

KazMunaiGas Exploration Production Joint Stock Company

Consolidated Financial Statements

For the year ended December 31, 2016
with independent auditor's report

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Independent Auditor's Report

To the Shareholders and Management of KazMunaiGas Exploration Production JSC

Opinion

We have audited the consolidated financial statements of KazMunaiGas Exploration Production JSC (the Organization), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Organization as at 31 December 2016 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Organization 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.

Impairment of non-current assets

We considered this matter to be one of most significance in the audit due to the materiality of the balances of non-current assets, including oil and gas production assets and investments in joint ventures and associate, to the consolidated financial statements and given the high level of subjectivity in respect of assumptions underlying impairment analysis and significant judgements and estimates made by the management. In addition, the combination of the recent drop in oil prices, devaluation of the Tenge, increased inflation and cost of debt and uncertainty about future economic growth affects the Organization's business prospects and therefore triggers potential impairment of the Organization's assets and assets of its material investees.

Significant assumptions included discount rates, oil and petroleum product price forecasts and inflation and exchange rate forecasts. Significant estimates included production forecasts, future capital expenditure and oil and gas reserves available for development and production.

We involved our business valuation specialists in the testing of impairment analysis and calculation of recoverable amount performed by the management. We analyzed the assumptions underlying management forecast. We compared oil and petroleum products 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 integrity of the impairment models and assessed the sensitivity analysis.

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

Estimation of oil and gas reserves

Estimation of oil and gas reserves requires significant judgement and assumptions by management and reserve engineers. These estimations have a material impact on the consolidated financial statements, particularly: impairment testing; depreciation, depletion and amortization; decommissioning provisions; and going concern. There are technical uncertainties in assessing reserve quantities.

We assessed the competence and objectivity of external reserve engineers involved in the estimation process. We evaluated data used by the reserve engineers by comparing it with the budget approved by the management and external oil and gas data. We assessed whether reserve revisions were consistent with the Organization's data.

Description of the methodology used for the estimation of oil and gas reserves is included in Note 4 to the consolidated financial statements.

Revenue from sales of refined products

Starting from 1 April 2016 the Organization ceased sales of crude oil to the domestic market and started tolling crude oil at refineries of KazMunayGas Refining and Marketing JSC ("KMG RM"), a related party, and selling received refined products. We considered this new sales process to be one of most significance in the audit due to the materiality of the revenue recognized.

We obtained an understanding of the accounting process related to tolling and domestic sales of refined products. We performed analytical procedures on sales of refined products and recalculation of related excise taxes and customs duties. We tested the design and operating effectiveness of controls related to accounting for the processing of crude oil and sales of refined products. For a sample of sale transactions, we agreed the sale terms to those set out in the sale agreements and re-performed the calculation of sales price.

Information on revenue from sales of refined products is included in Note 14 to the consolidated financial statements. A description of the accounting policy and key judgements and estimates is included in Notes 2 and 4 to the consolidated financial statements.

Other Information included in the Organization's 2016 Annual report

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

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

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

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Organization'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 Organization or to cease operations or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Organization'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 Organization'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 Organization'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 Organization 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 Organization 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.



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

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

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

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

Ernst & Young LLP


Jim Ducker
Audit partner

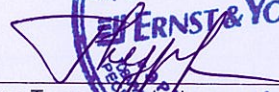
Adil Syzdykov
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14 February 2017


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

KAZMUNAIGAS EXPLORATION PRODUCTION JOINT STOCK COMPANY

Consolidated Statement of Financial Position

Tenge million

		As at December 31,	
	Notes	2016	2015
ASSETS			
Non-current assets			
Property, plant and equipment	5	311,597	234,367
Intangible assets	6	11,607	9,619
Investments in joint ventures	8	144,532	154,453
Investments in associate	9	135,633	154,241
Receivable from a jointly controlled entity	8	16,696	21,602
Loans receivable from joint ventures	8	29,638	27,941
Other financial assets	7	35,961	33,760
Deferred tax asset	19	51,459	71,904
Other assets		970	5,717
Total non-current assets		738,093	713,604
Current assets			
Inventories	10	24,774	23,102
Income taxes prepaid		51,567	36,225
Taxes prepaid and VAT recoverable	23	22,567	16,132
Mineral extraction and rent tax prepaid		15,676	6,064
Prepaid expenses		20,713	30,135
Trade and other receivables	7	74,121	105,443
Receivable from a jointly controlled entity	8	17,617	8,822
Other financial assets	7	983,257	833,912
Cash and cash equivalents	7	162,091	237,310
Total current assets		1,372,383	1,297,145
Total assets		2,110,476	2,010,749
EQUITY			
Share capital	11	165,343	163,004
Other capital reserves		2,448	3,945
Retained earnings		1,444,351	1,311,759
Foreign currency translation reserve		321,370	333,141
Total equity		1,933,512	1,811,849
LIABILITIES			
Non-current liabilities			
Borrowings		3,844	5,990
Deferred tax liability	19	138	240
Provisions	13	45,300	45,264
Total non-current liabilities		49,282	51,494
Current liabilities			
Borrowings		5,483	5,585
Provisions	13	45,926	70,010
Income taxes payable		33	13
Mineral extraction tax and rent tax payable		8,571	22,249
Trade and other liabilities		67,669	49,549
Total current liabilities		127,682	147,406
Total liabilities		176,964	198,900
Total liabilities and equity		2,110,476	2,010,749

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

KAZMUNAIGAS EXPLORATION PRODUCTION JOINT STOCK COMPANY

Consolidated Statement of Comprehensive Income

Tenge million

	Notes	For the year ended December 31,	
		2016	2015
Revenue	14	727,154	529,812
Share of results of associate and joint ventures	8, 9	(12,600)	(20,062)
Finance income	18	30,037	26,094
Total revenue and other income		744,591	535,844
Production expenses	15	(274,753)	(225,049)
Selling, general and administrative expenses	16	(115,022)	(118,601)
Exploration expenses		(2,535)	(1,892)
Depreciation, depletion and amortization	5, 6	(30,776)	(20,110)
Taxes other than on income	17	(145,431)	(181,501)
Net reversal / (allowance) for VAT recoverable	23	13,362	(46,753)
Loss on disposal of property, plant and equipment		(2,050)	(4,618)
Finance costs	18	(5,842)	(14,999)
Foreign exchange (loss)/gain, net		(12,892)	448,869
Profit before tax		168,652	371,190
Income tax expense	19	(37,076)	(127,521)
Profit for the year		131,576	243,669
Foreign currency translation difference		(11,771)	257,554
Other comprehensive (loss) / income for the period to be reclassified to profit and loss in subsequent periods		(11,771)	257,554
Actuarial gain, net of tax		563	-
Other comprehensive income for the period not to be reclassified to profit and loss in subsequent periods		563	-
Total comprehensive income for the year, net of tax		120,368	501,223
EARNINGS PER SHARE – Tenge thousands			
Basic and diluted	12	1.93	3.57

