

**JSC “National Company “KazMunayGas”**

Interim condensed consolidated financial statements (unaudited)

*For the three and nine months ended September 30, 2017*

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## Report on Review of Interim Financial Information

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

### Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of "National Company "KazMunayGas" JSC and its subsidiaries, which comprise the interim condensed consolidated statement of financial position as at 30 September 2017 and the interim condensed consolidated statement of comprehensive income for the three and nine months then ended, interim condensed consolidated statements of changes in equity and cash flows for the nine months then ended and selected explanatory notes (interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

### Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information of "National Company "KazMunayGas" JSC is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

*Ernst & Young LLP*



Gulmira Turmagambetova  
Auditor / General Director  
Ernst and Young LLP

Auditor qualification certificate  
No. 0000374 dated 21 February 1998

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

20 November 2017



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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

<i>In thousands of tenge</i>	Note	September 30, 2017 (unaudited)	December 31, 2016 (audited)
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	3,243,877,892	2,953,135,665
Exploration and evaluation assets		244,869,637	231,553,168
Investment property		28,510,134	29,480,044
Intangible assets		114,377,713	116,488,612
Long-term bank deposits	7	49,774,588	50,027,102
Investments in joint ventures and associates	8	4,027,918,643	3,706,276,810
Deferred income tax assets		69,180,992	71,909,033
VAT receivable		84,031,379	71,918,992
Advances for non-current assets		147,236,639	139,185,121
Bonds receivable from the Samruk-Kazyna		37,918,943	37,683,003
Note receivable from a shareholder of a joint venture		20,279,529	16,695,758
Note receivable from associate		30,568,918	34,837,804
Loans due from related parties	10	637,718,124	476,777,932
Other non-current assets		21,873,863	20,687,850
		8,758,136,994	7,956,656,894
<b>Current assets</b>			
Inventories		112,176,345	98,776,900
VAT receivable		85,213,376	68,719,671
Income tax prepaid		25,809,207	74,457,414
Trade accounts receivable	9	214,817,695	279,811,631
Short-term bank deposits	7	1,992,510,660	1,182,669,493
Bonds receivable from Samruk-Kazyna		3,330,000	4,440,000
Loans due from related parties	10	120,539,016	113,616,133
Note receivable from a shareholder of a joint venture		18,034,170	17,617,100
Other current assets	9	117,873,020	149,079,608
Cash and cash equivalents	11	951,044,684	878,438,350
		3,641,348,173	2,867,626,300
Assets classified as held for sale	4	1,092,556,349	1,058,794,076
		4,733,904,522	3,926,420,376
<b>Total assets</b>		<b>13,492,041,516</b>	<b>11,883,077,270</b>

*The accounting policies and explanatory notes on pages 8 through 35 form an integral part of these interim condensed consolidated financial statements (unaudited).*

# **INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION** (continued)

<i>In thousands of tenge</i>	Note	September 30, 2017 (unaudited)	December 31, 2016 (audited)
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	12	709,344,505	696,376,625
Additional paid-in capital	12	243,866,385	243,655,405
Other equity		93,895	222,074
Currency translation reserve		1,367,877,960	1,372,771,521
Retained earnings		3,482,727,876	3,163,685,193
<b>Attributable to equity holder of the Parent Company</b>		<b>5,803,910,621</b>	<b>5,476,710,818</b>
Non-controlling interest	12	866,662,243	801,560,097
<b>Total equity</b>		<b>6,670,572,864</b>	<b>6,278,270,915</b>
<b>Non-current liabilities</b>			
Borrowings	13	3,487,490,887	2,706,101,321
Provisions	15	150,975,235	139,371,823
Deferred income tax liabilities		309,999,384	264,599,978
Financial guarantee		7,641,447	12,259,980
Prepayment on oil supply agreements	14	504,471,934	738,572,306
Other non-current liabilities		49,776,863	52,509,205
		<b>4,510,355,750</b>	<b>3,913,414,613</b>
<b>Current liabilities</b>			
Borrowings	13	875,362,376	366,438,649
Provisions	15	84,693,638	94,394,277
Income taxes payable		13,920,081	2,301,839
Trade accounts payable	16	235,545,861	260,137,009
Other taxes payable	17	66,613,021	34,014,457
Financial guarantee		4,589,090	1,211,481
Prepayment on oil supply agreements	14	341,190,000	249,967,500
Other current liabilities	16	123,219,807	119,042,249
		<b>1,745,133,874</b>	<b>1,127,507,461</b>
Liabilities directly associated with assets classified as held for sale	4	565,979,028	563,884,281
<b>Total liabilities</b>		<b>6,821,468,652</b>	<b>5,604,806,355</b>
<b>Total equity and liabilities</b>		<b>13,492,041,516</b>	<b>11,883,077,270</b>
<b>Book value per ordinary share</b>	12	<b>11.124</b>	<b>10.547</b>

Executive vice-president – financial director

Vice-president – finance controller

Chief accountant

  
D.S. Karabayev

  
A.Zh. Beknazarova

  
Y.Y. Orynbayev

*The accounting policies and explanatory notes on pages 8 through 35 form an integral part of these interim condensed consolidated financial statements (unaudited).*

# **INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

<i>In thousands of tenge</i>	Note	For the three months ended September 30,		For the nine months ended September 30,	
		2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
Revenue	18	571,716,621	475,948,151	1,715,580,966	1,171,058,937
Cost of sales	19	(633,416,134)	(390,880,744)	(1,611,077,406)	(1,022,920,111)
<b>Gross (loss) / profit</b>		<b>(61,699,513)</b>	<b>85,067,407</b>	<b>104,503,560</b>	<b>148,138,826</b>
General and administrative expenses	20	(31,148,142)	(11,091,053)	(63,417,354)	(76,362,929)
Transportation and selling expenses	21	(68,649,606)	(51,119,523)	(201,495,751)	(145,963,675)
Impairment of property, plant and equipment, exploration and evaluation assets and intangible assets, other than goodwill		(1,891,581)	(4,275,227)	(4,863,284)	(6,187,380)
Loss on disposal of property, plant and equipment, intangible assets and investment property, net		(486,837)	38,963	(1,507,359)	(5,327,310)
Other operating income		6,970,120	3,414,449	12,703,331	12,653,217
Other operating expenses		(2,968,727)	(4,976,683)	(17,054,174)	(13,182,443)
<b>Operating (loss)/profit</b>		<b>(159,874,286)</b>	<b>17,058,333</b>	<b>(171,131,031)</b>	<b>(86,231,694)</b>
Net foreign exchange gain/(loss)		64,118,551	(5,068,310)	82,777,103	(7,985,282)
Finance income	22	33,130,620	92,158,026	89,824,853	142,891,615
Finance costs	22	(73,561,246)	(56,321,928)	(211,675,393)	(167,774,541)
Reversal of impairment of investments in joint ventures		-	-	14,686,162	-
Net loss on acquisition on subsidiary	5	-	-	(3,249,292)	-
Share in profit of joint ventures and associates, net	23	105,429,398	17,552,855	284,889,964	119,512,672
<b>Profit/(loss) before income tax</b>		<b>(30,756,963)</b>	<b>65,378,976</b>	<b>86,122,366</b>	<b>412,770</b>
Income tax expense	24	(52,436,179)	(46,394,521)	(143,280,833)	(113,617,320)
<b>(Loss)/gain for the period from continuing operations</b>		<b>(83,193,142)</b>	<b>18,984,455</b>	<b>(57,158,467)</b>	<b>(113,204,550)</b>
<b>Discontinued operations</b>					
Profit after income tax for the period from discontinued operations	4	252,829,818	93,756,867	501,177,297	330,425,333
<b>Net profit for the period</b>		<b>169,636,676</b>	<b>112,741,322</b>	<b>444,018,830</b>	<b>217,220,783</b>
<b>Net profit for the period attributable to:</b>					
Equity holders of the Parent Company		129,866,736	86,818,150	372,681,128	168,525,446
Non-controlling interests		39,769,940	25,923,172	71,337,702	48,695,337
		<b>169,636,676</b>	<b>112,741,322</b>	<b>444,018,830</b>	<b>217,220,783</b>

*The accounting policies and explanatory notes on pages 8 through 35 form an integral part of these interim condensed consolidated financial statements (unaudited).*

# **INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)**

		For the three months ended September 30,		For the nine months ended September 30,	
		2017	2016	2017	2016
<i>In thousands of tenge</i>	Note	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<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		116,707,012	(23,787,243)	2,463,901	(24,261,342)
Disposal of joint ventures		–	–	(423,776)	–
<b>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods</b>		<b>116,707,012</b>	<b>(23,787,243)</b>	<b>2,040,125</b>	<b>(24,261,342)</b>
<i>Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods</i>					
Actuarial (loss)/gain on defined benefit plans of the Group		–	(4)	(37,718)	161,355
Actuarial loss on defined benefit plans of joint ventures		67,135	–	(103,399)	(912,757)
Write-off of deferred tax assets		–	–	(150,746)	–
<b>Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods</b>		<b>67,135</b>	<b>(4)</b>	<b>(291,863)</b>	<b>(751,402)</b>
<b>Other comprehensive income/(loss) for the period</b>		<b>116,774,147</b>	<b>(23,787,247)</b>	<b>1,748,262</b>	<b>(25,012,744)</b>
<b>Total comprehensive income for the period, net of tax</b>		<b>286,410,823</b>	<b>88,954,075</b>	<b>445,767,092</b>	<b>192,208,039</b>
<b>Total comprehensive income for the period attributable to:</b>					
Equity holders of the Parent Company		232,774,379	62,596,511	367,510,881	142,997,060
Non-controlling interests		53,636,444	26,357,564	78,256,211	49,210,979
		<b>286,410,823</b>	<b>88,954,075</b>	<b>445,767,092</b>	<b>192,208,039</b>

