

“Sovereign Wealth Fund “Samruk-Kazyna” JSC

Consolidated financial statements

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

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Independent auditor’s report

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Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of "Sovereign Wealth Fund "Samruk-Kazyna" JSC and its subsidiaries (the "Group"), 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 financial position of the Group as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Impairment of non-current assets

We considered this matter to be one of most significance in the audit due to the high level of subjectivity in respect of assumptions underlying impairment analysis of non-current assets and significant judgements and estimates made by the management. In addition, the combination of the recent drop in commodities prices, devaluation of the Tenge, increased inflation and cost of debt and uncertainty regarding future economic growth affects the Group's business prospects and raises indicators of potential impairment of the Group's assets.

Significant assumptions included discount rates, commodities prices and tariffs forecasts, and inflation and exchange rate forecasts. Significant estimates included production forecasts, future capital expenditures and commodity reserves available for development and production.

We involved business valuation specialists in the testing of the impairment analysis and calculation of recoverable amounts performed by the management. We analyzed the assumptions underlying management forecast. We compared commodities prices used in the calculation of recoverable amounts to available market forecasts. We compared the discount rate and long-term growth rate to general market indicators and other available evidence. We tested the mathematical integrity of the impairment models and assessed the sensitivity analysis.

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 (SPA) to sell a 51% interest in KMG International NV (KMGI), a subsidiary of the Group. The SPA is subject to satisfaction of certain conditions precedent until 31 May 2017. We focused on this area during the audit because of the uncertainty of completion of the sale 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.

We evaluated the analysis of the criteria for the classification of assets as held for sale and operations as discontinued. We analyzed the SPA and evaluated management's assessment of the status of satisfaction of conditions precedent to the transaction. We tested the fair value less cost to sell of KMGI's assets and liabilities based on the terms of the SPA.

Information associated with discontinued operations is disclosed in Note 6 to the consolidated financial statements; a description of the accounting policy and key judgements and estimates is included in Note 4 to the consolidated financial statements.

Compliance with loan covenants

In accordance with the terms of certain borrowings and bonds issued, 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 the low oil prices and higher operating costs. Breaching covenants could result in significant fines and penalties along with funding shortages. Cross default provisions are also in place under many of the Group's financing arrangements with credit institutions and issued bonds. Compliance with the financing covenants is one of the matters of most significance in the audit since it can have an impact on the going concern assumption used in the preparation of the financial statements, and on classification of interest-bearing liabilities in the consolidated statement of financial position.

We have examined the terms of financing arrangements with credit institutions and the documentation of bonds issuance and tested the financial covenants compliance calculations.

Information on compliance with covenants is disclosed in Note 18 to the consolidated financial statements.

Recoverability of assets held in KazInvestBank JSC and Delta Bank JSC

The measurement of cash and deposits held in banks was one of the matters of most significance in our audit taking into account the significant amount of assets placed by the Group in KazInvestBank JSC (“KazInvestBank”) and Delta Bank JSC (“Delta Bank”), revocation of the KazInvestBank’s license by the National Bank of the Republic of Kazakhstan and the Delta Bank default on bonds.

We analyzed available information on plans for the banks’ financial rehabilitation, additional clarifications from the Group’s management and evaluated the management assumptions used in measurement of assets placed in KazInvestBank and Delta Bank. We evaluated management’s analysis of Delta Bank’s actions to address the bonds default. We have analyzed uncertainties impacting classification of these assets as at the reporting date. We assessed the completeness of the information disclosed in the consolidated financial statements

The information on measurement of assets placed in KazInvestBank and Delta Bank is disclosed in Note 4 to the consolidated financial statements.

Recoverability of investments in Balkhash Thermal Power Plant JSC

Balkhash Thermal Power Plant JSC (“BTTS”) is an associate of the Group where Samsung C&T Corporation (“Samsung”) is its majority shareholder holding 50%+1 share. In August 2016 Samsung officially announced that it intends to use its put option to sell its shares in BTTS to the Group and suspend the EPC contract for the construction of the power plant. If the parties cannot come to a mutual agreement for the way forward for BTTS, the Group will need to pay USD 192.5 million to purchase the shares of BTTS from Samsung. If the Group purchases Samsung’s share the resulting carrying value of the Group’s investment in BTTS will approximate 91,728 million Tenge. Key condition for the project’s continuation is provision of a letter of support from the Government of the Republic of Kazakhstan. This was one of the matters of most significance in our audit because of the indicators of impairment raised by Samsung’s actions.

We analyzed the correspondence and other documents between the parties relating to this matter. We also discussed with the management of the Group the current status of negotiations with Samsung. We assessed judgement made by the management about getting support from the Government of the Republic of Kazakhstan, including volumes and the tariffs of the electricity.

We involved with the component auditor in our assessment of impairment analysis and calculation of recoverability of investments in BTTS. We analyzed the underlying key judgements and assumptions. We tested the mathematical integrity of the impairment models and assessed the sensitivity analysis.

Information on investments in BTTS and the impairment consideration is disclosed in Note 4 to the consolidated financial statements.

Other information included in the Group’s 2016 Annual Report

Other information consists of the information included in the Group’s 2016 Annual Report other than the consolidated financial statements and our auditor’s report thereon. Management is responsible for the other information. The Group’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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations or has no realistic alternative but to do so.

