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**APPENDIX.
FINANCIAL
STATEMENTS**

EMBAMUNAIGAS JOINT STOCK COMPANY

Financial statements

For the year ended December 31, 2018 with independent auditor's report

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Independent auditor's report

To the Shareholder and Management of Embamunaigas Joint Stock Company

Opinion

We have audited the financial statements of Embamunaigas JSC (the Company), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Responsibilities of management and Board of Directors for the financial statements

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

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

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



Auditor's responsibilities for the audit of the financial statements

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

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

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



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

Ernst & Young LLP



Adil Syzdykov
Auditor

Gulmira Turmagambetova
General Director
Ernst & Young LLP

Auditor qualification certificate No.
МФ-0000172 dated 23 December 2013

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

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28 February 2019

STATEMENT OF FINANCIAL POSITION

In thousands of tengge

	Notes	At December 31,	
		2018	2017
Assets			
Non-current assets			
Property, plant and equipment	4	187,656,191	173,028,945
Intangible assets	5	20,686,194	15,045,692
Other financial assets	6	38,005,431	32,258,446
Deferred tax asset	14	10,380,026	10,415,904
Advances paid for non-current assets		2,154,102	1,670,720
Total non-current assets		258,881,944	232,419,707
Current assets			
Inventories	7	10,944,113	7,272,093
Income tax prepaid		3,968,337	772,876
Taxes prepaid and VAT recoverable		15,899,345	12,244,843
Advances paid and deferred expenses		3,507,440	2,819,251
Trade and other accounts receivable	6	30,838,853	35,948,751
Other financial assets	6	-	31,884,021
Cash and cash equivalents	6	111,445,891	73,423,065
Total current assets		176,603,979	164,364,900
Total assets		435,485,923	396,784,607
Equity			
Share capital	8	162,399,820	162,399,820
Retained earnings		153,032,636	157,246,242
Total equity		315,432,456	319,646,062
Liabilities			
Non-current liabilities			
Historical obligations	9	5,806,806	1,807,468
Provisions	10	24,151,252	23,530,091

The accounting policies and explanatory notes on pages 96 to 123 are an integral part of these financial statements.

	Notes	At December 31,	
		2018	2017
Total non-current liabilities		29,958,058	25,337,559
Current liabilities			
Historical obligations	9	1,573,568	2,623,489
Provisions	10	36,329,095	8,413,484
Mineral extraction and rent tax payable		23,287,080	17,947,342
Trade and other accounts payable		28,905,666	22,816,671
Total current liabilities		90,095,409	51,800,986
Total liabilities		120,053,467	77,138,545
Total liabilities and equity		435,485,923	396,784,607

Chairman of the Board

Zhaksybekov A.Y.

Deputy Chairman of the Management Board on Economy and Finance



Tasmagambetova R.N.

Chief accountant

Makhambetov N.Zh.

STATEMENT OF COMPREHENSIVE INCOME

In thousands of tenge

	Note	For the year ended December 31,	
		2018	2017
Revenue	11	433,436,224	309,746,803
Cost of sales	12	(137,184,051)	(121,289,769)
Gross profit		296,252,173	188,457,034
Selling expenses	13	(155,497,031)	(102,991,446)
General and administrative expenses	14	(45,098,205)	(11,140,231)
Exploration expenses		(2,742,279)	(1,274,476)
Reversal of provision for VAT recoverable, net		-	2,518,795
Loss on disposal of property, plant and equipment		(651,970)	(1,463,005)
Finance income		1,406,614	2,239,174
Finance costs		(2,582,521)	(1,778,313)
Net foreign exchange difference		21,868,468	980,842
Profit before taxation		112,955,249	75,548,374
Income tax expenses	15	(29,566,260)	(19,425,344)
Profit for the year		83,388,989	56,123,030
Actuarial loss, net of taxes	10	(1,758,050)	(280,880)
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods		(1,758,050)	(280,880)
Total comprehensive income for the year, net of tax		81,630,939	55,842,150

Chairman of the Board

Zhaksybekov A.Y.

Deputy Chairman of the Management Board on Economy and Finance

Tasmagambetova R.N.

Chief accountant

Makhambetov N.Zh.



The accounting policies and explanatory notes on pages 96 to 123 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

In thousands of tenge

	Note	For the year ended December 31,	
		2018	2017
Cash flows from operating activities			
Profit before tax		112,955,249	75,548,374
Adjustments to add/(deduct) non-cash items			
Depreciation, depletion and amortization		21,734,163	20,034,822
Loss on disposal of property, plant and equipment	4	651,970	1,463,005
Foreign exchange gain		(14,836,862)	(1,501,616)
Other non-cash income and expense		1,798,561	2,937,922
Reversal of provision for VAT recoverable, net		–	(2,518,795)
Change in provisions		25,773,853	6,727,970
Plus finance costs		2,582,521	1,778,313
Less finance income		(–1,406,613)	(2,239,174)
Working capital adjustments			
Change in inventories		(3,771,519)	(932,617)
Change in taxes prepaid and VAT recoverable		(3,654,502)	(4,463,743)
Change in advances paid and deferred expenses		(688,189)	2,796,111
Change in trade and other receivables		5,109,898	(5,589,160)
Change in trade and other accounts payable		3,591,308	1,296,039
Change in mineral extraction and rent tax payable		5,129,738	12,876,841
Income tax paid		(33,267,857)	(15,278,611)
Net cash flows from operating activities		121,701,719	92,935,681
Cash flows from investing activities			
Purchase of property, plant and equipment		(30,692,389)	(27,158,204)
Purchase of intangible assets		(7,139,258)	(8,721,672)
Withdrawal of term deposits		30,117,107	23,840,345
Interest received		1,406,301	2,195,633
Net cash flows used in investing activities		(6,308,239)	(9,843,898)

