FINANCIAL STATEMENTS


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АКЦИОНЕРЛІК ҚОҒАМЫ

Embamunaigas Joint Stock Company

Financial statements

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

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

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

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

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Independent auditor's report

To the Shareholder and Management of Embamunaigas Joint Stock Company

Opinion

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

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the 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.

Responsibilities of management and Board of Directors for the financial statements

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

In preparing the 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.

Board of Directors is responsible for overseeing the Company's financial reporting process.

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Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with The Board of Directors 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.

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

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

28 February 2018

STATEMENT OF FINANCIAL POSITION

In thousands of Tenge

		As at December 31,	
	Notes	2017	2016
Assets			
Non-current assets			
Property, plant and equipment	4	**173,028,945**	164,010,870
Intangible assets	5	**15,045,692**	8,463,858
Other financial assets	6	**32,258,446**	33,599,222
Deferred tax asset	14	**10,415,904**	6,875,616
Advances paid for non-current assets		**1,670,720**	421,477
Total non-current assets		**232,419,707**	213,371,043
Current assets			
Inventories	7	**7,272,093**	6,464,322
Income taxes prepaid		**772,876**	11,635,163
Taxes prepaid and VAT recoverable		**12,244,843**	5,262,305
Advances paid and prepaid expenses		**2,819,251**	5,615,360
Trade and other receivables	6	**35,948,751**	33,336,070
Other financial assets	6	**31,884,021**	57,239,302
Cash and cash equivalents	6	**73,423,065**	51,900,431
Total current assets		**164,364,900**	171,452,953
TOTAL ASSETS		**396,784,607**	384,823,996
EQUITY			
Share capital	8	**162,399,820**	162,399,820
Retained earnings		**157,246,242**	162,758,744
TOTAL EQUITY		**319,646,062**	325,158,564
LIABILITIES			
Non-current liabilities			
Historical obligations	9	**1,807,468**	3,844,378
Provisions	10	**23,530,091**	16,971,537
Total non-current liabilities		**25,337,559**	20,815,915

	Notes	As at December 31, 2017	2016
Current liabilities			
Historical obligations	9	**2,623,489**	2,428,817
Provisions	10	**8,413,484**	6,846,074
Mineral extraction tax and rent tax payable		**17,947,342**	8,570,501
Trade and other liabilities		**22,816,671**	21,004,125
Total current liabilities		**51,800,986**	38,849,517
TOTAL LIABILITIES		**77,138,545**	59,665,432
TOTAL LIABILITIES AND EQUITY		**396,784,607**	384,823,996

Chairman of the Board — Zhaksybekov A.E.

Deputy Chairman of the Board on Economy and Finance — Tasmagambetova R.N.

Chief Accountant — Makhambetov N.Z.

STATEMENT OF COMPREHENSIVE INCOME

In thousands of Tenge

		For the year ended December 31,	
	Notes	**2017**	**2016**
Revenue	11	**309,746,803**	243,517,132
Cost of sales	12	**(121,289,769)**	(95,771,814)
Gross profit		**188,457,034**	147,745,318
Selling, general and administrative expenses	13	**(114,131,677)**	(77,730,381)
Exploration expenses		**(1,274,476)**	(453,179)
Net reversal of allowance on VAT recoverable	18	**2,518,795**	7,875,557
Loss on disposal of property, plant and equipment		**(1,463,005)**	(379,464)
Finance income		**2,239,174**	2,726,955
Finance costs		**(1,778,313)**	(2,414,836)
Foreign exchange gain/(loss), net		**980,842**	(206,343)
Profit before tax		**75,548,374**	77,163,627
Income tax expense	14	**(19,425,344)**	(15,803,401)
Profit for the year		**56,123,030**	61,360,226
Other comprehensive loss for the period not to be reclassified to profit and loss in subsequent periods			
Actuarial loss, net of tax		**(280,880)**	(223,439)
Total comprehensive income for the year, net of tax		**55,842,150**	61,136,787

Chairman of the Board — Zhaksybekov A.E.

