JSC “National Company “KazMunayGas”

Consolidated financial statements

For the year ended December 31, 2016
with independent auditors’ report

CONTENTS

Building a better working world

«Эрнст энд Янг» ЖШС
Әл-Фараби д-лы, 77/7
«Есентай Тауэр» гимараты
Алматы қ., 050060
Қазақстан Республикасы
Тел.: +7 727 258 5960
Факс: +7 727 258 5961
www.ey.com

ТОО «Эрнст энд Янг»
пр. Аль-Фараби, 77/7
здание «Есентай Тауэр»
г. Алматы, 050060
Республика Казахстан
Тел.: +7 727 258 5960
Факс: +7 727 258 5961

Ernst & Young LLP
Al-Farabi ave., 77/7
Esentai Tower
Almaty, 050060
Republic of Kazakhstan
Tel.: +7 727 258 5960
Fax: +7 727 258 5961

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 2016, 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 financial position of the Group as at 31 December 2016 and its financial performance and its 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.

Building a better
working world

Impairment of non-current assets

We considered this matter to be one of most significance in the audit due to materiality of the balances of non-current assets, including upstream, exploration and evaluation, downstream assets and investments in upstream joint ventures and associates, to the consolidated financial statements, the high level of subjectivity in respect of assumptions underlying impairment analysis and significant judgements and estimates made by the management. In addition, the combination of recent drop in oil prices, devaluation of the 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.

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

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

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

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

Discontinued operations

On 15 December 2016, the Group signed a share sale and purchase agreement (SPA) to sell a 51% interest in KMG International NV (KMGI) subsidiary of the Group. The completion of SPA is subject to satisfaction of certain conditions precident until 31 May 2017. If conditions are not satisfied prior to this date but that satisfaction is reasonably likely to occur within a reasonable period after this date, the parties may extend such date. We focused on this area because of the uncertainty of completion of the sale of 51% interest in KMGI and the judgement required to assess whether or not the sale is highly probable. Such assessment impacts the measurement and presentation of assets of KMGI classified as held for sale and liabilities directly associated with them, and the results from discontinued operations, that are material to the consolidated financial statements.

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

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

EY
Building a better working world

Compliance with loan covenants

In accordance with the terms of certain borrowings and bonds issued, the Group should maintain and comply with certain financial and non-financial covenants. There is a higher likelihood that covenants impacted by trading volumes, revenue and profit may be breached particularly in subsidiaries impacted by the low oil prices and higher operating costs, therefore, we focused on this area during our audit. Breaching covenants could result in significant fines and penalties along with funding shortages. Cross default provisions are in place under the Group's financing arrangements with credit institutions and the documentation of bonds issuance. 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.

We have examined the terms of financing arrangements with credit institutions and the documentation of bonds issuance and tested the financial covenants compliance calculations.

Information on compliance with covenants is disclosed in Note 20 to the consolidated financial statements.

Other information included in the Group's 2016 annual report

Other information consists of the information included in the Group's 2016 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2016 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

EY
Building a better
working world

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

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

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

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

EY
Building a better working world

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

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

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

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

Ernst & Young LLP

Gulmira Turmagambetova
Auditor / General Director
Ernst and Young LLP

Auditor qualification certificate
No. 0000374 dated 21 February 1998

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

Kazakhstan 050060, Almaty
Al-Farabi Ave., 77/7

10 March 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of tenge	Note	As at December 31 2016	2015 (Restated)*
Assets			
Non-current assets			
Property, plant and equipment	8	**2,953,135,665**	2,661,342,684
Exploration and evaluation assets	9	**231,553,168**	208,526,063
Investment property	10	**29,480,044**	29,260,917
Intangible assets	11	**116,488,612**	119,945,371
Long-term bank deposits	12	**50,027,102**	48,808,421
Investments in joint ventures and associates	13	**3,706,276,810**	3,422,939,745
Deferred income tax asset	32	**71,909,033**	107,481,291
VAT receivable		**71,918,992**	42,455,417
Advances for non-current assets		**139,185,121**	133,734,033
Bonds receivable from Samruk-Kazyna		**37,683,003**	37,400,972
Note receivable from a shareholder of a joint venture	14	**16,695,758**	21,602,249
Note receivable from associate		**34,837,804**	42,319,688
Loans and receivable due from related parties	17	**476,777,932**	433,410,880
Other non-current assets		**20,687,850**	26,259,148
		7,956,656,894	7,335,486,879
Current assets			
Inventories	15	**98,776,900**	125,709,383
VAT receivable		**68,719,671**	88,931,793
Income tax prepaid	32	**74,457,414**	60,482,541
Trade accounts receivable	16	**279,811,631**	95,499,391
Short-term bank deposits	12	**1,182,669,493**	947,909,540
Bonds receivable from Samruk-Kazyna		**4,440,000**	4,440,000
Loans and receivable due from related parties	17	**113,616,133**	113,045,841
Note receivable from a shareholder of a joint venture	14	**17,617,100**	8,821,698
Other current assets	16	**149,079,608**	93,123,601
Cash and cash equivalents	18	**878,438,350**	770,003,517
		2,867,626,300	2,307,967,305
Assets classified as held for sale	5	**1,058,794,076**	1,066,203,474
		3,926,420,376	3,374,170,779
Total assets		**11,883,077,270**	10,709,657,658

The accounting policies and explanatory notes on pages 10 through 85 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of tenge	Note	As at December 31 2016	2015 (Restated)*
Equity and liabilities			
Equity			
Share capital	19	**696,376,625**	696,363,445
Additional paid-in capital	19	**243,655,405**	243,655,405
Other equity		**222,074**	3,110,573
Currency translation reserve	19	**1,372,771,521**	1,405,325,707
Retained earnings		**3,163,685,193**	2,988,542,754
Attributable to equity holders of the Parent Company		**5,476,710,818**	5,336,997,884
Non-controlling interest	19	**801,560,097**	753,179,913
Total equity		**6,278,270,915**	6,090,177,797
Non-current liabilities			
Borrowings	20	**2,706,101,321**	2,932,323,037
Provisions	22	**139,371,823**	150,427,821
Deferred income tax liabilities	32	**264,599,978**	218,909,753
Financial guarantee		**12,259,980**	8,038,985
Prepayment on oil supply agreements	21	**738,572,306**	–
Other non-current liabilities		**52,509,205**	23,226,111
		3,913,414,613	3,332,925,707
Current liabilities			
Borrowings	20	**366,438,649**	296,545,652
Provisions	22	**94,394,277**	116,508,954
Income tax payable	32	**2,301,839**	4,114,767
Trade accounts payable	23	**260,137,009**	174,237,185
Other taxes payable	24	**34,014,457**	40,015,053
Financial guarantee		**1,211,481**	1,121,173
Prepayment on oil supply agreements	21	**249,967,500**	–
Other current liabilities	23	**119,042,249**	145,204,352
		1,127,507,461	777,747,136
Liabilities directly associated with the assets classified as held for sale	5	**563,884,281**	508,807,018
Total liabilities		**5,604,806,355**	4,619,479,861
Total equity and liabilities		**11,883,077,270**	10,709,657,658
Book value per ordinary share	19	**10,547**	10,219

* *Certain numbers shown here do not correspond to the consolidated financial statements for the year ended December 31, 2015 and reflect adjustments made, refer to Note 6.*

Executive vice-president – financial director ____________ *D.S. Karabayev*

Chief accountant ____________ *Y.Y. Orynbayev*

The accounting policies and explanatory notes on pages 10 through 85 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of tenge	Note	For the years ended December 31 2016	2015 (Restated)*
Revenue	25	**1,857,435,356**	1,093,805,922
Cost of sales	26	**(1,561,746,019)**	(1,090,380,226)
Gross profit		**295,689,337**	3,425,696
General and administrative expenses	27	**(117,675,164)**	(211,223,843)
Transportation and selling expenses	28	**(198,473,083)**	(195,320,579)
Impairment of property, plant and equipment, intangible assets	29	**(3,282,679)**	(67,125,848)
Impairment of goodwill	29	**–**	(11,922,192)
Loss on disposal of property, plant and equipment, intangible assets and investment property, net		**(5,620,831)**	(3,580,092)
Other operating income		**19,429,680**	21,692,072
Other operating expenses		**(14,821,567)**	(19,529,597)
Operating loss		**(24,754,307)**	(483,584,383)
Net foreign exchange (loss)/gain		**(12,894,441)**	469,508,889
Finance income	30	**167,891,688**	172,979,474
Finance costs	30	**(230,383,354)**	(198,337,046)
Impairment of investments in joint ventures	13	**(5,503,379)**	(9,342,198)
Impairment of assets classified as held for sale		**(92,601)**	(85,744)
Impairment of loan given	17	**(1,346,447)**	(10,969,792)
Share in profit of joint ventures and associates, net	31	**270,190,990**	112,807,416
Profit before income tax		**163,108,149**	52,976,616
Income tax expenses	32	**(163,791,137)**	(231,527,690)
Loss for the year from continuing operations		**(682,988)**	(178,551,074)
Discontinued operations			
Profit after income tax for the year from discontinued operations	5	**360,854,031**	673,234,095
Net profit for the year		**360,171,043**	494,683,021
Net profit for the year attributable to:			
Equity holders of the Parent Company		**305,849,105**	398,325,954
Non-controlling interest		**54,321,938**	96,357,067
		360,171,043	494,683,021

The accounting policies and explanatory notes on pages 10 through 85 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

In thousands of tenge	Note	For the years ended December 31 2016	 2015 (Restated)*
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operations		**(38,081,340)**	1,180,868,321
Accumulated differences on translation of disposal group		**–**	(106,930,994)
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		**(38,081,340)**	1,073,937,327
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Actuarial gain\(loss) on defined benefit plans of the Group		**3,775,606**	(1,760,276)
Actuarial (loss)\gain on defined benefit plans of joint ventures		**(127,142)**	10,098
Tax effect		**(807,240)**	365,421
Other comprehensive income\(loss) not to be reclassified to profit or loss in subsequent periods		**2,841,224**	(1,384,757)
Other comprehensive (loss)/income for the year		**(35,240,116)**	1,072,552,570
Total comprehensive income for the year, net of tax		**324,930,927**	1,567,235,591
Total comprehensive income for the year attributable to:			
Equity holders of the Parent Company		**275,618,617**	1,353,725,956
Non-controlling interest		**49,312,310**	213,509,635
		324,930,927	1,567,235,591

* *Certain numbers shown here do not correspond to the consolidated financial statements for the year ended December 31, 2015 and reflect adjustments made, refer to Note 6.*

Executive vice-president – financial director ______________ *D.S. Karabayev*

Chief accountant ______________ *Y.Y. Orynbayev*

The accounting policies and explanatory notes on pages 10 through 85 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of tenge	Note	For the years ended December 31 2016	2015* (Restated)
Cash flows from operating activities			
Profit before income tax from continuing operations		**163,108,149**	52,976,616
Profit before income tax from discontinued operations		**357,713,189**	653,693,071
Profit before income tax		**520,821,338**	706,669,687
Adjustments for:			
Depreciation, depletion and amortization		**181,273,147**	141,483,857
Depreciation, depletion and amortization from discontinued operation		**38,939,596**	41,694,853
Share in profit of joint ventures and associates, net	31	**(270,190,990)**	(112,807,416)
Share in profit of joint ventures and associates from discontinued operation, net		**(1,175,613)**	(160,800)
Finance costs	30	**230,383,354**	198,337,046
Finance costs from discontinued operation		**10,613,369**	19,377,394
Finance income	30	**(167,891,688)**	(172,979,474)
Finance income from discontinued operation		**(1,249,393)**	(2,633,900)
Unrealized losses from derivatives on petroleum products		**341,709**	2,543,060
Realized losses from derivatives on petroleum products		**728,846**	241,176
Impairment of property, plant and equipment, intangible assets and goodwill		**3,282,679**	79,048,040
Impairment of property, plant and equipment, intangible assets and goodwill from discontinued operation	5	**3,982,106**	6,490,037
Adjustment on the re-measurement to fair value less costs to sell	5	**16,337,163**	160,035,211
(Reversal)/impairment of VAT receivable	27	**(3,417,616)**	51,548,508
Loss on disposal of property, plant and equipment, intangible assets and investment property, net		**5,620,831**	3,580,092
Impairment of investments in joint ventures	13	**5,503,379**	9,342,198
Impairment of assets classified as held for sale		**92,601**	85,744
Impairment of loans due from related parties	17	**1,346,447**	10,969,792
Gain on sale of subsidiary	7	**–**	(427,840,668)
Loss on sale of joint ventures	13	**–**	6,151,234
Provisions		**13,106,165**	99,695,140
Allowance for impairment of trade accounts receivable and other current and non-current assets	27	**7,482,029**	3,158,635
Allowance for impairment of trade accounts receivable and other current assets from discontinued operation		**9,999,997**	8,319,118
Provision for obsolete and slow-moving inventories	27	**1,058,595**	1,391,281
Provision for obsolete and slow-moving inventories from discontinued operation		**4,259,577**	(5,875,841)
Recognition of share based payments		**1,347,558**	1,589,628
Change of share in subsidiaries		**(9,550)**	–
Unrealized foreign exchange gain		**(18,888,571)**	(321,841,594)
Operating profit before working capital changes		**593,697,065**	507,612,038
Change in inventory		**23,309,510**	57,113,535
Change in VAT receivable		**(6,666,694)**	(1,186,992)
Change in trade accounts receivable and other assets		**(199,108,793)**	(110,105,376)
Change in other taxes payable		**(39,469,136)**	(47,542,464)
Change in prepayment on oil supply agreements	21	**1,012,020,000**	–
Change in trade accounts payable		**132,824,726**	39,745,815
Change in other liabilities		**2,220,436**	(24,663,004)
Cash generated from operations		**1,518,827,114**	420,973,552
Income taxes paid		**(106,406,440)**	(187,135,282)
Interest received		**61,212,115**	118,778,446
Interest paid		**(197,781,983)**	(212,864,705)
Cash received from derivatives, net		**330,120**	6,694,868
Net cash flow from operating activities		**1,276,180,926**	146,446,879

The accounting policies and explanatory notes on pages 10 through 85 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of tenge	Note	For the years ended December 31 2016	2015* (Restated)
Cash flows from investing activities			
Withdrawal of bank deposits, net		**(269,568,073)**	313,189,387
Purchase of property, plant and equipment, intangible assets, investment property and exploration and evaluation assets		**(464,811,894)**	(557,448,149)
Proceeds from sale of property, plant and equipment, intangible assets, investment property and exploration and evaluation assets		**1,379,771**	22,350,510
Proceeds from sale of subsidiaries		**–**	1,372,498,443
Dividends received from joint ventures and associates, net of income tax		**118,607,550**	172,719,434
Acquisition of and contribution to joint ventures		**(160,057,189)**	(41,435,041)
Refund of contribution to joint ventures		**1,672,268**	–
Repayment of loans and receivable due from related parties		**125,002,452**	43,942,748
Note receivable from associate		**6,889,431**	8,450,131
Loans given to related parties		**(222,725,040)**	(111,332,668)
Net cash flow from / (used in) investing activities		**(863,610,724)**	1,222,934,795
Cash flows from financing activities			
Proceeds from borrowings		**316,799,290**	281,752,106
Repayment of borrowings		**(530,514,370)**	(1,902,374,221)
Distributions to Samruk-Kazyna		**(2,202,898)**	–
Dividends paid to Samruk-Kazyna and National Bank of RK	33	**(90,853,335)**	(6,768,531)
Dividends paid to non-controlling interests		**(5,248,975)**	(15,851,249)
Issue of shares		**1**	12,700,436
Net cash flow used in financing activities		**(312,020,287)**	(1,630,541,459)
Effects of exchange rate changes on cash and cash equivalents		**(3,531,543)**	243,150,206
Net change in cash and cash equivalents		**97,018,372**	(18,009,579)
Cash and cash equivalents at the beginning of the year		**808,434,139**	826,443,718
Cash and cash equivalents at the end of the year		**905,452,511**	808,434,139

* *Certain numbers shown here do not correspond to the consolidated financial statements for year ended December 31, 2015 and reflect adjustments made, refer to Note 6.*

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

NON-CASH AND OTHER TRANSACTIONS: SUPPLEMENTAL DISCLOSURE

The following significant non-cash transactions and other transactions were excluded from the consolidated statement of cash flows:

Capitalization of borrowing costs

In 2016 the Group capitalized in the carrying amount of property, plant and equipment borrowing costs in the amount of 28,515,460 thousand tenge (2015: 22,911,733 thousand tenge) *(Note 5).*

Accounts payable for non-current assets

In 2016 accounts payable for purchases of property, plant and equipment decreased by 14,933,835 thousand tenge (2015: decreased by 30,482,682 thousand tenge).