The accounting policies and explanatory notes on pages 96 to 123 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS (continued)*In thousands of tenge*

	Note	For the year ended December 31,	
		2018	2017
Cash flows from financing activities			
Dividends paid to the Company's shareholder	8	(85,844,545)	(61,354,652)
Payments on historical obligations		(2,564,224)	(2,371,325)
Net cash flows used in financing activities		(88,408,769)	(63,725,977)
Net change in cash and cash equivalents		26,984,711	19,365,806
Cash and cash equivalents, beginning		73,423,065	51,900,431
Net foreign exchange difference on cash and cash equivalents		11,038,115	2,156,828
Cash and cash equivalents, ending	6	111,445,891	73,423,065

Chairman of the Board

Zhaksybekov A.Y.

Deputy Chairman of the Management Board on Economy and Finance

Tasmagambetova R.N.

Chief accountant



Makhambetov N.Zh.

The accounting policies and explanatory notes on pages 96 to 123 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

In thousands of tenge unless otherwise indicated

	Share capital	Retained earnings	Total equity
At December 31, 2016	162,399,820	162,758,744	325,158,564
Profit for the year	-	56,123,030	56,123,030
Other comprehensive income	-	(280,880)	(280,880)
Total comprehensive income	-	55,842,150	55,842,150
Dividends (Note 8)	-	(61,354,652)	(61,354,652)
At December 31, 2017	162,399,820	157,246,242	319,646,062
Profit for the year	-	83,388,989	83,388,989
Other comprehensive income	-	(1,758,050)	(1,758,050)
Total comprehensive income	-	81,630,939	81,630,939
Dividends (Note 8)	-	(85,844,545)	(85,844,545)
At December 31, 2018	162,399,820	153,032,636	315,432,456

Chairman of the Board

Zhaksybekov A.Y.

Deputy Chairman of the Management Board on Economy and Finance



Tasmagambetova R.N.

Chief accountant

Makhambetov N.Zh.

The accounting policies and explanatory notes on pages 96 to 123 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

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

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

The sole shareholder of the Company is KMG EP. KMG EP's principal shareholder is National Company KazMunayGas JSC ("NC KMG"), which represents the state's interests in the Kazakhstan oil and gas industry. NC KMG is 90% owned by Sovereign Wealth Fund Samruk-Kazyna JSC ("SWF "Samruk-Kazyna"), which is in turn 100% owned by the Government of the Republic of Kazakhstan (the "Government").

These financial statements have been signed on behalf of the Company by the Chairman of the Board, Deputy Chairman of the Board on Economy and Finance and Chief Accountant on February 28, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Exchange rates

The official exchange rate of the Kazakhstan tenge to the US dollar at December 31, 2018 and December 31, 2017 was 384.20 and 332.33 tenge, respectively. Any translation of tenge amounts to US dollar or any other hard currency should not be construed as a representation that such tenge amounts have been, could be or will in the future be converted into hard currency at the exchange rate shown or at any other exchange rate.

Adopted accounting standards and interpretations

The Company adopted the following new and amended IFRSs, which had no material effect on the financial performance or financial position of the Company:

- | | |
|---------------------------|---|
| ▶ IFRS 15 | <i>Revenue from Contracts with Customers;</i> |
| ▶ IFRS 9 | <i>Financial Instruments: Classification and Measurement;</i> |
| ▶ IFRIC Interpretation 22 | <i>Foreign Currency Transactions and Advance Consideration;</i> |
| ▶ IFRS 2 | <i>Classification and Measurement of Share-based Payment Transactions (amendments).</i> |

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

IFRS 9 brings together all three aspects of accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Company applied the new standard starting from the required effective date of January 1, 2018 and did not restate the comparative information. Based on the results of a detailed assessment of the impact of all three aspects of IFRS 9 on the financial position of the Company as at December 31, 2018 and on the Company's statement of comprehensive income for the twelve months ended December 31, 2018, no significant impact was identified.

Standards issued but not yet effective

Standards and interpretations issued but not yet effective up to the date of issuance of the Company's financial statements, and which according to the Company's opinion could affect the disclosures, financial position or performance are listed below. The Company intends to adopt these standards and interpretations, if applicable when they become effective (effective for annual periods beginning on or after):

- | | |
|-------------------------|---|
| ▶ IFRS 16 | <i>Lease</i> (January 1, 2019); |
| ▶ IFRS 10 and IAS 28 | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> (Amendments) (postponed indefinitely); |
| ▶ IFRIC 23 | <i>Uncertainty over Income Tax Treatments</i> (January 1, 2019); |
| ▶ Improvements to IFRSs | 2015–2017 cycle (January 1, 2019). |

2.2. Foreign currency translation

The financial statements are presented in Kazakhstani tenge, which is the Company's functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All foreign exchange differences are included within profit and loss.

2.3. Oil and gas field exploration and development expenditures

Exploration license costs

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

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

2.3 Oil and gas field exploration and development expenditures *(continued)*

Exploration expenditures

Geological and geophysical exploration costs are charged against income as incurred. Costs directly associated with an exploration well are capitalized within intangible assets (exploration and evaluation assets) until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials, fuel and electric energy, rig costs and payments made to contractors. If hydrocarbons are not found, the exploration expenditure is written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells (exploration or exploratory-type stratigraphic test wells), are likely to be capable of commercial development then, the costs continue to be carried as an asset. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

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

Development costs

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

2.4. Property, plant and equipment

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

The initial cost of assets comprises its purchase price or construction price, any costs directly attributable to bringing the asset into operation and the initial estimate of asset abandonment costs, if any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

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

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

The expected useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The current value of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate the current value may not be recoverable.

