“Sovereign Wealth Fund “Samruk-Kazyna” JSC

Consolidated financial statements

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

"Sovereign Wealth Fund "Samruk-Kazyna" JSC

Consolidated financial statements

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

CONTENTS

Building a better
working world

«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

Independent Auditor's Report

To the Shareholder and Management of "Sovereign Wealth Fund "Samruk-Kazyna" JSC

Opinion

We have audited the consolidated financial statements of "Sovereign Wealth Fund "Samruk-Kazyna" JSC and its subsidiaries (hereinafter - the Group), which comprise the consolidated balances sheet as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

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

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

Building a better working world

Key audit matters	How our audit addressed the key audit matters
Impairment of non-current assets, including investments in associates	
We considered this matter to be one of most significance in the audit due to the high level of subjectivity in respect of assumptions underlying impairment analysis of non-current assets and significant judgements and estimates made by the management. In addition, increased cost of debt and uncertainty regarding future economic growth affects the Group's business prospects and triggers potential impairment of the Group's assets. Significant assumptions included discount rates, commodities prices and tariffs forecasts, and inflation and exchange rate forecasts. Significant estimates included production forecasts, future capital expenditures and commodity reserves available for development and production. Information on non-current assets and the impairment tests performed is disclosed in *Note* 4 to the consolidated financial statements.	We involved business valuation specialists in the testing of the impairment analysis and calculation of recoverable amounts performed by the management. We analyzed the assumptions underlying management forecast. We compared commodities prices used in the calculation of recoverable amounts to available market forecasts. We compared the discount rate and long-term growth rate to general market indicators and other available evidence. We tested the mathematical accuracy of the impairment models and assessed the sensitivity analysis. In addition, we analysed plans of the Group's management in respect of the investment in an associate - Balkhash Power Plant JSC and the assessment of the recoverable amount of this investment. We analysed the disclosures made in the consolidated financial statements in respect of impairment.
Compliance with loan covenants	
In accordance with the terms of certain financing arrangements, the Group should maintain and comply with certain financial and non-financial covenants. Breaching covenants could result in significant fines and penalties along with funding shortages. In addition, cross default provisions are in place under the Group's financing arrangements. Compliance with covenants was one of the matters of most significance in the audit since it can have a major impact on the going concern assumption used in the preparation of the consolidated financial statements, and on classification of interest-bearing liabilities in the consolidated balance sheet. Information on compliance with covenants is disclosed in *Note* 18 to the consolidated financial statements.	We examined the terms of financing arrangements. We compared data used in the calculations with the financial statements. We assessed arithmetic accuracy of financial covenants calculations. In addition, we analysed non-financial covenants, such as limitations on disposals and acquisitions, retaining control over assets and absence of insolvency proceedings.

Building a better working world

Recoverability of financial assets

The measurement of cash and deposits held with banks and other financial assets was one of the matters of most significance in our audit because of the significance of these balances, management judgement involved and uncertainties related to financial difficulties faced by banks in Kazakhstan during 2017.

The disclosure in respect of the measurement of financial assets is included in *Note* 4 to the consolidated financial statements, information on trade accounts receivable and other financial assets disclosures are included in *Notes* 9 and *11* to the consolidated financial statements.

As part of our audit procedures in relation to cash and deposits held with banks, we analyzed available information on plans of the respective banks' financial rehabilitation and discussed them with the Group's management. We evaluated management assumptions used in measurement of cash and deposits held with banks. In addition, we analyzed management assumptions used in determination of the amount of allowance for doubtful financial assets and ways of these financial assets recovery, information on accounts receivable aging structure and settlements before and after the reporting date. We analysed information disclosed in the consolidated financial statements in respect of recoverability and measurement of the financial assets.

Other information included in the Group's 2017 Annual Report

Other information consists of the information included in the Group's 2017 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2017 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

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

EY
Building a better
working world

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 Paul Cohn.

Ernst & Young LLP

Paul Cohn
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

21 May 2018

CONSOLIDATED BALANCE SHEET

As at December 31, 2017

In millions of tenge	Note	2017	2016
Assets			
Non-current assets			
Property, plant and equipment	7	**10,782,247**	10,160,089
Intangible assets	8	**923,811**	922,465
Exploration and evaluation assets	9	**451,782**	427,368
Investment property		**11,601**	9,083
Investments in joint ventures and associates	10	**2,843,489**	2,767,678
Loans issued and finance lease receivables	11	**593,325**	560,952
Amounts due from credit institutions	12	**502,493**	684,442
Deferred tax assets	35	**135,735**	145,150
Other non-current financial assets	13	**95,620**	166,236
Other non-current assets	14	**687,954**	511,324
		17,028,057	16,354,787
Current assets			
Inventories	15	**396,944**	319,698
VAT receivable		**144,593**	177,212
Income tax prepaid		**54,077**	95,942
Trade accounts receivable	16	**479,910**	438,486
Loans issued and finance lease receivables	11	**250,362**	140,345
Amounts due from credit institutions	12	**1,951,384**	1,669,459
Other current financial assets	13	**30,229**	27,316
Other current assets	16	**353,581**	399,666
Cash and cash equivalents	17	**2,190,107**	1,554,035
		5,851,187	4,822,159
Assets classified as held for sale	6	**1,286,659**	1,283,914
Total assets		**24,165,903**	22,460,860

The accounting policies and explanatory notes on pages 8 through 91 form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET (continued)

In millions of tenge	Note	2017	2016
Equity and liabilities			
Equity attributable to equity holder of the Parent			
Share capital	18.1	**5,133,476**	5,058,658
Additional paid-in capital	18.2	**13,189**	–
Currency translation reserve	18.9	**922,497**	1,008,696
Revaluation reserve for available-for-sale investments		**26,177**	31,032
Hedging reserve	18.10	**(54,666)**	(52,712)
Other capital reserves		**(16,742)**	(16,522)
Retained earnings		**3,817,514**	3,321,930
		9,841,445	9,351,082
Non-controlling interest	18.8	**1,821,720**	1,640,592
Total equity		**11,663,165**	10,991,674
Non-current liabilities			
Borrowings	19	**5,399,886**	4,930,158
Loans from the Government of the Republic of Kazakhstan	20	**776,141**	912,180
Finance lease liabilities	22	**120,021**	116,078
Provisions	23	**198,716**	161,936
Deferred tax liabilities	35	**638,722**	583,245
Employee benefit liabilities	24	**76,604**	66,887
Other non-current liabilities	21	**1,215,327**	1,476,788
		8,425,417	8,247,272
Current liabilities			
Borrowings	19	**1,516,573**	820,570
Loans from the Government of the Republic of Kazakhstan	20	**5,907**	6,231
Finance lease liabilities	22	**19,742**	18,332
Provisions	23	**115,967**	193,499
Employee benefit liabilities	24	**6,883**	6,172
Income taxes payable		**13,876**	4,220
Trade and other payables		**660,487**	587,217
Other current liabilities	25	**1,118,234**	892,977
		3,457,669	2,529,218
Liabilities associated with assets classified as held for sale	6	**619,652**	692,696
Total liabilities		**12,502,738**	11,469,186
Total equity and liabilities		**24,165,903**	22,460,860

Managing Director for Economy and Finance

Beibit Karymsakov

САМҰРЫҚ
ҚАЗЫНА

Chief accountant

Almaz Abdrakhmanova

The accounting policies and explanatory notes on pages 8 through 91 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year December 31, 2017

In millions of tenge	Note	2017	2016 (restated)*
Continuing operations			
Revenue	26	**5,124,158**	4,067,693
Government grants	27	**52,443**	34,209
		5,176,601	4,101,902
Cost of sales	28	**(4,553,301)**	(3,372,516)
Gross profit		**623,300**	729,386
General and administrative expenses	29	**(412,861)**	(344,701)
Transportation and selling expenses	30	**(319,154)**	(218,340)
Impairment loss	31	**(94,933)**	(68,654)
(Loss)/gain on disposal of subsidiaries		**(3,528)**	44,531
Gain on revaluation of a 51% stake in KPI	5	**26,449**	–
Operating (loss)/profit		**(180,727)**	142,222
Finance costs	32	**(474,646)**	(400,955)
Finance income	33	**191,932**	273,738
Other non-operating loss		**(42,415)**	(31,714)
Other non-operating income		**49,471**	61,216
Share in profit of joint ventures and associates, net	34	**531,841**	355,969
Net foreign exchange gain/(loss)		**23,737**	(23,583)
Gain from exercise of put option	13	**107,714**	–
Profit before income tax		**206,907**	376,893
Income tax expenses	35	**(263,782)**	(169,892)
Net (loss)/profit for the year from continuing operations		**(56,875)**	207,001
Discontinued operations			
Profit from discontinued operations, net of income tax	6	**792,850**	368,199
Net profit for the year		**735,975**	575,200
Net profit for the year attributable to:			
Equity holder of the Parent		**600,807**	454,545
Non-controlling interest		**135,168**	120,655
		735,975	575,200

The accounting policies and explanatory notes on pages 8 through 91 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

In millions of tenge	Note	2017	2016 (restated)*
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operations	18.9	**(62,251)**	(24,351)
Unrealized loss from revaluation of available-for-sale investments		**(11,514)**	(1,380)
Share of the other comprehensive loss items of associates and joint ventures		**(408)**	(1,683)
Gain on transactions with hedge instruments	18.10	**260**	9,421
Tax effect on transactions with hedge instrument	18.10	**(271)**	(1,001)
Net realized gain/(loss) on available-for-sale investments		**6,659**	(405)
Other comprehensive loss to be reclassified to profit or loss in subsequent periods		**(67,525)**	(19,399)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Share of the other comprehensive loss items of associates and joint ventures		**(371)**	(343)
Actuarial (loss)/gain on defined benefit plans		**(8,046)**	7,424
Tax effect on comprehensive loss components		**(358)**	(654)
Other comprehensive (loss)/gain not to be reclassified to profit or loss in subsequent periods		**(8,775)**	6,427
Other comprehensive loss for the year, net of tax		**(76,300)**	(12,972)
Total comprehensive income for the year, net of tax		**659,675**	562,228
Total comprehensive income for the year, attributable to:			
Equity holder of the Parent		**521,969**	447,957
Non-controlling interest		**137,706**	114,271
		659,675	562,228

* *Certain amounts shown here do not correspond to 2016 consolidated financial statements and reflect restatement made, details of which are disclosed in Note 2.*

Managing Director for Economy and Finance

Beibit Karymsakov

Chief accountant

Almaz Abdrakhmanova

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2017

		Attributable to equity holder of the Parent								
In millions of tenge	Note	Share capital	Revaluation reserve for available-for-sale investments	Currency translation reserve	Hedging reserve	Other capital reserves	Retained earnings	Total	Non-controlling interest	Total
Balance as at December 31, 2015		4,916,269	32,817	1,025,930	(59,171)	(13,922)	2,971,941	8,873,864	1,527,508	10,401,372
Total comprehensive income for the year		–	(1,785)	(17,234)	6,459	–	460,517	447,957	114,271	562,228
Issue of shares		142,389	–	–	–	–	–	142,389	–	142,389
Discount on loans from the Government		–	–	–	–	–	4,007	4,007	–	4,007
Dividends		–	–	–	–	–	(10,393)	(10,393)	(16,549)	(26,942)
Other transactions with the Shareholder		–	–	–	–	–	(54,643)	(54,643)	–	(54,643)
Other distributions to the Shareholder		–	–	–	–	–	(46,993)	(46,993)	–	(46,993)
Change in ownership interests of subsidiaries – sale of non-controlling interest		–	–	–	–	–	(2,425)	(2,425)	11,425	9,000
Execution of share-based payments		–	–	–	–	(3,366)	–	(3,366)	3,366	–
Other equity movements		–	–	–	–	766	(81)	685	571	1,256
Balance as at December 31, 2016		5,058,658	31,032	1,008,696	(52,712)	(16,522)	3,321,930	9,351,082	1,640,592	10,991,674

The accounting policies and explanatory notes on pages 8 through 91 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

		Attributable to the equity holder of the Parent									
In millions of tenge	Note	Share capital	ional paid-in capital	Revaluation reserve for available-for-sale investments	Currency translation reserve	Hedging reserve	Other capital reserves	Retained earnings	Total	Non-controlling interest	Total
Balance as at December 31, 2016		5,058,658	–	31,032	1,008,696	(52,712)	(16,522)	3,321,930	9,351,082	1,640,592	10,991,674
Total comprehensive income for the period		–	–	(4,855)	(87,300)	(1,954)	(18)	616,096	521,969	137,706	659,675
Issue of shares	18.1	74,818	–	–	–	–	–	–	74,818	–	74,818
Other contributions of the Shareholder	18.2	–	13,189	–	–	–	–	–	13,189	–	13,189
Dividends	18.3	–	–	–	–	–	–	(11,899)	(11,899)	(24,328)	(36,227)
Other transactions with the Shareholder	18.4	–	–	–	–	–	–	(6,534)	(6,534)	–	(6,534)
Other distributions to the Shareholder	18.5	–	–	–	–	–	–	(112,131)	(112,131)	–	(112,131)
Acquisition of subsidiaries	5	–	–	–	–	–	–	1,036	1,036	56,359	57,395
Disposal of subsidiaries	6	–	–	–	(108)	–	–	–	(108)	(3,143)	(3,251)
Change in ownership interests of subsidiaries – sale of non-controlling interest	18.6	–	–	–	–	–	–	7,547	7,547	16,517	24,064
Change in ownership interests of subsidiaries – acquisition of non-controlling interest	18.7	–	–	–	1,209	–	–	1,547	2,756	(3,082)	(326)
Other equity movements		–	–	–	–	–	(202)	(78)	(280)	1,099	819
Balance as at December 31, 2017		5,133,476	13,189	26,177	922,497	(54,666)	(16,742)	3,817,514	9,841,445	1,821,720	11,663,165

Managing Director for Economy and Finance

Beibit Karymsakov

Chief accountant

Almaz Abdrakhmanova

The accounting policies and explanatory notes on pages 8 through 91 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2017

In millions of tenge	Note	2017	2016
Cash flows from operating activities			
Receipts from customers		**8,540,915**	7,944,790
Payments to suppliers		**(5,165,564)**	(3,868,042)
Payments to employees		**(882,235)**	(790,686)
Other taxes and payments		**(1,117,307)**	(967,252)
Operations with financial instruments (the Fund and Kazpost)		**(63,143)**	79,020
Return of VAT from the budget		**124,621**	91,394
Other payments, net		**(51,047)**	(46,456)
Income taxes paid		**(169,442)**	(169,533)
Interest paid		**(454,320)**	(410,074)
Interest received		**168,165**	143,373
Net cash flows received from operating activities		**930,643**	2,006,534
Cash flows from investing activities			
Acquisition of property, plant and equipment, exploration and evaluation assets		**(1,087,829)**	(1,129,245)
Dividends received from joint ventures and associates	10	**356,098**	209,523
Placement of bank deposits, net		**(312,441)**	(228,781)
Loans issued		**(181,948)**	(58,122)
Sale of a put option	13	**173,719**	–
Proceeds from sale of subsidiaries, net of cash of disposed subsidiaries		**24,174**	1,656
Proceeds of receivables from sale of BTA		**51,211**	–
Acqusition of intangible assets		**(23,161)**	(44,640)
Sale/(acquisition) of joint ventures and associates		**15,745**	(8,288)
Repayment of loans issued		**7,879**	45,511
Other receipts, net		**17,921**	41,030
Net cash flows used in investing activities		**(958,632)**	(1,171,356)
Cash flows from financing activities			
Proceeds from borrowings		**2,336,650**	657,108
Repayment of borrowings		**(1,442,094)**	(1,005,100)
Repayment of finance lease liabilities		**(18,401)**	(19,764)
Contributions to the share capital	18.1	**74,552**	137,923
Distributions to the Shareholder		**(62,166)**	(55,513)
Dividends paid to non-controlling interest of subsidiaries		**(21,379)**	(19,742)
Sale of non-controlling interest	18.6	**24,068**	9,000
Repayment of payables for acquisition of additional interest in undivisable stake of the North-Caspian project	25	**(177,079)**	(176,600)
Dividends paid to the Shareholder		**(11,899)**	(10,393)
Other payments, net		**(4,932)**	–
Net cash flows received/(used) in financing activities		**697,320**	(483,081)
Net increase in cash and cash equivalents		**669,331**	352,097
Effects of exchange rate changes on cash and cash equivalents		**24,115**	(11,451)
Changes in cash and cash equivalents disclosed as part of assets held for sale		**(51,006)**	6,832
Impairment of cash and cash equivalents	4	**(6,368)**	–
Cash and cash equivalents at the beginning of the year		**1,554,035**	1,206,557
Cash and cash equivalents at the end of the year	17	**2,190,107**	1,554,035

Managing Director for Economy and Finance — *Beibit Karymsakov*

Chief accountant — *Almaz Abdrakhmanova*

САМҰРЫҚ ҚАЗЫНА

The accounting policies and explanatory notes on pages 8 through 91 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

1. GENERAL INFORMATION

Corporate information

"Sovereign Wealth Fund "Samruk-Kazyna" JSC (the "Fund" or "Samruk-Kazyna") was established on November 3, 2008 in accordance with the Decree of the President of the Republic of Kazakhstan dated October 13, 2008 and the Resolution of the Government of the Republic of Kazakhstan dated October 17, 2008. The formation was enacted by the merger of "Sustainable Development Fund "Kazyna" JSC ("Kazyna") and "Kazakhstan Holding Company for State Assets Management "Samruk" JSC ("Samruk") and the additional transfer to the Fund of interests in certain entities owned by the Government of the Republic of Kazakhstan (the "State" or the "Government"). The Government, represented by the State property and privatization committee of the Ministry of finance of the Republic of Kazakhstan, is the sole shareholder of the Fund (the "Shareholder" or the "Parent").

During this process the Government's overall objective was to increase management efficiency and to optimise organisational structures in these entities for them to successfully achieve their strategic objectives as set in the respective Government programs and development plans of these entities.

The Fund is a holding company combining state-owned enterprises listed in *Note 36* (the "Group"). Prior to February 1, 2012, the Fund's activities were governed by the Law of the Republic of Kazakhstan *On National Welfare Fund* No. 134-4 dated February 13, 2009 and were aimed to assist in provision of stable development of the state economy, modernization and diversification of economy, and improvement of the Group companies' efficiency. According to the Law of the Republic of Kazakhstan enacted on February 1, 2012 *On Sovereign Wealth Fund* No. 550-4, the Fund's activity is focused on improving sovereign wealth of the Republic of Kazakhstan by increasing the long-term value of the Group companies and by effective management of the Group assets.

For management purposes, the Group is organized into organizational business units based on their products and services, and has 8 (eight) reportable operating segments as follows *(Note 40)*:

- Oil and gas segment includes operations related to exploration and production of oil and gas, transportation of oil and gas and refining and trading of crude oil, gas and refined products;
- Transportation segment includes operations related to railway and air transportation of cargo and passengers;
- Communication segment includes operation of fixed line communication, including local, long-distance intercity and international telecommunication services (including CIS and non-CIS countries); and also renting out of lines, data transfer services and wireless communication services;
- Energy segment includes operations related to production and distribution of electricity, the function of oversight over the input of electricity into the energy system and consumption of imported electricity, the function of centralized operation and dispatch of facilities in the Unified Energy System of Kazakhstan;
- Mining segment includes exploration, mining, processing, sales of mineral resources and geological exploration;
- Industrial segment includes military industry enterprises and civil engineering, projects for the development of chemical industry;
- Corporate center segment covers Fund's investing and financing activities, including provision of loans to related and third parties;
- Other segment includes operations related to assisting the Government in increasing housing availability by investing into residential development and other operations.

The address of the Fund's registered office is Block B, 8 Kunayev str., Esil Region, Astana, the Republic of Kazakhstan.

These consolidated financial statements were authorised for issue by the Managing Director for Economy and Finance and Chief accountant of the Fund on May 17, 2018 and preliminary approved by the Audit Committee of the Board of Directors of the Fund on the same date. These consolidated financial statements should be further approved by the Board of Directors and Sole Shareholder.

Privatization plan

On April 30, 2014 the Government approved the initial Privatization Plan for 2014-2016. On December 30, 2015 the Government approved the new 2016-2020 Complex Privatization Plan (replacing previous 2014-2016 Privatization Plan) ("Privatization Plan") and the list of all state owned assets to be privatized, including certain Fund subsidiaries.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these consolidated financial statements.

These consolidated financial statements are presented in Kazakhstan tenge ("tenge" or "KZT") and all monetary amounts are rounded to the nearest million tenge except where otherwise indicated.

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standard Board ("IASB").

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the 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 4*.

Restatement affecting comparative information

The consolidated statement of comprehensive income for 2016 was restated as the Group reconsidered its interpretation and accounting treatment of swap transactions *(Note 4)*.

Effect on the consolidated statement of comprehensive income for 2016:

In millions of tenge	Before restatement	Restatement	After restatement
Revenue	4,092,279	(24,586)	4,067,693
Cost of sales	(3,397,102)	24,586	(3,372,516)
Gross profit	**729,386**	**–**	**729,386**

Restatement did not have any impact on the consolidated balance sheet of the Group as at December 31, 2016.

Foreign currency translation

Functional and presentation currency

Items included in these consolidated financial statements of each of the Group's entities are measured using the currency of primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in tenge, which is the Group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the reporting date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit and loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Group entities

Gains, losses and financial position of all of the Group's subsidiaries, joint ventures and associates (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at that reporting date;
- Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates; in which case income and expenses are translated at the rate on the dates of the transactions); and
- All resulting exchange differences are recognized as a separate component of other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION (continued)

Foreign currency translation (continued)

Exchange rates

Weighted average currency exchange rates established by the Kazakhstan Stock Exchange ("KASE") are used as official currency exchange rates in the Republic of Kazakhstan.

The following table presents currency exchange rates to tenge:

	December 31, 2017	December 31, 2016	**Weighted average for 2017**	Weighted average for 2016	May, 17, 2018
United States dollar ("USD")	**332.33**	333.29	**326.08**	341.77	327.11
Euro ("EUR")	**398.23**	352.42	**368.45**	378.57	386.02
Russian ruble ("RUR")	**5.77**	5.43	**5.59**	5.12	5.28
Swiss franc ("CHF")	**340.61**	328.14	**331.23**	347.17	326.46

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Amendments in accounting policy and principles of disclosing information

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

Adoption of new and revised standards

The following new and amended standards and interpretations adopted by the Group for the first time in 2017 consolidated financial statements did not have a significant impact on the Group's consolidated financial statements:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains and losses). The Group applied the requirement perspectively and has provided the information for the current period *(Note 38)*.

Amendments to IAS 12 Income Taxes: Recognition of Deferred tax Assets for Unrealised Losses

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

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

Annual improvements 2014-2016 cycle

IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. This amendment does not have any impact on the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective

The standards and interpretations listed below are those that are issued but not yet effective as of December 31, 2017 and that the Group reasonably expects will have an impact on the disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards, if applicable, when they become effective.

- IFRS 9 *Financial Instruments* (January 1, 2018);
- IFRS 15 *Revenue from Contracts with Customers* (January 1, 2018);
- IFRS 2 *Classification and Measurement of Share-based Payment Transactions* – amendments to IFRS 2 (January 1, 2018);
- IFRS 16 *Leases* (January 1, 2019);
- Amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (date is not defined);
- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* (January 1, 2018);
- IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment* (January 1, 2019);
- IFRS 1 *First-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first-time adopters* (January 1, 2018);
- IAS 28 *Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice* (January 1, 2018);
- *Transfers of Investment Property* – amendments to IAS 40 (January 1, 2018).

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* and brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. The Group plans to adopt the new standard on the required effective date and will not restate comparative information.

As at the reporting date the Group has not completed detailed impact assessment of all three aspects of IFRS 9. This assessment may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when IFRS 9 is fully adopted.

(a) Classification and measurement

The Group expects to continue measuring at fair value all financial assets currently held at fair value. The Group continues assessment of the possible effect.

Trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of loans, trade receivables, deposits and other financial assets, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The Group is currently developing unified approach for all the entities within the Group with respect to application of IFRS 9 and as at the date of these financial statements continues to analyze all available information in order to assess the effect of IFRS 9 adoption.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

(c) Hedge accounting

The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Group's financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. During 2017, the Group performed a detailed analysis of IFRS 15 and decided to apply a modified retrospective application.

