2030 (equivalent to 408,150,000 thousand tenge); and (iii) US 1,500,000 thousand US dollars 6.375% Notes due 2047 (equivalent to 489,780,000 thousand tenge).

On May 4 and 11, 2018, the Company made early redemption of Eurobonds for total consideration in the total amount of 3,463,450 thousand US dollars (equivalent to 1,143,982,111 thousand tenge at the date of payment), including interest.

On July 2, 2018 the Company made full redemption of debt on issued bonds on the LSE in 2008 in the total amount of 1,673,000 thousand US dollars (equivalent 570,626,840 thousand tenge), including interest.

On May 17, 2018 in accordance with the loan agreement KTG received a loan from the Syndicate of banks of 65,832,000 thousand tenge (equivalent to: 200,000 thousand US dollars) for partial financing of the project “Construction of three compressor stations at MG “Beineu-Bozoy-Shymkent” at the rate of 3 months LIBOR + 1.35%. This loan is payable by 16 April 2021.

In 2018, Atyrau Refinery LLP (“ANPZ”) received borrowings from Halyk bank JSC of 44,883,100 thousand tenge and fully redeemed borrowings from Halyk bank JSC of 43,665,187 thousand tenge, including accrued interest.

In 2018, ICA, the subsidiary of KTG, received a short-term loan from Citibank N.A. Jersey Branch of 27,172,800 thousand tenge (equivalent to 85,000 thousand US dollars) at the rate of 1 month LIBOR + 2% per annum for the purpose of restructuring existing obligations. In 2018, ICA fully repaid principal under the loan agreement of 27,804,350 thousand tenge (equivalent to 85,000 thousand US dollars).

In 2018, the Company fully redeemed a loan from Sberbank Russia of 419,721 thousand US Dollars (equivalent to 152,989,184 thousand tenge), including accrued interest.

In 2018, ANPZ partially redeemed a loan from The Export-Import Bank of China of 42,447,589 thousand tenge.

In 2018, KMGI made partial repayment of borrowings from Syndicated loan of 20,017,259 thousand tenge, including accrued interest.

In 2018 the Group received borrowings from DBK in the total amount of 15,932,821 thousand tenge and redeemed borrowings in the total amount of 80,419,242 thousand tenge, including interest. Additionally, the Group made a partial scheduled repayment of issued bonds held by DBK of 41,793,375 thousand tenge, including interest.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****18. BORROWINGS (continued)****Changing in liabilities arising from financing activities**

| <i>In thousands of tenge</i>                                 | <b>2018</b>          | <b>2017</b>          |
|--|----------------------|----------------------|
| On January 1 (restated)                                      | 4,301,252,137        | 3,274,415,389        |
| Received by cash   | 1,248,833,717        | 1,506,705,643        |
| Repayment of debt for purchased property plant and equipment | 33,216,444           | 135,393,336          |
| Interest paid  | (248,341,171)        | (216,528,276)        |
| Repayment of principal                                       | (2,069,977,321)      | (680,202,447)        |
| Interest accrued   | 231,836,227          | 206,318,185          |
| Interest capitalized   | 21,715,478           | 26,532,343           |
| Discount   | (6,528,320)          | (15,551,555)         |
| Amortization of discount                                     | 18,218,794           | 10,927,921           |
| Derecognition of liabilities                                 | (53,263,339)         | –                    |
| Interest accrued for early redemption ( <i>Note 28</i> )     | 89,612,318           | –                    |
| Foreign currency translation                                 | 574,395,453          | 56,923,411           |
| Other  | 12,267,275           | (3,681,813)          |
| <b>On December 31</b>  | <b>4,153,237,692</b> | <b>4,301,252,137</b> |
| Current portion  | 330,590,078          | 884,140,278          |
| Non-current portion  | 3,822,647,614        | 3,417,111,859        |

In 2018, the Company derecognized a loan from ONGC Videsh, a partner in the Satpayev project, for the total amount of 53,263,339 thousand tenge, including an interest of 4,620,021 thousand tenge. The Derecognition of the loan is related to the planned withdrawal from the project and returning of the contract territory to the Government (*Note 28*).

**Covenants**

The Group has limitations in terms of the acceptance of debt obligations according to the terms and conditions of the Eurobond 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) defined as per terms of the Eurobond documentation with a threshold value of 3.5. As of December 31, 2018 and December 31, 2017, 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, 2018 and December 31, 2017, the Group complied with all financial and non-financial covenants.

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

As at December 31, 2018 certain borrowings denominated in foreign currency were designated as hedge instrument for the net investment in the foreign operations. In 2018, losses of 364,168,311 thousand tenge (2017: income of 67,150,614 thousand tenge) on the translation of these borrowings were transferred to other comprehensive income and offset the income (2017: loss) on translation of foreign operations.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****19. OIL SUPPLY AGREEMENT**

In 2016 the Group entered into long-term crude oil and liquefied petroleum gas ("LPG") supply agreement, which involves 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.

In 2018, in accordance with an amendment signed in December 2017, the Group received an additional prepayment of 499,411 thousand US dollars (equivalent of 163,072,674 thousand tenge at the date of transaction) net of transaction costs (2017: 488,536 thousand US dollars or 159,301,819 thousand tenge at the date of transaction).

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.

In 2018 the Group has partially settled the prepayments by oil supply in the total amount of 1,000,000 thousand US dollars (2017: 750,000 thousand US dollars).

**20. 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> |
|------------------------------------|-------------------------------------|---|----------------------------|---|-------------------------------------|--------------|--------------|
| As at December 31, 2016 (restated) | 91,543,941                          | 47,402,040                                    | 48,046,853                 | 24,361,458                              | 32,378,099                          | 34,252,960   | 277,985,351  |
| Foreign currency translation       | 11,125                              | (52,661)                                      | 15,139                     | —                                       | 3,806,809                           | (1,964)      | 3,778,448    |
| Change in estimate                 | (1,248,282)                         | (458,178)                                     | —                          | (70,170)                                | —                                   | 62,521       | (1,714,109)  |
| Unwinding of discount              | 8,332,664                           | 1,608,777                                     | —                          | —                                       | 3,039,887                           | 68,786       | 13,050,114   |
| Provision for the year             | 3,488,113                           | 10,902,402                                    | 7,305,466                  | —                                       | 4,213,499                           | 12,945,448   | 38,854,928   |
| Transfer to assets held for sale   | —                                   | (33,258)                                      | —                          | —                                       | —                                   | (57,882)     | (91,140)     |
| Recovered                          | (678,001)                           | —   | (16,528,169)               | —                                       | —                                   | (5,457,222)  | (22,663,392) |
| Use of provision                   | (903,225)                           | (1,163,683)                                   | (11,161,919)               | —                                       | (3,090,513)                         | (10,294,174) | (26,613,514) |
| As at December 31, 2017 (restated) | 100,546,335                         | 58,205,439                                    | 27,677,370                 | 24,291,288                              | 40,347,781                          | 31,518,473   | 282,586,686  |
| Foreign currency translation       | 1,929,672                           | 5,491,580                                     | 10,367                     | —                                       | 41,165                              | 2,097,144    | 9,569,928    |
| Change in estimate                 | 4,657,334                           | 344,180                                       | —                          | 3,791,379                               | —                                   | (86,001)     | 8,706,892    |
| Unwinding of discount              | 9,232,169                           | 2,290,936                                     | —                          | —                                       | 3,203,836                           | 133,048      | 14,859,989   |
| Provision for the year             | 653,611                             | —   | 18,445,135                 | —                                       | 7,374,154                           | 45,173,299   | 71,646,199   |
| Recovered                          | (133,027)                           | (43,261)                                      | (24,903,404)               | —                                       | —                                   | (6,409,061)  | (31,488,753) |
| Use of provision                   | (649,931)                           | (3,318,949)                                   | (894,991)                  | —                                       | (3,487,856)                         | (19,218,818) | (27,570,545) |
| Transfers and reclassifications    | —                                   | 8,083   | —                          | —                                       | —                                   | (50,376)     | (42,293)     |
| As at December 31, 2018            | 116,236,163                         | 62,978,008                                    | 20,334,477                 | 28,082,667                              | 47,479,080                          | 53,157,708   | 328,268,103  |