Advances paid for non-current assets

In 2016 advances paid for non-current assets increased by 14,475,666 thousand tenge (in 2015: increased by 33,877,621 thousand tenge).

Purchases of non-current assets

In 2016 purchases of property, plant and equipment was paid with the use of the loans from The Export-Import Bank of China and Japan Bank for International Cooper in the total amount 131,700,644 thousand tenge (2015: 85,487,835 thousand tenge).

Hedge of income (loss) on translation of borrowings denominated in US dollar

In 2016 the Group utilized hedging of net investments in certain subsidiaries classified as foreign operations against selected borrowings denominated in US dollar *(Note 12).* Effect of income hedging was equal to 37,952,320 thousand tenge which was reclassified from profits and losses to other comprehensive income, under exchange differences on translation of foreign operations (effect of loss hedging in 2015: 1,586,801,249 thousand tenge).

Executive vice-president – financial director ______ *D.S. Karabayev*

Chief accountant ______ *Y.Y. Orynbayev*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holder of the Parent Company							
In thousands of tenge	Share capital	Additional paid-in capital	Other equity	Currency translation reserve	Retained earnings	Total	Non-controlling interest	Total
As at December 31, 2014	557,072,340	226,761,347	2,105,737	448,739,927	2,627,270,657	3,861,950,008	555,162,424	4,417,112,432
Net profit for the year	–	–	–	–	398,325,954	398,325,954	96,357,067	494,683,021
Other comprehensive income	–	–	–	956,585,780	(1,185,778)	955,400,002	117,152,568	1,072,552,570
Total comprehensive income for the year	–	–	–	956,585,780	397,140,176	1,353,725,956	213,509,635	1,567,235,591
Contribution to share capital *(Note 19)*	139,291,105	16,894,058	–	–	–	156,185,163	–	156,185,163
Dividends *(Note 19)*	–	–	–	–	(24,335,911)	(24,335,911)	(15,790,408)	(40,126,319)
Distributions to the Samruk-Kazyna *(Note 19)*	–	–	–	–	(6,771,791)	(6,771,791)	–	(6,771,791)
Recognition of share based payments at subsidiaries	–	–	1,004,836	–	–	1,004,836	584,792	1,589,628
Transactions with the Samruk-Kazyna *(Note 19)*	–	–	–	–	(4,760,377)	(4,760,377)	–	(4,760,377)
Disposal of subsidiary	–	–	–	–	–	–	(286,530)	(286,530)
As at December 31, 2015	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

The accounting policies and explanatory notes on pages 10 through 85 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Attributable to equity holder of the Parent Company							
In thousands of tenge	Share capital	Additional paid-in capital	Other equity	Currency translation reserve	Retained earnings	Total	Non-controlling interest	Total
As at December 31, 2015	696,363,445	243,655,405	3,110,573	1,405,325,707	2,988,542,754	5,336,997,884	753,179,913	6,090,177,797
Net profit for the year	–	–	–	–	305,849,105	305,849,105	54,321,938	360,171,043
Other comprehensive income	–	–	–	(32,554,186)	2,323,698	(30,230,488)	(5,009,628)	(35,240,116)
Total comprehensive income for the year	–	–	–	(32,554,186)	308,172,803	275,618,617	49,312,310	324,930,927
Contribution to share capital *(Note 19)*	13,180		–	–	–	13,180	–	13,180
Dividends *(Note 19)*	–	–	–	–	(59,748,893)	(59,748,893)	(5,167,227)	(64,916,120)
Distributions to the Samruk-Kazyna *(Note 19)*	–	–	–	–	(22,401,021)	(22,401,021)	–	(22,401,021)
Transactions with the Samruk-Kazyna *(Note 19)*	–	–	–	–	(50,871,857)	(50,871,857)	–	(50,871,857)
Recognition of share-based payments	–	–	891,404	–	–	891,404	518,777	1,410,181
Execution of share-based payments	–	–	(3,740,318)	–	–	(3,740,318)	3,740,318	–
Forfeiture of share-based payments	–	–	(39,585)	–	–	(39,585)	(23,038)	(62,623)
Change of share in subsidiaries	–	–	–	–	(8,593)	(8,593)	(956)	(9,549)
As at December 31, 2016	**696,376,625**	**243,655,405**	**222,074**	**1,372,771,521**	**3,163,685,193**	**5,476,710,818**	**801,560,097**	**6,278,270,915**

Executive vice-president – financial director

D.S. Karabayev

Chief accountant

Y.Y. Orynbayev

The accounting policies and explanatory notes on pages 10 through 85 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

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, 2016, the Company has an interest in 42 operating companies (2015: 37) (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 35)*.

These consolidated financial statements of the Group were approved for issue by the Executive vice-president – financial director and the Chief accountant on March 10, 2017.

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*.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION (continued)

Foreign currency translation (continued)

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, 2016 was 333.29 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, 2016 (2015: 340.01 tenge to 1 US dollar). The currency exchange rate of KASE as at March 10, 2017 was 317.97 tenge to 1 US dollar.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended December 31, 2015, except for the adoption of new standards and interpretations effective as of January 1, 2016. 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 2016, they do not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after January 1, 2016. The Group is an existing IFRS preparer and does not apply this standard.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 *Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016. These amendments do not have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 A*griculture*. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016. These amendments do not have any impact to the Group as the Group does not have any bearer plants.

Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. First-time adopters of IFRS electing to use the equity method in their separate financial statements will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after January 1, 2016. These amendments do not have any impact on the annual consolidated financial statements of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Annual improvements 2012-2014 cycle

These improvements are effective for annual periods beginning on or after January 1, 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operation

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments do not have any impact on the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Annual improvements 2012-2014 cycle (continued)

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- the materiality requirements in IAS 1;
- that specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements;
- that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income. These amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments do not have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments do not have any impact on the Group as the Group does not apply the consolidation exception.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued but not yet effective

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for the financial instruments project: classification and measurement; impairment; and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date. The Group plans to adopt the new standard on the required effective date. Overall, the Group expects no significant impact of new requirements on its.

(a) Classification and measurement

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9. However, the Group will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Group expects a significant impact on its equity due to the unsecured nature of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

During 2016, the Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Group is considering the clarifications issued by the IASB in April 2016 and will monitor any further developments.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

Standards and interpretations issued but not yet effective (continued)

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of the amendments will result in additional disclosures provided by the Group.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

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 recognised in the 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. These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group.

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

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 amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 16 Leases (continued)

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17.

Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2017, the Group plans to assess the potential effect of IFRS 16 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, 2016. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Acquisition of subsidiaries in accordance with the Shareholder instructions

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

Acquisition of subsidiaries from parties under common control

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

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

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

Undivided interest in jointly controlled operations

The Group has undivided interest in jointly controlled operations.

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

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

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

Investment in associates and joint ventures

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

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

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

The Group’s investments in its joint ventures and associates are accounted for using the equity method. Under the equity method, the investment in a joint venture or an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise 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.

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 recognised 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates and joint ventures (continued)

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 recognises the loss as 'Impairment of investment in joint venture or associate' in the statement of profit or loss.

Upon loss of joint control over the joint venture or significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture or associate upon loss of joint control or significant influence and the fair value of the retained investment and proceeds from disposal is recognised 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 as current when it is:

- expected to be realised or intended to sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realised within 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Oil and natural gas exploration, evaluation and development expenditure (continued)

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.

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

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)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets held for sale and discontinued operations (continued)

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

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

Asset retirement obligation (decommissioning)

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

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

(a) changes in the provision are added to, or deducted from, the cost of the related asset in the current period;

(b) the amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the provision exceeds the carrying amount of the asset, the excess is recognized immediately in the consolidated statement of comprehensive income; and

(c) if the adjustment results in an addition to the cost of an asset, the Group considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Group tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss, in accordance with IAS 36.

Financial assets

Initial recognition and measurement

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

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

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

Subsequent measurement

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through profit or loss

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

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

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

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statement of comprehensive income. The losses arising from impairment of trade and other receivables are recognized in general and administrative expenses. The losses arising from impairment of loans receivable are recognized in finance costs.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income as finance costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement (continued)

Available-for-sale financial investments

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

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

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

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

Derecognition

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment of financial assets

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

Financial assets carried at amortized cost

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

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

Available-for-sale financial investments

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

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

Trade and other payables

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

Loans and borrowings

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

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

Loans and borrowings (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

Provision for obligations to the Government

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

Employee benefits

Pension scheme

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

Long-term employee benefits

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

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

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

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

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

Revenue recognition

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

Sale of goods

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

Rendering of services

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Interest income

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

Expense recognition

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

Income taxes

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

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

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

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

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity (continued)

Other distributions to the Shareholder

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

Subsequent events

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Oil and gas reserves

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

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

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.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Recoverability of oil and gas 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, 2016 further volatility in crude oil prices, decreased levels of drilling services provided and increases in inflation rate and cost of capital indicated that Group's cash generating units may be impaired. Therefore, for the year ended December 31, 2016 management has carried out a formal assessment of the recoverable amount of its assets. An impairment loss of 3,250,130 thousand tenge tenge *(Note 8)*, mainly related to property, plant and equipment of ANS was recognized in the consolidated financial statements.

As at December 31, 2016 KMG EP carried out an assessment due to several indicators that the previous impairment loss for JSC "Ozenmunaigas" (KMG EP subsidiary) may have decreased. Various values for the recoverable amount of JSC "Ozenmunaigas" were reviewed and calculated on the basis of estimating the future cash flows adjusted for the risks specific to JSC "Ozenmunaigas" and discontinued using either a pre-tax or post-tax discount rate of 12.5% and 10%, respectively. The resulting recoverable amount was higher than the carrying value of the assets in all of the calculations, which also was the case when taking into consideration changes to the models' assumptions. Management did not reverse impairment recognized in prior years due to the significant uncertainty surrounding the assumptions used in the model. Changes in assumptions, primarily, stem from macroeconomic factors such as export and domestic oil prices, taxation, foreign exchange rates and price inflation.

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

The key assumptions required for the recoverable amount estimation are the oil prices, production volumes, the foreign exchange rate and discount rate.

Recoverability of downstream, refining and other assets

The Group performed its annual impairment test in December 2016 and 2015. The Group considers the forecast refinery margins and production volumes, among other factors, when reviewing for indicators of impairment. Decline in market forecasts indicated a potential impairment of goodwill and assets of refining, downstream and other segments.

As of December 31, 2016 the Group has material goodwill related to past acquisitions of Pavlodar Oil Chemical Plant JSC ("PNHZ") *(Note 11)*.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Recoverability of downstream, refining and other assets (continued)

PNHZ

As at December 31, 2016 recoverable amount of PNHZ CGU amounted to 172,520,000 thousand tenge (in 2015: 210,053,000 thousand tenge). It was calculated based on fair value less costs to sell. The fair value less costs to sell calculation is based on a discounted cash flow model. Cash flows assume the highest and best use of assets by independent market participants, i.e. other companies of the same industry in the existing economic environment. The discount rate applied to the cash flow projections is 11.58% (in 2015: 13%), and cash flows beyond the five-year period are extrapolated using a 4.99% growth rate (in 2015: 4.99%).

Based on the results of impairment test no impairment of PNHZ goodwill was identified in 2016.

Key assumptions used in calculating fair value less costs of disposal

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

- volumes of crude oil and oil products output;
- capital expenditures for 2017-2021;
- discount rates.

Volumes of crude oil and oil products output – are the forecasts of the Group with respect to the output of oil products during processing 1 ton of crude oil before and after modernization of PNHZ.

Capital expenditures

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

Prices of Crude oil in the local market

Prices of Crude oil in the local market – the prices which are based on the assessment of the management of the Group's on purchase of crude oil from local oil producers.

Discount rates

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

Sensitivity to changes in assumptions

Results of assessment of recoverable amount of PNHZ are sensitive to changes in key assumptions, in particular, assumptions related to changes in exchange rate of tenge, WACC discount rates and target EBITDA in terminal period. Increase in discount rates by 3.4% from 11.6% to 15%, would result in recoverable amount of goodwill decrease by 39,222,890 thousand tenge. Decrease of target cash flow projections in terminal period by 6% from 55.4% to 49.8% would result in decrease of the recoverable value of goodwill for 3,914,842 thousand tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Recoverability of downstream, refining and other assets (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, 2016 were in the range from 2.04% to 6.7% and from 5.5% to 10.15% respectively (2015: from 2.10% to 6% and from 5.88% to 10.09%). Movements in the provision for asset retirement obligations are disclosed in *Note 22*.

Major oil and gas pipelines

According to the Law of the Republic of Kazakhstan *On Major Pipelines* which was made effective on July 4, 2014 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, 2016 the carrying amounts of the Group's asset retirement obligations relating to decommissioning of pipelines and land were 59,539,785 thousand tenge (December 31, 2015: 61,349,603 thousand tenge) *(Note 22)*.

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 2016. 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. Further uncertainties related to environmental remediation obligations are detailed in *Note 36*. Movements in the provision for environmental remediation obligations are disclosed in *Note 22*.

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 22*. Further uncertainties related to taxation are disclosed in *Note 36*.

Taxable income is computed in accordance with the tax legislation enacted as at January 1, 2016. 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, 2016.

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, 2016 was 71,909,033 thousand tenge (2015: 107,481,291 thousand tenge). Further details are disclosed in *Note 32*.

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 34*.

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.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Useful lives of property, plant and equipment

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

Fair values of assets and liabilities acquired in business combinations

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

Discontinued operations

In September 2015, the Group developed a new privatization plan which was subsequently approved by the Government in December 2015. The new privatization plan envisages sale of certain assets including 51% share in KMG International N.V. group (KMG I). On December 15, 2016, following this plan the Group signed share sale and purchase agreement (SPA) to sell a 51% interest in KMG I. The Group estimated fair value of the 51% share in KMG I at 680,000 thousand US dollars (equivalent of 226,637,200 thousand tenge).

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

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

Additional disclosures are provided in *Note 5*.