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

2.5. Impairment of non-financial assets

The Company assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the current value of an asset may not be recoverable.

Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the Company makes a estimate of its recoverable amount. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the current value of the asset is increased to its recoverable amount. The increased amount may not exceed the current amount, which would have been determined, net of depreciation or amortisation, had not the impairment loss been recognized in the previous periods. Such reversal is recognized in the statement of comprehensive income. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

2.6. Intangible assets

Intangible assets are stated at cost, less accumulated amortization and accumulated impairment losses. Intangible assets include capitalized expenditure for exploration and evaluation and other intangible assets, which are mainly comprised of computer software. Intangible assets acquired separately from a business are carried initially at cost. The initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Computer software costs have an estimated useful life of 3 to 7 years and are amortized on a straight line basis over this period.

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

2.7. Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

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

2.7 Financial assets *(continued)*

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in two categories:

- ▶ Financial assets at amortised cost (debt instruments);
- ▶ Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

- ▶ The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- ▶ The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost include trade receivables.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated by the Company as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair

value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized from the statement of financial position where:

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

Impairment of financial assets

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. The financial asset is written off if there is no reasonable expectation of recovering the contractual cash flows.

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

2.8. Inventories

Inventories are recorded at the lower of cost on a first in, first out basis separately for each warehouse and net realizable value. Cost includes all costs incurred in the normal course of business in bringing each item to its present location and condition. The cost of crude oil is the cost of production, including the appropriate proportion of depreciation, depletion and amortization ("DD&A") and overheads based on normal capacity.

Net realizable value of crude oil is based on proposed selling price less any costs expected to be incurred to complete the sale. Materials and supplies inventories are carried at amounts that do not exceed the expected amounts recoverable in the normal course of business.

2.9. Value Added Tax (VAT)

The tax authorities permit the settlement of VAT on sales and purchases on a net basis. VAT recoverable represents VAT on domestic purchases net of VAT on domestic sales. Export sales are taxed at zero rate. However, settlement of VAT is allowed only on the basis of the results of a tax audit performed by the tax authorities to confirm the VAT recoverable.

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

2.10. Cash and cash equivalents

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

2.11. Share capital

Share capital

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

Dividends

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

2.12. Trade payables

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

2.13. Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

2.14. Employees benefits

The Company withholds 10% from the salary of its employees as the employees' contribution to their designated pension funds. The pension deductions are limited to a maximum of 212,500 tenge per month in 2018 (2017: 183,443 tenge per month). Under the current Kazakhstan legislation, employees are responsible for their retirement benefits. From January 1, 2014 the Company is required to contribute a mandatory 5% of the salary for a majority of its employees to their pension funds.

Long-term employee benefits

The Company offers to its employees long-term benefits prior to and after retirement in accordance with collective agreements between the Company and its employees and other documents. The collective agreement and other documents provide for certain one-off retirement payments, early retirement benefits, financial aid for employees' disability, anniversary and death. Eligibility for benefits is usually based on whether an employee is required to continue working before retirement.

The expected costs of one-off benefits and early retirement benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit post-employment plans. Actuarial gains and losses arising in the year are taken to other comprehensive income. For this purpose actuarial gains and losses comprise both the effect of changes in actuarial assumptions and the effect of previous experience owing to the differences between actuarial assumptions and actual data. Other changes are recognised in the current period, including the current service costs, the past service costs and the impact of personnel layoff or completed settlements.

The most significant assumptions used in accounting for the benefit liability are the discount rate and mortality rates. Discount rate is used to determine net present value of future liabilities and each year unwinding of discount on such liabilities is recorded in the statement of comprehensive income as finance costs. The assumption of mortality is used to forecast the future benefit payment flow, which then is discounted to arrive at the net present value of liabilities.

Employees benefits apart from lump-sum retirement benefits are considered as other employee benefits. The expected cost of employee benefits is accrued over the period of employment using the same accounting methodology as used for the defined benefit plan.

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

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

2.15. Revenue recognition

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

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

2.16. Income taxes

Current income tax costs comprise current income tax, excess profit tax and deferred income tax.

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

Excess profit tax ("EPT") is treated as an income tax and forms part of income tax expense. In accordance with the applicable tax legislation enacted as of January 1, 2009, the Company accrues and pays EPT in respect of each subsurface use contract, at varying rates based on the ratio of aggregate annual income to deductions for the year for a particular subsurface use contract. The ratio of aggregate annual income to deductions in each tax year triggering the application of EPT is 1.25:1. EPT rates are applied to the part of the taxable income (taxable income after corporate income tax and allowable adjustments) related to each subsurface use contract in excess of 25% of the deductions attributable to each contract.

Deferred tax assets and liabilities are calculated in respect of all temporary differences using the liability method. Deferred corporate income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred corporate income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Oil and gas reserves

Oil and gas reserves are a material factor in the Company's computation of depreciation, depletion and amortization ("DD&A"). The Company estimates its reserves of oil and gas in accordance with the methodology of the Society of Petroleum Engineers ("SPE"). In estimating its reserves under SPE methodology, the Company uses the projected prices of analysts. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year end spot prices.