Provision for gas transportation relates to the Group's commitment on reimbursement of losses incurred by PetroChina International Co.Ltd (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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****20. PROVISIONS**

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

| <i>In thousands of tenge</i>              | Asset retirement obligations | Provision for environmental obligation | Provision for taxes | Provision for gas transportation | Employee benefit obligations | Other             | Total              |
|---|------------------------------|--|---------------------|----------------------------------|------------------------------|-------------------|--------------------|
| <b>As at December 31, 2018</b>            |                              |  |                     |                                  |                              |                   |                    |
| Current portion                           | 1,993,690                    | 6,102,705                              | 20,334,477          | 28,082,667                       | 2,829,670                    | 39,127,724        | 98,470,933         |
| Long-term portion                         | 114,242,473                  | 56,875,303                             | –                   | –                                | 44,649,410                   | 14,029,984        | 229,797,170        |
| <b>Provision as at December 31, 2018</b>  | <b>116,236,163</b>           | <b>62,978,008</b>                      | <b>20,334,477</b>   | <b>28,082,667</b>                | <b>47,479,080</b>            | <b>53,157,708</b> | <b>328,268,103</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                   | 52,284,176                             | –                   | –                                | 37,658,839                   | 14,828,141        | 203,774,487        |
| <b>As at December 31, 2017 (restated)</b> | <b>100,546,335</b>           | <b>58,205,439</b>                      | <b>27,677,370</b>   | <b>24,291,288</b>                | <b>40,347,781</b>            | <b>31,518,473</b> | <b>282,586,686</b> |

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

**21. TRADE ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES**

| <i>In thousands of tenge</i>           | 2018               | 2017 (restated)    |
|--|--------------------|--------------------|
| Contract liabilities                   | 106,385,050        | 87,916,646         |
| Due to employees                       | 51,362,348         | 60,545,953         |
| Dividends payable                      | 1,749,872          | 1,851,512          |
| Other                                  | 77,490,330         | 52,130,701         |
| <b>Total other current liabilities</b> | <b>236,987,600</b> | <b>202,444,812</b> |
| <b>Trade accounts payable</b>          | <b>632,739,333</b> | <b>513,851,048</b> |

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

| <i>In thousands of tenge</i> | 2018               | 2017 (restated)    |
|------------------------------|--------------------|--------------------|
| Tenge                        | 260,093,948        | 218,848,629        |
| US dollars                   | 301,783,755        | 240,165,363        |
| Romanian Leu                 | 45,125,058         | 42,582,108         |
| Euro                         | 7,188,087          | 2,788,753          |
| Other currency               | 18,548,485         | 9,466,195          |
| <b>Total</b>                 | <b>632,739,333</b> | <b>513,851,048</b> |

As at December 31, 2018 and 2017, trade accounts payable and other current liabilities were not interest bearing.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****22. OTHER TAXES PAYABLE**

| <i>In thousands of tenge</i>       | <b>2018</b>        | <b>2017<br/>(restated)</b> |
|------------------------------------|--------------------|----------------------------|
| Rent tax on crude oil export       | 33,183,609         | 27,365,236                 |
| Mineral extraction tax             | 28,039,448         | 26,160,637                 |
| VAT                                | 19,116,760         | 19,448,167                 |
| Individual income tax              | 6,602,946          | 6,580,681                  |
| Social tax                         | 4,197,315          | 5,619,884                  |
| Excise tax                         | 2,885,170          | 2,887,587                  |
| Withholding tax from non-residents | 2,868,274          | 4,545,294                  |
| Other                              | 8,132,520          | 8,590,861                  |
|                                    | <b>105,026,042</b> | <b>101,198,347</b>         |

**23. REVENUE**

| <i>In thousands of tenge</i>               | <b>2018</b>          | <b>2017<br/>(restated)</b> |
|--|----------------------|----------------------------|
| <b>Type of goods and services</b>          |                      |                            |
| Sales of crude oil, gas and gas products   | 4,169,603,828        | 2,727,934,848              |
| Sales of refined products                  | 2,617,623,152        | 1,792,260,263              |
| Oil and gastransportation services         | 315,229,161          | 333,038,251                |
| Refining of oil and oil products           | 175,618,010          | 129,066,720                |
| Other revenue                              | 228,196,831          | 232,163,827                |
| Quality bank for crude oil                 | (17,566,590)         | (21,523,472)               |
| Less: sales taxes and commercial discounts | (499,740,096)        | (399,177,897)              |
|  | <b>6,988,964,296</b> | <b>4,793,762,540</b>       |
| <b>Geographical markets</b>                |                      |                            |
| Kazakhstan                                 | 1,131,910,787        | 944,144,857                |
| Other countries                            | 5,857,053,509        | 3,849,617,683              |
|  | <b>6,988,964,296</b> | <b>4,793,762,540</b>       |

**24. COST OF SALES**

| <i>In thousands of tenge</i>             | <b>2018</b>          | <b>2017<br/>(restated)</b> |
|--|----------------------|----------------------------|
| Crude oil, gas and gas products          | 2,931,146,300        | 1,853,281,488              |
| Materials and supplies                   | 1,381,811,619        | 876,232,108                |
| Payroll                                  | 291,693,311          | 311,972,702                |
| Depreciation, depletion and amortization | 248,453,408          | 197,857,990                |
| Mineral extraction tax                   | 115,967,845          | 93,568,542                 |
| Electricity                              | 71,912,940           | 63,082,702                 |
| Other taxes                              | 71,638,232           | 59,170,452                 |
| Repair and maintenance                   | 41,897,467           | 42,658,047                 |
| Transportation costs                     | 21,987,958           | 15,685,224                 |
| Other                                    | 176,983,381          | 190,947,528                |
|  | <b>5,353,492,461</b> | <b>3,704,456,783</b>       |

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

| <i>In thousands of tenge</i>  | 2018               | 2017<br>(restated) |
|---|--------------------|--------------------|
| Payroll   | 73,632,085         | 77,572,077         |
| Social payments, out of payroll   | 24,094,611         | 28,024,427         |
| Consulting services   | 22,434,631         | 19,523,459         |
| Depreciation and amortization   | 20,167,821         | 23,431,637         |
| Other taxes   | 13,475,350         | 13,222,960         |
| Rent of property, plant and equipment and intangible assets                     | 5,749,506          | 5,780,423          |
| VAT that cannot be offset   | 3,030,936          | 7,922,727          |
| Charitable donations and sponsorship  | 1,698,612          | 1,224,787          |
| Allowance/(reversal of) for fines, penalties and tax provisions (Note 34)       | 29,836,281         | (4,212,497)        |
| Allowance for obsolete inventories  | 4,339,481          | 344,876            |
| Accrual/(reversal) of impairment of VAT receivable                              | 4,215,330          | (24,157,581)       |
| Allowance/(reversal of) for expected credit losses of other current assets      | 1,224,644          | (120,347)          |
| Allowance for expected credit losses of long term advances                      | -                  | 1,187,695          |
| (Reversal of)/allowance for expected credit losses of trade accounts receivable | (1,488,756)        | 1,055,746          |
| Other   | 44,717,030         | 49,633,515         |
|   | <b>247,127,562</b> | <b>200,433,904</b> |

**26. TRANSPORTATION AND SELLING EXPENSES**

| <i>In thousands of tenge</i>  | 2018               | 2017<br>(restated) |
|-------------------------------|--------------------|--------------------|
| Transportation                | 317,402,449        | 189,948,982        |
| Rent tax on crude oil export  | 145,522,855        | 83,182,715         |
| Customs duty                  | 131,127,986        | 105,302,356        |
| Payroll                       | 16,179,720         | 16,102,712         |
| Depreciation and amortization | 12,018,860         | 14,020,289         |
| Other                         | 37,195,258         | 32,011,054         |
|                               | <b>659,447,128</b> | <b>440,568,108</b> |