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

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

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

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

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

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

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

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

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

Ernst & Young LLP

Paul Cohn
Audit partner

Adil Syzdykov
Auditor

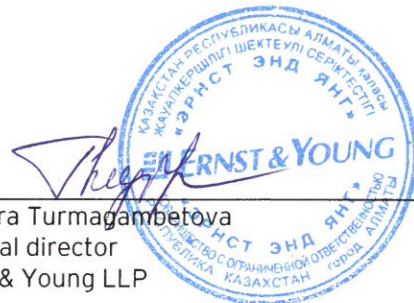


Auditor qualification certificate No.
МФ-0000172 dated 23 December 2013

77/7 building, Al-Farabi Ave.
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31 March 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

CONSOLIDATED BALANCE SHEET

As at December 31, 2016

<i>In millions of tenge</i>	Note	2016	2015*
Assets			
Non-current assets			
Property, plant and equipment	7	10,160,089	10,327,720
Intangible assets	8	922,465	216,480
Exploration and evaluation assets		427,368	424,509
Investment property		9,083	12,493
Investments in joint ventures and associates	9	2,767,678	2,547,103
Loans given	10	560,952	601,673
Amounts due from credit institutions	11	684,442	666,231
Deferred tax assets	34	145,150	116,443
Other non-current financial assets	12	166,236	178,941
Other non-current assets	13	511,324	607,916
		16,354,787	15,699,509
Current assets			
Inventories	14	319,698	318,344
VAT receivable		177,212	196,805
Income tax prepaid		95,942	79,947
Trade accounts receivable	15	438,486	283,248
Loans given	10	140,345	121,241
Amounts due from credit institutions	11	1,669,459	1,492,619
Other current financial assets	12	27,316	15,000
Other current assets	15	399,666	287,050
Cash and cash equivalents	16	1,554,035	1,206,557
		4,822,159	4,000,811
Assets classified as held for sale	6	1,283,914	1,189,364
Total assets		22,460,860	20,889,684

The accounting policies and explanatory notes on pages 8 through 87 form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET (continued)

<i>In millions of tenge</i>	Note	2016	2015*
Equity and liabilities			
Equity attributable to equity holder of the Parent			
Share capital	17	5,058,658	4,916,269
Revaluation reserve for available-for-sale investments		31,032	32,817
Currency translation reserve	17	1,008,696	1,025,930
Other capital reserves	17	(16,522)	(13,922)
Hedging reserve	17	(52,712)	(59,171)
Retained earnings		3,321,930	2,971,941
		9,351,082	8,873,864
Non-controlling interest	17	1,640,592	1,527,508
Total equity		10,991,674	10,401,372
Non-current liabilities			
Borrowings	18	4,930,158	5,375,804
Loans from the Government of the Republic of Kazakhstan	19	912,180	859,715
Finance lease liabilities	21	116,078	134,833
Provisions	22	161,936	271,553
Deferred tax liability	34	583,245	527,014
Employee benefit liability	23	66,887	72,439
Other non-current liabilities	20	1,476,788	839,819
		8,247,272	8,081,177
Current liabilities			
Borrowings	18	820,570	716,907
Loans from the Government of the Republic of Kazakhstan	19	6,231	6,722
Finance lease liabilities	21	18,332	19,364
Provisions	22	193,499	220,920
Employee benefit liability	23	6,172	6,384
Income taxes payable		4,220	9,490
Trade and other payables		587,217	506,213
Other current liabilities	24	892,977	355,968
		2,529,218	1,841,968
Liabilities associated with assets classified as held for sale	6	692,696	565,167
Total liabilities		11,469,186	10,488,312
Total equity and liabilities		22,460,860	20,889,684

* Certain amounts shown here do not correspond to 2015 consolidated financial statements and reflect reclassification made, details of which are disclosed in Note 2.

Acting as Managing Director for Finance and Operations



Yernar Zhanadil

Chief accountant




Almaz Abdрахmanova

The accounting policies and explanatory notes on pages 8 through 87 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year December 31, 2016

<i>In millions of tenge</i>	Note	2016	2015
Continuing operations			
Revenue	25	4,092,279	3,090,988
Government grants	26	34,209	28,732
		4,126,488	3,119,720
Cost of sales	27	(3,397,102)	(2,715,032)
Gross profit		729,386	404,688
General and administrative expenses	28	(344,701)	(380,578)
Transportation and selling expenses	29	(218,340)	(211,268)
Impairment loss	30	(68,654)	(292,270)
Gain/(loss) on disposal of subsidiaries		44,531	(1,657)
Operating gain/(loss)		142,222	(481,085)
Finance costs	31	(400,955)	(321,489)
Finance income	32	273,738	282,122
Other non-operating loss		(31,714)	(36,520)
Other non-operating income		61,216	41,380
Share in profit of joint ventures and associates, net	33	355,969	149,423
Net foreign exchange (loss)/gain		(23,583)	683,359
Profit before income tax		376,893	317,190
Income tax expenses	34	(169,892)	(274,019)
Net profit for the year from continuing operations		207,001	43,171
Discontinued operations			
Profit from discontinued operations, net of income tax	6	368,199	261,631
Net profit for the year		575,200	304,802
Net profit for the year attributable to:			
Equity holder of the Parent		454,545	161,995
Non-controlling interest		120,655	142,807
		575,200	304,802

The accounting policies and explanatory notes on pages 8 through 87 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