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

KAZMUNAIGAS EXPLORATION PRODUCTION JOINT STOCK COMPANY

Consolidated Statement of Cash Flows

Tenge million

		For the year ended December 31,	
	Notes	2016	2015
Cash flows from operating activities			
Profit before tax		168,652	371,190
Adjustments to add / (deduct) non-cash items			
Depreciation, depletion and amortization	5, 6	30,776	20,110
Share of results of associate and joint ventures	8, 9	12,600	20,062
Loss on disposal of property, plant and equipment (PPE)		2,050	4,618
Recognition of share-based payments		1,410	1,598
Forfeiture of share-based payments		(63)	(8)
Unrealised foreign exchange loss/(gain) on non-operating activities		12,003	(424,585)
Net (reversal) / allowance on VAT recoverable		(13,362)	46,753
Change in provisions		(15,566)	35,993
Other non-cash income and expense		2,829	1,196
Add finance costs	18	5,842	14,999
Deduct finance income	18	(30,037)	(26,094)
Working capital adjustments			
Change in other assets		(1,025)	3,676
Change in inventories		(1,949)	2,841
Change in taxes prepaid and VAT recoverable		6,095	9,888
Change in prepaid expenses		9,421	(123)
Change in trade and other receivables		20,500	(34,792)
Change in trade and other payables		9,956	(15,330)
Change in mineral extraction and rent tax payable and prepaid		(18,384)	(2,906)
Income tax paid		(42,398)	(99,422)
Net cash generated from / (used in) operating activities		159,350	(70,336)
Cash flows from investing activities			
Purchases of PPE		(101,233)	(88,174)
Proceeds from sale of PPE		784	171
Purchases of intangible assets		(3,672)	(1,901)
Loans provided to the joint ventures	8	(5,146)	(3,389)
Dividends received from joint ventures and associate, net of withholding tax	8, 9	27,515	13,822
(Placement)/withdrawal of term deposits		(170,927)	144,960
Repayments of receivable from a jointly controlled entity		–	6,815
Interest received		15,972	14,839
Net cash (used in) / generated from investing activities		(236,707)	87,143
Cash flows from financing activities			
Repayment of borrowings		(2,128)	(1,241)
Dividends paid to Company's shareholders	3, 11	(137)	(28,988)
Net cash used in financing activities		(2,265)	(30,229)
Net change in cash and cash equivalents		(79,622)	(13,422)
Cash and cash equivalents at the beginning of the year		237,310	180,245
Net foreign exchange difference on cash and cash equivalents		4,403	70,487
Cash and cash equivalents at the end of the year	7	162,091	237,310

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

KAZMUNAIGAS EXPLORATION PRODUCTION JOINT STOCK COMPANY

Consolidated Statement of Changes in Equity

Tenge million

	Share capital	Treasury shares	Other capital reserves	Retained earnings	Foreign currency translation reserve	Total Equity
As at December 31, 2014	263,095	(100,091)	2,355	1,098,170	75,587	1,339,116
Profit for the year	—	—	—	243,669	—	243,669
Other comprehensive income	—	—	—	—	257,554	257,554
Total comprehensive income	—	—	—	243,669	257,554	501,223
Recognition of share-based payments (Note 11)	—	—	1,598	—	—	1,598
Forfeiture of share-based payments (Note 11)	—	—	(8)	—	—	(8)
Dividends (Note 11)	—	—	—	(30,080)	—	(30,080)
As at December 31, 2015	263,095	(100,091)	3,945	1,311,759	333,141	1,811,849
Profit for the year	—	—	—	131,576	—	131,576
Other comprehensive income	—	—	—	563	(11,771)	(11,208)
Total comprehensive income	—	—	—	132,139	(11,771)	120,368
Recognition of share-based payments (Note 11)	—	—	1,410	—	—	1,410
Forfeiture of share-based payments (Note 11)	—	—	(63)	—	—	(63)
Exercise of employee options (Note 11)	—	2,339	(2,844)	505	—	—
Dividends (Note 11)	—	—	—	(52)	—	(52)
As at December 31, 2016	263,095	(97,752)	2,448	1,444,351	321,370	1,933,512

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

Notes to the Consolidated Financial Statements

Tenge million unless otherwise stated

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

KazMunaiGas Exploration Production Joint Stock Company (the “Company”) is incorporated in the Republic of Kazakhstan and is engaged in the acquisition, exploration, development, production, processing and export of hydrocarbons and refined products with its core operations of oil and gas properties located in the Pre-Caspian and Mangistau basins of western Kazakhstan. The Company’s direct majority shareholder is Joint Stock Company National Company KazMunaiGas (“NC KMG” or the “Parent Company”), which represents the state’s interests in the Kazakh oil and gas industry and which holds 63.02% of the Company’s outstanding shares as at December 31, 2016 (2015: 63.21%). The Parent Company is 100% owned by Samruk-Kazyna Sovereign Welfare Fund Joint Stock Company (“Samruk-Kazyna SWF”), which is in turn 100% owned by the government of the Republic of Kazakhstan (the “Government”).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Exchange rates

The official rate of the Kazakhstan Tenge (“Tenge”) to the US Dollar at December 31, 2016 and December 31, 2015 was 333.29 and 339.47 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 has adopted the following new and amended IFRS during the year, which did not have any material effect on the financial performance or position of the Company:

- Improvements to IFRSs 2012-2014 cycle;
- IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments);
- IAS 27 Equity Method in Separate Financial Statements (Amendments);
- IAS 1 Disclosure Initiative (Amendments);

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.1 Basis of preparation (continued)***Standards issued but not yet effective*

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

- IFRS 9 Financial instruments: classification and measurement (January 1, 2018);
- IFRS 15 Revenue from Contracts with Customers (January 1, 2018);
- IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments) (Deferred indefinitely).
- IFRS 16 Leases (January 1, 2019)
- IAS 7 Disclosure Initiative (Amendments to IAS 7) (January 1, 2017)
- IAS 12 Income Taxes Recognition of Deferred Tax Assets for Unrealised Losses (Amendments) (January 1, 2017)
- IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments) (January 1, 2018).
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (January 1, 2018).