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

| <i>In thousands of tenge</i>               | 2018               | 2017<br>(restated) |
|--|--------------------|--------------------|
| Property, plant and equipment (Note 7)     | 33,603,172         | 22,327,762         |
| Exploration and evaluation assets (Note 8) | 107,745,422        | 813,448            |
| Investment property (Note 9)               | 1,537,662          | 1,518,344          |
| Intangible assets (Note 10)                | 22,636,003         | -                  |
|  | <b>165,522,259</b> | <b>24,659,554</b>  |



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****28. FINANCE INCOME / FINANCE COST****Finance income**

| <i>In thousands of tenge</i>  | <b>2018</b>        | <b>2017<br/>(restated)</b> |
|---|--------------------|----------------------------|
| Interest income on bank deposits, loans and bonds   | 68,569,603         | 79,901,230                 |
| Derecognition of loan (Note 18)   | 53,263,339         | –                          |
| Amortization of discount on loans due from related parties                                      | 31,526,937         | 39,159,971                 |
| Reversal of expected credit losses for loans and receivables due from related parties (Note 15) | 2,283,285          | –                          |
| Other   | 5,383,728          | 3,512,630                  |
|   | <b>161,026,892</b> | <b>122,573,831</b>         |

**Finance costs**

| <i>In thousands of tenge</i>   | <b>2018</b>        | <b>2017<br/>(restated)</b> |
|--|--------------------|----------------------------|
| Interest on loans and debt securities issued   | 231,836,227        | 206,318,185                |
| Interest for the early redemption of Eurobonds   | 89,612,318         | –                          |
| Interest under oil supply agreement  | 35,868,288         | 26,473,457                 |
| Amortization of discount on loans and debt securities issued                                     | 18,218,794         | 10,927,921                 |
| Unwinding of discount on asset retirement obligations and provision for environmental obligation | 11,523,105         | 9,941,441                  |
| Expected credit losses for loans and receivables due from related parties (Note 15)              | 1,298,399          | –                          |
| Discount on assets with non-market interest rate   | 914,941            | 6,155,426                  |
| Impairment of bank deposits  | 806,366            | 18,609,753                 |
| Other  | 37,576,767         | 27,929,207                 |
|  | <b>427,655,205</b> | <b>306,355,390</b>         |

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

| <i>In thousands of tenge</i>                           | <b>2018</b>        | <b>2017<br/>(restated)</b> |
|--|--------------------|----------------------------|
| Tengizchevroil LLP                                     | 439,149,154        | 289,979,686                |
| Mangistau Investments B.V.                             | 95,510,484         | 49,605,030                 |
| Caspian Pipeline Consortium                            | 57,964,600         | 54,665,983                 |
| Kashagan B.V.  | 34,033,563         | (10,208,354)               |
| KazGerMunay LLP  | 27,914,736         | 17,713,450                 |
| Beineu-Shymkent Pipeline                               | 16,709,896         | (668,700)                  |
| PetroKazakhstan Inc.                                   | 14,590,560         | 7,233,770                  |
| Tenizservice LLP                                       | 13,896,952         | 1,653,469                  |
| Kazakhoil-Aktobe LLP                                   | 9,057,185          | (16,788,020)               |
| KazRosGas LLP  | 5,254,279          | 8,622,045                  |
| Valsera Holdings B.V.                                  | (7,989,150)        | 9,750,778                  |
| Ural Group Limited                                     | (18,822,411)       | (1,877,211)                |
| Share in profit of other joint ventures and associates | 10,056,309         | 5,267,885                  |
|  | <b>697,326,157</b> | <b>414,949,811</b>         |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****30. INCOME TAX EXPENSES**

As at December 31, 2018 income taxes prepaid of 53,142,708 thousand tenge (2017: 36,134,973 thousand tenge) are represented by corporate income tax. As at December 31, 2018 income taxes payable of 13,271,808 thousand tenge (2017: 10,081,239 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>2018</b>        | <b>2017</b><br>(restated) |
|--|--------------------|---------------------------|
| <b>Current income tax</b>                        |                    |                           |
| Corporate income tax                             | 160,009,890        | 112,226,692               |
| Excess profit tax                                | (1,127,668)        | 5,136,675                 |
| Withholding tax on dividends and interest income | 25,517,487         | 21,967,459                |
| <b>Deferred income tax</b>                       |                    |                           |
| Corporate income tax                             | 10,092,758         | 22,394,297                |
| Excess profit tax                                | (7,850,073)        | (1,275,303)               |
| Withholding tax on dividends and interest income | 92,617,263         | 29,835,168                |
| <b>Income tax expenses</b>                       | <b>279,259,657</b> | <b>190,284,988</b>        |

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 2007-2018 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 2018 and 2017) to income tax expenses was as follows for the years ended December 31:

| <i>In thousands of tenge</i>   | <b>2018</b>        | <b>2017</b><br>(restated) |
|--|--------------------|---------------------------|
| Profit before income tax from continuing operations  | 969,317,819        | 719,399,113               |
| Profit/(loss) before income tax from discontinued operations                               | 3,492,833          | (3,404,609)               |
| Statutory tax rate   | 20%                | 20%                       |
| <b>Income tax expense on accounting profit</b>   | <b>194,562,130</b> | <b>143,198,900</b>        |
| Share in profit of joint ventures and associates non-taxable or taxable at different rates | (73,592,858)       | (39,493,009)              |
| Other non-deductible expenses and non-taxable income                                       | 61,616,758         | 41,105,752                |
| Excess profit tax  | (8,977,741)        | 3,861,372                 |
| Effect of different corporate income tax rates   | 13,149,192         | 3,233,652                 |
| Change in unrecognized deferred tax assets   | 92,542,217         | 38,639,830                |
|  | <b>279,299,698</b> | <b>190,546,497</b>        |
| Income tax expense attributable to continued operations                                    | 279,259,657        | 190,284,988               |
| Income tax expense attributable to discontinued operations                                 | 40,041             | 261,509                   |
|  | <b>279,299,698</b> | <b>190,546,497</b>        |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****30. 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>                                      | 2018<br>Corporate<br>income tax | 2018<br>Excess<br>profit tax | 2018<br>Withholding<br>tax | 2018<br>Total      | 2017<br>Corporate<br>income tax | 2017<br>Excess<br>profit tax | 2017<br>Withholding<br>tax | 2017<br>Total      |
|---|---------------------------------|------------------------------|----------------------------|--------------------|---------------------------------|------------------------------|----------------------------|--------------------|
| <b>Deferred tax assets</b>  |                                 |                              |                            |                    |                                 |                              |                            |                    |
| Property, plant and equipment                                     | 36,803,369                      | (1,915,972)                  | —                          | 34,887,397         | 53,100,436                      | (2,213,776)                  | —                          | 50,886,660         |
| Tax loss carryforward   | 574,355,603                     | —                            | —                          | 574,355,603        | 462,368,221                     | —                            | —                          | 462,368,221        |
| Employee related accruals   | 6,732,083                       | —                            | —                          | 6,732,083          | 7,016,794                       | 233,019                      | —                          | 7,249,813          |
| Impairment of financial assets                                    | 7,708                           | —                            | —                          | 7,708              | 4,177                           | —                            | —                          | 4,177              |
| Environmental liability   | 4,445,254                       | —                            | —                          | 4,445,254          | 4,249,110                       | 217,257                      | —                          | 4,466,367          |
| Other   | 51,583,383                      | —                            | —                          | 51,583,383         | 40,468,816                      | 1,344,719                    | —                          | 41,813,535         |
| Less: unrecognized deferred tax assets                            | (536,070,088)                   | —                            | —                          | (536,070,088)      | (443,527,871)                   | —                            | —                          | (443,527,871)      |
| Less: deferred tax assets offset with<br>deferred tax liabilities | (38,059,928)                    | —                            | —                          | (38,059,928)       | (24,580,399)                    | —                            | —                          | (24,580,399)       |
| <b>Deferred tax assets</b>  | <b>99,797,384</b>               | <b>(1,915,972)</b>           | <b>—</b>                   | <b>97,881,412</b>  | <b>99,099,284</b>               | <b>(418,781)</b>             | <b>—</b>                   | <b>98,680,503</b>  |
| <b>Deferred tax liabilities</b>                                   |                                 |                              |                            |                    |                                 |                              |                            |                    |
| Property, plant and equipment                                     | 208,108,112                     | 6,364,979                    | —                          | 214,473,091        | 153,437,966                     | 15,712,243                   | —                          | 169,150,209        |
| Undistributed earnings of joint venture                           | —                               | —                            | 295,579,902                | 295,579,902        | —                               | —                            | 202,962,639                | 202,962,639        |
| Other   | 7,604,514                       | —                            | —                          | 7,604,514          | 33,205,776                      | —                            | —                          | 33,205,776         |
| Less: deferred tax assets offset with<br>deferred tax liabilities | (38,059,928)                    | —                            | —                          | (38,059,928)       | (24,580,399)                    | —                            | —                          | (24,580,399)       |
| <b>Deferred tax liabilities</b>                                   | <b>177,652,698</b>              | <b>6,364,979</b>             | <b>295,579,902</b>         | <b>479,597,579</b> | <b>162,063,343</b>              | <b>15,712,243</b>            | <b>202,962,639</b>         | <b>380,738,225</b> |
| <b>Net deferred tax liability</b>                                 | <b>77,855,314</b>               | <b>8,280,951</b>             | <b>295,579,902</b>         | <b>381,716,167</b> | <b>62,964,059</b>               | <b>16,131,024</b>            | <b>202,962,639</b>         | <b>282,057,722</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 536,070,088 thousand tenge as at December 31, 2018 (2017: 443,527,871 thousand tenge).