Management believes that long-term planning price assumptions, which are also used by management for their business planning and investment decisions, are more consistent with the long-term nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves.

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

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

Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data; availability of new data; or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A.

The Company has included in proved reserves only those quantities that are expected to be produced during the confirmed license 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 Company's license periods and corresponding increase in reported reserves would generally lead to lower DD&A expense and could materially affect earnings and indicate the reversal of impairment. 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.

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

Assets retirement obligations

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

If the asset retirement obligations were to be settled at the end of the economic life of the properties, the recorded obligation would increase significantly due to the inclusion of all abandonment and closure costs. The extent of the Company's obligations to finance the abandonment of wells and for final closure costs depends on the terms of the respective contracts and current legislation.

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

The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market. The Company revises the obligation to restore the contract territory at each reporting date and adjusts to reflect the best estimate in accordance with IFRIC 1 Changes in Existing Decommissioning, Restoration of Natural Resources to deal with them and similar obligations.

Estimating the future closure costs involves significant estimates and judgments by management. Most of these obligations are many years in the future and, in addition to ambiguities in the legal requirements, the Company's estimate can be affected by changes in asset removal technologies, costs and industry practice. Approximately 34.23% and 28.65% of the provision at December 31, 2018 and 2017, respectively, relate to the final closure costs. The Company estimates future well abandonment cost using current year prices and the average long-term inflation rate. The long-term inflation and discount rates used to determine the carrying value of obligation at December 31, 2018 were 5.0% and 10% respectively (2017: 5.0% and 10%). Movements in the provision for asset retirement obligations are disclosed in *Note 10*.

Environmental remediation

The Company also makes judgments and estimates in establishing provisions for environmental remediation obligations. Environmental expenditures are 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 rehabilitation and are recorded on an undiscounted basis with reference to expectations of the management regarding the timing of the required procedures. The Company's environmental remediation provision represents management's best estimate based on an independent assessment of the anticipated expenditure necessary for the Company to remain in compliance with the current regulatory regime in Kazakhstan.

Further uncertainties related to environmental remediation are detailed in *Note 19*. Movements in the provision for environmental remediation are disclosed in *Note 10*.

Taxation

Deferred tax is calculated with respect to both corporate income tax ("CIT") and excess profit tax (EPT). Deferred CIT and EPT are calculated on temporary differences for assets and liabilities allocated to contracts for subsoil use at the expected rates.

Both deferred CIT and EPT bases are calculated under the terms of the tax legislation enacted in the tax code disclosed in *Note 15*. Subsequent uncertainties related to taxation are detailed in *Note 19*.

Employee benefits

The cost of long-term employee benefits before and after retirement and the present value of obligations is determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future benefits increases.

Due to the difficulty of assessing the basic assumptions and long-term obligations under the post-employment benefit plans, such obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The mortality rate is based on publicly available mortality tables. Future increase in salary is based on expected future inflation rates.

Main actuarial assumptions used for evaluation of liabilities on employee benefits as at December 31, 2018 and 2017 are as follows:

In percent	2018	2017
Discount rate	10.00%	10.00%
Inflation rate	5.00%	5.00%
Future increase of non-current annual payment	6.00%	7.00%
Future salary increase	6.00%	7.00%

As at December 31, 2018 and 2017 the average duration of post-retirement benefit obligations was 7.44 years and 7.5 years, respectively.

Sensitivity analysis of employee benefits obligation for the change in significant estimates as at December 31, 2018 is as follows:

	Decrease	Increase
Discount rate	-0.5%	+0.5%
	393,464	(368,907)
Rate of increase in benefit	-0.5%	+0.5%
	(385,902)	408,843

4. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas assets	Other assets	Construction in progress	Total
Net book value at January 1, 2017	113,516,173	11,751,953	38,742,744	164,010,870
Proceeds	115,965	153,230	27,396,457	27,665,652
Disposals	(933,927)	(22,373)	(515,417)	(1,471,717)
Transfers from capital work-in-progress	17,501,973	2,868,460	(20,370,433)	-
Internal transfers	85,364	(145,914)	60,550	-
Depreciation	(15,583,064)	(1,592,796)	-	(17,175,860)
Net book value at December 31, 2017	114,702,484	13,012,560	45,313,901	173,028,945
Proceeds	31,665	108,950	31,986,229	32,126,844
Changes in estimate of asset retirement obligation	(22,004)	-	-	(22,004)
Disposals	(349,436)	(31,996)	(364,343)	(745,775)
Transfers from capital work-in-progress	24,696,346	3,412,018	(28,108,364)	-
Transfers from intangible assets	3,084,491	-	-	3,084,491
Internal transfers	(34,568)	37,008	(2,440)	-
Depreciation	(17,812,536)	(2,003,774)	-	(19,816,310)
Net book value at December 31, 2018	124,296,442	14,534,766	48,824,983	187,656,191
At December 31, 2017				
Cost	213,877,249	19,755,851	46,180,681	279,813,781
Accumulated depreciation	(99,061,852)	(6,701,312)	-	(105,763,164)
Accumulated impairment	(112,913)	(41,979)	(866,780)	(1,021,672)
Net book value	114,702,484	13,012,560	45,313,901	173,028,945
At December 31, 2018				
Cost	240,110,278	22,929,964	49,496,828	312,537,070
Accumulated depreciation	(115,699,798)	(8,353,219)	-	(124,053,017)
Accumulated impairment	(114,038)	(41,979)	(671,845)	(827,862)
Net book value	124,296,442	14,534,766	48,824,983	187,656,191