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STATEMENT OF CASH FLOWS

In thousands of Tenge

	Notes	For the year ended December 31, 2017	2016
Cash flows from operating activities			
Profit before tax		**75,548,374**	77,163,627
Adjustments to add/(deduct) non-cash items:			
Depreciation, depletion and amortization		**20,034,822**	17,918,469
Loss on disposal of property, plant and equipment		**1,463,005**	379,464
Foreign exchange (gain)/loss		**(1,501,616)**	4,352,824
Other non-cash income and expenses, net		**2,937,922**	154,165
Net reversal of allowance on VAT recoverable	18	**(2,518,795)**	(7,875,557)
Change in provisions		**6,727,970**	(6,705,163)
Add finance cost		**1,778,313**	2,414,836
Deduct finance income		**(2,239,174)**	(2,726,955)
Working capital adjustments			
Change in inventories		**(932,617)**	975,553
Change in taxes prepaid and VAT recoverable		**(4,463,743)**	6,370,825
Change in prepaid expenses		**2,796,111**	2,997,177
Change in trade and other receivables		**(5,589,160)**	(6,718,843)
Change in trade and other payables		**1,296,039**	3,538,446
Change in mineral extraction and rent tax payable		**12,876,841**	3,259,472
Income tax paid		**(15,278,611)**	(17,636,277)
Net cash generated from operating activities		**92,935,681**	77,862,063
Cash flows from investing activities			
Purchases of property, plant and equipment		**(27,158,204)**	(44,204,480)
Purchases of intangibles assets		**(8,721,672)**	–
Withdrawal/(placement) of term deposits		**23,840,345**	(60,992,550)
Interest received		**2,195,633**	440,397
Net cash generated from investing activities		**(9,843,898)**	(104,756,633)

STATEMENT OF CASH FLOWS *(continued)*

In thousands of Tenge

	Notes	For the year ended December 31, 2017	For the year ended December 31, 2016
Cash flows from financing activities			
Dividends paid to the Company's shareholder	8	**(61,354,652)**	(20,007,658)
Payments of historical obligations		**(2,371,325)**	(2,127,977)
Net cash used in financing activities		**(63,725,977)**	(22,135,635)
Net change in cash and cash equivalents		**19,365,806**	(49,030,205)
Cash and cash equivalents at the beginning of the year		**51,900,431**	101,296,508
Net foreign exchange difference on cash and cash equivalents		**2,156,828**	(365,872)
Cash and cash equivalents at the end of the year	6	**73,423,065**	51,900,431

NON-CASH TRANSACTIONS

Non-cash transactions, including the following, has been excluded from the statement of cash flows:

Offset of Excess Profit Tax with Rent tax

During the year ended December 31, 2017 the Company offset rent tax liabilities in the amount 3,500 thousand Tenge against excess profit tax prepaid.

Chairman of the Board	Zhaksybekov A.E.
Deputy Chairman of the Board on Economy and Finance	Tasmagambetova R.N.
Chief Accountan	Makhambetov N.Z.

"Ембімұнайгаз" АҚ

STATEMENT OF CHANGE IN EQUITY

In thousands of Tenge

	Share capital	Accumulated loss	Total equity
As at December 31, 2015	162,399,820	121,699,270	284,099,090
Profit for the year	–	61,360,226	61,360,226
Other comprehensive income	–	(223,439)	(223,439)
Total comprehensive income	–	61,136,787	61,136,787
Transactions with shareholder	–	(69,655)	(69,655)
Dividends (Note 8)	–	(20,007,658)	(20,007,658)
As at December 31, 2016	162,399,820	162,758,744	325,158,564
Profit for the year	–	56,123,030	56,123,030
Other comprehensive loss	–	(280,880)	(280,880)
Total comprehensive income	–	55,842,150	55,842,150
Dividends (Note 8)	–	(61,354,652)	(61,354,652)
As at December 31, 2017	162,399,820	157,246,242	319,646,062

Chairman of the Board — Zhaksybekov A.E.

Deputy Chairman of the Board on Economy and Finance — Tasmagambetova R.N.

Chief Accountan — Makhambetov N.Z.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

Embamunaigas Joint Stock Company (the "Company") was incorporated in the Republic of Kazakhstan on February 27, 2012 following the decision of the Board of Directors of KazMunayGas Exploration Production Joint Stock Company ("KMG EP" or the "Parent Company") dated January 31, 2012.

The Company is engaged in acquisition, exploration, development, production, processing and export of hydrocarbons. Primary oil and gas operations of the Company are based on oil and gas assets located in Atyrau region of western Kazakhstan. The Company develops oil fields under the following subsoil use contracts: contract № 37 (oilfield Kenbai), contract № 61 (oilfield SouthEast Novobogatinskoe), contract № 211 (23 oilfields), contracts № 413 (15 oilfields), contract № 327 (oilfield Taisogan), contract № 992 (oilfield West Novobogatinskoe); contract № 406 (oilfield Liman); contract № 3577 (oilfield Karaton-Sarkamys). On February 25, 2015 addendums to extend contracts between the Kazakh Ministry of Energy and Embamunaigas JSC were signed for the following contracts: contract № 37 valid until 2041, contract № 61 valid until 2048, contract № 211 valid until 2037, contract № 413 valid until 2043.