Tax losses carry forward as at December 31, 2018 in the Republic of Kazakhstan expire for tax purposes ten years from the date they are incurred.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****30. INCOME TAX EXPENSES (continued)**

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

| <i>In thousands of tenge</i>                                 | 2018<br>Corporate<br>income tax | 2018<br>Excess<br>profit tax | 2018<br>Withholding<br>tax | 2018<br>total      | 2017<br>Corporate<br>income tax | 2017<br>Excess<br>profit tax | 2017<br>Withholding tax | 2017<br>total      |
|--|---------------------------------|------------------------------|----------------------------|--------------------|---------------------------------|------------------------------|-------------------------|--------------------|
| <b>Net deferred tax liability/(asset) as at January 1</b>    | 62,964,059                      | 16,131,024                   | 202,962,639                | 282,057,722        | 40,546,608                      | 17,406,875                   | 173,127,471             | 231,080,954        |
| Foreign currency translation                                 | 4,713,008                       | –                            | –                          | 4,713,008          | (118,950)                       | (548)                        | –                       | (119,498)          |
| Charge to the consolidated statement of comprehensive income | 10,178,247                      | (7,850,073)                  | 92,617,263                 | 94,945,437         | 22,536,401                      | (1,275,303)                  | 29,835,168              | 51,096,266         |
| <b>Net deferred tax liability/(asset) as at December 31</b>  | <b>77,855,314</b>               | <b>8,280,951</b>             | <b>295,579,902</b>         | <b>381,716,167</b> | <b>62,964,059</b>               | <b>16,131,024</b>            | <b>202,962,639</b>      | <b>282,057,722</b> |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****31. 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, 2018 and 2017:

| <i>In thousands of tenge</i>                       |             | <b>Due from<br/>related parties</b> | <b>Due to<br/>related parties</b> | <b>Cash and<br/>deposits<br/>placed with<br/>related parties</b> | <b>Borrowings<br/>payable to<br/>related parties</b> |
|--|-------------|-------------------------------------|-----------------------------------|--|--|
| Samruk-Kazyna entities                             | <b>2018</b> | <b>268,395,793</b>                  | <b>3,656,385</b>                  | <b>52,304</b>  | —  |
|  | <b>2017</b> | <b>289,084,327</b>                  | <b>1,703,093</b>                  | <b>53,959</b>  | —  |
| Associates   | <b>2018</b> | <b>116,669,863</b>                  | <b>2,089,483</b>                  | —  | —  |
|  | <b>2017</b> | <b>154,953,597</b>                  | <b>3,747,640</b>                  | —  | —  |
| Other state-controlled parties                     | <b>2018</b> | <b>156,875</b>                      | <b>8,813,187</b>                  | —  | <b>455,540,042</b>                                   |
|  | <b>2017</b> | —                                   | <b>8,752,609</b>                  | <b>2,675,566</b>   | <b>489,948,733</b>                                   |
| Joint ventures in which the Group is<br>a venturer | <b>2018</b> | <b>508,260,337</b>                  | <b>174,042,253</b>                | —  | —  |
|  | <b>2017</b> | <b>556,563,795</b>                  | <b>194,182,312</b>                | —  | —  |

**Due from related parties**

In 2018 the Company extended the maturity period of the interest-free loan to Samruk-Kazyna and, accordingly, recognized modification of the debt. In addition, in 2018 the Company provided an additional interest-free loan to Samruk-Kazyna. The effect of debt modification and the difference between the fair value of the additionally provided loan and its nominal value was 88,545,678 thousand tenge that was recognized by the Company as the transaction with Samruk-Kazyna in the consolidated statement of changes in equity.

As at December 31, 2018 changes in due from associates were mainly related to the repayment of interest of the right to claim payments under "Kazakhstan Note" of 56,431,400 thousand tenge.

As at December 31, 2018 decrease in due from joint ventures is mainly due to decreasing of trade accounts receivable for goods and services of KazRosGas LLP of 65,187,893 thousand tenge. Changes of due from joint ventures also include accrual of interest and foreign exchange losses on loan given to BeineuShymkent Pipelines LLP of 8,049,903 thousand tenge and 21,159,777 thousand tenge, respectively. Additionally, CCEL, joint ventures of KMG EP, made a partial repayment of note receivable of 29,174,223 thousand tenge.

**Due to related parties**

As at December 31, 2018 changes in due to joint ventures mainly relates to settlements for goods and services with Tengizchevroil LLP of 5,437,051 thousand tenge, KazRosGas LLP, Asia Gas Pipeline LLP and BeineuShymkent Pipelines LLP of 2,699,789 thousand tenge, 3,558,018 thousand tenge and 16,647,787 thousand tenge, respectively.

**Borrowings payable to related parties**

In 2018 the Group received loans from DBK in the total amount of 15,932,821 thousand tenge and redeemed bonds and loans payable to DBK in the total amount of 122,212,617 thousand tenge including interest (Note 18).

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

The following table provides the total amount of transactions, which have been entered into with related parties during 2018 and 2017:

| <i>In thousands of tenge</i>                       |             | <b>Sales to<br/>related parties</b> | <b>Purchases<br/>from<br/>related parties</b> | <b>Interest<br/>earned from<br/>related parties</b> | <b>Interest<br/>incurred to<br/>related parties</b> |
|--|-------------|-------------------------------------|---|---|---|
| Samruk-Kazyna entities                             | <b>2018</b> | <b>63,950,762</b>                   | <b>25,372,484</b>                             | <b>23,370,415</b>                                   | <b>–</b>  |
|  | <b>2017</b> | <b>66,161,168</b>                   | <b>29,896,957</b>                             | <b>28,364,559</b>                                   | <b>–</b>  |
| Associates   | <b>2018</b> | <b>23,150,433</b>                   | <b>22,529,197</b>                             | <b>9,800,033</b>                                    | <b>–</b>  |
|  | <b>2017</b> | <b>9,597,880</b>                    | <b>38,647,833</b>                             | <b>10,413,919</b>                                   | <b>–</b>  |
| Other state-controlled parties                     | <b>2018</b> | <b>157,004</b>                      | <b>48,881,587</b>                             | <b>–</b>  | <b>29,747,897</b>                                   |
|  | <b>2017</b> | <b>–</b>                            | <b>2,942,341</b>                              | <b>–</b>  | <b>25,694,310</b>                                   |
| Joint ventures in which the Group is<br>a venturer | <b>2018</b> | <b>321,806,358</b>                  | <b>1,487,044,072</b>                          | <b>27,263,533</b>                                   | <b>3,257,983</b>                                    |
|  | <b>2017</b> | <b>318,154,537</b>                  | <b>1,000,163,766</b>                          | <b>25,869,046</b>                                   | <b>10,769,061</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 8,998,700 thousand tenge and 9,022,125 thousand tenge for the years ended December 31, 2018 and 2017, respectively. Compensation to key management personnel consists of contractual salary and performance bonus based on operating results.