Executive vice-president – financial director




D.S. Karabayev

Vice-president – finance controller



A.Zh. Beknazarova

Chief accountant



Y.Y. Orynbayev

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**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

<i>In thousands of tenge</i>	For the nine months ended September 30,	
	2017 (unaudited)	2016* (unaudited)
<b>Cash flows from operating activities</b>		
Receipts from customers	3,815,838,442	3,961,727,783
Payments to suppliers	(2,532,449,104)	(1,790,784,918)
Other taxes and payments	(637,191,444)	(573,839,218)
Income taxes paid	(61,620,231)	(78,127,452)
Interest received	74,139,171	42,593,516
Interest paid	(124,944,352)	(129,430,853)
Payments to employees	(264,594,295)	(242,253,589)
Taxes received from Tax authorities	67,850,451	4,916,314
Other (payments)/receipts	(49,901,983)	30,048,043
<b>Net cash flows from operating activities</b>	<b>287,126,655</b>	<b>1,224,849,626</b>
<b>Cash flows from investing activities</b>		
Placement of bank deposits, net	(734,394,280)	(452,430,561)
Purchase of property, plant and equipment, intangible assets, investment property and exploration and evaluation assets	(286,337,220)	(316,885,678)
Proceeds from sale of property, plant and equipment, intangible assets, investment property and exploration and evaluation assets	690,875	873,848
Cash acquired with subsidiaries	180,678	–
Dividends received from joint ventures and associates	70,581,239	59,021,692
Acquisition of and contribution to joint ventures	(2,625)	(89,058,017)
Refund of contribution to joint ventures	1,714,856	1,672,268
Repayment of loans due from related parties	336,925	22,821,548
Note receivable from associate	117,358	5,115,767
Loans given to related parties	(164,377,696)	(129,020,262)
<b>Net cash flows used in investing activities</b>	<b>(1,111,489,890)</b>	<b>(897,889,395)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	1,461,048,047	410,322,517
Repayment of borrowings	(537,491,564)	(592,032,090)
Distributions to Samruk-Kazyna	–	(2,202,898)
Dividends paid to Samruk-Kazyna and National Bank of RK	(45,877,366)	(73,079,132)
Dividends paid to non-controlling interests	(12,383,659)	(5,284,424)
Issue of shares	1	1
<b>Net cash flows from / (used in) financing activities</b>	<b>865,295,459</b>	<b>(262,276,026)</b>
Effects of exchange rate changes on cash and cash equivalents	49,010,912	(12,086,228)
<b>Net change in cash and cash equivalents</b>	<b>89,943,136</b>	<b>52,597,977</b>
Cash and cash equivalents, at the beginning of the period	905,452,511	808,434,139
<b>Cash and cash equivalents, at the end of the period</b>	<b>995,395,647</b>	<b>861,032,116</b>

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

Executive vice-president – financial director

Vice-president – finance controller

Chief accountant

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

*The accounting policies and explanatory notes on pages 8 through 35 form an integral part of these interim condensed consolidated financial statements (unaudited).*

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

<i>In thousands of tenge</i>	Attributable to equity holder of the Parent Company					
	Share capital	Additional paid-in capital	Other equity	Currency translation reserve	Retained earnings	Non-controlling interest
Total						
<b>As at December 31, 2015 (audited)</b>	696,363,445	243,655,405	3,110,573	1,405,325,707	2,988,542,754	5,336,997,884
753,179,913						6,090,177,797
Net profit for the period (unaudited)	-	-	-	-	168,525,446	168,525,446
217,220,783						
Other comprehensive income (unaudited)	-	-	-	(24,776,207)	(752,179)	(25,528,386)
(25,012,744)						
<b>Total comprehensive income for the period</b>	-	-	-	(24,776,207)	167,773,267	142,997,060
49,210,979						192,208,039
Issue of share capital	13,180	-	-	-	-	13,180
13,180						
Dividends	-	-	-	-	(59,748,893)	(59,748,893)
(64,916,120)						
Distributions to the Samruk-Kazyna	-	-	-	-	(5,385,301)	(5,385,301)
(5,385,301)						
Recognition of share-based payments	-	-	853,283	-	-	853,283
1,349,874						
Transactions with the Samruk-Kazyna	-	-	-	-	(31,872,440)	(31,872,440)
(31,872,440)						
Execution of share-based payments	-	-	(3,611,665)	-	-	(3,611,665)
-						
Forfeiture of share-based payments	-	-	(1,463)	-	-	(1,463)
(2,314)						
Change of share in subsidiaries	-	-	-	-	(8,593)	(8,593)
(9,550)						
<b>As at September 30, 2016 (unaudited)</b>	696,376,625	243,655,405	350,728	1,380,549,500	3,059,300,794	5,380,233,052
801,330,113						6,181,563,165

*The accounting policies and explanatory notes on pages 8 through 35 form an integral part of these interim condensed consolidated financial statements (unaudited).*

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

In thousands of tenge	Attributable to equity holder of the Parent Company					Non-controlling interest	Total
	Share capital	Additional paid-in capital	Other equity	Currency translation reserve	Retained earnings		
<b>As at December 31, 2016 (audited)</b>	696,376,625	243,655,405	222,074	1,372,771,521	3,163,685,193	801,560,097	6,278,270,915
Net profit for the period (unaudited)	-	-	-	-	372,681,128	71,337,702	444,018,830
Other comprehensive income (unaudited)	-	-	-	(4,893,561)	(276,686)	6,918,509	1,748,262
<b>Total comprehensive (loss)/income for the period</b>	-	-	-	(4,893,561)	372,404,442	78,256,211	445,767,092
Issue of share capital (Note 12)	12,967,880	210,980	-	-	-	-	13,178,860
Dividends (Note 12)	-	-	-	-	(45,877,366)	(13,269,567)	(59,146,933)
Distributions to Samruk-Kazyna	-	-	-	-	(3,631,340)	-	(3,631,340)
Forfeiture of share-based payments	-	-	(7,988)	-	-	(4,689)	(12,677)
Transactions with Samruk-Kazyna (Note 12)	-	-	-	-	(3,853,053)	-	(3,853,053)
Execution of share-based payments	-	-	(120,191)	-	-	120,191	-
<b>As at September 30, 2017 (unaudited)</b>	709,344,505	243,866,385	93,895	1,367,877,960	3,482,727,876	866,662,243	6,670,572,864

Executive vice-president – financial director

Vice-president – finance controller

Chief accountant

*[Signature]*  
D.S. Karabayev

*[Signature]*  
A.Zh. Beknazarova

*[Signature]*  
Y.Y. Orynbayev

The accounting policies and explanatory notes on pages 8 through 35 form an integral part of these interim condensed consolidated financial statements (unaudited).

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)****For the nine months ended September 30, 2017**

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**1. GENERAL**

JSC “National Company “KazMunayGas” (the “Company” or “KazMunayGas”) 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 and National Company Transport Nefti i Gaza CJSC. 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 September 30, 2017, the Company has a direct interest in 46 operating companies (as of December 31, 2016: 47) (jointly the “Group”).

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

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

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

These interim condensed consolidated financial statement of the Group was approved by the Executive vice-president – financial director, vice-president – financial controller and the Chief accountant on November 20, 2017.

**2. BASIS OF PREPARATION AND CHANGES TO THE GROUP’S ACCOUNTING POLICIES**

The interim condensed consolidated financial statements for the three and nine months ended September 30, 2017 have been prepared in accordance with IAS 34 *Interim Financial Reporting* (“IAS 34”). These interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended December 31, 2016.

The Group changed method of presentation of consolidated cash flow statement from indirect method to direct method for the period of January 1, 2017 to September 30, 2017 since the Group believes direct method is more relevant to users of consolidated financial statements. The Group adopted a method of presenting the consolidated cash flows statement on a retrospective basis.

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

Items included in the financial statements of each of the Group’s entities included in these interim condensed consolidated financial statements are measured using the currency of the primary economic environment in which the entities operate (“the functional currency”). The interim condensed consolidated financial statements are presented in Kazakhstan tenge (“tenge” or “KZT”), which is the Group’s presentation 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 interim condensed consolidated statement of comprehensive income.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited) (continued)**

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**2. BASIS OF PREPARATION AND CHANGES TO THE GROUP’S ACCOUNTING POLICIES (continued)****Foreign currency translation (continued)***Transactions and balances (continued)*

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 in foreign operations. 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);
- 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 rates of KASE as at September 30, 2017 and December 31, 2016 were 341.19 and 333.29 tenge to 1 US dollar accordingly. These rates were used for translation of monetary assets and liabilities denominated in US dollars at September 30, 2017 and December 31, 2016. The currency exchange rate of KASE as at November 20, 2017 was 331 tenge to 1 US dollar.

**New and amended standards and interpretations**

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

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

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

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group is not required to provide additional disclosures in its condensed interim consolidated financial statements, but will disclose additional information in its annual consolidated financial statements for the year ended December 31, 2017.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

### 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

#### New and amended standards and interpretations (continued)

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

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

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

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

##### *Annual improvements cycle, 2014-2016*

##### *Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the Scope of Disclosure Requirements in IFRS 12*

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

These amendments do not have any impact on the Group's interim condensed consolidated financial statements.

### 3. SEASONALITY OF OPERATIONS

The Group's operating costs are subject to seasonal fluctuations, with higher expenses for materials and repair, maintenance and other services usually expected later in the year rather than in the first six months. These fluctuations are mainly due to the requirement to conduct formal public tenders during the first six months for goods and services purchased in the second six months of the year.