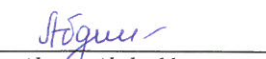
<i>In millions of tenge</i>	Note	2016	2015
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of foreign operations	17.8	(24,351)	797,728
Unrealized loss from revaluation of available-for-sale investments		(1,380)	(17,094)
Share of the other comprehensive loss items of associates and joint ventures to be reclassified to profit or loss in subsequent periods		(1,683)	(960)
Gain/(loss) on transactions with hedge instruments	17.9	9,421	(81,922)
Tax effect on transactions with hedge instrument	17.9	(1,001)	7,686
Net realized loss on available-for-sale investments		(405)	(419)
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		(19,399)	705,019
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Share of the other comprehensive (loss)/income items of associates and joint ventures not to be reclassified to profit or loss in subsequent periods		(343)	169
Actuarial gain/(losses) on defined benefit plans		7,424	(4,387)
Tax effect on Comprehensive (loss)/income components		(654)	885
Other comprehensive gain/(loss) not to be reclassified to profit or loss in subsequent periods		6,427	(3,333)
Other comprehensive (loss)/income for the year, net of tax		(12,972)	701,686
Total comprehensive income for the year, net of tax		562,228	1,006,488
Total comprehensive income for the year, attributable to:			
Equity holder of the Parent		447,957	666,861
Non-controlling interest		114,271	339,627
		562,228	1,006,488

Acting as Managing Director for Finance and Operations


Yernar Zhanadil

Chief accountant




Almaz Abdrakhmanova

The accounting policies and explanatory notes on pages 8 through 87 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2016

<i>In millions of tenge</i>	Note	Attributable to equity holder of the Parent									
		Share capital	Revaluation reserve for available-for-sale investments	Currency translation reserve	Hedging reserve	Other capital reserves	Retained earnings	Total	Non-controlling interest	Total	
Balance as at December 31, 2014		4,620,562	51,290	486,162	-	(14,689)	2,224,315	7,367,640	764,438	8,132,078	
Total comprehensive income for the year		-	(18,473)	584,461	(59,171)	-	160,044	666,861	339,627	1,006,488	
Issue of shares		295,707	-	-	-	-	-	295,707	-	295,707	
Discount on loans from the Government		-	-	-	-	-	325,118	325,118	-	325,118	
Dividends		-	-	-	-	-	(34,713)	(34,713)	(21,559)	(56,272)	
Other transactions with the Shareholder		-	-	-	-	-	(5,612)	(5,612)	-	(5,612)	
Other distributions to the Shareholder		-	-	-	-	-	(32,201)	(32,201)	-	(32,201)	
Disposal of subsidiaries		-	-	-	-	-	-	-	(13,676)	(13,676)	
Change in ownership interests of subsidiaries – sale of non-controlling interest		-	-	(44,693)	-	(210)	332,753	287,850	462,150	750,000	
Change in ownership interests of subsidiaries – acquisition of non-controlling interest		-	-	-	-	-	-	-	(4,641)	(3,725)	
Other equity movements		-	-	-	-	977	1,321	2,298	1,169	3,467	
Balance as at December 31, 2015		4,916,269	32,817	1,025,930	(59,171)	(13,922)	2,971,941	8,873,864	1,527,508	10,401,372	

The accounting policies and explanatory notes on pages 8 through 87 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

In millions of tenge	Note	Attributable to equity holder of the Parent							Total	Non-controlling interest	Total
		Share capital	Revaluation reserve for available-for-sale investments	Currency translation reserve	Hedging reserve	Other capital reserves	Retained earnings	Total			
Balance as at December 31, 2015		4,916,269	32,817	1,025,930	(59,171)	(13,922)	2,971,941	8,873,864	1,527,508	10,401,372	
Total comprehensive income for the year		-	(1,785)	(17,234)	6,459	-	460,517	447,957	114,271	562,228	
Issue of shares	17.1	142,389	-	-	-	-	-	142,389	-	142,389	
Discount on loans from the Government	17.2	-	-	-	-	-	4,007	4,007	-	4,007	
Dividends	17.3	-	-	-	-	-	(10,393)	(10,393)	(16,549)	(26,942)	
Other transactions with the Shareholder	17.4	-	-	-	-	-	(54,643)	(54,643)	-	(54,643)	
Other distributions to the Shareholder	17.5	-	-	-	-	-	(46,993)	(46,993)	-	(46,993)	
Change in ownership interests of subsidiaries – sale of non-controlling interest	17.6	-	-	-	-	-	(2,425)	(2,425)	11,425	9,000	
Execution of share-based payments		-	-	-	-	(3,366)	-	(3,366)	3,366	-	
Other equity movements		-	-	-	-	766	(81)	685	571	1,256	
Balance as at December 31, 2016		5,058,658	31,032	1,008,696	(52,712)	(16,522)	3,321,930	9,351,082	1,640,592	10,991,674	

Acting as Managing Director for Finance and Operations

Yernar Zhanadil

Yernar Zhanadil



Chief accountant

Almaz Abdulkhmanova

Almaz Abdulkhmanova

The accounting policies and explanatory notes on pages 8 through 87 form an integral part of these consolidated financial statements.