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

The Group's principal financial instruments mainly consist of borrowings, financial guarantees, cash and cash equivalents, 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, 2018 and 2017.

**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)****32. 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/<br/>decrease<br/>in tenge to<br/>US dollar<br/>exchange rate</b> | <b>Effect<br/>on profit<br/>before tax</b> |
|------------------------------|---|--|
| <b>2018</b>                  | <b>+14%</b>   | <b>(260,692,697)</b>                       |
|                              | <b>-10%</b>   | <b>186,209,069</b>                         |
| <b>2017</b>                  | <b>+10%</b>   | <b>(96,952,960)</b>                        |
|                              | <b>-10%</b>   | <b>96,952,960</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/<br/>decrease<br/>in basis points</b> | <b>Effect<br/>on profit<br/>before tax</b> |
|------------------------------|---|--|
| <b>2018</b>                  |   |  |
| LIBOR                        | <b>+0.50</b>                                      | <b>(5,617,748)</b>                         |
|                              | <b>-0.15</b>                                      | <b>1,685,324</b>                           |
| <b>2017</b>                  |   |  |
| LIBOR                        | <b>+0.70</b>                                      | <b>(6,775,665)</b>                         |
|                              | <b>-0.08</b>                                      | <b>762,459</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 14*. 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)****32. 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 16) held in banks at the reporting date using the Standard and Poor's and Fitch's credit ratings.

| Banks                                    | Location                               | Rating <sup>1</sup> |                | 2018                 | 2017                 |
|--|--|---------------------|----------------|----------------------|----------------------|
|  |  | 2018                | 2017           |                      |                      |
| Halyk Bank                               | Kazakhstan                             | BB (stable)         | BB (stable)    | 666,835,685          | 622,930,581          |
| MUFG Bank (Bank of Tokyo-Mitsubishi UFJ) | Japan                                  | A (positive)        | A (stable)     | 218,600,643          | 464,530,245          |
| Mizuho Bank Ltd                          | Japan                                  | A (stable)          | A (stable)     | 149,381,101          | 373,029,697          |
| Societe Generale                         | United Kingdom                         | A (positive)        | A (stable)     | 149,332,049          | 314,733,898          |
| Citibank                                 | United Arab Emirates                   | A+(stable)          | A+(stable)     | 149,299,221          | 50,034,359           |
| Sumitomo Mitsui Banking Corporation      | Japan                                  | A (positive)        | A (positive)   | 149,295,636          | –                    |
| Deutsche Bank                            | the Netherlands and the United Kingdom | BBB+ (stable)       | A- (negative)  | 124,144,625          | 88,990,995           |
| Credit Agricole Corporate                | France                                 | A+(stable)          | A+ (positive)  | 123,200,575          | –                    |
| Rabobank                                 | The Netherlands                        | A+ (positive)       | A+ (positive)  | 70,462,280           | 81,922,668           |
| Natixis (France)                         | France                                 | A+(stable)          | A (positive)   | 29,991,036           | 27,251               |
| ING Bank                                 | The Netherlands                        | A+ (stable)         | A+ (stable)    | 23,689,701           | 170,385,398          |
| Forte Bank                               | Kazakhstan                             | B (positive)        | B (positive)   | 23,665,529           | 3,723,436            |
| BankCenterCredit                         | Kazakhstan                             | B (stable)          | B (stable)     | 14,585,275           | 1,946                |
| Sberbank of Russia                       | Kazakhstan                             | BB+ (positive)      | BB+ (positive) | 11,903,911           | 23,148,486           |
| ATF Bank                                 | Kazakhstan                             | B (negative)        | B (negative)   | 9,926,000            | 5,301,656            |
| Citibank                                 | United Kingdom                         | A+ (stable)         | A+ (stable)    | 7,868,239            | 46,678,682           |
| Citibank                                 | Kazakhstan                             | A+(stable)          | A+(stable)     | 7,030,693            | 2,032,358            |
| Gazprombank                              | Russia                                 | BB+ (stable)        | BB+ (stable)   | 6,586,155            | 70                   |
| UNICREDIT TIRIAC                         | Romania                                | BBB- (negative)     | BBB (stable)   | 5,942,421            | –                    |
| HSBC                                     | United Kingdom                         | AA- (stable)        | AA- (stable)   | 2,450,179            | 113,090,248          |
| Altyn Bank                               | Kazakhstan                             | BBB- (stable)       | BB (positive)  | 1,317,287            | 21,965,792           |
| Credit Suisse                            | British Virgin Islands                 | A (positive)        | A (stable)     | 190,279              | 39,338,017           |
| Societe Generale                         | Switzerland                            | A (positive)        | A (stable)     | 188,686              | 164,779,167          |
| BNP Paribas                              | United Kingdom                         | A (positive)        | BB+ (stable)   | 22,284               | 162,829,147          |
| Kazkommertsbank                          | Kazakhstan                             | –                   | B+ (negative)  | –                    | 78,656,996           |
| ABN Amro Bank                            | The Netherlands                        | A (positive)        | A (positive)   | –                    | 33,354,442           |
| Other banks                              |  |                     |                | 22,312,085           | 82,749,579           |
|  |  |                     |                | <b>1,968,221,575</b> | <b>2,944,235,114</b> |

Continued support by the state bodies of the Republic of Kazakhstan is a key assumption in management's conclusions that no additional recognition of expected credit losses are 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)****32. 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, 2018 and 2017 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, 2018</b> |                    |  |  |   |                      |                      |
| Borrowings                     | 121,163,739        | 49,987,539   | 335,827,564  | 1,837,612,499   | 4,731,788,357        | 7,076,379,698        |
| Financial guarantees           | —                  | 4,204,962  | 11,655,349   | 168,547,575   | 183,075,704          | 367,483,590          |
| Trade accounts payable         | 269,538,378        | 352,008,389  | 11,192,566   | —   | —                    | 632,739,333          |
|                                | <b>390,702,117</b> | <b>406,200,890</b>                                       | <b>358,675,479</b>                                     | <b>2,006,160,074</b>                                  | <b>4,914,864,061</b> | <b>8,076,602,621</b> |
| <b>As at December 31, 2017</b> |                    |  |  |   |                      |                      |
| Borrowings                     | 78,839,079         | 51,491,081   | 942,638,838  | 2,218,917,056   | 2,829,464,466        | 6,121,350,520        |
| Financial guarantees           | —                  | 4,488,289  | 13,464,867   | 105,155,859   | 190,656,241          | 313,765,256          |
| Trade accounts payable         | 249,845,133        | 177,150,627  | 86,855,288   | —   | —                    | 513,851,048          |
|                                | <b>328,684,212</b> | <b>233,129,997</b>                                       | <b>1,042,958,993</b>                                   | <b>2,324,072,915</b>                                  | <b>3,020,120,707</b> | <b>6,948,966,824</b> |

