KazMunaiGas Exploration Production Joint Stock Company

Consolidated Financial Statements

For the year ended December 31, 2017
with independent auditor's report

Contents

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Independent auditor's report

To the Shareholders and Management of KazMunaiGas Exploration Production JSC

Opinion

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

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Company 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 the matter below, our description of how our audit addressed this 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 matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Key audit matter	How our audit addressed the key audit matter
Estimation of oil and gas reserves	
Estimation of oil and gas reserves requires significant judgement and assumptions by management and reserve engineers. These estimations have a material impact on the consolidated financial statements, particularly: on the identification of indications that assets may be impaired; depreciation, depletion and amortization; decommissioning provisions; and going concern. There are technical uncertainties in assessing reserve quantities.	We assessed the competence and objectivity of external reserve engineers involved in the estimation process. We evaluated data used by the reserve engineers by comparing it with the budget approved by the management and external oil and gas data. We assessed whether reserve revisions were consistent with the Company's data. Description of the methodology used for the estimation of oil and gas reserves is included in *Note 3* to the consolidated financial statements.

Other information included in the Company's 2017 Annual report

Other information consists of the information included in the Annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

The Annual Report of the Company 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 Company'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 Company or to cease operations or has no realistic alternative but to do so.

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

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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 Company'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 Company'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 Company 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 Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, 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 Jim Ducker.

Ernst & Young LLP

Jim Ducker
Audit Partner

Adil Syzdykov
Auditor

Auditor Qualification Certificate
No. МФ – 0000172 dated 23 December 2013

Gulmira Turmagambetova
General Director
Ernst & Young LLP

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 15 July 2005

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14 February 2018

KAZMUNAIGAS EXPLORATION PRODUCTION JOINT STOCK COMPANY

Consolidated Statement of Financial Position

Tenge million

	Notes	As at December 31, 2017	2016
ASSETS			
Non-current assets			
Property, plant and equipment	5	377,160	311,597
Intangible assets	6	16,296	11,607
Investments in joint ventures	8	127,548	144,532
Investments in associate	9	116,970	135,633
Receivable from a jointly controlled entity	8	11,519	16,696
Loans receivable from joint venture	8	28,049	29,638
Other financial assets	7	34,778	35,961
Deferred tax asset	19	53,215	51,459
Other assets		6,085	970
Total non-current assets		**771,620**	**738,093**
Current assets			
Inventories	10	30,697	24,774
Income taxes prepaid		2,483	51,567
VAT recoverable, net of allowance	2	21,574	16,680
Mineral extraction and rent tax prepaid		–	15,676
Export customs duty and other taxes prepaid	2	20,717	15,071
Prepaid expenses	2	16,190	11,529
Trade and other receivables	7	132,680	74,121
Receivable from a jointly controlled entity	8	26,496	17,617
Other financial assets	7	889,687	983,257
Cash and cash equivalents	7	421,643	162,091
Total current assets		**1,562,167**	**1,372,383**
Total assets		**2,333,787**	**2,110,476**
EQUITY			
Share capital	11	165,418	165,343
Other capital reserves		2,347	2,448
Retained earnings		1,619,466	1,444,351
Foreign currency translation reserve		321,488	321,370
Total equity		**2,108,719**	**1,933,512**
LIABILITIES			
Non-current liabilities			
Borrowings		1,807	3,844
Deferred tax liability	19	138	138
Provisions	13	51,845	45,300
Total non-current liabilities		**53,790**	**49,282**
Current liabilities			
Borrowings		5,669	5,483
Provisions	13	31,795	45,926
Income taxes payable		3,888	33
Mineral extraction tax and rent tax payable		52,181	8,571
Trade and other liabilities		77,745	67,669
Total current liabilities		**171,278**	**127,682**
Total liabilities		**225,068**	**176,964**
Total liabilities and equity		**2,333,787**	**2,110,476**

The notes on pages 5 to 35 are an integral part of these consolidated financial statements.

KAZMUNAIGAS EXPLORATION PRODUCTION JOINT STOCK COMPANY

Consolidated Statement of Comprehensive Income

Tenge million

	Notes	For the year ended December 31, 2017	2016
Revenue	14	956,457	727,154
Share of results of associate and joint ventures	8,9	20,441	(12,600)
Finance income	18	29,760	30,037
Total revenue and other income		**1,006,658**	**744,591**
Production expenses	15	(318,473)	(274,753)
Selling, general and administrative expenses	16	(135,324)	(115,022)
Net loss on acquisition of a subsidiary	4	(3,249)	–
Exploration expenses		(1,612)	(2,535)
Depreciation, depletion and amortization	5, 6	(35,626)	(30,776)
Taxes other than on income	17	(288,070)	(145,431)
Net reversal of allowance on VAT recoverable	23	24,053	13,362
Loss on disposal of property, plant and equipment		(2,176)	(2,050)
Finance costs	18	(4,311)	(5,842)
Foreign exchange loss, net		(893)	(12,892)
Profit before tax		**240,977**	**168,652**
Income tax expense	19	(45,618)	(37,076)
Profit for the year		**195,359**	**131,576**
Foreign currency translation difference		118	(11,771)
Other comprehensive income / (loss) for the period to be reclassified to profit and loss in subsequent periods		**118**	**(11,771)**
Actuarial (loss) / gain, net of tax	13	(496)	563
Other comprehensive (loss) / income for the period not to be reclassified to profit and loss in subsequent periods		**(496)**	**563**
Total comprehensive income for the year, net of tax		**194,981**	**120,368**
EARNINGS PER SHARE – Tenge thousands			
Basic and diluted	12	2.86	1.93

The notes on pages 5 to 35 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Tenge million

	Notes	For the year ended December 31, 2017	2016
Cash flows from operating activities			
Profit before tax		240,977	168,652
Adjustments to add / (deduct) non-cash items			
Depreciation, depletion and amortization	5, 6	35,626	30,776
Share of results of associate and joint ventures	8, 9	(20,441)	12,600
Loss on disposal of property, plant and equipment (PPE)		2,176	2,050
Recognition of share-based payments	11	–	1,410
Forfeiture of share-based payments		(13)	(63)
Unrealised foreign exchange loss on non-operating activities		1,028	12,003
Reversal of allowance on VAT recoverable, net	23	(24,053)	(13,362)
Change in provisions		4,678	(15,566)
Net loss on acquisition of a subsidiary	4	3,249	–
Other non-cash income and expense		4,807	2,829
Add finance costs	18	4,311	5,842
Deduct finance income	18	(29,760)	(30,037)
Working capital adjustments			
Change in other assets		(926)	(1,025)
Change in inventories		(5,923)	(1,949)
Change in export customs duty, VAT recoverable and other taxes prepaid	2	12,136	9,053
Change in prepaid expenses	2	(4,661)	6,463
Change in trade and other receivables		(57,593)	20,500
Change in trade and other payables		775	9,956
Change in mineral extraction and rent tax payable and prepaid		61,208	(18,384)
Income tax paid, net of amounts refunded		(9,974)	(42,398)
Net cash generated from operating activities		**217,627**	**159,350**
Cash flows from investing activities			
Purchases of PPE and advances paid for PPE		(104,954)	(101,233)
Proceeds from sale of PPE		670	784
Purchases of intangible assets		(6,624)	(3,672)
Loans provided to the joint ventures	8	(1,218)	(5,146)
Dividends received from joint ventures and associate, net of withholding tax		60,899	27,515
Withdrawal / (placement) of term deposits		95,783	(170,927)
Cash acquired with subsidiary	4	181	–
Interest received		18,807	15,972
Net cash generated from / (used in) investing activities		**63,544**	**(236,707)**
Cash flows from financing activities			
Repayment of borrowings		(2,371)	(2,128)
Dividends paid to the Company's shareholders		(18,906)	(137)
Net cash used in financing activities		**(21,277)**	**(2,265)**
Net change in cash and cash equivalents		259,894	(79,622)
Cash and cash equivalents at the beginning of the year		162,091	237,310
Net foreign exchange difference on cash and cash equivalents		(342)	4,403
Cash and cash equivalents at the end of the year	7	**421,643**	**162,091**