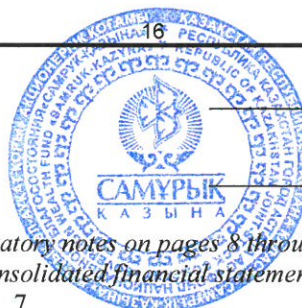
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2016

<i>In millions of tenge</i>	Note	2016	2015
Cash flows from operating activities			
Receipts from customers		7,944,790	5,030,805
Payments to suppliers		(3,868,042)	(2,966,708)
Payments to employees		(766,999)	(748,009)
Other taxes and payments		(967,252)	(442,585)
Operations with financial instruments (the Fund and Kazpost)		79,020	130,240
Other receipts		21,251	42,057
Income taxes paid		(169,533)	(220,554)
Interest paid		(410,074)	(377,124)
Interest received		143,373	169,981
Net cash flows received from operating activities		2,006,534	618,103
Cash flows from investing activities			
(Placement)/withdrawal of bank deposits, net		(228,781)	312,293
Acquisition of joint ventures and associates		(8,288)	(18,191)
Proceeds from sale of subsidiaries, net of cash of disposed subsidiaries		1,656	17,774
Purchase of property, plant and equipment		(1,129,245)	(1,149,685)
Purchase of intangible assets		(44,640)	(11,565)
Change in restricted cash		(9,076)	(35,460)
Sale of other financial assets, net		9,133	8,353
Proceeds from sale of property, plant and equipment		4,320	23,149
Dividends received from joint ventures and associates	9	209,523	230,980
Provision of loans		(58,122)	(65,585)
Repayment of loans given		45,511	32,533
Net cash acquired with the subsidiary	5	978	-
Other receipts/(payments)		35,675	(7,734)
Net cash flows used in investing activities		(1,171,356)	(663,138)
Cash flows from financing activities			
Proceeds from borrowings		657,108	2,089,138
Repayment of borrowings		(1,005,100)	(3,106,085)
Repayment of finance lease liabilities		(19,764)	(17,646)
Contributions to the share capital	17.1	137,923	149,539
Distributions to the Shareholder		(55,513)	(59,139)
Dividends paid to non-controlling interest of subsidiaries		(19,742)	(18,734)
Sale of non-controlling interest	17.6	9,000	750,000
Repayment of payables for acquisition of additional interest in indivisible stake of the North-Caspian project	20	(176,600)	-
Dividends paid to the Shareholder	17.3	(10,393)	(34,713)
Net cash flows used in financing activities		(483,081)	(247,640)
Net increase/(decrease) in cash and cash equivalents		352,097	(292,675)
Effects of exchange rate changes on cash and cash equivalents		(11,451)	308,107
Cash and cash equivalents, at the beginning of the year		1,255,269	1,239,837
Cash and cash equivalents, at the end of the year		1,595,915	1,255,269
Less: cash and cash equivalents disclosed as part of assets held for sale at the end of the year		(41,880)	(48,712)
Cash and cash equivalents of continuing operations at the end of the year		1,554,035	1,206,557

Acting as Managing Director for Finance and Operations

Chief accountant



Yernar Zhanadil

Yernar Zhanadil

Almaz Abdrakhmanova

Almaz Abdrakhmanova

The accounting policies and explanatory notes on pages 8 through 87 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**For the year ended December 31, 2016**

1. GENERAL INFORMATION**Corporate information**

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

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

The Fund is a holding company combining state-owned enterprises listed in *Note 35* (the “Group”). Prior to February 1, 2012, the Fund’s activities were governed by the Law of the Republic of Kazakhstan *On National Welfare Fund # 134-4* dated February 13, 2009 and were aimed to assist in provision of stable development of the state economy, modernization and diversification of economy, and improvement of the Group companies’ efficiency. According to the Law of the Republic of Kazakhstan enacted on February 1, 2012 *On Sovereign Wealth Fund #550-4*, the Fund’s activity is focused on improving sovereign wealth of the Republic of Kazakhstan by increasing the long-term value of the Group companies and by effective management of the Group assets.

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

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

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

These consolidated financial statements were authorised for issue by the Acting as Managing Director for Finance and Operations and Chief accountant of the Fund on March 31, 2017 and preliminary approved by the Audit Committee of the Board of Directors of the Fund on the same date. These consolidated financial statements should be further approved by the Board of Directors and Sole Shareholder.

Privatization plan

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**2. BASIS OF PREPARATION**

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

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

Statement of compliance

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

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

Foreign currency translation*Functional and presentation currency*

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

Transactions and balances

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

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

Group entities

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

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

Exchange rates

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

The following table presents currency exchange rates to tenge as at December 31:

	2016	2015
United States dollar (USD)	333.29	340.01
Euro (EUR)	352.42	371.46
Russian ruble (RUR)	5.43	4.61
Swiss franc (CHF)	328.14	343.48

As at March 31, 2017 currency exchange rate of KASE is 313.73 tenge to 1 US dollar.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**2. BASIS OF PREPARATION (continued)****Separate presentation of exploration and evaluation assets and investment property in the balance sheet**

In these consolidated financial statements exploration and evaluation assets and investment property are presented separately from property, plant and equipment (PPE) and intangible assets. The Group changed the presentation of its financial statements as new presentation provides information that is more relevant to users of the financial statements.

Effect on consolidated balance sheet as at January 1, 2015

<i>In millions of tenge</i>	As previously	Reclassifications	As reclassified
Property, plant and equipment	8,405,084	(252,145)	8,152,939
Intangible assets	334,289	(58,391)	275,898
Exploration and evaluation assets	–	299,598	299,598
Investment property	–	10,938	10,938

Effect on consolidated balance sheet as at December 31, 2015

<i>In millions of tenge</i>	As previously	Reclassifications	As reclassified
Property, plant and equipment	10,711,508	(383,788)	10,327,720
Intangible assets	269,694	(53,214)	216,480
Exploration and evaluation assets	–	424,509	424,509
Investment property	–	12,493	12,493

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Amendments in accounting policy and principles of disclosing information**

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended December 31, 2015, except for the adoption of new standards and interpretations effective as of January 1, 2016 and changes in method of presentation of consolidated cash flow. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group changed method of presentation of consolidated cash flow statement from indirect method to direct method for the period of January 1, 2015 to December 31, 2016 since the Group believes direct method is more relevant to users of financial statements. The Group adopted a method of presenting the consolidated cash flows statement on a retrospective basis.