2.2 Consolidation*Subsidiaries*

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its control over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

Inter-company transactions, balances and unrealised gains on transactions between companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries are consistent with those of the Company.

Investment in associate and interests in joint arrangements

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

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

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

Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

Investment in associate and interests in joint arrangements (continued)

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

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

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

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

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

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

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

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

2.3 Foreign currency translation

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

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

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.4 Oil and natural gas exploration and development expenditure***Exploration license costs*

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

Exploration expenditure

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

All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

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

Development expenditure

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

2.5 Property, plant and equipment

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.6 Impairment of non-financial assets**

The Company assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the Company makes an estimate of its recoverable amount. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing recoverable value, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a discount rate that reflects current market assessments of the time value of money.

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

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

2.7 Intangible assets

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

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

2.8 Financial assets

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

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

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

Held to maturity investments

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

Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

Trade and other receivables

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

Available for sale financial investments

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

Fair value

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

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

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

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

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

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

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

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

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

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.8 Financial assets (continued)****Impairment of financial assets (continued)***Assets carried at amortised cost (continued)*

cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in the statement of comprehensive income.

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

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

Available for sale financial investments

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

Derecognition of financial assets

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

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

2.9 Inventories

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

2.10 Value added tax (VAT)

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

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

Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Cash and cash equivalents

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

2.12 Share capital

Share Capital

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

Treasury Shares

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

Dividends

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

Share-based payment transactions

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

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

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

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

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

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

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

2.13 Trade payables

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

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.14 Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.15 Borrowings

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

2.16 Employee benefits

The Company withholds 10% from the salary of its employees as the employees' contribution to their pension fund. The pension deductions are limited to a maximum of 171,442 Tenge per month in 2016 (2015: 160,230 Tenge per month). Under the current Kazakhstan legislation, employees are responsible for their retirement benefits. Starting from January 1, 2014 the Company is required to contribute an additional 5% of the salary for a majority of its employees to their pension funds.

Long-term employee benefits

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Revenue recognition

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

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

2.18 Income taxes

Current income tax expense comprises current income tax, excess profit tax and deferred tax.

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

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

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

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

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

3. SIGNIFICANT NON-CASH TRANSACTIONS

During the year ended December 31, 2016 the Company excluded from the consolidated statement of cash flows a non-cash transaction related to the offset of withholding income tax payable against the interest receivable on financial assets in the amount of 1,520 million Tenge (2015: 1,830 million Tenge).

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Oil and gas reserves

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

Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Oil and gas reserves (continued)

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

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

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

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

Recoverability of oil and gas assets

The Company assesses assets or cash-generating units (CGU) for impairment and for reversal of previously impaired amounts whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable or that previously recorded impairment may no longer exist or may have decreased. Where an indicator of impairment or reversal of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use.

As at December 31, 2016 the Company carried out an assessment due to several indicators that the previous impairment loss for JSC "Ozenmunaigas" may have decreased.

Various values for the recoverable amount of JSC "Ozenmunaigas" were reviewed and calculated on the basis of estimating the future cash flows adjusted for the risks specific to JSC "Ozenmunaigas" and discounted using either a pre-tax or post-tax discount rate of 12.5% and 10%, respectively. The resulting recoverable amount was higher than the carrying value of the assets in all of the calculations, which also was the case when taking into consideration changes to the models' assumptions. Management did not reverse impairment recognized in prior years due to the significant uncertainty surrounding the assumptions used in the model. Changes in assumptions, primarily, stem from macroeconomic factors such as export and domestic oil prices, taxation, foreign exchange rates and price inflation.

Asset retirement obligations

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

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

Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Asset retirement obligations (continued)

Management's assessment of the presence or absence of such obligations could change with shifts in policies and practices of the Government or in the local industry practice. The Company calculates asset retirement obligations separately for each contract.

The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market. The Company reviews site restoration provisions at each reporting date, and adjusts them to reflect the current best estimate in accordance with IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities.

Estimating the future closure costs involves significant estimates and judgments by management. Most of these obligations are several years in the future and, in addition to ambiguities in the legal requirements, the Company's estimate can be affected by changes in asset removal technologies, costs and industry practice. Approximately 16.29% and 19.07% of the provision at December 31, 2016 and 2015 relates to final closure costs. The Company estimates future well abandonment cost using current year prices and the average long-term inflation rate.

The long-term inflation and discount rates used to determine the carrying value of obligation at December 31, 2016 were 5.0% and 10.0% respectively (2015: 5.0% and 7.9%). Movements in the provision for asset retirement obligations are disclosed in Note 13.

Environmental remediation

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

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

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

Taxation

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

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***5. PROPERTY, PLANT AND EQUIPMENT**

	Oil and gas properties	Other assets	Construction work- in-progress	Total
Net book amount at January 1, 2015	95,661	48,759	12,016	156,436
Additions	326	2,919	93,055	96,300
Change in ARO estimate	5,451	—	—	5,451
Disposals	(353)	(4,197)	(950)	(5,500)
Transfers from construction-in-progress	84,782	4,054	(88,836)	—
Internal transfers	2,641	(2,567)	(74)	—
Depreciation charge	(14,124)	(4,196)	—	(18,320)
Net book amount at December 31, 2015	174,384	44,772	15,211	234,367
Additions	164	2,796	108,977	111,937
Change in ARO estimate	(1,487)	—	—	(1,487)
Disposals	(936)	(874)	(1,526)	(3,336)
Transfers from construction-in-progress	67,230	2,975	(70,205)	—
Internal transfers	(2,246)	2,287	(41)	—
Depreciation charge	(23,112)	(6,772)	—	(29,884)
Net book amount at December 31, 2016	213,997	45,184	52,416	311,597
At December 31, 2016				
Cost	894,760	124,977	60,492	1,080,229
Accumulated depreciation	(342,356)	(39,241)	—	(381,597)
Accumulated impairment	(338,407)	(40,552)	(8,076)	(387,035)
Net book amount	213,997	45,184	52,416	311,597
At December 31, 2015				
Cost	840,027	117,635	25,670	983,332
Accumulated depreciation	(319,434)	(31,679)	—	(351,113)
Accumulated impairment	(346,209)	(41,184)	(10,459)	(397,852)
Net book amount	174,384	44,772	15,211	234,367