(a) Sale of goods

For contracts with customers in which the sale of goods is generally expected to be the only performance obligation, adoption of IFRS 15 is not expected to have any material impact on the Group's revenue and profit or loss. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on signing of act of acceptance.

(b) Rendering of services

The Group fulfills performance obligation on a monthly basis and recognizes revenue from rendering of services, based on the actual volumes of services rendered. Revenue from services is recognized over time given that the buyer simultaneously receives and consumes the benefits provided by the Group. It is expected that the application of IFRS 15 to service contracts will not affect the Group's revenue and profit or loss.

(c) Presentation and disclosure requirements

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that the impact of some of these disclosures requirements will not be significant.

In 2018 the Group will continue testing of appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

IFRS 16 Leases

Management of the Group anticipates that the adoption of IFRS 16 *Leases* in the future may have a significant impact on the amount of assets and liabilities due to recognition of all leases for contracts where the Group is a lessee.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 16 Leases (continued)

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

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

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

Management anticipates that application of other standards, amendments and interpretations which will be effective starting on and after January 1, 2018 will not have a significant impact on the consolidated financial statements in the periods of their application.

Basis of consolidation

These consolidated financial statements comprise the financial statements of the Fund and its controlled subsidiaries *(Note 36)*.

Subsidiaries

Subsidiaries are the entities controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary.

Assets, liabilities, revenue and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income and consolidated balance sheet from the date the Group gains control until the date the Group ceases to control the subsidiary.

Except for acquisition in transactions between entities under common control, subsidiaries are consolidated from the date when control is obtained by the Group and are de-consolidated from the date when control ceases. At the acquisition of the subsidiary, acquisition cost is distributed between assets and liabilities based on their fair value as at the date of acquisition. Financial statements of the subsidiaries are prepared for the same reporting period as those of the Fund, using consistent accounting policies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Subsidiaries (continued)

All intra-group balances and transactions, including unrealized gains resulting from intra-group transactions are eliminated in full. Unrealized losses are eliminated in the same manner as unrealized gains, except that they are eliminated to the extent that there is no evidence of impairment.

Non-controlling interest represents a portion of equity in subsidiaries, which is not owned by the Group, and is recorded separately in equity in the consolidated balance sheet separately from the equity attributable to the Parent. Losses within a subsidiary are attributed to the non-controlling interest even if that results in its deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the Parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Business combinations

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

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

If the business combination is achieved in stages, equity interest previously held by the Group in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of an aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed by the Group. If this consideration is lower than the fair value of net assets of the subsidiary acquired, the difference is recognized in profit or loss.

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

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operations disposed off is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed off in this circumstance is measured on the basis of the relative values of the operation disposed off and the portion of the cash-generating unit retained.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Acquisition of subsidiaries from parties under common control

Acquisition of subsidiaries from parties under common control (entities under the Government's control) is accounted for using the pooling of interest method.

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

These consolidated financial statements are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

Change in ownership interests in subsidiaries

In transactions where part of the interest in existing subsidiary is either sold or acquired, but control is retained, the differences between the carrying amounts of net assets attributable to interests in subsidiaries acquired or disposed and the consideration given or received for such increases or decreases are charged or credited to retained earnings.

Investment in joint ventures and associates

The Group has interests in joint ventures which are jointly controlled entities, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entities. Also, the Group has interests in associates, in which it exercises significant influence over the economic activities of the entities. The Group's investment in its joint ventures and associates are accounted for using the equity method.

Under the equity method, investment in joint venture / associate is carried in the consolidated balance sheet at cost plus post acquisition changes in the Group's share of net assets of the joint venture / associate. Goodwill relating to a joint venture / associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the share of the results of operations of the joint venture / associate. Where there has been a change in net assets recognized directly in the equity of the joint venture / associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and joint venture / associate are eliminated to the extent of the Group's interest in the joint venture / associate.

The share in profit of joint ventures / associates is shown on the face of the consolidated statement of comprehensive income. This is the profit attributable to equity holders of the joint venture / associate and therefore is profit after tax and non-controlling interest in the subsidiaries of the joint ventures / associates.

Financial statements of the joint venture / associate are prepared for the same reporting period as those of the Parent. Where necessary, adjustments are made to bring their accounting policies in line with those of the Group.

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

Upon loss of joint control over the joint venture and significant influence over associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the investment in the joint venture / associate upon loss of joint control / significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Undivided interest in jointly controlled operations

The Group has undivided interest in jointly controlled operations.

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

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

Assets classified as held for sale and discontinued operations

Assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through the continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within 1 (one) year from the date of classification.

In the consolidated statement of comprehensive income for the reporting period, and for the prior year comparable period, incomes and expenses from discontinued operations are reported separately from normal income and expenses, even when the Group retains a non-controlling interest in the subsidiary after sale. The resulting profit or loss (net of tax) is reported separately in the consolidated statement of comprehensive income.

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

Exploration and development assets on mineral and hydrocarbon resources (oil and gas and mining assets)

Costs incurred before obtaining subsoil use rights (licenses)

Costs incurred before obtaining full subsoil use rights (licenses) are expensed in the period in which they are incurred, except when costs are incurred after signing preliminary agreements with the Government of the Republic of Kazakhstan, in such cases costs incurred after this date are capitalized.

Expenditures for acquisition of subsurface use rights

Expenditures for acquisition of subsurface use rights (exploration and production) comprise signature bonuses, historical costs, obligatory expenditures for ecological and social programs and are capitalized within intangible assets as subsurface use rights at exploration and evaluation phase.

Expenditures for acquisition of subsurface use rights are accounted for on a field-by-field basis. Each field is tested for impairment on an annual basis. If no future activity is planned, the remaining balance of the acquisition costs is written off. Starting from the commercial production on fields subsurface use rights (remaining costs) shall be transferred to the property, plant and equipment and shall be amortized using unit-of-production method on actual production based on total proved reserves.

Exploration and evaluation expenditures (construction in progress)

Exploration and evaluation expenditures include geological and geophysical costs; costs directly related to exploration drilling; stripping activities; overhead and other expenses on exploration and evaluation, which could be related to a certain field. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. Except for geological and geophysical costs, exploration and evaluation expenditures are capitalized within exploration and evaluation assets, accounted for by subsurface use contracts and are not amortized. If mineral or hydrocarbon resources are not found, this could be an indication of impairment. All capitalized 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. If mineral or hydrocarbon resources are determined and development is sanctioned, relevant costs are then transferred to oil and gas or mining assets subclasses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration and development assets on mineral and hydrocarbon resources (oil and gas and mining assets) (continued)

Development and production expenditures (oil and gas and mining assets)

Development and production expenditures comprise previously capitalized (and reclassified in commencement of production) expenditures for acquisition of subsurface use rights and exploration and evaluation costs; drilling of producing wells regardless of the drilling results; construction of landfills; development of surface technological facilities required for production, collection and preparation of hydrocarbons and mineral resources at fields; other costs incurred in the process of organization of commercial production at fields; capitalized discounted costs for wells and mines abandonment and site restoration. Development and production expenditures are capitalized within property, plant and equipment (oil and gas and mining assets), and are accounted for on a field-by-field basis.

Depreciation of oil and gas and mining assets (within property, plant and equipment and intangible assets)

Oil and gas and mining assets are depreciated using a unit-of-production method based on actual production from commencement of commercial production at fields. Certain oil and gas and mining assets (surface facilities and equipment) with useful lives significantly differing from those of the fields are depreciated on a straight-line basis over their useful lives. The cost of acquisition of subsurface use rights including discounted decommissioning costs are depreciated over total proved reserves. The other field development costs are amortized over proved developed reserves.

Property, plant and equipment (other than oil and gas and mining assets)

On initial recognition, property, plant and equipment is measured at cost. Subsequently, property, plant and equipment are stated at cost less accumulated depreciation, depletion and impairment. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Property, plant and equipment, other than oil and gas and mining assets, principally comprise the following classes of assets, which are depreciated on a straight-line basis over the expected useful lives:

UPS Power transmission lines	50 years
Refinery assets	4-100 years
Pipelines	2-30 years
Buildings and premises	2-100 years
Railway tracks and infrastructure	10-80 years
Machinery, equipment and vehicles	2-50 years
Other	2-20 years

In cases when items of property, plant and equipment are subject to major inspection, the cost is recognized in the carrying amount of property, plant and equipment as a replacement of component if the recognition criteria set out in IAS 16 are satisfied.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the reporting period the asset is derecognised.

Residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment loss. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the intangible asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognized in the consolidated statement of comprehensive income in the expense category consistent with the function of the intangible asset.

Intangible assets with the finite useful life principally comprise the following classes of assets which are depreciated on a straight-line basis over the expected useful lives:

Licenses	3-20 years
Software	1-14 years
Other	2-15 years

Indefinite-lived intangible assets are not amortized, but tested for impairment annually or whenever there are indications of impairment and, if necessary, written down to the recoverable amount.

Investment properties

Investment property is initially measured at cost, including transaction costs.

Since the Group adopted cost model, after initial recognition, investment property is accounted for in accordance with the cost model as set out in IAS 16 *Property, Plant and Equipment*, that is, cost less accumulated depreciation and less accumulated impairment losses.

The depreciation is calculated based on straight line method basis over the expected remaining useful average life of 2-100 years.

Investment property is derecognised (eliminated from the consolidated balance sheet) on its disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected in the future. The difference between the net inflows arisen from the disposal and carrying amount of the asset is recognised in the consolidated statement of comprehensive income for the period in which it was derecognized.

Impairment of non-financial assets

The Group assesses non-financial assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying amount 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 Group makes an estimate of its recoverable amount.

An asset group's recoverable amount is 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 a provision is made to reduce the asset 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 provision may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

A previously recognized impairment provision is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment provision 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 provision been recognized for the asset in prior years. Such reversal is recognized in profits and losses.

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.

The following process is applied in assessing impairment of goodwill:

- The Group assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment annually and when circumstances indicate that its carrying amount may be impaired.
- Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Financial assets

The Group's investments are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale investments, as appropriate. When investments 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 Group determines the classification of its financial assets at the time of initial recognition. All purchases and sales of investments are recognized on the settlement date, which is the date that the investment is delivered to or by the Group.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognized in profit and losses when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Securities are classified as financial assets at fair value through profit or loss if they are acquired for the purpose of selling in the near term. Derivatives are also classified as financial assets at fair value through profit or loss unless they are designated as effective hedging instruments. Gains and losses on financial assets at fair value through profit or loss are recognised in the consolidated statement of comprehensive income.

Financial assets can be classified as at fair value through profit or loss upon initial recognition if it increases the importance of the information provided, since such classification eliminates or significantly reduces inconsistency of evaluation or recognition, which otherwise would arise from revaluation of assets or liabilities or from recognition of profits or losses on them on a different basis.

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in profits and losses. Reversals of impairment losses in respect of equity instruments are not recognized in profits and losses. Impairment losses in respect of 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.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

Assets carried at amortized cost

For financial assets carried at amortized cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss 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, if a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in current period expenses.

Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the consolidated statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

If, in a subsequent 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. Any subsequent reversal of an impairment loss is recognized in profits and losses to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

In relation to trade accounts receivable, an allowance for doubtful debts is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group 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 receivables are derecognized when they are assessed as uncollectible.

Available-for-sale financial investments

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Hedge accounting

The Group designates certain hedging instruments in respect of foreign currency risk, as either hedges of net investments in foreign operations or cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values of foreign operations or cash flows of the hedged item attributable to the hedged risk.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item.

Hedge accounting is discontinued:

a) When the Group revokes the hedging relationship;

b) When the hedging instrument expires or is sold, terminated, or exercised; or

c) When it no longer qualifies for hedge accounting.

Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Investments in foreign operations hedge

Foreign currency gain or loss arising on items that are designated as part of the hedge of the Group's net investment in foreign operations are recognized in consolidated statement of comprehensive income within currency translation reserve.

Cash flow hedges

Foreign currency gain or loss arising from financial instruments that are designated and qualify as cash flow hedges is recognized in consolidated statement of comprehensive income within hedge reserve.

Inventories

Inventories are valued at cost or net realisable value, whichever is lower. Costs comprise charges incurred in bringing inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to sell. The same cost formula is used for all inventories having a similar nature and use. Inventories of oil and gas and energy operating segments are valued on a first-in first-out ("FIFO") basis. All other inventories are valued on the weighted-average cost basis.

Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits, short-term and highly liquid investments with original maturity of not more than 3 (three) months readily convertible to known amounts of cash and subject to insignificant risk of change in value.

Financial liabilities

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 consolidated statement of comprehensive income over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 (twelve) months after the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Borrowings (continued)

Issued financial instruments or their components are classified as borrowings, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the Government, amounts due to credit institutions, which are initially recognized at fair value of amounts obtained less costs directly attributable to the transaction. Subsequently amounts received are recognized at amortized cost.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying long-term asset are capitalized as part of the cost of that asset. Other borrowing costs are recognized as an expense when incurred.

Trade and other payables

Liabilities for trade and other accounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group and subsequently measured at amortized cost using the effective interest rate.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in the consolidated balance sheet when:

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

Financial liabilities

A financial liability is derecognized in the consolidated balance sheet when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if:

- There is a currently enforceable legal right to offset the recognized amounts;
- There is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions;
- Reference to the current fair value of another instrument that is substantially the same;
- A discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in *Note 38*.

Leases

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Finance leases

The Group recognises finance leases as assets and liabilities in the consolidated balance sheet at amounts equal at the commencement of the lease term to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine it; otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset.

Lease payments are apportioned between the finance cost and the reduction of the outstanding liability. The finance cost is allocated to reporting periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

A finance lease gives rise to depreciation expense for the asset as well as a finance cost for each reporting period. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned.

Provisions

Asset retirement obligation (decommissioning)

Provision for decommissioning is recognized in full, on a discounted cash flow basis, when the Group has an obligation to dismantle and remove a facility or an item of property, plant and equipment and to restore the site on which it is located, and when a reasonable estimate of that provision can be made.

The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding item of property, plant and equipment in the amount equivalent to the provision is also recognized. This asset is subsequently depreciated as part of the capital costs of the production and transportation facilities in accordance with respective depreciation method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

Asset retirement obligation (decommissioning) (continued)

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

a) Changes in the provision are added to, or deducted from, the carrying amount of the related asset in the current period;

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

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

Other provisions

Provisions are recognized in the consolidated financial statements when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Employee benefits

Contributions to pension funds

The Group withholds 10% from the salary of its employees limited to certain annual amounts as the employees' contribution to their designated pension funds. Under the legislation, employees are responsible for their retirement benefits and the Group has no present or future obligation to further compensate its employees upon their retirement.

Social tax

The Group pays social tax according to the current statutory requirements of the Republic of Kazakhstan. Social tax is expensed as incurred.

Defined benefit plan

In accordance with the Collective Agreements signed with trade unions and other benefit regulations, some subsidiaries of the Group provide certain benefits to its employees upon their retirement ("Defined Benefit Plan").

The Group recognises actuarial gains and losses arising from the reassessment of the employee benefit liability in the period they are identified in OCI and profits and losses, and recognises benefit costs and obligations based on estimates determined in accordance with IAS 19 *Employee Benefits*.

The obligation and cost of benefits under the defined benefit plan are determined using the projected unit credit method. This method considers each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The cost of providing benefits is charged to profit and loss, so as to attribute the total benefit cost over the service lives of employees in accordance with the benefit formula of the defined benefit plan. This obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest on government bonds where the currency and terms of these bonds are consistent with the currency and estimated terms of the defined benefit plan obligation.

The defined benefit plans of Group's subsidiaries are unfunded.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity

Share capital

Common shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess or deficiency of the fair value of consideration received over the par value of shares issued is recognized as an increase or decrease in the retained earnings.

Non-controlling interests

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Parent. Losses of subsidiaries are attributed to the non-controlling interest even if this results in a deficit balance.

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 in the consolidated financial statements when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Share based payments

Some employees of the Group receive remuneration in the form of share-based payment transactions, whereby these employees render services as consideration for equity instruments of a subsidiary in which they are employed ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value of the instruments on the date that they are granted. The fair value is determined using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in other capital reserves, over a period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognized for such transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

Other distributions to the Shareholder

In retained earnings other distributions to the Shareholder are represented by expenses incurred or asset distribution made at the discretion of the Shareholder, including property, plant and equipment, interest in another entities and disposal groups, cash and other in accordance with accounting policy of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured.

Sale of goods

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

Rendering of services

Revenue from rendering of services is recognized when the services have been performed.

In respect of services related to transportation, revenue is recognized with reference to the stage of completion of the transportation at the reporting date provided that the stage of completion of transportation and the amount of revenue can be measured reliably. Prepayments received from customers relating to transportation services that have not been started yet are recognized upon receipt as "advances received from customers". Advances received from customers approximating the estimated future revenues relating to initiated deliveries are transferred to deferred income under the "Other current liabilities" line in the consolidated balance sheet. Deferred income is credited to current revenue, as the service is provided.

Sales of air transportation tickets that result in award credits for customers, under the customer loyalty program, are accounted for as multiple elements of revenue transactions at the fair value allocated between the services provided and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value – the amount for which the award credits could be sold separately. Such consideration is not recognized as revenue at the time of the initial sale transaction – but is deferred and recognized as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

Establishment of tariffs

A number of subsidiaries of the Group are subject to regulation by the Committee for regulation of natural monopolies of the Republic of Kazakhstan ("CRNM"). This Committee is responsible for approval of the methodology for tariff calculation and tariff rates, under which the subsidiaries derive a significant portion of their revenues.

Government grants

Due to the fact that the Government of the Republic of Kazakhstan is the sole shareholder of the Fund, the Group analyses all transactions with the Government to assess its role: where the Government acts primarily in its capacity of the Shareholder or where it acts as a regulator. If it is determined that in a specific transaction the Government acts in capacity of the Shareholder any gains or losses incurred by the Group as a result of such transaction are reflected directly in equity as either a contribution or withdrawal of equity by the Shareholder.

If it is determined that in a specific transaction the Government does not act in capacity of the Shareholder such transactions are accounted for using provisions of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. In such circumstances, government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments. Grants related to income are presented separately in the consolidated statement of comprehensive income within revenues from operating activities.

Expense recognition

Expenses are recognized as incurred and are reported in the consolidated statement of comprehensive income in the period to which they relate on the accrual basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognized in the profits and losses, except to the extent that it relates to items charged or credited to other comprehensive income or equity, in which case it is recognized in other comprehensive income. Current tax expense is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Excess profit tax ("EPT") is treated as an income tax and forms part of income tax expense. In accordance with the subsurface use contracts, the Group accrues and pays EPT, at specified rates of after tax profit which has been adjusted for specific deductions in accordance with the applicable subsurface use contracts, when certain internal rates of return are exceeded.

The internal rate of return is calculated based on the cash flows from each subsurface use contract, adjusted for the national inflation rate. Deferred tax is calculated with respect to both corporate income tax ("CIT") and EPT. Deferred EPT is calculated on temporary differences for assets allocated to subsurface use contracts use at the expected rate of EPT to be paid under the contract.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The temporary differences arising due to the following are not provided for:

- The initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Value added tax ("VAT")

Tax authorities permit the settlement of sales and purchases VAT on a net basis. VAT receivable represents VAT on domestic purchases net of VAT on domestic sales. Export sales are zero rated.

Related parties

Related parties include the Group's Shareholder, key management personnel, associates, joint ventures and entities in which a substantial interest in the voting power is owned, directly or indirectly, by the Group's shareholders or key management personnel.

Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements *(Note 39)* unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the consolidated financial statements. Where an inflow of economic benefits is probable, they are disclosed in the notes.

Subsequent events

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent assets and liabilities at the reporting date and reported amounts of assets, liabilities, revenues, expenses and contingent assets and liabilities during the reporting period. Actual outcomes could differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Oil and gas reserves

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

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

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub-classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability.

Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data, availability of new data, or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for Depreciation Depletion & Amortization ("DD&A") in relation to oil and gas production assets. The Group has included in proved reserves only those quantities that are expected to be produced during the initial subsoil use contract period. This is due to the uncertainties surrounding the outcome of such renewal procedures, since the renewal is ultimately at the discretion of the Government. An increase in the Group's subsoil use contract periods and corresponding increase in reported reserves would generally lead to lower DD&A expense and could materially affect earnings. A reduction in proved developed reserves will increase DD&A expense (assuming constant production), reduce income and could also result in an immediate write-down of the property's book value. Given the relatively small number of producing fields, it is possible that any changes in reserve estimates year on year could significantly affect prospective charges for DD&A.

Mining reserves

Mining reserves are a critical component of the projected cash flow estimates that are used to assess the recoverable values of assets and to determine depreciation and amortisation expense in mining segment. Group entities usually estimate reserves based on results of detailed mine exploration, which is evaluated and approved by State Reserves Commission (SRC) of Kazakhstan Geology Committee. Normally upon stripping during production actual reserves of each area are greater or lesser than geological reserves approved by SRC.

JORC reserves

In 2017, the Group engaged SRK Consulting (UK) Limited (hereinafter – "SRK") to assess the Group's reserves and resources in accordance with the Australasian Code for reporting on geological exploration works, mineral resources and ore reserves (2012) (hereinafter "JORC Code"). Reserves and resources valuation was carried out as of December 31, 2017. SRK has reviewed all of the key information on which the most recent (December 31, 2017) reported mineral resource and ore reserve statements for the mining assets of NAC KAP are based.

Starting from January 1, 2017 NAC KAP has applied JORC reserves data for recalculation of depreciation of production assets (liquidation fund assets, capitalised historical costs, and mining infrastructure assets within property, plant and equipment) from January 1, 2017, prospectively.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Recoverability of long-term assets

The Group assesses assets or cash generating unit ("CGU") for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term oil prices, discount rates, future capital requirements, operating performance (including production and sales volumes) that are subject to risk and uncertainty. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered to be impaired and is written down to its recoverable amount. In assessing recoverable amount the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is identified as the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general.

Under IAS 36, one of the possible impairment indicators is the presence of significant changes that had negative consequences for the Group that occurred during the year or are expected in the near future in the technological, market, economic or legal environment in which the Group operates or in the market for which the asset is used.

Oil and gas assets, downstream, refining and other assets

As at December 31, 2017 further decreased levels of drilling services provided and increases in inflation rate and cost of capital indicated that Group's cash generating units may be impaired. Therefore, for the year ended December 31, 2017 management carried out a formal assessment of the recoverable amount of its assets. An impairment loss of 23,310 million tenge, which is mainly attributable to impairment of capital work in progress of Pavlodar oil chemistry refinery LLP ("PNHZ") of 15,227 million tenge associated with change in configuration of modernization project and impairment of property, plant and equipment of Oil Transport Corporation LLP ("OTC") of 5,040 million tenge was recognised in concolidated statement of comprehensive income.

OTC

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

PNHZ

The Group performed its annual impairment test of PNHZ in December 2017. The Group considers the forecast refinery margins and production volumes, among other factors, when reviewing for indicators of impairment. Before performing this test, the Group impaired specific work in progress that was not considered as part of PNHZ CGU.

PNHZ calculates recoverable value in use amount using a discounted cash flow model. The discount rate was calculated on the weighted average cost of capital before taxes. Forecasted cash flows till to 2036 were based on five-years business plan of PNHZ till 2021, which assumes current management estimates on potential changes in operating and capital costs. The significant part of those cash flows after 2021 was forecasted by applying expected inflation rate, excluding capital costs, which are based on the best estimate of management as of valuation date.

As at December 31, 2017 recoverable amount of PNHZ CGU amounted to 432,622 million tenge. Cash flows assume the highest and best use of assets by independent market participants, i.e. other companies of the same industry in the existing economic environment. The discount rate applied to the cash flow projections is 13.25% (in 2016: 11.58%), and cash flows beyond the five-year period are extrapolated using a 2.78% growth rate (in 2016: 4.99%).The key assumptions used in calculating value in use for PNHZ were:

- Volumes of crude oil and oil products output;
- Capital expenditures for 2018-2036;
- Price of crude oil and oil products;
- Discount rates.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Oil and gas assets, downstream, refining and other assets (continued)

Energy generating assets (continued)

Investments in EGRES-2 (continued)

The major circumstances, which resulted in recognition of impairment loss for the year ended December 31, 2017 are the following:

- Expected capacities have significantly decreased as at December 31, 2017 in comparison with forecast data as at the end of 2016 due to a variety of reasons, including but not limited to the acquisition of the power generating and power supply companies by the single investor that, in turn, resulted to change of approach to the outgoing power of the separate power generating objects;
- Decrease in the level of the weighted average tariff due to the increase in a share of sale of the electricity through the centralized markets at lower than budgeted tariffs;
- Decline in the general commercial demand of the main consumers observed in the first half of the year 2017 and suspension of export of electricity to the Russian Federation.