The Company's sole shareholder is KMG EP. KMG EP's direct majority shareholder is National Company KazMunayGas JSC ("NC KMG"), which represents the state's interests in the Kazakhstan oil and gas industry. NC KMG 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").

These financial statements have been signed on behalf of the Company by the Chairman of the Board, Deputy Chairman of the Board on Economy and Finance and Chief Accountant on February 28, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared under the historical cost convention except for financial instruments. These financial statements are presented in Tenge and all values are rounded to the nearest thousand 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 financial statements are disclosed in *Note 3.*

Exchange rates

The official rate of the Kazakhstan Tenge to the US dollar at December 31, 2017 and December 31, 2016 was 332.33 and 333.29 Tenge to the US dollar, respectively. Any translation of Tenge amounts to 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.

Adopted accounting standard and interpretations

Throughout the year the Company adopted the following new and revised IFRS which did not have significant influence on financial results or financial 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).

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 16 *Leases* (January 1, 2019);
- IFRS 2 *Classification and Measurement of Share-based Payment Transactions* (Amendments) (January 1, 2018);
- 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 year ended December 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.

2.2 Foreign currency translation

The financial statements are presented in Kazakhstan Tenge ("Tenge"), which is the Company's 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 exchange differences are taken to profit or loss. 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.

2.3 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).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Oil and natural gas exploration and development expenditure *(continued)*

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.

2.4 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. 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.

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

2.5 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 value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax 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 recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized 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 recognized. 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 recognized for the asset in prior years. Such reversal is recognized 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.

2.6 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.

2.7 Financial assets

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

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.

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 recognized in other comprehensive income or loss until the investment is derecognized or determined to be impaired at which time the cumulative reserve is recognized in profit or loss.

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 best economic 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.7 Financial assets *(continued)*

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.

For assets and liabilities that are recognized 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 amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized 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 recognized 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 recognized, the previously recognized impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognized 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 derecognized 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 recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available for sale are not recognized in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income.

Derecognition of financial asset

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

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

2.8 Inventories

Inventories are stated at the lower of cost determined on a first-in first-out ("FIFO") basis at the level of each warehouse 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.

2.9 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.

2.10 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.

2.11 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.

Dividends

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

2.12 Trade payables

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Provisions

Provisions are recognized 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 recognized 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 pre-tax 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 recognized as a finance cost.

2.14 Borrowings

Borrowings are recognized 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 recognized in the statement of comprehensive income over the period of the borrowings using the effective interest rate 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 capitalized.

2.15 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. Starting from January 1, 2014 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. For this purpose, actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred. Other movements are recognised in the current period, including current service cost, any past service cost and the effect of any curtailments or settlements.

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

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

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

2.16 Revenue recognition

The Company sells crude oil 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 recognized when crude oil is 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 sale contracts generally specify maximum quantities of crude oil to be delivered over a certain period. Crude oil shipped but not yet delivered to the customer is recorded as inventory in the statement of financial position.

2.17 Income tax

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 in countries in which the Company operates and receives taxable income.

Excess profit tax (EPT) is treated as an income tax and forms part of income tax expense. In accordance with the applicable tax legislation 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.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of 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 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 analysts' forecasted 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.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

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 initial license period. This is due to the uncertainties surrounding the outcome of such renewal procedures, since the renewal of licenses 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. 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.

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 recognized. There is some uncertainty and significant judgment involved in making such a determination. Management's assessment of the presence or absence of such obligations could change with shifts in policies and practices of the Government or in the local industry practice. The 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 many 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 28.65% and 25.97% 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%, respectively (in 2016: 5.0% and 10%). Movements in the provision for asset retirement obligations are disclosed in *Note 10*.

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 18. Movements in the provision for environmental remediation obligations are disclosed in *Note 10*.

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 14* are calculated under the terms of the tax legislation enacted in the tax code, further uncertainties related to taxation are detailed in *Note 14.*

Employee benefits

The cost of 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 in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

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.

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

In percent	**2017**	**2016**
Discount rate	**10.00%**	10.00%
Rate of inflation	**5.00%**	5.00%
Future increase of non-current annual payment	**7.00%**	7.00%
Future salary increases	**7.00%**	7.00%

As at December 31, 2017 and 2016 the average duration of post-retirement benefit obligations was 7.5 years and 7.6 years, respectively.