\*The Group excludes from maturity profile table the loans payable to project partners under the carry-in financing agreements (*Note 18*), due to the uncertainty of maturity of these loans.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****32. 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, 2018 and 2017 are reasonable approximation of their fair value, except for the financial instruments disclosed below:

|                                     | 2018            |               |  |   |
|-------------------------------------|-----------------|---------------|--|---|
|                                     | Carrying amount | Fair value    | Fair value by level of assessment        |   |
|                                     |                 |               | Quotations in an active market (Level 1) | From the observed market (Level 2)<br>Based on the significant amount of unobserved (Level 3) |
| <i>In thousands of tenge</i>        |                 |               |  |   |
| Bonds receivable from Samruk-Kazyna | 15,314,739      | 20,444,292    | –  | 20,444,292  |
| Fixed interest rate borrowings      | 3,029,688,051   | 2,972,626,808 | 2,726,332,277                            | 246,294,531   |
| Financial guarantees                | 13,332,514      | 13,332,514    | –  | 13,332,514  |
| Investment property                 | 24,187,775      | 24,187,775    | –  | 24,187,775  |

|                                     | 2017            |               |  |   |
|-------------------------------------|-----------------|---------------|--|---|
|                                     | Carrying amount | Fair value    | Fair value by level of assessment        |   |
|                                     |                 |               | Quotations in an active market (Level 1) | From the observed market (Level 2)<br>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 guarantees                | 11,937,863      | 11,937,863    | –  | 11,937,863  |
| Investment property                 | 27,423,225      | 30,263,855    | –  | 30,263,855  |

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)****33. CONSOLIDATION**

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

| Significant entities                              | Main activity                          | Country of incorporation | Percentage ownership |         |
|---|--|--------------------------|----------------------|---------|
|   |  |                          | 2018                 | 2017    |
| KazMunayGas Exploration Production JSC ("KMG EP") | Exploration and production             | Kazakhstan               | 99.50%               | 63.01%  |
| KazTransGas JSC ("KTG")                           | Gas transportation                     | Kazakhstan               | 100.00%              | 100.00% |
| KazTransOil JSC ("KTO")                           | Oil transportation                     | Kazakhstan               | 90.00%               | 90.00%  |
| Atyrau Refinery LLP                               | Refinery                               | Kazakhstan               | 99.53%               | 99.53%  |
| Pavlodar oil chemistry refinery LLP               | Refinery                               | Kazakhstan               | 100.00%              | 100.00% |
| KazMunayGas Onimderly LLP                         | Marketing of oil products              | Kazakhstan               | 100.00%              | 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% |

**34. 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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**34. 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, 2018.

As at December 31, 2018, 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.

*JSC “Embamunaigas” environmental audit (Embamunaigas)*

On July 23, 2018 Embamunaigas, subsidiary of KMG EP, received a notification from the Department of Ecology of Atyrau region to pay a fine of 8,908 million tenge for violations of ecology law that were identified during the first environmental audit conducted during April–June 2018. The fine was related to emissions of harmful substances above the established norms as a result of gas flaring during the period from November 1, 2017 to June 12, 2018. On September 17, 2018 the Atyrau Regional Court made decision to reduce the amount of the fine to 6,681 million tenge. On October 19, 2018, KMG EP fully paid this fine to the Republican budget.

Also on September 24, 2018, Embamunaigas received an order from the Department of Ecology of the Atyrau region for damages to the environment following the above mentioned an environmental audit of 7,835 million tenge. On January 30, 2019, the Specialized Interdistrict Economic Court of Atyrau region ruled to satisfy the claim of the Department of Ecology of the Atyrau region to recover environmental damage of 7,835 million tenge.

On October 18, 2018, Embamunaigas received a notification from the Department of Ecology of the Atyrau region to pay a fine of 6,862 million tenge for violation of ecology law following the second environmental audit from June 12, 2018 to October 10, 2018. In addition, the authorities also have the ability to assess additional amounts for ecological damage and Embamunaigas expects the additional amount of 6,050 million tenge to be assessed.

Based on the results of two environmental audits, the Group has accrued a provision of 27,428 million tenge in these consolidated financial statements. Also, the Group has accrued a provision of 6,784 thousand tenge for the expected fine for the period from October to December, 2018. At the moment, the Group is carrying out a claim related work regarding to appeal against fines and environmental damage.

**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, 2018.

As at December 31, 2018 management believes that its interpretation of the transfer pricing legislation is appropriate and that it is probable that the Group’s positions with regard to transfer pricing will be sustained.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****34. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****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 the Consortium of Ersai Caspian Contractor LLP and Caspian Offshore & Marine Construction Kazakhstan LLP (further - "Consortium" or "Plaintiff") on the issues arising from the contract for the purchase of integrated works on construction of jack-up floating drilling rig dated 5 July 2012. The claim amounts to 192,114 thousand US dollars (equivalent to 73,810,199 thousand tenge). This case is under arbitration of the London Court of International Arbitration.

The Plaintiff's material requirements totalling 192,114 thousand US dollars consisted of:

- Compensation related to the increase in the cost of the contract (deficiencies in the project documentation and changes in the design solution) of 140,118 thousand US dollars (equivalent to 53,833,336 thousand tenge);
- A penalty of 1,383 thousand US dollars (equivalent to 531,349 thousand tenge);
- The amount of claims for currency adjustment of 50,613 thousand US dollars (equivalent to 19,445,515 thousand tenge). It should be noted that the Plaintiffs indicated a possible change in this amount at the date of payment of the claim.

During 2018, the Consortium submitted an amended Statement of Claim in which the total amount of claims was reduced. The amended Statement of Claim does not include new claims, and the amount of claims was reduced. The total amount of the Consortium's claims in the amended statement of claim is 140,019 thousand US dollars (equivalent to KZT 53,795,300 thousand tenge). KMG D&S does not agree with the due claim. The legal and technical advisers, independent experts have been engaged to defend the KMG D&S's interests.

There is an uncertainty around the outcome of court proceedings. As at 31 December 2018, KMG D&S have not recognised a provision for this case.

**Notice of arbitration ANPZ**

As of December 31, 2018, ANPZ received a notice of arbitration from Sinopec Engineering (Group) Co., Ltd (SEG) requesting reimbursement of additional expenses of 280,981 thousand US dollars (equivalent to 107,952,900 thousand tenge), arising in connection with the execution of the Contract for the construction of the Complex for the production of aromatic hydrocarbons on a turnkey basis (Contract for the construction of the CPA).

In the opinion of ANPZ, since the Contract for the construction of the CPA by the Parties is fully executed, the acts of the executed works are signed, the objects are commissioned, and the SEG requirements are unfounded.

As of December, 15, 2018, the case was at the stage of appointing arbitrators.

On February 28, 2019, SEG sent to the Arbitration Institute of the Stockholm Chamber of Commerce (the forum for resolution of the dispute) a request for withdrawal of its action in the Arbitration and for termination of the arbitration. On March 5, 2019 the Arbitration Institute of the Stockholm Chamber of Commerce informed ANPZ about the termination of arbitration.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****34. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****Disputes regarding the calculation of the proportion of profit oil sharing with the Republic (KMG Karachaganak LLP)**

According to the Karachaganak Final Production Sharing Agreement (FPSA), the Karachaganak project profit oil sharing is regulated by the Fairness Index. In the second quarter of 2014, the economics of the Karachaganak project reached a level where the trigger on the Fairness Index "worked" and the proportion in the profit oil sharing changed in favour of the Republic of Kazakhstan.

In addition, from August 20, 2014 to the present, the Ministry of Energy of the Republic of Kazakhstan quarterly notifies the Contracting Companies, participants of FPSA, (Contracting Companies) of disagreement regarding the presented calculation of the proportion of the profit oil sharing.

On December 30, 2016, a legally non-binding Memorandum of Understanding was signed between the Republic of Kazakhstan and the Contracting Companies.

On September 29, 2017 the competent authority represented by PSA LLP, filed a request for arbitration in the name of the Contracting Companies (with the exception of KMG Karachaganak LLP) on the improper calculation of the Fairness Index. KMG Karachaganak LLP (KMG Karachaganak) was not involved in the arbitration process due to a conflict of interest.