5. INTANGIBLE ASSETS

	Exploration and evaluation assets	Other intangibles	Total
Net book value at January 1, 2017	7,695,828	768,030	8,463,858
Proceeds	9,759,167	701,394	10,460,561
Disposals	(426,775)	(202)	(426,977)
Amortisation charge	(2,573,406)	(285,557)	(2,858,963)
Impairment	(592,787)	-	(592,787)
Net book value as at December 31, 2017	13,862,027	1,183,665	15,045,692
Proceeds	11,646,848	542,528	12,189,376
Transfer to property, plant and equipment	(3,084,491)	-	(3,084,491)
Disposals	(482,482)	-	(482,482)
Amortisation charge	(1,575,519)	(342,334)	(1,917,853)
Impairment	(1,064,048)	-	(1,064,048)
Net book value as at December 31, 2018	19,302,335	1,383,859	20,686,194
At December 31, 2017			
Cost	28,024,241	2,271,572	30,295,813
Accumulated amortisation	(13,569,427)	(1,087,907)	(14,657,334)
Accumulated impairment	(592,787)	-	(592,787)
Net book value	13,862,027	1,183,665	15,045,692
At December 31, 2018			
Cost	35,511,285	2,813,782	38,325,067
Accumulated amortisation	(15,144,902)	(1,429,923)	(16,574,825)
Accumulated impairment	(1,064,048)	-	(1,064,048)
Net book value	19,302,335	1,383,859	20,686,194

6. FINANCIAL ASSETS

Trade and other accounts receivable

	2018	2017
Trade accounts receivable	30,846,793	35,927,951
Other	42,015	20,800
Provision for expected credit losses on receivables	(49,955)	-
	30,838,853	35,948,751

As at December 31, 2018 the Company's trade receivables included receivables from sales of crude oil to KazMunayGas Trading AG ("KMG Trading"), subsidiary of NC KMG, in the amount of 26,839,255 thousand tenge (2017: 31,400,070 thousand tenge).

As at December 31, 2018 trade receivables of the Company are denominated in US dollars by 87% (2017: 85%).

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

	2018	2017
Current portion	30,797,201	35,927,079
0-30 days overdue	14,943	6,596
30-90 days overdue	-	2,011
90 and more days overdue	26,709	13,065
	30,838,853	35,948,751

Cash and cash equivalents

	2018	2017
US dollar denominated cash in banks and on hand	110,538,211	437,796
Time deposits with banks – tenge	897,986	2,231,401
tenge denominated cash in banks and on hand	9,694	48,500
US dollar denominated term deposits with banks	-	70,705,170
Euro denominated cash in banks and on hand	-	198
	111,445,891	73,423,065

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

The weighted average interest rate on tenge denominated time deposits as at December 31, 2018 was 7.0% (2017: 7.9%). As at December 31, 2018, there were no time deposits in US dollars (2017: 0.1%).

Other financial assets

	2018	2017
Long-term deposits held to maturity denominated in US dollars	37,652,551	32,258,446
Long-term deposits held to maturity denominated in tenge	645,889	-
Provision for expected credit losses on deposits held to maturity	(293,009)	-
Total non-current financial assets	38,005,431	32,258,446
Time deposits denominated in US dollars	-	31,884,021
Total current financial assets	-	31,884,021
	38,005,431	64,142,467

Non-current financial assets comprise of liquidation fund deposits opened in accordance with subsoil use agreement for each contract until the end of the term of each contract. The weighted average interest rate on these deposits as at December 31, 2018 was 1.04% (2017: 1.5%).

7. INVENTORIES

	2018	2017
Crude oil	7,668,997	5,328,344
Materials	3,275,116	1,943,749
	10,944,113	7,272,093

As at December 31, 2018 the Company had 118,817 tonnes of crude oil in storage and transit (2017: 112,441 tonnes).

8. EQUITY

Authorized shares

The total number of authorized shares is 32,479,964 with par value of 5 thousand tenge, all of which are owned by the Parent Company as at December 31, 2018 and 2017 (2017: 32,479,964 with par value of 5 thousand tenge).

Dividends

In accordance with Kazakhstan legislation, dividends may not be declared if the Company has negative equity or if the payment of dividends would result in negative equity. In 2018 the Company declared and paid dividends to the Parent Company in the amount of 85,844,545 thousand tenge or 2,643 tenge per share (2017: 61,354,652 thousand tenge or 1,889 tenge per share).

9. HISTORICAL OBLIGATIONS

Historical obligations are denominated in US dollars and represent obligations to reimburse historical costs incurred by the Government prior to the acquisition of certain licenses by the Company: contract No. 211-23 fields, contract No. 327 – Taisogan field, contract No. 406 – Liman field, contract No. 3577 – Karaton-Sarkamys field, contract No. 992 – Novobogatinskoye Zapadnoye field. Historical obligation payments extend until 2033. The Company has discounted these obligations at an interest rate of 10% and accounts for these historical obligations at amortized cost.