The notes on pages 5 to 35 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

Tenge million

	Share capital	Treasury shares	Other capital reserves	Retained earnings	Foreign currency translation reserve	Total Equity
As at December 31, 2015	**263,095**	**(100,091)**	**3,945**	**1,311,759**	**333,141**	**1,811,849**
Profit for the year	–	–	–	131,576	–	131,576
Other comprehensive loss	–	–	–	563	(11,771)	(11,208)
Total comprehensive income	–	–	–	**132,139**	**(11,771)**	**120,368**
Recognition of share-based payments (Note 11)	–	–	1,410	–	–	1,410
Forfeiture of share-based payments	–	–	(63)	–	–	(63)
Exercise of employee options	–	2,339	(2,844)	505	–	–
Dividends	–	–	–	(52)	–	(52)
As at December 31, 2016	**263,095**	**(97,752)**	**2,448**	**1,444,351**	**321,370**	**1,933,512**
Profit for the year	–	–	–	195,359	–	195,359
Other comprehensive loss	–	–	–	(496)	118	(378)
Total comprehensive income	–	–	–	**194,863**	**118**	**194,981**
Forfeiture of share-based payments	–	–	(13)	–	–	(13)
Exercise of employee options	–	75	(88)	13	–	–
Dividends	–	–	–	(19,761)	–	(19,761)
As at December 31, 2017	**263,095**	**(97,677)**	**2,347**	**1,619,466**	**321,488**	**2,108,719**

The notes on pages 5 to 35 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

Tenge million unless otherwise stated

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

KazMunaiGas Exploration Production Joint Stock Company (the "Company") is incorporated in the Republic of Kazakhstan and is engaged in the acquisition, exploration, development, production, processing and export of hydrocarbons and refined products with its core operations of oil and gas properties located in the Pre-Caspian and Mangistau basins of western Kazakhstan. The Company's direct majority shareholder is National Company KazMunaiGas JSC ("NC KMG" or the "Parent Company"), which represents the state's interests in the Kazakh oil and gas industry and which holds 63% of the Company's outstanding shares as at December 31, 2017 (December 31, 2016: 63%). The Parent Company is 90% owned by Sovereign Wealth Fund Samruk-Kazyna JSC ("Samruk-Kazyna"), which is in turn 100% owned by the government of the Republic of Kazakhstan (the "Government").

The Company conducts its principal operations through the wholly owned subsidiaries OzenMunaiGas JSC and EmbaMunaiGas JSC. In addition, the Company has oil and gas interests in the form of wholly owned subsidiaries, jointly controlled entities, an associate and certain other controlling and non-controlling interests in non-core entities. These consolidated financial statements reflect the financial position and results of operations of all of the above interests.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention except for financial instruments. These consolidated financial statements are presented in Tenge and all values are rounded to the nearest million unless otherwise stated.

The preparation of 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 Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Exchange rates

The official rate of Kazakhstan Tenge ("Tenge") to the US Dollar at December 31, 2017 and December 31, 2016 was 332.33 and 333.29 Tenge, respectively. Any translation of Tenge amounts to the US Dollar or any other hard currency should not be construed as a representation that such Tenge amounts have been, could be or will in the future be converted into hard currency at the exchange rate shown or at any other exchange rate.

Reclassifications of comparative information

The consolidated statement of financial position and consolidated statement of cash flows have been revised to present more detailed classification of certain items based on their nature to provide the users of the financial statements with more relevant information about the financial position and cash flows of the Company.

Effect on the consolidated statement of financial position as at December 31, 2016

	As previously	Reclassifications	As reclassified
Taxes prepaid and VAT recoverable	22,567	(22,567)	–
Prepaid expenses	20,713	(9,184)	11,529
Export customs duty and other taxes prepaid	–	15,071	15,071
VAT recoverable, net of allowance	–	16,680	16,680

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Reclassifications of comparative information (continued)

Effect on the consolidated statement of cash flows for the twelve months ended December 31, 2016

	As previously	Reclassifications	As reclassified
Cash flows from operating activities			
Change in taxes prepaid and VAT recoverable	6,095	(6,095)	–
Change in prepaid expenses	9,421	(2,958)	6,463
Change in export customs duty, VAT recoverable and other taxes prepaid	–	9,053	9,053

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

Adopted accounting standards and interpretations

The Company has adopted the following new and amended IFRS during the year, which did not have any material effect on the financial performance or position of the Company:

- IAS 12 — Income Taxes Recognition of Deferred Tax Assets for Unrealised Losses (Amendments);
- IAS 7 — Statement of Cash Flows Disclosure Initiative (Amendments);
- Amendments to IFRS 12 — Disclosure of Interests in Other Entities: Classification of the scope of disclosure requirements in IFRS 12 from Annual Improvements Cycle 2014-2016.

Standards issued but not yet effective

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

- IFRS 9 — Financial instruments: classification and measurement (January 1, 2018);
- IFRS 15 — Revenue from Contracts with Customers (January 1, 2018);
- IFRS 2 — Classification and Measurement of Share-based Payment Transactions (Amendments) (January 1, 2018);
- IFRS 10 and IAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments) (Deferred indefinitely);
- IFRS 16 — Leases (January 1, 2019);
- IFRIC 22 — Foreign Currency Transactions and Advance Consideration (January 1, 2018);
- IFRIC 23 — Uncertainty over Income Tax Treatments (January 1, 2019);
- Improvements to IFRSs — 2014-2016 cycle (January 1, 2018).

IFRS 9 brings together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Company will adopt the new standard on the required effective date and will not restate comparative information. As at the reporting date the Company has not completed a detailed impact assessment of all three aspects of IFRS 9, which will be completed prior to issuance of financial statements for the three months ended March 31, 2018. This assessment may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018.

Based on the Company's analysis of IFRS 15, its revenue recognition method for contracts will not change with the application of the new standard, and revenues will continue be recorded on a month-by-month basis in accordance with actual invoices.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its control over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. Inter-company transactions, balances and unrealised gains on transactions between companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries are consistent with those of the Company.

Investment in associate and interests in joint arrangements

The Company's investments in its associate and joint ventures are accounted for using the equity method. An associate is an entity in which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Company is a party to a joint arrangement when it exercises joint control over an arrangement by acting collectively with other parties and decisions about the relevant activities require unanimous consent of the parties sharing control. The joint arrangement is either a joint operation or a joint venture depending on the rights and obligations of the parties to the arrangement.

In relation to interest in joint operations the Company recognises: (i) its assets, including its share of any assets held jointly, (ii) liabilities, including its share of any liabilities incurred jointly, (iii) revenue from the sale of its share of the output arising from the joint operation, (iv) its share of the revenue from the sale of the output by the joint operations, and (v) its expenses, including its share of any expenses incurred jointly.

Under the equity method, the investment in the associate and joint ventures are carried in the statement of financial position at cost plus post acquisition changes in the Company's share of net assets of the associate and joint ventures.

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.

The Company's investment in an associate includes purchase price premium identified on acquisition, which is primarily attributable to the value of the licenses based on their proved reserves. The licenses are amortized over the proved developed reserves of the associate and joint ventures using the unit-of-production method.

The consolidated statement of comprehensive income reflects the share of the results of operations of each associate and joint venture. Where there has been a change recognised directly in the equity of an associate or joint venture, the Company recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Company and its associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognise an additional impairment loss on the Company's investment in its associate or joint ventures. The Company determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the amount in the statement of comprehensive income.

Upon loss of significant influence over the associate, the Company measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in the statement of comprehensive income.

Upon loss of joint control and provided the former jointly controlled entity does not become a subsidiary or associate, the Company measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the former jointly controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal is recognised in the statement of comprehensive income. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Foreign currency translation

The consolidated financial statements are presented in Kazakhstan Tenge, which is the Company's functional and presentation currency. Each subsidiary, associate and joint venture of the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the statement of comprehensive income. 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.

The assets and liabilities of foreign operations are translated into Tenge at the rate of exchange ruling at the reporting date and their statements of comprehensive income are translated at the exchange rates at the date of transaction. The exchange differences arising on the translation are recognised in other comprehensive income or loss. On disposal of a foreign entity, the accumulated foreign currency translation reserve relating to that particular foreign operation is recognised in the statement of comprehensive income.

2.4 Oil and natural gas exploration and development expenditure

Exploration license costs

Exploration license costs are capitalized within intangible assets and amortized on a straight-line basis over the estimated period of exploration. Each property is reviewed on an annual basis to confirm that drilling activity is planned. If no future activity is planned, the remaining balance of the license cost is written off. Upon determination of economically recoverable reserves (“proved reserves” or “commercial reserves”), amortization ceases and the remaining costs are aggregated with exploration expenditure and held on a field-by-field basis as proved properties awaiting approval within other intangible assets. When development is approved internally, and all licenses and approvals are obtained from the appropriate regulatory bodies, then the relevant expenditure is transferred to property, plant and equipment (oil and natural gas properties).