Adoption of new and revised standards

The following new and amended standards and interpretations adopted by the Group for the first time in 2016 consolidated financial statements did not have a significant impact on the Group’s consolidated financial statements:

- Amendments to IFRS 14 *Regulatory Deferral Accounts*.
- Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests*.
- Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*.
- Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants*.
- Amendments to IAS 27 *Equity Method in Separate Financial Statements*.
- Annual improvements 2012-2014 cycle:
 - IFRS 5 *Non-current Assets Held for Sale and Discontinued*;
 - IFRS 7 *Financial Instruments: Disclosures*;
 - IAS 19 *Employees Benefits*;
 - IAS 34 *Interim Financial Reporting*.
- Amendments to IAS 1 *Disclosure Initiative*.
- *Investment Entities* (amendments to IFRS 10, IFRS 12 and IAS 28) *Applying the Consolidation Exception*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Standards issued but not yet effective***IFRS 9 Financial Instruments*

Management of the Group anticipates that the adoption of IFRS 9 *Financial Instruments* in the future may have an impact on amounts reported in respect of the Group’s financial assets and financial liabilities.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date. During 2016, the Group has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9. The Group expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent.

- *Classification and measurement*

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

The Group expects to apply the option to present fair value changes in OCI, and, therefore, believes the application of IFRS 9 would not have a significant impact. If the Group were not to apply that option, the shares would be held at fair value through profit or loss, which would increase the volatility of recorded profit or loss.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9. However, the Group will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

- *Impairment*

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Group expects a significant impact on its equity due to the unsecured nature of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

- *Hedge accounting*

The Group believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Group does not expect a significant impact as a result of applying IFRS 9. The Group will assess possible changes related to the accounting for the time value of options, forward points or the currency basis spread in more detail in the future.

IFRS 15 Revenue from Contracts with Customers

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

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. In 2017 Group will assess the effects of IFRS 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Standards issued but not yet effective (continued)***IFRS 16 Leases*

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

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

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

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

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

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

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard’s transition provisions permit certain reliefs. In 2017, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

Amendments to IFRS

Management anticipates that application of the following standards, amendments and interpretations effective starting on and after January 1, 2017 will not have a significant impact on the consolidated financial statements in the periods of their application:

- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*.
- Amendments to IAS 7 *Disclosure Initiative*.
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*.
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*.
- Amendments to IFRIC 22 *Foreign Currency Transactions and Advance Consideration*.

Basis of consolidation

These consolidated financial statements comprise the financial statements of the Fund and its controlled subsidiaries (*Note 35*).

Subsidiaries

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Basis of consolidation (continued)***Subsidiaries (continued)*

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

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

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

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

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

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

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

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

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

Investment in joint ventures and associates

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Basis of consolidation (continued)***Investment in joint ventures and associates (continued)*

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

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

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

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

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

Business combinations

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Basis of consolidation (continued)***Acquisition of subsidiaries from parties under common control*

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

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

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

Change in ownership interests in subsidiaries

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

Assets classified as held for sale and discontinued operations

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

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

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

Exploration and development assets on mineral and hydrocarbon resources (oil and gas and mining assets)*Expenditures for acquisition of subsurface use rights*

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

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

Exploration and evaluation expenditures (construction in progress)

Exploration and evaluation expenditures include geological and geophysical costs; costs directly related to exploration drilling; stripping activities; overhead and other expenses on exploration and evaluation, which could be related to a certain field. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. Except for geological and geophysical costs, exploration and evaluation expenditures are capitalized within property, plant and equipment as construction-in-progress, accounted for by subsurface use contracts and are not amortized. If mineral or hydrocarbon resources are not found, this could be an indication of impairment. All capitalized costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. If mineral or hydrocarbon resources are determined and development is sanctioned, relevant costs are then transferred to oil and gas or mining assets subclasses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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

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

Intangible assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

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

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

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

Investment properties

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

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

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

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

Impairment of non-financial assets

The Group assesses non-financial assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the Group makes an estimate of its recoverable amount.

An asset group’s recoverable amount is higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and a provision is made to reduce the asset to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment provision may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognized impairment provision is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment provision was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment provision been recognized for the asset in prior years. Such reversal is recognized in profits and losses.

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

The following process is applied in assessing impairment of goodwill:

The Group assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment annually and when circumstances indicate that its carrying amount may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial assets**

The Group's investments are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale investments, as appropriate. When investments are recognized initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets at the time of initial recognition. All purchases and sales of investments are recognized on the settlement date, which is the date that the investment is delivered to or by the Group.

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

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

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

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

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

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

Impairment of financial assets

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

Assets carried at amortized cost

For financial assets carried at amortized cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition, if a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in current period expenses.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Impairment of financial assets (continued)***Assets carried at amortized cost (continued)*

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

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

Available-for-sale financial investments

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

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

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

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

Hedge accounting

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

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

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

Hedge accounting is discontinued:

- a) when the Group revokes the hedging relationship;
- b) when the hedging instrument expires or is sold, terminated, or exercised; or
- c) when it no longer qualifies for hedge accounting.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Hedge accounting (continued)***Investments in foreign operations hedge*

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

Cash flow hedges

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

Inventories

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

Cash and cash equivalents

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

Financial liabilities*Borrowings*

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 (twelve) months after the reporting date.