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

In thousands of Tenge	**Decrease**	**Increase**
Discount rate	–0.5%	+0.5%
	298,499	(279,024)
Rate of increase in benefit	–0.5%	+0.5%
	(279,057)	296,225

In thousands of Tenge, unless otherwise stated

4. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Other assets	Construction work-in-progress	Total
Net book value at December 31, 2015	112,778,006	12,129,301	11,087,130	135,994,437
Additions	162,328	162,232	45,815,035	46,139,595
Change in asset retirement obligation estimate	(183,451)	–	–	(183,451)
Disposals	(305,367)	(112,213)	(461,658)	(879,238)
Transfers from construction work-in-progress	16,811,895	885,868	(17,697,763)	–
Internal transfers	(215,680)	215,680	–	–
Depreciation charge	(15,531,558)	(1,528,915)	–	(17,060,473)
Net book value at December 31, 2016	113,516,173	11,751,953	38,742,744	164,010,870
Additions	**115,965**	**153,230**	**27,396,457**	**27,665,652**
Disposals	**(933,927)**	**(22,373)**	**(515,417)**	**(1,471,717)**
Transfers from construction work-in-progress	**17,501,973**	**2,868,460**	**(20,370,433)**	**–**
Internal transfers	**85,364**	**(145,914)**	**60,550**	**–**
Depreciation charge	**(15,583,064)**	**(1,592,796)**	**–**	**(17,175,860)**
Net book value at December 31, 2017	**114,702,484**	**13,012,560**	**45,313,901**	**173,028,945**
At December 31, 2017				
Cost	**213,877,249**	**19,755,851**	**46,180,681**	**279,813,781**
Accumulated depreciation	**(99,061,852)**	**(6,701,312)**	**–**	**(105,763,164)**
Accumulated impairment	**(112,913)**	**(41,979)**	**(866,780)**	**(1,021,672)**
Net book value	**114,702,484**	**13,012,560**	**45,313,901**	**173,028,945**
At December 31, 2016				
Cost	198,332,096	17,222,363	39,141,968	254,696,427
Accumulated depreciation	(84,708,943)	(5,428,431)	–	(90,137,374)
Accumulated impairment	(106,980)	(41,979)	(399,224)	(548,183)
Net book value	113,516,173	11,751,953	38,742,744	164,010,870

5. INTANGIBLE ASSETS

	Exploration and evaluation assets	Other intangible assets	Total
Net book value at December 31, 2015	6,610,540	526,196	7,136,736
Additions	1,763,646	421,470	2,185,116
Amortization charge	(678,358)	(179,636)	(857,994)
Net book value at December 31, 2016	7,695,828	768,030	8,463,858

	Exploration and evaluation assets	Other intangible assets	Total
Additions	**9,759,167**	**701,394**	**10,460,561**
Disposals	**(426,775)**	**(202)**	**(426,977)**
Amortization charge	**(2,573,406)**	**(285,557)**	**(2,858,963)**
Impairment	**(592,787)**	**–**	**(592,787)**
Net book value at December 31, 2017	**13,862,027**	**1,183,665**	**15,045,692**
At December 31, 2017			
Cost	**28,024,241**	**2,271,572**	**30,295,813**
Accumulated amortization	**(13,569,427)**	**(1,087,907)**	**(14,657,334)**
Accumulated impairment	**(592,787)**	**–**	**(592,787)**
Net book value	**13,862,027**	**1,183,665**	**15,045,692**
At December 31, 2016			
Cost	18,688,801	1,587,104	20,275,905
Accumulated amortization	(10,992,973)	(819,074)	(11,812,047)
Net book value	7,695,828	768,030	8,463,858

6. FINANCIAL ASSETS

Trade and other receivables

	2017	2016
Trade receivables	**35,927,951**	33,265,044
Other	**20,800**	156,042
Allowance for doubtful receivables	**–**	(85,016)
	35,948,751	33,336,070

As at December 31, 2017 the Company's trade receivables included receivables from sales of crude oil to KazMunayGas Trading AG ("KMG Trading"), subsidiary of NC KMG, in total amount of 31,400,070 thousand Tenge (2016: 33,093,192 thousand Tenge).

As of December 31, 2017 dollar denominated trade and other receivables represented 85% of total receivables (in 2016: 100%).