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***6. INTANGIBLE ASSETS**

	Exploration and evaluation assets	Other intangibles	Total
Net book amount at January 1, 2015	7,590	3,265	10,855
Additions	1,596	492	2,088
Disposals	(1,345)	(164)	(1,509)
Amortization charge	(738)	(1,052)	(1,790)
Impairment	–	(25)	(25)
Net book amount at December 31, 2015	7,103	2,516	9,619
Additions	2,492	1,038	3,530
Disposals	(605)	(45)	(650)
Amortization charge	(79)	(813)	(892)
Net book amount at December 31, 2016	8,911	2,696	11,607
At December 31, 2016			
Cost	27,695	9,145	36,840
Accumulated amortization	(17,876)	(6,347)	(24,223)
Accumulated impairment	(908)	(102)	(1,010)
Net book amount	8,911	2,696	11,607
At December 31, 2015			
Cost	47,248	8,485	55,733
Accumulated amortization	(23,480)	(5,841)	(29,321)
Accumulated impairment	(16,665)	(128)	(16,793)
Net book amount	7,103	2,516	9,619

7. FINANCIAL ASSETS*Other financial assets*

	2016	2015
US dollar denominated held to maturity deposits	33,276	31,680
Tenge denominated held to maturity deposits	2,682	2,077
Other	3	3
Total non-current	35,961	33,760
US dollar denominated term deposits	980,958	831,122
Great Britain pound denominated term deposits	2,299	2,790
Total current	983,257	833,912
	1,019,218	867,672

As at December 31, 2016 the non-current US dollar denominated term deposits include restricted deposits in the amount of 33,276 million Tenge (December 31, 2015: 31,405 million Tenge), which are kept in blocked accounts designated as a liquidation fund per requirements of subsoil use contracts.

The weighted average interest rate on US dollar denominated term deposits in 2016 was 2.37% (2015: 3.1%). During 2016 there were no Tenge denominated term deposits (2015: 12.7%).

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***7. FINANCIAL ASSETS (continued)***Trade and other receivables*

	2016	2015
Trade receivables	73,348	93,027
Dividend receivables	670	12,730
Other	1,178	852
Allowance for doubtful receivables	(1,075)	(1,166)
	74,121	105,443

As at December 31, 2016 the Company's trade receivables included receivables from sales of crude oil to KazMunaiGas Trading AG ("KMG Trading") and KazMunaiGas Refinery and Marketing JSC ("KMG RM"), both subsidiaries of the Parent Company, amounting to 57,503 million Tenge (2015: 36,824 million Tenge and 52,137 million Tenge, respectively).

As at December 31, 2016 the Company's trade receivables also included receivables from sales of refined products to KazMunaiGas Onimderly LLP ("KMG Onimderly"), subsidiary of KMG RM, amounting to 13,704 million Tenge (2015: nil).

As at December 31, 2016 78% of the Company's trade receivables are denominated in USD (2015: 40%).

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

	2016	2015
Current	73,606	104,571
0-30 days overdue	—	—
30-60 days overdue	444	291
90 and more days overdue	71	581
	74,121	105,443

Cash and cash equivalents

	2016	2015
US dollar denominated term deposits with banks	34,957	207,440
Tenge denominated term deposits with banks	30,078	12,370
US dollar denominated cash in banks and on hand	95,402	15,488
Tenge denominated cash in banks and on hand	1,467	1,767
Great Britain pound denominated cash in bank and on hand	187	245
	162,091	237,310

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

The weighted average interest rate on Tenge denominated deposits in 2016 was 14.17% (2015: 15.9%). The weighted average interest rate on US dollar denominated deposits in 2016 was 1.79% (2015: 2.4%).

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

	Ownership share	2016	2015
Interest in JV Kazgermunai LLP ("Kazgermunai")	50%	71,634	83,752
Interest in JV Ural Group Limited BVI ("UGL")	50%	72,898	70,701
Interest in JV KS EP Investments BV ("KS EP Investments")	51%	—	—
		144,532	154,453

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***8. INVESTMENTS IN JOINT VENTURES AND RECEIVABLE FROM A JOINTLY CONTROLLED ENTITY (continued)**

Movement in investment in joint ventures during the reporting period:

	2016	2015
Carrying amount at January 1	154,453	95,177
Share of total comprehensive income/(loss)	2,734	(2,289)
Dividends declared	(15,107)	(26,553)
Foreign currency translation difference	(2,698)	71,487
Share in additional paid in capital	5,150	16,631
Carrying amount at December 31	144,532	154,453

Unrecognised share in loss of KS EP Investments amounted to 1,005 million Tenge for 2016 (2015: 8,753 million Tenge). In prior years the Company provided the series of loans to KS EP Investments for the total amount of 41,984 thousand US Dollars. On September 19, 2016 the Company has signed extension of a loan agreement until June 30, 2017. During 2016 the Company has provided additional loan totaling to 4,171 thousand US Dollars. KS EP Investments is in process of extension of Karpovskiy Severniy exploration license until June 30, 2017. Total outstanding amount of loan to KS EP as at December 31, 2016 was equal to 49,460 thousand US dollars (16,484 million Tenge) which was fully impaired in prior and current periods.

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

Kazgermunai

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

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

	2016	2015
Cash and cash equivalents	39,695	32,656
Other current assets	11,151	17,712
Non-current assets	153,839	198,757
	204,685	249,125
Current liabilities	33,907	37,149
Non-current liabilities	27,510	44,472
	61,417	81,621
Net assets	143,268	167,504
Proportion of the company's ownership	50%	50%
Carrying value of the investment	71,634	83,752

	2016	2015
Revenues	155,633	139,608
Operating expenses	(126,851)	(85,611)
- including depreciation and amortization	(36,325)	(18,690)
- including equity method accounting adjustments	(8,393)	(2,758)
Profit from operations	28,782	53,997
Finance income	946	632
Finance cost	(1,231)	(807)
Profit before tax	28,497	53,822
Income tax expense	(19,873)	(48,569)
Profit and other comprehensive income for the year	8,624	5,253
Company's share of the comprehensive income for the year	4,312	2,627

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

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***8. INVESTMENTS IN JOINT VENTURES AND RECEIVABLE FROM A JOINTLY CONTROLLED ENTITY (continued)***UGL*