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

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

Trade and other payables

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

Financial guarantee contracts

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Derecognition of financial assets and liabilities***Financial assets*

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

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

Financial liabilities

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

Offsetting of financial instruments

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

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

Fair value of financial instruments

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

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

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

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

Leases*Operating leases*

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

Finance leases

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Lease (continued)***Finance leases (continued)*

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

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

Provisions*Asset retirement obligation (decommissioning)*

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

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

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

- a) changes in the provision are added to, or deducted from, the carrying amount of the related asset in the current period;
- b) the amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the provision exceeds the carrying amount of the asset, the excess is recognized immediately in the consolidated statement of comprehensive income; and
- c) if the adjustment results in an addition to the cost of an asset, the Group considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Group tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss, in accordance with IAS 36.

Other provisions

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

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

Employee benefits*Contributions to pension funds*

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

Social tax

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Employee benefits (continued)***Defined benefit plan*

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

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

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

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

Equity*Share capital*

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

Non-controlling interests

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

Dividends

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

Share based payments

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Equity (continued)***Share based payments (continued)*

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

Other distributions to the Shareholder

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

Revenue recognition

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

Sale of goods

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

Rendering of services

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

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

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

Establishment of tariffs

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

Government grants

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Government grants (continued)**

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

Expense recognition

Expenses are recognized as incurred and are reported in the consolidated financial statements in the period to which they relate on the accrual basis.

Income tax

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

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

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

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

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

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

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

Value added tax (VAT)

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

Related parties

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Contingent liabilities and contingent assets**

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

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

Subsequent events

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Oil and gas reserves

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)**Mining reserves**

Mining reserves are a critical component of the projected cash flow estimates that are used to assess the recoverable values of assets and to determine depreciation and amortisation expense in mining segment. Reserves estimation is performed based on results of detailed mine exploration and is evaluated and approved by State Reserves Commission (SRC) of Kazakhstan Geology Committee. Reserves approved by SRC are added to State balance and can be reassessed by SRC on the basis of additional exploration. Need for additional exploration on the mine allotment appears (i) upon finding of new ore bodies during development activities; (ii) when detailed exploration evidences presence of mining reserves on mine allotment that due to various reasons have not been assigned as commercial grade reserves and have not been added to State balance; or (iii) reserves write off upon non-confirmation report. Reserves non-confirmation occurs usually due to violations of phasing and methodology of exploration activities, unsubstantiated selection of exploration grid density, or incorrect linkage of ore intersections. Normally upon stripping during production actual reserves of each area are greater or lesser than geological reserves approved by SRC. Subsurface user reports to the government reserves for the mine as a whole. Instances when balance reserves are systematically not confirmed for the mine as a whole are rare.

Subsurface user cannot unilaterally change reserves by grades. Expert conclusion of SRC is an integral part of a subsurface use contract and serves as a basis for development of mine (lot) production project and working programme of the subsurface use contract. The presence of reserves does not mean that all reserves will be extracted on a cost effective basis. Share of approved by SRC reserves of actual production and approved planned losses are written off annually from the entity's balance. Volume of resources planned for production must coincide with the working programme of the subsurface use contract and approved production project. Changes to planned production are prohibited unless production project and working programme of the subsurface use contract are revised and appropriately approved. If actual production volumes deviate from approved for less than 20% no changes are required.

Recoverability of long-term assets

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

Energy generating assets

The devaluation of tenge, the slowdown of economic growth and rise of borrowing costs and their possible effect on the Group's income are indicators of possible impairment of property, plant and equipment and intangibles of Ekibastus GRES-1 named after Bulat Nurzhanov LLP (EGRES-1), Alatau Zharyk Company JSC (“AZhK”) and the investments in JV Ekibastus GRES-2 station JSC (EGRES-2) and *Balkhash Power Plant* since those entities are significant to the Group and they are the most sensitive to macroeconomic changes. EGRES-1 and EGRES-2 are thermal power plants engaged in the production of electricity, and represent the power plants of national importance. Therefore, the Group's management has decided to conduct an impairment test with respect of these assets.

Insufficiency of current tariffs for electricity transmission to cover the capital expenditures of AZhK is an indicator of possible impairment of property, plant and equipment and intangible assets of AZhK. Accordingly, the Group's management has decided to conduct a test for impairment of property, plant and equipment and intangible assets of AZhK as of December 31, 2016. AZhK is a natural monopoly, engaged in the transmission and distribution of electricity in Almaty and Almaty region.

Group involved independent valuation experts to perform impairment tests, which were conducted in accordance with IAS 36 *Impairment of Assets* for AZhK and EGRES-1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Recoverability of long-term assets (continued)

Energy generating assets (continued)

Management has assessed the recoverable amount of property, plant and equipment and intangible assets of AZhK, EGRES-1 and investment in EGRES-2 based on the estimation of expected future cash inflows and outflows from assets, discount rates and other variables.

The recoverable amount was determined based on value in use calculations. These calculations use cash flow projections based on the financial budgets approved by management covering a 5-year period for 2017-2021.

AZhK

Management considers all property, plant and equipment and intangible assets of AZhK as a single cash-generating unit, as it is the smallest identifiable group of assets that generates cash inflows largely independent of the cash flows generated by other assets, and it is the lowest level at which AZhK monitors recovery of the assets’ cost. Management has assessed the recoverable amount of property, plant and equipment on the basis of value in use, determined as the sum of the estimated discounted future cash flows which the Group expects to get from their use.