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

	2017	2016
Current	**35,927,079**	33,182,317
0–30 days overdue	**6,596**	35,697
30–90 days	**2,011**	–
90 and more days overdue	**13,065**	118,056
	35,948,751	33,336,070

In thousands of Tenge, unless otherwise stated

6. FINANCIAL ASSETS *(continued)*

Cash and cash equivalents

	2017	2016
US dollar denominated term deposits with banks	**70,705,170**	16,683,386
Tenge denominated term deposits with banks	**2,231,401**	600,149
US dollar denominated cash in banks and on hand	**437,796**	34,445,961
Tenge denominated cash in banks and on hand	**48,500**	170,935
Euro denominated cash in bank and on hand	**198**	–
	73,423,065	51,900,431

Cash with 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 term deposits in 2017 was 7.9% (2016: 13.48%). The weighted average interest rate on US dollar denominated term deposits in 2017 was 0.1% (2016: 2.02%).

Other financial assets

	2017	2016
US dollar denominated held to maturity deposits	**32,258,446**	33,599,222
Total non-current financial assets	**32,258,446**	33,599,222
US dollar denominated term deposits	**31,884,021**	57,239,302
Total current financial assets	**31,884,021**	57,239,302
	64,142,467	90,838,524

Non-current financial assets comprise of liquidation fund deposits opened in accordance with subsoil use agreement for each contract until the end of the term of each contract. The weighted average interest rate on these deposits in 2017 was 1.5% (2016: 1.04%).

7. INVENTORIES

	2017	2016
Crude oil	**5,328,344**	4,658,734
Materials	**1,943,749**	1,805,588
	7,272,093	6,464,322

As at December 31, 2017 the Company had 112,441 tons of crude oil in storage and transit (2016: 109,835 tons).

8. EQUITY

Authorized shares

The total number of authorized shares is 32,479,964 with par value of 5 thousand Tenge, all of which are owned by the Parent Company as at December 31, 2017 (2016: 32,479,964).

Dividends

In accordance with Kazakhstan legislation, dividends may not be declared if the Company has negative equity or if the payment of dividends would result in negative equity. In 2017 the Company declared and paid dividends to the Parent Company in the amount of 61,354,652 thousand Tenge or 1,889 Tenge per share (2016: 20,007,658 thousand Tenge or 616 Tenge per share).

9. HISTORICAL OBLIGATIONs

Historical obligations are denominated in US dollars and represent obligations to reimburse historical costs incurred by the Government prior to the acquisition of certain licenses by the Company: contract № 211 − 23 fields, contract № 327 − oilfield Taisogan, and contract № 406 − oilfield Liman. Historical obligation payments extend until 2027. The Company has discounted this obligation at an interest rate of 10% and accounts for these historical obligations at amortized cost.

10. PROVISIONS

	Environmental remediation	Tax and related fines and penalties	Asset retirement obligation	Employee benefits	Total
At December 31, 2015	259,688	7,829,207	13,576,499	7,137,791	28,803,185
Additional provisions	–	530,504	160,839	293,588	984,931
Unwinding of discount	20,593	–	1,076,617	532,037	1,629,247
Changes in estimate	–	(1,834,656)	(3,914,635)	131,251	(5,618,040)
Used during the year	–	(831,690)	(292,748)	(857,274)	(1,981,712)
At December 31, 2016	280,281	5,693,365	10,606,572	7,237,393	23,817,611
Additional provisions	**6,270,054**	**–**	**1,655,103**	**277,046**	**8,202,203**
Unwinding of discount	**142,738**	**–**	**1,099,223**	**683,369**	**1,925,330**
Changes in estimate	**–**	**–**	**(1,254,723)**	**296,012**	**(958,711)**
Used during the year	**–**	**–**	**(235,434)**	**(807,424)**	**(1,042,858)**
At December 31, 2017	**6,693,073**	**5,693,365**	**11,870,741**	**7,686,396**	**31,943,575**
Current portion	**1,289,015**	**5,693,365**	**585,265**	**845,839**	**8,413,484**
Non-current portion	**5,404,058**	**–**	**11,285,476**	**6,840,557**	**23,530,091**
At December 31, 2017	**6,693,073**	**5,693,365**	**11,870,741**	**7,686,396**	**31,943,575**
Current portion	–	5,693,365	453,078	699,631	6,846,074
Non-current portion	280,281	–	10,153,494	6,537,762	16,971,537
At December 31, 2016	280,281	5,693,365	10,606,572	7,237,393	23,817,611

Environmental remediation

In 2017 the Company has recognized an additional provision for environmental remediation related to historical contamination at its oil and gas fields in the amount of 6,270,054 thousand Tenge. The amount of the provision represents present value of estimated future costs of 9,067,122 thousand Tenge discounted at 10% for the period until 2023.