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

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

	2016	2015
Cash and cash equivalents	297	921
Other current assets	13	54
Non-current assets	215,892	207,323
	216,202	208,298
Current liabilities	1,743	3,118
Non-current financial liabilities	57,970	53,901
Non-current liabilities	10,694	9,877
	70,407	66,896
Net assets	145,795	141,402
Proportion of the company's ownership	50%	50%
Carrying value of the investment	72,898	70,701

	2016	2015
Revenues	40	16
Operating expenses	(1,373)	(8,787)
Loss from operations	(1,333)	(8,771)
Finance income	17	11
Finance cost	(1,652)	(1,079)
Loss before tax	(2,968)	(9,839)
Income tax (expense) / benefit	(187)	8
Loss and other comprehensive loss for the year	(3,155)	(9,831)
Company's share of the comprehensive loss for the year	(1,578)	(4,916)

During 2016 the Company provided interest free loans in the amount of 10,950 thousand US dollars (3,742 million Tenge) to UGL (2015: 15,250 thousand US dollars or 3,389 million Tenge). On initial recognition the loans were recognised at the fair value of 3,655 thousand US dollars (1,249 million Tenge) determined by discounting future cash flows. Investments in UGL were adjusted accordingly to recognize effect of discounting.

During 2016 the Company reviewed its expectations with respect to the repayment of the loans from UGL. As a result of the review the payback period of the loans was extended from 2020-2024 to 2023-2024. This extension resulted in a decrease of the carrying amount of these loans by 3,282 million Tenge. Carrying value of the loans from UGL totaled 88,927 thousand US dollars (29,638 million Tenge) at December 31, 2016 (2015: 82,309 thousand US dollars or 27,941 million Tenge).

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

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

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

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***8. INVESTMENTS IN JOINT VENTURES AND RECEIVABLE FROM A JOINTLY CONTROLLED ENTITY (continued)***Receivable from jointly controlled entity CITIC Canada Energy Limited ("CCEL") (continued)*

CCEL is contractually obliged to declare dividends on an annual basis based on available distributable equity. At the same time, for the period until 2020 the Company is contractually obliged to transfer any dividends received from CCEL, in excess of a Guaranteed Amount, to CITIC, up to the Total Maximum Amount, which amounts to 512.3 million US dollars (170,760 million Tenge) as at December 31, 2016 (2015: 515.5 million US dollars or 174,994 million Tenge). The Total Maximum Amount represents the balance of the Company's share of the original purchase price funded by CITIC plus accrued interest. The Company has no obligation to pay amounts to CITIC unless it receives an equivalent amount from CCEL. Accordingly, the Company recognizes in its statement of financial position only the right to receive dividends from CCEL in the Guaranteed Amount on an annual basis until 2020, plus the right to retain any dividends in excess of the total Maximum Guaranteed Amount. The carrying amount of this receivable at December 31, 2016 amounted to 103 million US dollars (34,227 million Tenge) (2015: 89.3 million US dollars or 30,314 million Tenge) net of unamortized transaction costs.

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

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

9 INVESTMENTS IN ASSOCIATE

	Ownership share	2016	2015
Interest in Petrokazakhstan Inc. ("PKI")	33%	135,633	154,241

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

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

Movement in investment in associate during the reporting period:

	2016	2015
Carrying amount at 1 January	154,241	116,054
Share of the total comprehensive loss	(16,201)	(40,467)
Foreign currency translation difference	(2,407)	78,654
Carrying amount at December 31	135,633	154,241

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

	2016	2015
Cash and cash equivalents	54,443	48,568
Other current assets	42,735	78,268
Non-current assets	433,384	556,382
	530,562	683,218
Current liabilities	20,300	132,525
Non-current liabilities	99,253	83,297
	119,553	215,822
Net assets	411,009	467,396
Proportion of the company's ownership	33%	33%
Carrying value of the investment	135,633	154,241

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***9. INVESTMENTS IN ASSOCIATE (continued)***PKI (continued)*

	2016	2015
Revenues	128,809	127,768
Operating expenses	(180,166)	(158,803)
- including depreciation and amortization	(45,265)	(38,348)
- including equity method accounting adjustments	(33,639)	(22,082)
Loss from operations	(51,357)	(31,035)
Share in profit / (loss) of joint ventures	7,282	(12,909)
Finance income	256	234
Finance cost	(5,217)	(6,050)
Loss before tax	(49,036)	(49,760)
Income tax benefit / (expense)	2,570	(4,098)
Loss for the year	(46,466)	(53,858)
Other comprehensive loss to be reclassified to profit and loss in subsequent periods	(2,628)	(68,770)
Total comprehensive loss for the year	(49,094)	(122,628)
Company's share of the comprehensive loss for the year	(16,201)	(40,467)

10. INVENTORIES

	2016	2015
Crude oil	7,915	9,218
Refined products	4,531	—
Materials	12,328	13,884
	24,774	23,102

As at December 31, 2016 the Company had 200,071 tons of crude oil and 92,696 tons of refined products (2015: 266,022 tons of crude oil) in storage and transit.

11. SHARE CAPITAL

	Shares outstanding	
	Number of shares	Tenge million
As at January 1, 2015	68,162,635	163,004
As at December 31, 2015	68,162,635	163,004
Reduction of treasury stock due to exercise of share options	209,232	2,339
As at December 31, 2016	68,371,867	165,343

11.1 Share capital*Authorized shares*

The total number of authorized shares is 74,357,042 (2015: 74,357,042). 70,220,935 of authorized shares are ordinary shares (2015: 70,220,935) and 4,136,107 are non-redeemable preference shares (2015: 4,136,107). 43,087,006 of the outstanding shares are owned by the Parent Company as at December 31, 2016 (2015: 43,087,006). The shares of the Company have no par value.

Dividends

In accordance with Kazakhstan legislation, dividends may not be declared if the Company has negative equity in its Kazakh statutory financial statements or if the payment of dividends would result in negative equity in the statutory financial statements. Total dividends per share recognised as distributions to equity holders during 2016 amounted to 25 Tenge per share for preferred shares (2015: 440 Tenge per share for both the outstanding ordinary and preferred shares).

11.2 Employee share option plans

The expense recognised for share option plans related to employee services received during the year is 1,410 million Tenge (2015: 1,598 million Tenge).

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***11. SHARE CAPITAL (continued)****11.2 Employee share option plans (continued)***Employee option plans*

Under the employee option plan 1 (“EOP 1”), an award of global depositary receipt (“GDR”) options with an exercise price equal to the market value of GDRs at the time of award was made to executives. The exercise of options is not subject to performance conditions and vests 1/3 each year over 3 years and is exercisable till the fifth anniversary from the vesting date.