10. PROVISIONS

	Environ- mental obligation	Environment emission provision	Provisions for taxes	Asset retirement obligation	Employee benefits	Total
At January 1, 2017	280,281	-	5,693,365	10,606,572	7,237,393	23,817,611
Additional provisions	6,270,054	-	-	1,655,103	277,046	8,202,203
Unwinding of discount	142,738	-	-	1,099,223	683,369	1,925,330
Changes in estimate	-	-	-	(1,254,723)	296,012	(958,711)
Utilized during the year	-	-	-	(235,434)	(807,424)	(1,042,858)
At December 31, 2017	6,693,073	-	5,693,365	11,870,741	7,686,396	31,943,575
Current portion	1,289,015	-	5,693,365	585,265	845,839	8,413,484
Non-current portion	5,404,058	-	-	11,285,476	6,840,557	23,530,091
As at December 31, 2017	6,693,073	-	5,693,365	11,870,741	7,686,396	31,943,575
Additional provisions	-	34,212,260	2,541,741	316,037	1,281,712	38,351,750
Reversal of unused amounts	-	-	(1,340,391)	-	-	(1,340,391)
Unwinding of discount	669,307	-	-	1,187,074	706,205	2,562,586
Changes in estimates	(109,116)	-	-	(1,540,967)	1,463,628	(186,455)
Utilized during the year	(1,226,239)	(8,142,619)	-	(233,167)	(1,248,693)	(10,850,718)
As at December 31, 2018	6,027,025	26,069,641	6,894,715	11,599,718	9,889,248	60,480,347
Current portion	1,499,705	26,069,641	6,894,715	991,200	873,834	36,329,095
Non-current portion	4,527,320	-	-	10,608,518	9,015,414	24,151,252
As at December 31, 2018	6,027,025	26,069,641	6,894,715	11,599,718	9,889,248	60,480,347

Environment emission provision

The provision for the environmental emissions was recognized in relation to fines and damages for violating environmental legislation based on the results of two unscheduled audits (Note 19).

Environmental obligation

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

Employee benefits

The Company signed a collective agreement for social benefits to employees. Employee benefits are treated as other long-term payments to employees. The entitlement to these benefits is usually conditional on the completion of a minimum service period. Expected cost of these payments is accrued within working period using accounting methods similar to that used for defined benefit plan. These benefits are unfunded.

Changes in employee defined benefit obligations during 2018 and 2017 are as follows:

	2018	2017
The present value of defined benefit obligations at the beginning of a year	7,686,396	7,237,393
Current service cost	202,650	277,046
Interest cost	706,205	683,369
Actuarial losses/(gains) – recognized as income and expenses	(294,422)	15,132
Actuarial losses – recognized in other comprehensive income	1,758,050	280,880
Benefits paid	(1,248,693)	(807,424)
Past service costs	1,079,062	-
Present value of certain interest liabilities at the end of the year	9,889,248	7,686,396
Less: current portion of present value of certain interest liabilities	873,834	845,839
Non-current portion of present value of defined benefits liabilities	9,015,414	6,840,557

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

	2018	2017
Present value of defined benefit obligations at the end of the year	9,889,248	7,686,396
Net liabilities	9,889,248	7,686,396
Current service cost	202,651	277,046
Interest cost	706,205	683,369
Actuarial (gains)/losses	(294,423)	15,132
Past service costs	1,079,062	-
Expenses recognised in the current year	1,693,495	975,547

The cost of current services and services of previous years is included in the statement of comprehensive income within production expenses, general and administrative expenses.

11. REVENUE

	2018	2017
Export		
Crude oil	405,660,182	289,233,248
Domestic market		
Crude oil	26,100,568	18,190,852
Gas products	193,732	16,374
Other sales and services	1,481,742	2,306,329
	433,436,224	309,746,803
	2018	2017
Geographical market		
Kazakhstan	27,776,042	20,513,555
Switzerland	405,660,182	289,233,248
	433,436,224	309,746,803

12. COST OF SALES

	Note	2018	2017
Employee benefits		48,321,372	45,473,564
Mineral extraction tax		38,382,677	27,544,373
Depreciation, depletion and amortization		19,583,791	16,987,216
Repairs and maintenance		14,307,636	10,622,288
Taxes other than income tax		4,519,290	2,073,306
Materials and supplies		3,726,813	3,392,720
Electric energy		2,992,286	2,705,124
Transportation expenses		2,722,610	1,809,989
Change in environmental obligation provision	10	(109,116)	6,270,054
Decrease in asset retirement obligation in excess of capitalized asset		(821,187)	(777,583)
Other		5,898,532	5,858,327
		139,524,704	121,959,378
Change in crude oil balance		(2,340,653)	(669,609)
		137,184,051	121,289,769

The production costs for processing of associated gas for 2018 amounted to 3,987,608 thousand tenge (2017: 2,023,563 thousand tenge).

13. SELLING EXPENSES

	2018	2017
Rent tax	63,900,063	32,583,583
Export customs duty	53,889,693	36,585,787
Transportation expenses	37,489,248	33,607,657
Sales agent's fee	218,027	214,419
	155,497,031	102,991,446

14. GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017
Fines and penalties	35,456,878	47,203
Employee benefits	4,900,339	4,017,880
Depreciation, depletion and amortization	2,150,372	3,047,606
Repairs and maintenance	485,349	432,007
Transportation expenses	445,139	299,394
Taxes other than income tax	292,128	207,647
Sponsorship	206,954	323,896
Advisory and audit services	130,646	105,677
(Reversal)/accrual of provision for doubtful debts	33,338	(144,342)
Other	997,062	2,803,263
	45,098,205	11,140,231

15. INCOME TAX EXPENSES

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

	2018	2017
Current corporate income tax	33,793,029	19,932,851
Corporate income tax adjustment	(204,009)	(178,232)
Current excess profit tax	-	3,202,977
Excess profit tax adjustment	(4,058,638)	8,036

15. INCOME TAX EXPENSES (continued)

	2018	2017
Current income tax	29,530,382	22,965,632
Deferred corporate income tax benefit	(1,449,917)	(2,266,373)
Deferred excess profit tax expense/(benefit)	1,485,795	(1,273,915)
Deferred income tax	35,878	(3,540,288)
Income tax expense	29,566,260	19,425,344

In 2018, in accordance with paragraph 2 of Article 758 of the Tax Code of the Republic of Kazakhstan for the purpose of calculating the EPT for 2017, the Company made a one-time deduction of the cumulative capital expenditures that are chargeable but not charged to deductions for the purposes of calculating the excess profit tax from January 1, 2009 to January 1, 2018.