On October 1, 2018, the Contracting Companies entered into a non-legally binding Agreement on Principles (hereinafter referred to as the "AOP"), providing for the following basic conditions:

- The Contracting Companies shall pay (including KMG Karachaganak) the amount of 1,111,111 thousand US dollars (equivalent to 426,888,846 thousand tenge) (hereinafter referred to as "Financial contribution") to the Republic of Kazakhstan, of which 111,111 thousand US dollars (equivalent to 42,688,885 thousand tenge) represents a share of KMG Karachaganak. The financial contribution represents a settlement of disputes and shall be paid in 3 (three) tranches: 400,000 thousand US dollars (equivalent to 153,680,000 thousand tenge) in 2019, 500,000 thousand US dollars (equivalent to 192,100,000 thousand tenge) in 2020 and 211,111 thousand US dollars (equivalent to 81,066,200 tenge) in 2021, respectively;
- making some changes in the methodology for calculating the fairness index starting from January 1, 2019 in accordance with the points specified in the AOP;
- the provision by the Contracting Companies (including the KMG Karachaganak) of a loan to the Republic of Kazakhstan in the amount of 1,000,000 thousand US dollars (equivalent to 384,200,000 thousand tenge). The loan will be paid in 3 (three) tranches: 334,000 thousand US dollars (equivalent to 128,322,800 thousand tenge) in 2022, 333,333 thousand US dollars (equivalent to 127,938,600 thousand tenge) in 2023 and 333,333 thousand US dollars (equivalent to 127,938,600 thousand tenge) in 2024, respectively. Interest will be charged at a six-month LIBOR rate plus 3% per annum, and will be paid in accordance with schedule specified in the AOP. In the event that the final loan agreement is not concluded before a certain date (to be agreed in the AOP, but no later than 1 July 2022), the Republic of Kazakhstan may prefer to receive compensation in the form of cash. In this case, the Contracting Companies (including KMG Karachaganak) undertakes to pay the amount of 199,600 thousand US dollars (equivalent to 68,870,427 thousand tenge) the Republic of Kazakhstan (hereinafter, "Additional financial contribution").

In accordance with the terms of the AOP, the Financial Contribution and Additional Financial Contribution will not be considered as expenses for Oil and Gas operations or Reimbursable expenses under FPSA, will in no way be included in the calculation of the Fairness Index or profit oil sharing under FPSA and be considered as deductible expenses in determining taxable income under the applicable Kazakhstan tax laws.

Currently, the Republic of Kazakhstan and the Contracting Companies are negotiating the conclusion of a legally binding Settlement Agreement, which should reflect the principal agreements reached in the AOP.

KMG Karachaganak, together with the KMG and the Competent Authority, prepared comments on the draft AOP between the Contracting Companies and the Republic of Kazakhstan, relating to exclusion of KMG Karachaganak from participating in the payment of compensation and provision of a loan. In the opinion of the Group's Management, it is highly probable that KMG Karachaganak will be excluded from participation in the payment of compensation and provision of a loan. Accordingly, no provisions have been made under the terms of the AOP in these consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****34. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****Civil litigation (KMGI)**

According to a Decree issued April 22, 2016, prosecutors of Romania with the General Headquarters of the Department for Fight Against Organized Crime and Terrorism (DIICOT) have ordered a reclassification and continued investigation of the case against 26 suspects under charges of organized crime (14 of them were employees of KMG I). In accordance to the same Decree, several civil responsible parties were added to the case, which include KMG I, SC Oilfield Exploration Business Solutions SA and SC Rompetrol Rafinare S.A. (KMG I subsidiaries). The amount of claims of the civil action is RON 1,724,168,825, USD 290,786,616 and EUR 34,941,924 (equivalent of 760 million US dollar or 291,992 million tenge). By Decree issued on May 6, 2016, the DIICOT have applied a prejudgment seizure on KMGI, SC Oilfield Exploration Business Solutions SA and SC Rompetrol Rafinare S.A. movable and immovable assets except for bank accounts, receivables and inventories. Prescribed seizure does not impact the operational activity of the companies. KMG I appealed the seizure orders in domestic courts and international arbitration. The hearing of Supreme Court was on June 13, 2016. The Supreme Court rejected in full the appeal.

On July 22, 2016 the Company and KMG I submitted to the Romanian authorities the Notice of Investment Dispute based on the Agreement between the Government of Romania and the Government of the Republic of Kazakhstan, the Agreement between the Government of the Kingdom of the Netherlands and the Government of Romania and the Energy Charter Treaty. The submission of the aforementioned Notice represents the first procedural step that might give rise to an arbitration dispute between an investor and the country where the investment was made. If a settlement between the Group and Romanian authorities fail to be reached, the case will be referred to and settled by the International Centre for Settlement of Investment Disputes under World Bank or to the Arbitration Institute of the Stockholm Chamber of Commerce.

A new ordinance was issued by DIICOT on November 9, 2018 which changes the legal framework for all deeds investigated in the case. KMGI legal representatives are currently in the process of reviewing the new Ordinance.

Management believes that until the completion of the investigation and presentation of information on claims, the creation of reserves is not required in these consolidated financial statements.

**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 to 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.

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, 2018 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, 2018 the Group's share in the total disputed amounts of costs is 382,593,868 thousand tenge (2017: 242,915,341 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.

**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 2018, in accordance with its obligations, the Group delivered 6,224,344 tons of crude oil (2017: 5,407,526 tons), including joint ventures, to the Kazakhstan market.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****34. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****Commitments under subsoil use contracts**

As at December 31, 2018 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 |
|--------------|----------------------|--------------------------|
| 2019         | 186,027,660          | 12,183,657               |
| 2020         | 15,611,367           | 4,748,491                |
| 2021         | 11,041,696           | 4,389,421                |
| 2022         | 9,912,533            | 5,186,122                |
| 2023-2048    | 7,462,820            | 24,034,000               |
| <b>Total</b> | <b>230,056,076</b>   | <b>50,541,691</b>        |

**Oil supply commitments**

As of December 31, 2018 the Group had commitments under the oil supply agreements in the total amount of 22.6 million ton (as at December 31, 2017: 28.7 million ton), including commitments of joint venture.

**Other contractual commitments**

As at December 31, 2018, the Group, including joint ventures, had other capital commitments of approximately 620,056,745 thousand tenge (2017: 501,752,269 thousand tenge), related to acquisition and construction of property, plant and equipment.

As at December 31, 2018, the Group had commitments in the total amount of 114,380,149 thousand tenge (2017: 142,406,112 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, 2018 and 2017, 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.



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

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**35. 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, oil transportation, gas trading and transportation, refining and trading of crude oil and refined products. The Group presents KMG's activities separately, since KMG performs not only the functions of the parent company, but also carries out operational activities. The remaining operating segments have been aggregated and presented as other operating segment due to their insignificance.

Disaggregation of revenue by types of goods and services is presented in Note 23 to the financial statements. Disaggregated revenue type "Sales of crude oil, gas and gas products" represents mainly sales made by the following operating segments: exploration and production of oil and gas, gas trading and transportation and refining and trading of crude oil and refined products. Disaggregated revenue type "sales of refined products" includes revenue of refining and trading of crude oil and refined products and KazMunayGas operating segments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****35. SEGMENT REPORTING (continued)**