The following assumptions were used for the calculation of the recoverable amount of non-financial assets:

Electricity tariffs

For the calculation of the recoverable amount, management of EGRES-2 used the following tariffs for electricity:

- The average tariff for 2017 is 6.6 tenge per 1 kWh, which represents the actual tariff realized by EGRES-2 on the sale of electricity in 2017, which do not exceed the tariff cap, approved and set by Ministry of Energy for 2016-2018 years at a rate of 8.8 tenge per 1 kWh.
- Projected weighted average tariffs for subsequent periods are as follows:

	2018	2019	2020	2021	2022	2023	2024	2025	2026
The tariff for electricity (tenge per 1 kWh per hour)	6.63	5.77	6.18	6.48	6.77	7.04	7.30	7.55	7.80
The tariff for capacity (tenge per 1 kWh per month)	–	0.7	0.75	0.79	0.82	0.85	0.89	7.67	7.79

The forecast for tariffs was made based on management's expectations regarding the resumption of the project on construction of the power unit No. 3 in 2020. Significant increase in tariffs in 2025 is due to the expected commissioning of the power unit No. 3, and changes in the tariff structure, which is due to introduction of the electric capacity market in the Republic of Kazakhstan.

In case of decrease of the tariffs on electricity by 10%, recoverable amount of the property, plant and equipment will be less than its carrying value by 34,822 million tenge. Accordingly, recoverable amount of the Group's investment in EGRES-2 will be less than its carrying value by 17,411 million tenge.

Volumes of production and sale of electricity

For calculation of the recoverable amount of assets, management considered the forecast volumes of production/sales of electricity from power unit No. 3 and the corresponding investment needed to complete construction. The following estimates for volumes of electricity sales for the calculation of the recoverable amount of assets were used:

	2018	2019	2020	2021	2022	2023	2024	2025	2026
The volume of electricity production (in millions of kWh)	5,100	5,801	6,001	6,101	6,101	6,101	6,101	6,185	6,270

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Oil and gas assets, downstream, refining and other assets (continued)

Energy generating assets (continued)

Investments in EGRES-2 (continued)

Volumes of production and sale of electricity (continued)

Management anticipates that volumes of production and sales during the forecast period prior to putting into operation power unit No. 3 will be stable. No significant increase in electricity volumes is expected after the launch of power unit No. 3, however, the production volumes of electric power will be distributed between three blocks. Although, the management expects that sales volumes of electric power will increase during forecasted period, 10% decline in sales volumes of electric power will result in impairment loss from property, plant and equipment of 28,986 million tenge, and correspondingly, in impairment loss from Group's investments in EGRES-2 of 14,493 million tenge.

Discount rate

The discount rate was estimated considering the reflection of the current market assessment of the risks inherent to EGRES-2, and evaluated on the basis of the weighted average cost of capital for the industry. In the future to reflect changing risks inherent in the industry, and changes in the weighted average cost of capital, further changes in the discount rate may be required. Increasing the discount rate by 1% would lead to an impairment loss from property, plant and equipment of 24,619 million tenge, and correspondingly, to an impairment loss from investments of the Group in EGRES-2 of 12,309 million tenge.

Investments in Balkhash Power Plant

The project "Construction of the Balkhash Thermal Power Plant" (hereinafter – "the Project") was implemented under the framework of the intergovernmental agreement signed between the Government of the Republic of Kazakhstan and the Government of the Republic of Korea. The agreement, signed in 2011, includes economic cooperation in the field of financing, design, construction, operation and maintenance of the power plant.

The shareholders of Balkhash Thermal Power Plant JSC (hereinafter – "BTPP") are Samsung C&T Corporation (hereinafter – "Samsung C&T") and Samruk-Energy JSC (subsidiary of the Fund), holding 50% + 1 shares and 50% – 1 share, respectively, as of December 31, 2017. The entity was established in 2008 as a joint stock company. In June 2012, BTPP and Samsung Engineering Co. Ltd signed a contract to design, supply and construct Balkhash thermal power plant with power capacity of 1320 MW (Engineering, Procurement, Construction – "EPC contract").

According to plans, profitability of the project is ensured through the long-term contract dated June 19, 2014 for the purchase of services for the maintenance of available capacity of newly commissioned power generating units (hereinafter – "Capacity Purchase Agreement" or "CPA"). The contract was signed by two parties: BTPP and JSC "KEGOC" (national grid and the national operator of the unified power system of the Republic of Kazakhstan); the tariffs in the contract are set in US dollars.

On February 14, 2012 the Samruk Energy JSC and Samsung C&T signed the "Option Agreement regarding the shares of the Balkhash Thermal Power Plant". In accordance with this agreement, Samsung C&T has the option to require Samruk Energy JSC to acquire Samsung C&T's shares of BTPP, if the relevant conditions of the option agreement relating to the ratification of the Intergovernmental Agreement, the adoption of laws that give the opportunity to enter into the capacity purchase agreement, and the timely conclusion of the capacity purchase agreement with the conditions sufficient to attract project financing are not fulfilled. According to the requirements of the Option Agreement, the option price is equal to the total amount paid by Samsung C & T for the purchase of option shares, capital investments and the loan amount from Samsung C & T less dividends and other payments received by Samsung C & T for the shares held.

Until August 2016 the Samruk-Energy JSC and Samsung C&T have repeatedly extended this option to sell the shares.

In order to raise debt financing for the Project potential lenders require protecting the rights and interests of investors in accordance with international practice for project financing.

In the absence of a final version of the Project support package, on August 31, 2016 Samsung C&T notified Samruk-Energy JSC of its intention to exercise the option to sell the shares in accordance with the Option Agreement.

Also, due to the lack of financing for BTTP on August 31, 2016 Samsung Engineering Co. Ltd also notified BTPP about the termination of the EPC contract.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Oil and gas assets, downstream, refining and other assets (continued)

Energy generating assets (continued)

Investments in Balkhash Power Plant (continued)

After receiving notification from Samsung C&T, Samruk Energy JSC and the Government of Kazakhstan has adopted a number of measures in respect of this matter from October 2016 until now.

Taking into account the strategic importance of the project to ensure power system reliability in Southern Kazakhstan, the Government of Kazakhstan approved the continuation of negotiations with Samsung C&T.

In particular, the Government of Kazakhstan and the state authorities of Kazakhstan held a number of meetings to discuss the further implementation of the Project with the participation of Samsung C&T. The parties agreed that a Letter of Support from the Government with conditions satisfactory for project financing will be arranged in due course.

On February 28, 2017 as a result of negotiations to continue the project Samsung Engineering Co. Ltd and Samsung C&T withdrew their notice of termination of the EPC contract.

However, subsequently, the Letter of Support from the Kazakhstani side was not arranged within the expected timeframe and on April 29, 2017 Samsung Engineering Consortium Co. Ltd ("Consortium") notified BTPP that the withdrawal of the EPC contract termination notice dated February 28, 2017 was no longer effective. The Government of the Republic of Kazakhstan together with Samruk-Energy JSC has entered into and continues to negotiate the settlement of issues related to the option of the sale of shares and the termination of the merger and construction agreement. Samruk-Energy JSC believes that the exercise of the Option Agreement to sell back their shares is invalid based on the party's failure to prove that the claim is in compliance with its contractual obligations. Therefore, in the consolidated financial statements as at and for the year ended December 31, 2017, the Group did not create any provisions with respect to the option claim initiated by Samsung C & T.

Further, all constructions works under the EPC contract were suspended. On September 29, 2017 the Consortium addressed to BTPP the final claim for payment due to termination of the contract. The amount of the final claim was 108,860 thousand US dollars. Subsequently, in a letter dated November 30, 2017, the Consortium announced that the Consortium had instructed Dongfang Electric Corporation Limited and Siemens (then "Subcontractors") to utilize the equipment under the EPC contract to avoid the additional costs. The Group concluded that the events described above are indicative of an impairment of the Group's investment in the BTPP in accordance with IAS 36 *Impairment of Assets*. Accordingly, as at December 31, 2017, the Group recognized an impairment loss on investments in the BTPP in the amount of 27,571 million tenge.

Railway assets

Because of impairment indicators as at December 31, 2017, NC KTZh conducted impairment tests of its railways assets.

Railway infrastructure is integral and is not differentiated for freight and passenger transportation lines. Accordingly, there is no objective allocation of infrastructure assets for cash flows from freight and passenger transportation. Due to the specifics of tariff regulation for freight transportation and the need to cross-subsidise passenger transportation, railway infrastructure cannot generate independent cash flows and accordingly Group considers them as a single CGU.

The Government, as the Group's Shareholder, has approved a privatisation plan for certain NC KTZh entities, which, if implemented, would result in a new interaction mechanism among its various business units. As NC KTZh's restructuring processes have not been completed, these possible developments were not taken into account for current year impairment testing purposes. Subsequent changes in the identification of CGUs may affect the carrying value of the NC KTZh's assets.

Additionally, a number of subjective factors, both operational and financial, using the best evidence available, are used to estimate cash flows.

The operational considerations used in the test reflect the most likely volume of transportation services, including transit volumes, based on historical data and projected demand.

Financial assumptions include significant estimates associated with tariff forecasts and growth rates, discounts, and projected tenge to US dollar and Swiss Franc exchange rates. The key long-term assumptions used in the calculation were annual tariff growth of 4% in freight and passenger transportation, an exchange rate of 340 tenge / US dollar and a discount rate of 13.21%. These assumptions are presented in real terms.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Railway assets (continued)

As of December 31, 2017, no impairment has been identified based on the estimated value in use of the NC KTZh's property, plant and equipment. However, the value in use estimate is sensitive particularly to the following assumptions:

- Discount rate;
- Transit freight transportation traffic; and
- Foreign currency exchange rates, including to the Swiss Franc and US$.

Adverse changes to planned freight and passenger traffic growth rates due to general economic trends, tariffs not being sufficiently indexed to inflation, the tenge's continuing volatility against foreign currencies, government support levels, and other future adverse changes may lead to significant impairment losses in the period in which they occur.

Assets related to uranium production

As at December 31, 2017 the Group analysed indications of impairment of assets (generating units) related to uranium production. Due to the actual average price of uranium during 2017 was higher than the forecast price in 2016; and remained stable, and overall positive dynamics is projected in respect to forecast prices for future periods; the pricing factor was not considered by management as an indicator of impairment of uranium assets.

As at December 31, 2017 the management of the Group considered other external and internal factors for each uranium field. As a result, indicators of impairment of assets were identified for Uvanas, Kanzhugan, South Moinkum, Karamurun, Semizbay, Irkol, West Mynkuduk and Central Moinkum generating units. The indicators of impairment included decrease in uranium reserves due to transition to evaluation under JORC code and other factors such as depletion of reserves or high cost of production.

Management performed test for impairment of assets (cash generating units) of the Group related to uranium production for which impairment indicators were identified as at December 31, 2017.

For the purpose of impairment test assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). The Group identified each mine (contract territory) as a separate cash generating unit. If several mines are technologically connected with single processing plant (section for processing of pregnant solutions) the Group considers such mines as one cash generating unit.

As at December 31, 2017, based on the impairment assessment the Group recognised impairment losses for Uvanas, Kanzhugan, South Moinkum, Central Moinkum and Karamurun cash generating units as recoverable amounts of these cash generating units were less than their carrying amounts by 4,954 million tenge (December 31, 2016: 2,060 million tenge).

Below are principal assumptions used by management for calculation of value in use of assets (cash generating units) of the Group related to uranium production for which impairment indications were identified as at December 31, 2017:

- Average annual uranium prices are estimated at the following levels based on the forecast by independent source Ux Consulting LLC published in the fourth quarter of 2017 (Mid Price Midpoint), accounting with application of decreasing coefficient of 10%:

	2018	2019	2020	2021	2022	2023-2030
Average price of U3O8 per pound (in USD)	23.45	22.6	22.8	24.6	26.7	31.3-45.6

- Forecast production and period based on volumes of annual production stipulated by subsurface use contracts; these volumes were adjusted by management due to decrease in production plan and are restricted by uranium reserves, defined in accordance with JORC code on SRK report;
- Operating and capital expenditures for the years 2018-2022 agree with approved 5-year budget plan of the Group;
- Operating and capital expenditures after 2023 will increase at the long-term infalation rate of 4%-6% per annum;
- Discount rate of 9.57%-12.1% per annum;
- Forecast of long-term exchange rate is applied based on the HIS Global Insight source.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Assets related to uranium production (continued)

Presented below is the sensitivity analysis disclosing possible impairment losses at reasonably possible changes of principal assumptions (with all other parameters held constant) for assets (cash generating units) where impairment indications were identified:

- decrease in average forecast annual uranium prices across the forecast horizon:

% decrease	Impairment loss, in millions of tenge
10%	38,368
20%	40,549

Assets retirement obligations related to oil and gas assets

Under the terms of certain subsurface use contracts, legislation and regulations the Group has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Group's obligation relates to the ongoing closure of all non-producing wells and final closure activities such as removal of pipes, buildings and recultivation of the contract territories, and also obligations to dismantle and remove tangible assets and restore territory at each production site. Since the subsurface use contract terms cannot be extended at the discretion of the Group, the settlement date of the final closure obligations has been assumed to be the end of each subsurface use contract period. If the asset retirement obligations were to be settled at the end of the economic life of oil and gas field, the recorded obligation would increase significantly due to the inclusion of all abandonment and closure costs. The extent of the Group's obligations to finance the abandonment of wells and for final closure costs depends on the terms of the respective subsurface use contracts and current legislation.

Where neither subsurface use contracts nor legislation include an unambiguous obligation to undertake or finance such final abandonment and closure costs at the end of the subsurface use contract term, no liability has been recognized. There is some uncertainty and significant judgment involved in making such a determination. Management's assessment of the presence or absence of such obligations could change with shifts in policies and practices of the Government or in the local industry practice.

The Group calculates asset retirement obligations separately for each contract. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstani market.

At each reporting date the Group reviews site restoration provisions, and adjusts them to reflect the current best estimate in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*.

Estimating the future closure costs involves significant estimates and judgments by management. Most of these obligations are many years in the future and, in addition to ambiguities in the legal requirements, the Group's estimate can be affected by changes in asset removal technologies, costs and industry practice.

Uncertainties related to the final closure costs are mitigated by the effects of discounting the expected cash flows. The Group estimates future well and assets abandonment cost using current year prices and the average long-term inflation rate.

The long-term inflation and discount rates used to determine the obligation in the consolidated balance sheet across the Group entities at December 31, 2017 were in the range from 2.01% to 5.57% and from 5.17% to 10.00%, respectively (December 31, 2016: from 2.04% to 6.7% and from 5.5% to 10.15%, respectively). Movements in the provision for asset retirement obligations are disclosed in *Note 23*.

Assets retirement obligations related to mining assets

In accordance with the environmental legislation and the contracts on subsurface use, the Group has a legal obligation to remediate damage caused to the environment from its operations and to decommission its mining assets and waste polygons and restore a landfill site after its closure. Provision is made, based on the net present values, for site restoration and retirement costs as soon as the obligation arises from past mining activities.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Assets retirement obligations related to mining assets (continued)

The provision for mining assets and waste polygons retirement obligation is estimated based on the Group's interpretation of current environmental legislation in the Republic of Kazakhstan and the Group's related program for liquidation of subsurface use consequences on the contracted territory and other operations supported by the feasibility study and engineering researches in accordance with the existing restoration and retirement standards and techniques.

The valuation of asset retirement obligations as at the reporting date was performed based on data provided by the Group. The volume of works, stipulated by the legislation and included in the assessment, involved the dismantling of facilities and infrastructure (pumping, pouring and observation wells, technological nodes of acidification and distribution of solutions, pipelines, access roads, technological sites, landfills, buildings and other objects) and subsequent restoration of land.

Provisions for retirement obligations are subject to potential changes in environmental regulatory requirements and the interpretation of the legislation. Provisions for mining assets and waste polygons retirement obligations are recognised when there is a certainty of incurring such liabilities and when it is possible to measure the amounts reliably.

Significant judgments used in such estimations include the estimate of discount rate and timing of cash flows. Discount rate is applied to the nominal costs the management expects to spend on mining assets retirement and waste polygons restoration in the future. Accordingly, management's estimates based on current prices are inflated using the expected long-term inflation rate of 5.4% (2016: 5.13%), and subsequently discounted using discount rate. The discount rate reflects the current market estimates of the time value of money and those risks specific to the liability not reflected in the best estimate of the costs. The discount rate is based on a risk-free rate determined as interest rates on government bonds with the same maturity as the subsoil use contracts of the Group. The discount rate used by the Group's companies for calculation of provision as at December 31, 2017 is 9.06% (December 31, 2016: 7.08%). Management estimated that reasonably possible changes in key assumptions would not lead to significant changes of provision for assets retirement obligations.

Major oil and gas pipelines

According to the Law of the Republic of Kazakhstan *On Major Pipelines* which was made effective on July 4, 2014 the Group's subsidiaries KazTransOil JSC and Intergas Central Asia JSC have a legal obligation to decommission major oil pipelines at the end of their operating life and to restore the land to its original condition. Asset retirement obligation is calculated based on estimate of the work to decommission and rehabilitate.

As at December 31, 2017 the carrying amount of asset retirement obligations of KazTransOil JSC and Intergas Central Asia JSC relating to decommissioning of pipelines and land was 65,140 million tenge (December 31, 2016: 59,540 million tenge) *(Note 23).*

Environmental remediation

The Group management also makes judgments and estimates in establishing provisions for environmental remediation obligations. Environmental expenditures are capitalized or expensed depending upon their future economic benefit. Expenditures that relate to an existing condition caused by past operations and do not have a future economic benefit are expensed.

Liabilities are determined based on current information about costs and expected plans for remediation and are recorded on an undiscounted basis if the timing of the procedures has not been agreed with the relevant authorities. The Group's environmental remediation provision represents management best estimate based on an independent assessment of the anticipated expenditure necessary for the Group to remain in compliance with the current regulatory regime in Kazakhstan and Europe. For environmental remediation provisions, actual costs can differ from estimates because of changes in laws and regulations, public expectations, discovery and analysis of site conditions and changes in clean-up technology. Further uncertainties related to environmental remediation obligations are detailed in *Note 39*. Movements in the provision for environmental remediation obligations are disclosed in *Note 23*.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Provision for obligations on construction of social assets

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

Useful lives of items of property, plant and equipment

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

Deferred tax assets

Deferred tax assets are recognized for all allowances and unused tax losses to the extent that it is probable that taxable temporary differences and business nature of such expenses will be proved. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of recognized deferred tax assets as at December 31, 2017 was equal to 135,735 million tenge (December 31, 2016: 145,150 million tenge). Further details are contained in *Note 35*.

Taxation

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of the Group's international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable profits and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates.

The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

In assessing tax risks, management considers to be probable obligations the known areas of non-compliance with tax legislation, which the Group would not appeal or does not believe it could successfully appeal, if additional taxes are charged. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, amendments to the taxation terms of the Group's subsurface use contracts, the determination of expected outcomes from pending tax proceedings and current outcome of ongoing compliance audits by tax authorities. The provision for taxes disclosed in *Note 23* relates mainly to the Group's application of Kazakhstan transfer pricing legislation. Further uncertainties related to taxation are disclosed in *Note 39*.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated balance sheet cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the fair value of financial instruments reported in the consolidated financial statements. Further details are disclosed in *Note 38*.

Employee benefit liability

The Group uses actuarial valuation method for measurement of the present value of defined employee benefit liability and related current service cost *(Note 24)*. This involves use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, etc.) as well as financial assumptions (discount rate, future annual financial assistance, future annual minimum salary, future average railway ticket price). Further details on judgements are disclosed in *Note 24*.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Allowances for doubtful accounts receivable and other assets

The Group accrues allowances for doubtful accounts receivable and other assets. Significant judgment is used to estimate doubtful accounts. In estimating doubtful debts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful debts recognized in the consolidated financial statements. At December 31, 2017, allowances for doubtful debts have been recorded of 163,781 million tenge (December 31, 2016: 118,198 million tenge) *(Notes 14 and 16).*

Swap transactions

NAC KAP sells part of its uranium products on swap terms. NAC KAP agrees all terms and signs two separate agreements simultaneously with the same counterparty, one for delivery and another for the purchase of the same volume of uranium for the same price at two different delivery points. Effectively, this results in exchange of their own uranium (produced or purchased from the companies within the Group) with purchased uranium. Normally, under swap transactions the Group delivers uranium to one destination point and purchases the same volume of uranium at the third-party converter for further sale to end customers. As a result, the NAC KAP saves on transportation costs for uranium delivery from Kazakhstan to end customers.

Until 2017, NAC KAP accounted for sales revenue and related costs from swap transactions on a gross basis (i.e. separately sales to the first destination point the subsequent sales from the converter to third parties, as well as costs of own uranium sold and purchased uranium sold, without netting these turnovers). Management believed that accounting on a gross basis reflected the commercial substance of uranium deliveries, each of which was considered as a standalone transaction to fulfil the Group's long- and short-term obligations to unrelated customers, and would have happened on its own without the swap deal in place. In addition, management considered the following factors: the agreements are not legally related, execution under each agreement is not tied to the execution under another agreement, and each agreement is settled in cash separately.

In 2017, management has reconsidered its approach to treatment of and accounting for swap transactions. Despite the fact that swap agreements are not formally related to each other, management concluded that these transactions are in fact linked and would not have occurred on isolated basis, driven by the existing market demand and supply forces. In management's view, supply of the same volume of homogeneous product (uranium) for the same price represents an exchange of products, which should be presented on net basis in the financial statements, reflecting the economic substance of the transaction. Interpretation of terms and approach to the accounting for swap transactions requires management judgment. Management concluded that presentation of swap transactions on net basis reflects more appropriately their economic substance in the current market conditions. Accordingly, management decided to present revenues and costs from swap transactions in 2017 on net basis and for comparability purposes in 2016 comparative information as well *(Note 2).*

The netting adjustment to sales revenue and cost of sales in 2015 amounted to 13,806 million tenge. The adjustment of revenue and cost of sales for the year 2016 of 24,586 million tenge has impact on lines "Sales of uranium products" and "Materials and supplies" items, correspondingly *(Note 26 and 28).*

In 2017, NAC KAP reduced sales revenue from swap transactions for 52,241 million tenge, cost of sales for 47,596 million tenge and the inventory balance for 4,645 million tenge. Adjustment to inventory was caused by the fact that part of purchased uranium was not sold to third parties as of December 31, 2017, thus inventory cost was adjusted to cost per ton of own uranium.

Besides, in 2017, NAC KAP netted off revenue and expenses from sales of enriched uranium of 4,935 million tenge. Management concluded that in this transaction the Group acted as an agent rather than principal, and therefore only commission income of 27 million tenge was recognised in these consolidated financial statements.

Cash and bank deposits in KazInvestBank JSC

In accordance with the Board of the National Bank of the Republic of Kazakhstan Resolution No. 291, dated December 26, 2016, a decision to revoke the license of KazInvestbank JSC to conduct banking and other transactions and activities on the securities market was made. The National Bank appointed an interim administration. The management of the Group carried out a series of evaluations to assess the recoverability of the Group's funds placed in KazInvestBank JSC in accordance with the Regulations of the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations dated August 5, 2009 No. 176.

On January 24, 2018 the court's decision on the forced liquidation of KazInvestBank JSC came into effect. The compensation of the remaining claims of KazInvestBank JSC will depend on the actions of the liquidation commission.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Swap transactions (continued)

Cash and bank deposits in KazInvestBank JSC (continued)

As a result of the assessment, management of the Group accrued a provision for impairment of balances at KazInvestbank JSC during 2017 of 2,619 million tenge (2016: 12,429 million tenge), which reflects the best estimate of the recoverability of these assets *(Note 31)*.

Cash and bank deposits in Delta Bank JSC

In February 2017, the rating agency Standard & Poor's downgraded Delta Bank's long-term and short-term credit ratings from "CC/C" to "D/D" ("default") and senior unsecured bond ratings from "CC" to "D". On November 2, 2017, the National Bank decided to revoke the license of Delta Bank JSC. On February 13, 2018 the court decided on the forced liquidation of Delta Bank JSC.