### 4. DISCONTINUED OPERATIONS AND ASSETS CLASSIFIED AS HELD FOR SALE

The assets and liabilities, classified as discontinued operations and assets classified as held for sale as at September 30, 2017 and the results for nine months ended September 30, 2017 are as follows:

	September 30, 2017 (unaudited)			Profit after income tax for nine months ended September 30, 2017 from discontinued operation (unaudited)
	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	
<i>In thousands of tenge</i>				
KMG International N.V.	1,057,224,982	557,774,684	499,450,298	503,574,224
Other assets*	35,331,367	8,204,344	27,127,023	(2,396,927)
<b>Total</b>	<b>1,092,556,349</b>	<b>565,979,028</b>	<b>526,577,321</b>	<b>501,177,297</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

### 4. DISCONTINUED OPERATIONS AND ASSETS CLASSIFIED AS HELD FOR SALE (continued)

In thousands of tenge	December 31, 2016 (audited)			Profit after income tax for the nine months ended September 30, 2016 from discontinued operation (unaudited)
	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 International N.V.	1,014,948,431	550,226,128	464,722,303	332,290,836
Other assets*	43,845,645	13,658,153	30,187,492	(1,865,503)
<b>Total</b>	<b>1,058,794,076</b>	<b>563,884,281</b>	<b>494,909,795</b>	<b>330,425,333</b>

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

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

On December 15, 2016, the Group signed share sale and purchase agreement (SPA) to sell a 51% interest in KMG I. The disposal of KMG I is due to be completed in 2017.

The results of KMG I for the nine months ended September 30, 2017 and 2016 are presented below:

In thousands of tenge	For the nine months ended September 30,			
	2017		2016	
	Before elimination	After elimination*	Before elimination	After elimination*
Revenue	1,785,865,926	1,504,805,070	1,373,943,182	1,234,845,796
Cost of sales	(1,694,944,677)	(913,003,893)	(1,297,266,506)	(823,422,754)
<b>Gross profit</b>	<b>90,921,249</b>	<b>591,801,177</b>	<b>76,676,676</b>	<b>411,423,042</b>
General and administrative expenses	(31,518,441)	(31,518,441)	(29,065,412)	(29,065,412)
Transportation and selling expenses	(42,445,800)	(42,445,800)	(44,779,364)	(44,779,364)
(Impairment)/reversal of impairment loss recognized on the re-measurement to fair value less costs to sell	(10,313,385)	(10,313,385)	8,215,028	8,215,028
Reversal of property, plant and equipment and intangible assets, other than goodwill	677,780	677,780	-	-
Other operating income	2,035,128	2,035,128	749,188	749,188
Other operating losses	(43,440)	(43,440)	(8,800,298)	(8,800,298)
<b>Operating profit</b>	<b>9,313,091</b>	<b>510,193,019</b>	<b>2,995,818</b>	<b>337,742,184</b>
Net foreign exchange loss	(110,245)	(110,245)	(1,107,233)	(1,107,233)
Finance income	521,970	521,970	3,046,902	3,046,902
Finance costs	(8,230,878)	(8,230,878)	(10,388,450)	(10,388,450)
Share in profit of joint ventures and associates, net	279,272	279,272	1,468,127	1,468,127
<b>Profit before income tax for the period from discontinued operations</b>	<b>1,773,210</b>	<b>502,653,138</b>	<b>(3,984,836)</b>	<b>330,761,530</b>
Income tax benefit	921,086	921,086	1,529,306	1,529,306
<b>Profit after income tax for the period from discontinued operations</b>	<b>2,694,296</b>	<b>503,574,224</b>	<b>(2,455,530)</b>	<b>332,290,836</b>

\* The results are presented after eliminations of intergroup transactions (for the nine months ended September 30, 2017: 281,060,856 thousand tenge of revenue and 781,940,784 thousand tenge of cost of sales; for the nine months ended September 30, 2016: 139,097,386 thousand tenge of revenue and 473,843,752 thousand tenge of cost of sales).

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

### 4. DISCONTINUED OPERATIONS AND ASSETS CLASSIFIED AS HELD FOR SALE (continued)

#### KMG International N.V. (KMG I) (continued)

The major classes of assets and liabilities of KMG I, classified as held for sale as at September 30, 2017 and December 31, 2016 are as follows:

<i>In thousands of tenge</i>	September 30, 2017* (unaudited)	December 31, 2016* (audited)
<b>Assets</b>		
Property, plant and equipment	568,393,539	585,545,785
Intangible assets	71,161,316	73,932,864
Investment in associate	13,518,630	12,644,023
Deferred tax asset	34,869,959	34,545,175
Inventories	147,511,790	115,234,684
Trade accounts receivable	145,947,776	128,944,234
Other non-current assets	3,403,370	2,949,283
Other current assets	34,132,307	36,148,634
Cash and cash equivalents	38,286,295	25,003,749
<b>Assets classified as held for sale</b>	<b>1,057,224,982</b>	<b>1,014,948,431</b>
<b>Liabilities</b>		
Borrowings	177,880,430	201,868,754
Deferred income tax liabilities	72,131,319	72,935,184
Provisions	48,737,968	50,706,074
Trade accounts payable	176,777,364	142,278,168
Other taxes payable	22,011,532	17,704,032
Other non-current liabilities	157,971	141,648
Other current liabilities	60,078,100	64,592,268
<b>Liabilities directly associated with the assets classified as held for sale</b>	<b>557,774,684</b>	<b>550,226,128</b>
<b>Net assets directly associated with the disposal group</b>	<b>499,450,298</b>	<b>464,722,303</b>

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

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

<i>In thousands of tenge</i>	For the nine months ended September 30,	
	2017 (unaudited)	2016 (unaudited)
Operating	580,551,750	375,482,973
Investing	(24,612,506)	(26,053,115)
Financing	(28,765,941)	23,495,893
<b>Net cash outflows</b>	<b>527,173,303</b>	<b>372,925,751</b>

As at September 30, 2017, items of property, plant and equipment with the net book value of 361,223,662 thousand tenge related to discontinued operations (as at December 31, 2016: 372,054,627 thousand tenge) were pledged as collateral to secure borrowings and payables of KMGI.

As at September 30, 2017 KMGI has pledged trade accounts receivable of approximately 96,028,635 thousand tenge as a collateral under its borrowings (as at December 31, 2016: 72,640,966 thousand tenge) related to discontinued operations.

As at September 30, 2017 the initial cost and correspondingly accumulated depreciation of fully depreciated but still in use property, plant and equipment of KMGI were 189,230,806 thousand tenge (as at December 31, 2016: 174,340,401 thousand tenge).

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

### 5. ACQUISITIONS

On June 15, 2017 KMG EP acquired a 49% interest in KS EP Investments BV ("KS EP") from MOL Hungarian Oil and Gas Plc. ("MOL") for 1 US dollar, giving KMG EP a 100% interest in KS EP.

KS EP is a subsoil use right holder under the Contract for Exploration of Oil, Gas and Condensate at Karpovskiy Severniy contract area in the Western Kazakhstan region. The exploration license expired on June 30, 2017 and currently is under extension process of the Ministry of Oil and Gas of Kazakhstan.

The following table summarises the consideration paid for KS EP and the amounts of the assets acquired and liabilities assumed at the acquisition date:

<i>In thousands of tenge</i>	<b>Fair value as at June 15, 2017</b>
Bank deposits	118,648
Cash and cash equivalents	180,678
<b>Total assets</b>	<b>299,326</b>
Trade accounts payable	2,568,010
Other current liabilities	1,404,384
<b>Total liabilities</b>	<b>3,972,394</b>
<b>Total identifiable net liabilities</b>	<b>3,673,068</b>
Less:	
Fair value of previously held investment in 51% of KS EP	-
Consideration paid	-
<b>Total consideration transferred</b>	<b>-</b>
<b>Loss on acquisition</b>	<b>(3,673,068)</b>
Other comprehensive income reclassified to profit and loss	423,776
<b>Net loss on acquisition</b>	<b>(3,249,292)</b>

In prior years KS EP received a series of loans from the Group and MOL under the loan agreement expiring on September 30, 2017 and bearing a 6.7% interest rate. Total undiscounted outstanding balance of loan including interest accrued comprised 106,880 thousands US dollars (33,950,432 thousand tenge) at acquisition date (*Note 10*).

Considering that the KMG EP fully impaired its 51% share in loan receivable from KS EP and acquired the right for 49% of loan receivable from KS EP for 0.5 US dollar, the fair value of 100% receivable from KS EP is zero at the acquisition date. Accordingly, KMG EP has recorded a loss on acquisition a subsidiary in the amount of 3,249,292 thousand tenge.