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

| <i>In thousands of tenge</i>   | Exploration<br>and<br>production<br>of oil and<br>gas | Oil<br>transportation | Gas trading<br>and<br>transportation | Refining and<br>trading of crude<br>oil and refined<br>products | KazMunayGas          | Other              | Elimination            | Total                 |
|--|---|-----------------------|--------------------------------------|---|----------------------|--------------------|------------------------|-----------------------|
| Revenues from sales to external customers  | 97,380,419  | 213,174,651           | 920,096,231                          | 5,674,938,604   | 64,515,992           | 18,858,399         | –                      | 6,988,964,296         |
| Revenues from sales to other segments  | 1,191,982,944   | 55,228,904            | 1,083,369                            | 1,396,965,577   | 117,561,326          | 14,641,104         | (2,777,463,224)        | –                     |
| <b>Total revenue</b>   | <b>1,289,363,363</b>                                  | <b>268,403,555</b>    | <b>921,179,600</b>                   | <b>7,071,904,181</b>  | <b>182,077,318</b>   | <b>33,499,503</b>  | <b>(2,777,463,224)</b> | <b>6,988,964,296</b>  |
| <b>Gross profit</b>  | <b>661,017,641</b>                                    | <b>106,963,765</b>    | <b>484,588,938</b>                   | <b>417,037,275</b>  | <b>40,771,787</b>    | <b>11,428,540</b>  | <b>(86,336,111)</b>    | <b>1,635,471,835</b>  |
| Finance income   | 40,895,772  | 4,712,046             | 15,350,981                           | 49,317,668  | 288,490,584          | 787,399            | (238,527,558)          | 161,026,892           |
| Finance costs  | (53,296,375)  | (5,365,741)           | (41,937,740)                         | (115,805,046)   | (345,059,345)        | (7,355,901)        | 141,164,943            | (427,655,205)         |
| Depreciation, depletion and amortization   | (82,192,644)  | (36,844,265)          | (35,290,311)                         | (121,863,139)   | (2,313,894)          | (6,681,967)        | –                      | (285,186,220)         |
| Impairment of property, plant and equipment, exploration and evaluation assets and intangible assets, excluding goodwill | (41,370,887)  | (6,753,594)           | (4,090,745)                          | (45,183,069)  | (67,119,853)         | (1,004,111)        | –                      | (165,522,259)         |
| Share in profit of joint ventures and associates, net  | 616,606,790   | 60,098,607            | 22,003,255                           | (3,112,891)   | –                    | 1,730,396          | –                      | 697,326,157           |
| Income tax expenses  | (200,787,224)   | (22,361,297)          | (47,039,382)                         | 8,651,542   | (17,239,388)         | (483,908)          | –                      | (279,259,657)         |
| <b>Net profit for the year</b>   | <b>389,789,118</b>                                    | <b>122,985,628</b>    | <b>183,548,082</b>                   | <b>155,292,917</b>  | <b>(24,217,255)</b>  | <b>(1,160,072)</b> | <b>(132,727,464)</b>   | <b>693,510,954</b>    |
| <b>Other segment information</b>   |   |                       |                                      |   |                      |                    |                        |                       |
| Investments in joint ventures and associates   | 4,421,782,604   | 304,880,424           | 100,631,423                          | 65,340,509  | 2,023                | 2,807,199          | –                      | 4,895,444,182         |
| Capital expenditures   | 180,032,989   | 65,105,864            | 156,897,026                          | 203,701,710   | 18,337,419           | 4,000,083          | –                      | 628,075,091           |
| Allowances for obsolete inventories, expected credit losses on accounts receivable, advances paid, and other assets      | (5,465,175)   | (4,240,133)           | (8,804,850)                          | (64,772,732)  | (20,329,925)         | 161,698            | –                      | (103,451,117)         |
| <b>Assets of the segment</b>   | <b>7,277,805,745</b>                                  | <b>1,021,946,257</b>  | <b>1,820,132,572</b>                 | <b>4,013,226,155</b>  | <b>1,803,259,448</b> | <b>157,461,296</b> | <b>(2,078,551,907)</b> | <b>14,015,279,566</b> |
| <b>Liabilities of the segment</b>  | <b>804,510,181</b>                                    | <b>210,930,401</b>    | <b>950,953,708</b>                   | <b>2,761,444,927</b>  | <b>4,055,670,630</b> | <b>73,125,695</b>  | <b>(1,984,424,289)</b> | <b>6,872,211,253</b>  |

Eliminations represent the exclusion of intra-group turnovers.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****35. 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 2017:

| <i>In thousands of tenge</i>   | Exploration<br>and<br>production of<br>oil and gas | Oil<br>transportation | Gas trading and<br>transportation | Refining and<br>trading of crude<br>oil and refined<br>products | KazMunayGas   | Other       | Elimination     | Total          |
|--|--|-----------------------|-----------------------------------|---|---------------|-------------|-----------------|----------------|
| Revenues from sales to external customers  | 133,936,273  | 194,815,437           | 522,205,420                       | 3,921,827,792   | –             | 20,977,618  | –               | 4,793,762,540  |
| Revenues from sales to other segments  | 892,269,871  | 50,139,885            | 30,382,814                        | 883,083,502   | –             | 18,050,454  | (1,873,926,526) | –              |
| Total revenue  | 1,026,206,144                                      | 244,955,322           | 552,588,234                       | 4,804,911,294   | –             | 39,028,072  | (1,873,926,526) | 4,793,762,540  |
| Gross profit   | 411,992,929  | 99,566,433            | 217,873,672                       | 416,343,192   | –             | 10,032,397  | (66,502,866)    | 1,089,305,757  |
| Finance income   | 31,640,526   | 6,891,921             | 15,710,022                        | 53,196,399  | 101,054,547   | 953,301     | (86,872,885)    | 122,573,831    |
| Finance costs  | (17,035,188)                                       | (5,241,821)           | (35,846,120)                      | (99,972,968)  | (216,856,087) | (6,770,276) | 75,367,070      | (306,355,390)  |
| Depreciation, depletion and amortization   | (71,871,246)                                       | (31,046,775)          | (30,456,725)                      | (94,115,579)  | (1,925,663)   | (8,605,236) | –               | (238,021,224)  |
| Impairment of property, plant and equipment, exploration and evaluation assets and intangible assets, excluding goodwill | (8,679,323)  | (51,710)              | (326,705)                         | (14,357,257)  | 40,858        | (1,285,417) | –               | (24,659,554)   |
| Share in profit of joint ventures and associates, net  | 338,261,546  | 56,664,335            | 7,988,655                         | 10,723,561  | –             | 1,311,714   | –               | 414,949,811    |
| Income tax expenses  | (108,415,354)                                      | (18,928,045)          | (24,678,324)                      | (16,181,813)  | (22,000,862)  | (80,590)    | –               | (190,284,988)  |
| Net profit for the year  | 137,539,953  | 121,923,015           | 46,797,287                        | 236,920,430   | (14,124,746)  | (8,473,701) | 4,865,769       | 525,448,007    |
| Other segment information  |  |                       |                                   |   |               |             |                 |                |
| Investments in joint ventures and associates   | 3,503,950,990                                      | 208,107,497           | 52,561,936                        | 54,660,165  | 1,274         | 4,347,724   | –               | 3,823,629,586  |
| Capital expenditures   | 145,760,683  | 74,817,139            | 140,487,481                       | 291,486,596   | 12,638,223    | 3,450,495   | –               | 668,640,617    |
| Allowances for obsolete inventories, expected credit losses on accounts receivable, advances paid, and other assets      | (5,918,737)  | (3,556,671)           | (9,231,998)                       | (106,994,415)   | (15,765,376)  | 3,360,306   | –               | (138,106,891)  |
| Assets of the segment  | 6,614,945,337                                      | 890,320,217           | 1,444,619,613                     | 3,885,488,778   | 2,038,625,984 | 167,501,195 | (1,491,542,923) | 13,549,958,201 |
| Liabilities of the segment   | 665,174,264  | 184,960,867           | 760,480,222                       | 2,747,422,533   | 3,756,644,444 | 83,827,541  | (1,432,156,528) | 6,766,353,343  |

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

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**36. SUBSEQUENT EVENTS**

On January 10, 2019, ANPZ issued bonds at the Astana International Financial Exchange for the total amount of 150 million US dollars and interest rate 5% for a period 5 years. On January 10, 2019, bonds were purchased by Samruk-Kazyna JSC for 56,223,000 thousand tenge.

In January 2019, the purchase sales agreement on 100% stake in Kazakhstan-British University LLP (KBTU) between KMG and the Public Foundation “Nursultan Nazarbayev Education Fund” came into force. On February 6, 2019 KMG received a payment for 30% stake of 3,338,850 thousand tenge.

On February 22, 2019, KMG EP completed a preferred stock repurchase program. From January 1, to February 28, 2019, KMG EP repurchased 115,382 preferred shares of 1,476,890 thousand tenge.

On February 27, 2019, KMG completed selling of 100% interest in KMG Retail LLP to PetroRetail LLP for 60,512,398 thousand tenge.

On March 5, 2019 the Arbitration Institute of the Stockholm Chamber of Commerce informed ANPZ about the termination of arbitration (*Note 34*).