As a result of the assessment, the Group reclassified the deposits held in Delta Bank JSC from the amounts due from credit institutions to other non-current and current assets and accrued a provision for impairment of balances with Delta Bank during 2017 of 28,859 million tenge (2016: 15,298 million tenge) *(Note 31)*.

Discontinued operations

In September 2015, the Group developed a new privatization plan which was subsequently approved by the Government in December 2015. The new privatization plan envisages sale of certain assets including 51% share in KMG International N.V. group ("KMGI"). On December 15, 2016, following this plan the Group signed share sale and purchase agreement ("SPA") to sell a 51% interest in KMGI. In 2017, all suspensive conditions specified in the SPA were met. On December 15, 2017 in order to maintain previously agreed terms of the transaction with the buyer, the Group signed an additional agreement to the SPA and a conditional act of transfer of KMG I shares with the expectation of completion of the transaction in June 2018. The Group estimated fair value of the 51% share in KMGI at 680 million US dollars (equivalent of 225,984 million tenge).

The Group considered KMGI to be classified as discontinued operations based on the following criteria:

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

Additional disclosures are provided in *Note 6*.

5. ACQUISITIONS

Kazakhstan Petrochemical Industry Inc. LLP ("KPI")

As at December 31, 2016, United Chemical Company LLP ("UCC"), subsidiary of the Group, and Firm ALMEX LLP owned 51% and 49% interests in KPI, respectively. Prior to gaining control over KPI in February 2017, the Group accounted for investment in KPI under the equity method.

On February 10, 2017, the Group obtained control over KPI under irrevocable trust management agreement. The trust management agreement is until the expiry of six months after commissioning of the integrated gas chemical complex in Atyrau oblast, the construction project of which is implemented by Group. As a result, the Group received full control over KPI without transferring consideration and without changes in equity interest.

5. ACQUISITIONS (continued)

Kazakhstan Petrochemical Industry Inc. LLP (continued)

The fair values of KPI identifiable assets and liabilities evaluated by an independent appraiser as at the date of acquisition were as follows:

In millions of tenge	The fair value recognized upon acquisition
Property, plant and equipment	38,926
Intangible assets	43,078
including the cost of the contract	*43,034*
VAT receivable	3,836
Other non-current assets	8,500
Inventories	11
Income tax prepaid	691
Trade accounts receivable	5,427
Other current assets	262
Amounts due from credit instititions	16,667
Cash and cash equivalents	243
Assets classified as held for sale	239
Total assets	**117,880**
Borrowings	(1,178)
Other liabilities	(537)
Income tax payable	(63)
Total liabilities	**(1,778)**
Net assets measured at fair value	**116,102**
Less: non-controlling interest (49%)	(56,890)
Fair value of interest in net assets (51% of interest)	**59,212**
Less: gain from revaluation of existing investments in KPI	(26,449)
Carrying value of investments in KPI before acquisition of control	(32,763)
Net cash flows from acquisition were as follows:	
Net cash acquired with the subsidiary	243
Cash paid	–
Net cash flow on acquisition	**243**

From the date of acquisition, KPI contributed net loss to the Group's financial results amount of 2,365 million tenge. If acquisition occurred at the beginning of the year, contribution of KPI's net loss would amounted to 2,896 million tenge.

The Group also recognized an intangible asset in the consolidated balance sheet received as a result of acquisition of control over KPI of 43,034 million tenge, which is the fair value of the contract for the purchase of propane on advantageous terms for KPI.

6. DISCONTINUED OPERATIONS AND ASSETS CLASSIFIED AS HELD FOR SALE

Discontinued operations in 2017

KMG International N.V.

In December 2015 the Group decided to sell 51% interest in KMG International N.V. ("KMGI") under the Complex privatisation plan for 2016-2020. On December 15, 2016 the Group signed a share purchase and sale agreement to sell a 51% interest in KMGI. The disposal is expected to be competed in 2018. This entity represents a separate geographical unit of operation and is classified as discontinued operations.

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

Discontinued operations in 2017 (continued)

KMG International N.V. (continued)

The results of operations of KMGI for the years ended December 31, 2017 and 2016 are presented below:

In millions of tenge	2017	2016
Revenue	**2,334,927**	1,695,688
Cost of sales	**(1,379,192)**	(1,170,416)
Gross profit	**955,735**	525,272
General and administrative expenses	**(36,921)**	(43,434)
Transportation and selling expenses	**(51,824)**	(53,706)
Revaluation adjustment less costs to sell	**(62,020)**	(50,237)
Other operating losses	**(3,503)**	(2,205)
Operating profit	**801,467**	375,690
Net foreign exchange loss, net	**(128)**	(2,272)
Finance income	**839**	452
Finance costs	**(11,458)**	(10,437)
Share in profit of joint ventures and associates, net	**385**	1,176
Profit before income tax for the year from discontinued operations	**791,105**	364,609
Income tax benefit	**1,745**	3,590
Net profit after income tax for the year from discontinued operations	**792,850**	368,199

IFRS requires to eliminate income generated by entities consolidated into the Group and presented as continuing operations with entities classified as discontinued operations. Accordingly, Group's profit and loss do not reflect results of continuing and discontinued operations, as if they were presented as separate entities due to significant volumes of crude oil sales from the Group to KMGI. Net profit of KMGI before intercompany eliminations for the years ended December 31, 2017 was equal to 9,931 million tenge (2016: net loss of 13,513 million tenge).

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

In millions of tenge	2017	2016
Assets		
Property, plant and equipment	**559,865**	585,546
Intangible assets	**69,774**	73,933
Investments in associates	**13,278**	12,644
Deferred tax asset	**33,545**	34,545
Other non-current assets	**3,374**	2,949
Inventories	**141,472**	115,235
Trade accounts receivable	**161,543**	128,944
Other current assets	**30,103**	36,149
Cash and cash equivalents	**73,831**	25,004
Assets classified as held for sale	**1,086,785**	1,014,949
Liabilities		
Borrowings	**137,809**	201,869
Deferred tax liabilities	**68,725**	72,935
Provisions	**48,687**	46,903
Other non-current liabilities	**4,606**	3,944
Trade accounts payable	**188,731**	142,278
Other taxes payable	**24,406**	19,114
Other current liabilities	**58,039**	63,183
Liabilities directly associated with the assets classified as held for sale	**531,003**	550,226
Net assets directly associated with the disposal group	**555,782**	464,723

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

Discontinued operations in 2017 (continued)

KMG International N.V. (continued)

As at December 31, 2017 property, plant and equipment with the net book value of 346,416 million tenge (2016: 372,055 million tenge), trade accounts receivables of 58,116 million tenge (December 31, 2016: 87,648 million tenge) and inventory of 111,844 million tenge (December 31, 2016: 72,641 million tenge) were pledged to secure borrowings and payables of KMGI.

For the years ended December 31, 2017 and 2016 the net cash flows incurred by KMGI are as follows:

In millions of tenge	**2017**	2016
Operating	**1,485,325**	559,895
Investing	**(33,401)**	(34,274)
Financing	**(63,997)**	(24,095)
Net cash inflow	**1,387,927**	501,526

Net cash inflows before elimination of intragroup cash flows in 2017 amounted to 47,980 million tenge (2016: net cash outflows 9,085 million tenge).

Disposals

EuroAsiaAir JSC

On Novermber 8, 2017 the Group finalised sale of 100% share in EuroAsiaAir JSC, which was not part of discontinued operations.

Gain on disposal is presented as follows:

In millions of tenge	**At disposal date**
Consideration received	11,850
Disposed net assets	(11,839)
Gain on disposal	**11**

Consideration received is presented as follows:

In millions of tenge	**At disposal date**
Cash and cash equivalents	11,850
Cash and cash equivalents of disposed subsidiaries	(3,340)
Total consideration received	**8,510**

Power assets

During the fourth quarter of 2017 the Group sold its controlling share in East Kazakhstan Regional Energy Company JSC, ShygysEnergoTrade LLP, Mangistau Electricity Distribution Network Company JSC, Aktobe HES JSC, which was not part of discontinued operations.

Loss on disposal is presented as follows:

In millions of tenge	**At disposal date**
Consideration	28,052
Disposed net assets	(36,409)
Disposed non-controlling interest	3,133
Loss on disposal	**(5,224)**

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

Disposals (continued)

Power assets (continued)

Consideration received is presented as follows:

In millions of tenge	**At disposal date**
Consideration	14,739
Deferred consideration	13,313
Cash and cash equivalents of disposed subsidiaries	(1,158)
Total consideration received	**26,894**

Summary information

Assets classified as held for sale comprised the following:

In millions of tenge	**Segment**	**December 31, 2017**	December 31, 2016
KMGI	Oil and gas	**1,086,785**	1,014,949
Transtelecom JSC	Transportation	**89,436**	89,286
Tulpar-Talgo LLP	Transportation	**28,514**	15,451
Kazakh-British Technical University JSC	Oil and gas	**16,803**	18,014
Euro-Asia Air JSC	Oil and gas	–	20,715
Mangistau Electricity Distribution Network Company JSC	Energy	–	31,831
East Kazakhstan Regional Energy Company JSC	Energy	–	16,490
Aktobe HES JSC	Energy	–	10,786
Other		**65,121**	66,392
		1,286,659	1,283,914

Liabilities associated with assets classified as held for sale comprised the following:

In millions of tenge	**Segment**	**December 31, 2017**	December 31, 2016
KMGI	Oil and gas	**531,003**	550,226
Transtelecom JSC	Transportation	**62,323**	75,800
Tulpar-Talgo LLP	Transportation	**24,069**	19,306
Kazakh-British Technical University JSC	Oil and gas	**1,925**	1,964
Euro-Asia Air JSC	Oil and gas	–	8,930
Mangistau Electricity Distribution Network Company JSC	Energy	–	19,267
East Kazakhstan Regional Energy Company JSC	Energy	–	5,702
Aktobe HES JSC	Energy	–	2,213
Other		**332**	9,288
		619,652	692,696

7. PROPERTY, PLANT AND EQUIPMENT

In millions of tenge	Oil and gas assets	Pipelines and refinery assets	Buildings and premises	Railway tracks and infra-structure	Machinery, equipment and vehicles	Mining assets	Other	Construc-tion in progress	Total
Net book value at January 1, 2016	4,437,273	853,816	685,159	904,076	2,459,653	40,848	61,325	885,570	10,327,720
Foreign currency translation	(67,897)	–	(1,263)	125	(1,033)	–	(104)	106	(70,066)
Changes in estimates	(49,620)	(6,078)	713	–	–	(808)	(888)	–	(56,681)
Additions	266,864	4,155	8,684	70	109,346	14,168	7,259	842,534	1,253,080
Acquisition through business combinations	–	–	5	–	3	–	13	25,869	25,890
Disposals	(5,647)	(3,112)	(8,580)	(815)	(30,016)	–	(3,894)	(12,201)	(64,265)
Depreciation charge	(75,334)	(49,529)	(51,692)	(23,771)	(199,476)	(10,705)	(10,428)	–	(420,935)
Depreciation and impairment on disposals	5,588	2,583	2,819	445	26,137	–	3,434	3,260	44,266
Impairment, net of reversal of impairment	1,113	(1,207)	(1,678)	(31)	(4,629)	(1,391)	(671)	(13,751)	(22,245)
Utilization of reserve	–	–	–	–	–	–	–	(29,701)	(29,701)
Discontinued operations / transfer to assets classified as held for sale	(105)	(17)	(6,716)	(9)	(90,427)	–	(2,066)	(20,642)	(119,982)
Transfers from/(to) intangible assets	(700,349)	–	–	–	(624)	–	–	(4,988)	(705,961)
Transfers from/(to) exploration and evaluation assets, investment property	(4,370)	–	(3,626)	–	–	3,866	–	–	(4,130)
Transfer from/(to) inventories, net	(707)	645	93	(966)	889	858	222	2,065	3,099
Other transfers and reclassifications	4,890	157,662	140,531	80,785	241,169	–	12,865	(637,902)	–
Net book value at December 31, 2016	3,811,699	958,918	764,449	959,909	2,510,992	46,836	67,067	1,040,219	10,160,089

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

In millions of tenge	Oil and gas assets	Pipelines and refinery assets	Buildings and premises	Railway tracks and infra-structure	Machinery, equipment and vehicles	Mining assets	Other	Construc-tion in progress	Total
Net book value at January 1, 2017	3,811,699	958,918	764,449	959,909	2,510,992	46,836	67,067	1,040,219	10,160,089
Foreign currency translation	**(11,430)**	**–**	**(386)**	**50**	**372**	**–**	**142**	**(412)**	**(11,664)**
Changes in estimates	**13,459**	**(200)**	**(350)**	**–**	**34**	**4,826**	**1**	**–**	**17,770**
Additions	**49,504**	**17,177**	**10,769**	**2,316**	**76,472**	**17,376**	**6,160**	**965,119**	**1,144,893**
Acquisition through business combinations	**–**	**–**	**2,539**	**–**	**–**	**–**	**28**	**36,213**	**38,780**
Disposals	**(17,372)**	**(3,802)**	**(6,698)**	**(103)**	**(26,367)**	**–**	**(4,211)**	**(2,194)**	**(60,747)**
Depreciation charge	**(138,357)**	**(56,444)**	**(43,648)**	**(26,214)**	**(210,145)**	**(11,022)**	**(9,084)**	**–**	**(494,914)**
Depreciation and impairment on disposals	**14,881**	**3,376**	**5,852**	**91**	**20,216**	**–**	**3,673**	**876**	**48,965**
Impairment, net of reversal of impairment	**–**	**(1)**	**(4,414)**	**(31)**	**(4,570)**	**(4,911)**	**(952)**	**(20,897)**	**(35,776)**
Utilization of reserve *(Note 23)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(41,130)**	**(41,130)**
Discontinued operations / transfer to assets classified as held for sale	**(170)**	**(3,908)**	**(4,742)**	**–**	**(2,511)**	**–**	**(163)**	**–**	**(11,494)**
Transfers from/(to) intangible assets	**28,087**	**–**	**–**	**–**	**(207)**	**–**	**2**	**(8,712)**	**19,170**
Transfers from/(to) exploration and evaluation assets, investment property	**8,881**	**–**	**(2,980)**	**–**	**(13)**	**(32)**	**(1)**	**(357)**	**5,498**
Transfer from/(to) inventories, net	**(16,877)**	**13,034**	**118**	**(1,928)**	**2,882**	**1,661**	**2,021**	**1,896**	**2,807**
Other transfers and reclassifications	**82,274**	**298,824**	**222,737**	**58,356**	**234,632**	**736**	**3,912**	**(901,471)**	**–**
Net book value at December 31, 2017	**3,824,579**	**1,226,974**	**943,246**	**992,446**	**2,601,787**	**55,470**	**68,595**	**1,069,150**	**10,782,247**
Historical cost	**4,877,000**	**1,567,912**	**1,262,618**	**1,182,494**	**4,113,899**	**94,870**	**145,552**	**1,245,627**	**14,489,972**
Accumulated depreciation and impairment	**(1,052,421)**	**(340,938)**	**(319,372)**	**(190,048)**	**(1,512,112)**	**(39,400)**	**(76,957)**	**(176,477)**	**(3,707,725)**
Net book value at December 31, 2017	**3,824,579**	**1,226,974**	**943,246**	**992,446**	**2,601,787**	**55,470**	**68,595**	**1,069,150**	**10,782,247**
Historical cost	4,738,806	1,250,138	1,044,743	1,126,321	3,833,560	83,401	138,847	1,150,865	13,366,681
Accumulated depreciation and impairment	(927,107)	(291,220)	(280,294)	(166,412)	(1,322,568)	(36,565)	(71,780)	(110,646)	(3,206,592)
Net book value at December 31, 2016	3,811,699	958,918	764,449	959,909	2,510,992	46,836	67,067	1,040,219	10,160,089

7. PROPERTY, PLANT AND EQUIPMENT (continued)

As at December 31, 2017 property, plant and equipment with net book value of 1,384,981 million tenge was pledged as collateral for some of the Group's borrowings (December 31, 2016: 1,921,660 million tenge).

As at December 31, 2017 the carrying amount of property, plant and equipment acquired under finance lease agreements was equal to 113,688 million tenge (December 31, 2016: 104,987 million tenge).

As at December 31, 2017 the cost of fully amortised property, plant and equipment of the Group was equal to 511,072 million tenge (December 31, 2016: 468,140 million tenge).

In 2017, the Group capitalized borrowing costs, at an average interest rate of 3.6%, of 39,454 million tenge (2016: at the rate of 3%, of 38,707 million tenge).

8. INTANGIBLE ASSETS

In millions of tenge	Licenses	Software	Goodwill	Subsurface use rights	Other	Total
Net book value at January 1, 2016	11,902	31,367	97,876	53,503	21,832	216,480
Foreign currency translation	(12,278)	(3)	–	(5,369)	(1,351)	(19,001)
Additions	908	20,935	–	15,493	617	37,953
Disposals	(406)	(2,710)	–	(97)	(574)	(3,787)
Amortization charge	(3,460)	(10,019)	–	(967)	(2,312)	(16,758)
Transfer from/(to) assets classified as held for sale	(1,173)	(1,124)	–	–	1,079	(1,218)
Accumulated amortization on disposals	405	2,626	–	–	106	3,137
(Impairment)/reversal of impairment, net	1	(109)	–	–	(238)	(346)
Transfers from/(to) inventories, net	(287)	(192)	–	–	–	(479)
Transfers from/(to) property, plant and equipment,net	498,291	5,407	–	202,293	(30)	705,961
Transfers from exploration and evaluation assets, investment property	–	–	–	523	–	523
Other transfers	77	(319)	–	–	242	–
Net book value at December 31, 2016	493,980	45,859	97,876	265,379	19,371	922,465
Foreign currency translation	**(1,614)**	**(145)**	–	**(1,186)**	**70**	**(2,875)**
Changes in estimates	–	–	–	**(186)**	–	**(186)**
Additions	**1,567**	**10,909**	**1,515**	**3,101**	**895**	**17,987**
Acquisition through business combinations	–	**44**	–	–	**43,034**	**43,078**
Disposals	**(1,724)**	**(5,980)**	–	–	**(577)**	**(8,281)**
Amortization charge	**(17,301)**	**(10,645)**	–	**(4,928)**	**(1,881)**	**(34,755)**
Transfer from/(to) assets classified as held for sale	**(13)**	–	–	–	**12**	**(1)**
Accumulated amortization on disposals	**1,723**	**4,768**	–	–	**447**	**6,938**
(Impairment)/reversal of impairment, net	**(10)**	**(30)**	**(1,515)**	–	**(100)**	**(1,655)**
Transfers from/(to) inventories, net	**266**	**(1)**	–	–	–	**265**
Transfers from/(to) property, plant and equipment,net	**1,674**	**6,456**	–	**(28,297)**	**998**	**(19,169)**
Other transfers	**(771)**	**356**	–	–	**415**	–
Net book value at December 31, 2017	**477,777**	**51,591**	**97,876**	**233,883**	**62,684**	**923,811**
Historical cost	**505,961**	**123,709**	**139,657**	**246,540**	**73,997**	**1,089,864**
Accumulated amortization and impairment	**(28,184)**	**(72,118)**	**(41,781)**	**(12,657)**	**(11,313)**	**(166,053)**
Net book value at December 31, 2017	**477,777**	**51,591**	**97,876**	**233,883**	**62,684**	**923,811**
Historical cost	508,282	110,541	139,764	273,333	28,874	1,060,794
Accumulated amortization and impairment	(14,302)	(64,682)	(41,888)	(7,954)	(9,503)	(138,329)
Net book value at December 31, 2016	493,980	45,859	97,876	265,379	19,371	922,465

9. EXPLORATION AND EVALUATION ASSETS

In millions of tenge	Tangible	Intangible	Total
Net book value at January 1, 2016	371,295	53,214	424,509
Foreign currency translation	(4,467)	(339)	(4,806)
Change in estimate	(425)	–	(425)
Additions	25,053	5,716	30,769
Disposals	(19)	(7,847)	(7,866)
Impairment	–	(15)	(15)
Discontinued operations / transfer to assets classified as held for sale	(8,204)	(8,059)	(16,263)
Impairment on disposals	–	2,909	2,909
Transfer from property, plant and equipment, net	504	–	504
Transfers to intangible assets	–	(523)	(523)
Transfer to inventory	(1,422)	(3)	(1,425)
Other transfers and reclassifications	755	(755)	–
Net book value at December 31, 2016	383,070	44,298	427,368
Foreign currency translation	**(631)**	**(53)**	**(684)**
Change in estimate	**(113)**	**213**	**100**
Additions	**36,748**	**1,724**	**38,472**
Disposals	**(189)**	**(582)**	**(771)**
Impairment	**(803)**	**(378)**	**(1,181)**
Discontinued operations / transfer to assets classified as held for sale	**–**	**(1,030)**	**(1,030)**
Transfer to property, plant and equipment	**(8,848)**	**–**	**(8,848)**
Transfer to inventory	**(1,644)**	**–**	**(1,644)**
Other transfers and reclassifications	**(1,261)**	**1,261**	**–**
Net book value at December 31, 2017	**406,329**	**45,453**	**451,782**
Historical cost	**418,829**	**56,806**	**475,635**
Accumulated impairment	**(12,500)**	**(11,353)**	**(23,853)**
Net book value at December 31, 2017	**406,329**	**45,453**	**451,782**
Historical cost	394,766	55,274	450,040
Accumulated impairment	(11,696)	(10,976)	(22,672)
Net book value at December 31, 2017	383,070	44,298	427,368

As at December 31, 2017 and 2016 the exploration and evaluation assets are represented by the following projects:

In millions of tenge	2017	2016
Kashagan	**185,999**	186,489
Project N	**85,093**	84,351
Pearls	**35,069**	34,329
Satpayev	**33,791**	14,654
Zhambyl	**33,396**	31,947
Urikhtau	**27,686**	30,326
Other	**50,748**	45,272
	451,782	427,368

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

As at December 31 investments in joint ventures and associates comprised the following:

In millions of tenge	Main activity	Place of business	2017 Carrying amount	2017 Percentage ownership	2016 Carrying amount	2016 Percentage ownership
Joint ventures						
Tengizchevroil LLP	Oil and gas exploration and production	Kazakhstan	**1,353,084**	**20.00%**	1,154,183	20.00%
Mangistau Investments B.V.	Oil and gas exploration and production	Kazakhstan	**135,781**	**50.00%**	191,813	50.00%
Ural Group Limited BVI	Oil and gas exploration and production	Kazakhstan	**78,031**	**50.00%**	72,898	50.00%
JV KazGerMunay LLP	Oil and gas exploration and production	Kazakhstan	**47,537**	**50.00%**	71,110	50.00%
Valsera Holdings B.V.	Oil and gas exploration and production	Kazakhstan	**36,737**	**50.00%**	27,045	50.00%
KazRosGas LLP	Processing and sale of natural gas and refined gas	Kazakhstan	**33,761**	**50.00%**	79,658	50.00%
Forum Muider B.V.	Coal production	Kazakhstan	**30,624**	**50.00%**	26,525	50.00%
Kazakhoil-Aktobe LLP	Oil and gas exploration and production	Kazakhstan	**22,716**	**50.00%**	39,504	50.00%
Ekibastuzskaya GRES-2 JSC ("EGRES-2")	Electricity production	Kazakhstan	**22,265**	**50.00%**	31,811	50.00%
Other			**142,755**		140,557	
Total joint ventures			**1,903,291**		1,835,104	
Associates						
Kazzinc LLP	Mining and processing of metal ores, production of refined metals	Kazakhstan	**443,336**	**29.82%**	434,889	29.82%
Caspian Pipeline Consortium JSC	Transportation of crude oil	Kazakhstan/ Russia	**195,095**	**20.75%**	137,035	20.75%
PetroKazakhstan Inc. ("PKI")	Exploration, production and processing of oil and gas	Kazakhstan	**115,920**	**33.00%**	144,252	33.00%
Khan Tengri Holding B.V.	Telecommunication	Kazakhstan	**68,327**	**51.00%**	67,161	51.00%
JV INKAI LLP	Exploration, production, processing and export of uranium	Kazakhstan	**40,388**	**40.00%**	37,686	40.00%
JV KATCO LLP	Exploration, production and processing of uranium	Kazakhstan	**38,504**	**49.00%**	39,843	49.00%
Other			**38,628**		71,708	
Total associates			**940,198**		932,574	
			2,843,489		2,767,678	

10. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

The following tables illustrate summarized financial information of significant joint ventures, based on IFRS financial statements of these entities for 2017, reflecting equity method accounting adjustments:

In millions of tenge	Tengizchevroil LLP	Mangistau Investments B.V.	Ural Group Limited BVI	JV KazGerMunay LLP	Valsera Holdings B.V.	KazRosGas LLP
Joint ventures						
Non-current assets	8,719,902	393,188	219,834	131,809	417,762	27,018
Current assets, including	1,527,677	66,799	57	46,381	55,449	150,968
Cash and cash equivalents	748,523	3,090	47	37,914	17,663	30,877
Non-current liabilities, including	2,507,496	66,129	63,640	28,691	210	–
Non-current financial liabilities	1,329,320	–	54,733	–	–	–
Current liabilities, including	974,662	122,297	188	54,424	399,527	69,021
Current financial liabilities	31,719	–	–	–	327,332	–
Equity	6,765,421	271,561	156,063	95,075	73,474	108,965
Share of ownership	20.00%	50.00%	50.00%	50.00%	50.00%	50.00%
Consolidation adjustments	–	–	–	–	–	(20,722)
Carrying amount of investment as at December 31, 2017	1,353,084	135,781	78,031	47,537	36,737	33,761
Revenue	4,357,947	635,903	8	184,616	60,808	243,527
Depreciation, depletion and amortization	(560,817)	(62,190)	(20)	(34,072)	(5,027)	(638)
Finance income	22,007	126	17	1,306	411	2,489
Finance costs	(127,134)	(5,788)	(1,891)	(1,014)	(66)	(13,362)
Income tax expenses	(621,385)	(34,036)	(691)	(53,071)	(4,373)	(11,907)
Profit/(loss) for the year from continuing operations	1,449,898	99,210	(3,754)	35,427	19,502	17,244
Profit for the year from discontinued operations, net of income tax	–	–	–	–	–	–
Other comprehensive income/(loss)	7,517	229	(219)	(664)	(118)	(1,939)
Total comprehensive income/(loss)	1,457,415	99,439	(3,973)	34,763	19,384	15,305
Unrecognized share of losses	–	–	–	–	–	–
Dividends received	79,694	105,523	–	40,445	2,377	18,647

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

The following tables illustrate summarized financial information of significant joint ventures, based on IFRS financial statements of these entities for 2017, reflecting equity method accounting adjustments:

In millions of tenge	Forum Muider B.V.	Kazakhoil-Aktobe LLP	EGRES-2
Non-current assets	67,212	49,853	142,615
Current assets, including	22,314	19,768	7,775
Cash and cash equivalents	8,064	6,004	1,213
Non-current liabilities, including	7,188	7,431	100,729
Non-current financial liabilities	5,047	–	91,471
Current liabilities, including	21,091	16,759	5,132
Current financial liabilities	6,665	6,847	2,882
Equity	61,247	45,431	44,529
Share of ownership	50.00%	50.00%	50.00%
Carrying amount of investment as at December 31, 2017	30,624	22,716	22,265
Revenue	109,907	56,047	34,436
Depreciation, depletion and amortization	(4,713)	(17,062)	(4,227)
Finance income	463	212	22
Finance costs	(875)	(2,473)	(15,843)
Income tax expenses	(6,388)	2,416	1,103
Profit/(loss) for the year from continuing operations	21,244	(33,576)	(19,092)
Profit for the year from discontinued operations, net of income tax	–	–	–
Other comprehensive loss	(282)	–	–
Total comprehensive income/(loss)	20,962	(33,576)	(19,092)
Unrecognized share of losses	–	–	–
Dividends received	6,829	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

The following tables illustrate summarized financial information of significant joint ventures, based on IFRS financial statements of these entities for 2016, reflecting equity method accounting adjustments:

In millions of tenge	Tengizchevroil LLP	Mangistau Investments B.V.	Ural Group Limited BVI	JV KazGerMunay LLP	Valsera Holdings B.V.	KazRosGas LLP
Joint ventures						
Non-current assets	6,865,450	395,490	215,892	152,790	236,339	9,641
Current assets, including	2,424,218	95,376	311	50,846	91,232	244,479
Cash and cash equivalents	1,795,549	3,871	297	39,695	76,651	62,379
Non-current liabilities, including	2,456,711	65,633	68,663	27,510	227,306	454
Non-current financial liabilities	1,333,160	–	57,970	–	–	–
Current liabilities, including	1,062,041	41,606	1,743	33,906	46,175	94,349
Current financial liabilities	34,823	–	–	–	–	–
Equity	5,770,916	383,627	145,797	142,220	54,090	159,317
Share of ownership	20.00%	50.00%	50.00%	50.00%	50.00%	50.00%
Carrying amount of investment as at December 31, 2016	1,154,183	191,813	72,898	71,110	27,045	79,658
Revenue	3,568,834	532,017	40	157,269	52,341	231,655
Depreciation, depletion and amortization	(453,763)	(55,343)	(30)	(36,325)	(4,466)	(717)
Finance income	9,239	52	17	946	328	6,256
Finance costs	(172,524)	(4,943)	(1,652)	(1,231)	(46)	(100)
Income tax expenses	(316,950)	(20,805)	(187)	(19,873)	(7,230)	(14,443)
Profit/(loss) for the year from continuing operations	739,552	59,532	(3,155)	10,259	20,828	37,295
Profit for the year from discontinued operations, net of income tax	–	–	–	–	–	–
Other comprehensive losses	(109,061)	(295)	(2,751)	(2,645)	(40)	(286)
Total comprehensive income/(loss)	630,491	59,237	(5,906)	7,614	20,788	37,009
Unrecognized share of losses	–	–	–	–	–	–
Dividends received	–	44,347	–	27,515	–	36,253

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

The following tables illustrate summarized financial information of significant joint ventures, based on IFRS financial statements of these entities for 2016, reflecting equity method accounting adjustments:

In millions of tenge	Forum Muider B.V.	Kazakhoil-Aktobe LLP	EGRES-2
Non-current assets	62,435	85,936	151,883
Current assets, including	21,792	28,463	9,746
Cash and cash equivalents	5,506	10,750	2,185
Non-current liabilities, including	8,259	7,587	58,771
Non-current financial liabilities	6,234	–	58,573
Current liabilities, including	22,918	27,805	39,237
Current financial liabilities	9,283	–	35,704
Equity	53,050	79,007	63,621
Share of ownership	50.00%	50.00%	50.00%
Carrying amount of investment as at December 31, 2016	26,525	39,504	31,811
Revenue	86,856	54,593	31,480
Depreciation, depletion and amortization	(6,975)	(16,044)	(3,611)
Finance income	203	525	32
Finance costs	(1,644)	(1,006)	(3,936)
Income tax expenses	(5,178)	(12,180)	(326)
Profit/(loss) for the year from continuing operations	12,039	(23,071)	1,575
Profit for the year from discontinued operations, net of income tax	–	–	–
Other comprehensive income	–	–	–
Total comprehensive income/(loss)	12,039	(23,071)	1,575
Unrecognized share of losses	–	–	–
Dividends received	3,900	6,735	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

The following tables illustrate summarized financial information of significant associates, based on IFRS financial statements of these entities for 2017, reflecting equity method accounting adjustments:

In millions of tenge	Kazzinc LLP	Caspian Pipeline Consortium JSC	PetroKazakhstan Inc. ("PKI")	Khan Tengri Holding B.V.	JV Inkai LLP	JV KATCO LLP
Associates						
Non-current assets	1,444,462	2,042,156	356,152	153,137	130,998	62,572
Current assets	407,770	95,627	84,904	39,906	28,850	39,270
Non-current liabilities	269,773	756,148	59,123	126,440	11,721	7,875
Current liabilities	95,859	595,179	30,659	46,053	43,551	15,152
Equity	1,486,600	786,456	351,274	20,550	104,576	78,815
Share of ownership	29.82%	20.75%	33.00%	51.00%	40.00%	49.00%
Goodwill	–	31,905	–	57,847	–	68
Impairment	–	–	–	–	–	–
Unrecognized gain on transactions with associates	–	–	–	–	(1,442)	(183)
Carrying amount of investment as at December 31, 2017	443,336	195,095	115,920	68,327	40,388	38,504
Revenue	999,280	647,478	137,912	104,154	37,449	65,426
Profit/(loss) for the year from continuing operations	194,652	263,451	21,921	(2,287)	9,036	19,148
Other comprehensive income/(loss)	–	16,354	(992)	–	–	–
Total comprehensive income/(loss)	194,652	279,805	20,929	(2,287)	9,036	19,148
Unrecognized share of income	–	–	–	–	–	–
Dividends received	39,321	–	20,453	–	–	10,834

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

The following tables illustrate summarized financial information of significant associates, based on IFRS financial statements of these entities for 2016, reflecting equity method accounting adjustments:

In millions of tenge	Kazzinc LLP	Caspian Pipeline Consortium JSC	PetroKazakhstan Inc. ("PKI")	Khan Tengri Holding B.V.	JV Inkai LLP	JV KATCO LLP
Associates						
Non-current assets	1,480,809	2,099,989	459,503	157,991	137,886	66,976
Current assets	342,470	86,254	97,179	29,436	31,441	35,413
Non-current liabilities	254,070	1,139,220	99,253	117,636	13,470	8,940
Current liabilities	110,926	540,816	20,300	51,528	59,732	11,672
Equity	1,458,283	506,207	437,129	18,263	96,125	81,777
Share of ownership	29.82%	20.75%	33.00%	51.00%	40.00%	49.00%
Goodwill	–	31,997	–	57,847	–	68
Impairment	–	–	–	–	–	–
Unrecognized gain on transactions with associates	–	–	–	–	(764)	(296)
Carrying amount of investment as at December 31, 2016	434,889	137,035	144,252	67,161	37,686	39,843
Revenue	882,390	546,966	128,809	78,190	48,781	87,105
Profit/(loss) for the year from continuing operations	125,380	390,880	(47,908)	(23,395)	18,833	34,117
Other comprehensive income/(loss)	–	79,529	(10,771)	–	(1,646)	–
Total comprehensive income/(loss)	125,380	470,409	(58,679)	(23,395)	17,187	34,117
Unrecognized share of income	–	6,199	–	–	–	–
Dividends received	13,796	–	–	–	11,013	25,359

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

10. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

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

In millions of tenge	**2017**	2016
Carrying amount of investments as at December 31	**142,755**	140,557
Net profit for the year from continuing operations	**116,144**	141,840
Profit for the year from discontinued operations, net of income tax	**–**	–
Other comprehensive income/(loss)	**87**	(434)
Total comprehensive income	**116,231**	141,406

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

In millions of tenge	**2017**	2016
Carrying amount of investments as at December 31	**66,199**	71,708
Net profit for the year from continuing operations	**3,849**	20,699
Other comprehensive income	**–**	–
Total comprehensive income	**3,849**	20,699

In 2017 dividends received from individually insignificant joint ventures and associates were equal to 33,352 million tenge (2016: 45,960 million tenge).

The following table summarizes the movements in equity investments in joint ventures and associates in 2017 and 2016:

In millions of tenge	**2017**	2016
Balance as at January 1	**2,767,678**	2,547,103
Share in profit of joint ventures and associates, net *(Note 34)*	**531,841**	355,969
Dividends received	**(356,098)**	(209,523)
Change in dividends receivable	**(45,478)**	11,218
Adjustment of unrealized income*	**(20,722)**	–
Additional contributions without change in ownership	**9,044**	7,939
Acquisitions	**214**	93,552
Disposals	**(28,599)**	(30,142)
Transfers to assets classified as held for sale	**(67)**	(12,589)
Foreign currency translation	**(5,099)**	(11,203)
Other comprehensive (loss)/income, other than foreign currency translation	**(890)**	(2,012)
Impairment	**(19,334)**	(159)
Discount on loans issued	**10,999**	8,661
Fair value of guarantees given	**–**	8,863
Other changes in equity of joint ventures and associates	**–**	1
Balance as at December 31	**2,843,489**	2,767,678

* *Adjustment of unrealized income represents elimination of unrealized profit from sale of inventory from the Group to JV made by the Group when using the equity method.*

As at December 31, 2017, the Group's share in unrecognized losses of joint ventures and associates was equal to 189,384 million tenge (December 31, 2016: 364,823 million tenge).

11. LOANS ISSUED AND FINANCE LEASE RECEIVABLES

As at December 31, loans issued and finance lease receivables comprised the following:

In millions of tenge	2017	2016
Loans issued	**817,791**	693,910
Finance lease receivables	**42,264**	39,718
Total loans and finance lease receivables	**860,055**	733,628
Less: impairment allowance	**(16,368)**	(32,331)
Loans issued and finance lease receivables, net	**843,687**	701,297
Less: current portion	**(250,362)**	(140,345)
Non-current portion	**593,325**	560,952

Movements in the loan impairment allowance for the years ended December 31 were as follows:

In millions of tenge	2017	2016
Allowance at January 1	**32,331**	20,946
Charged, net	**516**	8,411
Business combinations	**(15,418)**	–
Write-off, net	**(1,061)**	–
Foreign exchange difference, net	**–**	2,974
Allowance at December 31	**16,368**	32,331

In 2017, the Group acquired the remaining 49% of interest in KS EP and it became a subsidiary. The balance of the loan from KS EP, including the allowance for impairment was fully eliminated.

As at December 31 the components of finance lease receivables are as follows:

In millions of tenge	2017	2016
Within one year	**6,407**	5,850
Later than one year, but not later than five years	**25,554**	23,331
After five years	**42,893**	42,771
Minimum lease payments	**74,854**	71,952
Less: unearned finance income	**(32,590)**	(32,234)
Net investment in finance leases	**42,264**	39,718

12. AMOUNTS DUE FROM CREDIT INSTITUTIONS

As at December 31 amounts due from credit institutions comprised the following:

In millions of tenge	2017	2016
Bank deposits	**2,260,052**	2,025,127
Loans to credit institutions	**193,825**	344,072
Less: impairment allowance	**–**	(15,298)
Amounts due from credit institutions, net	**2,453,877**	2,353,901
Less: current portion	**(1,951,384)**	(1,669,459)
Non-current portion	**502,493**	684,442

12. AMOUNTS DUE FROM CREDIT INSTITUTIONS (continued)

In millions of tenge	**2017**	2016
Ratings from AAA (Aaa) to AA-(Aa3)	**106,428**	180,158
Rating from A+(A1) to A-(A3)	**1,337,930**	578,498
Rating from BBB+(Baa1) to BBB(Baa2)	**–**	2,299
Rating from BBB-(Baa3) to BB-(Ba3)	**296,456**	414,291
Rating from B+(B1) to B-(B3)	**681,226**	627,898
Rating from CCC+(Caa1) to CC(Ca)	**–**	382,502
No rating	**31,837**	168,255
	2,453,877	2,353,901

In millions of tenge	**2017**	2016
Amounts due from credit institutions, denominated in US dollars	**1,771,886**	1,477,951
Amounts due from credit institutions, denominated in tenge	**679,132**	873,430
Amounts due from credit institutions, denominated in other currencies	**2,859**	2,520
	2,453,877	2,353,901

In millions of tenge	**2017**	2016
International credit institutions	**1,525,015**	760,954
10 largest local banks	**827,258**	1,248,025
Other local credit institutions	**101,604**	344,922
	2,453,877	2,353,901

As at December 31, 2017 the weighted average interest rate on amounts due from credit institutions was 3.54% (December 31, 2016: 4.58%).

As at December 31, 2017 amounts due from credit institutions included cash of 32,382 million tenge pledged as collateral for certain Group's borrowings (December 31, 2016: 110,959 million tenge).

Loans to BTA Bank JSC

On July 3, 2017, BTA Bank JSC made a full early repayment of the loan of 239,771 million tenge, and the unamortized portion of the discount of 101,454 million tenge was recognized through interest income as a revenue.

13. OTHER FINANCIAL ASSETS

As at December 31 other financial assets comprised the following:

In millions of tenge	**2017**	2016
Note receivable from shareholder of joint venture	**38,015**	34,313
Note receivable from associate	**27,402**	34,838
Available-for-sale financial assets, including	**16,677**	103,802
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	**11,928**	7,861
Equity securities	**7,889**	92,554
Bonds of Kazakhstan financial agencies	**2,222**	7,943
Corporate bonds	**1,264**	2,180
Less: impairment allowance	**(6,626)**	(6,736)
Held to maturity financial assets, including	**22,129**	2,876
Corporate bonds	**12,767**	–
Bonds of Special financial company DSFK LLP	**6,274**	–
Bonds of Kazakhstan financial agencies	**3,088**	2,876
Financial assets at fair value through profit and loss, including	**21,274**	17,371
Other equity securities	**21,274**	17,371
Derivative financial instruments, including	**352**	352
Options	**352**	352
Total financial assets	**125,849**	193,552
Less: current portion	**(30,229)**	(27,316)
Non-current portion	**95,620**	166,236

13. OTHER FINANCIAL ASSETS (continued)

As at December 31, 2017 the interest rates for available-for-sale financial assets were in the range from 3.8% to 15% (as at December 31, 2016: from 4.5% to 15%).

As at December 31 other financial assets by currency, except for derivatives, comprised:

In millions of tenge	**2017**	2016
Financial assets, denominated in US dollars	**65,766**	69,151
Financial assets, denominated in tenge	**59,731**	124,049
	125,497	193,200

Investments in Toshiba Nuclear Energy Holdings (US) Inc and Toshiba Nuclear Energy Holdings (UK) Ltd

On December 25, 2017 the Group exercised the Put Option providing it with a right to sell a 10% interest in Toshiba Nuclear Energy Holdings US, Inc. ("TNEH-US") and Toshiba Nuclear Energy Holdings UK Ltd ("TNEH-UK") for an exercise price of 522,180 thousand US dollars (equivalent to 173,719 milion tenge as at date of transaction). As a result of this transaction, the Group have recognized income from sale of investments in TNEH-US and TNEH-UK of 107,714 million tenge in the consolidated statement of comprehensive income.

Cash and bank deposits placed in RBK Bank JSC

In October 2017, the Group noted indicators of impairment on cash and bank deposits placed with RBK Bank JSC of 42,000 million tenge based on worsening of the financial position of the bank. Based on an analysis of the recoverability of the deposits, the Group recognised an impairment loss on deposits of 10,496 million tenge *(Note 31)*.

In November 2017, National Bank of the Republic of Kazakhstan jointly with the Government and Kazakhmys Corporation LLC ("KCC"), a third party, signed a framework agreement on improving the conditions of RBK Bank JSC. Pursuant to a resolution of the Government dated November 7, 2017, on December 29, 2017, the Group's cash and bank deposits held in RBK Bank JSC with carrying amount of 31,504 million tenge were converted to 15-year coupon bonds of Special financial company DSFK LLP ("DSFK") at par value of 1 tenge each bearing 0.01% per annum. Coupon bonds were initially recognised at fair value of 6,274 million tenge determined by discounting future cash flows for the bonds using a discount rate of 13% and maturity date of five years. The difference between carrying amount and the fair value of coupon bonds of 25,141 million tenge after deduction of deferred tax expense was recognised as Other distributions to the Shareholder in the consolidated statement of changes in equity *(Note 18.5)*.

14. OTHER NON-CURRENT ASSETS

As at December 31 other non-current assets comprised the following:

In millions of tenge	**2017**	2016
Advances paid for non-current assets	**387,988**	277,302
Long-term VAT receivable	**167,927**	148,338
Restricted cash	**67,247**	53,571
Long-term receivables	**49,472**	27,882
Long-term inventories	**14,200**	16,202
Prepaid expenses	**10,095**	10,601
Cash in KazInvest Bank and Delta Bank *(Note 4)*	**20,892**	4,189
Other	**28,834**	29,823
Less: impairment provision	**(58,701)**	(56,584)
	687,954	511,324

15. INVENTORIES

As at December 31 inventories comprised the following:

In millions of tenge	**2017**	2016
Uranium products	**136,643**	83,623
Production materials and supplies	**52,554**	38,657
Work in progress	**29,900**	36,310
Oil refined products for sale	**28,855**	12,881
Oil and gas industry materials and supplies	**27,842**	27,464
Crude oil	**19,587**	9,723
Goods for resale	**16,853**	21,220
Fuel	**15,937**	17,775
Gas processed products	**15,689**	20,580
Railway industry materials and supplies	**14,877**	11,103
Aircraft spare parts	**7,860**	7,206
Electric transmission equipment spare parts	**2,004**	1,882
Telecommunication equipment spare parts	**1,968**	3,075
Uranium industry materials and supplies	**1,580**	2,170
Other materials and supplies	**45,553**	40,813
Less: provision for obsolete and slow moving inventories	**(20,758)**	(14,784)
	396,944	319,698

16. TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

As at December 31 trade accounts receivable comprised the following:

In millions of tenge	**2017**	2016
Trade accounts receivable	**505,806**	464,848
Less: allowance for doubtful debts	**(25,896)**	(26,362)
	479,910	438,486

As at December 31 other current assets comprised the following:

In millions of tenge	**2017**	2016
Advances paid and deferred expenses	**142,940**	137,032
Other accounts receivable	**76,541**	110,034
Other prepaid taxes	**46,598**	52,969
Dividends receivable	**44,384**	12,737
Deposits in Kazinvestbank and Deltabank *(Note 4)*	**39,044**	11,892
Restricted cash	**27,631**	19,170
Non-financial assets for distribution to the Shareholder	**12,916**	60,216
Amounts due from employees	**4,725**	5,007
Other	**37,986**	25,861
Less: impairment allowance	**(79,184)**	(35,252)
	353,581	399,666

At December 31, 2017 the Group's receivables of 111 million tenge were pledged under certain Group borrowings (December 31, 2016: 127 million tenge).

Movements in the allowance for doubtful debts on trade accounts receivable and impairment allowance for the years ended December 31 were as follows:

In millions of tenge	**2017**	2016
Allowance at January 1	**61,614**	53,239
Charged, net	**28,026**	14,848
Reclassification	**17,334**	–
Foreign exchange difference, net	**50**	(122)
Change in estimate	**32**	238
Write-off, net	**(1,976)**	(4,536)
Transfers to assets classified as held for sale	**–**	(2,053)
Allowance at December 31	**105,080**	61,614

At December 31, 2017 26,767 million tenge of the Group's receivables were interest bearing (December 31, 2016: 3,143 million tenge).

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

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

		Neither past due nor	Past due but not impaired				
In millions of tenge	Total	impaired	<30 days	30-60 days	60-90 days	90-120 days	>120 days
2017	**479,910**	**390,211**	**11,741**	**39,786**	**16,328**	**1,988**	**19,856**
2016	438,486	402,763	5,778	9,303	4,926	1,557	14,159

17. CASH AND CASH EQUIVALENTS

As at December 31 cash and cash equivalents comprised the following:

In millions of tenge	2017	2016
Bank deposits – US dollars	**850,080**	532,598
Bank deposits – tenge	**345,235**	364,073
Bank deposits – other currency	**185**	334
Current accounts with banks – US dollars	**585,001**	335,631
Current accounts with banks – tenge	**367,217**	283,505
Current accounts with banks – other currency	**15,278**	11,184
Cash in transit	**13,813**	6,964
Cash on hand	**6,778**	4,789
Reverse repurchase agreements with other banks with contractual maturity of three months or less	**6,520**	14,957
	2,190,107	1,554,035

Short-term bank deposits are placed for varying periods of between 1 (one) day and 3 (three) months, depending on immediate cash needs of the Group. As at December 31, 2017 the weighted average interest rates for short-term bank deposits and current accounts were 3.2% and 0.8%, respectively (2016: 3.32% and 1.81%, respectively).

18. EQUITY

18.1 Share capital

During 2017 and 2016 the Fund issued common shares, which were paid as follows:

Payment for shares	Number of shares authorized and issued	Par value per share, in tenge	Share capital in millions of tenge
As at December 31, 2015	3,481,667,508		4,916,269
Cash contributions	3,000	36,400,000; 20,000,000; 81,523,000	137,923
Property contributions	250	17,862,160	4,466
As at December 31, 2016	3,481,670,758		5,058,658
Cash contributions	**1,577**	**16,852,000; 100,000,000**	**74,552**
Property contributions	**265,983**	**1,000**	**266**
As at December 31, 2017	**3,481,938,318**		**5,133,476**

As at December 31, 2017 3,481,938,318 shares of the Fund were fully paid.