Loss incurred by KS EP for the period from June 15, 2017 till September 30, 2017 included in these accounts was 2,619,654 thousand tenge.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

## 6. 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 (audited)</b>	877,633,010	643,279,071	315,637,371	212,354,088	277,846,188	69,602,457	33,409,411	523,374,069	2,953,135,665
Foreign currency translation	12,464,144	-	-	702,449	483,171	916,851	27,307	(372,590)	14,221,332
Change in estimate	(727,789)	(1,461,054)	-	(13,303)	-	-	-	-	(2,202,146)
Additions	15,711,786	13,527,759	162,664	464,454	3,123,945	2,377,697	1,338,051	375,288,031	411,994,387
Disposals	(7,212,309)	(510,074)	(1,855,173)	(973,353)	(850,204)	(1,070,157)	(1,368,733)	(709,977)	(14,549,980)
Depreciation charge	(55,620,263)	(17,688,967)	(24,209,891)	(11,799,445)	(21,187,312)	(5,797,445)	(4,070,200)	-	(140,353,523)
Accumulated depreciation and impairment on disposals	6,735,366	396,362	1,808,417	611,301	727,915	894,711	1,223,136	527,772	12,924,980
Impairment	(8,659)	(654)	-	(1,058,081)	(302,702)	(1,090,277)	(129,888)	(2,254,408)	(4,844,569)
Transfers (to)/from inventory, net	(1,888)	(29,840)	4,197,882	1,060	42,412	76,656	1,173	1,110,598	5,398,253
Transfers to intangible assets	(71,231)	-	-	-	-	-	(195)	(547,837)	(619,263)
Transfers (to)/from assets classified as held for sale	(14,940)	-	(96,741)	-	-	3,816	-	(60)	(107,925)
Transfers from investment property	-	-	-	-	-	-	201	-	201
Transfers from exploration and evaluation assets	8,880,580	-	-	-	-	-	-	-	8,880,580
Transfers and reclassifications	48,191,221	13,171,001	3,176,901	4,866,898	52,010,184	1,869,067	2,124,760	(125,410,032)	-
<b>Net book value as at September 30, 2017 (unaudited)</b>	905,959,228	650,703,604	298,821,430	205,156,068	311,893,597	67,783,376	32,555,023	771,005,566	3,243,877,892
<b>At cost</b>	1,880,707,261	801,433,182	478,763,894	355,684,555	521,861,043	165,661,758	82,164,833	797,170,552	5,083,447,078
Accumulated depreciation and impairment	(974,748,033)	(150,729,578)	(179,942,464)	(150,528,487)	(209,967,446)	(97,878,382)	(49,609,810)	(26,164,986)	(1,839,569,186)
<b>Net book value as at September 30, 2017 (unaudited)</b>	905,959,228	650,703,604	298,821,430	205,156,068	311,893,597	67,783,376	32,555,023	771,005,566	3,243,877,892
<b>At cost</b>	1,796,687,457	776,793,501	473,343,599	350,113,598	466,840,617	161,145,408	79,902,688	547,812,419	4,652,639,287
Accumulated depreciation and impairment	(919,054,447)	(133,514,430)	(157,706,228)	(137,759,510)	(188,994,429)	(91,542,951)	(46,493,277)	(24,438,350)	(1,699,503,622)
<b>Net book value as at December 31, 2016 (audited)</b>	877,633,010	643,279,071	315,637,371	212,354,088	277,846,188	69,602,457	33,409,411	523,374,069	2,953,135,665

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

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

For the nine months ended September 30, 2017, the Group capitalized in the carrying amount of property, plant and equipment borrowing costs at the average interest rate of 2.44% in the amount of 18,728,860 thousand tenge which are related to the construction of new assets (for the nine months ended September 30, 2016: 18,984,110 thousand tenge at the average interest rate of 2.13%).

As at September 30, 2017, items of property, plant and equipment with the net book value of 571,687,899 thousand tenge (as at December 31, 2016: 483,908,126 thousand tenge) were pledged as collateral to secure borrowings and payables of the Group.

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

As at September 30, 2017 the cost of fully depreciated but still in use property, plant and equipment were 86,722,647 thousand tenge (as at December 31, 2016: 81,065,726 thousand tenge).

### 7. BANK DEPOSITS

<i>In thousands of tenge</i>	September 30, 2017 (unaudited)	December 31, 2016 (audited)
Denominated in US dollar	1,925,650,011	1,202,060,798
Denominated in tenge	126,494,793	28,256,972
Denominated in other currency	2,608,833	2,378,825
Less: allowance for impairment	(12,468,389)	-
	<b>2,042,285,248</b>	<b>1,232,696,595</b>

During the nine months ended September 30, 2017 Specialized Interdistrict Economic Court of Astana approved settlement agreements related to the civil cases on the statement of claim of the Company, KMG RM and Delta Bank JSC ("Delta Bank") on recovery of bank deposits and penalty interests, according to which Delta Bank has to make payments within six months. Due to the uncertainty regarding the payment from Delta Bank, the Group accrued 100% provision for impairment of the deposits in the total amount of 36,161 thousand US dollars (equivalent to 11,653,610 thousand tenge).

As at September 30, 2017, the weighted average interest rate for long-term bank deposits was 1.15% in US dollars and 2.92% in tenge, respectively (as at December 31, 2016: 1.16% in US dollars and 4.87% in tenge, respectively).

As at September 30, 2017, the weighted average interest rate for short-term bank deposits was 1.65% in US dollars, 9.46% in tenge and 0.93% in other foreign currencies, respectively (as at December 31, 2016: 1.84% in US dollars, 12.13% in tenge and 0.36% in other foreign currencies, respectively).

<i>In thousands of tenge</i>	September 30, 2017 (unaudited)	December 31, 2016 (audited)
Maturities under 1 year	1,992,510,660	1,182,669,493
Maturities between 1 and 2 years	31,464,327	178,088
Maturities over 2 years	18,310,261	49,849,014
	<b>2,042,285,248</b>	<b>1,232,696,595</b>

As at September 30, 2017 bank deposits include cash pledged as collateral of 71,834,943 thousand tenge (as at December 31, 2016: 108,695,345 thousand tenge), which are represented mainly by 23,699,927 thousand tenge (as at December 31, 2016: 63,718,200 thousand tenge) pledged with SB Sberbank Russia JSC until execution of obligations (March 1, 2018) by Atyrau Oil Refinery LLP (ANPZ) (a subsidiary of KMG RM) on loans received from this bank on construction of the deep oil processing plant at ANPZ and 34,090,938 thousand tenge (as at December 31, 2016: 33,276,000 thousand tenge) at restricted bank accounts designated as a liquidation fund per requirements of subsoil use contracts.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****8. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES**

In thousands of tenge	Main activity	Place of business	September 30, 2017 (unaudited)		December 31, 2016 (audited)	
			Carrying value	Percentage ownership	Carrying value	Percentage ownership
<b>Joint ventures</b>						
Kashagan B.V.	Oil and gas exploration and production	Kazakhstan	1,787,421,740	50.00%	1,759,152,117	50.00%
Tengizchevroil LLP	Oil and gas exploration and production	Kazakhstan	1,400,609,926	20.00%	1,154,183,137	20.00%
Mangistau Investments B.V.	Oil and gas development and production	Kazakhstan	229,200,054	50.00%	191,813,452	50.00%
KazRosGas LLP	Processing and sale of natural gas and refined gas products	Kazakhstan	76,484,681	50.00%	79,658,348	50.00%
Ural Group Limited BVI	Oil and gas exploration and production	Kazakhstan	74,054,151	50.00%	72,898,443	50.00%
KazGerMunay LLP	Oil and gas exploration and production	Kazakhstan	45,340,533	50.00%	71,109,842	50.00%
KazakhOil-Aktobe LLP	Production of crude oil	Kazakhstan	35,928,959	50.00%	39,503,663	50.00%
Valsera Holdings B.V.	Oil refining	Kazakhstan	30,185,125	50.00%	27,044,986	50.00%
Other			28,737,732		28,034,886	
<b>Associates</b>						
Caspian Pipeline Consortium (CPC)	Transportation of liquid hydrocarbons	Kazakhstan/ Russia	176,447,984	20.75%	137,035,180	20.75%
PetroKazakhstan Inc. ("PKI")	Exploration, production and processing of oil and gas	Kazakhstan	142,129,204	33.00%	144,252,432	33.00%
Other			1,378,554		1,590,324	
			4,027,918,643		3,706,276,810	

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

As at September 30, 2017 the Group's share in unrecognized losses of joint ventures and associates was equal to 240,688,803 thousand tenge (as at December 31, 2016: 357,813,869 thousand tenge). Decrease in unrecognized losses mainly attributable to the net profit of Asia Gas Pipeline LLP of 93,536,972 thousand tenge.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

### 8. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

The following table summarizes the movements in equity investments in joint ventures and associates during the six months ended September 30, 2017:

*In thousands of tenge*

At January 1, 2017 (audited)	3,706,276,810
Share in profits of joint ventures and associates, net (Note 23)	284,889,964
Other changes in the equity of the joint venture	3,424,956
Reversal of impairment of investments	14,686,162
Dividends received	(70,581,239)
Change in dividends receivable	(2,415,059)
Acquisitions	2,625
Refund of contributions without change in ownership	(1,714,856)
Foreign currency translation	93,349,280
<b>At September 30, 2017 (unaudited)</b>	<b>4,027,918,643</b>

For the nine months ended September 30, 2017 the Group recognized reversal of impairment of investments to BeineuShymkent Pipelines LLP in the amount of 14,686,162 thousand tenge.

The dividends received from joint ventures and associates mainly include dividends received from KazGerMunay LLP, KazRosGas LLP and PKI in the amount of 36,675,747 thousand tenge, 18,647,418 thousand tenge and 10,018,206 thousand tenge, respectively.

For the nine months ended September 30, 2017 the Group received 1,714,856 thousand tenge as a refund of contributions from the joint venture.

### 9. TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

<i>In thousands of tenge</i>	September 30, 2017 (unaudited)	December 31, 2016 (audited)
Advances paid and prepaid expenses	74,795,215	89,388,255
Taxes receivable, other than VAT	17,225,631	34,330,632
Other current assets	32,200,410	31,831,789
Less: allowance for impairment	(6,348,236)	(6,471,068)
<b>Total other current assets</b>	<b>117,873,020</b>	<b>149,079,608</b>
Trade accounts receivable	225,204,693	290,199,726
Less: allowance for impairment	(10,386,998)	(10,388,095)
<b>Trade accounts receivable</b>	<b>214,817,695</b>	<b>279,811,631</b>

As at September 30, 2017 and at December 31, 2016 the above assets were non-interest bearing.