5. DISCOUNTINUED OPERATIONS AND ASSETS CLASSIFIED AS HELD FOR SALE

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

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

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

The assets and liabilities, classified as discontinued operations and assets classified as held for sale as at December 31, 2015 and the results for 2015 are as follows:

	December 31, 2015			
In thousands of tenge	**Assets classified as held for sale**	**Liabilities directly associated with the assets classified as held for sale**	**Net assets directly associated with the disposal group**	**Profit/(loss) after income tax for 2015 from discontinued operation**
KMG International N.V.	1,040,488,939	497,344,648	543,144,291	261,631,071
KMG Kashagan B.V.	–	–	–	415,610,277
Other assets*	25,714,535	11,462,370	14,252,165	(4,007,253)
Total	**1,066,203,474**	**508,807,018**	**557,396,456**	**673,234,095**

** Other assets include EurasiaAir JSC, Aysir Turism ve Inshaat A.S. and Altyn Tolkyn*

5. DISCOUNTINUED OPERATIONS (continued)

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 years ended December 31, 2016 and 2015 are presented below:

In thousands of tenge	**2016***	2015*
Revenue	**1,695,688,049**	1,579,288,355
Cost of sales	**(1,193,961,256)**	(1,056,572,599)
Gross profit	**501,726,793**	522,715,756
General and administrative expenses	**(50,098,705)**	(28,105,899)
Transportation and selling expenses	**(59,423,245)**	(49,874,579)
Impairment of property, plant and equipment and intangible assets, other than goodwill	**(3,982,106)**	(6,490,037)
Impairment loss recognized on the re-measurement to fair value less costs to sell	**(10,327,447)**	(160,035,211)
Other operating income	**–**	126,466
Other operating losses	**(2,204,976)**	(29,620,808)
Operating profit	**375,690,314**	248,715,688
Net foreign exchange loss, net	**(2,272,190)**	(1,677,041)
Finance income	**452,245**	1,307,723
Finance costs	**(10,436,587)**	(7,912,085)
Share in profit of associates, net	**1,175,613**	159,524
Profit before income tax for the year from discontinued operation	**364,609,395**	240,593,809
Income tax benefit	**3,589,846**	21,037,262
Profit after income tax for the year from discontinued operation	**368,199,241**	261,631,071

* *The results are presented after eliminations of intergroup transactions (247,605,667 thousand tenge of revenue and 640,029,453 thousand tenge of cost of sales).*

The major classes of assets and liabilities of KMG I, classified as held for sale as at December 31, 2016 and 2015 are as follows:

In thousands of tenge	**2016***	2015*
Assets		
Property, plant and equipment	**585,545,785**	632,565,455
Intangible assets	**73,932,864**	78,832,132
Investment in associate	**12,644,023**	11,496,830
Deferred tax asset	**34,545,175**	39,488,816
Inventories	**115,234,684**	86,794,671
Trade accounts receivable	**128,944,234**	90,336,362
Other non-current assets	**2,949,283**	3,931,742
Other current assets	**36,148,634**	62,551,082
Cash and cash equivalents	**25,003,749**	34,491,849
Assets classified as held for sale	**1,014,948,431**	1,040,488,939
Liabilities		
Borrowings	**201,868,754**	230,088,353
Deferred income tax liabilities	**72,935,184**	78,194,199
Provisions	**50,706,074**	53,394,218
Trade accounts payable	**142,278,168**	40,766,952
Other taxes payable	**17,704,032**	18,351,748
Other non-current liabilities	**141,648**	555,713
Other current liabilities	**64,592,268**	75,993,465
Liabilities directly associated with the assets classified as held for sale	**550,226,128**	497,344,648
Net assets directly associated with the disposal group	**464,722,303**	543,144,291

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

5. DISCOUNTINUED OPERATIONS (continued)

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

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

In thousands of tenge	**2016**	2015
Operating	**57,998,062**	4,299,344
Investing	**(34,273,788)**	(17,623,100)
Financing	**(32,809,432)**	2,828,610
Net cash outflows	**(9,085,158)**	(10,495,146)

As at December 31, 2016, items of property, plant and equipment with the net book value of 372,054,627 thousand tenge related to discontinued operations (2015: 395,631,917 thousand tenge) were pledged as collateral to secure borrowings and payables of KMG I.

As at December 31, 2016 KMG I has pledged trade accounts receivable of approximately 72,640,966 thousand tenge as a collateral under its borrowings (2015: 95,357,123 thousand tenge) related to discontinued operations.

As at December 31, 2016 the initial cost and correspondingly accumulated depreciation of fully depreciated but still in use property, plant and equipment were 174,340,401 thousand tenge (2015: 176,319,465 thousand tenge).

6. RESTATEMENTS

In 2016 the Group ceased to classify Aysir Turism ve Inshaat A.S. (Aysir) as discontinued operation as the Group did not receive reasonable offers due to unfavorable situation in tourism sector of Turkey. As such Aysir does not meet the criteria of IFRS 5. The assets and liabilities of Aysir were transferred from discontinued operations to continuing operations. The effect of the change on comparative data, including KBTU, is tabulated below.

In thousands of tenge

Effect on financial position as of December 31:	**2015**
Increase in property, plant and equipment	10,004,228
Increase in intangible assets	3,430,389
Increase in other non-current assets	2,452
Increase in non–current assets	**13,437,069**
Increase in inventories	202,434
Increase in VAT recoverable	222,428
Increase in trade accounts receivable	238,222
Increase in other current assets	178,037
Increase in cash and cash equivalents	1,426,898
Decrease in assets classified as held for sale	(15,705,088)
Decrease in current assets	**(13,437,069)**
Increase in deferred income tax liabilities	540,540
Increase in other non-current liabilities	2,039,799
Increase in non–current liabilities	**2,580,339**
Increase in trade accounts payable	220,929
Increase in other current liabilities	615,537
Decrease in liabilities directly associated with the assets classified as held for sale	(3,416,805)
Increase in current liabilities	**(2,580,339)**
Increase in net assets	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. RESTATEMENTS (continued)

In thousands of tenge	
Effect on performance for the year ended December 31, 2015	
Decrease in revenue	(892,887)
Decrease in cost of sales	3,410,873
Decrease in general and administrative expenses	522,870
Decrease in transportation and selling expenses	27,306
Decrease in other operating income	(864,623)
Decrease in other operating expenses	167,519
Decrease in net foreign exchange gain	(5,071,021)
Decrease in finance income	(351,423)
Increase in finance costs	(2,753)
Decrease in income tax expenses	621,773
Increase in profit after income tax for the year from discontinued operations	2,432,366
Net profit for the year	–

7. LOSS OF CONTROL

On October 16, 2015 Company and Samruk-Kazyna completed the sale of 50% of shares of KMG Kashagan B.V. to JSC Samruk-Kazyna ("Shares of Kashagan"). Samruk-Kazyna has transferred Shares of Kashagan to the Group in trust management, respectively, despite the fact that the Group has lost the right of ownership, economic benefits and risk of Shares of Kashagan, including the right to receive distributions and pledges in the charter capital on these shares, the Group remained rights and duties of daily operations of KMG Kashagan B.V.

The Group acquired from Samruk-Kazyna a call option (to buy back) all or part of Shares of Kashagan effective from January 1, 2018 to December 31, 2020.

At the date of loss of control net assets of KMG Kashagan B.V. were as follows:

In thousands of tenge	**Net assets at the date of disposal**
Property, plant and equipment	2,886,837,050
Exploration and evaluation assets	156,783,937
Intangible assets	116,181
Trade accounts receivable	21,994,678
VAT receivable	15,945,879
Cash	6,535,012
Other current assets	1,303,225,870
	4,391,438,607
Payable for the acquisition of additional interest in North Caspian Project	688,733,107
Provisions	46,861,625
Trade accounts payable	53,534,962
Current liabilities	1,323,867,747
	2,112,997,441
Net assets	**2,278,441,166**

The resulting gain on disposal of investment amounted to 432,513,360 thousand tenge. As a result of this transaction the Group has derecognized the assets and liabilities of the former subsidiary, when the control was lost and recognized its retained 50% interest in KMG Kashagan B.V. at its fair value of 1,301,888,532 thousand tenge.

8. PROPERTY, PLANT AND EQUIPMENT

In thousands of tenge	**Oil and gas assets**	**Pipelines**	**Refinery assets**	**Buildings and improvements**	**Machinery and equipment**	**Vehicles**	**Other**	**Capital work in progress**	**Total**
Net book value as at December 31, 2014 (restated)	2,330,978,251	538,898,415	464,213,942	243,316,379	274,933,208	72,311,339	28,380,202	347,937,787	4,300,969,523
Foreign currency translation	1,284,174,730	15,047,843	262,186,613	45,174,980	23,246,210	18,568,584	4,125,478	20,541,729	1,673,066,167
Change in estimate	–	402,875	–	(6,283)	–	–	–	–	396,592
Additions	127,182,596	13,374,711	1,063,269	9,070,592	4,237,799	6,099,948	6,538,739	426,169,509	593,737,163
Disposals	(17,034,031)	(5,665,592)	(2,688,016)	(14,450,659)	(9,066,533)	(3,413,185)	(4,608,245)	(1,783,094)	(58,709,355)
Depreciation charge	(43,195,165)	(19,441,312)	(49,470,221)	(15,729,407)	(27,162,872)	(10,431,501)	(8,793,249)	–	(174,223,727)
Accumulated depreciation and impairment on disposals	12,675,768	4,301,686	2,264,498	8,418,714	8,303,055	3,126,521	3,733,079	307,512	43,130,833
Impairment *(Note 29)*	(15,355,630)	(8,000,633)	–	(16,402,383)	(8,014,756)	(9,354,602)	(762,800)	(8,547,639)	(66,438,443)
Transfers to discontinued operations	(2,894,178,458)	(16,646,251)	(557,952,552)	(84,913,991)	(39,803,482)	(2,757,062)	(8,953,139)	(47,542,564)	(3,652,747,499)
Transfers (to)/from inventory, net	(19,990,810)	1,798,348	259,942	643	288,909	40,341	(2,885)	3,649,919	(13,955,593)
Transfer to assets held for sale, net	(3,956)	–	(15,681)	(34,076)	–	(3,467)	(3,303)	(336)	(60,819)
Transfers to investment property *(Note 10)*	(7,239)	–	–	(2,108,669)	(1,578)	–	(63)	(46,304)	(2,163,853)
Transfers to intangible assets, net *(Note 11)*	(225,329)	–	–	–	(331)	–	(1,149)	(878,830)	(1,105,639)
Transfer from exploration and evaluation assets *(Note 9)*	19,103,078	–	–	–	–	–	344,256	–	19,447,334
Transfers and reclassifications	95,490,043	82,213,050	127,670,605	12,414,284	33,167,807	1,863,009	3,828,628	(356,647,426)	–
Net book value as at December 31, 2015 (restated)	879,613,848	606,283,140	247,532,399	184,750,124	260,127,436	76,049,925	23,825,549	383,160,263	2,661,342,684

8. PROPERTY, PLANT AND EQUIPMENT (continued)

In thousands of tenge	Oil and gas assets	Pipelines	Refinery assets	Buildings and improvements	Machinery and equipment	Vehicles	Other	Capital work in progress	Total
Net book value as at December 31, 2015 (restated)	879,613,848	606,283,140	247,532,399	184,750,124	260,127,436	76,049,925	23,825,549	383,160,263	2,661,342,684
Foreign currency translation	**(10,971,334)**	**–**	**–**	**(1,432,872)**	**(417,878)**	**(750,283)**	**(285,909)**	**98,148**	**(13,760,128)**
Change in estimate	**(8,500,916)**	**(6,079,200)**	**–**	**(53,279)**	**–**	**–**	**–**	**–**	**(14,633,395)**
Additions	**83,804,363**	**2,590,183**	**692,596**	**2,288,823**	**6,554,473**	**2,536,240**	**5,060,421**	**422,448,504**	**525,975,603**
Additions on finance lease	**–**	**–**	**871,933**	**–**	**–**	**–**	**–**	**–**	**871,933**
Disposals	**(5,646,977)**	**(1,734,827)**	**(1,377,061)**	**(1,301,727)**	**(1,893,689)**	**(4,340,763)**	**(2,203,070)**	**(14,650,326)**	**(33,148,440)**
Depreciation charge	**(67,800,045)**	**(22,759,956)**	**(26,768,931)**	**(17,306,955)**	**(26,465,714)**	**(7,973,698)**	**(5,998,828)**	**–**	**(175,074,127)**
Accumulated depreciation and impairment on disposals	**5,587,411**	**1,665,595**	**917,594**	**611,453**	**1,707,023**	**4,159,902**	**1,965,237**	**3,252,309**	**19,866,524**
(Impairment) / reversal of impairment *(Note 29)*	**1,113,617**	**(1,206,581)**	**–**	**405,314**	**(641,489)**	**(918,887)**	**(544,666)**	**(1,457,438)**	**(3,250,130)**
Transfers to discontinued operations	**(84,640)**	**–**	**–**	**(4,203,451)**	**(926,578)**	**(150,232)**	**(2,018,896)**	**(4,135,805)**	**(11,519,602)**
Transfers from inventory, net	**15,838**	**489,059**	**155,774**	**1,246**	**81,689**	**30,694**	**19,292**	**1,297,315**	**2,090,907**
Transfer to assets held for sale, net	**(19,911)**	**–**	**(17,055)**	**(113,630)**	**(2,076)**	**(210,124)**	**(203)**	**–**	**(362,999)**
Transfers (to)/from investment property *(Note 10)*	**–**	**–**	**–**	**(200,042)**	**(363)**	**–**	**967**	**–**	**(199,438)**
Transfers (to)/from intangible assets, net *(Note 11)*	**1,915**	**–**	**–**	**–**	**–**	**–**	**–**	**(695,965)**	**(694,050)**
Transfer to exploration and evaluation assets *(Note 9)*	**(3,446,255)**	**–**	**–**	**–**	**–**	**–**	**–**	**(923,422)**	**(4,369,677)**
Transfers and reclassifications	**3,966,096**	**64,031,658**	**93,630,122**	**48,909,084**	**39,723,354**	**1,169,683**	**13,589,517**	**(265,019,514)**	**–**
Net book value as at December 31, 2016	**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**
At cost	**1,796,687,457**	**776,793,501**	**473,343,599**	**350,113,598**	**466,840,617**	**161,145,408**	**79,902,688**	**547,812,419**	**4,652,639,287**
Accumulated depreciation and impairment	**(919,054,447)**	**(133,514,430)**	**(157,706,228)**	**(137,759,510)**	**(188,994,429)**	**(91,542,951)**	**(46,493,277)**	**(24,438,350)**	**(1,699,503,622)**
Net book value as at December 31, 2016	**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**
At cost	1,746,242,742	718,921,016	379,475,290	309,283,815	430,146,554	163,397,183	66,470,768	405,772,191	4,219,709,559
Accumulated depreciation and impairment	(866,628,894)	(112,637,876)	(131,942,891)	(124,533,691)	(170,019,118)	(87,347,258)	(42,645,219)	(22,611,928)	(1,558,366,875)
Net book value as at December 31, 2015 (restated)	879,613,848	606,283,140	247,532,399	184,750,124	260,127,436	76,049,925	23,825,549	383,160,263	2,661,342,684

8. PROPERTY, PLANT AND EQUIPMENT (continued)

In 2016, the Group capitalized in the carrying amount of property, plant and equipment borrowing costs at the average interest rate of 2.42% in the amount of 28,515,460 thousand tenge which are related to the construction of assets (2015: 22,911,733 thousand tenge at the average interest rate of 4.02%).

As at December 31, 2016, items of property, plant and equipment with the net book value of 483,908,126 thousand tenge (2015: 386,385,948 thousand tenge) were pledged as collateral to secure borrowings and payables of the Group *(Notes 20)*.

Additions to capital work in progress are mainly related to modernization projects of the Group refineries located in Atyrau and Pavlodar and development drilling at Ozenmunaigas and Embamunaigas subsidiaries.

As at December 31, 2016 the cost of fully depreciated but still in use property, plant and equipment were 81,065,726 thousand tenge (2015: 77,608,360 thousand tenge).

Impairment of property, plant and equipment

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

In 2015, the Group recorded net impairment loss of 66,438,443 thousand tenge, which is mainly attributable to impairment of property, plant and equipment of ANS in the amount of 31,376,902 thousand tenge and KTM in the amount of 19,862,145 thousand tenge.

9. EXPLORATION AND EVALUATION ASSETS

In thousands of tenge	**Tangible**	**Intangible**	**Total**
Net book value as at December 31, 2014	230,762,313	46,302,555	277,064,868
Foreign currency translation	67,469,703	8,327,269	75,796,972
Additions	31,712,671	1,792,674	33,505,345
Transfers to discontinued operations	(156,783,937)	–	(156,783,937)
Transfer to property, plant and equipment *(Note 8)*	(10,936,431)	(8,510,903)	(19,447,334)
Disposals	(437,243)	(537,975)	(975,218)
(Impairment) / reversal of impairment *(Note 29)*	60,626	(695,259)	(634,633)
Transfers and reclassifications	7,246,576	(7,246,576)	–
Net book value as at December 31, 2015	169,094,278	39,431,785	208,526,063
Foreign currency translation	**(677,712)**	**(339,900)**	**(1,017,612)**
Additions	**21,130,985**	**3,484,421**	**24,615,406**
Transfer from property, plant and equipment *(Note 8)*	**4,369,677**	**–**	**4,369,677**
Disposals	**(18,734)**	**(4,857,647)**	**(4,876,381)**
Change in estimate	**(63,985)**	**–**	**(63,985)**
Net book value as at December 31, 2016	**193,834,509**	**37,718,659**	**231,553,168**

As at December 31, 2016 and 2015 the exploration and evaluation assets are represented by the following projects:

In thousands of tenge	**2016**	2015
Project N	**84,350,943**	79,985,583
Pearls	**34,328,596**	33,208,533
Zhambyl	**31,946,639**	26,511,840
Urikhtau	**30,326,087**	26,259,701
Satpayev	**14,653,706**	13,090,616
Other	**35,947,197**	29,469,790
	231,553,168	208,526,063

Exploration costs on Pearls and Satpayev projects are financed by project partners other than the Group. Respective financial liabilities are recognized within borrowings *(Note 20)*. The repayment of the financing for these projects depends on the identification of commercially recoverable reserves.