Exploration expenditure

Geological and geophysical exploration costs are charged against income as incurred. Costs directly associated with an exploration well are capitalized within intangible assets (exploration and evaluation assets) until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials, fuel and energy used, rig costs and payments made to contractors. If hydrocarbons are not found, the exploration expenditure is written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells (exploration or exploratory-type stratigraphic test wells), are likely to be capable of commercial development, then the costs continue to be carried as an asset.

All such carried costs are subject to technical, commercial and management review 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 costs are written off.

When proved reserves of oil and natural gas are determined and development is sanctioned, the relevant expenditure is transferred to property, plant and equipment (oil and natural gas properties).

Development expenditure

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, except for expenditure related to development or delineation wells which do not find commercial quantities of hydrocarbons and are written off as dry hole expenditures in the period, is capitalized within property, plant and equipment.

2.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation, depletion and impairment.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligation, if 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

Oil and gas properties are depreciated using a unit-of-production method over proved developed reserves. Certain oil and gas property assets with useful lives less than the remaining life of the fields are depreciated on a straight-line basis over useful lives of 4-15 years.

Other property, plant and equipment principally comprise buildings and machinery and equipment which are depreciated on a straight-line basis over average useful lives of 24 and 7 years, respectively.

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 derecognised 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 statement of comprehensive income in the period the item is derecognized.

2.6 Impairment of non-financial assets

The Company assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the Company makes an estimate of its recoverable amount. An asset group’s recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing recoverable value, 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.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset’s revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

2.7 Intangible assets

Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses. Intangible assets include capitalized expenditure for exploration and evaluation and other intangible assets, which are mainly comprised of computer software. 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. Computer software costs have an estimated useful life of 3 to 7 years and are amortized on a straight line basis over this period.

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

2.8 Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through the statement of comprehensive income, held to maturity investments, available for sale financial assets, loans and trade and other receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through the statement of comprehensive income, directly attributable transaction costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

The Company determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Company has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortized cost using the effective interest method.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement trade and other receivables are carried at amortized cost using the effective interest method less any allowance for impairment.

Available for sale financial investments

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified in any of the other categories. After initial measurement, available for sale financial assets are measured at fair value with unrealized gains or losses recognised in other comprehensive income or loss until the investment is derecognised or determined to be impaired at which time the cumulative reserve is recognised in the statement of comprehensive income.

Fair value

Fair value is the price that would be received from sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

Fair value (continued)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Impairment of financial assets

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been 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 been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in the statement of comprehensive income.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in the statement of comprehensive income.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Available for sale financial investments

If an available for sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognised in the statement of comprehensive income, is transferred from equity to the statement of comprehensive income. Reversals in respect of equity instruments classified as available for sale are not recognised in the statement of comprehensive income. Reversals of impairment losses on debt instruments are reversed through the statement of comprehensive income, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income.

Derecognition of financial assets

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Inventories

Inventories are stated at the lower of cost determined on a first-in first-out ("FIFO") basis and net realizable value. Cost includes all costs incurred in the normal course of business in bringing each item to its present location and condition. The cost of crude oil is the cost of production, including the appropriate proportion of depreciation, depletion and amortization ("DD&A") and overheads based on normal capacity. Net realizable value of crude oil is based on estimated selling price in the ordinary course of business less any costs expected to be incurred to complete the sale. Materials and supplies inventories are carried at amounts that do not exceed the expected amounts recoverable in the normal course of business.

2.10 Value added tax (VAT)

The tax authorities permit the settlement of VAT on sales and purchases on a net basis. VAT recoverable represents VAT on domestic purchases net of VAT on domestic sales. Export sales are zero rated. However, VAT offset is allowed based on the results of a tax audit carried out by the tax authorities to confirm VAT recoverable.

If the effect of the time value of money is material, long-term VAT recoverable is discounted using a risk-free rate that reflects, where appropriate, the risks specific to the asset.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with banks, other short-term highly liquid investments with original maturities of three months or less.

2.12 Share capital

Share Capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity.

Treasury Shares

Where the Company or its subsidiaries purchases the Company's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from equity as treasury shares until such time as the shares are cancelled or reissued. No gain or loss is recognised in the statement of comprehensive income on the purchase, sale, issue or cancellation of the Company's own equity instruments. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

Dividends are recognised 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 financial statements are authorised for issue.

Share-based payment transactions

Employees (including senior executives) of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued and some services received by the entity as consideration cannot be specifically identified, the unidentified goods or services received (or to be received) are measured as the difference between the fair value of the share-based payment transaction and the fair value of any identifiable goods or services received at the grant date. This is then capitalized or expensed as appropriate.

The cost of equity-settled transactions with employees for awards granted on or after July 1, 2007 is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using a Black-Scholes-Merton option pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Share capital (continued)

Share-based payment transactions (continued)

The expense or credit for a period, in the statement of comprehensive income, represents the movement in cumulative expense recognised as at the beginning and end of that period. No expense is recognised for awards that do not ultimately vest.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. All cancellations of equity-settled transaction awards are treated equally. Where the share-based award is cancelled on forfeiture any cost previously recognised is reversed through equity.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

2.13 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.14 Provisions

Provisions are recognised when the Company 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 Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised.

2.16 Employee benefits

The Company withholds 10% from the salary of its employees as the employees' contribution to their pension fund. The pension deductions are limited to a maximum of 183,443 Tenge per month in 2017 (2016: 171,442 Tenge per month). Under the current Kazakhstan legislation, employees are responsible for their retirement benefits. In addition the Company is required to contribute an additional 5% of the salary for a majority of its employees to their pension funds.

Long-term employee benefits

The Company provides long-term employee benefits to employees before, on and after retirement, in accordance with the collective agreements between the Company and its employees and other documents. The collective agreement and other documents provide for certain one-off retirement payments, early retirement benefits, 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 and early retirement benefits 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Employee benefits (continued)

Long-term employee benefits (continued)

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. 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.

2.17 Revenue recognition

The Company sells crude oil and oil products under short-term agreements priced by reference to Platt's index quotations and adjusted for freight, insurance and quality differentials. Title typically passes and revenues are recognised when crude oil or oil products are physically placed onboard a vessel or off loaded from the vessel, transferred into pipe or other delivery mechanism depending on the contractually agreed terms.

The Company's crude oil and oil products sale contracts generally specify maximum quantities of crude oil or oil products to be delivered over a certain period. Crude oil or oil products shipped but not yet delivered to the customer are recorded as inventory in the statement of financial position.

2.18 Income taxes

Current income tax expense 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.

Excess profit tax (EPT) is treated as an income tax and forms part of income tax expense. In accordance with the applicable tax legislation enacted as of January 1, 2009, the Company accrues and pays EPT in respect of each subsurface use contract, at varying rates based on the ratio of aggregate annual income to deductions for the year for a particular subsurface 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 subsurface use contract in excess of 25% of the deductions attributable to each contract.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax 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.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, an associate and joint ventures except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities during the reporting period. The most significant estimates are discussed below:

Oil and gas reserves

Oil and gas reserves are a material factor in the Company's computation of DD&A. The Company estimates its reserves of oil and gas in accordance with the methodology of the Society of Petroleum Engineers (SPE). In estimating its reserves under SPE methodology, the Company 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 chiefly 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 DD&A. The Company has included in proved reserves only those quantities that are expected to be produced during the approved license period. This is due to the uncertainties surrounding the outcome of renewal procedures, since the renewal is ultimately at the discretion of the Government. An increase in the Company's license periods and corresponding increase in reported reserves would generally lead to lower DD&A expense and could materially affect earnings and may be an indicator of impairment reversal. A reduction in proved developed reserves will increase DD&A expense (assuming constant production), reduce income and could also result in an immediate write-down of the property's book value. Given the relatively small number of producing fields, it is possible that any changes in reserve estimates year on year could significantly affect prospective charges for DD&A.

Recoverability of long-term assets

The Company assesses assets or cash-generating units (CGU) for impairment and for reversal of previously impaired amounts whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable or that previously recorded impairment may no longer exist or may have decreased. Where an indicator of impairment or reversal 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.

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

Asset retirement obligations

Under the terms of certain contracts, legislation and regulations the Company has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Company's obligation relates to the ongoing closure of all non-productive wells and final closure activities such as removal of pipes, buildings and recultivation of the contract territories. Since the license terms cannot be extended at the discretion of the Company, the settlement date of the final closure obligations has been assumed to be the end of each license period.