10. PROVISIONS *(continued)*

Employee benefits obligations

The Company signed collective labor agreement 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.

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

In thousands of Tenge	2017	2016
Present value of defined benefits obligation at the beginning of the year	7,237,393	7,137,791
Current service cost	277,046	293,588
Interest cost	683,369	532,037
Actuarial losses/(gains) – charged to profit and loss	15,132	(36,488)
Actuarial losses – charged to other comprehensive income	280,880	223,439
Benefits paid	(807,424)	(857,274)
Past service cost	–	(55,700)
Present value of defined benefit obligation at the end of the year	7,686,396	7,237,393
Less: current portion of present value of defined benefit obligation	(845,839)	(699,631)
Non-current portion of present value of defined benefit obligation	6,840,557	6,537,762

Amounts recognized in the statement of financial position and statement of comprehensive income are as follows:

In thousands of Tenge	2017	2016
Present value of defined benefits obligation at the end of the year	**7,686,396**	7,237,393
Net liabilities	**7,686,396**	**7,237,393**
Current service cost	277,046	293,588
Interest cost	683,369	532,037
Actuarial losses/(gains)	15,132	(36,488)
Past service cost	–	(55,700)
Costs recognized in the current year	**975,547**	**733,437**

The current service cost and past service cost for previous years are included in the statement of comprehensive income as a part of production expenses, general and administrative expenses.

11. REVENUE

	2017	2016
Export		
Crude oil	**289,233,248**	219,776,850
Domestic		
Crude oil	**18,190,852**	22,289,796
Refined gas products	**16,374**	10,348
Other sales and services	**2,306,329**	1,440,138
	309,746,803	243,517,132

12. COST OF SALES

	Notes	2017	2016
Employee benefits		**45,473,564**	42,572,102
Mineral extraction tax		**27,544,373**	18,871,367
Depreciation, depletion and amortization		**16,987,216**	16,879,332
Repairs and maintenance		**10,622,288**	9,140,260
Change in the environmental remediation provision	10	**6,270,054**	–
Materials and supplies		**3,392,720**	3,150,189
Energy		**2,705,124**	2,705,363
Transportation services		**1,809,989**	1,391,699
Property tax		**1,470,853**	1,484,436
Commercial discovery bonus		**(49,152)**	(945,153)
Decrease in asset retirement obligation in excess of capitalized asset		**(777,583)**	(3,732,722)
Other		**6,509,932**	3,661,628
		121,959,378	95,178,501
Change in crude oil balance		**(669,609)**	593,313
		121,289,769	95,771,814

The production costs for processing of associated gas for 2017 are 2,023,563 thousand Tenge (2016: 932,571 thousand Tenge).

13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
Export customs duty	**36,585,787**	27,573,408
Transportation expenses	**33,907,051**	33,438,139
Rent tax	**32,583,583**	9,396,034
Employee benefits	**4,017,880**	3,857,963
Depreciation, depletion and amortization	**3,047,606**	1,016,168
Repairs and maintenance	**432,007**	363,975
Sponsorship	**323,896**	288,333
Sales agent's commissions	**214,419**	231,606
Consulting and audit services	**105,677**	61,280
Fines and penalties	**47,203**	(164,730)
Property tax	**39,384**	40,384
Reversal/accrual of bad debt allowance	**(144,342)**	573,138
Other	**2,971,526**	1,054,683
	114,131,677	77,730,381

In thousands of Tenge, unless otherwise stated

14. INCOME TAXES

Income tax expense comprised the following for the years ended:

	2017	2016
Current corporate income tax	**19,754,619**	13,424,856
Current excess profit tax	**3,211,013**	610,530
Current income tax	**22,965,632**	14,035,386
Deferred income tax	**(2,266,373)**	1,938,799
Deferred excess profit tax	**(1,273,915)**	(170,784)
Deferred income tax	**(3,540,288)**	1,768,015
Income tax expense	**19,425,344**	15,803,401

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	**75,548,374**	77,163,627
Income tax expense	**19,425,344**	15,803,401
Effective tax rate	**26%**	21%
Statutory income tax	**20%**	20%
Increase/(decrease) resulting from		
Excess profit tax	**4%**	1%
Income tax of prior years	**1%**	0%
Allowance for VAT recoverable	**(1)%**	(2)%
Non-deductible expenses	**2%**	2%
Effective tax rate	**26%**	21%