10. INVESTMENT PROPERTY

In thousands of tenge	**Total**
Net book value as at December 31, 2014	27,197,634
Additions	708,109
Depreciation charge	(626,727)
Disposals	(180,146)
Transfer from property, plant and equipment *(Note 8)*	2,163,853
Transfers to inventory	(1,806)
Net book value as at December 31, 2015	29,260,917
Additions	**565,862**
Depreciation charge	**(722,174)**
Disposals	**(47)**
Transfers from assets classified as held for sale	**174,243**
Transfer from property, plant and equipment *(Note 8)*	**199,438**
Transfers from inventory	**1,805**
Net book value as at December 31, 2016	**29,480,044**
At cost	**32,589,798**
Accumulated depreciation and impairment	**(3,109,754)**
Net book value as at December 31, 2016	**29,480,044**
At cost	31,446,992
Accumulated depreciation and impairment	(2,186,075)
Net book value as at December 31, 2015	29,260,917

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, 2016 the fair value of this building is 26,723,865 thousand tenge (2015: 29,458,335 thousand tenge). The fair value of investment property was based on the market price of the office property *(Note 34)*.

11. INTANGIBLE ASSETS

In thousands of tenge	**Goodwill**	**Marketing related intangible assets**	**Software**	**Other**	**Total**
Net book value as at December 31, 2014 (restated)	111,526,414	32,223,795	19,613,047	22,976,258	186,339,514
Foreign currency translation	8,272,242	23,776,865	2,972,672	8,976,563	43,998,342
Additions	–	–	1,658,595	2,050,381	3,708,976
Disposals	–	(9,385,609)	(3,244,900)	(2,906,355)	(15,536,864)
Amortization charge	–	–	(5,687,134)	(2,704,067)	(8,391,201)
Accumulated amortization and impairment on disposals	–	1,874,505	3,028,601	1,437,042	6,340,148
Impairment	(11,922,192)	–	(45,676)	(6,497,133)	(18,465,001)
Transfer from property, plant and equipment, net *(Note 8)*	–	–	641,257	464,382	1,105,639
Transfer from inventory	–	–	29,968	–	29,968
Transfers to discontinued operations	(17,872,825)	(48,489,556)	(6,170,291)	(6,651,451)	(79,184,123)
Transfers to assets classified as held for sale	–	–	(27)	–	(27)
Transfers	–	–	(1,782,506)	1,782,506	–
Net book value as at December 31, 2015 (restated)	90,003,639	–	11,013,606	18,928,126	119,945,371
Foreign currency translation	**–**	**–**	**(1,164)**	**(1,396,052)**	**(1,397,216)**
Additions	**–**	**–**	**2,474,012**	**511,244**	**2,985,256**
Disposals	**–**	**–**	**(2,357,734)**	**(477,764)**	**(2,835,498)**
Amortization charge	**–**	**–**	**(3,620,391)**	**(1,936,237)**	**(5,556,628)**
Accumulated amortization and impairment on disposals	**–**	**–**	**2,343,001**	**452,278**	**2,795,279**
Impairment	**–**	**–**	**(32,549)**	**–**	**(32,549)**
Transfer from property, plant and equipment, net *(Note 8)*	**–**	**–**	**691,448**	**2,602**	**694,050**
Transfers to discontinued operations *(Note 5)*	**–**	**–**	**(100,373)**	**(9,080)**	**(109,453)**
Transfers	**–**	**–**	**8,236**	**(8,236)**	**–**
Net book value as at December 31, 2016	90,003,639	**–**	**10,418,092**	**16,066,881**	**116,488,612**
At cost	126,946,769	**–**	**33,487,005**	**24,072,716**	**184,506,490**
Accumulated amortization and impairment	(36,943,130)	**–**	**(23,068,913)**	**(8,005,835)**	**(68,017,878)**
Net book value as at December 31, 2016	90,003,639	**–**	**10,418,092**	**16,066,881**	**116,488,612**
At cost	126,946,769	–	32,883,471	24,985,035	184,815,275
Accumulated amortization and impairment	(36,943,130)	–	(21,869,865)	(6,056,909)	(64,869,904)
Net book value as at December 31, 2015 (restated)	90,003,639	–	11,013,606	18,928,126	119,945,371

11. INTANGIBLE ASSETS (continued)

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

Cash-generating unit	**2016**	2015
Cash-generating units of PNHZ	**88,553,296**	88,553,296
Other	**1,450,343**	1,450,343
Total goodwill	**90,003,639**	90,003,639

PNHZ, a 100% subsidiary of KMG RM

In 2016 and 2015, 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*.

12. BANK DEPOSITS

In thousands of tenge	**2016**	2015
Denominated in US dollar	**1,202,060,798**	962,456,681
Denominated in tenge	**28,256,972**	31,416,852
Denominated in other currency	**2,378,825**	2,844,428
	1,232,696,595	996,717,961

As at December 31, 2016, the weighted average interest rate for long-term bank deposits was 1.16% in US dollars and 4.87% in tenge, respectively (2015: 1.01% in US dollars and 2.31% in tenge, respectively).

As at December 31, 2016, the weighted average interest rate for short-term bank deposits was 1.84% in US dollars, 12.13% in tenge and 0.36% in other foreign currencies, respectively (2015: 1.32% in US dollars, 9.42% in tenge and 1.19% in other foreign currencies, respectively).

In thousands of tenge	**2016**	2015
Maturities under 1 year	**1,182,669,493**	947,909,540
Maturities between 1 and 2 years	**178,088**	27,113
Maturities over 2 years	**49,849,014**	48,781,308
	1,232,696,595	996,717,961

As at December 31, 2016 bank deposits include cash pledged as collateral of 108,695,345 thousand tenge (2015: 109,580,052 thousand tenge), which are represented mainly by 63,718,200 thousand tenge (2015: 62,595,803 thousand tenge) pledged with SB Sberbank Russia JSC until execution of obligations (April 21, 2017) by Atyrau Oil Refinary LLP (ANPZ) (a subsidiary of KMG RM) on loans received from this bank on construction of the deep oil processing plant at Atyrau Oil Refinary and 33,276,000 thousand tenge (2015: 31,405,000 thousand tenge) at restricted bank accounts designated as a liquidation fund per requirements of subsoil use contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

In thousands of tenge	Main activity	Place of business	December 31, 2016 Carrying value	December 31, 2016 Percentage ownership	December 31, 2015 Carrying value	December 31, 2015 Percentage ownership
Joint ventures						
Kashagan B.V.	Oil and gas exploration and production	Kazakhstan	**1,759,152,117**	**50.00%**	1,624,696,293	50.00%
Tengizchevroil LLP	Oil and gas exploration and production	Kazakhstan	**1,154,183,137**	**20.00%**	1,028,085,031	20.00%
Mangistau Investments B.V.	Oil and gas development and production	Kazakhstan	**191,813,452**	**50.00%**	206,541,978	50.00%
KazRosGas LLP	Processing and sale of natural gas and refined gas products	Kazakhstan	**79,658,348**	**50.00%**	97,406,849	50.00%
Ural Group Limited BVI	Oil and gas exploration and production	Kazakhstan	**72,898,443**	**50.00%**	70,701,382	50.00%
KazGerMunay LLP	Oil and gas exploration and production	Kazakhstan	**71,109,842**	**50.00%**	82,409,608	50.00%
Kazakhoil-Aktobe LLP	Production of crude oil	Kazakhstan	**39,503,663**	**50.00%**	57,773,742	50.00%
Other			**55,079,872**		43,998,956	
Associates						
PetroKazakhstan Inc. ("PKI")	Exploration, production and processing of oil and gas	Kazakhstan	**144,252,432**	**33.00%**	163,616,692	33.00%
Caspian Pipeline Consortium (CPC)	Transportation of liquid hydrocarbons	Kazakhstan / Russia	**137,035,180**	**20.75%**	45,624,141	20.75%
Other			**1,590,324**		2,085,073	
			3,706,276,810		3,422,939,745	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. 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, 2016, the Group's share in unrecognized losses of joint ventures and associates was equal to 357,813,869 thousand tenge (December 31, 2015: 532,570,728 thousand tenge). The Group's change in share of unrecognized losses of joint ventures and associates for 2016 was 174,756,859 thousand tenge (2015: 495,499,453 thousand tenge).

The following table summarizes the movements in the investments in 2016 and 2015:

In thousands of tenge	**2016**	2015
At January 1	**3,422,939,745**	1,217,661,400
Share in profits of joint ventures and associates, net *(Note 31)*	**270,190,990**	112,807,416
Additional contributions without change in ownership	**165,401,066**	37,545,354
Refund of contributions without change in ownership	**(1,925,543)**	–
Dividends received	**(118,607,550)**	(186,116,705)
Change in dividends receivable	**10,160,358**	(13,055,008)
Disposals	**–**	(6,151,234)
Acquisitions	**87**	3,889,687
Loss of Control over Kashagan *(Note 7)*	**–**	1,301,888,532
Impairment of investments	**(5,503,379)**	(9,342,198)
Other changes in the equity of the joint venture	**8,475,525**	19,135,708
Transfers to discontinued operation	**–**	(11,585,151)
Foreign currency translation	**(44,854,489)**	956,261,944
At December 31	**3,706,276,810**	3,422,939,745

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

13. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

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

In thousands of tenge	KMG Kashagan B.V.	Tengizchevroil LLP	Mangistau Investments B.V.	Kazakhoil-Aktobe LLP	Beineu-Shymkent Pipeline LLP	KazRosGas LLP	KazGerMunay LLP	Ural Group Limited BVI
Non-current assets	4,272,763,806	6,865,450,041	395,489,866	85,936,432	449,074,109	9,641,413	152,790,499	215,892,000
Current assets, including	174,986,584	2,424,218,478	95,375,850	28,462,628	115,813,128	244,478,957	50,846,056	310,850
Cash and cash equivalents	86,451,093	1,795,549,215	3,870,651	10,749,817	56,148,742	62,379,300	39,694,839	297,396
Non-current liabilities, including	(601,418,805)	(2,456,711,253)	(65,632,702)	(7,586,856)	(474,773,724)	(454,608)	(27,510,090)	(68,663,338)
Non-current financial liabilities	(250,522,762)	(1,333,160,000)	–	–	(467,117,974)	–	–	(57,970,000)
Current liabilities, including	(328,027,351)	(1,062,041,583)	(41,606,110)	(27,804,878)	(129,935,447)	(94,349,066)	(33,906,781)	(1,742,626)
Current financial liabilities	(271,597,355)	(34,823,472)	–	–	(11,384,051)	–	–	–
Equity	3,518,304,234	5,770,915,683	383,626,904	79,007,326	(39,821,934)	159,316,696	142,219,684	145,796,886
Share of ownership	50%	20%	50%	50%	50%	50%	50%	50%
Accumulated unrecognized share of losses	–	–	–	–	19,910,968	–	–	–
Carrying amount of the investments as at December 31, 2016	1,759,152,117	1,154,183,137	191,813,452	39,503,663	–	79,658,348	71,109,842	72,898,443
Revenue	16,419,924	3,568,833,894	532,016,705	54,593,234	33,827,305	231,655,238	157,268,631	39,899
Depreciation, depletion and amortization	(10,493,810)	(453,762,627)	(55,342,813)	(16,043,932)	(9,378,998)	(717,333)	(36,325,000)	(29,672)
Finance income	903,219	9,238,666	52,201	524,548	24	6,256,417	946,000	17,221
Finance costs	(40,494,823)	(172,523,889)	(4,942,864)	(1,006,373)	(11,103,332)	(100,133)	(1,231,000)	(1,652,398)
Income tax expense	58,587,222	(316,950,160)	(20,804,933)	(12,179,837)	–	(14,443,039)	(19,873,000)	(187,093)
Profit/(loss) for the year from continuing operations	15,451,774	739,551,980	59,532,404	(23,070,957)	14,989,344	37,294,835	10,259,065	(3,155,114)
Profit after income tax for the year from discontinued operations	–	–	–	–	–	–	–	–
Other comprehensive loss	(66,056,550)	(109,061,451)	(294,736)	–	–	(285,886)	(2,644,700)	(2,751,222)
Total comprehensive income/(loss)	(50,604,776)	630,490,529	59,237,668	(23,070,957)	14,989,344	37,008,949	7,614,365	(5,906,336)
Change in unrecognized share of losses	–	–	–	–	10,947,110	–	–	–
Dividends received	–	–	44,347,360	6,734,600	–	36,252,976	27,514,925	–

13. 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 2015:

In thousands of tenge	KMG Kashagan B.V.	Tengizchevroil LLP	Mangistau Investments B.V.	Kazakhoil-Aktobe LLP	Beineu-Shymkent Pipeline LLP	KazRosGas LLP	KazGerMunay LLP	Ural Group Limited BVI
Non-current assets	4,199,332,506	5,924,302,459	411,943,107	102,550,731	391,162,216	51,062,738	196,073,754	207,323,000
Current assets, including	45,113,526	717,423,338	80,562,288	61,427,855	20,300,668	176,399,827	50,367,839	975,080
Cash and cash equivalents	7,396,712	160,541,813	4,659,706	48,137,975	3,945,388	77,193,114	32,655,996	921,000
Non-current liabilities, including	(928,622,901)	(1,150,136,581)	(49,494,943)	(8,812,710)	(359,008,654)	(1,915,629)	(44,473,178)	(63,777,115)
Non-current financial liabilities	(870,094,200)	–	–	–	(352,452,278)	–	–	*(53,901,281)*
Current liabilities, including	(66,430,545)	(351,164,062)	(29,926,497)	(39,618,392)	(114,170,382)	(30,733,238)	(37,149,199)	(3,118,202)
Current financial liabilities	(5,794,414)	–	–	–	(60,995,739)	–	–	
Equity	3,249,392,586	5,140,425,154	413,083,955	115,547,484	(61,716,152)	194,813,698	164,819,216	141,402,763
Share of ownership	50%	20%	50%	50%	50%	50%	50%	50%
Accumulated unrecognized share of losses	–	–	–	–	30,858,077	–	–	–
Carrying amount of the investments as at December 31, 2015	1,624,696,293	1,028,085,031	206,541,978	57,773,742	–	97,406,849	82,409,608	70,701,382
Revenue	–	2,764,321,171	400,902,519	49,839,377	14,305,380	205,531,466	139,704,176	15,840
Depreciation, depletion and amortization	(9,197)	(250,414,110)	(33,902,903)	(21,927,401)	(9,566,015)	(959,231)	(18,690,460)	(31,106)
Finance income	124,021	2,756,026	769,375	509,020	–	4,042,950	631,861	11,156
Finance costs	(7,018,371)	(21,001,187)	(3,174,721)	(925,258)	(5,444,889)	(57,118)	(807,440)	(1,079,466)
Income tax expense	(196,290)	(347,421,542)	(12,774,663)	(17,517,878)	–	(37,477,573)	(48,569,000)	8,127
Profit/(loss) for the year from continuing operations	(26,095,270)	810,801,685	39,406,476	(898,458)	(182,581,500)	72,505,952	5,348,554	(9,830,980)
Profit after income tax for the year from discontinued operations	–	–	–	–	–	–	–	
Other comprehensive income	596,620,080	2,269,800,841	–	–	–	79,461,723	77,250,921	66,493,998
Total comprehensive income/(loss)	570,524,810	3,080,602,526	39,406,476	(898,458)	(182,581,500)	151,967,675	82,599,475	56,663,018
Unrecognized share of losses	–	–	–	–	30,858,076	–	–	–
Dividends received	–	89,154,720	9,355,664	27,655,000	–	40,910,962	13,822,375	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

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

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

The following tables illustrate summarized financial information about a material associates, based on its financial statements for 2015:

	2015	
In thousands of tenge	PKI	CPC
Non-current assets	584,794,086	1,979,004,062
Current assets	126,835,837	166,133,563
Non-current liabilities	(83,297,091)	(1,968,693,463)
Current liabilities	(132,524,675)	(143,505,511)
Equity	495,808,157	32,938,651
Share of ownership	33%	20.75%
Goodwill	–	32.590.478
Accumulated unrecognized share of losses	–	(6,198,893)
Carrying amount of the investment as at December 31	163,616,692	45,624,141
Revenue	127,768,000	332,604,313
(Loss)/profit for the year from continuing operations	(49,898,215)	40,784,504
Other comprehensive income	190,848,388	108,928,463
Total comprehensive income	140,950,173	149,712,967
Unrecognized share of losses	–	(8,095,569)
Dividends received	–	–

13. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

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

In thousands of tenge	**2016**	2015
Non-current assets	**1,227,505,089**	1,142,214,221
Current assets	**358,319,467**	325,740,081
Non-current liabilities	**(1,612,176,196)**	(1,647,126,997)
Current liabilities	**(252,278,473)**	(268,917,883)
Goodwill	**172,214**	269,603
Impairment	**(3,635,227)**	(3,635,227)
Accumulated unrecognized share of losses	**(337,172,998)**	(495,455,158)
Carrying amount of the investments as at December 31	**55,079,872**	43,998,956
Profit/(loss) for the year from continuing operations	**176,603,625**	(486,275,059)
Other comprehensive (losses)/income	**(100,559)**	1,344,572
Total comprehensive income/(losses)	**176,503,066**	(484,930,487)
Unrecognized share of income/(losses)	**158,282,161**	(472,724,347)

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

In thousands of tenge	**2016**	2015
Non-current assets	**6,880,546**	698,944
Current assets	**2,707,872**	6,198,592
Non-current liabilities	**(4,848,556)**	(2,410,644)
Current liabilities	**(3,720,029)**	(2,460,419)
Impairment	**(159,415)**	–
Accumulated unrecognized share of losses	**(729,905)**	(58,600)
Carrying amount of the investments as at December 31	**1,590,324**	2,085,073
(Losses)/profit for the year from continuing operations	**(514,758)**	454,199
Total comprehensive (losses)/income	**(514,758)**	454,199
Unrecognized share of (losses)/income	**(671,305)**	(58,600)

14. NOTE RECEIVABLE FROM A SHAREHOLDER OF A JOINT VENTURE

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

CCEL is contractually obliged to declare dividends on an annual basis based on available distributable equity. At the same time, for the period until 2020 KMG EP is contractually obliged to transfer any dividends received from CCEL, in excess of a guaranteed amount, to CITIC, up to the total maximum amount, which is equal to 512.3 million US dollars (170,760 million tenge) as at December 31, 2016 (2015: 515.5 million US dollars or 174,994 million tenge). The total maximum amount represents the balance of KMG EP's share of the original purchase price funded by CITIC plus accrued interest. KMG EP has no obligation to pay amounts to CITIC unless it receives an equivalent amount from CCEL. Accordingly, the Group recognizes in its consolidated statement of financial position only the right to receive dividends from CCEL in the guaranteed amount on an annual basis until 2020, plus the right to retain any dividends in excess of the total maximum guaranteed amount. The carrying amount of this receivable at December 31, 2016, was equal to 103 million US dollars (34,312,858 thousand tenge) (2015: 89.3 million US dollars or 30,423,947 thousand tenge).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. NOTE RECEIVABLE FROM A SHAREHOLDER OF A JOINT VENTURE (continued)

On November 17, 2008, the annual Guaranteed Amount has been increased from 26.2 million US dollars to 26.9 million US dollars payable in two equal installments not later than June 12 and December 12. After the above amendment the effective interest rate on the receivable from CCEL is 15% per annum.

CCEL equity is nil as CCEL is contractually obliged to distribute all income to its participants, therefore, classifying all distributable income as a liability.

15. INVENTORIES

In thousands of tenge	**2016**	2015 (Restated)
Materials and supplies	**61,605,528**	63,817,047
Gas products	**20,579,927**	28,933,091
Refined products	**14,504,132**	27,450,624
Crude oil	**8,525,374**	11,606,349
Less: provision for obsolete inventory	**(6,438,061)**	(6,097,728)
	98,776,900	125,709,383

16. TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

In thousands of tenge	**2016**	2015* (Restated)
Advances paid and prepaid expenses	**89,388,255**	31,391,070
Taxes receivable	**34,330,632**	24,516,318
Other current assets	**31,831,789**	41,903,866
Less: allowance for impairment	**(6,471,068)**	(4,687,653)
Total other current assets	**149,079,608**	93,123,601
Trade accounts receivable	**290,199,726**	104,414,492
Less: allowance for impairment	**(10,388,095)**	(8,915,101)
Trade accounts receivable	**279,811,631**	95,499,391

As at December 31, 2016 and 2015 the above assets were non-interest bearing.

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

In thousands of tenge	**Individually impaired**
As at December 31, 2014	43,613,960
Charge for the year	**20,895,686**
Recovered	**(4,539,739)**
Written off	**(1,279,274)**
Foreign currency translation	**5,077,273**
Discontinued operations	**(50,165,152)**
As at December 31, 2015	13,602,754
Charge for the year	**9,141,218**
Recovered	**(3,565,932)**
Written off	**(1,794,727)**
Discontinued operations	**(419,627)**
Foreign currency translation	**(104,523)**
As at December 31, 2016	**16,859,163**

16. TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS (continued)

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

In thousands of tenge	Total	Neither past due nor impaired	Past due but not impaired <30 days	30-60 days	61-90 days	91-120 days	>120 days
2016	**279,811,631**	**261,776,745**	**3,577,040**	**7,558,909**	**4,342,068**	**906,982**	**1,649,887**
2015	95,499,391	75,037,134	3,217,748	6,669,126	4,618,171	600,052	5,357,160

17. LOANS AND RECEIVABLE DUE FROM RELATED PARTIES

In thousands of tenge	**2016**	2015
Loans due from related parties	**605,812,462**	469,041,982
Receivable due from related parties	**–**	88,512,853
Less: allowance for impairment of loans to related parties	**(15,418,397)**	(11,098,114)
	590,394,065	546,456,721

In thousands of tenge	**2016**	2015
Loans due from related parties in US dollars	**185,596,852**	226,092,770
Receivable due from related parties in US dollars	**–**	88,512,853
Loans due from related parties in tenge	**403,380,730**	230,915,858
Loans due from related parties in other foreign currencies	**1,416,483**	935,240
	590,394,065	546,456,721

In thousands of tenge	**2016**	2015
Current portion	**113,616,133**	113,045,841
Non-current portion	**476,777,932**	433,410,880
	590,394,065	546,456,721

Loans due from related parties are stated at amortized cost.

Movements in allowance for impairment of loans to related parties were as follows:

In thousands of tenge	Individually impaired
As at December 31, 2014	71,379
Charge for the year	11,025,736
Recovery	(55,944)
Foreign currency translation	56,943
As at December 31, 2015	11,098,114
Charge for the year	**1,425,550**
Recovery	**(79,103)**
Foreign currency translation	**2,973,836**
As at December 31, 2016	**15,418,397**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. CASH AND CASH EQUIVALENTS

In thousands of tenge	**2016**	2015* (Restated)
Term deposits with banks – US dollars	**435,939,051**	499,438,041
Term deposits with banks – tenge	**180,075,718**	76,341,941
Current accounts with banks – US dollars	**245,711,146**	159,107,357
Current accounts with banks – tenge	**13,214,622**	13,494,837
Current accounts with banks – other currencies	**1,893,667**	17,452,944
Term deposits with banks – other currencies	**37,995**	3,746,773
Cash-on-hand	**1,566,151**	421,624
	878,438,350	770,003,517
Cash and cash equivalents attributable to discontinued operations	**27,014,161**	38,430,622
	905,452,511	808,434,139

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 December 31, 2016, the weighted average interest rate for time deposits with banks was 0.61% in US dollars and 8.15% in tenge, respectively (2015: 0.58% in US dollars and 25.31% in tenge, respectively).

As at December 31, 2016 and 2015 cash and cash equivalents were not pledged as collateral.

19. EQUITY

Total number of outstanding, issued and paid shares comprises:

	December 31, 2014	**Issued in 2015**	**December 31, 2015**	**Issued in 2016**	**December 31, 2016**
Number of shares issued and paid, including	528,491,023	55,716,442	**584,207,465**	**5,272**	**584,212,737**
Par value of 27,726.63 tenge	137,900	–	**137,900**	**–**	**137,900**
Par value of 5,000 tenge	59,707,029	–	**59,707,029**	**–**	**59,707,029**
Par value of 2,500 tenge	10,195,321	55,716,442	**65,911,763**	**5,272**	**65,917,035**
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**
Share capital (000'tenge), including	557,072,340	139,291,105	**696,363,445**	**13,180**	**696,376,625**
Par value of 27,726.63 tenge	3,823,502	–	**3,823,502**	**–**	**3,823,502**
Par value of 5,000 tenge	298,535,145	–	**298,535,145**	**–**	**298,535,145**
Par value of 2,500 tenge	25,488,303	139,291,105	**164,779,408**	**13,180**	**164,792,588**
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**

19. EQUITY (continued)

Share capital

In 2015 the Company issued 55,716,442 common shares. As consideration for these common shares the Company received cash amounting 12,700,436 thousand tenge and the right to claim payments under "Kazakhstan Note".

The right to claim under the "Kazakhstan Note" are in accordance with the loan agreement dated May 16, 1997 between the Government and Caspian Pipeline Consortium – K JSC. The nominal value as of transfer date amounted 126,590,669 thousand tenge.

In 2016 the Company issued 5,272 common shares. As consideration for these common shares the Company received building in Kyzylorda in the amount 13,179 thousand tenge and cash in the amount 1 thousand tenge.

As at December 31, 2016, 265,346,859 common shares were authorized, but not issued (2015: 265,352,131 common shares).

Additional paid-in capital

The excess of the fair value of the "Kazakhstan Note" over its nominal value as at the transfer date amounted 3,518,718 thousand tenge, which was recognized as an additional paid-in capital.

In 2015 the Group recognized additional paid in capital in the amount of 13,375,340 thousand tenge, which represents the fair value of gas pipelines contributed by the Samruk-Kazyna and the Government on trust management terms, which serves as a short-term mechanism until the legal title for pipelines shifts to the Group.

Transactions with Samruk-Kazyna

In 2016 the Company provided interest free loan to Samruk-Kazyna, the difference between fair value and nominal value of the loan amounting 50,871,857 thousand tenge (2015: 4,760,377 thousand tenge) recognized as transaction with Samruk-Kazyna in the consolidated statement of changes in equity.

Distributions to Samruk-Kazyna

In 2016 distributions to Samruk-Kazyna includes: accrual of provision for construction of the Palace of martial arts in Astana city in the amount of 14,275,013 thousand tenge (2015: nil), accrual of provision for construction of the kindergarten in Astana city in the amount of 281,489 thousand tenge (reversed a provision in 2015: 303,146 thousand tenge), reversed of provision for reconstruction of the trade and exhibition center in Moscow in the amount of 152,435 thousand tenge (reversed a provision in 2015: 30,365 thousand tenge), the sponsorship expenses for conducting of International Exhibition Astana EXPO-2017 in the amount of 2,144,808 thousand tenge and the results of operations of PSA LLP (subsidiary of the Group) in the total amount of 5,852,146 thousand tenge (2015: 4,454,291 thousand tenge).

Dividends

In 2016 according to the decision of Samruk-Kazyna and National Bank of RK, the Company declared dividends for 2015 at 102.27 tenge per common share in the total amount of 59,748,893 thousand tenge (2015: 24,335,911 thousand tenge).

In 2016 the Group declared dividends in the total of 5,167,227 thousand tenge to the holders of non-controlling interest in KMG EP and KTO (subsidiaries of the Group) (2015: 15,790,408 thousand tenge). As at December 31, 2016 the dividends payable by the Group to the holders of non-controlling interest of 1,862,166 thousand tenge (2015: 1,943,914 thousand tenge).

19. EQUITY (continued)

Currency translation reserves

The currency translation reserve is used to record exchange differences arising from the translation of financial statements of the subsidiaries and joint ventures and associates whose functional currency is not Kazakhstani tenge and whose financial results are included in these consolidated financial statements in accordance with the accounting policy.

In 2015 the Group reclassified exchange difference on translation of foreign operations from other comprehensive income to profit and loss amounting 106,930,994 thousand tenge as the result of change in investment ownership interests in KMG Kashagan B.V. *(Note 7)*.

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.

In thousands of tenge	**2016**	2015
Total assets	**11,883,077,270**	10,709,657,658
Less: intangible assets	**116,488,612**	119,945,371
Less: total liabilities	**5,604,806,355**	4,619,479,861
Net assets	**6,161,782,303**	5,970,232,426
Number of ordinary shares	**584,212,737**	584,207,465
Book value per ordinary share, tenge	**10,547**	10,219

Non-controlling interest

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

	Country of incorporation and operation	**2016 Share**	**2016 Carrying value**	2015 Share	2015 Carrying value
KazMunayGas Exploration Production JSC	Kazakhstan	**36.98%**	**715,007,274**	36.79%	666,542,230
KazTransOil JSC	Kazakhstan	**10.00%**	**42,221,868**	10.00%	40,542,082
Rompetrol Downstream S.R.L.	Romania	**45.37%**	**41,753,314**	45.37%	40,689,678
Rompetrol Petrochemicals S.R.L.	Romania	**45.37%**	**11,002,892**	45.37%	11,931,434
Rompetrol Rafinare S.A.	Romania	**45.37%**	**1,775,348**	45.37%	4,350,577
Rompetrol Vega	Romania	**45.37%**	**(20,763,577)**	45.37%	(22,799,241)
Other			**10,562,978**		11,923,153
			801,560,097		753,179,913

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. EQUITY (continued)

Non-controlling interest (continued)

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

In thousands of tenge	KazMunayGas Exploration Production JSC	KazTransOil JSC	Rompetrol Rafinare S.A.	Rompetrol Downstream S.R.L.	Rompetrol Vega	Rompetrol Petrochemicals S.R.L.
Summarized statement of financial position						
Non-current assets	738,093,000	426,739,640	267,716,078	119,113,167	21,101,988	4,300,369
Current assets	1,372,383,000	112,883,363	137,535,233	80,502,620	7,633,039	22,852,248
Non-current liabilities	(49,282,000)	(57,652,505)	(74,068,991)	(57,160,652)	(22,265,502)	(2,828,719)
Current liabilities	(127,682,000)	(61,396,189)	(327,269,445)	(50,430,727)	(52,232,554)	(73,495)
Total equity	1,933,512,000	420,574,309	3,912,875	92,024,408	(45,763,029)	24,250,403
Attributable to:						
Equity holder of the Parent Company	1,218,504,726	378,352,441	2,137,527	50,271,094	(24,999,452)	13,247,511
Non-controlling interest	715,007,274	42,221,868	1,775,348	41,753,314	(20,763,577)	11,002,892
Summarized statement of comprehensive income						
Revenue	727,154,000	207,107,815	726,258,178	247,673,492	49,722,055	–
Profit/(loss) for the year from continuing operations	131,576,000	67,615,565	(4,862,301)	12,978,277	12,529,909	(2,865,715)
Total comprehensive income/(loss) for the year, net of tax	120,368,000	67,963,961	(5,675,817)	2,344,256	4,486, 614	(2,046,509)
Attributable to:						
Equity holder of the Parent Company	76,087,439	61,167,565	(3,100,588)	1,280,620	2,450,950	(1,117,967)
Non-controlling interest	44,280,561	6,796,396	(2,575,229)	1,063,636	2,035,664	(928,542)
Dividends declared to non-controlling interests	(51,573)	(5,115,654)	–	–	–	–
Summarized cash flow information						
Operating activity	179,725,000	90,257,555	60,338,009	12,991,805	60,117	(29,683)
Investing activity	(252,679,000)	(20,217,330)	(25,786,852)	(4,953,041)	(61,321)	7
Financing activity	(2,265,000)	(51,166,084)	(31,812,694)	(7,598,919)	115	(495)
Net increase/(decrease) in cash and cash equivalents	(75,219,000)	18,874,141	2,738,463	439,845	(1,089)	(30,171)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. EQUITY (continued)