If the asset retirement obligations were to be settled at the end of the economic life of the properties, the recorded obligation would increase significantly due to the inclusion of all abandonment and closure costs. The extent of the Company's obligations to finance the abandonment of wells and for final closure costs depends on the terms of the respective contracts and current legislation. Where neither contracts nor legislation include an unambiguous obligation to undertake or finance such final abandonment and closure costs at the end of the license term, no liability has been recognised. There is some uncertainty and significant judgment involved in making such a determination.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Asset retirement obligations (continued)

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 Company 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. The Company reviews site restoration provisions at each reporting date, 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 several years in the future and, in addition to ambiguities in the legal requirements, the Company's estimate can be affected by changes in asset removal technologies, costs and industry practice. Approximately 15.46% and 16.29% of the provision at December 31, 2017 and 2016 relates to final closure costs. The Company 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 carrying value of obligation at December 31, 2017 were 5.0% and 10.0% respectively (2016: 5.0% and 10.0%). Movements in the provision for asset retirement obligations are disclosed in Note 13.

Environmental remediation

The Company 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 a discounted basis based on management's expectations with regard to timing of the procedures required. The Company's environmental remediation provision represents management's best estimate based on an independent assessment of the anticipated expenditure necessary for the Company to remain in compliance with the current regulatory regime in Kazakhstan.

Further uncertainties related to environmental remediation obligations are detailed in Note 23. Movements in the provision for environmental remediation obligations are disclosed in Note 13.

Taxation

Deferred tax is calculated with respect to both corporate income tax ("CIT") and excess profit tax ("EPT"). Deferred CIT and EPT are calculated on temporary differences for assets and liabilities allocated to contracts for subsoil use at the expected rates. Both deferred CIT and EPT bases disclosed in Note 19 are calculated under the terms of the tax legislation enacted in the tax code, further uncertainties related to taxation are detailed in Note 23.

Long term employee benefits

The costs of the defined long-term employee benefits to employees 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 on the future. These include 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.

The mortality rate is based on publicly available mortality tables. Increase in future salary and pension is based on expected future inflation rates for the respective country.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Long term employee benefits (continued)

Principal actuarial assumptions used for valuation of employee benefit obligation as at December 31, 2017 and 2016 were as follows:

	2017	2016
Discount rate	10.00%	10.00%
Inflation rate	5.00%	5.00%
Expected increase in long-term benefits	7.00%	7.00%
Expected salary increase	7.00%	7.00%

As at December 31, 2017 and 2016 the average duration of post-retirement benefit obligation was 10 years.

Sensitivity analysis of employee benefits obligation for the change in significant estimates as at December 31, 2017.

	Decrease	Increase
Discount rate	-0.5%	+0.5%
	794	(738)
Rate of increase in long-term benefits	-0.5%	+0.5%
	(746)	796

4. BUSINESS COMBINATION

On June 15, 2017 the Company acquired a 49% share in KS EP Investments BV ("KS EP Investments") from MOL Hungarian Oil and Gas Plc. ("MOL") for 1 US Dollar and following the acquisition now owns a 100% interest in KS EP Investments.

KS EP Investments is a subsoil use right holder under the Contract for Exploration of Oil, Gas and Condensate at Karpovskiy Severniy contract area in the Western Kazakhstan region. The exploration license expired on December 31, 2017 and currently an extension is being negotiated with the Ministry of Energy of Kazakhstan.

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

	Fair value as of 15 June, 2017
Other financial assets	**119**
Cash in banks	**181**
Total assets	**300**
Accrued liability	**(2,547)**
Withholding tax payable	**(981)**
Provisions	**(422)**
Trade payable	**(21)**
Other current liabilities	**(2)**
Total liabilities	**(3,973)**
Total identifiable net liabilities	**(3,673)**
Less:	
Fair value of previously held investment in 51% of KS EP Investments	**–**
Consideration paid	**–**
Total consideration transferred	**–**
Loss on acquisition	**(3,673)**
Other comprehensive income reclassified to profit and loss	**424**
Net loss on acquisition	**(3,249)**

The Company and MOL had a preexisting relationship with KS EP Investments in the form of a loan issued and expired on June 30, 2017 with a 6.7% annual interest rate. Total undiscounted outstanding balance of loan including interest accrued comprised 106,880 thousands US Dollars (33,950 million Tenge) at acquisition date. As at December 31, 2017 the loan was fully repaid by virtue of an increase in KS EP Investment share capital.

4. BUSINESS COMBINATION (continued)

Considering that the Company fully impaired its 51% share in loan receivable from KS EP Investments and acquired the right for 49% of loan receivable from KS EP Investments for 0.5 US Dollars, the fair value of 100% receivable from KS EP Investments is valued at zero at the acquisition date. Accordingly, the loan payable of KS EP Investments was also valued at zero as of June 15, 2017, and the Company has recorded a loss on acquisition of a subsidiary in the amount of 3,249 million Tenge included in these accounts. As the investments in KS EP Investments were fully impaired, difference between consideration paid and net liabilities acquired was expensed to profit and loss.

The loss incurred by KS EP Investments for the period from June 15, 2017 till December 31, 2017 is 1,404 million Tenge and the amount of loss that would have been incurred if the acquisition took place at the beginning of 2017 is 570 million Tenge.

5. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Other assets	Construction work-in-progress	Total
Net book amount at January 1, 2016	**174,384**	**44,772**	**15,211**	**234,367**
Additions	164	2,796	108,977	111,937
Change in ARO estimate	(1,487)	–	–	(1,487)
Disposals	(936)	(874)	(1,526)	(3,336)
Transfers from construction-in-progress	67,230	2,975	(70,205)	–
Internal transfers	(2,246)	2,287	(41)	–
Depreciation charge	(23,112)	(6,772)	–	(29,884)
Net book amount at December 31, 2016	**213,997**	**45,184**	**52,416**	**311,597**
Additions	516	3,285	99,136	102,937
Change in ARO estimate	1,213	–	–	1,213
Disposals	(1,940)	(1,220)	(698)	(3,858)
Transfers from construction-in-progress	80,950	8,918	(89,868)	–
Internal transfers	1,016	(1,061)	45	–
Depreciation charge	(28,681)	(6,048)	–	(34,729)
Net book amount at December 31, 2017	**267,071**	**49,058**	**61,031**	**377,160**
At December 31, 2017				
Cost	961,876	129,041	68,668	1,159,585
Accumulated depreciation	(366,170)	(42,689)	–	(408,859)
Accumulated impairment	(328,635)	(37,294)	(7,637)	(373,566)
Net book amount	**267,071**	**49,058**	**61,031**	**377,160**
At December 31, 2016				
Cost	894,760	124,977	60,492	1,080,229
Accumulated depreciation	(342,356)	(39,241)	–	(381,597)
Accumulated impairment	(338,407)	(40,552)	(8,076)	(387,035)
Net book amount	**213,997**	**45,184**	**52,416**	**311,597**

6. INTANGIBLE ASSETS

	Exploration and evaluation assets	Other intangibles	Total
Net book amount at January 1, 2016	**7,103**	**2,516**	**9,619**
Additions	2,492	1,038	3,530
Disposals	(605)	(45)	(650)
Amortization charge	(79)	(813)	(892)
Net book amount at December 31, 2016	**8,911**	**2,696**	**11,607**
Additions	5,051	1,570	6,621
Disposals	(427)	(15)	(442)
Impairment	(593)	–	(593)
Amortization charge	–	(897)	(897)
Net book amount at December 31, 2017	**12,942**	**3,354**	**16,296**
At December 31, 2017			
Cost	32,319	10,492	42,811
Accumulated amortization	(17,876)	(7,036)	(24,912)
Accumulated impairment	(1,501)	(102)	(1,603)
Net book amount	**12,942**	**3,354**	**16,296**
At December 31, 2016			
Cost	27,695	9,145	36,840
Accumulated amortization	(17,876)	(6,347)	(24,223)
Accumulated impairment	(908)	(102)	(1,010)
Net book amount	**8,911**	**2,696**	**11,607**

7. FINANCIAL ASSETS

Other financial assets

	2017	2016
US dollar denominated held to maturity deposits	32,100	33,276
Tenge denominated held to maturity deposits	2,678	2,682
Other	–	3
Total non-current	**34,778**	**35,961**
US dollar denominated term deposits	887,214	980,958
Great Britain pound denominated term deposits	2,473	2,299
Total current	**889,687**	**983,257**
	924,465	**1,019,218**

As at December 31, 2017 the non-current US dollar denominated term deposits include restricted deposits in the amount of 32,100 million Tenge (December 31, 2016: 33,276 million Tenge), which are kept in blocked accounts designated as a liquidation fund per requirements of subsoil use contracts.

