

**JSC “National Company “KazMunayGas”**

**Consolidated financial statements**

*For the year ended December 31, 2017  
with independent auditors' report*

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Independent auditors` report

**Consolidated financial statements**

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## Independent auditor's report

To the Shareholders and Management of "National Company "KazMunayGas" JSC

### **Opinion**

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (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 Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key audit matters**

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

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

## Key audit matter

## How our audit addressed the key audit matter

### ***Impairment of non-current assets***

We considered this matter to be one of the most significance in the audit due to materiality of the balances of non-current assets, including upstream, exploration and evaluation, downstream assets and investments in upstream joint ventures and associates, to the consolidated financial statements, the high level of subjectivity in respect of assumptions underlying impairment analysis and significant judgements and estimates made by management. In addition, the combination of volatility in oil prices and Tenge, increased inflation and cost of debt and uncertainty about future economic growth affects the Group's business prospects and therefore triggers potential impairment of the Group's assets.

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

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

### ***Discontinued operations***

On 15 December 2016, the Group signed a share sale and purchase agreement (the SPA) to sell a 51% interest in KMG International NV (KMGI) subsidiary of the Group.

In 2017, all conditions precedent indicated in the SPA were executed and on 15 December 2017, the Group signed an addendum to the SPA and a conditional act of transfer of shares with an expectation to complete the transaction in June 2018.

We involved our business valuation specialists in the testing of impairment analysis and calculation of recoverable amount performed by 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 rates and long-term growth rates to general market indicators and other available evidence.

We tested the mathematical integrity of the impairment models and assessed the sensitivity analysis.

We focused on the analysis of criteria for the classification of assets as held for sale, and operations as discontinued. We examined the SPA and an addendum to the SPA and obtained managements' assessment of the status of execution of conditions precedent to the transaction. We analysed the management's assessment of the fair value less cost to sell of KMGI's assets and liabilities that is based on the terms of the SPA.

This area was one of the most significance in our audit because of the uncertainty of completion of the sale of 51% interest in KMGI and the judgement required to assess whether or not the sale is highly probable. Such assessment impacts the measurement and presentation of assets of KMGI classified as held for sale and liabilities directly associated with them, and the results from discontinued operations, that are material to the consolidated financial statements.

Information associated with discontinued operations is disclosed in Note 5 to the consolidated financial statements; a description of the accounting policy and key judgements and estimates is included in Notes 3 and 4 to the consolidated financial statements.

### ***Compliance with loan covenants***

In accordance with the terms of certain financing arrangements, the Group should maintain and comply with certain financial and non-financial covenants. There is a higher likelihood that covenants impacted by trading volumes, revenue and profit may be breached particularly in subsidiaries impacted by volatility of oil prices and higher operating costs, therefore, we focused on this area during our audit. Breaching covenants could result in significant fines and penalties along with funding shortages. Cross default provisions are in place under the Group's financing arrangements. Compliance with the financing covenants is one of the matters of most significance in the audit since it can have a major impact on the going concern assumption used in the preparation of the consolidated financial statements, and on classification of interest-bearing liabilities in the consolidated statement of financial position.

Information on compliance with covenants is disclosed in Note 19 to the consolidated financial statements.

We examined the terms of financing arrangements. We compared data used in the calculations with the financial statements. We assessed arithmetic accuracy of financial covenants calculations.

### ***Other information included in the Group's 2017 annual report***

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

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

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

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

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

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

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

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

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

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

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

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

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 Gulmira Turmagambetova.