Non-controlling interest (continued)

The following tables illustrate summarized financial information of subsidiaries on a stand-alone bazis, in which the Group has significant non-controlling interests as at December 31, 2015 and for the year then ended:

In thousands of tenge	KazMunayGas Exploration Production JSC	KazTransOil JSC	Rompetrol Rafinare S.A.	Rompetrol Downstream S.R.L.	Rompetrol Vega	Rompetrol Petrochemicals S.R.L.
Summarized statement of financial position						
Non-current assets	713,604,659	426,560,775	303,060,162	122,324,632	21,494,135	5,327,942
Current assets	1,297,145,000	108,836,380	124,877,530	99,027,728	5,650,886	24,666,572
Non-current liabilities	(51,494,130)	(69,508,118)	(80,515,090)	(64,956,676)	(22,698,769)	(3,032,787)
Current liabilities	(147,406,000)	(60,468,222)	(337,833,908)	(66,715,533)	(54,695,893)	(664,821)
Total equity	1,811,849,529	405,420,815	9,588,694	89,680,151	(50,249,641)	26,296,906
Attributable to:						
Equity holder of the Parent Company	1,145,307,299	364,878,733	5,238,117	48,990,473	(27,450,400)	14,365,472
Non-controlling interest	666,542,230	40,542,082	4,350,577	40,689,678	(22,799,241)	11,931,434
Summarized statement of comprehensive income						
Revenue	529,812,000	213,161,761	536,053,867	243,482,603	31,778,403	–
Profit/(loss) for the year from continuing operations	243,669,081	73,561,722	5,880,455	(7,869,431)	411,969	(2,609,137)
Total comprehensive income/(loss) for the year, net of tax	501,223,222	89,901,372	9,279,254	35,035,544	(22,918,837)	10,025,371
Attributable to:						
Equity holder of the Parent Company	316,833,526	80,911,235	5,069,076	19,139,217	(12,520,114)	5,476,658
Non-controlling interest	184,389,696	8,990,137	4,210,178	15,896,327	(10,398,723)	4,548,713
Dividends declared to non-controlling interests	(11,065,875)	(4,642,936)	–	–	–	–
Summarized cash flow information						
Operating activity	151,000	113,261,335	5,165,871	1,699,957	346,187	(3,442)
Investing activity	87,143,000	(58,586,404)	(11,843,210)	(2,954,902)	(345,857)	1,226
Financing activity	(30,228,685)	(46,429,364)	6,172,686	563,574	3,510	(428)
Net increase/(decrease) in cash and cash equivalents	57,065,315	8,245,567	(504,653)	(691,371)	3,840	(2,644)

20. BORROWINGS

In thousands of tenge	**2016**	2015
Fixed interest rate borrowings	**2,099,674,818**	2,185,653,220
Weighted average interest rates	**7.93%**	7.82%
Floating interest rate borrowings	**972,865,152**	1,043,215,469
Weighted average interest rates	**4.57%**	4.40%
	3,072,539,970	3,228,868,689

In thousands of tenge	**2016**	2015
US dollar – denominated borrowings	**2,846,125,693**	3,007,519,468
Tenge – denominated borrowings	**226,414,277**	221,349,221
	3,072,539,970	3,228,868,689

In thousands of tenge	**2016**	2015
Current portion	**366,438,649**	296,545,652
Non-current portion	**2,706,101,321**	2,932,323,037
	3,072,539,970	3,228,868,689

As at December 31, 2016 and 2015, the debt securities issued and loans comprised:

Bonds	**Issuance amount**	**Redemption date**	**Interest**	**2016**	2015
Bonds LFB 2008	1,6 billion USD	2018	9.125%	**529,821,083**	537,528,897
Bonds LFB 2010	1,5 billion USD	2020	7.00%	**453,732,442**	459,835,697
Bonds LFB 2010	1,25 billion USD	2021	6.375%	**375,026,800**	380,467,835
Bonds LFB 2013	2 billion USD	2043	5.75%	**166,991,558**	169,911,347
Bonds LFB 2013	1 billion USD	2023	4.4%	**134,371,387**	136,531,343
Bonds LFB 2014	1 billion USD	2044	6.00%	**9,736,418**	9,902,685
Bonds LFB 2014	0,5 billion USD	2025	4.875%	**40,558,524**	41,220,808
Bonds KFB 2009	120 billion KZT	2019	6M Libor+8.5%	**110,551,375**	150,176,515
Bonds KFB 2010	100 billion KZT	2017	7%	**94,483,326**	88,302,174
The Bank of New York Mellon	600 million USD	2017	6.375%	**42,929,372**	92,311,615
Others				**13,193,743**	12,781,662
Total				**1,971,396,028**	2,078,970,578

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. BORROWINGS (continued)

Loans	Issuance amount	Redemption date	Interest	2016	2015
Development bank of Kazakhstan JSC	884 million USD	2023	4.5% + 6M Libor – 7.72%	**319,055,961**	360,850,249
The Export-Import Bank of China	1 billion USD	2027	Libor + 4.1%	**245,894,740**	151,844,361
Sberbank Russia	400 million USD	2024	12M Libor + 3.5%	**134,557,235**	137,067,428
Development bank of Kazakhstan JSC	71 billion KZT	2022-2025	7%-9%	**103,733,280**	106,013,401
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%	**84,876,946**	83,776,032
The Syndicate of banks	604 thousand USD	2017	1 M libor + 2.0 %	**53,541,383**	–
European Bank for Reconstruction and Development	140 thousand USD	2023	3 M libor + 3.15%	**46,322,433**	–
Japan Bank for International Cooperation	298 million USD	2025	CIRR + 2.19%, 6M Libor + 1.10%	**42,632,934**	20,757,136
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%	**28,128,262**	26,291,533
Halyk bank JSC	72 million USD	2032	6%	**23,393,933**	23,762,900
Halyk bank JSC	18 billion KZT	2024	5.5%-10%	**5,018,872**	5,705,273
Loan from partners (Project Zhambyl)	Financing for share of costs KMT in execution of subsoil use contract	From beginning of commercial exploration	12M Libor + 1%	–	62,827,375
ING BANK	1 billion USD	2016	3M Libor + 2.1%	–	135,461,430
Other	–	–	–	**13,987,963**	35,540,993
Total				**1,101,143,942**	1,149,898,111

On October 30, 2009, the Group issued bonds at KASE in the amount of 120,000,000 thousand tenge, which were acquired by JSC Development Bank of Kazakhstan ("DBK"). These bonds are recorded at amortized cost using effective interest rate of 8.96%. During 2016, the Group repurchased portion of these bonds in the amount of 38,118,615 thousand tenge (2015: 19,682,102 thousand tenge).

On March 29, 2016 the Group executed early redemption of bonds from The Bank of New York Mellon in the amount of 142,199 thousand US dollars or 48,368,990 thousand tenge (2015:270,000 thousand US dollars or 82,976,400 thousand tenge). As at December 31, 2016 the carrying amount of these bonds, including interest payable, was equal to 42,929,372 thousand tenge (2015: 92,311,615 thousand tenge).On August 31, 2016 the Company acquired from KC Kazakh B.V. 27% interest in the project Zhambyl ("Project"). The loan given by KC Kazakh B.V. for financing of Company's share in the Project was forgiven. As a result of the transaction the Company recognized an income in the amount of 62,513,395 thousand tenge *(Note 30)*.

In 2010, 2012 and 2015, Atyrau Oil Refinery LLP ("ANPZ"), the subsidiary of KMG RM, entered into the credit line agreements for the total amount of 1,135,984 thousand US dollars with DBK. The credit line is used to finance the construction of the aromatic hydrocarbon complex. The Group's property, plant and equipment with carrying value of 483,908,126 thousand tenge (2015: 365,908,183 thousand tenge) was pledged to DBK as loan collateral *(Note 8)*.

In accordance with the loan agreement dated May 26, 2016, KTG received a loan from the European Bank for Reconstruction and Development in the amount of 140,000 thousand US dollar (equivalent to 48,143,200 thousand tenge) to the purpose of restructuring obligations. Under the terms of the loan agreement, all payments related to the loan are made in US dollars. KTG shall repay this loan by 26 (twenty-six) consecutive equal quarterly installments commencing on June 5, 2017. The interest is charged at 3m LIBOR plus 3.15% per annum and paid quarterly. As at December 31, 2016 the carrying value of this loan, including interest payable, was equal to 46,322,433 thousand tenge (equivalent to137,524 thousand US dollars) (2015: nil).

20. BORROWINGS (continued)

In 2016 in accordance with the General Agreement on short-term loans with a limit of up to 200,000 thousand US dollars at the rate of 3 months LIBOR + 2% for less than 12 (twelve) months from the date of each tranche development, Citibank, N.A Nassau, Bahamas Branch (the Commonwealth of the Bahamas) and Citibank Kazakhstan JSC (The Syndicate of banks) provided KTG with additional financing in several tranches for replenishment of working capital in the total amount of 194,605,404 thousand tenge (equivalent to 565,600 thousand US dollars). During 2016, the KTG repaid the principal in the amount of 152,980,980 thousand tenge (equivalent to 442,000 thousand US dollars). As at December 31, 2016 the carrying value of this loan, including interest payable, was equal to 53,541,383 thousand tenge (equivalent to 160,645 thousand US dollars) (2015: 9,165,690 thousand tenge or 27,000 thousand US dollars).

ANPZ has concluded a loan agreement with Export-Import Bank of China in the amount of 1,130,409 thousand US dollars (equivalent to 206,130,016 thousand tenge) with interest rate of 4.1% + LIBOR in order to finance the construction of the advanced oil processing plant and payments of principal starting from 2016 till 2025. Interest payment is carried out in terms of semi-annual payments. As at December 31, 2016, the outstanding balance of principal and interest was 228,723,260 thousand tenge and 17,171,480 thousand tenge respectively (in 2015: 150,081,711 thousand tenge and 1,762,650 thousand tenge respectively)

In accordance with loan agreement dated July 15, 2011 KMG Finance Sub B.V. (subsidiary of Cooperative KazMunaiGaz U.A.) repaid borrowings from ING Bank in the amount of 400,000 thousand US dollars (equivalent to 136,696,000 thousand tenge as of settlement date).

In 2016 the Company made an interest repayment of the Eurobonds in the total amount of 369,211 thousand US dollars (equivalent to 123,667,077 thousand tenge on the due date).

As at December 31, 2016, the Group has loans payable to partners on Satpayev and Perl exploration projects of 28,128,262 thousand tenge and 84,876,946 thousand tenge, respectively (2015: 26,291,533 thousand tenge and 83,776,032 thousand tenge, respectively), that originated under the carry-in financing agreements. In accordance with these agreements, all exploration costs on these projects are initially financed by the project partners apart from the Group. The loan principal and interest are payable by the Group to partners of these projects only upon successful oil discovery at the project fields and sufficiency of free cash flows from the project.

At the end of 2015 the Group performed early redemption of bonds at LSE totalling 3.68 billion US dollars, as a result of these transaction was earned an income in the amount of 54,836,897 thousand tenge *(Note 30)*.

As at December 31, 2015 MDC (Oil and Gas N Block Kazakhstan) GmbH assigned its 24.50% portion in the project N to the Group. As a result of the transaction the Company recognised an income in the amount of KZT 37,329,326 thousand *(Note 30)*.

Covenants

The Group has limitations in terms of the acceptance of debt obligations according to the documentation of international bonds issues. Thus, the debt increase is limited to the need to comply with a financial ratio, which is defined as the ratio of consolidated net debt to the total amount of the consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) with a threshold value of 3.5. As of December 31, 2016 and December 31, 2015, 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, 2016 and December 31, 2015, the Group complied with all financial and non-financial covenants.

Hedge of net investment in the foreign operations

As at December 31, 2016 certain borrowings denominated in foreign currency were designated as hedge instrument for the net investment in the foreign operations. In 2016, income of 37,952,320 thousand tenge (2015: losses of 1,586,801,249 thousand tenge) on the translation of these borrowings were transferred to other comprehensive income and offset the loss on translation of foreign operations.

21. OIL SUPPLY AGREEMENT

In 2016 the Group entered into long-term crude oil and liquefied petroleum gas ("LPG") supply agreement. 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 from Tengizchevroil LLP ("Tengizchevroil"), Mangistaumunaigaz JSC and Karazhanbasmunai JSC oil production, approximately equal to 30 million tons and 1 million tons, respectively.

As part of this transaction, the Group received prepayment of 2,966,005 thousand US dollars (equivalent of 1,012,020,000 thousand tenge at the date of transaction) net of transaction costs, which to be discharged by oil supply from Tengizchevroil (joint venture of the Group) starting from April 2017.

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

According to the agreement the Group shall ensure that the crude oil and LPG volumes required to be delivered are unencumbered.

The delivery of oil under this agreement commenced from April 2016. The Group considers this agreement to be regular way agreement to deliver non-financial items in accordance with the Group's expected sale requirements.

The outstanding balance of prepayment is subject to interest at Libor + 1.85% per annum.

22. PROVISIONS

In thousands of tenge	Asset retirement obligations	Provision for environmental obligation	Provision for taxes	Provision for gas transportation	Employee benefit obligations	Other	Total
As at December 31, 2014	114,024,291	39,623,445	15,717,351	13,328,668	27,590,340	23,576,407	233,860,502
Foreign currency translation	32,519,478	16,289,887	3,306,898	–	–	4,934,703	57,050,966
Change in estimate	3,278,918	89,321	8,670,258	–	–	1,837,442	13,875,939
Unwinding of discount	8,058,071	1,250,258	–	–	–	48,542	9,356,871
Provision for the year	(5,060,493)	102,375	60,558,923	11,484,510	9,552,956	11,346,095	87,984,366
Transfers to discontinued operation	(47,392,848)	(35,195,570)	–	–	–	(13,057,083)	(95,645,501)
Recovered	–	(34,351)	(1,195,125)	–	–	(2,163,327)	(3,392,803)
Unused amounts reversed	(689,500)	(1,815,381)	–	–	–	–	(2,504,881)
Use of provision	(608,667)	(2,553,683)	(23,829,983)	–	(2,070,334)	(4,586,017)	(33,648,684)
As at December 31, 2015	**104,129,250**	**17,756,301**	**63,228,322**	**24,813,178**	**35,072,962**	**21,936,762**	**266,936,775**
Foreign currency translation	**(365,138)**	**–**	**(9,212)**	**–**	**–**	**(3,740)**	**(378,090)**
Change in estimate	**(18,428,561)**	**(3,365,970)**	**–**	**–**	**–**	**–**	**(21,794,531)**
Unwinding of discount	**8,158,788**	**1,251,920**	**–**	**–**	**2,608,255**	**39,655**	**12,058,618**
Provision for the year	**1,044,732**	**10,187**	**9,274,588**	**–**	**(2,491,391)**	**15,584,607**	**23,422,723**
Recovered	**(1,167,110)**	**–**	**(20,989,376)**	**(451,720)**	**–**	**(930,923)**	**(23,539,129)**
Unused amounts reversed	**(48,750)**	**–**	**–**	**–**	**–**	**–**	**(48,750)**
Use of provision	**(1,779,270)**	**(1,273,771)**	**(3,457,469)**	**–**	**(2,811,727)**	**(13,569,279)**	**(22,891,516)**
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**

As at December 31, 2016 other provisions include provision for construction of the Palace of martial arts in the amount 11,303,508 thousand tenge (2015: nil), provision for reconstruction of the trade and exhibition center in the amount of 5,875,276 thousand tenge (2015: 6,054,816 thousand tenge) and provision for construction of golf club in the amount of 3,238,730 thousand tenge (2015: 13,320,988 thousand tenge).