The weighted average interest rate on US dollar denominated term deposits as at December 31, 2017 was 1.73% (2016: 2.37%).

7. FINANCIAL ASSETS (continued)

Trade and other receivables

	2017	2016
Trade receivables	131,272	73,348
Dividend receivables	1,121	670
Other	1,291	1,178
Allowance for doubtful receivables	(1,004)	(1,075)
	132,680	**74,121**

As at December 31, 2017 the Company's trade receivables included receivables from sales of crude oil to KazMunaiGas Trading AG ("KMG Trading") a subsidiary of the Parent Company, amounting to 90,323 million Tenge (2016: 57,503 million Tenge).

As at December 31, 2017 the Company's trade receivables also included receivables from sales of refined products to KazMunaiGas Onimdery LLP ("KMG Onimdery"), subsidiary of the Parent Company, amounting to 36,874 million Tenge (2016: 13,704 million Tenge). Trade receivables from KMG Onimdery includes 22,714 million Tenge that is overdue (2016: nil). No provisions were accrued for these amounts.

As at December 31, 2017 69% of the Company's trade receivables are denominated in USD (2016: 78%).

The ageing analysis of trade and other receivables is as follows as at December 31:

	2017	2016
Current	108,969	73,606
0-30 days overdue	9,142	–
30-90 days overdue	14,277	444
90 and more days overdue	292	71
	132,680	**74,121**

Cash and cash equivalents

	2017	2016
US dollar denominated term deposits with banks	392,350	34,957
Tenge denominated term deposits with banks	19,613	30,078
US dollar denominated cash in banks and on hand	8,724	95,402
Tenge denominated cash in banks and on hand	728	1,467
Great Britain pound denominated cash in bank and on hand	228	187
	421,643	**162,091**

Cash in banks earns interest based on daily bank deposit rates. Deposits with banks are made for varying periods between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective deposit rates.

The weighted average interest rate on Tenge denominated deposits as at December 31, 2017 was 7.91% (2016: 14.17%). The weighted average interest rate on US dollar denominated deposits in as at December 31, 2017 was 0.83% (2016: 1.79%).

8. INVESTMENTS IN JOINT VENTURES AND RECEIVABLE FROM A JOINTLY CONTROLLED ENTITY

	Ownership share	2017	2016
Interest in JV Kazgermunai LLP ("Kazgermunai")	50%	49,517	71,634
Interest in JV Ural Group Limited BVI ("UGL")	50%	78,031	72,898
		127,548	**144,532**

8. INVESTMENTS IN JOINT VENTURES AND RECEIVABLE FROM A JOINTLY CONTROLLED ENTITY (continued)

Movement in investment in joint ventures during the reporting period:

	2017	2016
Carrying amount at January 1	**144,532**	**154,453**
Share of total comprehensive income	17,292	2,734
Dividends declared	(40,954)	(15,107)
Foreign currency translation difference	(442)	(2,698)
Share in additional paid in capital	7,120	5,150
Carrying amount at December 31	**127,548**	**144,532**

Kazgermunai and UGL are non-listed companies and there is no quoted market price available for their shares. The joint ventures' reporting period is the same as the Company's reporting period.

Kazgermunai

On April 24, 2007 the Company acquired from NC KMG a 50% participation interest in Kazgermunai, which is involved in oil and natural gas production in south central Kazakhstan.

The following table illustrates the summarized financial information of Kazgermunai based on its IFRS financial statements reflecting equity method accounting adjustments:

	2017	2016
Cash and cash equivalents	37,914	39,695
Other current assets	8,467	11,151
Non-current assets	135,767	153,839
	182,148	**204,685**
Current liabilities	54,424	33,907
Non-current liabilities	28,691	27,510
	83,115	**61,417**
Net assets	**99,033**	**143,268**
Proportion of the Company's ownership	**50%**	**50%**
Carrying value of the investment	**49,517**	**71,634**

	2017	2016
Revenue	187,527	155,633
Operating expenses	(96,410)	(126,851)
- *including depreciation and amortization*	*(28,021)*	*(36,325)*
- *including equity method accounting adjustments*	*(6,051)*	*(8,393)*
Profit from operations	91,117	28,782
Finance income	1,306	946
Finance cost	(1,015)	(1,231)
Profit before tax	**91,408**	**28,497**
Income tax expense	(53,071)	(19,873)
Profit and other comprehensive income for the year	**38,337**	**8,624**
The Company's share of the comprehensive income for the year	**19,169**	**4,312**

Kazgermunai is unable to distribute its profits unless it obtains consent from the two venture partners.

8. INVESTMENTS IN JOINT VENTURES AND RECEIVABLE FROM A JOINTLY CONTROLLED ENTITY (continued)

UGL

On April 15, 2011 the Company acquired from Exploration Venture Limited (EVL) 50% of the common shares of UGL. UGL holds 100% equity interest in Ural Oil and Gas LLP (UOG), which is involved in oil and gas exploration in west Kazakhstan. In April 2015 UOG transferred from an exploration license to a production license for the Rozhkovskoye field. The production license is valid for 25 years. In May 2015 UOG has extended its exploration license for Fyodorovskoye field until May 2018.

The following table illustrates the summarized financial information of UGL reflecting equity method accounting adjustments:

	2017	2016
Cash and cash equivalents	47	297
Other current assets	10	13
Non-current assets	219,834	215,892
	219,891	**216,202**
Current liabilities	188	1,743
Non-current financial liabilities	54,733	57,970
Non-current liabilities	8,908	10,694
	63,829	**70,407**
Net assets	**156,062**	**145,795**
Proportion of the Company's ownership	**50%**	**50%**
Carrying value of the investment	**78,031**	**72,898**

	2017	2016
Revenue	8	40
Operating expenses	(1,197)	(1,373)
Loss from operations	(1,189)	(1,333)
Finance income	17	17
Finance cost	(1,890)	(1,652)
Loss before tax	**(3,062)**	**(2,968)**
Income tax expense	(691)	(187)
Loss and other comprehensive loss for the year	**(3,753)**	**(3,155)**
The Company's share of the comprehensive loss for the year	**(1,877)**	**(1,578)**

During 2017 the Company provided interest free loans in the amount of 3,734 thousand US dollars (1,218 million Tenge) to UGL (2016: 10,950 thousand US dollars or 3,742 million Tenge). On initial recognition the loans were recognised at the fair value of 1,011 thousand US dollars (330 million Tenge) determined by discounting future cash flows (2016: 3,655 thousand US dollars or 1,249 million Tenge). Investments in UGL were adjusted accordingly to recognize effect of discounting.

During 2017 the Company reviewed its expectations with respect to the repayment of the loans from UGL. As a result of the review the payback period of the loans was extended from 2023-2024 to 2023-2026. This extension resulted in a decrease of the carrying amount of these loans by 6,198 million Tenge. Carrying value of the loans from UGL totaled 84,403 thousand US dollars (28,049 million Tenge) at December 31, 2017 (2016: 88,927 thousand US dollars or 29,638 million Tenge).

The fair value on initial and additional shareholder loans, which are given on an interest free basis, is determined by discounting future cash flows for the loan using a discount rate of 15%.

8. INVESTMENTS IN JOINT VENTURES AND RECEIVABLE FROM A JOINTLY CONTROLLED ENTITY (continued)

Receivable from jointly controlled entity CITIC Canada Energy Limited ("CCEL")

In 2007 the Company purchased a 50% interest in a jointly controlled entity, CCEL, whose investments are involved in oil and natural gas production in western Kazakhstan, from its co-investor, State Alliance Holdings Limited, a holding company ultimately belonging to CITIC Group, a company 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 the Company 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 amounts to 508.8 million US dollars (169,101 million Tenge) as at December 31, 2017 (2016: 512.3 million US dollars or 170,760 million Tenge). The Total Maximum Amount represents the balance of the Company's share of the original purchase price funded by CITIC plus accrued interest. The Company has no obligation to pay amounts to CITIC unless it receives an equivalent amount from CCEL. Accordingly, the Company recognizes in its statement of financial position only the right to receive dividends from CCEL in the Guaranteed Amount of 26.9 million US Dollars which yields an effective interest rate of 15% per annum on an annual basis until 2020, plus the right to retain any dividends in excess of the total Maximum Guaranteed Amount. The carrying amount of this receivable at December 31, 2017 amounted to 114 million US dollars (37,953 million Tenge) (2016: 103 million US dollars or 34,227 million Tenge) net of unamortized transaction costs.

Additionally, the Company 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.