As a result of the test, the recoverable amount of plant and equipment exceeded their carrying value. Management did not reverse the amount of impairment, recognised in the previous years, due to significant uncertainty related to the sustainability of judgments used in the assessment and factors that beyond control of Management of the Group. In addition, management noted no other indicators to reverse impairment provision, such as significant increase in tariffs or sales volume. The impairment test also shows that the recoverable value is sensitive to the discount rate, which also indicates a presence of significant judgment.

EGRES-1

Management of EGRES-1 considers all property, plant and equipments and intangible assets as a single cash-generating unit, as it is the smallest identifiable group of assets that generates cash inflows largely independent of the cash flows generated by other assets, and it is the lowest level at which EGRES-1 monitors recovery the assets’ cost. Management has assessed the recoverable amount of property, plant and equipment on the basis of value in use, determined as the sum of the estimated discounted future cash flows which the Group expects to get from their use.

As a result of the test, the recoverable amount of property, plant and equipment at December 31, 2016 amounted to 526,406 million tenge while their carrying value is 519,727 million tenge. Accordingly, management did not identify any impairment indicators of property, plant and equipment and intangible assets.

Investments in EGRES-2

As at December 31, 2016 the carrying value of the investment in a joint venture EGRES-2 comprised 31,811 million tenge (as at December 31, 2015: 29,523 million tenge).

In addition to the reasons stated above, the uncertainties associated with both the completion of the power unit #3, and sale of the electricity that will be generated by the power unit #3, indicates a potential impairment of the investment in of EGRES-2.

For the calculation of the recoverable amount management of the Group has used the following tariffs for electricity:

- The average tariff for 2016 amounted to 6.59 tenge per 1 kWh, which represents the actual tariff applicable on the sale of electricity in 2016, and does not exceed the cap tariff, approved and set by Ministry of Energy for 2016-2018 years at a rate of 8.8 tenge per 1 kWh.
- Projected weighted average tariffs for subsequent periods are as follows:

	2017	2018	2019	2020	2021	2022	2023	2024	2025
The tariff for electricity (tenge per 1 kWh)	7.1	7.42	6.76	7.42	7.64	7.91	8.19	8.47	19.84

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Recoverability of long-term assets (continued)

Energy generating assets (continued)

Investments in EGRES-2 (continued)

The forecast of tariff was made based on management's expectations regarding the resumption of the project on construction of the power unit #3 in 2019. Significant increase in tariffs in 2025 is due to the expected commissioning of the power unit #3, and changes in the tariff structure, which is due to introduction of electric capacity market in the Republic of Kazakhstan. According to the Law *On Electric Power Industry* of the Republic of Kazakhstan the EGRES-2 is able to set an individual tariff for the electricity. Establishing individual tariff is possible upon the completion of the power unit #3 with capacity of 630 MW and concluding investment agreement with the competent authority. Calculation of individual tariffs, in addition to operating expenses of EGRES-2, takes into account the amount to cover the costs associated with the investment component of repayment of the loan obligations incurred for the completion of the unit #3.

In case of decrease of the tariffs on electricity by 10%, recoverable amount of the Group’s investment in EGRES-2 will be less than its carrying value by 19,281 million tenge.

Volumes of production and sale of electricity were used for calculation of recoverable amount – Management considered forecasted volumes of production/sales of electricity from the power unit #3 and the corresponding investment needed to complete construction. The following estimates for volumes of electricity sales for the calculation of the recoverable amount of assets:

	2017	2018	2019	2020	2021	2022	2023	2024	2025
The volume of electricity production (in millions of kWh)	5,821	5,188	5,537	5,730	5,823	5,823	5,823	5,823	9,600

The discount rate of 14.94% was estimated considering the reflection of the current market assessment of the risks inherent to EGRES-2, and evaluated on the basis of the weighted average cost of capital for the industry. In the future to reflect changing risks inherent in the industry, and changes in the weighted average cost of capital may require further changes in the discount rate. Increasing the discount rate by 1% would lead to an impairment loss from investments of the Group in EGRES-2 in the amount of 9,205 million tenge.

Based on the results of this test, management did not reveal impairment of property, plant and equipment as at December 31, 2016.

Management anticipates that volumes of production and sales during the forecast period prior to putting into operation power unit #3 will be stable. The significant increase in sales volumes in 2025 is due to the expected launch of power unit #3. Management expects sufficient workload of power units of EGRES-2 in the forecast period after 2025. Forecast of volumes of sales have been made taking into account the following factors:

- Expected growth of electricity consumption is based on the forecast balance of electricity, approved by the Ministry of Energy of the Republic of Kazakhstan.
- Expected electricity shortages in the southern regions of the country, which allows the EGRES-2 to increase sales volumes in case of long-term growth of electricity consumption in the region.
- Expected improvement of electric transit potential due to the commissioning of the power transmission line “North – East – South”, for the transmission of additional volumes of electricity from energy sources in Northern Kazakhstan to the eastern and southern regions.
- Expected withdrawal of power generation capacities from the electricity market caused by the deterioration of equipment of most power plants.