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

	Fixed and intangible assets	Provisions	Taxes	Other	Total
At December 31, 2015	526,670	5,195,460	1,220,686	1,700,815	8,643,631
Recognized in profit and loss	(1,253,731)	(212,477)	547,911	(849,718)	(1,768,015)
At December 31, 2016	(727,061)	4,982,983	1,768,597	851,097	6,875,616
Recognized in profit and loss	(1,440,642)	1,904,444	2,267,774	808,712	3,540,288
At December 31, 2017	(2,167,703)	6,887,427	4,036,371	1,659,809	10,415,904

15. RELATED PARTY TRANSACTIONS

The category “entities under common control” comprises entities controlled by NC KMG. The category “other related parties” comprises entities controlled by Samruk-Kazyna.

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

	2017	2016
Revenue and other income		
Entities under common control	**294,852,127**	237,825,274
Parent Company	**18,184,466**	15,199,292
Less quality bank expenses on crude oil sold (Parent Company)	**(5,475,637)**	(7,221,025)
Other related parties	**13,163**	–
Purchases of goods and services		
Entities under common control	**19,161,798**	17,124,677
Parent Company	**16,323,595**	18,980,008
Other related parties	**1,174,485**	509,599
Trade and other receivables		
Entities under common control	**34,670,288**	34,888,800
Parent Company	**4,495,609**	249,592
Other related parties	**8,096**	13,152
Trade payables		
Entities under common control	**2,911,805**	1,958,996
Parent Company	**2,053,981**	3,197,013
Other related parties	**245,728**	41,593

Sales and receivables

Sales to related parties comprise mainly export sales of crude oil to subsidiaries of NC KMG. Export sales to related parties represented 2,318,046 tons of crude oil in 2017 (2016: 2,085,264 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 127,095 Tenge in 2017 (2016: 108,858 Tenge).

In addition, the Company supplies crude oil to the local market through a Parent Company at the directive of the Kazakhstan Government, the ultimate controlling shareholder of NC KMG. Those supplies to the domestic market represented 479,064 tons of crude oil production in 2017 (2016: 726,202 tons). Prices for the local market sales are determined by the agreement approved by the Board of Directors of KMG EP JSC (Note 18). In 2017 there were no deliveries to the local market in accordance with the contract with JSC “KazMunayGas ▯ Refinery and Marketing” (2016: the Company received an average price per produced crude oil ton of around 30,693 Tenge) and around 37,972 Tenge according to the contract with KMG EP JSC (2016: the Company received an average price per produced crude oil ton of around 31,895 Tenge).

Purchases and payables

Agency commissions for crude oil sales amounted to 214,419 thousand Tenge in 2017 (2016: 231,606 thousand Tenge). Transportation services which are provided by Caspian Pipeline Consortium were reimbursed by Company to Parent Company in the amount of 9,758,677 thousand Tenge (2016: 11,162,524 thousand Tenge).

In thousands of Tenge, unless otherwise stated

16. 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, cash, and cash equivalents.

The Company is exposed to foreign currency risk, credit risk, liquidity risk and commodity price risk.

Foreign currency risk

The Company's exposure to the risk of changes in foreign exchange rates relates mainly to the Company's operating activities, as the majority of its sales are denominated in US dollars whilst almost all of its costs are denominated in Tenge, and to its investments denominated in foreign currencies.

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

	Increase/decrease in Tenge to US dollar exchange rate	Effect on profit before tax
2017		
US dollar	**+10,00%**	**16,599,170**
US dollar	**–10,00%**	**(16,599,170)**
2016		
US dollar	+13.00%	22,653,227
US dollar	–13.00%	(22,653,227)

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 NC KMG and the Company has a significant concentration risk of the receivable from this affiliate (Notes 6, 15). 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 banks. Credit risk from balances with financial institutions is managed by the Company's treasury department in accordance with the Company's treasury policy. The Company's maximum exposure to credit risk arising from default of the financial institutions equals 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 the Standard and Poor's credit ratings, unless otherwise stated.