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

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

In thousands of tenge	Asset retirement obligations	Provision for environmental obligation	Provision for taxes	Provision for gas transportation	Employee benefit obligations	Other	Total
As at December 31, 2016							
Current portion	**819,946**	**487,031**	**48,046,853**	**24,361,458**	**2,380,419**	**18,298,570**	**94,394,277**
Long-term portion	**90,723,995**	**13,891,636**	**–**	**–**	**29,997,680**	**4,758,512**	**139,371,823**
Provision 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**
As at December 31, 2015							
Current portion	914,771	8,310,515	63,228,322	24,813,178	2,162,074	17,080,094	116,508,954
Long-term portion	103,214,479	9,445,786	–	–	32,910,888	4,856,668	150,427,821
As at December 31, 2015	104,129,250	17,756,301	63,228,322	24,813,178	35,072,962	21,936,762	266,936,775

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. TRADE ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

In thousands of tenge	**2016**	2015 (Restated)
Advances received	**30,463,723**	30,276,485
Due to employees	**33,259,709**	30,227,320
Dividends payable	**1,862,166**	33,048,356
Other	**53,456,651**	51,652,191
Total other current liabilities	**119,042,249**	145,204,352
Trade accounts payable	**260,137,009**	174,237,185

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

In thousands of tenge	**2016**	2015 (Restated)
Tenge	**210,992,037**	138,525,047
US dollars	**36,935,083**	34,652,490
Euro	**219,061**	673,149
Other currency	**11,990,828**	386,499
Total	**260,137,009**	174,237,185

As at December 31, 2016 and 2015, trade accounts payable and other current liabilities were not interest bearing.

24. OTHER TAXES PAYABLE

In thousands of tenge	**2016**	2015
Rent tax on crude oil export	**5,189,479**	7,124,401
Individual income tax	**5,936,494**	5,121,419
Mineral extraction tax	**4,488,819**	15,855,702
VAT	**4,375,978**	3,547,256
Withholding tax from non-residents	**4,418,027**	4,575,186
Excise tax	**107,067**	102,509
Other	**9,498,593**	3,688,580
	34,014,457	40,015,053

25. REVENUE

In thousands of tenge	**2016**	2015 (Restated)
Sales of crude oil	**705,983,894**	121,652,310
Sales of gas and gas products	**334,478,483**	250,052,997
Transportation fee	**322,341,649**	300,198,287
Sales of refined products	**293,076,283**	235,461,998
Refining of oil and oil products	**99,137,367**	78,160,260
Quality bank for crude oil	**(19,864,051)**	(12,731,642)
Other revenue	**122,281,731**	121,011,712
	1,857,435,356	1,093,805,922

Sales of crude oil to the market is performed through KMG I except sales under oil supply agreement *(Note 21).*

26. COST OF SALES

In thousands of tenge	**2016**	2015 (Restated)
Crude oil	**678,037,107**	–
Payroll	**281,672,842**	264,684,012
Depreciation, depletion and amortization	**167,171,547**	125,640,063
Materials and supplies	**108,734,417**	376,371,706
Other taxes	**53,593,187**	45,412,479
Transportation costs	**47,654,973**	44,184,858
Mineral extraction tax	**40,676,527**	68,196,680
Electricity	**37,924,337**	34,200,157
Repair and maintenance	**32,546,598**	23,850,186
Other	**113,734,484**	107,840,085
	1,561,746,019	1,090,380,226

27. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of tenge	**2016**	2015 (Restated)
Payroll	**55,055,626**	55,999,274
Consulting services	**11,969,388**	10,073,266
Other taxes	**8,195,559**	5,876,211
Depreciation and amortization	**6,748,431**	8,772,446
Social payments, out of payroll	**6,249,461**	9,018,150
Charitable donations and sponsorship	**1,544,528**	7,347,604
VAT that cannot be offset	**1,252,092**	2,312,065
Allowance for impairment of trade accounts receivable	**3,614,402**	366,508
Allowance for impairment of long term advances	**2,000,000**	–
Allowance for impairment of other current assets	**1,867,627**	2,833,600
Allowance for obsolete inventories	**1,058,595**	1,391,281
Impairment of VAT receivable	**(3,417,616)**	51,548,508
Allowance for fines, penalties and tax provisions	**(10,849,789)**	27,970,940
Other	**32,386,860**	27,713,990
	117,675,164	211,223,843

28. TRANSPORTATION AND SELLING EXPENSES

In thousands of tenge	**2016**	2015 (Restated)
Customs duty	**84,119,112**	84,592,482
Transportation	**67,903,136**	44,547,149
Rent tax on crude oil export	**19,981,204**	41,556,722
Payroll	**6,834,599**	7,709,726
Depreciation and amortization	**6,408,306**	6,762,144
Other	**13,226,726**	10,152,356
	198,473,083	195,320,579

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

In thousands of tenge	**2016**	2015 (Restated)
Property, plant and equipment *(Note 8)*	**3,250,130**	66,438,443
Goodwill *(Note 11)*	**–**	11,922,192
Exploration and evaluation assets *(Note 9)*	**–**	634,633
Intangible assets *(Note 11)*	**32,549**	52,772
	3,282,679	79,048,040

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. FINANCE INCOME / FINANCE COST

Finance income

In thousands of tenge	**2016**	2015 (Restated)
Interest income on bank deposits, loans and bonds	**75,638,208**	47,540,011
Derecognition of liabilities	**62,513,395**	44,411,619
Amortization of discount on loans due from related parties	**21,378,184**	20,456,740
Income from early repayment of debt securities issued	**–**	54,836,897
Other	**8,361,901**	5,734,207
	167,891,688	172,979,474

Finance costs

In thousands of tenge	**2016**	2015 (Restated)
Interest on loans and debt securities issued	**169,590,948**	164,836,556
Amortization of discount on loans and debt securities issued	**14,933,481**	8,880,840
Unwinding of discount on asset retirement obligations and provision for environmental obligation	**9,410,708**	8,528,403
Discount on assets with non-market interest rate	**4,077,354**	3,042,132
Other	**32,370,863**	13,049,115
	230,383,354	198,337,046

31. SHARE IN PROFIT OF JOINT VENTURES AND ASSOCIATES, NET

In thousands of tenge	**2016**	2015 (Restated)
Tengizchevroil LLP	**147,910,396**	162,160,337
Caspian Pipeline Consortium	**74,908,750**	367,216
Mangistau Investments B.V.	**29,766,202**	19,703,238
KazRosGas LLP	**18,647,418**	36,252,976
Valsera Holdings B.V.	**10,414,188**	(123,491)
Kashagan B.V.	**7,725,887**	(13,047,635)
KazGerMunay LLP	**5,129,532**	2,674,277
Ural Group Limited	**(1,577,557)**	(4,915,490)
Beineu-Shymkent Pipeline	**(3,452,438)**	(60,432,674)
Kazakhoil-Aktobe LLP	**(11,535,479)**	(449,229)
PetroKazakhstan Inc.	**(15,809,732)**	(16,466,411)
Kazakh-Chinese Gas Pipeline	**–**	(17,540,840)
Share in (loss)/profit of other joint ventures and associates	**8,063,823**	4,625,142
	270,190,990	112,807,416

32. INCOME TAX EXPENSES

As at December 31, 2016 income taxes prepaid the amount of 74,457,414 thousand tenge (2015: 60,482,541 thousand tenge) are represented by corporate income tax. As at December 31, 2016 income taxes payable in the amount of 2,301,839 thousand tenge (2015: 4,114,767 thousand tenge) are represented mainly by corporate income tax.

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

In thousands of tenge	**2016**	2015 (Restated)
Current income tax		
Corporate income tax	**80,090,378**	163,625,299
Excess profit tax	**(1,128,184)**	8,130,592
Withholding tax on dividends and interest income	**4,637,262**	15,564,793
Deferred income tax		
Corporate income tax	**45,733,941**	(37,650,281)
Excess profit tax	**15,543,024**	2,812,418
Withholding tax on dividends and interest income	**18,914,716**	79,044,869
Income tax expenses	**163,791,137**	231,527,690

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 2007-2015 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 2016 and 2015) to income tax expenses was as follows for the years ended December 31:

In thousands of tenge	**2016**	2015 (Restated)
Profit before income tax from continuing operations	**163,108,149**	52,976,616
Profit before income tax from discontinued operations	**357,713,188**	653,693,071
Statutory tax rate	**20%**	20%
Income tax expense on accounting profit	**104,164,267**	141,333,937
Share in profit of joint ventures and associates non-taxable or taxable at different rates	**(31,851,639)**	1,762,312
Other non-deductible expenses and non-taxable income	**71,705,991**	54,098,983
Excess profit tax	**14,414,840**	10,943,010
Effect of different corporate income tax rates	**3,133,154**	(2,336,799)
Change in unrecognized deferred tax assets	**(916,319)**	5,502,010
	160,650,294	211,303,453
Income tax expenses reported in the consolidated statement of comprehensive income	**163,791,137**	231,527,690
Income tax benefit attributable to discontinued operations	**(3,140,843)**	(20,224,237)
	160,650,294	211,303,453

32. 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:

In thousands of tenge	**2016 Corporate income tax**	**2016 Excess profit tax**	**2016 Withholding tax**	**2016 Total**	2015 Corporate income tax (restated)	2015 Excess profit tax (restated)	2015 Withholding tax (restated)	2015 Total (restated)
Deferred tax assets								
Property, plant and equipment	**37,366,506**	**(1,899,726)**	**–**	**35,466,780**	62,590,914	(1,899,726)	–	60,691,188
Tax loss carryforward	**430,057,756**	**–**	**–**	**430,057,756**	437,984,606	–	–	437,984,606
Employee related accruals	**6,801,380**	**46,020**	**–**	**6,847,400**	8,115,281	6,729	–	8,122,010
Environmental liability	**3,563,499**	**245**	**–**	**3,563,744**	3,571,609	245	–	3,571,854
Other	**27,424,474**	**162,597**	**–**	**27,587,071**	36,302,109	31,105	–	36,333,214
Less: unrecognized deferred tax assets	**(404,888,041)**	**–**	**–**	**(404,888,041)**	(403,971,722)	–	–	(403,971,722)
Less: deferred tax assets offset with deferred tax liabilities	**(26,725,677)**	**–**	**–**	**(26,725,677)**	(35,249,859)	–	–	(35,249,859)
Deferred tax assets	**73,599,897**	**(1,690,864)**	**–**	**71,909,033**	109,342,938	(1,861,647)	–	107,481,291
Deferred tax liabilities								
Property, plant and equipment	**102,407,438**	**15,716,011**	**–**	**118,123,449**	94,290,979	2,204	–	94,293,183
Undistributed earnings of joint venture	**–**	**–**	**173,127,471**	**173,127,471**	–	–	154,212,755	154,212,755
Other	**74,735**	**–**	**–**	**74,735**	5,653,674	–	–	5,653,674
Less: deferred tax assets offset with deferred tax liabilities	**(26,725,677)**	**–**	**–**	**(26,725,677)**	(35,249,859)	–	–	(35,249,859)
Deferred tax liabilities	**75,756,496**	**15,716,011**	**173,127,471**	**264,599,978**	64,694,794	2,204	154,212,755	218,909,753
Net deferred tax liability/(asset)	**2,156,599**	**17,406,875**	**173,127,471**	**192,690,945**	(44,648,144)	1,863,851	154,212,755	111,428,462

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 404,888,041 thousand tenge as at December 31, 2016 (2015: 403,971,722 thousand tenge).

Tax losses carryforward as at December 31, 2016 in the Republic of Kazakhstan expire for tax purposes ten years from the date they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

32. INCOME TAX EXPENSES (continued)

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

In thousands of tenge	**2016 Corporate income tax**	**2016 Excess profit tax**	**2016 Withholding tax**	**2016 total**	2015 Corporate income tax	2015 Excess profit tax	2015 Withholding tax	2015 total
Net deferred tax liability/(asset) as at January 1	**(44,648,144)**	**1,863,851**	**154,212,755**	**111,428,462**	26,588,654	(94,398)	75,167,886	101,662,142
Foreign currency translation	**258,403**	**–**	**–**	**258,403**	7,041,797	(854,169)	–	6,187,628
Discontinued operations	**5,159**	**–**	**–**	**5,159**	(40,796,123)	–	–	(40,796,123)
Charge to the consolidated statement of comprehensive income	**46,541,181**	**15,543,024**	**18,914,716**	**80,998,921**	(37,482,472)	2,812,418	79,044,869	44,374,815
Net deferred tax liability/(asset) as at December 31	**2,156,599**	**17,406,875**	**173,127,471**	**192,690,945**	(44,648,144)	1,863,851	154,212,755	111,428,462

33. 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, 2016 and 2015:

In thousands of tenge		Due from related parties	Due to related parties	Cash and deposits placed with related parties	Borrowings payable to related parties
Samruk-Kazyna entities	**2016**	**250,189,225**	**1,755,168**	**227,330**	**–**
	2015	86,673,893	28,779,665	38,349	7,527,711
Associates	**2016**	**196,364,723**	**6,519,184**	**–**	**–**
	2015	238,975,765	2,740,195	–	–
Other state-controlled parties	**2016**	**–**	**8,783,316**	**308,652**	**539,518,308**
	2015	–	12,943,081	274,253	622,971,826
Joint ventures in which the Group is a venturer	**2016**	**426,310,101**	**148,065,653**	**–**	**–**
	2015	386,156,435	71,317,430	–	–

Due from related parties

In 2016 the Company provided the additional interest free loan to the Samruk-Kazyna in the amount of 203,888,218 thousand tenge. The difference between fair value and nominal value of the loan amounting 50,871,857 thousand tenge was recognized as transaction with Samruk-Kazyna in the consolidated statement of changes in equity.

As at December 30, 2016 changes in due from associates mainly related to the repayment of principal and interest on the right to claim payments under "Kazakhstan Note" in the amount of 28,907,749 thousand tenge and 10,715,809 thousand tenge, respectively.

Increase in due from joint ventures is mainly due to prepayment to Tengizchevroil LLP for oil supply in the amount of 40,128,116 thousand tenge. Changes of due from joint ventures also include accrual of interest on loan given to PetroKazakhstanOilProducts LLP and BeineuShymkent Pipelines LLP in the amount of 6,306,385 thousand tenge and 7,191,646 thousand tenge, respectively. The Group provided additional interest free loan to the BeineuShymkent Pipelines LLP in the amount of 11,440,207 thousand tenge.

Due to related parties

Decrease in due to Samruk-Kazyna entities mainly related to the repayment of dividends to Samruk-Kazyna and National Bank of RK in the amount of 81,768,201 thousand tenge and 9,085,134 thousand tenge, respectively.

As at December 31, 2016 due to joint ventures mainly include trade payable to KazRosGas LLP, Kazakhoil Aktobe LLP, Asia Gas Pipeline LLP, Tengizchevroil LLP and BeineuShymkent Pipleines LLP in the amount of 53,550,549 thousand tenge, 6,175,646 thousand tenge, 13,277,218 thousand tenge, 14,256,155 thousand tenge and 46,509,577 thousand tenge, respectively (2015: 22,744,328 thousand tenge, 2,998,459 thousand tenge, 9,347,400 thousand tenge, 3,055,893 thousand tenge, and 13,011,233 thousand tenge, respectively). In 2016, KMG Kashagan B.V. fully repaid the receivable in the amount of 92,717,990 thousand tenge.

Borrowings payable to related parties

In 2016 the Company repaid the loan to Samruk-Kazyna in the amount 11,308,821 thousand tenge interest rate of 7.99% per annum.

As at December 31, 2016, borrowings payable to other related parties mainly included bonds and loans payable to DBK with the total carrying amount of 533,340,616 thousand tenge (2015: 617,040,165 thousand tenge).

33. RELATED PARTY DISCLOSURES (continued)

The following table provides the total amount of transactions, which have been entered into with related parties during 2016 and 2015:

In thousands of tenge		Sales to related parties	Purchases from related parties	Interest earned from related parties	Interest incurred to related parties
Samruk-Kazyna entities	**2016**	**64,283,484**	**28,166,784**	**14,325,455**	**4,089,541**
	2015	52,538,731	25,971,548	4,731,537	561,667
Associates	**2016**	**25,429,144**	**61,467,268**	**13,417,271**	**4,379,044**
	2015	112,705,111	22,378,357	9,383,468	2,885,303
Other state-controlled parties	**2016**	**–**	**4,764,444**	**–**	**25,424,702**
	2015	–	68,406,297	716,962	13,236,901
Joint ventures in which the Group is a venturer	**2016**	**303,010,916**	**624,153,438**	**26,462,248**	**4,917,734**
	2015	278,198,209	125,179,943	15,982,970	–

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

Key management employee compensation

Total compensation to key management personnel, including key management personnel of subsidiaries, included in general and administrative expenses in the accompanying consolidated statement of comprehensive income was equal to 9,797,411 thousand tenge and 9,017,155 thousand tenge for the years ended December 31, 2016 and 2015, respectively. Compensation to key management personnel consists of contractual salary and performance bonus based on operating results.

34. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES

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

Market risk

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

The sensitivity analyses in the following sections relate to the position as of December 31, 2016 and 2015.

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.

34. 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.

In thousands of tenge	**Increase/ decrease in tenge to US dollar exchange rate**	**Effect on profit before tax**
2016	**+13%**	**(118,409,921)**
	-13%	**118,409,921**
2015	+60%	(584,523,503)
	-20%	210,171,684

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.

In thousands of tenge	**Increase/ decrease in basis points**	**Effect on profit before tax**
2016	**+0.60**	**(5,598,880)**
LIBOR	**-0.08**	**746,405**
2015		
LIBOR	**+0.50**	**(5,216,077)**
	-0.12	**1,251,859**

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 16*. 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.

34. 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 12 and 18)* held in banks at the reporting date using the Standard and Poor's and Fitch's credit ratings.

		Rating[1]			
Banks	**Location**	**2016**	**2015**	**2016**	2015
Halyk Bank	Kazakhstan	BB (negative)	BB+ (negative)	**716,187,314**	559,695,895
Sumitomo Mitsui Banking Corporation	Japan	A (positive)	AA- (stable)	**287,848,285**	196,892,600
HSBC	United Kingdom	AA- (negative)	AA- (stable)	**166,649,716**	63,252,229
BNP Paribas	United Kingdom	A (stable)	A+ (negative)	**166,295,295**	170,156,317
Kazkommertsbank	Kazakhstan	B- (negative)	B- (negative)	**165,771,106**	107,943,726
SOCIETE GENERALE	Switzerland	A (stable)		**162,461,529**	–
ING Bank	The Netherlands	A (stable)	A (stable)	**161,907,378**	148,227,731
Sberbank of Russia	Kazakhstan	BBB-	BB+ (negative)	**63,718,200**	70,818,123
Altyn Bank	Kazakhstan	BB (negative)		**45,247,477**	131,729
RBK Bank	Kazakhstan	B- (stable)	B- (stable)	**29,919,368**	14,119,322
Credit Suisse	British Virgin Islands	A (stable)	A (stable)	**25,472,932**	30,300,719
Citibank	United Kingdom	A (stable)	A (stable)	**19,984,012**	107,762,087
Citibank	Kazakhstan	A+(stable)		**12,509,234**	7,523,568
Delta Bank	Kazakhstan	CCC+ (developing)	B (stable)	**11,984,344**	8,577,796
Deutsche Bank	the Netherlands and the United Kingdom	BBB+ (positive)	AA- (stable)	**10,935,579**	197,643,658
ATF Bank	Kazakhstan	B (negative)	B- (stable)	**9,707,001**	21,848,003
Tsesnabank	Kazakhstan	B+ (negative)	B+ (stable)	**2,818,521**	6,337,078
Forte Bank	Kazakhstan	B (stable)	B (stable)	**2,166,169**	1,410,307
BankCenterCredit	Kazakhstan	B (stable)	B (stable)	**1,289,220**	2,446,081
Eurasian Bank	Kazakhstan	B (stable)	B (stable)	**614,348**	15,908,613
KazInvestBank	Kazakhstan	B- (stable)	B- (stable)	**–**	1,238,426
RBS Kazakhstan	Kazakhstan	–	–	**–**	107,005
Kaspi Bank	Kazakhstan	–	–	**–**	492
Other banks				**46,081,766**	33,958,349
				2,109,568,794	1,766,299,854

On 31 December 2016 the Group held deposits in the total amount of 11,984,344 thousand in Delta Bank. On 30 December 2016 the Standard & Poor's long-term/short-term counterparty credit rating was downgraded from "B/B" to "CCC+/C" then to "D/D" on 16 February 2017 following its default on the principal bond payment amount of KZT 9.8 billion. On 23 February 2017, Delta Bank has repaid the overdue the bonds and 27 February 2017 announced that it has received KZT 45.6 billion in loans after which the bank has redeemed an additional KZT 18.4 billion of bonds. Based on the most recently published financial information of Delta Bank, actions taken by the state bodies of the Republic of Kazakhstan to date and expected future actions of those state bodies, the Group believes that no impairment allowance is currently required.

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

[1] Source: Interfax – Kazakhstan, Factivia, official sites of the banks as at December 31 of the respective year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. 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, 2016 and 2015 based on contractual undiscounted payments.

In thousands of tenge	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
As at December 31, 2016						
Borrowings	**80,004,420**	**12,921,740**	**373,280,508**	**1,572,032,557**	**1,148,905,492**	**3,187,144,717**
Trade accounts payable	**119,638,134**	**118,852,271**	**40,736,206**	**–**	**–**	**279,226,611**
	199,642,554	**131,774,011**	**414,016,714**	**1,572,032,557**	**1,148,905,492**	**3,466,371,328**
As at December 31, 2015						
Borrowings	41,340,415	15,517,298	283,075,724	2,037,121,260	1,579,219,648	3,956,274,345
Trade accounts payable	14,242,241	98,856,133	60,917,882	–	–	174,016,256
	55,582,656	114,373,431	343,993,606	2,037,121,260	1,579,219,648	4,130,290,601

*The Group excludes from maturity profile table the loans payable to project partners under the carry-in financing agreements (*Note 20*), due to the uncertainty of maturity of these loans.

34. 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, 2016 and 2015 are reasonable approximation of their fair value, except for the financial instruments disclosed below:

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

	2015				
	Carrying amount	Fair value	Fair value by level of assessment		
In thousands of tenge			Quotations in an active market (Level 1)	From the observed market (Level 2)	Based on the significant amount of unobserved (Level 3)
Bonds receivable from Samruk-Kazyna	41,840,972	93,722,183	–	93,722,183	–
Fixed interest rate borrowings	2,185,653,220	2,230,487,370	1,960,846,551	269,640,819	–
Financial guarantee	9,160,158	9,160,158	–	9,160,158	–
Derivatives, net	(174,880)	(174,880)	–	(174,880)	–
Investment property	29,260,917	32,496,894	–	32,496,894	–

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)

35. CONSOLIDATION

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

Significant entities	Main activity	Country of incorporation	Percentage ownership 2016	Percentage ownership 2015
KazMunayGas Exploration Production JSC and its subsidiaries ("KMG EP")	Exploration and production	Kazakhstan	**63.02%**	63.21%
KazTransGas JSC and its subsidiaries ("KTG")	Gas transportation	Kazakhstan	**100.00%**	100.00%
KazTransOil JSC and its subsidiaries ("KTO")	Oil transportation	Kazakhstan	**90.00%**	90.00%
KazMunayGas – refining and marketing JSC and subsidiaries ("KMG RM")	Refinery and marketing of oil products	Kazakhstan	**100.00%**	100.00%
KazMunayTeniz JSC and its subsidiaries ("KMT")	Exploration and production	Kazakhstan	**100.00%**	100.00%
KazMunayGas-Service LLP and its subsidiaries ("KMGS")	Service projects	Kazakhstan	**100.00%**	100.00%
Cooperative KazMunayGas PKI U.A. and its subsidiaries	Refinery and marketing of oil products	Netherlands	**100.00%**	100.00%
KMG International N.V. and its subsidiaries ("KMG I")	Refinery and marketing of oil products	Romania	**100.00%**	100.00%
N Operating Company LLP	Exploration and production	Kazakhstan	**100.00%**	100.00%
KMG Systems and Services LLP	Support services	Kazakhstan	**100.00%**	100.00%
Kazakhstan Pipeline Ventures LLC and associate	Oil transportation	the United States of America	**100.00%**	100.00%
KMG Karachaganak LLP	Exploration and production	Kazakhstan	**100.00%**	100.00%
KazMorTransFlot JSC	Oil transportation and construction	Kazakhstan	**100.00%**	100.00%
Aktaunefteservice LLP and its subsidiaries ("ANS")	Oil support services	Kazakhstan	**100.00%**	100.00%

36. 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 cyclicality 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)

36. 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, 2016.

As at December 31, 2016, Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group’s tax positions will be sustained, except as provided for or otherwise disclosed in these consolidated financial statements.

2009-2012 Comprehensive tax audit of KMG EP

Based on the results of the 2009-2012 Comprehensive tax audit in 2015 KMG EP received a tax assessment for 38,512,000 thousand tenge, including tax principal, administrative fine and penalty. KMG EP did not agree with the results of the tax audit and sent an appeal to the Committee of the State Revenues. As per the decision of Special Interdistrict Administrative court of Astana the amount of administrative fine was reduced to 2,002,000 thousand tenge. The KMG EP plans to appeal the remaining amount of 13,486,000 thousand tenge to the appropriate courts. The accompanying consolidated financial statement include provisions for the entire claim balance.

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

On August 31, 2016 the KMG EP filed an application for the VAT recoverability in the amount of 57,410,000 thousand tenge, including 46,558,000 thousand tenge related to the Company’s sale of assets to JSC “Ozenmunaigas” and JSC “Embamunaigas” (subsidiaries of KMG EP) in 2012. On October 10, 2016 the Tax authorities partially satisfied the VAT claim amount for 24,567,000 thousand tenge, which has been received by the KMG EP in 2016. In these financials, the KMG EP has reversed 24,567,000 thousand tenge of previously accrued VAT allowance.

Mineral extraction tax (MET) of KMG EP

In September 2016, “Ozenmunaigas” JSC has received approval of its application for a temporary reduced rate of MET for the Uzen and Karamandybas fields in Mangystau oblast. The reduced MET rate is set at 9.0% (compared to the budgeted rate of 13.0%) for the whole of 2016 on the condition that in 2016 Uzen and Karamandybas fields record losses for the purpose of calculating corporate income tax using the applicable State tax legislation. The effect of this reduction equals to 14,896,000 thousand tenge, which was included in its entirety in these consolidated financial statements, as management expects that JSC “Ozenmunaigas” will claim a taxable loss in its final 2016 tax filing.

Rent tax of KMG EP

In 2016 changes into the tax legislation were introduced in relation to methodology of rent tax calculation. On the basis of these changes along with correspondence with the tax authorities the KMG EP has refiled its rent tax declarations for 2012-2015, and reduced its current rent tax payable by the amount of 11,664,000 thousand tenge, which was the amount of the reduction in rent tax using the new revised rates for these periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

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, 2016.

As at December 31, 2016 management believes that its interpretation of the transfer pricing legislation is appropriate and that it is probable that the Group's positions with regard to transfer pricing will be sustained.

Cost recovery audits

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

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, 2016 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, 2016 the Group's share in the total disputed amounts of costs is 201,091,569 thousand tenge (2015: 217,166,089 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. 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 253,300 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. The investigation is ongoing and court trial is expected after investigation is finished. The management of the Group believes that until the investigation is complete and full details of the claims are provided, no provision for claims is required. 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.

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

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 or Claimants) according to purchase contract on construction of JUDR, which is handled by the London Court of International Arbitration. On 17 January, 2017 KMG D&S received the claim from Consortium. Operative part of the Statement of case includes the following Claimant's demands:

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

The total claim amounted more than 141,501 thousand US dollars (equivalent to 47,160,861 thousand tenge) and is not final the statement of case claims on appreciation of value based on currency adjustments and reimbursement of additional expenses of Consortium however, amounts are not specified under this claims.

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

There is uncertainty about the result of judicial proceedings. As of December 31, 2016 the Group had not recognized the provision for given claim.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

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 2016, in accordance with its obligations, the Group delivered 3,236,644 tons of crude oil (2015: 5,510,786 tons), including joint ventures, to the Kazakhstan market.

Commitments under subsoil use contracts

As at December 31, 2016 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	137,188,527	9,176,156
2018	20,922,637	4,731,850
2019	16,562,701	5,331,863
2020	8,270,115	5,622,882
2021-2048	12,249,354	18,255,167
Total	**195,193,334**	**43,117,918**

Oil supply commitments

As of December 31, 2016 the Group had commitments under the oil supply agreement in the amount of 24.6 million ton to be delivered till March 2020.

Other contractual commitments

As at December 31, 2016, the Group, including joint ventures, had other capital commitments of approximately 995,145,776 thousand tenge (2015: 730,593,026 thousand tenge), related to acquisition and construction of property, plant and equipment.

Non-financial guarantees

As of December 31, 2016 and 2015, 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.

37. SEGMENT REPORTING

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

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

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

37. SEGMENT REPORTING (continued)

The following represents information about profit and loss, and assets and liabilities of operating segments of the Group for 2016:

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

Eliminations represent the exclusion of intra-group turnovers.

37. 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 2015:

In thousands of tenge	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	27,780,657	193,940,554	373,081,073	418,895,127	80,108,511	–	1,093,805,922
Revenues from sales to other segments	591,822,009	43,589,021	1,238,250	4,745,358	21,542,805	(662,937,443)	–
Total revenue	619,602,666	237,529,575	374,319,323	423,640,485	101,651,316	(662,937,443)	1,093,805,922
Gross profit	254,150,812	106,475,440	97,163,649	70,976,890	(11,059,000)	(514,282,095)	3,425,696
Finance income	40,185,303	5,088,707	10,281,584	5,747,908	145,472,682	(33,796,710)	172,979,474
Finance costs	(9,798,925)	(3,392,996)	(26,096,094)	(10,342,142)	(174,031,025)	25,324,136	(198,337,046)
Depreciation, depletion and amortization	(49,961,419)	(26,657,680)	(25,652,523)	(27,855,163)	(11,310,026)	–	(141,436,811)
Impairment of property, plant and equipment, exploration and evaluation assets and intangible assets, excluding goodwill	(24,854,737)	(1,189,514)	(5,136,242)	(4,281,314)	(31,664,041)	–	(67,125,848)
Share in profit of joint ventures and associates, net	151,273,139	(13,704,207)	(24,560,703)	200,375	(401,188)	–	112,807,416
Income tax expenses	(223,286,459)	(25,132,258)	(1,534,705)	32,673,499	(14,247,767)	–	(231,527,690)
Net profit for the year	561,394,306	79,680,215	(121,488,045)	(360,405,396)	370,928,022	(35,426,081)	494,683,021
Other segment information							
Investments in joint ventures and associates	3,243,334,533	60,522,184	92,468,369	23,445,191	3,169,468	–	3,422,939,745
Capital expenditures	251,771,251	80,075,523	96,683,410	167,298,364	30,621,148	–	626,449,696
Allowances for obsolete inventories, doubtful accounts receivable, advances paid, and other assets	(11,602,749)	(855,459)	(5,862,523)	(6,614,583)	(5,863,282)	–	(30,798,596)
Assets of the segment	6,222,958,294	713,980,295	1,087,756,149	2,212,877,178	1,212,755,839	(740,670,097)	10,709,657,658
Liabilities of the segment	568,163,254	172,158,449	517,619,492	1,495,561,554	2,552,194,461	(686,217,349)	4,619,479,861

* *Certain numbers shown here do not correspond to the consolidated financial statements for year ended December 31, 2015 and reflect adjustments made, refer to Note 6.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. SUBSEQUENT EVENTS

On January 19, 2017 the Group made a partial repayment of issued bonds held by Development Bank of Kazakhstan JSC in the amount of 22,568,510 thousand tenge, including accrued interest of 5,006,615 thousand tenge.

On January 23, 2017 the Group paid principal and interest on loans received from Development Bank of Kazakhstan JSC in the amount of 21,092,997 thousand tenge and 9,755,664 thousand tenge, respectively.

On January 27, 2017 KMG EP has received notification on the results of KMG EP's appeal related to the 2009-2012 Comprehensive Tax audit and respective resolution of tax authorities to reduce total tax charges and penalties to11,483 million tenge. On January 31, 2017 KMG EP has received the decision of Special Interdistrict Administrative Court of Astana to reduce administrative fine related to the 2009-2012 Comprehensive Tax audit to 2,002 million tenge. Tax provisions in these consolidated financial statements were reduced by 18,754 million tenge to account for this ruling.

On February 17, 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 and cash in the amount 1 thousand tenge.