*Ernst & Young LLP*



Gulmira Turmagambetova  
Auditor / General Director  
Ernst and Young LLP

Auditor qualification certificate  
No. 0000374 dated 21 February 1998

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12 March 2018



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 July 15, 2005



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

| <i>In thousands of tenge</i>                   | Note | As at December 31     |                       |
|--|------|-----------------------|-----------------------|
|  |      | 2017                  | 2016*                 |
| <b>Assets</b>                                  |      |                       |                       |
| <b>Non-current assets</b>                      |      |                       |                       |
| Property, plant and equipment                  | 7    | 3,359,094,790         | 2,953,135,665         |
| Exploration and evaluation assets              | 8    | 253,326,100           | 231,553,168           |
| Investment property                            | 9    | 27,423,225            | 29,480,044            |
| Intangible assets                              | 10   | 115,431,414           | 116,488,612           |
| Long-term bank deposits                        | 11   | 48,523,034            | 50,027,102            |
| Investments in joint ventures and associates   | 12   | 3,810,351,341         | 3,706,276,810         |
| Deferred income tax asset                      | 31   | 65,135,777            | 71,909,033            |
| VAT receivable                                 |      | 96,666,045            | 71,918,992            |
| Advances for non-current assets                |      | 124,906,942           | 139,185,121           |
| Loans and receivables due from related parties | 15   | 672,448,689           | 565,994,497           |
| Other financial assets                         | 16   | 4,161,312             | –                     |
| Other non-current assets                       |      | 14,027,609            | 20,687,850            |
|  |      | <b>8,591,496,278</b>  | <b>7,956,656,894</b>  |
| <b>Current assets</b>                          |      |                       |                       |
| Inventories                                    | 13   | 108,897,355           | 98,776,900            |
| VAT receivable                                 |      | 68,245,090            | 68,719,671            |
| Income tax prepaid                             |      | 35,586,296            | 74,457,414            |
| Trade accounts receivable                      | 14   | 306,324,631           | 279,811,631           |
| Short-term bank deposits                       | 11   | 1,638,940,642         | 1,182,669,493         |
| Loans and receivables due from related parties | 15   | 169,501,500           | 135,673,233           |
| Other current assets                           | 14   | 167,916,249           | 149,079,608           |
| Cash and cash equivalents                      | 17   | 1,190,156,359         | 878,438,350           |
|  |      | <b>3,685,568,122</b>  | <b>2,867,626,300</b>  |
| Assets classified as held for sale             | 5    | 1,111,688,937         | 1,058,794,076         |
|  |      | <b>4,797,257,059</b>  | <b>3,926,420,376</b>  |
| <b>Total assets</b>                            |      | <b>13,388,753,337</b> | <b>11,883,077,270</b> |

*The accounting policies and explanatory notes on pages 8 through 84 form an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)**

| <i>In thousands of tenge</i>  | Note | As at December 31     |                       |
|---|------|-----------------------|-----------------------|
|   |      | 2017                  | 2016                  |
| <b>Equity and liabilities</b>   |      |                       |                       |
| <b>Equity</b>   |      |                       |                       |
| Share capital   | 18   | 709,344,505           | 696,376,625           |
| Additional paid-in capital  | 18   | 243,876,410           | 243,655,405           |
| Other equity  |      | 83,185                | 222,074               |
| Currency translation reserve  |      | 1,298,442,284         | 1,372,771,521         |
| Retained earnings   |      | 3,500,635,709         | 3,163,685,193         |
| <b>Attributable to equity holders of the Parent Company</b>                 |      | <b>5,752,382,093</b>  | <b>5,476,710,818</b>  |
| Non-controlling interest  | 18   | 870,017,901           | 801,560,097           |
| <b>Total equity</b>   |      | <b>6,622,399,994</b>  | <b>6,278,270,915</b>  |
| <b>Non-current liabilities</b>  |      |                       |                       |
| Borrowings  | 19   | 3,399,487,735         | 2,706,101,321         |
| Provisions  | 21   | 150,638,244           | 139,371,823           |
| Deferred income tax liabilities   | 31   | 312,013,046           | 264,599,978           |
| Financial guarantee   |      | 10,767,166            | 12,259,980            |
| Prepayment on oil supply agreements   | 22   | 581,577,501           | 738,572,306           |
| Other non-current liabilities   |      | 46,270,628            | 52,509,205            |
|   |      | <b>4,500,754,320</b>  | <b>3,913,414,613</b>  |
| <b>Current liabilities</b>  |      |                       |                       |
| Borrowings  | 19   | 763,955,792           | 366,438,649           |
| Provisions  | 21   | 78,812,199            | 94,394,277            |
| Income tax payable  |      | 7,705,079             | 2,301,839             |
| Trade accounts payable  | 22   | 325,120,176           | 260,137,009           |
| Other taxes payable   | 23   | 79,168,191            | 34,014,457            |
| Financial guarantee   |      | 1,170,697             | 1,211,481             |
| Prepayment on oil supply agreements   | 20   | 332,330,000           | 249,967,500           |
| Other current liabilities   | 22   | 144,405,371           | 119,042,249           |
|   |      | <b>1,732,667,505</b>  | <b>1,127,507,461</b>  |
| Liabilities directly associated with the assets classified as held for sale | 5    | 532,931,518           | 563,884,281           |
| <b>Total liabilities</b>  |      | <b>6,766,353,343</b>  | <b>5,604,806,355</b>  |
| <b>Total equity and liabilities</b>   |      | <b>13,388,753,337</b> | <b>11,883,077,270</b> |
| <b>Book value per ordinary share</b>  | 18   | <b>11,040</b>         | <b>10,547</b>         |

\* Certain numbers shown here do not correspond to the consolidated financial statements for the year ended December 31, 2016 and reflect combination of notes made, refer to Note 2.