Cash contributions

During 2017 the Shareholder made a cash contribution of 74,552 million tenge to the Fund's share capital. These amounts are aimed to finance projects implemented by the subsidiaries of the NC Kazakhstan Temir Zholy JSC and United Chemical Company LLP.

Property contributions

During 2017 the State property and privatization committee made a property contribution to the Fund's share capital of 266 million tenge. This property has been subject to subsequent transfer to the charter capital of subsidiary NAC Kazatomprom JSC.

18. EQUITY (continued)

18.2 Additional paid-in capital

During 2017 the Group increased additional paid in capital by 13,189 million tenge, which represents the fair value of gas pipelines contributed by the Government on trust management. The trust management is a short-term mechanism until the legal title for the pipelines transfers to the Group. The Group is a direct user of these assets; it received all risks and rewards related to the ownership of this property in accordance with trust management agreement. Accordingly, the Group recognised the asset and appropriate increase in additional paid-in capital, which will be reclassified to share capital once the legal procedures are completed.

18.3 Dividends

Dividends attributable to equity holder of the Parent

In 2017 the Fund paid dividends to the Shareholder of 11,899 million tenge based on financial results for 2016 according to the Resolution of the Government dated November 13, 2017.

Dividends attributable to non-controlling interest

During 2017 the Group subsidiaries declared dividends of 19,781 million tenge to the holders of non-controlling interest in KMG EP JSC, Kaztransoil JSC and Kazakhtelecom JSC and others.

During 2017 NC KMG declared dividends of 4,547 million tenge to the National Bank of the Republic of Kazakhstan as the holder of a non-controlling interest.

18.4 Other transactions with the Shareholder

Provision for onerous obligation – ChemPark Taraz and Karabatan Utility Solutions

In connection with the loss-making projects of ChemPark Taraz and Karabatan Utility Solutions LLP (subsidiaries of the UCC) in 2017 the change in provision for onerous obligation of 3,612 million tenge was recognized in the consolidated statement of comprehensive income, and the amount of 4,150 million tenge was recognized to increase retained earnings as Other transactions with the Shareholder in the consolidated statement of changes in equity.

Acquisition of bonds of National Managing Holding company Baiterek JSC

In accordance with the Minutes of the meeting of the Council on the management of the National Fund of the Republic of Kazakhstan dated August 7, 2017, the Fund used available funds of State programme "Nurly Zhol" on infrastructure develomment of 21,100 million tenge for the acquisition of bonds of National holding company Baiterek JSC. The difference between the nominal value and the fair value of 10,684 million tenge was recognized as transaction with the Shareholder in the consolidated statement of changes in equity.

18.5 Other distributions to the Shareholder

Social projects financing

During 2017 in accordance with the order of the Shareholder, the Fund recognized obligations to finance various social projects for the period of 2017 to 2021 of 54,419 million tenge.

Discount on purchased bonds of "Special financial company DSFK" LLP

During 2017 in accordance with the order of the Shareholder, the Group recognized the discount on purchased bonds of "Special financial company DSFK" LLP of 25,141 million tenge through retained earnings as Other distributions to the Shareholder *(Note 13)*.

Construction and transfer of fixed assets

During 2017, the Group recognized distributions of 5,733 million tenge, which represented the amount of VAT arising as a result of the free of charge transfer of the Ice Palace to the Astana Akimat (transfer of the Ice Palace was recorded as a decrease of current assets of 47,778 million tenge and a decrease of current reserves of 53,511 million tenge).

During 2017, the Group recognized the obligation to finance the construction project of the Palace of Combats in Astana of 19,820 million tenge.

18. EQUITY (continued)

18.5 Other distributions to the Shareholder (continued)

Construction and transfer of fixed assets (continued)

During 2017, the Group recognized the obligation to finance the restoration work on the reconstruction of the Trade and exhibition center in Moscow of 1,215 million tenge.

Other distributions

During 2017 the Group incurred costs of running PSA LLP, which acts as the Government Body for the Production Sharing Agreements in oil and gas area, of 5,803 million tenge as Other distributions to the Shareholder.

18.6 Change in ownership interests of subsidiaries – sale of non-controlling interest

In July 2017, the Group completed transaction on sale of a 49% interest in the subsidiary organization of KTZE-Khorgos Gateway LLP. As a result of this transaction, the Group received cash of 24,064 million tenge, non-controlling interest increased by 16,517 million tenge, and a difference of 7,547 million tenge was recognized in equity as attributable to Equity holder of the Parent.

18.7 Change in ownership interests of subsidiaries – acquisition of non-controlling interest

NC KMG

In February 2017 the Fund acquired an interest of 0.0881% in NC KMG through property contribution of 12,969 million tenge. As a result of the transaction the non-controlling interest in NC KMG decreased by 4,768 million tenge.

18.8 Non-controlling interest

The following tables illustrate information of subsidiaries in which there is significant non-controlling interests:

	Non-controlling interest			
	2017		2016	
	Share	Carrying amount	Share	Carrying amount
NC KazMunayGas JSC	**9.9119%**	**1,505,009**	10.00%	1,407,038
Kazakhtelecom JSC	**49.00%**	**181,608**	49.00%	174,079
KEGOC JSC	**10.00% – 1**	**19,902**	10.00% – 1	17,720
Air Astana JSC	**49.00%**	**14,105**	49.00%	13,528
Other		**101,096**		28,227
		1,821,720		1,640,592

All significant subsidiaries with non-controlling interest are registered in Kazakhstan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. EQUITY (continued)

18.8 Non-controlling interest (continued)

The following tables illustrate summarized financial information of subsidiaries, in which there are significant non-controlling interests as at December 31, 2017 and for the year then ended:

In millions of tenge	NC KazMunayGas JSC	Kazakhtelecom JSC	KEGOC JSC	Air Astana JSC
Summarized balance sheet				
Non-current assets	8,591,496	355,915	319,932	98,482
Current assets	4,797,257	115,399	88,969	98,172
Non-current liabilities	4,500,754	70,126	170,952	120,585
Current liabilities	2,265,599	42,080	39,828	47,235
Total equity	6,622,400	359,108	198,121	28,834
Attributable to:				
Equity holder of the Parent	5,117,391	177,500	178,219	14,729
Non-controlling interest	1,505,009	181,608	19,902	14,105
Summarized statement of comprehensive income				
(Loss)/profit for the year from continuing operations	(269,657)	24,718	41,719	(1,815)
Profit for the year from discontinued operations	789,183	–	–	–
Other comprehensive (loss)/income	(76,054)	(5,042)	–	2,991
Total comprehensive income for the year, net of tax	443,472	19,676	41,719	1,176
Attributable to:				
Equity holder of the Parent	326,002	10,035	37,547	600
Non-controlling interest	117,470	9,641	4,172	576
Dividends paid to non-controlling interest	(17,817)	(2,112)	(1,990)	–
Summarised cash flow information				
Operating activity	399,889	66,225	61,841	32,042
Investing activity	(821,975)	(38,096)	(9,335)	23,365
Financing activity	760,802	(35,472)	(37,061)	(17,669)
Net increase/(decrease) in cash and cash equivalents	338,716	(7,343)	15,445	37,738

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. EQUITY (continued)

18.8 Non-controlling interest (continued)

The following tables illustrate summarized financial information of subsidiaries, in which there are significant non-controlling interests as at December 31, 2016 and for the year then ended:

In millions of tenge	NC KazMunayGas JSC	Kazakhtelecom JSC	KEGOC JSC	Air Astana JSC
Summarized balance sheet				
Non-current assets	7,956,657	364,103	272,925	102,265
Current assets	3,926,420	104,859	128,041	103,198
Non-current liabilities	3,913,415	87,564	165,528	130,895
Current liabilities	1,691,392	37,600	58,238	46,910
Total equity	6,278,270	343,798	177,200	27,658
Attributable to:				
Equity holder of the Parent	4,871,232	169,719	159,480	14,130
Non-controlling interest	1,407,038	174,079	17,720	13,528
Summarized statement of comprehensive income				
(Loss)/profit for the year from continuing operations	(683)	55,832	37,225	1,799
Profit for the year from discontinued operations	360,854	–	–	–
Other comprehensive (loss)/income	(35,240)	(658)	–	4,003
Total comprehensive income for the year, net of tax	324,931	55,174	37,225	5,802
Attributable to:				
Equity holder of the Parent	248,057	28,139	33,502	2,959
Non-controlling interest	76,874	27,035	3,723	2,843
Dividends paid to non-controlling interest	(5,975)	(1,740)	(648)	(2,539)
Summarised cash flow information				
Operating activity	1,276,181	60,198	66,300	22,397
Investing activity	(863,611)	(42,010)	(38,631)	(12,571)
Financing activity	(312,020)	(13,534)	(4,611)	(18,342)
Net (decrease)/increase in cash and cash equivalents	100,550	4,654	23,058	(8,516)

18. EQUITY (continued)

18.9 Currency translation reserve

The currency translation reserve is used to record exchange differences arising from the translation of financial statements of the subsidiaries, whose functional currency is not tenge and whose financial statements are included in the consolidated financial statements. In 2017 foreign translation difference amounted to 19,874 million tenge.

Certain borrowings of the Group denominated in US dollars were designated as hedge instrument for the net investment in the foreign operations. As at December 31, 2017 unrealized foreign currency loss of 42,377 million tenge resulting from translation of these borrowings were transferred to currency translation reserve recognized in other comprehensive income.

18.10 Hedge reserve

Hedge reserve includes the effect of cash flow hedge accounting to record any fair value gains or losses on the instruments in a hedge reserve in respect of foreign currency revenue proceeds. These gains or losses are subsequently recycled to the profit and loss as transactions are settled.

In 2015 NC KTZh entered into a cash flow hedge with Eurobonds denominated in Swiss francs ("CHF") and maturing in 2019 and 2022, to reduce the risk of changes in sales revenue from transit, expressed in CHF. As at December 31, 2017 hedge loss attributable to equity holders of the Parent is 3,479 million tenge.

In 2015 Air Astana entered into a cash flow hedge with finance lease obligations denominated in US dollars, to reduce the risk of changes in sales revenue expressed in US dollars. As at December 31, 2017 hedge income amounted to 3,739 million tenge before tax of 271 million tenge. Hedge income attributable to non-controlling interest comprised 1,832 million tenge.

In connection with the transition of the functional currency to US dollar, this hedge ceased to be economically effective from December 31, 2017. At December 31, 2017, a foreign currency loss of 29,687 million tenge, before deferred income tax of 5,937 million tenge on the finance lease liabilities, representing an effective portion of the hedge, is deferred in the hedging reserve in equity.

18.11 Other capital reserves

Other capital reserves include mainly remuneration of employees for the services rendered in the form of share-based payments with equity instruments of a subsidiary in which they are employed. The cost of equity-settled remunerations is recognized, together with a corresponding increase in other capital reserves, over the period in which performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award.

18.12 Book value per share

In accordance with the decision of the Exchange Board of Kazakhstan Stock Exchange JSC ("KASE") dated October 4, 2010 financial statements shall disclose book value per share (common and preferred) as of the reporting date, calculated in accordance with the KASE rules.

In millions of tenge	**2017**	2016
Total assets	**24,165,903**	22,460,860
Less: intangible assets	**(923,811)**	(922,465)
Less: total liabilities	**(12,502,738)**	(11,469,186)
Net assets for common shares	**10,739,354**	10,069,209
Number of common shares as at December 31	**3,481,938,318**	3,481,670,758
Book value per common share, tenge	**3,084**	2,892
Earnings per share		
Weighted average number of common shares for basic and diluted earnings per share	**3,481,898,392**	3,481,669,063
Basic and diluted share in net profit for the period	**211.37**	165.21
Basic and diluted share in net profit/(loss) from continuing operations	**(16.33)**	59.45

19. BORROWINGS

As at December 31 borrowings, including interest payable, comprised the following:

In millions of tenge	2017	2016
Fixed interest rate borrowings	**4,909,976**	3,776,764
Floating interest rate borrowings	**2,006,483**	1,973,964
	6,916,459	5,750,728
Less: amounts due for settlement within 12 months	**(1,516,573)**	(820,570)
Amounts due for settlement after 12 months	**5,399,886**	4,930,158

In millions of tenge	2017	2016
US dollar-denominated borrowings	**5,507,211**	4,587,544
Tenge-denominated borrowings	**1,112,828**	935,849
Other currency-denominated borrowings	**296,420**	227,335
	6,916,459	5,750,728

Under the terms of some loan agreements, respective subsidiaries of the Group are obliged to comply with certain covenants. The Group reviews compliance with all the Group loan covenants at each reporting date. As at December 31, 2017 the total amount of borrowings with some covenant conditions not being met, and for which the agreement letters for non-application of covenants in the reporting period has been received totaled 227,388 million tenge.

Loan from the Bank Tokyo-Mitshubishi UFJ, LTD

On October 30, 2015 the Fund entered into a loan agreement with the bank Tokyo-Mitsubishi UFJ LTD for the amount of 1,500 million US dollars for the acquisition of 50% share in KMG Kashagan B.V. (hereinafter – "Loan Agreement").

On December 31, 2017 the total amount of the loan, including the principal amount and interest payable was 497,311 million tenge (December 31, 2016: 497,056 million tenge).

The Loan Agreement includes a financial covenant, which was not breached as of December 31, 2017.

Additionally, the Loan Agreement contains a number of general obligations and restrictions. Thus, Restriction on the Fund's share in KMG Kashagan B.V. *(Note 39)* contradicts the provision of the Loan Agreement, which precludes seizure of the Fund's assets or its significant subsidiaries with the market value exceeding 100 million US dollars (or the equivalent in any other currency) or similar proceedings that last for more than 40 days. Accordingly, the Fund reclassified the long-term portion of the loan from the bank Tokyo-Mitsubishi UFJ, LTD of 494,461 million tenge, as current liabilities. On March 7, 2018 the Fund received a waiver from the bank Tokyo-Mitsubishi UFJ, LTD, and reversed the reclassification.

Issuance and redemption of bonds

During 2017 NC KMG and its subsidiary Kazmunaigaz Finance Sub B.V. placed Eurobonds of 2,750 million US dollars (equivalent to 854,315 million tenge as at the placement date).

During 2017 KazTransGas JSC, subsidiary of NC KMG placed Eurobonds of 750 million US dollars (equivalent to 254,760 million tenge as at the placement date).

During 2017 Samruk-Energy JSC redeemed Eurobonds of 500 million US dollars (equivalent to 167,997 million tenge at the exchange rate on the date of redemption).

During 2017 NC KTZh placed bonds on the Moscow Stock Exchange of 15,000 million Russian rubles (equivalent to 83,100 million tenge as at the placement date).

19. BORROWINGS (continued)

Other borrowings

During 2017 United Chemical Company LLP received a loan from the China State Development Bank of 409 million US dollars (equivalent to 134,970 million tenge at the exchange rate as of the date of receipt).

As at December 31 the carrying amount of borrowings by the Group subsidiaries is presented below:

In millions of tenge	**2017**	2016
NC KMG and its subsidiaries	**4,163,444**	3,072,540
NC KTZh and its subsidiaries	**1,158,981**	1,086,719
The Fund	**808,453**	854,533
Samruk-Energy and its subsidiaries	**298,527**	329,179
KEGOC and its subsidiaries	**161,789**	175,099
NAC KAP and its subsidiaries	**121,284**	127,765
Other subsidiaries of the Fund	**203,981**	104,893
Total borrowings	**6,916,459**	5,750,728

20. LOANS FROM THE GOVERNMENT OF THE REPUBLIC OF KAZAKHSTAN

As at December 31 loans from the Government of the Republic of Kazakhstan comprised the following:

In millions of tenge	**2017**	2016
Bonds acquired by the National Bank of the Republic of Kazakhstan using the assets of the National Fund	**719,410**	796,275
Loans from the Government of the Republic of Kazakhstan	**62,638**	60,036
Bonds acquired by the National Bank of the Republic of Kazakhstan	**–**	62,100
	782,048	918,411
Less: amounts due for settlement within 12 months	**(5,907)**	(6,231)
Amounts due for settlement after 12 months	**776,141**	912,180

During 2017 the Fund made an early redemption of bonds of 239,771 million tenge. The unamortised portion of discounts corresponding to the bonds of 79,499 million tenge was amortised through interest expense within cost of sales.

21. OTHER NON-CURRENT LIABILITIES

As at December 31 other non-current liabilities comprised the following:

In millions of tenge	**2017**	2016
Prepayment on oil supply agreements	**1,109,265**	1,068,819
Obligations under quarantee agreements	**29,157**	36,560
Deferred income	**25,944**	22,587
Obligations to the Shareholder on the financing of social projects *(Note 18.5)*	**7,553**	–
Government grant liability	**101**	47,413
Payables for acquisition of additional interest in the North-Caspian project	**–**	250,523
Other financial liabilities	**2,509**	–
Other non-financial liabilities	**40,798**	50,886
	1,215,327	1,476,788

Oil supply agreement

NC KMG

In 2016 the NC KMG Group entered into a long-term crude oil and liquefied petroleum gas ("LPG") supply agreement, involving a prepayment on the deliveries. The total minimum delivery volume approximates 38 million tons of crude oil and 1 million tons of LPG in the period from the date of the contract to March 2021.

As part of this transaction in 2017, the NC KMG Group received prepayment of 488,536 thousand US dollars (equivalent of 159,302 million tenge at the date of transaction) (2016: 2,966,005 thousand US dollars or 1,012,020 million tenge) net of transaction costs.

21. OTHER NON-CURRENT LIABILITIES (continued)

Oil supply agreement (continued)

NC KMG (continued)

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

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

As of December 31, 2017 the NC KMG Group has partially settled the prepayments by oil supply in the total amount of 750,000 thousand US dollars.

Interest at rate of LIBOR plus 1.85% is annually accrued on outstanding balance of prepayment.

KMG Kashagan B.V.

During 2016, KMG Kashagan B.V. entered into a long-term crude oil supply agreement. In accordance with the terms of the agreement, during the period from January 2017 till December 2021, KMG Kashagan B.V. will supply the minimum volume of oil of 7 million tons from the Kashagan field.

In 2017 the KMG Kashagan B.V. signed a addendum to the crude oil supply agreement. Under the terms of the addendum, the term of oil supplies was extended until September 2022, the minimum volume of oil from the Kashagan field was increased to 11.5 million tons. Under the new terms of the agreement, in 2017 the KMG Kashagan B.V. received an additional prepayment of 596,974 thousand US dollars (equivalent of 197,224 million tenge at the date of received) (2016: 990,390 thousand US dollars, (equivalent of 331,829 million tenge at the date of received) repayment from January 2019), net of transaction costs, which will be discharged by the supply of crude oil produced at the Kashagan field.

The agreement stipulates price determination on the basis of current market quotations and prepayment is discharged by means of physical supply of crude oil.

In accordance with the terms of the agreement, supply of oil started from January 2017. The KMG Kashagan B.V. considers this agreement as a contract, which was signed for the purpose of delivery of non-financial items in accordance with the KMG Kashagan B.V.'s expectations and sale requirements.

Interest at rate of LIBOR plus 2.05% is annually accrued on outstanding balance of this prepayment.

In accordance with the terms of agreement, the KMG Kashagan B.V. must ensure that supplied volume of crude oil must be unencumbered.

Government grant liability under Nurly Zhol state program

During 2016 the Group recognized a government grant liability in accordance with the Nurly Zhol state program. During 2017, the liability has been reduced for the amount of income on government grant of 4,653 million tenge. Government grant income is calculated by applying the proportion of loans issued to the total amount of the discount.

During 2017, based on changes in terms related to a Government-issued loan and the fact that the loan discount was recognized as a government grant liability in 2016, the Fund recognized government grant revenues of 17,237 million tenge and re-classified non-current government grant liabilities as current liabilities.

Also, during 2017 the intended use of part these funds was changed and redirected to NMH Baiterek JSC *(Note 18.4)* Baiterec NMH, therefore, the portion of government grants liability for the amount of 11,382 million tenge was written off when the loan was provided.

In millions of tenge	**2017**	2016
Balance as at January 1	**47,993**	–
Received during the year	–	52,319
Released to the statement of profit and loss	**(33,272)**	(4,326)
Balance as at December 31	**14,721**	47,993
Less: amounts due for settlement within 12 months	**(14,721)**	(580)
Amounts due for settlement after 12 months	–	47,413

22. FINANCE LEASE LIABILITIES

The Group has finance leases for various items of property, plant and equipment, mainly aircraft.

During 2012-2014 Air Astana JSC ("Air Astana"), subsidiary of the Group, acquired 11 (eleven) aircrafts under fixed interest finance lease agreements. The lease term for each aircraft is 12 (twelve) years. Air Astana has the option to purchase each aircraft for a nominal amount at the end of the lease. Loans provided by financial institutions to the lessor in respect of 6 (six) new Airbus were guaranteed by European Export Credit Agencies, 3 (three) Boeing 767 aircrafts were guaranteed by US Export Import Bank and 2 (two) Embraer aircrafts were guaranteed by Brazilian Development Bank. Air Astana pledged the leased assets with carrying amount of 68,671 million tenge to secure finance lease liabilities (December 31, 2016: 74,353 million tenge).

As at December 31, 2017 interest calculation was based on effective interest rates ranging from 2.99% to 19.59% (December 31, 2016: from 3.09% to 19.7%).

As at December 31 future minimum lease payments under finance leases together with the present value of the net minimum lease payments comprised the following:

	2017	
In millions of tenge	**Minimum lease payments**	**Present value of minimum lease payments**
Within one year	**24,586**	**19,742**
Two to five years inclusive	**80,265**	**69,707**
After five years	**56,539**	**50,314**
Less: amounts representing finance costs	**(21,627)**	**–**
Present value of minimum lease payments	**139,763**	**139,763**
Less: amounts due for settlement within 12 months	**(24,586)**	**(19,742)**
Amounts due for settlement after 12 months	**115,177**	**120,021**

	2016	
In millions of tenge	Minimum lease Payments	Present value of minimum lease payments
Within one year	22,470	18,332
Two to five years inclusive	71,381	60,510
After five years	59,091	55,568
Less: amounts representing finance costs	(18,532)	–
Present value of minimum lease payments	134,410	134,410
Less: amounts due for settlement within 12 months	(22,470)	(18,332)
Amounts due for settlement after 12 months	111,940	116,078

The Air Astana finance lease obligations are denominated in US dollars.

On July 1, 2015 Air Astana designated a portion of its US Dollar finance lease obligations as hedges of highly probable future US dollar revenue streams. Air Astana applied the cash flow hedge accounting model to this hedging transaction, in accordance with IAS 39. In connection with the transition of the functional currency to US dollar, this hedge ceased to be effective from December 31, 2017.

23. PROVISIONS

As at December 31 provisions comprised the following:

In millions of tenge	Asset retirement obligations	Provision for environ-mental remediation	Provision for taxes	Provision for construction of social objects	Other	Total
Provision at January 1, 2016	179,303	20,072	80,181	156,265	56,652	492,473
Foreign currency translation	(591)	–	77		(328)	(842)
Change in estimate	(62,219)	(3,104)	–	–	–	(65,323)
Unwinding of discount	12,630	1,407	–	–	783	14,820
Provision for the year	2,328	10	9,275	447	66,585	78,645
Additions through business combinations	–	–	–	–	2,187	2,187
Transfer to liabilities associated with assets classified as held for sale	(118)	–	–	–	56	(62)
Use of provision	(3,041)	(1,274)	(20,496)	(86,926)	(33,192)	(144,929)
Reversal of unused amounts	(74)	–	(20,989)	–	(471)	(21,534)
Provision at December 31, 2016	128,218	17,111	48,048	69,786	92,272	355,435
Foreign currency translation	**233**	**–**	**15**	**–**	**59**	**307**
Change in estimate	**17,619**	**(948)**	**–**	**–**	**(109)**	**16,562**
Unwinding of discount	**10,842**	**1,794**	**–**	**–**	**4,379**	**17,015**
Provision for the year	**3,735**	**8,785**	**7,783**	**28,452**	**10,703**	**59,458**
Use of provision	**(1,661)**	**(1,165)**	**(27,690)**	**(60,194)**	**(41,641)**	**(132,351)**
Reversal of unused amounts	**(175)**	**–**	**–**	**–**	**(1,568)**	**(1,743)**
Provision at December 31, 2017	**158,811**	**25,577**	**28,156**	**38,044**	**64,095**	**314,683**

Current portion and non-current portion of provisions are presented as follows:

In millions of tenge	Asset retirement obligations	Provision for environ-mental remediation	Provision for taxes	Provision for construction of social objects	Other	Total
Current portion	916	486	48,048	63,104	80,945	193,499
Non-current portion	127,302	16,625	–	6,682	11,327	161,936
Provision at December 31, 2016	128,218	17,111	48,048	69,786	92,272	355,435
Current portion	**1,668**	**6,017**	**28,156**	**38,044**	**42,082**	**115,967**
Non-current portion	**157,143**	**19,560**	**–**	**–**	**22,013**	**198,716**
Provision at December 31, 2017	**158,811**	**25,577**	**28,156**	**38,044**	**64,095**	**314,683**

Other provisions as at December 31, 2017 included provisions for aircraft maintenance for the amount of 24,516 million tenge (December 31, 2016: 19,597 million tenge), gas transportation provision for the amount of 24,291 million tenge (December 31, 2016: 24,361 million tenge). During 2017 other provisions decreased with respect to the gas-turbine power station and capital work-in-progress of Chempark Taraz of 36,653 million tenge and 4,477 million tenge, respectively *(Note 7)*.