9. INVESTMENTS IN ASSOCIATE

	Ownership share	2017	2016
Interest in Petrokazakhstan Inc. ("PKI")	33%	116,970	135,633

PKI is a non-listed company and there is no quoted market price available for its shares. PKI is involved in field exploration, and development, oil and gas production, acquisition of oil fields and selling of crude oil and oil products. PKI's main oil and natural gas production assets are located in south central Kazakhstan. The Company acquired a 33 percent stake in PKI in December 2009.

The associate's reporting period of the financial statements is the same as Company's reporting period.

Movement in investment in associate during the reporting period:

	2017	2016
Carrying amount at 1 January	**135,633**	**154,241**
Share of the total comprehensive income / (loss)	3,592	(16,201)
Dividends declared	(21,530)	–
Foreign currency translation difference	(725)	(2,407)
Carrying amount at December 31	**116,970**	**135,633**

The following table illustrates the summarized financial information of PKI based on its IFRS financial statements reflecting equity method accounting adjustments:

	2017	2016
Cash and cash equivalents	45,919	54,443
Other current assets	38,985	42,735
Non-current assets	359,332	433,384
	444,236	**530,562**
Current liabilities	30,659	20,300
Non-current liabilities	59,122	99,253
	89,781	**119,553**
Net assets	**354,455**	**411,009**
Proportion of the Company's ownership	**33%**	**33%**
Carrying value of the investment	**116,970**	**135,633**

9. INVESTMENTS IN ASSOCIATE (continued)

	2017	2016
Revenue	137,912	128,809
Operating expenses	(127,742)	(180,166)
- *including depreciation and amortization*	*(25,781)*	*(45,265)*
- *including equity method accounting adjustments*	*(23,076)*	*(33,639)*
Profit / (loss) from operations	10,170	(51,357)
Share in profit of joint ventures	23,371	7,282
Finance income	246	256
Finance cost	(3,279)	(5,217)
Profit / (loss) before tax	30,508	(49,036)
Income tax (expense) / benefit	(20,964)	2,570
Profit / (loss) for the year	**9,544**	**(46,466)**
Other comprehensive income / (loss) to be reclassified to profit and loss in subsequent periods	1,342	(2,628)
Total comprehensive profit / (loss) for the year	**10,886**	**(49,094)**
The Company's share of the comprehensive income / (loss) for the year	**3,592**	**(16,201)**

10. INVENTORIES

	2017	2016
Crude oil	11,134	7,915
Refined products	5,108	4,531
Materials	14,455	12,328
	30,697	**24,774**

As at December 31, 2017 the Company had 218,607 tons of crude oil and 73,168 tons of refined products (2016: 200,071 tons of crude oil and 92,696 tons of refined products) in storage and transit.

11. SHARE CAPITAL

	Shares outstanding	
	Number of shares	Tenge million
As at January 1, 2016	**68,162,635**	**163,004**
Reduction of treasury stock due to exercise of share options	209,232	2,339
As at December 31, 2016	**68,371,867**	**165,343**
Reduction of treasury stock due to exercise of share options	6,673	75
As at December 31, 2017	**68,378,540**	**165,418**

11.1 Share capital

Authorized shares

The total number of authorized shares is 74,357,042 (2016: 74,357,042). 70,220,935 of authorized shares are ordinary shares (2016: 70,220,935) and 4,136,107 are non-redeemable preference shares (2016: 4,136,107). 43,087,006 of the outstanding shares are owned by the Parent Company as at December 31, 2017 (2016: 43,087,006). The shares of the Company have no par value.

Shares held in Treasury

As at December 31, 2017 the Company holds purchased ordinary and preference shares of 3,905,355 and 2,073,147, respectively (2016: 3,912,028 and 2,073,147).

Dividends

In accordance with Kazakhstan legislation, dividends may not be declared if the Company has negative equity in its Kazakh statutory financial statements or if the payment of dividends would result in negative equity in the statutory financial statements. Total dividends per share recognised as distributions to equity holders during 2017 amounted to 289 Tenge per one ordinary and preferred share (2016: 25 Tenge per share for preferred shares).

11. SHARE CAPITAL (continued)

11.2 Employee share option plans

The Company's share option plan elapsed in December 2016 and therefore no grants or expense were recognized during the year ended December 31, 2017 (2016: 1,410 million Tenge).

Under various existing employee option plans in prior years the Company granted share options to incentivize and reward key employees, senior executives, and member of the board of directors, except for independent directors. As at December 31, 2017 all previously granted options have vested.

Movement in the year

The following table illustrates the number of GDR's (No.) and weighted average exercise prices in US dollars per GDR (WAEP) of and movements in share options during the year:

	2017		2016	
	No.	**WAEP**	**No.**	**WAEP**
Outstanding at January 1	**780,457**	**18.03**	**1,557,560**	**10.34**
Granted during the year	−	−	625,391	−
Exercised during the year	(40,038)	−	(1,255,391)	−
Forfeited during the year	(29,359)	15.05	(24,015)	18.31
Expired during the year	−	−	(123,088)	13.00
Outstanding at December 31	**711,060**	**19.17**	**780,457**	**18.03**
Exercisable at December 31	**711,060**	**19.17**	**780,457**	**18.03**

The weighted average remaining contractual life for share options outstanding as at December 31, 2017 is 0.75 year (2016: 1.75 years). The range of exercise price for options outstanding at December 31, 2017 was 18.05 US Dollars − 26.10 US dollars per GDR (2016: 0.00 US Dollars − 26.10 US Dollars). The Company's option plan is an equity settled plan and the fair value is measured at the grant date.

11.3 Kazakhstan Stock Exchange disclosure requirement

The Kazakhstan Stock Exchange enacted on October 11, 2010 a requirement for disclosure of the total equity less other intangible assets (Note 6) per shares outstanding as at year end. As at December 31, 2017 the amount per share outstanding is 30,790 Tenge (2016: 28,240 Tenge).

12. EARNINGS PER SHARE

	2017	**2016**
Weighted average number of all shares outstanding	68,376,953	68,283,721
Profit for the year	195,359	131,576
Basic and diluted earnings per share, thousands tenge	2.86	1.93

The above presentation includes both ordinary and preferred shares as preferred shareholders equally share distributable profits, which results in identical earnings per share for both classes of shares.

13. PROVISIONS

	Environmental remediation	Taxes and related fines and penalties	Asset retirement obligation	Employee benefits	Total
At January 1, 2016	**17,610**	**60,086**	**21,322**	**16,256**	**115,274**
Additional provisions	−	4,952	164	1,043	6,159
Unused amounts reversed	−	(18,985)	−	−	(18,985)
Unwinding of discount	1,265	−	1,670	1,278	4,213
Changes in estimate	(3,387)	−	(5,441)	(563)	(9,391)
Used during the year	(1,232)	(2,667)	(545)	(1,600)	(6,044)
At December 31, 2016	**14,256**	**43,386**	**17,170**	**16,414**	**91,226**
Current portion	487	43,386	820	1,233	45,926
Non-current portion	13,769	−	16,350	15,181	45,300
At January 1, 2017	**14,256**	**43,386**	**17,170**	**16,414**	**91,226**
Additional provisions	8,592	2,074	2,248	1,114	14,028
Unused amounts reversed	−	(15,982)	(265)	−	(16,247)
Unwinding of discount	1,598	−	1,732	1,567	4,897
Changes in estimate	(458)	−	(41)	496	(3)
Used during the year	(1,164)	(6,542)	(902)	(1,653)	(10,261)
At December 31, 2017	**22,824**	**22,936**	**19,942**	**17,938**	**83,640**
Current portion	5,824	22,936	1,543	1,492	31,795
Non-current portion	17,000	−	18,399	16,446	51,845

Environmental remediation and asset retirement obligation

An obligation has been recognized for asset retirement costs associated with the approved plan to return depleted oil fields to the Government. The Company has recognized an additional provision for environmental remediation related to historical contamination at its oil and gas fields. The Company engaged external consultants to estimate the provisions.

Employee benefits

The Company has collective labor agreements for social benefits of employees. Employee benefits are considered as other long-term employee benefits. The entitlement to these benefits is usually conditional on the completion of a minimum service period. The expected cost of these benefits is accrued over the year of employment using the same accounting methodology as used for the defined benefit plan. These benefits are unfunded.