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

	2018	2017
Profit before taxation	112,955,249	75,548,374
Income tax expense	29,566,260	19,425,344
Effective tax rate	26%	26%
Income tax expenses at statutory rate	22,591,050	15,109,675
Withholding tax	210,776	-
Excess profit tax	-	3,202,977
Adjustment of excess profit tax for the previous years	(3,202,977)	-
Adjustment of deferred excess profit tax for the previous years	1,485,795	-
Adjustment of corporate income tax related to previous years	(306,758)	(170,196)
Impairment of VAT recoverable	144,562	(532,627)
Non-deductible expenses	9,396,724	1,815,515
Accrual of corporate income tax provision	102,749	-
Reversal of provision for excess profit tax	(855,661)	-
Income tax expense	29,566,260	19,425,344

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

	Property, plant and equipment and intangible assets	Provisions	Taxes	Other	Total
At January 1, 2017	(727,061)	4,982,983	1,768,597	851,097	6,875,616
Recognized in profit and loss	(1,440,642)	1,904,444	2,267,774	808,712	3,540,288
As at December 31, 2017	(2,167,703)	6,887,427	4,036,371	1,659,809	10,415,904
Recognized in profit and loss	(1,911,118)	(225,575)	621,026	1,479,789	(35,878)
As at December 31, 2018	(4,078,821)	6,661,852	4,657,397	3,139,598	10,380,026

16. RELATED PARTY TRANSACTIONS

The category 'entities under common control' comprises entities controlled by the Parent Company and NC KMG. The category 'other related parties' comprises entities controlled by SWF Samruk-Kazyna. Sales and purchases with related parties during the years ended December 31, 2018 and 2017 and the balances with related parties at December 31, 2018 and 2017 are as follows:

	2018	2017
Sale of goods and services		
Entities under common control	418,891,104	294,852,127
Transactions with NC KMG	14,402,922	-
Parent	11,697,646	18,184,466
Quality bank expenses on crude oil sold (Parent company)	(7,424,663)	(5,475,637)
Other related parties	34,727	13,163
Purchases of goods and services		
Entities under common control	17,396,986	19,161,798
Parent	5,311,068	16,323,595
Other related parties	1,859,124	1,174,485
Salary and other short-term benefits		
Members of the Board of Directors	54,219	52,904
Quantity	3	3
Members of the Management Board	221,277	227,602
Quantity	8	8
Trade and other accounts receivable		
Entities under common control	29,927,445	34,670,288
Parent	3,935,086	4,495,609
Other related parties	122,041	8,096
Trade accounts payable		
Entities under common control	2,100,522	2,911,805
Parent company	1,371,427	2,053,981
Other related parties	772,698	245,728

Sales and receivables

Sales to related parties comprise mainly export and domestic sales of crude oil and oil products to subsidiaries of NC KMG. Export sales to related parties represented 2,357,044 tonnes of crude oil in 2018 (2017: 2,318,046 tonnes). The sales of crude oil are priced by reference to Platt's index quotations and adjusted for freight, trader's margin and quality differentials. For these exports of crude oil the Company received an average price per ton of approximately 175,255 tenge in 2018 (in 2017: 127,095 tenge).

16. RELATED PARTY TRANSACTIONS *(continued)*

Sales and receivables *(continued)*

In addition, the Company supplies crude oil to the domestic market through NC KMG in accordance with the Resolution of the Kazakhstan Government, the ultimate controlling shareholder of NC KMG. Those supplies to the domestic market represented 492,369 tonnes of crude oil production in 2018 (in 2017: 479,064 tonnes). Prices for the local market sales are determined by agreement with NC KMG. For deliveries to the domestic market in 2018 the Company received an average price per produced crude oil tonne of around 53,010 tenge (in 2017: 37,972 tenge on average).

Purchases and payables

KMG EP is the Company's crude oil export agent. Agency commissions of the Parent for crude oil sales amounted to 218,027 thousand tenge in 2018 (2017: 214,419 thousand tenge). Transportation services, which are provided by Caspian Pipeline Consortium were reimbursed by the Parent in the amount of 10,488,635 thousand tenge (2017: 9,758,677 thousand tenge).

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Foreign currency risk

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

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

	Increase/decrease in tenge per US Dollar rate	Effect on profit before tax
2018		
US dollar	+14.00%	23,470,950
US dollar	-10.00%	(16,764,964)
2017		
US dollar	+10.00%	16,599,170
US dollar	-10.00%	(16,599,170)

Credit risk

The Company is exposed to credit risk in relation to its receivables. The Company's vast majority of sales is made to an affiliate, NC KMG, and the Company has a significant concentration risk of the receivable from this affiliate (*Notes 6 and 16*). Additional number of minor receivables are grouped into homogeneous groups and assessed for impairment collectively on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

The Company is also exposed to credit risk in relation to its investing activities. The Company mostly places the deposits with Kazakhstan banks. Credit risk from balances with financial institutions is managed by the Company's treasury department in accordance with the Parent's cash management policy. The Company's maximum exposure to credit risk arising from default of the financial institutions is equal to the carrying amounts of these financial assets.