### 10. LOANS DUE FROM RELATED PARTIES

<i>In thousands of tenge</i>	September 30, 2017 (unaudited)	December 31, 2016 (audited)
Loans due from related parties	758,257,140	605,812,462
Less: allowance for impairment of loans due from related parties	–	(15,418,397)
	<b>758,257,140</b>	<b>590,394,065</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

### 10. LOANS DUE FROM RELATED PARTIES (continued)

Since the Group acquired remaining 49% of interest in KS EP and it became a subsidiary (*Note 5*), the balance of loan from KS EP, including the allowance for impairment was fully eliminated.

<i>In thousands of tenge</i>	September 30, 2017 (unaudited)	December 31, 2016 (audited)
Loans due from related parties in US dollars	169,991,260	185,596,852
Loans due from related parties in tenge	585,890,857	403,380,730
Loans due from related parties in other foreign currencies	2,375,023	1,416,483
	<b>758,257,140</b>	<b>590,394,065</b>

<i>In thousands of tenge</i>	September 30, 2017 (unaudited)	December 31, 2016 (audited)
Current portion	120,539,016	113,616,133
Non-current portion	637,718,124	476,777,932
	<b>758,257,140</b>	<b>590,394,065</b>

### 11. CASH AND CASH EQUIVALENTS

<i>In thousands of tenge</i>	September 30, 2017 (unaudited)	December 31, 2016 (audited)
Term deposits with banks – US dollars	521,597,670	435,939,051
Term deposits with banks – tenge	140,790,613	180,075,718
Current accounts with banks – US dollars	256,685,256	245,711,146
Current accounts with banks – tenge	27,808,741	13,214,622
Current accounts with banks – other currencies	2,594,587	1,893,667
Term deposits with banks – other currencies	221,078	37,995
Cash-on-hand	1,346,739	1,566,151
	<b>951,044,684</b>	<b>878,438,350</b>
Cash and cash equivalents attributable to discontinued operations	44,350,963	27,014,161
	<b>995,395,647</b>	<b>905,452,511</b>

Term deposits with banks are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group. As at September 30, 2017 the weighted average interest rate for time deposits with banks was 0.29% in US dollars and 8.50% in tenge, respectively (as at December 31, 2016: 0.61% in US dollars and 8.15% in tenge, respectively).

### 12. EQUITY

#### Share capital

During the nine months ended September 30, 2017 the Company issued 5,187,152 common shares. As consideration, the Company received high, medium and low pressure gas pipelines and associated facilities in the amount of 12,967,879 thousand tenge that was previously recognized as additional paid-in capital and cash in the amount 1 thousand tenge.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

### 12. EQUITY (continued)

#### Additional paid-in capital

During the nine months ended September 30, 2017 the Group increased additional paid in capital in the amount of 13,178,860 thousand tenge, which represents the fair value of gas pipelines contributed by the Government on trust management terms, which serves as a short-term mechanism until the legal title for pipelines transfers to the Group.

#### Dividends

For the nine months ended September 30, 2017, based on the decision of Samruk-Kazyna and National Bank of RK, the Company declared and paid dividends for 2016 in the amount of 11.32 tenge per common share in the total amount of 6,670,370 thousand tenge and dividends for 2013 in the amount of 66.52 tenge per common share in the total amount of 39,206,996 thousand tenge.

For the nine months ended September 30, 2017 the Group declared dividends in the total of 13,269,567 thousand tenge to the holders of non-controlling interest in KMG EP and KTO (subsidiaries of the Group). As at September 30, 2017 the dividends payable by the Group to the holders of non-controlling interest of 1,880,959 thousand tenge (as at December 31, 2017: 1,862,166 thousand tenge).

#### Transactions with Samruk-Kazyna

For the nine months ended September 30, 2017 the Company provided interest free loan to Samruk-Kazyna (*Note 25*). The difference between fair value and nominal value of the loan amounting 3,853,053 thousand tenge recognized as transaction with Samruk-Kazyna in the interim consolidated statement of changes in equity.

#### Distributions to Samruk-Kazyna

For the nine months ended September 30, 2017 distributions to Samruk-Kazyna includes: accrual of provision for construction of the Palace of martial arts in Astana city in the amount of 5,544,235 thousand tenge, the results of operations of PSA LLP (subsidiary of the Group) in the total amount of 2,545,423 thousand tenge and the adjustment of the fair value of cost of gas pipelines received as a payment for the issued common shares in the total amount of 514 thousand tenge.

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

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

As at September 30, 2017 certain borrowings denominated in foreign currency were designated as hedge instrument for the net investment in the foreign operations. For the nine months ended September 30, 2017, loss of 136,064,945 thousand tenge (for the nine months ended September 30, 2016 income of 23,653,738 thousand tenge) on the translation of these borrowings were transferred to other comprehensive income and offset the income on translation of foreign operations.

#### 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.

	September 30, 2017 (unaudited)	December 31, 2016 (audited)
<i>In thousands of tenge</i>		
Total assets	13,492,041,516	11,883,077,270
Less: intangible assets	114,377,713	116,488,612
Less: total liabilities	6,821,468,652	5,604,806,355
<b>Net assets</b>	<b>6,556,195,151</b>	<b>6,161,782,303</b>
Number of ordinary shares	589,399,889	584,212,737
<b>Book value per ordinary share</b>	<b>11.124</b>	<b>10.547</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

### 12. EQUITY (continued)

#### Earnings per share

<i>In thousand tenge</i>	For the nine months ended September 30,	
	2017 (unaudited)	2016 (unaudited)
Weighted average number of common shares for basic and diluted earnings per share	588,823,539	584,209,808
Basic and diluted share in net profit for the period	0.754	0.372
Basic and diluted share profit/(loss) from continuing operations	(0.097)	(0.194)

#### Non-controlling interest

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

	Country of incorporation and operation	September 30, 2017 (unaudited)		December 31, 2016 (audited)	
		Share	Carrying value	Share	Carrying value
KazMunayGas Exploration					
Production JSC	Kazakhstan	36.99%	775,879,939	36.98%	715,007,274
Rompetrol Downstream S.R.L.	Romania	45.37%	47,505,055	45.37%	41,753,314
KazTransOil JSC	Kazakhstan	10.00%	42,314,409	10.00%	42,221,868
Rompetrol Petrochemicals S.R.L.	Romania	45.37%	9,846,863	45.37%	11,002,892
Rompetrol Rafinare S.A.	Romania	45.37%	(858,277)	45.37%	1,775,348
Rompetrol Vega	Romania	45.37%	(19,867,200)	45.37%	(20,763,577)
Other			11,841,454		10,562,978
			866,662,243		801,560,097

### 13. BORROWINGS

<i>In thousands of tenge</i>	September 30, 2017 (unaudited)	December 31, 2016 (audited)
Fixed interest rate borrowings	3,341,066,609	2,099,674,818
Weighted average interest rates	6.30%	7.93%
Floating interest rate borrowings	1,021,786,654	972,865,152
Weighted average interest rates	4.44%	4.57%
	4,362,853,263	3,072,539,970

<i>In thousands of tenge</i>	September 30, 2017 (unaudited)	December 31, 2016 (audited)
US dollar – denominated borrowings	4,120,456,296	2,846,125,693
Tenge-denominated borrowings	242,396,967	226,414,277
	4,362,853,263	3,072,539,970

<i>In thousands of tenge</i>	September 30, 2017 (unaudited)	December 31, 2016 (audited)
Current portion	875,362,376	366,438,649
Non-current portion	3,487,490,887	2,706,101,321
	4,362,853,263	3,072,539,970

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****13. BORROWINGS (continued)**

As at September 30, 2017 and December 31, 2016, the debt securities issued and loans comprised:

Bonds	Issuance amount	Redemption date	Interest	As at September 30, 2017 (unaudited)	As at December 31, 2016 (audited)
Bonds LSE 2008	1.6 billion USD	2018	9.125%	555,860,400	529,821,083
Bonds LSE 2010	1.5 billion USD	2020	7.00%	473,769,411	453,732,442
Bonds LSE 2010	1.25 billion USD	2021	6.375%	390,579,345	375,026,800
Bonds LSE 2013	2 billion USD	2043	5.75%	173,266,710	166,991,558
Bonds LSE 2013	1 billion USD	2023	4.4%	139,086,940	134,371,387
Bonds LSE 2014	1 billion USD	2044	6.00%	10,113,099	9,736,418
Bonds LSE 2014	0.5 billion USD	2025	4.875%	42,030,328	40,558,524
Bonds LSE 2017	0.5 billion USD	2022	3.88%	172,880,659	-
Bonds LSE 2017	1 billion USD	2027	4.75%	344,941,474	-
Bonds LSE 2017	1.25 billion USD	2047	5.75%	429,709,677	-
Bonds KASE 2009	120 billion KZT	2019	6M Libor + 8.5%	73,874,268	110,551,375
Bonds KASE 2010	100 billion KZT	2017	7.00%	99,401,516	94,483,326
The Bank of New York Mellon	600 million USD	2017	6.375%	-	42,929,372
Citibank (N.A. London)	750 million USD	2027	4.4%	255,120,428	-
Others				13,008,290	13,193,743
<b>Total</b>				<b>3,173,642,545</b>	<b>1,971,396,028</b>

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****13. BORROWINGS (continued)**