Change in employee defined benefit obligations during 2017 and 2016 are as follows:

	2017	2016
Present value of defined benefits obligation at the beginning of the year	**16,414**	**16,256**
Current service cost	1,092	1,001
Interest cost	1,567	1,278
Past service cost	−	90
Actuarial losses / (gains) – charged to profit and loss	22	(48)
Actuarial losses / (gains) – charged to other comprehensive income	496	(563)
Benefits paid	(1,653)	(1,600)
Present value of defined benefits obligation at the end of the year	**17,938**	**16,414**
Less: current portion of present value of defined benefit obligation	1,492	1,233
Non-current portion of present value of defined benefits obligation	**16,446**	**15,181**

	2017	2016
Present value of defined benefits liability at the end of the year	17,938	16,414
Net liabilities	**17,938**	**16,414**
Current service cost	1,092	1,001
Interest cost	1,567	1,278
Past service cost	−	90
Actuarial losses / (gains)	22	(48)
Costs recognised during the year	**2,681**	**2,321**

Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

14. REVENUE

	2017	2016
Export:		
Crude oil	709,619	512,699
Refined products	68,826	54,733
Gas products	125	162
Domestic:		
Refined products	154,244	126,676
Gas products	10,246	7,683
Crude oil	–	15,459
Other sales and services	13,397	9,742
	956,457	**727,154**

15. PRODUCTION EXPENSES

	2017	2016
Employee benefits	163,866	152,422
Refinery processing costs	54,742	48,548
Repairs and maintenance	34,201	24,434
Materials and supplies	21,898	21,007
Energy	21,534	20,958
Change in environmental remediation provision	8,134	(3,463)
Transportation services	7,167	5,435
Change in asset retirement obligation	288	(3,790)
Change in crude oil balance	(3,362)	1,303
Other	10,005	7,899
	318,473	**274,753**

16. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
Transportation expenses	102,971	91,851
Employee benefits	19,059	18,331
Consulting and audit services	4,396	3,238
Repairs and maintenance	1,389	1,212
Sponsorship	1,038	2,093
Agency fee	–	5,407
Net reversal of fines and penalties	(5,258)	(14,117)
Other	11,729	7,007
	135,324	**115,022**

17. TAXES OTHER THAN ON INCOME

	2017	2016
Export customs duty	100,962	76,411
Mineral extraction tax	91,565	39,188
Rent tax	79,888	18,164
Property tax	6,568	6,699
Other taxes	9,087	4,969
	288,070	**145,431**

18. FINANCE INCOME / COSTS

18.1 Finance income

	2017	2016
Interest income on deposits with banks	21,383	19,157
Interest income on receivable from joint ventures and jointly controlled entity	8,146	8,873
Other	231	2,007
	29,760	**30,037**

18.2 Finance costs

	2017	2016
Unwinding of discount on asset retirement obligation	1,732	1,670
Unwinding of discount on ecology remediation obligation	1,598	1,265
Valuation allowance on loan to KS EP	–	1,404
Other	981	1,503
	4,311	**5,842**

19. INCOME TAXES

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

	2017	2016
Corporate income tax	45,084	17,936
Excess profit tax	2,290	(1,203)
Current income tax	**47,374**	**16,733**
Corporate income tax	(482)	20,514
Excess profit tax	(1,274)	(171)
Deferred income tax	**(1,756)**	**20,343**
Income tax expense	**45,618**	**37,076**

The following table provides a reconciliation of the Kazakhstan income tax rate to the effective tax rate of the Company on profit before tax.

	2017	2016
Profit before tax	240,977	168,652
Income tax	45,618	37,076
Effective tax rate	**19%**	**22%**
Statutory income tax	20%	20%
Increase / (decrease) resulting from		
Withholding tax	1%	1%
Excess profit tax	1%	–
Income tax of prior years	1%	(2%)
Reversal of tax provision	(4%)	–
Share of result of associate and joint ventures	(2%)	1%
Non-taxable income	–	(1%)
Allowance for VAT recoverable	(2%)	(2%)
Non-deductible expenses	4%	5%
Effective tax rate	**19%**	**22%**

Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

19. INCOME TAXES (continued)

The movements in the deferred tax assets and liabilities relating to CIT and EPT were as follows:

Deferred tax assets:

	Fixed and Intangible assets	Provisions	Taxes	Other	Total
At January 1, 2016	**50,023**	**13,633**	**4,456**	**3,792**	**71,904**
Recognised in the statement of comprehensive income	(10,681)	(1,479)	(4,203)	(4,082)	(20,445)
At December 31, 2016	**39,342**	**12,154**	**253**	**(290)**	**51,459**
Recognised in the statement of comprehensive income	(12,884)	3,390	9,521	1,729	1,756
At December 31, 2017	**26,458**	**15,544**	**9,774**	**1,439**	**53,215**

Deferred tax liabilities:

	Fixed and Intangible assets	Provisions	Taxes	Other	Total
At January 1, 2016	**(240)**	–	–	–	**(240)**
Recognised in the statement of comprehensive income	102	–	–	–	102
At December 31, 2016	**(138)**	–	–	–	**(138)**
At December 31, 2017	**(138)**	–	–	–	**(138)**

The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

20. RELATED PARTY TRANSACTIONS

The category ‘entities under common control’ comprises entities controlled by the Parent Company. The category ‘other state controlled entities’ comprises entities controlled by Samruk-Kazyna.

Sales and purchases with related parties during the twelve months ended December 31, 2017 and 2016 and the balances with related parties at December 31, 2017 and December 31, 2016 are as follows:

	2017	2016
Revenue and other income		
Entities under common control	831,309	632,678
Other state controlled entities	32	165
Associate	22	34
Joint ventures	4,819	4,391
Purchases of goods and services		
Entities under common control	100,190	102,248
Other state controlled entities	21,782	21,363
Joint ventures	1,207	1,189
Interest earned on financial assets		
Interest earned on loans to Joint ventures	4,393	6,660
Average nominal interest rate on loans to Joint ventures	0.00%	1.04%
Valuation allowance on financial assets		
Joint ventures	–	3,783
Salaries and other short-term benefits		
Members of the Board of Directors	378	300
Members of the Management Board	461	549
Share-based payments		
Members of the Management Board	–	914

20. RELATED PARTY TRANSACTIONS (continued)

Trade and other receivables, prepaid expenses	**December 31, 2017**	**December 31, 2016**
Entities under common control	134,513	77,992
Joint ventures	67,898	64,626
Other state controlled entities	1,611	872
Associate	5	11
Trade payables		
Entities under common control	3,308	3,771
Joint ventures	781	684
Other state controlled entities	695	275

Sales and receivables

Sales to related parties comprise mainly export and domestic sales of crude oil and refined products to subsidiaries of NC KMG. Export sales to related parties represented 5,700,842 tons of crude oil in 2017 (2016: 4,945,797 tons). The sales of crude oil are priced by reference to Platt's index quotations and adjusted for freight, trader's margin and quality differentials. For these exports of crude oil the Company received an average price per ton of approximately 128,012 Tenge in 2017 (2016: 107,433 Tenge).

During 2017 and 2016 there were no export sales of refined products to related parties. Domestic sales of refined products to related parties represented 891,126 tons of refined products (2016: 847,569 tons) sold to KMG Onimdery, subsidiary of Parent Company.

Purchases and payables

Transportation services related to the shipment of 5,945,000 tons of crude oil (2016: 6,256,857 tons) and transshipment of 2,288,469 tons of crude oil to Caspian Pipeline Consortium collection point in 2017 (2016: 2,148,682 tons) were purchased from a subsidiary of the Parent Company for 36,178 million Tenge in 2017 (2016: 33,602 million Tenge).

The Company purchased processing services from subsidiaries of the Parent Company for 54,742 million Tenge (2016: 54,468 million Tenge). The remaining services purchased from subsidiaries of NC KMG include primarily payments for security services.

Share based payments to members of the Management Board

Share based payments to members of the Management Board represents the amortization of share based payments over the vesting period. During 2017 the Company did not grant any options to the members of the Management Board (2016: 411,728 options).

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company has various financial liabilities such as borrowings, trade and other payables. The Company also has various financial assets such as trade receivables, short and long-term deposits and cash and cash equivalents.

The Company is exposed to interest rate risk, foreign currency risk, credit risk, liquidity risk and commodity price risk. The Company's Finance Committee assists management in the oversight of the monitoring and where it is deemed appropriate, mitigation of these risks in accordance with approved policies such as the treasury policy.

Interest rate risk

As of December 31, 2017 the Company has no floating interest rate borrowings and no exposure to interest rate risk.

Foreign currency risk

The following table demonstrates the sensitivity of the Company's profit before tax to a reasonably possible change in the US dollar exchange rate, with all other variables held constant (due to changes in the fair value of monetary assets and liabilities).