Provision for construction of social objects included the Palace of Combats construction reserve for the amount of 19,820 million tenge (December 31, 2016: nil) and Golf Club construction reserve of 13,321 million tenge (December 31, 2016: 13,321 million tenge). During 2017 provisions for construction of social objects decreased mainly due to transfer of the Ice Palace to the Shareholder for 53,511 million tenge.

24. EMPLOYEE BENEFIT LIABILITY

State contribution scheme

The Group pays social tax according to the current statutory requirements in the Republic of Kazakhstan. Social tax and payroll are expensed as incurred.

In addition to that, the Group also withholds and contributes up to 10% limit on pension contributions, from salaries of its employees as the employee contribution to their cumulative pension funds. These amounts are expensed in the period they are incurred.

Defined benefit plan

Employee benefit liabilities under various plans are payable in accordance with collective agreements concluded between certain subsidiaries of the Group (NC KMG, NC KTZh, Kazakhtelecom JSC, Samruk-Energy JSC, NAC KAP, National Company Kazakhstan Engineering JSC and Kazpost JSC) and employees of those subsidiaries represented by their labor unions.

As at December 31 total liability under the Group's defined benefit plan comprised the following:

In millions of tenge	**2017**	2016
Present value of defined benefit obligation	**83,487**	73,059
Liability falling due within one year	**(6,883)**	(6,172)
Liability falling due after one year	**76,604**	66,887

A reconciliation of the present value of the defined benefit plan liability with specified payments for the years ended December 31 is as follows:

In millions of tenge	**2017**	2016
Total liability at the beginning of the year	**73,059**	78,823
Actuarial losses/(gain) recognized during the period in other comprehensive income	**8,046**	(7,424)
Interest cost	**6,943**	5,971
Current service cost	**4,461**	2,956
Past service cost	**182**	2,066
Benefits paid during the year	**(8,770)**	(6,935)
Unrecorded past service cost	**(32)**	(73)
Actuarial gain recognized during the period in profit and loss	**(402)**	(1,324)
Transfer to assets held for sale	**–**	(1,001)
Total liability at the end of the year	**83,487**	73,059

Total service cost, including current service cost, interest cost, past service cost, unrecorded past service cost and actuarial loss, of 19,198 million tenge was recognized in the consolidated statement of comprehensive income within respective line items in 2017 (2016: 2,172 million tenge).

Estimates of the Group's liabilities were made on the basis of published statistical data regarding mortality and actual Group's data on number, age, gender and years of employee service. Other principal assumptions at the reporting date, calculated as weighed average for all plans, were as follows:

	2017	2016
Discount rate	**8.92%**	9.64%
Expected rate of increase of future annual financial assistance	**6.11%**	5.99%
Expected rate of increase of future annual minimum salary	**5.03%**	5.29%
Expected rate of increase of future annual railway ticket price	**6.60%**	7%

25. OTHER CURRENT LIABILITIES

As at December 31 other current liabilities comprised the following:

In millions of tenge	**2017**	2016
Prepayment on oil supply agreements *(Note 21)*	**332,330**	249,968
Payables for acquisition of additional interest in the North-Caspian project	**272,148**	271,597
Advances received and deferred income	**180,657**	123,938
Due to employees	**105,810**	93,139
Other taxes payable	**102,982**	61,614
Amounts due to customers	**24,777**	24,027
Government grant liability *(Note 21)*	**14,721**	580
Obligations under quarantee agreements	**10,378**	9,551
Dividends payable	**4,077**	3,965
Obligations to the Shareholder on the financing of social projects *(Note 18.5)*	**4,013**	–
Other financial liabilities	**20,967**	16,353
Other non-financial liabilities	**45,374**	38,245
	1,118,234	892,977

Payables for acquisition of additional interest in undividable stake of the North-Caspian project

On October 31, 2008 all participants of the North-Caspian project (the "NCP" or the "Project) signed an agreement according to which all project participants except for KMG Kashagan agreed to partially sell their interest in the project on proportional basis in order to increase the interest of KMG Kashagan in NCP from 8.33% to 16.81% retrospectively from January 1, 2008.

The purchase price of the undivided share of interest in NCP consists of a principal amount of 1.78 billion US dollars plus annual interest. Annual interest is accrued at the rate of LIBOR 1m plus 3%, which is annually capitalized in the principal amount and recorded within financial costs.

The principal amount together with interest is to be paid in three equal annual instalments after achieving Kashagan commercial production ("KCP") at Kashagan field.

On December 7, 2016 KMG Kashagan paid the first tranche under PSA of USD 532,265 thousand US dollars (equivalent of 178,335 million tenge at the date of transaction) of principal and 247,820 thousand US dollars (equivalent of 83,032 million tenge at the date of transaction) of accrued interest. On August 10, 2017 KMG Kashagan paid the second tranche under PSA of USD 532,265 thousand US dollars (equivalent of 177,079 million tenge at the date of transaction) of principal and 272,172 thousand US dollars (equivalent of 90,549 million tenge at the date of transaction) of accrued interest. The third payment is due on November 1, 2018.

One third of purchased undivided share in NCP of 2.54% as at December 31, 2017 was pledged in favour of other Contractors as collateral until full repayment of the liability.

As at December 31, 2017 the amortized cost of this payable was equal to 272,148 million tenge (December 31, 2016: 522,120 million tenge).

Carrying value of the financial liabilities approximates their fair value as at December 31, 2017 and 2016.

26. REVENUE

Revenue comprised the following for the years ended December 31:

In millions of tenge	**2017**	2016 (restated)*
Sales of crude oil	**1,349,109**	721,988
Railway cargo transportation	**765,599**	684,271
Sales of gas products	**342,025**	292,783
Oil and gas transportation	**332,294**	314,765
Sales of oil refined products	**295,179**	282,718
Electricity complex	**263,517**	232,899
Air transportation	**255,331**	227,324
Sales of uranium products	**233,878**	293,203
Telecommunication services	**200,484**	201,439
Sales of refined gold	**193,797**	154,042
Interest revenue	**153,443**	56,394
Oil processing fees	**128,535**	98,380
Electricity transmission services	**124,423**	115,775
Railway passenger transportation	**83,095**	81,279
Postal services	**38,818**	35,381
Less: indirect taxes and commercial discounts	**(301)**	(1,215)
Less: Quality bank for crude oil	**(21,769)**	(19,936)
Other revenue	**386,701**	296,203
	5,124,158	4,067,693

* *Certain amounts shown here do not correspond to 2016 consolidated financial statements and reflect restatement made, details of which are disclosed in Notes 2 and 4.*

The Group revenue does not include crude oil sale of KMGI *(Note 6)*, classified as discontinued operations.

27. GOVERNMENT GRANTS

According to the Resolution of the Government of the Republic of Kazakhstan No. 1188 dated November 11, 2004 *On the Approval of Subsidies for Carrier Losses Related to Provision of Passenger Transportation*, starting from January 1, 2005, NC KTZh receives government grants as a compensation for carriers' losses on socially important destinations. There are no unfulfilled conditions or contingences attached to these grants. The amount of income from government grants for the year ended December 31, 2017 was equal to 20,460 million tenge (2016: 22,530 million tenge).

According to the Resolution of the Government of the Republic of Kazakhstan No. 1039 dated October 7, 2004 *On the Approval of Subsidies for Telecommunication Operators Losses Related to the Provision of Universal Telecommunication Services to the Population*, starting from 4th quarter of 2004, Kazakhtelecom JSC receives government grants as compensation for operators' losses on telecommunication services to socially-important regions. There are no unfulfilled conditions or contingencies attached to these grants. The amount of income from government grants for the year ended December 31, 2017 was equal to 7,168 million tenge (2016: 7,353 million tenge).

During 2016 the Group recognized a government grant liability in accordance with the Nurly Zhol state program *(Note 21)*. The amount of income from government grant under the Nurly Zhol state program for the year ended December 31, 2017 was equal to 4,653 million tenge (2016: 4,326 million tenge).

In addition, in 2017 due to change of conditions of loan agreement with the Government under the Nurly Zhol program the Group recognized income from government grants for the year ended December 31, 2017 of 17,237 million tenge (2016: nil) *(Note 21)*.

Other income from government grants and subsidies for the year ended December 31, 2017 was equal to 2,925 million tenge (2016: nill).

28. COST OF SALES

Cost of sales comprised the following for the years ended December 31:

In millions of tenge	2017	2016 (restated)*
Materials and supplies	**1,894,036**	1,211,615
Personnel costs, including social taxes and withdrawals	**761,145**	726,650
Depreciation, depletion and amortization	**481,879**	400,621
Fuel and energy	**266,791**	223,419
Production services received	**209,992**	177,324
Interest expense	**177,291**	109,749
Repair and maintenance	**156,115**	125,117
Transportation expenses	**118,639**	53,356
Mineral extraction tax	**110,305**	49,658
Rent	**62,867**	62,583
Taxes other than social tax and withdrawals	**58,627**	50,381
Other	**255,614**	182,043
	4,553,301	3,372,516

* *Certain amounts shown here do not correspond to 2016 consolidated financial statements and reflect restatement made, details of which are disclosed in Notes 2 and 4.*

29. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses comprised the following for the years ended December 31:

In millions of tenge	2017	2016
Personnel costs, including social taxes and withdrawals	**197,673**	160,205
Taxes other than income tax	**46,857**	32,850
Consulting services	**27,757**	29,648
Depreciation and amortization	**23,183**	16,442
Sponsorship and charitable donations	**16,210**	16,665
Rent	**8,712**	9,364
Allowance for doubtful debts	**7,436**	8,574
Repair and maintenance	**7,078**	5,869
Business trips	**6,998**	6,413
Fines and penalties, net	**(6,641)**	(11,916)
Other	**77,598**	70,587
	412,861	344,701

30. TRANSPORTATION AND SELLING EXPENSES

Transportation and selling expenses comprised the following for the years ended December 31:

In millions of tenge	2017	2016
Custom duties	**105,717**	84,199
Transportation	**89,807**	74,730
Rent tax	**83,183**	19,981
Commission fees to agents and advertising	**10,535**	7,880
Personnel costs, including social taxes and withdrawals	**9,915**	10,306
Depreciation and amortization	**4,573**	6,530
Other	**15,424**	14,714
	319,154	218,340

31. IMPAIRMENT LOSS

Impairment loss comprised the following for the years ended December 31:

In millions of tenge	2017	2016
Impairment of property, plant and equipment and intangible assets	**39,881**	23,218
Impairment of cash and bank deposits placed in Deltabank JSC *(Note 4)*	**28,859**	15,298
Impairment of investments in joint ventures and associates *(Note 10)*	**19,334**	159
Impairment of cash and bank deposits placed in RBK Bank JSC *(Note 13)*	**10,496**	–
Impairment of available-for-sale financial assets	**6,659**	–
Impairment of cash and bank deposits placed in Kazinvestbank JSC *(Note 4)*	**2,619**	12,429
Impairment of loans issued *(Note 11)*	**516**	8,411
(Reversal of impairment) / impairment of assets held for sale	**(10,385)**	9,759
Reversal of impairment of VAT receivable	**(21,348)**	(6,856)
Other	**18,302**	6,236
	94,933	68,654

Value-added-tax (VAT) recoverability

Most of reversal of impairment of VAT receivable in these consolidated financial statements relates to receipt in May and June 2017 of acts of tax audits by Ozenmunaigas and Embamunaigas, subsidiaries of the Group, for the period 2012 to 2015 that confirmed the Group's right to reimburse VAT receivable for the amounts of 4,033 million tenge and 26,073 million tenge, respectively *(Note 39)*.

32. FINANCE COSTS

Finance costs comprised the following for the years ended December 31:

In millions of tenge	2017	2016
Interest on loans and debt securities issued	**360,150**	301,569
Interest on oil supply agreement	**40,756**	18,628
Discount on provisions and other payables	**19,262**	15,714
Interest on payable for the acquisition of additional interest in North Caspian Project	**19,202**	36,241
Discount on assets at rates below market	**12,499**	5,063
Interest on finance lease liabilities	**4,559**	7,915
Other	**18,218**	15,825
	474,646	400,955

33. FINANCE INCOME

Finance income comprised the following for the years ended December 31:

In millions of tenge	2017	2016
Interest income on amounts due from credit institutions and cash and cash equivalents	**117,231**	124,022
Income from loans and financial assets	**44,468**	44,720
Unwinding of discount on long-term receivables	**10,876**	12,684
Income from financial guarantees	**7,412**	5,899
Gain from derecognition of liabilities	–	62,513
Dividend income	–	7,308
Other	**11,945**	16,592
	191,932	273,738

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

Share in profit/(loss) of joint ventures and associates comprised the following for the years ended December 31:

In millions of tenge	**2017**	2016
Tengizchevroil LLP	**289,980**	147,910
Kazzinc LLP	**58,049**	37,391
Caspian Pipeline Consortium JSC	**54,666**	74,909
Mangistau Investments B.V.	**49,605**	29,766
JV Kazgermunai LLP	**17,713**	5,130
Karatau LLP	**10,707**	11,990
Forum Muider B.V.	**10,481**	6,020
Valsera Holdings B.V.	**9,751**	10,414
JV KATCO LLP	**9,495**	16,422
JV Akbastau JSC	**9,254**	10,174
KazRosGas LLP	**8,622**	18,647
Petro Kazakhstan Ink	**7,234**	(15,810)
EGRES-2	**(9,546)**	788
Kazakhoil Aktobe LLP	**(16,788)**	(11,535)
Other	**22,618**	13,753
	531,841	355,969

35. INCOME TAX EXPENSES

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

In millions of tenge	**2017**	2016
Current income tax expenses		
Corporate income tax ("CIT")	**156,319**	125,219
Withholding tax on dividends and interest income	**31,683**	16,147
Excess profit tax	**10,746**	(1,128)
Deferred income tax expense/(benefit)		
Corporate income tax ("CIT")	**36,474**	(4,804)
Withholding tax on dividends and interest income	**29,835**	18,915
Excess profit tax	**(1,275)**	15,543
Income tax expenses	**263,782**	169,892

A reconciliation of income tax expenses applicable to profit before income tax at the statutory income tax rate (20% in 2017 and 2016) to income tax expenses was as follows for the years ended December 31:

In millions of tenge	**2017**	2016
Accounting profit before income tax from continuing operations	**206,907**	376,893
Accounting profit before income tax from discontinued operations	**791,105**	364,609
Income tax expenses on accounting profit	**199,602**	148,300
Tax effect of other items, which are not deductible or assessable for taxation purposes	**172,480**	152,253
Change in unrecognized deferred tax assets	**(46,593)**	(98,311)
Excess profit tax	**9,471**	14,415
Effect of different corporate income tax rates	**1,792**	(8,496)
Share in non-taxable profit of joint ventures and associates	**(60,085)**	(50,370)
Other differences	**(14,630)**	8,511
Total corporate income tax expenses	**262,037**	166,302
Add: income tax benefit attributable to discontinued operations	**1,745**	3,590
Income tax expense from continuing operations	**263,782**	169,892

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. INCOME TAX EXPENSES (continued)

Deferred tax balances, calculated by applying the statutory tax rates effective at the respective reporting dates to the temporary differences between tax basis of assets and liabilities and the amounts reported in the consolidated financial statements, are comprised of the following at December 31:

	2017				2016			
In millions of tenge	**Corporate income tax**	**Excess profit tax**	**Withholding tax**	**Total**	Corporate income tax	Excess profit tax	Withholding tax	Total
Deferred tax assets								
Property, plant and equipment	**84,854**	**(2,214)**	–	**82,640**	89,894	(1,900)	–	87,994
Tax loss carryforward	**615,877**	–	–	**615,877**	594,312	–	–	594,312
Employee related accruals	**13,235**	**233**	–	**13,468**	13,457	46	–	13,503
Impairment of financial assets	**6,135**	–	–	**6,135**	5,340	–	–	5,340
Provision for environmental remediation	**23,792**	**217**	–	**24,009**	16,418	–	–	16,418
Other accruals	**3,933**	**1,347**	–	**5,280**	3,921	163	–	4,084
Other	**51,646**	–	–	**51,646**	33,637	–	–	33,637
Less: unrecognized deferred tax assets	**(460,491)**	–	–	**(460,491)**	(413,898)	–	–	(413,898)
Less: deferred tax assets offset with deferred tax liabilities	**(202,829)**	–	–	**(202,829)**	(196,240)	–	–	(196,240)
Deferred tax assets	**136,152**	**(417)**	–	**135,735**	146,841	(1,691)	–	145,150
Deferred tax liabilities								
Property, plant and equipment	**604,907**	**15,712**	–	**620,619**	573,088	15,716	–	588,804
Undistributed earnings of joint ventures and associates	–	–	**202,904**	**202,904**	–	–	173,069	173,069
Other	**18,028**	–	–	**18,028**	17,612	–	–	17,612
Less: deferred tax assets offset with deferred tax liabilities	**(202,829)**	–	–	**(202,829)**	(196,240)	–	–	(196,240)
Deferred tax liabilities	**420,106**	**15,712**	**202,904**	**638,722**	394,460	15,716	173,069	583,245
Net deferred tax liabilities	**(283,954)**	**(16,129)**	**(202,904)**	**(502,987)**	(247,619)	(17,407)	(173,069)	(438,095)

The movements in the net deferred tax liabilities were as follows for the years ended December 31:

	2017				2016			
In millions of tenge	**Corporate income tax**	**Excess profit tax**	**Withholding tax**	**Total**	Corporate income tax	Excess profit tax	Withholding tax	Total
Balance at January 1	**247,619**	**17,407**	**173,069**	**438,095**	254,553	1,864	154,154	410,571
Foreign currency translation	**(744)**	**(3)**	–	**(747)**	1,707	–	–	1,707
Charged to other comprehensive income	**605**	–	–	**605**	817	–	–	817
Discontinued operations	–	–	–	–	(4,654)	–	–	(4,654)
(Credited)/charged to profit and loss	**36,474**	**(1,275)**	**29,835**	**65,034**	(4,804)	15,543	18,915	29,654
Balance at December 31	**283,954**	**16,129**	**202,904**	**502,987**	247,619	17,407	173,069	438,095

35. INCOME TAX EXPENSES (continued)

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Unrecognized deferred tax asset arising mainly from tax losses carry forward were equal to 460,491 million tenge as at December 31, 2017 (December 31, 2016: 413,898 million tenge).

Tax losses carryforwards as at December 31, 2017 in the Republic of Kazakhstan expire for tax purposes 10 (ten) years from the date they are incurred.

36. CONSOLIDATION

Subsidiaries included in the consolidated financial statements are presented as follows:

		Ownership percentage	
		2017	2016
1	National Company "KazMunayGas" JSC ("NC KMG") and subsidiaries	**90.09%**	90% – 1
2	"KMG Kashagan" B.V.	**100.00%**	100.00%
3	National Company "Kazakhstan Temir Zholy" JSC ("NC KTZh") and subsidiaries	**100.00%**	100.00%
4	National Atomic Company "Kazatomprom" JSC ("NAC KAP") and subsidiaries	**100.00%**	100.00%
5	"Samruk-Energy" JSC ("Samruk-Energy") and subsidiaries	**100.00%**	100.00%
6	"Kazakhstan Electricity Grid Operating Company" JSC ("KEGOC") and subsidiaries	**90% + 1**	90% + 1
7	"Kazpost" JSC and subsidiaries	**100.00%**	100.00%
8	"Kazakhtelecom" JSC ("KTC") and subsidiaries	**51.00%**	51.00%
9	"Air Astana" JSC ("Air Astana")	**51.00%**	51.00%
10	National Company "Kazakhstan Engineering" JSC ("Kazakhstan Engineering") and subsidiaries	**100.00%**	100.00%
11	Real Estate Fund "Samruk-Kazyna" JSC and subsidiaries	**100.00%**	100.00%
12	National Mining Company "Tau-Ken Samruk" and subsidiaries	**100.00%**	100.00%
13	"United Chemical Company" LLP and subsidiaries ("UCC")	**100.00%**	100.00%
14	"Samruk-Kazyna Invest" LLP	**100.00%**	100.00%
15	"Samruk-Kazyna Contract" LLP	**100.00%**	100.00%
16	"KOREM" JSC	**100.00%**	100.00%
17	"International Airport Atyrau" JSC	**100.00%**	100.00%
18	"International Airport Aktobe" JSC	**100.00%**	100.00%
19	"Airport Pavlodar" JSC	**100.00%**	100.00%
20	"SK Business Service" LLP and subsidiaries	**100.00%**	100.00%
21	"Qazaq Air" JSC ("Qazaq Air")	**100.00%**	100.00%
22	Aviation Company "Air Kazakhstan" JSC	**53.55%**	53.55%

37. RELATED PARTY DISCLOSURES

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties include key management personnel of the Group, enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by the Group's key management personnel and other entities controlled by the Government. Related party transactions were made on terms agreed to between the parties that may not necessarily be at market rates, except for certain regulated services, which are provided based on the tariffs available to related and third parties.

37. RELATED PARTY DISCLOSURES (continued)

The following table provides the total amount of transactions, which have been entered into with related parties as at December 31:

In millions of tenge		Associates	Joint ventures where the Group is a venture	Other state-controlled entities
Due from related parties	**2017**	**47,153**	**95,944**	**14,466**
	2016	40,896	116,231	11,340
Due to related parties	**2017**	**50,936**	**203,208**	**4,734**
	2016	38,829	155,585	9,265
Sale of goods and services	**2017**	**58,916**	**362,885**	**309,012**
	2016	54,764	366,709	259,975
Purchase of goods and services	**2017**	**180,523**	**1,069,770**	**12,981**
	2016	206,588	698,052	10,722
Other income/(loss)	**2017**	**1,994**	**1,448**	**8,246**
	2016	(2,969)	2,107	8,765
Cash and cash equivalents, and amounts due from credit institutions (assets)	**2017**	**–**	**–**	**334,546**
	2016	–	34	241,929
Loans issued	**2017**	**142,160**	**383,641**	**188,744**
	2016	182,394	246,388	187,227
Borrowings	**2017**	**–**	**5**	**1,442,348**
	2016	–	755	1,706,153
Other assets	**2017**	**18,148**	**90,459**	**23,173**
	2016	14,187	82,520	8,890
Other liabilities	**2017**	**12,838**	**15,183**	**46,610**
	2016	7,032	15,470	51,939
Interest received	**2017**	**11,610**	**26,475**	**34,624**
	2016	15,873	23,967	20,300
Interest accrued	**2017**	**108**	**10,770**	**179,550**
	2016	6,063	4,976	113,710

As at December 31, 2017 some of the Group's borrowings of 65,629 million tenge were guaranteed by the Government of the Republic of Kazakhstan (December 31, 2016: 76,155 million tenge).

Total compensation to key management personnel included in general and administrative expenses in the consolidated statement of comprehensive income was equal to 7,512 million tenge for the year ended December 31, 2017 (2016: 7,182 million tenge). Compensation to key management personnel mainly consists of contractual salary and other payments based on achievement of operating results.

38. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments consist of borrowings, loans from the Government of the Republic of Kazakhstan, finance lease liabilities, amounts due to the customers, derivatives, cash and cash equivalents, loans issued, amounts due from credit institutions, other financials assets, as well as accounts receivable and accounts payable. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and credit risk. The Group also monitors the liquidity risk arising from all financial instruments.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group limits interest rate risk by monitoring changes in interest rates in the currencies in which its cash, investments and borrowings are denominated.

The Group's exposure to interest risk relates primarily to the Group's long-term and short-term borrowings with variable interest rates *(Note 19)*.

38. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

The following table demonstrates the sensitivity of the Group's profit before income tax (through the impact on variable rate borrowings) to a reasonably possible change in variable LIBOR interest rates, with all other variables held constant.

In millions of tenge	Increase/ (decrease) in basis points*	Effect on profit before income tax
2017		
US dollar	**70/(8)**	**(12,458)/1,424**
2016		
US dollar	60/(8)	(15,640)/2,090

* *1 basis point = 0.01%.*

Currency risk

As a result of significant borrowings, finance lease liabilities and trade accounts payable, cash and cash equivalents, amounts due from credit institutions and accounts receivable denominated in the US dollars, the Group's consolidated financial position can be affected significantly by movement in the US dollar / tenge exchange rates.

The following table demonstrates the sensitivity of the Group's profit before income tax to a reasonably possible change in the US dollar and euro, with all the variables held constant.

In millions of tenge	Increase/(decrease) in exchange rate	Effect on profit before income tax
2017		
US dollar	10.00%/(10.00%)	**(177,916)/177,916**
Euro	13.50%/(9.50%)	**(8,792)/8,792**
2016		
US dollar	13.00%/(13.00%)	(261,631)/261,631
Euro	15.00%/(15.00%)	(18,710)/18,710

Credit risk

Credit risk arising from the inability of a party to meet the terms of the Group's financial instrument contracts is generally limited to the amounts, if any, by which the counterparty's obligations exceed the obligations of the Group to that party. It is the Group's policy to enter into financial instruments with a diversity of creditworthy parties. The maximum exposure to credit risk is represented by carrying amount of each financial asset. The Group considers that its maximum exposure is reflected by the amount of loans issued *(Note 11)*, amount due from credit institutions *(Note 12)*, trade accounts receivable and other current assets *(Note 16)*, other financial assets *(Note 13)*, and cash and cash equivalents *(Note 17)*, net of allowances for impairment recognized at the reporting date.

Concentrations of credit risk may arise from exposures to a single debtor or to groups of debtors having similar characteristics such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions.

The Group has a policy that ensures enforcement of constant control procedures for sales to only be made to buyers with an appropriate credit history and that an acceptable credit exposure limit is not exceeded. Credit risk is minimised by the fact that the Group operates on a prepayment basis with the majority of its buyers.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

38. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The table shown below summarizes the maturity profile of the Group's financial liabilities at December 31 based on contractual undiscounted payments.

In millions of tenge	On demand	Due later than 1 month but not later than 3 months	Due later than 3 months but not later than 1 year	Due later than 1 year but not later than 5 years	Due after 5 years	Total
At December 31, 2017						
Loans from the Government of the Republic of Kazakhstan	**13**	**24**	**29,026**	**171,717**	**2,011,241**	**2,212,021**
Borrowings	**117,655**	**73,951**	**926,315**	**4,390,430**	**4,587,110**	**10,095,461**
Finance lease liabilities	**466**	**6,068**	**21,333**	**102,918**	**115,492**	**246,277**
Due to customers	**22,476**	**574**	**1,727**	**12**	**–**	**24,789**
Trade and other payables	**179,331**	**335,372**	**130,279**	**19,506**	**6,926**	**671,414**
	319,941	**415,989**	**1,108,680**	**4,684,583**	**6,720,769**	**13,249,962**
At December 31, 2016						
Loans from the Government of the Republic of Kazakhstan	13	24	35,640	189,319	2,827,145	3,052,141
Borrowings	96,758	55,001	822,439	3,252,694	2,660,013	6,886,905
Finance lease liabilities	688	5,631	18,720	71,981	59,091	156,111
Due to customers	24,014	–	12	16	–	24,042
Trade and other payables	248,541	284,922	52,403	6,366	6,925	599,157
	370,014	345,578	929,214	3,520,376	5,553,174	10,718,356

Capital management

The Group manages its capital primarily through capital management of its subsidiaries while conducting its oversight function. Major objective of the capital management is to ensure that subsidiaries of the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group manages capital of its subsidiaries by setting various performance indicators tailored to the business need and industry specific matters of each subsidiary.

The Group manages capital of its subsidiaries by setting various performance indicators tailored to the business need and industry specific matters of each subsidiary. Key performance indicators ("KPI") used by the Group to manage capital of its subsidiaries are ratios of: Debt to Earnings before Interest, Taxes, Depreciation and Amortization, and Interest ("D/EBITDA") from continuing and discontinued operations; and Debt to Equity ("D/E"). Debt is considered to be equal to all borrowings, debt securities, guarantee and finance lease liabilities of relevant subsidiaries reduced by value of cash and cash equivalents. Equity is considered to be equal to the entire equity of the subsidiary attributable to majority shareholders.

Allowed maximum for the indicator is approved for each subsidiary based on the needs and specifics of its business and varies within following ranges (consolidated KPI's for the Group have been presented for reference purposes as the Group does not monitor KPI's on the consolidated level):

KPI	2017	2016
D/EBITDA	**4.83**	4.66
D/E	**0.72**	0.71

38. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

In billions of tenge	2017	2016
Borrowings *(Notes 6, 19)*	**7,054**	5,953
Loans from the Government of the Republic of Kazakhstan *(Note 20)*	**782**	918
Payable for the acquisition interest in NCP *(Notes 21, 25)*	**272**	522
Finance lease liabilities *(Note 22)*	**140**	134
Due to customers *(Note 25)*	**25**	24
Guaranteed principal amount of liabilities of entities outside the Group	**147**	288
Total debt	**8,420**	7,839
Less: cash and cash equivalents	**(2,190)**	(1,554)
Net debt	**6,230**	6,285
EBITDA	**1,742**	1,683
Total equity	**11,663**	10,992

Fair values of financial instruments

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at December 31, 2017 and 2016 the carrying amount of the Group's financial instruments approximates their fair value except for the following financial instruments:

In millions of tenge	Level 1	Level 2	Level 3	December 31, 2017
Financial instruments category				
Assets				
Available-for-sale financial assets	**3,611**	**11,702**	**235**	**15,548**
Financial assets at fair value through profit and loss	–	–	**22,129**	**22,129**
Derivative financial assets	–	–	**352**	**352**

In millions of tenge	Level 1	Level 2	Level 3	December 31, 2016
Financial instruments category				
Assets				
Available-for-sale financial assets	27,708	8,818	235	36,761
Financial assets at fair value through profit and loss	–	–	17,371	17,371
Derivative financial assets	–	–	352	352

38. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair values of financial instruments (continued)

			December 31, 2017		
			Fair value by level of assessment		
In millions of tenge	**Carrying amount**	**Fair value**	**Quotations in an active market (Level 1)**	**From the observed market (Level 2)**	**Based on the significant amount of unobserved (Level 3)**
Financial assets					
Amounts due from credit institutions	**2,453,877**	**2,441,455**	**1,853,717**	**517,078**	**70,660**
Financial liabilities					
Borrowings	**6,916,459**	**7,041,992**	**4,626,211**	**2,320,864**	**94,917**
Loans from the Government of the Republic of Kazakhstan	**782,048**	**596,584**	**–**	**596,584**	**–**
Guarantee obligations	**57,136**	**59,008**	**–**	**59,008**	**–**

			December 31, 2016		
			Fair value by level of assessment		
In millions of tenge	Carrying amount	Fair value	Quotations in an active market (Level 1)	From the observed market (Level 2)	Based on the significant amount of unobserved (Level 3)
Financial assets					
Amounts due from credit institutions	2,353,901	2,349,159	1,504,777	710,127	134,255
Financial liabilities					
Borrowings	5,750,728	5,837,893	3,411,579	2,074,569	351,745
Loans from the Government of the Republic of Kazakhstan	918,411	729,061	–	729,061	–
Guarantee obligations	37,624	47,498	–	47,498	–

The fair value of the above financial instruments has been calculated by discounting the expected future cash flows at prevailing interest rates.

Changes in liabilities arising from financing activities

In millions of tenge	**Borrowings***	**Finance lease liability**	**Total liabilities from financing activities**
January 1, 2017	**5,393,250**	**134,410**	**5,527,660**
Cash flows, net	628,427	(21,762)	606,665
Foreign currency changes	64,594	(69)	64,525
Interest expense	333,420	5,153	338,573
Acquisition of assets financed by borrowings	135,393	–	135,393
Additions of finance leases	–	17,723	17,723
Capitalised interest	36,803	–	36,803
Other	13,430	4,308	17,738
December 31, 2017	**6,605,317**	**139,763**	**6,745,080**

* *Cash proceeds and repayments of certain borrowings obtained by the Fund's Corporate Center are included within cash flows from operating activities because these borrowings are part of the Fund's main activity of assets management. These borrowings were not included within changes in financial liabilities.*

39. 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.

Commodity price risk

The Group generates most of its revenue from the sale of commodities, primarily crude oil and oil products. Historically, the prices of these products have been volatile and have fluctuated widely in response to changes in supply and demand, market uncertainty, the performance of the global or regional economies and cyclicality in industries.

Prices may also be affected by government actions, including the imposition of tariffs and import duties, speculative trades, an increase in capacity or an oversupply of the Group's products in its main markets. These external factors and the volatility of the commodity markets make it difficult to estimate future prices.

A substantial or extended decline in commodity prices would materially and adversely affect the Group's business and the consolidated financial results and cash flows of operations. The Group does not hedge significantly its exposure to the risk of fluctuations in the price of its products.

Transfer pricing control

Transfer pricing control in Kazakhstan has a very wide scope and applies to many transactions that directly or indirectly relate to international business regardless of whether the transaction participants are related or not. The transfer pricing legislation requires that all taxes applicable to transaction participants are related or not. The transfer pricing legislation requires that all taxes applicable to a transaction should be calculated based on market price determined in accordance with the arm's length principle.

The new law on transfer pricing came into effect in Kazakhstan from January 1, 2009. The new law is not explicit and there is little precedence with some of its provisions. Moreover, the law is not supported by detailed guidance, which is still under development. As a result, application of transfer pricing control to various types of transactions is not clearly regulated.

Because of the uncertainties associated with the Kazakhstan transfer pricing legislation, there is a risk that the tax authorities may take a position that differs from the Group's position, which could result in additional taxes, fines and interest at December 31, 2017.

As at December 31, 2017 management believes that its interpretation of the transfer pricing legislation is appropriate and that it is probable that the Group's positions with regard to transfer pricing will be sustained.

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Due to uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2017.

As at December 31, 2017, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained, except as provided for or otherwise disclosed in these consolidated financial statements.

2009-2012 Comprehensive tax audit of KMG EP

On December 11, 2017 the final decision of the Supreme Court related to the Group's appeal of the tax audit results for 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 of 7,031 million tenge was reversed in these consolidated financial statements.

39. COMMITMENTS AND CONTINGENCIES (continued)

Taxation (continued)

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

In May and June 2017 EmbaMunaiGas JSC and OzenMunaiGas JSC received acts of tax audits for the period 2012 to 2015 that confirmed the Group'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.

As a result the Group has reversed 30,106 million tenge of previously accrued VAT allowance.

Legal proceedings

KMG Drilling & Services LLP ("KMG D&S") litigations with Consortium of companies Ersai Caspian Contractor LLP and Caspian Offshore and Marine Construction LLP

KMG D&S (subsidiary of the Group) is involved in arbitration proceedings with Consortium of companies Ersai Caspian Contractor LLP and Caspian Offshore and Marine Construction LLP (further – "Consortium") according to purchase contract on construction of juck-up drilling rig (JUDR), which is handled by the London Court of International Arbitration. Operative part of the Statement of case includes the following Claimant's demands:

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

In 2017 Consortium increased the amount of claim to 192,114 thousand US dollars (equivalent to 63,845 million tenge).

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

As of December 31, 2017 the Group didn't recognize a provision for the claim.

The proceedings initiated against Mr Stati and related parties on the suit of the Fund in connection with the arrest of the shares KMG Kashagan B.V. belonging to the Fund

On September 14, 2017 the pre-judgement attachment was levied on 50% shares in KMG Kashagan B.V. held by the Fund as per decision of Amsterdam Court (the "Pre-judgement Attachment").

The named Pre-judgement Attachment was levied as a security for claim on recognition and enforcement of the arbitral award issued in 2013 by Arbitral tribunal of the Arbitration Institute of the Stockholm Chamber of Commerce in the case of Anatolie Stati, Gabriel Stati, Ascom Group S.A. and Terra Raf Trans Trading Ltd. ("Claimants") versus the Republic of Kazakhstan.

In interim proceedings initiated by the Fund on lifting the Pre-judgement Attachment, the Amsterdam Court on January 5, 2018 by way of a preliminary judgment ruled that the aforesaid attachment remains effective. This decision of Amsterdam Court does not create any additional restrictions the Fund rights in respect of KMG Kashagan B.V. shares.

Currently, the Fund makes all necessary arrangements to protect its interest in accordance with the applicable procedure and will continue to vigorously defend its rights.

Cost recovery audits

Under the base principles of the production sharing agreements ("PSA"), the Government retains right to audit recovery costs. In accordance with the cost recovery audits completed prior to December 31, 2017 certain amounts of the costs incurred by contractors were assessed as non-recoverable. The parties to the PSA are in negotiations with respect to the recoverability of those costs.

39. COMMITMENTS AND CONTINGENCIES (continued)

Cost recovery audits (continued)

As of December 31, 2017 the Group's share in the total disputed amounts of costs is 242,915 million tenge (December 31, 2016: 201,091 million tenge). The Group and its partners under the production sharing agreements are in negotiation with the Government with respect to the recoverability of these costs.

Kazakhstan local market obligation

The Government requires oil companies in the Republic of Kazakhstan to supply a portion of the products to meet the Kazakhstan domestic energy requirement on an annual basis, mainly to maintain oil products supply balance on the local market and to support agricultural producers during the spring and autumn sowing and harvest campaigns.

If the Government requires additional crude oil to be delivered to the domestic market over and above the quantities currently supplied by the Group, such supplies will take precedence over export sales and will generate substantially less revenue than crude oil sold on the export market, which may materially and adversely affect the Group's business, prospects, consolidated financial position and results of operations.

In 2017, in accordance with its obligations, the Group, including joint ventures, delivered 5,407,526 tons of crude oil (December 31, 2016: 3,236,644 tons), to the Kazakhstan market.

Oil supply commitments

As of December 31, 2017 the Group), including joint ventures, had commitments under the oil supply agreements of 28.7 million ton (December 31, 2016: 28.1 million ton).

Commitments under oilfield and mining field licenses and subsurface use contracts

As at December 31, 2017 the Group had following commitments on fulfillment of minimal work programs with respect to the requirements of their oilfield and mining licenses and related subsurface use contracts with the Government (in millions of tenge):

Year	Capital expenditures	Operational expenditures
2018	186,859	88,861
2019	43,342	82,581
2020	52,706	84,097
2021	33,912	81,621
2022-2048	160,800	408,969
Total	**477,619**	**746,129**

Operating lease commitments

Operating lease commitments relate mainly to aircraft lease with the lease term from 5 (five) to 10 (ten) years. All operating lease contracts contain market review clauses in the event that Air Astana exercises option to renew. Air Astana does not have the option to purchase leased assets at the expiry of lease period.

As at December 31, operating lease commitments were as follows:

In millions of tenge	**2017**	2016
Within one year	**27,807**	23,317
From one to five years	**97,451**	97,193
Over five years	**67,422**	90,321
Total	**192,680**	210,831

Operating lease commitments include fixed rental payments and certain portion of payments for technical support which vary according to flying hours.

The fixed and variable rental payments are denominated and settled in US dollars. This currency is routinely used in international commerce for aircraft operating leases.

39. COMMITMENTS AND CONTINGENCIES (continued)

Finance lease

In July 2017, the Group, represented by its subsdiary Passenger Transportation JSC, entered into a finance lease agreement with DBK-Leasing JSC to lease 62 passenger fleets made by Tulpar-Talgo LLP for 18,892 million tenge, for 20 years and at an interest of 1.75% per annum. The concession period for the principal is 6 years. The Group acts as lessee. The finance lease is due to start in December 2018. The Group acted as guarantor for these liabilities.

The Group, represented by its subsidiaries KTZ Express JSC and Kaztemirtrans JSC, entered into finance lease agreements with DBK-Leasing JSC for platform cars and low-sided cars, which are expected to be supplied during 2018-2019.

Commitments to extend guarantees, letters of credit and other commitments related to settlement operations

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to 15 (fifteen) years.

Contracted amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for letters of credit represent the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted.

As at December 31 commitments to extend guarantees were as follows:

In millions of tenge	**2017**	2016
Guarantees	**592,923**	712,475

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

The total outstanding contractual commitments to extend guarantee indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded. The Group could also request collateral for credit instruments.

Capital commitments

As at December 31, 2017 the Group, including its joint ventures and associates, had capital commitments of approximately 3,497,937 million tenge related to acquisition and construction of property, plant and equipment (as at December 31, 2016: 3,804,743 million tenge).

Commitments on use of anti-crisis funds

In accordance with the decision of the State commission on economy modernization issues of the Republic of Kazakhstan dated April 5, 2012, dated January 30, 2013 and dated October 7, 2013 the Fund has commitment to finance certain remaining investment projects of 174,954 million tenge.

As at December 31, 2017 Fund's commitments included commitments to finance the program "Affordable housing – 2020" of 22,434 million tenge and commitments to finance investment projects of 152,520 million tenge, including the following:

- Financing of acquisition of UCC of 48% share in "Almex plus company" LLP of share capital of "KPI Inc" LLP in the amount not greater than 56,770 million tenge;
- Financing the implementation of the investment project "Construction of an integrated gas and chemical complex in Atyrau region. The first phase" of not greater than 92,316 million tenge, including using funds previously allocated for the implementation of the investment project "Construction of an integrated gas and chemical complex in Atyrau region. The second phase" of 12,495 million tenge;
- Financing of the project "Creation of a special economic zone "Taraz Chemical Park" of 3,434 million tenge.

40. SEGMENT REPORTING

For management purposes, the Group is organized into organizational business units based on their products and services, and has 8 (eight) reportable operating segments as follows:

- Oil and gas segment includes operations related to exploration and production of oil and gas, transportation of oil and gas and refining and trading of crude oil, gas and refined products;
- Mining segment includes exploration, mining, processing and sales of mineral resources and geological exploration;
- Transportation segment includes operations related to railway and air transportation of cargo and passengers;
- Communication segment includes operation of fixed line communication, including local, long-distance intercity and international telecommunication services (including CIS and non-CIS countries); and also renting out of lines, data transfer services and wireless communication services;
- Energy segment includes operations related to production and distribution of electricity, the function of oversight over the input of electricity into the energy system and consumption of imported electricity, the function of centralized operation and dispatch of facilities in the Unified Energy System of Kazakhstan;
- Industrial segment includes military industry enterprises and civil engineering, projects for the development of chemical industry;
- Corporate center segment covers Fund's investing and financing activities, including provision of loans to related and third parties;
- Other segment includes operations related to assisting the Government in increasing housing availability by investing into residential development and other operations.

Certain of the above operating segments have been formed by aggregation of smaller reportable segments in line with the organizational structure of the Group. Each reportable segment maintains its accounting records in line with IFRS. Financial performance of each segment prepared in line with IFRS is reported to the chief operating decision maker for the purposes of making decisions about allocating resources to the segment and assessing its performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

40. SEGMENT REPORTING (continued)

The following table represents information about profit and loss, assets and liabilities of operating segments of the Group for 2017:

In millions of tenge	Oil and gas	Mining	Trans-portation	Com-munication	Energy	Industrial	Corporate center	Other	Elimination	Total
Revenues from sales to external customers	2,579,449	525,201	1,174,320	240,420	358,305	80,312	152,212	13,939	–	5,124,158
Revenues from sales to other segments	75,979	17,630	11,390	4,633	59,319	9,329	207,107	4,004	(389,391)	–
Total revenue	2,655,428	542,831	1,185,710	245,053	417,624	89,641	359,319	17,943	(389,391)	5,124,158
Gross profit	113,622	73,825	235,678	64,826	151,533	7,130	174,530	11,616	(209,460)	623,300
General and administrative expenses	(176,696)	(35,812)	(102,959)	(29,084)	(27,518)	(10,008)	(35,352)	(3,319)	7,887	(412,861)
Transportation and selling expenses	(306,383)	(5,093)	(8,808)	(4,049)	(15,471)	(1,282)	–	–	21,932	(319,154)
Finance income	123,197	9,523	9,168	6,982	6,613	2,208	66,192	3,705	(35,656)	191,932
Finance costs	(313,480)	(9,698)	(109,513)	(8,257)	(33,569)	(9,481)	(29,553)	(1,550)	40,455	(474,646)
Share in profits of joint ventures and associates	424,774	102,181	2,138	1,098	1,412	235	–	3	–	531,841
Foreign exchange gain/(loss), net	24,618	(1,665)	(16,616)	(228)	(4,014)	(1,737)	(1,397)	(16)	24,792	23,737
Depreciation, depletion and amortization	(271,999)	(17,288)	(116,249)	(47,534)	(56,862)	(2,614)	(426)	(355)	1,855	(511,472)
Impairment of property, plant and equipment	(24,123)	(7,899)	(855)	(1,339)	(1,342)	(4,182)	–	–	–	(39,740)
Impairment of other assets	19,088	(18,178)	(12,792)	(228)	(31,265)	(1,335)	(6,926)	(3,557)	–	(55,193)
Income tax expenses	(196,003)	(17,517)	(9,830)	(8,614)	(18,667)	(225)	(9,948)	(1,670)	(1,308)	(263,782)
Net (loss)/profit for the year from continuing operations	(321,090)	198,823	(2,269)	25,980	24,266	7,240	153,988	5,569	(149,382)	(56,875)
Net profit for the year from discontinued operations	792,850	–	–	–	–	–	–	–	–	792,850
Total net profit/(loss) for the period	471,760	198,823	(2,269)	25,980	24,266	7,240	153,988	5,569	(149,382)	735,975
Other segment information										
Total assets of the segment	15,572,816	1,554,570	3,364,637	560,848	1,398,224	507,658	7,547,077	261,143	(6,601,070)	24,165,903
Total liabilities of the segment	7,655,338	324,298	2,082,746	160,549	687,577	227,373	1,940,502	172,659	(748,304)	12,502,738
Allowances for doubtful debts	1,397	3,066	1,844	895	(1,307)	297	1,249	(60)	55	7,436
Investments in joint ventures and associates	2,066,856	619,312	27,404	69,246	86,010	6,945	–	57	(32,341)	2,843,489
Capital expenditures	668,278	53,304	261,967	40,141	108,825	67,241	3,671	748	(2,821)	1,201,354

41. SUBSEQUENT EVENTS

Borrowings

On April 24, 2018, National Company KazMunayGas JSC completed the placement of the Eurobonds under the 10.5 billion US dollars Global Medium Term Notes Programme established by the Company and KazMunaiGaz Finance Sub B.V. (subsidiary of the Company), in an aggregate principal amount of 3.25 billion US dollars. The Eurobonds were issued in three series, comprising (i) 500,000 thousand US dollars 4.750% Notes due 2025 (equivalent to 163,260 million tenge); (ii) 1,250,000 thousand US dollars 5.375% Notes due 2030 (equivalent to 408,150 million tenge); and (iii) US 1,500 million US dollars 6.375% Notes due 2048 (equivalent to 489,780 million tenge).

Changes in the structure of the Group

On January 23, 2018 KazMunayGas Exploration Production JSC (KMG EP), one the major subsidiary of NC KMG announced the launch of an offer to repurchase all of its common shares and GDRs ("Tender Offer"). During February-April 2018 KMG EP settled Tender Offer, resulting in NC KMG and KMG EP in total having 99.5% of issued common shares of KMG EP.

In December 2017, the National Atomic Company Kazatomprom JSC and Cameco Corporation completed the deal on restructuring of JV Inkai LLP. In accordance with the terms of the sales agreement, the National Atomic Company Kazatomprom JSC increased its interest in JV Inkai LLP from 40% to 60% and from January 1, 2018 obtained control over the investee.