Loans	Issuance amount	Redemption date	Interest	As at September 30, 2017 (unaudited)	As at December 31, 2016 (audited)
The Export-Import Bank of China	1 billion USD	2027	Libor + 4.1%	341,648,731	245,894,740
Development bank of Kazakhstan JSC	1.1 billion USD	2023-2025	4.5% + 6M Libor – 7.72%	281,674,402	319,055,961
Sberbank Russia	400 million USD	2024	12M Libor + 3.5%	137,786,829	134,557,235
Development bank of Kazakhstan JSC	127 billion KZT	2022-2025	7%-9%	102,475,066	103,733,280
Loan from partners (Project Pearl)	Financing for share of costs KMT in execution of subsoil use contract	From beginning of commercial exploration 2025	6M Libor + 1% CIRR + 2.19%, 6M Libor + 1.10%	88,984,948	84,876,946
Japan Bank for International Cooperation	298 million USD			70,948,781	42,632,934
European Bank for Reconstruction and Development	140 million USD	2023	3M Libor + 3.15%	68,833,197	46,322,433
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%	42,000,056	28,128,262
Halyk bank JSC	70 million USD	2017	4.5%	23,931,067	–
Development bank of Kazakhstan JSC	13 billion KZT	2027	10.2%	12,064,357	–
Halyk bank JSC	5 billion KZT	2017	15%	1,021,280	5,018,872
The Syndicate of banks	604 million USD	2017	1M Libor + 2.0%	–	53,541,383
Halyk bank JSC	70 million USD	2017	5%	–	23,393,933
Other	–	–	–	17,842,004	13,987,963
<b>Total</b>				<b>1,189,210,718</b>	<b>1,101,143,942</b>

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited) (continued)**

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**13. BORROWINGS (continued)**

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

On September 26, 2017 KTG placed Eurobonds for a total amount of 750 million US dollars with a par value of 200 thousand US dollars each, with a rate of 4.375% per annum. The coupon is paid semi-annually on March 26 and September 26 until September 26, 2027, with a total period of 10 years. The yield on debt securities issued was 4.4% per annum. Eurobonds were sold for a total of KZT 254,247,932 thousand (equivalent to 748,493 thousand US dollars).

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

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

On May 10, 2017 ICA executed full redemption of Eurobonds in the amount of 127,801 thousand US dollars (equivalent to 40,652,220 thousand tenge), including accrued interest in the amount of 4,074 thousand US dollars (equivalent to 1,295,789 thousand tenge).

During the nine months ended September 30, 2017 KTG fully repaid principal under the loan agreement with the Syndicate of banks in the total amount of 180,600 thousands US dollars (equivalent to 56,544,032 thousand tenge).

The Group redeemed borrowings from Development Bank of Kazakhstan JSC (“DBK”) in the total amount of 66,088,705 thousand tenge, including interest. Additionally the Group made a partial repayment of issued bonds held by DBK in the amount of 44,100,170 thousand tenge, including interest.

During the nine months ended September 30, 2017 ANPZ redeemed borrowings from Halyk bank JSC in the amount of 22,623,445 thousand tenge, including accrued interest.

**Covenants**

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 September 30, 2017 and September 30, 2016, the Group complied with all financial and non-financial covenants.

**14. PREPAYMENT ON OIL SUPPLY AGREEMENT**

In 2016 the Group entered into long-term crude oil and liquefied petroleum gas (“LPG”) supply agreement, which involve the prepayment. The total minimum delivery volume approximates 30 million tons of crude oil and 1 million tons of LPG in the period from the date of the contract to March 2020.

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

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

As of September 30, 2017 the Group has partially settled the prepayments by oil supply in the total amount of 500,000 thousand US dollars.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

## 15. PROVISIONS

<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
As at December 31, 2016	91,543,941	14,378,667	48,046,853	24,361,458	32,378,099	23,057,082	233,766,100
Foreign currency translation	325,589	-	19,994	-	-	(2,227)	343,356
Change in estimate	(2,570,701)	(138,246)	-	577,442	-	-	(2,131,505)
Unwinding of discount	6,419,386	1,048,091	-	-	2,205,126	58,323	9,730,926
Provision for the year	2,658,358	8,591,549	3,391,378	-	2,638,953	6,170,553	23,450,791
Recovered	(579,830)	-	(7,951,079)	-	-	(4,838,797)	(13,369,706)
Use of provision	(22,825)	(464,352)	(8,819,968)	-	(2,140,533)	(4,673,411)	(16,121,089)
As at September 30, 2017	97,773,918	23,415,709	34,687,178	24,938,900	35,081,645	19,771,523	235,668,873

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
As at September 30, 2017	1,772,650	2,015,743	34,687,178	24,938,900	2,295,737	18,983,430	84,693,638
Current portion	96,001,268	21,399,966	-	-	32,785,908	788,093	150,975,235
Long-term portion	97,773,918	23,415,709	34,687,178	24,938,900	35,081,645	19,771,523	235,668,873
As at December 31, 2016	819,946	487,031	48,046,853	24,361,458	2,380,419	18,298,570	94,394,277
Current portion	90,723,995	13,891,636	-	-	29,997,680	4,758,512	139,371,823
Long-term portion	91,543,941	14,378,667	48,046,853	24,361,458	32,378,099	23,057,082	233,766,100

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

### 16. TRADE ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

<i>In thousands of tenge</i>	September 30, 2017 (unaudited)	December 31, 2016 (audited)
Advances received	45,991,574	30,463,723
Due to employees	31,236,093	33,259,709
Dividends payable	1,880,959	1,862,166
Other	44,111,181	53,456,651
<b>Total other current liabilities</b>	<b>123,219,807</b>	<b>119,042,249</b>

<b>Trade accounts payable</b>	<b>235,545,861</b>	<b>260,137,009</b>
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Trade accounts payable are denominated in the following currencies as at September 30, 2017 and as at December 31, 2016:

<i>In thousands of tenge</i>	September 30, 2017 (unaudited)	December 31, 2016 (audited)
Tenge	193,368,451	210,992,037
US dollars	32,513,070	36,935,083
Euro	783,649	219,061
Other currency	8,880,691	11,990,828
<b>Total</b>	<b>235,545,861</b>	<b>260,137,009</b>

As at September 30, 2017 and December 31, 2016 trade accounts payable and other current liabilities were not interest bearing.

### 17. OTHER TAXES PAYABLE

<i>In thousands of tenge</i>	September 30, 2017 (unaudited)	December 31, 2016 (audited)
Mineral extraction tax	24,253,920	4,488,819
Rent tax on crude oil export	19,895,245	5,189,479
Individual income tax	5,301,250	5,936,494
Withholding tax from non-residents	4,683,613	4,418,027
VAT	4,406,791	4,375,978
Excise tax	103,777	107,067
Other	7,968,425	9,498,593
	<b>66,613,021</b>	<b>34,014,457</b>

### 18. REVENUE

<i>In thousands of tenge</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
Sales of crude oil	272,367,222	218,726,370	813,159,633	398,249,534
Transportation fee	84,741,135	75,077,322	244,619,175	236,601,286
Sales of gas and gas products	77,013,532	47,828,644	254,903,686	184,192,809
Sales of refined products	74,509,202	88,320,325	221,295,869	215,156,257
Refining of oil and oil products	28,758,970	22,971,699	96,912,751	67,608,293
Quality bank for crude oil	(3,576,884)	(5,762,250)	(16,528,497)	(15,179,769)
Other revenue	37,903,444	28,786,041	101,218,349	84,430,527
	<b>571,716,621</b>	<b>475,948,151</b>	<b>1,715,580,966</b>	<b>1,171,058,937</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

### 19. COST OF SALES

<i>In thousands of tenge</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
Crude oil	310,134,234	135,462,474	685,407,962	254,897,622
Materials and supplies	92,003,543	70,473,595	261,785,252	217,595,069
Payroll	73,344,802	68,891,938	211,704,325	194,259,289
Depreciation, depletion and amortization	43,450,115	43,527,691	129,738,016	122,551,177
Mineral extraction tax	24,604,282	7,699,616	66,983,874	40,531,911
Other taxes	16,255,473	13,491,810	44,601,836	36,698,232
Transportation costs	12,327,567	7,035,743	52,925,976	31,143,999
Repair and maintenance	10,588,952	8,654,287	25,045,824	21,501,090
Electricity	9,324,739	8,846,898	29,628,866	27,889,546
Other	41,382,427	26,796,692	103,255,475	75,852,176
	<b>633,416,134</b>	<b>390,880,744</b>	<b>1,611,077,406</b>	<b>1,022,920,111</b>

### 20. GENERAL AND ADMINISTRATIVE EXPENSES

<i>In thousands of tenge</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
Payroll	13,869,720	11,953,064	39,050,010	35,413,725
Depreciation and amortization	3,362,577	1,544,512	9,587,763	4,801,086
Consulting services	3,110,260	4,312,286	6,629,042	9,044,442
VAT that cannot be offset	2,006,595	366,747	3,084,553	748,656
Other taxes	1,773,516	1,588,412	5,880,638	5,278,708
Social payments	1,531,647	1,416,447	3,871,664	4,750,960
Charitable donations and sponsorship	329,887	385,755	591,864	937,360
(Recovery of) / allowance for fines, penalties and tax provisions	(3,459,650)	(1,942,084)	(4,093,047)	583,316
(Recovery of) / allowance for impairment of trade accounts receivable	(1,001,085)	(178,034)	112,333	769,780
Allowance for provision for obsolete and slow-moving inventories	730,975	618,040	1,679,969	627,837
Allowance for impairment of other current assets	109,678	516,028	278,277	590,058
Allowance for impairment of other non-current assets	-	3,044,085	-	5,044,085
Recovery of VAT receivable	-	(20,298,117)	(26,414,368)	(13,361,794)
Other	8,784,022	7,763,912	23,158,656	21,134,710
	<b>31,148,142</b>	<b>11,091,053</b>	<b>63,417,354</b>	<b>76,362,929</b>