Under the employee option plan 2 (“EOP 2”), share options are granted to incentivize and reward key employees, senior executives and members of the Board of Directors of the Company, except for independent directors. The exercise price of the options is equal to the market price of GDRs on the date of grant. The exercise of these options is not subject to the attainment of performance conditions. Options granted on or after July 1, 2007 vest on the third anniversary of the date of the grant and are exercisable till the fifth anniversary from the vesting date.

Under the employee option plan 3 (“EOP 3”) GDR options are granted to key employees and senior executives of the Company. The exercise price of the options is equal to zero. Options were granted on December 25, 2015, vested on December 31, 2015 and are exercisable before December 31, 2020.

Under the employee option plan 4 (“EOP 4”) GDR options are granted to key employees and senior executives of the Company. The exercise price of the options is equal to zero. Options were granted on February 23, 2016, vested on May 18, 2016 and are exercisable before May 18, 2021.

Under the employee option plan 5 (“EOP 5”) GDR options are granted to key employees and senior executives of the Company. The exercise price of the options is equal to zero. Options were granted on April 20, 2016, vested on May 18, 2016 and are exercisable before May 18, 2021.

Movement in the year

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

	2016		2015	
	No.	WAEP	No.	WAEP
Outstanding at January 1	1,557,560	10.34	1,136,523	19.54
Granted during the year	625,391	—	677,231	—
Exercised during the year	(1,255,391)	—	—	—
Forfeited during the year	(24,015)	18.31	(78,214)	17.79
Expired during the year	(123,088)	13.00	(177,980)	26.47
Outstanding at December 31	780,457	18.03	1,557,560	10.34
Exercisable at December 31	780,457	18.03	1,557,560	10.34

The weighted average remaining contractual life for share options outstanding as at December 31, 2016 is 1.75 years (2015: 3.46 years). The range of exercise price for options outstanding at December 31, 2016 was 0.00 US Dollars – 26.10 US dollars per GDR (2015: 0.00 US Dollars – 26.10 US Dollars). The EOP 1, EOP2, EOP 3, EOP 4 and EOP 5 are equity settled plans and the fair value is measured at the grant date.

11.3 Kazakhstan Stock Exchange disclosure requirement

The Kazakhstan Stock Exchange enacted on October 11, 2010 a requirement for disclosure of the total equity less other intangible assets (Note 6) per shares outstanding as at year end. As at December 31, 2016 the amount per share outstanding is 28,240 Tenge (December 31, 2015: 26,544 Tenge).

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***12. EARNINGS PER SHARE**

	2016	2015
Weighted average number of all shares outstanding	68,283,721	68,162,635
Profit for the year	131,576	243,669
Basic and diluted earnings per share, thousands tenge	1.93	3.57

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

13. PROVISIONS

	Environmental remediation	Taxes and related fines and penalties	Asset retirement obligation	Other	Total
At January 1, 2015	17,450	932	16,613	8,221	43,216
Additional provisions	–	60,086	165	9,049	69,300
Unwinding of discount	1,267	–	1,317	–	2,584
Changes in estimate	127	–	3,599	–	3,726
Used during the year	(1,234)	(932)	(372)	(1,014)	(3,552)
At December 31, 2015	17,610	60,086	21,322	16,256	115,274
Current portion	8,270	60,086	556	1,098	70,010
Non-current portion	9,340	–	20,766	15,158	45,264
At January 1, 2016	17,610	60,086	21,322	16,256	115,274
Additional provisions	–	4,952	164	1,043	6,159
Unused amounts reversed	–	(18,985)	–	–	(18,985)
Unwinding of discount	1,265	–	1,670	1,278	4,213
Changes in estimate	(3,387)	–	(5,441)	(563)	(9,391)
Used during the year	(1,232)	(2,667)	(545)	(1,600)	(6,044)
At December 31, 2016	14,256	43,386	17,170	16,414	91,226
Current portion	487	43,386	820	1,233	45,926
Non-current portion	13,769	–	16,350	15,181	45,300

The Company reversed 18,754 million Tenge of tax provisions upon receipt of an official notification from the appropriate authorities of a reduction in tax, fines and penalties related to the 2009-2012 Comprehensive tax audit (Note 24).

14. REVENUE

	2016	2015
Export:		
Crude oil	512,699	364,484
Refined products	54,733	–
Gas products	162	891
Domestic (Note 23):		
Refined products	126,676	1,394
Crude oil	15,459	145,285
Gas products	7,683	6,498
Other sales and services	9,742	11,260
	727,154	529,812

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***15. PRODUCTION EXPENSES**

	2016	2015
Employee benefits	152,422	153,928
Refinery processing costs	48,548	1,109
Repairs and maintenance	24,434	20,206
Energy	20,958	18,389
Materials and supplies	20,003	18,357
Transportation services	5,435	5,345
Change in crude oil balance	1,303	3,356
Change in estimate of environmental remediation obligation (Note 13)	(3,463)	127
Decrease in asset retirement obligation in excess of capitalized asset	(3,790)	(1,686)
Other	8,903	5,918
	274,753	225,049

16. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
Transportation expenses	91,851	66,637
Employee benefits	18,331	19,364
Agency fee	5,407	—
Consulting and audit services	3,238	1,889
Sponsorship	2,093	726
Repairs and maintenance	1,212	1,026
Net (reversal)/ accrual of fines and penalties (Note 23)	(14,117)	24,737
Other	7,007	4,222
	115,022	118,601

17. TAXES OTHER THAN ON INCOME

	2016	2015
Export customs duty	76,411	65,588
Mineral extraction tax	39,188	67,160
Rent tax	18,164	39,838
Property tax	6,699	6,265
Other taxes	4,969	2,650
	145,431	181,501

18. FINANCE INCOME / COSTS**18.1 Finance income**

	2016	2015
Interest income on deposits with banks	19,157	15,719
Interest income on receivable from joint ventures and jointly controlled entities	8,873	7,265
Unwinding of discount on long-term VAT recoverable (Note 23)	—	1,860
Other	2,007	1,250
	30,037	26,094

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***18. FINANCE INCOME / COSTS (continued)****18.2 Finance costs**

	2016	2015
Unwinding of discount on asset retirement obligation	1,670	1,317
Unwinding of discount on ecology remediation obligation	1,265	1,267
Valuation allowance on loan to KS EP (Note 8)	1,404	11,017
Recognition of discount on long-term VAT recoverable (Note 23)	—	1,051
Interest expense	1,503	347
	5,842	14,999