		Rating[1]			
Banks	**Location**	**December 31, 2017**	**December 31, 2016**	**2017**	**2016**
Halyk Bank JSC	Kazakhstan	**BB (negative)**	BB (negative)	**103,369,357**	94,718,804
Qazkom JSC	Kazakhstan	**B+(positive)**	B-(negative)	**33,503,349**	45,690,772
ATF Bank JSC	Kazakhstan	**B (negative)**	B (negative)	**369,616**	353,655
RBK Bank JSC	Kazakhstan	**N/A**	B-(positive)	**–**	1,869,123
Astana Finance JSC	Kazakhstan	**N/A**	Not rated	**–**	106,601
				137,242,322	142,738,955

[1] Source: Interfax – Kazakhstan, Factivia, official sites of the banks and rating agencies as at December 31, 2017.

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 as December 31, 2017 and 2016 based on contractual undiscounted payments:

December 31, 2017	**On demand**	**Less than 3 months**	**3–12 months**	**1–5 years**	**More than 5 years**	**Total**
Historical obligations	**–**	**638,576**	**1,915,728**	**1,809,939**	**1,008,339**	**5,372,582**
Trade and other payables	**22,816,671**	**–**	**–**	**–**	**–**	**22,816,671**
	22,816,671	**638,576**	**1,915,728**	**1,809,939**	**1,008,339**	**28,189,253**

December 31, 2016	On demand	Less than 3 months	3–12 months	1–5 years	More than 5 years	Total
Historical obligations	–	659,243	1,769,574	4,174,600	1,162,940	7,766,357
Trade and other payables	21,004,125	–	–	–	–	21,004,125
	21,004,125	659,243	1,769,574	4,174,600	1,162,940	28,770,482

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

The Company follows the objectives, policy or processes of capital management of the Parent Company. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or obtain financing from the Parent Company.

17. FINANCIAL INSTRUMENTS

The fair value of financial instruments such as short-term trade receivables, trade payables and historical obligations approximately equals to their carrying value.

18. 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.

Local market obligation

The Kazakhstan government requires oil producers to supply a portion of their crude oil production to meet domestic energy requirements. While the price for such supplies of crude oil was agreed with the Parent Company until April 1, 2016, this price may be 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 KMG RM and started sales to the Parent Company.

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 is severe. Because of the 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.

Value-added-tax (VAT) recoverability

In May 2017 the Company received acts of tax audit for period 2012 to 2015 that confirmed that the Company's right to reimburse VAT receivable for the amount of 4,032,944 thousand Tenge that was received in 2017.

In November 2017 the Company received acts of tax audit for 2016 that confirmed that the Company's right to reimburse VAT receivable for the amount of 4,228,241 thousand Tenge that was received in 2017.

In these financial statements, the Company has reversed 3,730,616 thousand Tenge of previously accrued VAT allowance and accrued additional allowance of 1,211,821 thousand Tenge. Total remaining VAT allowance as at December 31, 2017 is 5,038,963 thousand Tenge.

Environmental remediation obligations

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 disclosed in Note 10 management believes that there are no probable environmental liabilities, which could have a material adverse effect on the Company's financial position, operating results 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.

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, operating results or cash flows.

The Company's oil and gas fields are located on land belonging to Atyrau regional administrations. Licenses are issued by the Ministry of Oil and Gas of Kazakhstan and the Company pays mineral extraction and excess profit 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
Kenbai	No. 37	2041
South-East Novobogatinskoe	No. 61	2048
23 fields	No. 211	2037
15 fields	No. 413	2043
Taisoigan	No. 327	2034
West Novobogatinskoe	No. 992	2027
Liman	No. 406	2025
Karaton-Sarkamys	No.3577	2023

Commitments arising from oilfield and exploration licenses

Year	Capital expenditures	Operational expenditures
2018	36,658,000	2,993,607
2019	489,490	2,386,133
2020	65,449	2,388,353
2021–2048	–	2,344,661
	37,219,938	**10,112,754**

Contact details

Address: 1, Valikhanov Str., Atyrau, 060002, Republic of Kazakhstan.

Corporate Secretary
Tel .: +7 (7122) 993 240
Unaev Dastan
E-mail: D.Unaev@emg.kmgep.kz

Public Relations Service
Phone: +7 (7122) 99–34–77, 99–34–21, 35–50–56, 99–32–09
E-mail: L.Suleimenova@emg.kmgep.kz.

Documentation Support Group
Phone: +7 (7122) 99–31–35, 99–32–93
Fax: +7 (7122) 35–41–27
E-mail: info@emg.kmgep.kz.

Procurement and Local Content Department
Phone: +7 (7122) 99–34–42

Logistics Department
Phone: +7 (7122) 76–47–78

Social Policy Department
Phone: +7 (7122) 35–49–04

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