During nine months ended September 30, 2017 VAT receivable in the amount of 24,532,944 thousand tenge was reimbursed by Tax authorities to the bank accounts of the Group and the amount of 5,572,615 thousand tenge was confirmed as recoverable. As the result, the Group recovered allowance for VAT receivable in the amount of 30,105,559 thousand tenge. The Group accrued allowance for VAT receivable in the total amount of 4,059,225 thousand tenge.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

### 21. TRANSPORTATION AND SELLING EXPENSES

<i>In thousands of tenge</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
Customs duty	24,045,794	23,113,263	75,657,663	62,742,323
Rent tax on crude oil export	22,068,988	4,063,842	53,726,135	13,881,542
Transportation	18,486,213	17,660,557	55,246,953	50,415,537
Payroll	1,280,434	1,759,802	4,500,403	4,707,336
Depreciation and amortization	418,553	1,623,981	2,718,292	4,856,240
Other	2,349,624	2,898,078	9,646,305	9,360,697
	68,649,606	51,119,523	201,495,751	145,963,675

### 22. FINANCE INCOME / FINANCE COSTS

#### Finance income

<i>In thousands of tenge</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
Interest income on bank deposits, loans and bonds	21,346,155	20,470,173	58,145,820	58,435,012
Amortization of discount on loans due from related parties	9,331,713	6,102,923	25,492,647	16,185,657
Derecognition of liabilities	–	63,964,146	–	63,964,146
Other	2,452,752	1,620,784	6,186,386	4,306,800
	33,130,620	92,158,026	89,824,853	142,891,615

#### Finance costs

<i>In thousands of tenge</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
Interest on loans and debt securities issued	53,845,425	41,297,720	141,880,007	127,234,441
Allowance for impairment of bank deposits (Note 7)	–	–	11,637,410	–
Interest under oil supply agreement	6,980,021	7,027,072	19,963,452	11,063,406
Unwinding of discount on provisions (Note 15)	3,710,975	1,543,428	9,730,926	6,250,150
Amortization of discount on loans and debt securities issued	3,176,044	2,655,486	8,778,333	8,441,348
Discount on assets with non-market interest rate	22,243	153,606	5,319,535	2,819,579
Other	5,826,538	3,644,616	14,365,730	11,965,617
	73,561,246	56,321,928	211,675,393	167,774,541

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

### 23. SHARE IN PROFIT OF JOINT VENTURES AND ASSOCIATES, NET

<i>In thousands of tenge</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
Tengizchevroil LLP	67,231,931	(11,183,112)	207,285,858	82,676,275
Mangistau Investments B.V.	15,886,108	16,555,831	37,490,001	33,812,024
KazRosGas LLP	13,087,321	9,272,889	14,180,747	14,629,804
Caspian Pipeline Consortium	10,069,188	2,707,890	34,165,427	4,421,972
KazGerMunay LLP	2,583,453	1,675,407	14,486,290	4,685,536
PetroKazakhstan Inc.	1,525,346	(1,814,656)	4,870,847	(8,723,291)
Beineu-Shymkent Gas Pipeline	(22,244)	(153,604)	(17,545,057)	(8,163,542)
Ural Group Limited	(449,269)	(253,297)	(1,211,668)	(1,015,010)
KazakhOil-Aktobe LLP	(868,133)	(150,214)	(3,574,704)	(2,418,006)
Valsera Holdings B.V.	(1,492,383)	3,404,598	3,140,139	8,307,054
Kashagan B.V.	(3,190,442)	(4,629,967)	(12,712,133)	(14,834,913)
Share in profit/(loss) of other joint ventures and associates	1,068,522	2,121,090	4,314,217	6,134,769
	<b>105,429,398</b>	<b>17,552,855</b>	<b>284,889,964</b>	<b>119,512,672</b>

### 24. INCOME TAX EXPENSE

<i>In thousands of tenge</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
<b>Current income tax</b>				
Corporate income tax	33,665,053	23,199,054	87,265,281	62,622,358
Excess profit tax	1,810,379	565,686	1,956,987	630,862
Withholding tax on dividends and interest income	2,119,756	1,685,458	6,049,480	5,889,237
<b>Deferred income tax</b>				
Corporate income tax	(4,664,606)	15,455,687	12,279,466	25,466,705
Excess profit tax	(2,026,395)	8,743,982	(1,234,399)	8,749,363
Withholding tax on dividends and interest income	21,531,992	(3,255,346)	36,964,018	10,258,795
<b>Income tax expense</b>	<b>52,436,179</b>	<b>46,394,521</b>	<b>143,280,833</b>	<b>113,617,320</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

### 25. 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 September 30, 2017 and December 31, 2016:

<i>In thousands of tenge</i>		Due from related parties	Due to related parties	Cash and deposits placed with related parties	Borrowings payable to related parties
Samruk-Kazyna entities	September 30, 2017	287,108,751	2,615,335	56,020	–
	December 31, 2016	250,189,225	1,755,168	227,330	–
Associates	September 30, 2017	170,624,144	1,748,012	–	–
	December 31, 2016	196,364,723	6,519,184	–	–
Other related parties	September 30, 2017	–	7,902,011	–	476,169,367
	December 31, 2016	–	8,783,316	308,652	539,518,308
Joint ventures in which the Group is a venturer	September 30, 2017	498,442,474	128,063,606	–	–
	December 31, 2016	426,310,101	148,065,653	–	–

#### Due from related parties

For the nine months ended September 30, 2017 the Company provided the additional interest free loan to the Samruk-Kazyna in the amount of 27,411,135 thousand tenge. The difference between fair value and nominal value of the loan amounting 3,853,053 thousand tenge recognized as transaction with Samruk-Kazyna in the interim consolidated statement of changes in equity.

As at September 30, 2017 changes in due from associates mainly related to the repayment of interest and revaluating of the right to claim payments under “Kazakhstan Note” in the amount of 24,327,753 thousand tenge and 2,745,707 thousand tenge, respectively.

As at September 30, 2017 increase in due from joint ventures mainly due to providing additional interest free loan to the BeineuShymkent Pipelines LLP in the amount of 135,556,837 thousand tenge and decreasing of trade accounts receivable for goods and services of Tengizchevroil LLP and KazRosGas LLP in the amount of 30,289,102 thousand tenge and 51,350,933 thousand tenge, respectively.

#### Due to related parties

As at September 30, 2017 changes of due to joint ventures mainly include decreasing of trade payable for goods and services to KazRosGas LLP in the amount of 45,210,699 thousand tenge and increasing of trade payable for goods and services to Tengizchevroil LLP, Mangistaumunaigaz JSC and BeineuShymkent Pipelines LLP in the amount of 8,787,206 thousand tenge, 5,871,300 thousand tenge and 6,687,178 thousand tenge, respectively.

#### Borrowings payable to related parties

For the nine months ended September 30, 2017 the Group redeemed bonds and loans payable to DBK in the total amount of 110,188,875 thousand tenge including interest.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

### 25. RELATED PARTY DISCLOSURES (continued)

#### Borrowings payable to related parties (continued)

The following table provides the total amount of transactions, which have been entered into with related parties during nine months ended September 30, 2017 and 2016:

<i>In thousands of tenge</i>		Sales to related parties	Purchases from related parties	Interest earned from related parties	Interest incurred to related parties
Samruk-Kazyna entities	September 30, 2017	48,318,144	22,814,743	20,623,686	–
	September 30, 2016	45,995,215	22,465,021	8,928,537	440,134
Associates	September 30, 2017	9,832,146	28,599,513	7,938,789	–
	September 30, 2016	17,866,784	46,206,883	11,757,249	5,793,241
Other related parties	September 30, 2017	–	6,723,453	–	19,222,335
	September 30, 2016	–	1,701,403	–	18,076,931
Joint ventures in which the Group is a venturer	September 30, 2017	207,319,352	662,785,483	18,090,942	599,122
	September 30, 2016	174,462,745	119,444,074	18,425,105	2,819,579

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, in the accompanying interim consolidated statement of comprehensive income was equal to 6,809,337 thousand tenge and 7,624,104 thousand tenge for the nine months ended September 30, 2017 and September 30, 2016, respectively. Compensation to key management personnel consists of contractual salary and performance bonus based on operating results.

### 26. FINANCIAL INSTRUMENTS AND INVESTMENT PROPERTY

#### Fair values of financial instruments and investment property

The carrying amount of the Group's financial instruments as at September 30, 2017 and December 31, 2016 are reasonable approximation of their fair value, except for the financial instruments disclosed below:

		Fair value by level of assessment			
	Carrying amount	Fair value	Quotations in an active market (Level 1)	Inputs from the observed market (Level 2)	Inputs based on the significant amount of unobserved (Level 3)
<i>In thousands of tenge</i>					
<b>As at September 30, 2017 (unaudited)</b>					
Bonds receivable from the Samruk-Kazyna	41,248,943	60,553,186	–	60,553,186	–
Fixed interest rate borrowings	3,341,066,609	3,373,772,408	3,173,964,216	199,808,192	–
Financial guarantee	12,230,537	12,230,537	–	12,230,537	–
Investment property	28,510,134	29,971,518	–	29,971,518	–

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

### 26. FINANCIAL INSTRUMENTS AND INVESTMENT PROPERTY (continued)

#### Fair values of financial instruments and investment property (continued)

<i>In thousands of tenge</i>	Carrying amount	Fair value	Fair value by level of assessment		
			Quotations in an active market (Level 1)	Inputs from the observed market (Level 2)	Inputs based on the significant amount of unobserved (Level 3)
<b>As at December 31, 2016 (audited)</b>					
Bonds receivable from the Samruk-Kazyna	42,123,003	63,663,823	–	63,663,823	–
Fixed interest rate borrowings	2,099,674,818	2,250,517,072	1,945,130,199	305,386,873	–
Financial guarantee	13,471,461	13,471,461	–	13,471,461	–
Investment property	29,480,044	29,987,922	–	29,987,922	–

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

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

### 27. CONTINGENT LIABILITIES AND COMMITMENTS

In addition to the contingent liabilities and commitments disclosed in the annual consolidated financial statements of the Group for the year ended December 31, 2016, the following changes have taken place during the nine months ended September 30, 2017:

#### Cost recovery audits

As of September 30, 2017 the Group's share in the total disputed amounts of the non-recoverable costs increased and comprised 715,567 thousand US dollars (equivalent to 244,144,363 thousand tenge) as a result of Authorities audits (as of December 31, 2016: 609,703 thousand US dollars or 203,207,747 thousand tenge). The Group and its partners under the production sharing agreements are in negotiation with the Government with respect to the recoverability of these costs.