19. INCOME TAXES

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

	2016	2015
Corporate income tax	17,936	109,124
Excess profit tax	(1,203)	6,563
Current income tax	16,733	115,687
Corporate income tax	20,514	8,847
Excess profit tax	(171)	2,987
Deferred income tax	20,343	11,834
Income tax expense	37,076	127,521

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

	2016	2015
Profit before tax	168,652	371,190
Income tax	37,076	127,521
Effective tax rate	22%	34%
Statutory income tax	20%	20%
Increase / (decrease) resulting from		
Withholding tax	1%	1%
Excess profit tax	—	1%
Income tax of prior years	(2%)	7%
Share of result of associate and joint ventures	1%	(1%)
Non-taxable income	(1%)	(2%)
Allowance for VAT recoverable	(2%)	3%
Non-deductible expenses	5%	5%
Effective tax rate	22%	34%

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

Deferred tax assets:

	Fixed and Intangible assets	Provisions	Taxes	Other	Total
At January 1, 2015	63,056	8,265	7,869	4,877	84,067
Recognised in the statement of comprehensive income	(13,033)	5,368	(3,413)	(1,085)	(12,163)
At December 31, 2015	50,023	13,633	4,456	3,792	71,904
Recognised in the statement of comprehensive income	(10,681)	(1,479)	(4,203)	(4,082)	(20,445)
At December 31, 2016	39,342	12,154	253	(290)	51,459

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***19. INCOME TAXES (continued)***Deferred tax liabilities:*

	Fixed and Intangible assets	Provisions	Taxes	Other	Total
At January 1, 2015	(638)	69	2	(2)	(569)
Recognised in the statement of comprehensive income	398	(69)	(2)	2	329
At December 31, 2015	(240)	—	—	—	(240)
Recognised in the statement of comprehensive income	102	—	—	—	102
At December 31, 2016	(138)	—	—	—	(138)

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

20. RELATED PARTY TRANSACTIONS

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

Sales and purchases with related parties during the twelve months ended December 31, 2016 and 2015 and the balances with related parties at December 31, 2016 and December 31, 2015 are as follows:

	2016	2015
Revenue and other income		
Entities under common control	632,678	535,105
Other state controlled entities	165	31
Associate	34	29
Joint ventures	4,391	4,973
Purchases of goods and services		
Entities under common control	102,248	40,316
Other state controlled entities	21,363	18,410
Joint ventures	1,189	57
Interest earned on financial assets		
Interest earned on loans to Joint ventures	6,660	4,323
Average interest rate on loans to Joint ventures	1.04%	1.04%
Valuation allowance on financial assets		
Joint ventures	3,783	11,017
Salaries and other short-term benefits		
Members of the Board of Directors	300	179
Members of the Management Board	549	473
Share-based payments		
Members of the Management Board	914	331

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***20. RELATED PARTY TRANSACTIONS (continued)**

	December 31, 2016	December 31, 2015
Trade and other receivables		
Entities under common control	77,992	95,516
Joint ventures	64,626	72,306
Other state controlled entities	872	2,796
Associate	11	7
Trade payables		
Entities under common control	3,771	2,530
Other state controlled entities	275	327
Joint ventures	684	28

Sales and receivables

Sales to related parties comprise mainly export and domestic sales of crude oil and refined products to subsidiaries of NC KMG. Export sales to related parties represented 4,945,797 tons of crude oil in 2016 (2015: 4,646,981 tons). The sales of crude oil are priced by reference to Platt's index quotations and adjusted for freight, trader's margin and quality differentials. For these exports of crude oil the Company received an average price per ton of approximately 107,433 Tenge in 2016 (2015: 81,046 Tenge).

During 2016 and 2015 there were no export sales of refined products to related parties. Domestic sales of refined products to related parties represented 847,569 tons of refined products (2015: nil) sold to KMG Onimderiy, subsidiary of KMG RM.

During 2016 there were no sales to 'entities under common control' from counter sale of crude oil to the Russian Federation (2015: 916,300 tons at average price of 50,289 Tenge) through KMG RM.

Transportation services related to the shipment of 6,256,857 tons of crude oil (2015: 6,467,528 tons) and transshipment of 2,148,682 tons of crude oil to Caspian Pipeline Consortium collection point in 2016 (2015: 1,849,985 tons) were purchased from a subsidiary of the Parent Company for 33,602 million Tenge in 2016 (2015: 33,727 million Tenge).

Also starting from April 1, 2016 the Company purchases processing services from subsidiary of the Parent Company for 54,468 million Tenge (Note 16). The remaining services purchased from subsidiaries of NC KMG include primarily payments for security services.

Share based payments to members of the Management Board

Share based payments to members of the Management Board represents the amortization of share based payments over the vesting period. During 2016 the Company granted 411,728 options to the members of the Management Board (2015: 140,259 options).

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

As of December 31, 2016 the Company has no floating interest rate borrowings and no exposure to interest rate risk.

Foreign currency risk

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

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)***Foreign currency risk (continued)*

	Increase/ decrease in Tenge to US dollar exchange rate	Effect on profit before tax
2016		
US dollar	+ 13.00%	127,774
US dollar	- 13.00%	(127,774)
2015		
US dollar	+ 20.00%	174,285
US dollar	- 5.00%	(43,571)

Credit risk

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

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

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

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

Banks	Location	Rating¹		2016	2015
		2016	2015		
Halyk Bank	Kazakhstan	BB (negative)	BB+ (negative)	316,322	294,748
HSBC Plc	UK	AA- (negative)	A (stable)	166,836	62,230
Societe Generale	UK	A (stable)	Not available	162,469	–
BNP Paribas	UK	A (stable)	A+ (negative)	166,295	170,156
ING Bank	Netherlands	A (stable)	A (stable)	158,566	144,901
Kazkommertsbank	Kazakhstan	B- (negative)	B- (negative)	157,844	99,394
Credit Suisse	Switzerland	A (stable)	BBB+ (stable)	25,473	30,301
Citi Bank N.A.	UK branch	A+ (stable)	A (positive)	13,514	100,390
ATF Bank	Kazakhstan	B (negative)	B- (stable)	9,636	18,229
Bank of Scotland	UK	A (negative)	Not available	2,299	–
RBS NV	UK	BBB- (stable)	BBB- (negative)	–	2,790
Bank RBK	Kazakhstan	B- (stable)	Not available	1,789	–
Deutsche Bank	UK	BBB+ (negative)	BBB+ (stable)	152	170,097
Bank Astana-Finance	Kazakhstan	Not available	Not available	91	312
Eurasian Bank	Kazakhstan	B (stable)	B (stable)	–	11,231
Sberbank	Kazakhstan	BB+ (negative)	BB+ (negative)	–	100
Other				23	103
				1,181,309	1,104,982