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

	Increase/ decrease in Tenge to US dollar exchange rate	Effect on profit before tax
2017		
US dollar	+ 10.00%	91,980
US dollar	- 10.00%	(91,980)
2016		
US dollar	+ 13.00%	127,774
US dollar	- 13.00%	(127,774)

Credit risk

The Company is exposed to credit risk in relation to its trade receivables. The Company's vast majority of sales are made to an affiliate of the Parent and the Company has a significant concentration risk of the receivable from this affiliate (Notes 7, 20). An additional number of minor receivables are grouped into homogeneous groups and assessed for impairment collectively on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

The Company is also exposed to credit risk in relation to its investing activities. The Company places deposits with Kazakhstan and foreign banks.

Credit risk from balances with financial institutions is managed by the Company's treasury department in accordance with the Company's treasury policy, which is approved by the Company's Board of Directors. The Company's maximum exposure to credit risk arising from default of the financial institutions is equal to the carrying amounts of these financial assets.

The table below shows the balances of the financial assets held in banks at the reporting date using Standard and Poor's credit ratings, unless otherwise stated.

		Rating[1]			
Banks	**Location**	**2017**	**2016**	**2017**	**2016**
Halyk Bank	Kazakhstan	BB (negative)	BB (negative)	254,240	316,322
Mizuho Bank	UK	A (stable)	A (stable)	168,561	–
ING Bank	Netherlands	A + (stable)	A (stable)	166,856	158,566
Societe Generale	UK	A (stable)	A (stable)	164,948	162,469
BNP Paribas	UK	A (stable)	A (stable)	161,740	166,295
Bank of Tokyo Mitsubishi	UK	A (stable)	A+ (negative)	161,481	–
HSBC bank plc	UK	AA – (stable)	AA – (negative)	113,319	166,836
Kazkommertsbank	Kazakhstan	B+ (watch positive)	B – (negative)	74,485	157,844
Credit Suisse	Switzerland	A (stable)	A (stable)	39,338	25,473
ABN Amro	Netherlands	A (positive)	A (stable)	33,354	–
ATF bank	Kazakhstan	B (negative)	B (negative)	5,302	9,636
Bank of Scotland	UK	A (positive)	A (negative)	2,472	2,299
Citi bank N.A.	UK	A + (stable)	A+ (stable)	3	13,514
Bank RBK	Kazakhstan	CCC (watch dev)	B – (stable)	–	1,789
Other				9	266
				1,346,108	**1,181,309**

[1]Source: official sites of the banks and rating agencies as at December 31 of the respective year

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Company monitors its liquidity risk using a liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables and other financial assets) and projected cash flows from operations.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of short and long-term deposits in local banks.

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, based on contractual undiscounted payments:

At December 31, 2016	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Borrowings	–	590	4,893	4,124	1,264	10,871
Trade and other liabilities	67,669	–	–	–	–	67,669
	67,669	**590**	**4,893**	**4,124**	**1,264**	**78,540**

At December 31, 2017	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Borrowings	–	639	4,961	1,810	1,008	8,418
Trade and other liabilities	77,745	–	–	–	–	77,745
	77,745	**639**	**4,961**	**1,810**	**1,008**	**86,163**

Commodity price risk

The Company is exposed to the effect of fluctuations in the price of crude oil, which is quoted in US dollars on international markets. The Company prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of crude oil prices in the future.

Capital management

Capital includes total equity. The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and available funds to support its business and strategic objectives.

As at December 31, 2017 the Company had a strong financial position and a conservative capital structure. Going forward, the Company intends to maintain a capital structure, which allows it the flexibility to take advantage of growth opportunities as and when they arise.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policy or processes during the years ended December 31, 2017 and 2016.

22. FINANCIAL INSTRUMENTS

Fair values of financial instruments such as receivables from jointly controlled entity and joint ventures, short-term trade receivables, trade payables and fixed interest rate borrowing approximate their carrying value.

23. COMMITMENTS AND CONTINGENCIES

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.

23. COMMITMENTS AND CONTINGENCIES (continued)

Local market obligation

The Kazakhstan government requires oil producers to supply a portion of their crude oil production to meet domestic energy requirements. The price for such supplies of crude oil prior to April 1, 2016, was subject to agreement with the Parent Company and this price could have been materially below international market prices. If the Government does require additional crude oil to be delivered over and above the quantities currently supplied by the Company, 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 Company's business, prospects, financial condition and results of operations.

Starting from April 1, 2016 the Company ceased sales of crude oil to KazMunaiGaz Refinary and Marketing JSC (KMG RM) and started tolling crude oil at Atyrau Refinery ("ANPZ") and Pavlodar Refinery ("PNHZ"), who are under the ownership and control of the Parent Company, and selling refined products on its own account. On January 1, 2017 the Company ceased using KMG RM as its sales agent.

In regards to refined products, the Kazakhstan government also requires to supply a major portion of oil products, specifically light distillates, to meet domestic fuel requirements and to support agricultural producers during spring and autumn sowing campaigns. This is achieved by either refusal to allow export of light distillates or by issuing quotas to supply agricultural producers. Local market oil products prices are significantly lower than international market prices and domestic prices for some of the refined products and are regulated by the Committee for the Regulation of Natural Monopolies.

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. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Due to uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2017.

The Company's management believes its interpretations of the tax legislation are appropriate and that the Company has justifiable arguments for its tax positions.

2009-2012 Comprehensive tax audit

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

VAT recoverability

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

In these financial statements, the Company has reversed 30,106 million Tenge of previously accrued VAT allowance. Total remaining VAT allowance as at December 31, 2017 is 10,668 million Tenge.

Environment

Environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. Other than those amounts provided for in provisions (Note 13) management believes that there are no probable environmental liabilities, which could have a material adverse effect on the Company's financial position, statement of comprehensive income or cash flows.

Oilfield licenses

The Company is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its oilfield licenses and related subsoil use contracts. Management cooperates with governmental authorities to agree on remedial actions necessary to resolve any findings resulting from these reviews. Failure to comply with the terms of a license could result in fines, penalties, license limitation, suspension or revocation.

23. COMMITMENTS AND CONTINGENCIES (continued)

Oilfield licenses (continued)

The Company's management believes that any issues of non-compliance will be resolved through negotiations or corrective actions without any material effect on the Company's financial position, statement of comprehensive income or cash flows.

The Company's oil and gas fields are located on land belonging to the Mangistau and Atyrau regional administrations. Licenses are issued by the Ministry of Energy of Kazakhstan and the Company pays mineral extraction and excess profits tax to explore and produce oil and gas from these fields.

The principle licenses of the Company and their expiry dates are:

Field	Contract	Expiry date
Uzen (8 fields)	No. 40	2036
Emba (1 field)	No. 37	2041
Emba (1 field)	No. 61	2048
Emba (23 fields)	No. 211	2037
Emba (15 fields)	No. 413	2043

Commitments arising from oilfield and exploration licenses

Year	Capital expenditures	Operational expenditures
2018	136,903	4,538
2019	12,140	3,758
2020	4,440	3,709
2021-2048	–	17,053
	153,483	**29,058**

Commitments of Kazgermunai

The Company's share in the commitments of Kazgermunai is as follows as at December 31, 2017:

Year	Capital expenditures	Operational expenditures
2018	6,049	5,255

Commitments of UGL

The Company's share in the commitments of UGL is as follows as at December 31, 2017 :

Year	Capital expenditures	Operational expenditures
2018	589	490

Commitments of PKI

The Company's share in the commitments of PKI is as follows as at December 31, 2017:

Year	Capital expenditures
2018	685

24. SUBSEQUENT EVENTS

Refund of VAT

In February 2018 4,683 million Tenge of VAT related to 2016 was received by OzenMunaiGas JSC.

Tender offer

On December 8, 2017 the Company announced the launch of a conditional tender offer (the "Tender Offer") to repurchase all of its outstanding GDRs at a price of 14.00 US Dollars per GDR. According to the result on extraordinary general meeting held on January 22, 2018 the Tender Offer became unconditional in all respects. On January 23, 2018 the Company announced the launch of an unconditional offer to repurchase all of its Common Shares (the "Share Offer") placed on KASE at a price of 84.00 US Dollars per Common Share payable in Tenge. The first settlement of the Tender Offer and the Share offer is scheduled on February 19, 2018 and will require a payment of approximately 1.9 billion US Dollars if both offers are accepted in their entirety.

These consolidated financial statements have been signed below by the following persons on behalf of the Company and in the capacities indicated on February 14, 2018:

Chief Executive Officer	Iskaziyev K. O.
Chief Financial Officer	Abdulgafarov D. Y.
Financial Director-Financial Controller	Drader S., CA
Chief Accountant	Zainelova A. A., CPA

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