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

Banks	Location	Rating ¹		2018	2017
		December 31, 2018	December 31, 2017		
Halyk Bank JSC	Kazakhstan	BB (stable)	BB (negative)	149,038,765	103,369,357
ATF Bank JSC	Kazakhstan	B (negative)	B (negative)	412,557	369,616
Qazkom JSC	Kazakhstan	Not applicable	B+(positive)	-	33,503,349
				149,451,322	137,242,322

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

Liquidity risk

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

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

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2018 and 2017 based on contractual undiscounted payments

At December 31, 2018	On demand	Less than 3 months	3-12 months	1 year-5 years	Over 5 years	Total
Historical obligations	-	796,317	589,023	2,511,819	9,762,312	13,659,471
Trade and other accounts payable	28,905,666	-	-	-	-	28,905,666
	28,905,666	796,317	589,023	2,511,819	9,762,312	42,565,137

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

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

Commodity price risk

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

Capital management

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

18. FINANCIAL INSTRUMENTS

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

As at December 31, 2018 and 2017, the Company did not have any financial instruments classified as financial instruments of 1 or 2 levels.

For the years ended December 31, 2018 and 2017 there were no transfers between Levels 1, 2 and 3 of the financial instruments' fair value.

19. COMMITMENTS AND CONTINGENCIES

Operating environment

The Republic of 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.

Domestic market obligations

The Kazakhstan government requires oil producers to supply a portion of their crude oil production to meet domestic energy requirements.

Starting from April 1, 2016 the Company ceased sales of crude oil to "KazMunayGas – Refinery and Marketing" JSC and sold oil to the Parent Company. The Company started selling crude oil to NC KMG from July 1, 2018 based on the contract for oil procurement.

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

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 on approaches to revenue, expenses and other items of the financial statements. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2018.

The management believes that its interpretation of the tax legislation is appropriate, and the Company has acceptable grounds for the tax position.

VAT recoverable

In November 2018, in accordance with the act of audit by the Tax Authority for the Atyrau Oblast, an excess of the amount of VAT generated for 2017 was returned to the Company from the budget in the amount of 2,221,343 thousand tenge (2017: 8,261,185 thousand tenge).

The balance of provision for VAT recoverable as at December 31, 2018 is 5,039,434 thousand tenge (2017: 5,038,963 thousand tenge).

19. COMMITMENTS AND CONTINGENCIES *(continued)*

Environmental obligations

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. Besides the amounts disclosed in *Note 10*, the management believes that there are no probable environmental liabilities that may have a material adverse effect on the Company's financial position, operating performance and cash flows.

Environmental audit

On July 23, 2018, Embamunaigas JSC received a resolution from the Department of Ecology of the Atyrau Region to pay a fine in the amount of 8,908,222 thousand tenge for violations of environmental legislation, which were identified as part of an unscheduled environmental audit conducted in April–June 2018. This fine was associated with emissions of harmful substances above the established standards as a result of gas flaring in the period from November 1, 2017 to June 12, 2018. On September 17, 2018, the Atyrau Regional Court decided to reduce the amount of the fine to 6,681,703 thousand tenge. On October 19, 2018, the Company fully paid this fine to the state budget.

In addition, on the above fact, on September 24, 2018, the Department of Ecology in the Atyrau region issued an order to Embamunaigas JSC to compensate for environmental damage in the amount of 7,835,414 thousand tenge. On January 30, 2019, the Specialized Interdistrict Economic Court of the Atyrau Region ruled to satisfy the claim of the Department of Ecology for the Atyrau Region to recover damage to the environment in the amount of 7,835,414 thousand tenge.

On October 18, 2018, Embamunaigas JSC received a resolution from the Department of Ecology of the Atyrau Region to pay a fine in the amount of 6,861,703 thousand tenge for violation of environmental legislation following the second unscheduled audit for the period from June 12, 2018 to October 10, 2018, as well as October 26, 2018, the Department of Ecology for the Atyrau region, based on the results of the re-audit of Embamunaigas, issued an order to compensate for damages amounting to 6,032,506 thousand tenge, caused during the specified period.

In December 2018, Embamunaigas JSC completed commissioning works and commissioned an associated gas processing facility. In this connection, the management of Embamunaigas JSC does not expect further violations of environmental legislation regarding gas flaring.

According to the results of two unscheduled audits, the Company accrued a provision in the amount of 27,428,376 thousand tenge. Also, provisions of 6,783,884 thousand tenge were accrued for the expected administrative fines and environmental damage for the period October–December 2018 (*Note 10*). Currently, the Company is carrying out a claim-related work to appeal against fines and environmental damage.

Oilfield licenses

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

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

The Company's oil and gas fields are located on land belonging to the Atyrau district administration. The licenses are issued by the Ministry of Oil and Gas of the Republic of Kazakhstan and the Company pays mineral extraction tax and excess profits tax to explore and produce oil and gas from these fields.

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

Field	Contract	Expiry date
Kenbai	No. 37	2041
South-East Novobogatinskoe	No. 61	2048
23 fields	No. 211	2037
15 fields	No. 413	2043
Taisoigan	No. 327	2035
West Novobogatinskoe	No. 992	2027
Liman	No. 406	2033
Karaton-Sarkamys	No. 3577	2020

Commitments arising from oilfield licenses

Year	Capital expenditures	Operating expenses
2019	55,268,060	2,781,528
2020	1,160,466	2,782,948
2021	1,095,018	1,282,964
2022–2048	1,095,018	1,580,085
	58,618,562	8,427,525