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

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)***Liquidity risk*

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

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

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2016 based on contractual undiscounted payments:

At December 31, 2015	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Borrowings	–	601	4,913	6,468	1,494	13,476
Trade and other liabilities	49,549	–	–	–	–	49,549
	49,549	601	4,913	6,468	1,494	63,025

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

Commodity price risk

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

Capital management

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

As at December 31, 2016 the Company had a strong financial position and a conservative capital structure. Going forward, the Company intends to maintain a capital structure, which allows it the flexibility to take advantage of growth opportunities as and when they arise.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policy or processes during the years ended December 31, 2016 and 2015.

22. FINANCIAL INSTRUMENTS

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

23. COMMITMENTS AND CONTINGENCIES*Operating environment*

Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

23. COMMITMENTS AND CONTINGENCIES (continued)

Local market obligation

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

Starting from April 1, 2016 the Company ceased sales of crude oil to KMG RM and started tolling crude oil at Atyrau Refinery ("ANPZ") and Pavlodar Refinery ("PNHZ") and selling refined products on its own account using KMG RM as a sales agent.

Prior to April 1, 2016 the Company supplied crude oil to the local market by selling to KMG RM, a subsidiary of the Parent Company. Prices for local market sales were determined through negotiation process with KMG RM and the Parent Company.

On January 1, 2017 the Company ceased using KMG RM as its sales agent and started marketing refined products on its own account.

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

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Due to uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2016.

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

2009-2012 Comprehensive tax audit

Based on the results of the 2009-2012 Comprehensive tax audit in 2015 the Company received a tax assessment for 38,512 million Tenge, including tax principal, administrative fine and penalty. The Company did not agree with the results of the tax audit and sent an appeal to the Committee of State Revenues. As per the decision of the Committee of State Revenue the amount of tax principal and penalty was reduced to 11,483 million Tenge. As per the decision of Special Interdistrict Administrative court of Astana the amount of administrative fine was reduced to 2,002 million Tenge. The Company expects to receive 18,754 million Tenge in 2017, which currently is recorded in prepayments for current income tax, excess profit tax, mineral extraction tax and related fines and penalties. The Company plans to appeal the remaining amount of 13,486 million Tenge to the appropriate courts. The accompanying financial statements include provisions for the entire claim balance.

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***23. COMMITMENTS AND CONTINGENCIES (continued)***VAT recoverability*

On August 31, 2016 the Company filed an application for the VAT recoverability in the amount of 57,410 million Tenge, including 46,558 million Tenge related to the Company's sale of assets to JSC "Ozenmunaigas" and JSC "Embamunaigas" in 2012. On October 10, 2016 the Tax authorities partially satisfied the VAT claim amount for 24,567 million Tenge, which has been received by the Company in 2016.

In these financials, the Company has reversed 24,567 million Tenge of previously accrued VAT allowance. Total remaining VAT allowances as at December 31, 2016 are 33,196 million Tenge including 11,205 million Tenge provided for in the Company's Statement of comprehensive income.

Mineral extraction tax (MET)

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

Rent tax

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

Environment

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

Oilfield licenses

The Company is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its oilfield licenses and related subsoil use contracts. Management cooperates with governmental authorities to agree on remedial actions necessary to resolve any findings resulting from these reviews. Failure to comply with the terms of a license could result in fines, penalties, license limitation, suspension or revocation. The Company's management believes that any issues of non-compliance will be resolved through negotiations or corrective actions without any material effect on the Company's financial position, statement of income or cash flows.

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

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

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

Notes to the Consolidated Financial Statements (continued)*Tenge million unless otherwise stated***23. COMMITMENTS AND CONTINGENCIES (continued)***Commitments arising from oilfield and exploration licenses*

Year	Capital expenditures	Operational expenditures
2017	115,706	4,361
2018	12,238	4,000
2019	11,162	3,640
2020	5,380	3,532
2021-2048	—	15,944
	144,486	31,477

Commitments of Kazgermunai

The Company's share in the commitments of Kazgermunai is as follows as at December 31, 2016:

Year	Capital expenditures	Operational expenditures
2016 (remaining)	6,695	4,469

Commitments of UGL

The Company's share in the commitments of UGL is as follows as at December 31, 2016 :

Year	Capital expenditures	Operational expenditures
2016 (remaining)	4,563	297

Commitments of PKI

The Company's share in the commitments of PKI is as follows as at December 31, 2016:

Year	Capital expenditures
2016 (remaining)	224

24. SUBSEQUENT EVENTS

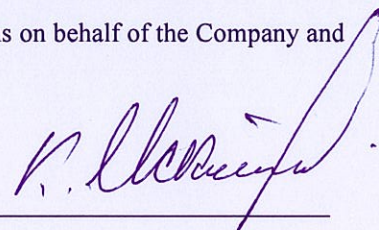
On January 27, 2017 the Company has received notification on the results of Company's appeal related to the 2009-2012 Comprehensive Tax audit and respective resolution of tax authorities to reduce total tax charges and penalties to 11,483 million Tenge. On January 31, 2017 the Company has received the decision of Special Interdistrict Administrative Court of Astana to reduce administrative fine related to the 2009-2012 Comprehensive Tax audit to 2,002 million Tenge. Tax provisions in these financial statements were reduced by 18,754 million Tenge to account for this ruling (Note 13).

Notes to the Consolidated Financial Statements (continued)

Tenge million unless otherwise stated

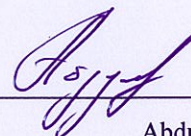
These consolidated financial statements have been signed below by the following persons on behalf of the Company and in the capacities indicated on February 14, 2017:

Chief Executive Officer



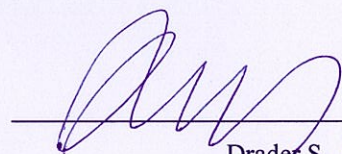
Iskaziye K. O.

Chief Financial Officer



Abdulgafarov D. Y.

Financial Director-Financial Controller



Drader S., CA

Chief Accountant



Zainelova A. A., CPA

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