Executive vice-president – financial director



D.S. Karabayev

Vice-president – finance controller



A.Zh. Beknazarova

Chief accountant



Y.Y. Orynbayev

The accounting policies and explanatory notes on pages 8 through 84 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

| <i>In thousands of tenge</i>  | Note | For the years ended December 31 |                     |
|---|------|---------------------------------|---------------------|
|   |      | 2017                            | 2016                |
| Revenue   | 24   | 2,458,835,090                   | 1,857,435,356       |
| Cost of sales   | 25   | (2,379,902,871)                 | (1,561,746,019)     |
| <b>Gross profit</b>   |      | <b>78,932,219</b>               | <b>295,689,337</b>  |
| General and administrative expenses   | 26   | (152,011,319)                   | (117,675,164)       |
| Transportation and selling expenses   | 27   | (288,527,270)                   | (198,473,083)       |
| Impairment of property, plant and equipment, intangible assets                                    | 28   | (25,641,552)                    | (3,282,679)         |
| Loss on disposal of property, plant and equipment, intangible assets and investment property, net |      | (3,814,867)                     | (5,620,831)         |
| Other operating income  |      | 20,164,501                      | 19,429,680          |
| Other operating expenses  |      | (30,093,073)                    | (14,821,567)        |
| <b>Operating loss</b>   |      | <b>(400,991,361)</b>            | <b>(24,754,307)</b> |
| Net foreign exchange gain/(loss)  |      | 67,182,980                      | (12,894,441)        |
| Finance income  | 29   | 121,735,274                     | 167,891,688         |
| Finance costs   | 29   | (294,897,464)                   | (230,383,354)       |
| Reversal/(impairment) of investments in joint ventures  |      | 14,845,359                      | (5,503,379)         |
| Impairment of assets classified as held for sale  |      | (67,594)                        | (92,601)            |
| Impairment of loan given  |      | –                               | (1,346,447)         |
| Share in profit of joint ventures and associates, net   | 30   | 414,565,236                     | 270,190,990         |
| <b>(Loss)/profit before income tax</b>  |      | <b>(77,627,570)</b>             | <b>163,108,149</b>  |
| Income tax expenses   | 31   | (192,029,803)                   | (163,791,137)       |
| <b>Loss for the year from continuing operations</b>   |      | <b>(269,657,373)</b>            | <b>(682,988)</b>    |
| <b>Discontinued operations</b>  |      |                                 |                     |
| Profit after income tax for the year from discontinued operations                                 | 5    | 789,183,404                     | 360,854,031         |
| <b>Net profit for the year</b>  |      | <b>519,526,031</b>              | <b>360,171,043</b>  |
| <b>Net profit for the year attributable to:</b>   |      |                                 |                     |
| Equity holders of the Parent Company  |      | 437,485,878                     | 305,849,105         |
| Non-controlling interest  |      | 82,040,153                      | 54,321,938          |
|   |      | <b>519,526,031</b>              | <b>360,171,043</b>  |

*The accounting policies and explanatory notes on pages 8 through 84 form an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)**

| <i>In thousands of tenge</i>  | Note | For the years ended December 31 |                     |
|---|------|---------------------------------|---------------------|
|   |      | 2017                            | 2016                |
| <b>Other comprehensive loss</b>   |      |                                 |                     |
| <i>Other comprehensive loss to be reclassified to profit or loss in subsequent periods</i>              |      |                                 |                     |
| Exchange differences on translation of foreign operations   |      | (74,167,162)                    | (38,081,340)        |
| Accumulated differences on translation of disposal group  |      | (423,776)                       | -                   |
| <b>Other comprehensive loss to be reclassified to profit or loss in the year</b>                        |      | <b>(74,590,938)</b>             | <b>(38,081,340)</b> |
| <i>Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods</i> |      |                                 |                     |
| Actuarial (loss)/gain on defined benefit plans of the Group   |      | (1,148,036)                     | 3,775,606           |
| Actuarial loss on defined benefit plans of joint ventures   |      | (173,333)                       | (127,142)           |
| Write-off of deferred tax assets  |      | (150,746)                       | -                   |
| Tax effect  |      | 8,642                           | (807,240)           |
| <b>Other comprehensive (loss)/income not to be reclassified to profit or loss in the year</b>           |      | <b>(1,463,473)</b>              | <b>2,841,224</b>    |
| <b>Other comprehensive loss for the year</b>  |      | <b>(76,054,411)</b>             | <b>(35,240,116)</b> |
| <b>Total comprehensive income for the year, net of tax</b>  |      | <b>443,471,620</b>              | <b>324,930,927</b>  |
| <b>Total comprehensive income for the year attributable to:</b>   |      |                                 |                     |
| Equity holders of the Parent Company  |      | 361,870,465                     | 275,618,617         |
| Non-controlling interest  |      | 81,601,155                      | 49,312,310          |
|   |      | <b>443,471,620</b>              | <b>324,930,927</b>  |

Executive vice-president – financial director



D.S. Karabayev

Vice-president – finance controller



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