#### KMG Drilling & Services LLP (KMG D&S) litigations with Consortium of companies Ersai Caspian Contractor LLP

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

As at September 30, 2017 Consortium increased the amount of claim for 50,613 thousand US dollars (equivalent to 15,954,275 thousand tenge).

There is uncertainty about the result of judicial proceedings. As of September 30, 2017 the Group didn't recognize the provision for given claim.

#### Kazakhstan local market obligation

During nine months ended September 30, 2017, in accordance with its obligations, the Group delivered 2,204 thousand tons of crude oil (nine months ended September 30, 2016: 3,899 thousand tons), including joint ventures, to the Kazakhstan market.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

### 27. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

#### Commitments under subsoil use contracts

As at September 30, 2017 the Group had the following commitments related to minimal working program in accordance with terms of licenses, production sharing agreements and subsoil use contracts, signed with the Government:

Year	Capital expenditures	Operational expenditures
2017	64,229,833	4,081,625
2018	19,676,194	5,325,634
2019	13,160,270	5,812,300
2020	5,770,978	6,264,387
2021-2048	12,806,608	19,202,672
<b>Total</b>	<b>115,643,883</b>	<b>40,686,618</b>

#### Oil supply commitments

As of September 30, 2017 the Group had commitments under the oil supply agreements in the total amount of 23.7 million ton (as at December 31, 2016: 28.1 million ton), including joint venture.

#### Other contractual commitments

As at September 30, 2017, the Group had other capital commitments of approximately 787,009,866 thousand tenge (as at December 31, 2016: 1,106,632,404 thousand tenge), including joint ventures, related to acquisition and construction of property, plant and equipment.

As at September 30, 2017, the Group had commitments in the total amount of 124,680,786 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.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****28. SEGMENT REPORTING**

The following represents information about operating segments of the Group as at September 30, 2017 and for the nine months then ended:

<i>In thousands of tenge</i>	Exploration and production of oil and gas and trading of own refined products	Oil transportation	Gas trading and transportation	Refining and trading of crude oil and refined products	Other	Elimination	Total
Revenues from sales to external customers	80,682,098	146,806,395	349,379,295	1,068,847,979	69,865,199	–	1,715,580,966
Revenues from sales to other segments	685,421,368	36,387,143	17,408,475	172,568,678	31,280,002	(943,065,666)	–
<b>Total revenue</b>	<b>766,103,466</b>	<b>183,193,538</b>	<b>366,787,770</b>	<b>1,241,416,657</b>	<b>101,145,201</b>	<b>(943,065,666)</b>	<b>1,715,580,966</b>
<b>Gross profit</b>	<b>383,614,119</b>	<b>82,074,182</b>	<b>95,163,797</b>	<b>100,317,707</b>	<b>(15,025,548)</b>	<b>(541,640,697)</b>	<b>104,503,560</b>
Finance income	23,170,569	5,367,732	11,206,276	38,560,783	79,548,395	(68,028,902)	89,824,853
Finance costs	(10,420,896)	(3,153,112)	(23,091,716)	(69,673,749)	(165,693,040)	60,357,120	(211,675,393)
Depreciation, depletion and amortization	(60,910,741)	(23,578,854)	(22,458,985)	(28,568,943)	(9,253,328)	–	(144,770,851)
Impairment of property, plant and equipment, exploration and evaluation assets and intangible assets other than goodwill	(26,137)	(9,268)	(314,705)	8,056	(4,521,230)	–	(4,863,284)
Share in profit of joint ventures and associates, net	248,110,889	36,278,893	(3,321,781)	3,034,675	787,288	–	284,889,964
Income tax expenses	(93,769,522)	(15,476,682)	(17,951,125)	(10,627,245)	(5,456,259)	–	(143,280,833)
<b>Net profit for the period</b>	<b>357,833,751</b>	<b>95,330,655</b>	<b>43,176,261</b>	<b>11,249,597</b>	<b>(70,015,440)</b>	<b>6,444,006</b>	<b>444,018,830</b>
<b>Other segment information</b>							
Investments in joint ventures and associates	3,721,591,720	190,897,060	77,592,573	34,133,263	3,704,027	–	4,027,918,643
Capital expenditures	87,314,386	39,354,775	112,051,016	176,604,558	18,542,683	–	433,867,418
Allowances for obsolete inventories, doubtful accounts receivable, advances paid, and other assets	(1,201,230)	(2,501,236)	(9,433,779)	(5,624,751)	(6,200,567)	–	(24,961,563)
Assets of the segment	6,738,762,201	868,177,784	1,543,673,001	3,527,112,513	2,297,433,822	(1,483,117,805)	13,492,041,516
Liabilities of the segment	628,079,937	170,473,589	852,276,328	2,652,165,165	3,946,334,126	(1,427,860,493)	6,821,468,652

Eliminations represent the exclusion of intra-group turnovers.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****28. SEGMENT REPORTING (continued)**

The following represents information about operating segments of the Group as at December 31, 2016 and for the nine months ended September 30, 2016:

<i>In thousands of tenge</i>	Exploration and production of oil and gas and trading of own refined products	Oil transportation	Gas trading and transportation	Refining and trading of crude oil and refined products	Other	Elimination	Total
Revenues from sales to external customers	63,703,510	140,820,396	292,149,693	619,030,007	55,355,331	-	1,171,058,937
Revenues from sales to other segments	536,673,797	33,736,599	889,657	39,489,441	23,796,375	(634,585,869)	-
<b>Total revenue</b>	<b>600,377,307</b>	<b>174,556,995</b>	<b>293,039,350</b>	<b>658,519,448</b>	<b>79,151,706</b>	<b>(634,585,869)</b>	<b>1,171,058,937</b>
<b>Gross profit</b>	<b>284,014,531</b>	<b>78,168,176</b>	<b>69,671,029</b>	<b>100,942,799</b>	<b>(8,236,873)</b>	<b>(376,420,836)</b>	<b>148,138,826</b>
Finance income	25,436,094	7,163,667	10,238,417	21,761,805	117,663,746	(39,372,114)	142,891,615
Finance costs	(12,297,081)	(2,798,327)	(20,515,997)	(28,002,890)	(141,983,986)	37,823,740	(167,774,541)
Depreciation, depletion and amortization	(55,436,446)	(24,107,824)	(21,168,577)	(25,181,914)	(6,515,744)	-	(132,410,505)
Impairment of property, plant and equipment, exploration and evaluation assets and intangible assets other than goodwill	(1,221,870)	(2,003,276)	(1,150,893)	16	(1,811,357)	-	(6,187,380)
Share in profit of joint ventures and associates, net	95,292,072	8,142,378	6,214,910	8,346,189	1,517,123	-	119,512,672
Income tax expenses	(52,757,229)	(12,611,034)	(12,182,198)	(15,094,061)	(20,972,798)	-	(113,617,320)
<b>Net profit for the period</b>	<b>157,070,119</b>	<b>66,009,726</b>	<b>54,577,494</b>	<b>56,429,978</b>	<b>(114,966,734)</b>	<b>(1,899,800)</b>	<b>217,220,783</b>
<b>Other segment information</b>							
Investments in joint ventures and associates	3,440,284,418	149,567,256	80,723,711	31,350,162	4,351,263	-	3,706,276,810
Capital expenditures	95,472,368	25,084,224	38,946,498	165,043,470	37,696,107	-	362,242,667
Allowances for obsolete inventories, doubtful accounts receivable, advances paid, and other assets	(19,786,389)	(2,470,383)	(8,329,262)	(5,933,387)	(2,196,200)	-	(38,715,621)
Assets of the segment	6,210,069,721	831,909,870	1,295,190,723	3,459,862,728	1,682,382,885	(1,596,338,657)	11,883,077,270
Liabilities of the segment	529,270,606	164,038,032	663,338,007	2,693,298,363	3,089,738,401	(1,534,877,054)	5,604,806,355

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited) (continued)**

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**29. SUBSEQUENT EVENTS**

For the period from October 1 until November 20, 2017 Company made an interest repayment of the Eurobonds in the total amount of 180,983 thousand US dollars (equivalent to 61,118,089 thousand tenge on the due date).

On October 19, 2017 года Company has provided the additional interest free loan to Samruk-Kazyna in the total amount of 19,608,699 thousand tenge.

On October 30, 2017 Pavlodar Oil Chemistry Refinery LLP, subsidiary of KMG RM, received a loan from DBK in the amount of 49,000 thousand US dollars (equivalent to 16,385,600 thousand tenge on the due date) at the rate 6M Libor + 4%.

On November 8, 2017 in accordance with privatization plan which was approved by the Government RK, Company sold 100% interest in EurasiaAir JSC to Sky Logistics Service LLP for 11,850,000 thousand tenge.

On November 13, 2017 Company redeemed zero-coupon bonds placed on KASE in the total amount of 100,000,000 thousand tenge.