According to reasons stated above, management believes that the EGRES-2’s share of the electricity and power capacity markets will increase over the forecast period. Although the Management expects that the volume of electricity sales will increase during the forecast period, a decrease in volumes in possible range of 14% will lead to a loss from impairment of property, plant and equipment in the amount of 43,593 million tenge. Therefore, the recoverable amount of the Group’s investment in EGRES-2 will be less than its carrying value by 21,796 million tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)**Recoverability of long-term assets (continued)***Energy generating assets (continued)**Investments in Balkhash Power Plant*

As at December 31, 2016 the carrying value of the investment in an associate Balkhash Thermal Power Plant JSC comprised 27,571 million tenge (as at December 31, 2015: 17,000 million tenge). The shareholders of JSC “Balkhash Thermal Power Plant” (hereinafter BTPP) are “Samsung C&T Corporation” (hereinafter “Samsung C&T”) and Samruk-Energy JSC (subsidiary of the Fund), holding 50% + 1 share and 50% – 1 share, respectively, as of December 31, 2016.

In June 2012, BTPP and “Samsung Engineering Co. Ltd” signed a contract to design, supply and construct Balkhash thermal power plant with power capacity of 1320 MW (Engineering, Procurement, Construction – “EPC contract”). “Samsung Engineering Co. Ltd” and “Samsung C&T Corporation” are parties of the joint venture for the EPC.

Profitability of the project is ensured through the long-term contract dated June 19, 2014 for the purchase of services for the maintenance of available capacity signed between two parties: BTPP and KEGOC JSC (subsidiary of the Fund); the tariffs in the contract are expressed in US dollars.

On February 14, 2012 the Group and Samsung C&T signed the Option Agreement that gives Samsung C&T the option to sell its shares of BTPP for 192 million dollars to the Group.

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

On August 31, 2016 Samsung Engineering Co. Ltd also notified BTPP about the termination of the EPC contract.

After receiving notification from Samsung C&T, Samruk Energy and the Government of Kazakhstan executed certain measures from October 2016 until now. Taking into account the strategic importance of the project to ensure power system reliability in Southern Kazakhstan, the Government of Kazakhstan approved the continuation of negotiations with Samsung C&T. In particular, the Government of Kazakhstan and the state authorities of Kazakhstan held a number of meetings to discuss the further implementation of the Project with the participation of Samsung C&T. On December 29, 2016 the Ministry of Energy of the Republic of Kazakhstan sent the following letters:

- To Samsung C&T with the draft letters of support of the Government of Kazakhstan.
- To the Ministry of Commerce, Industry and Energy of the Republic of Korea with the draft amendments to the intergovernmental agreement.

Management believes that the Group will receive the necessary support for the continuation of construction and further joint activities with Samsung C&T on the basis of the following factors:

- The project of construction of the BTPP is the subject of an intergovernmental agreement between the Republic of Kazakhstan and the Republic of Korea and is included in the state program of industrial-innovative development of Kazakhstan.
- The Government of the Republic of Kazakhstan set the future tariffs for the service to maintain the availability of capacity of power generating units in US dollars for the period from 2018 to 2039 years to support the project.

Therefore, management believes that most likely outcome of the negotiations will be a continuation of the project within the existing entity, and that the conditions of contract on power supply, including tariffs, denominated in US dollars, will provide sufficient cash flows to recover the investment and probability of an outflow of resources related to the option is negligible.

Negotiations concerning the conditions of the letter of support for the project between the creditors and the Government are currently in process.

Management believes that as of the date of approval of the consolidated financial statement the Group’s investment in BTPP are not impaired, as well as no additional obligations related to the Put Option from by Samsung C&T needs to be accrued.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)**Recoverability of long-term assets (continued)*****Energy generating assets (continued)******Investments in TNEH-US and TNEH-UK***

In 2007 NAC KAP acquired a 10% interest in Toshiba Nuclear Energy Holdings US, Inc. (“TNEH-US”) and Toshiba Nuclear Energy Holdings UK Ltd (“TNEH-UK”) for 540,000 thousand US dollars (equivalent of 66,005 million tenge at the date of acquisition).

In connection and simultaneously with the acquisition of interest in TNEH-US and TNEH-UK, NAC KAP entered into Put Option and Call Option agreements. The Put Option provides NAC KAP with an option to sell its shares to Toshiba Corporation for an exercise price of 522,180 thousand US dollars and is exercisable from October 1, 2017 until February 28, 2018. The Call Option provides Toshiba Corporation with the right to demand from NAC KAP the sale of its TNEH-US and TNEH-UK shares if the Committee on Foreign Investment of the United States decides that NAC KAP is no longer a strategic partner. In such case, the exercise price will be determined by an independent international appraiser.

In March 2017, Toshiba Corporation confirmed its decision to exit its loss-making US nuclear business and filed under Chapter 11 of the United States Bankruptcy Code. Management of the Group believes that it will be able to exercise its put option if the Group makes a decision to dispose of its investments in TNEH-US and TNEH-UK. Based on the above management believes that their Put Option and investments in TNEH-US and TNEH-UK are not impaired at the balance sheet date.

Telecommunication assets

As at December 31, 2016 the carrying value of the investment in associate Khan Tengri Holding B.V. comprised 67,161 million tenge (as at December 31, 2015: nil). The investment in associate, Khan Tengri Holding B.V., represents a single CGU. This CGU is an operating segment for rendering of GSM and LTE mobile telecommunication services.

The Group performed testing for impairment in December 2016. The recoverable amount of Khan Tengri Holding B.V. CGU has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering an eight-year period.

The after tax discount rate applied to the cash flow projections is 14.95%, and cash flows beyond the eight-year period are extrapolated using a 3.72% growth rate.

As a result of this analysis as at December 31, 2016, the management have not identified any evidence of impairment of this CGU.

The calculation of value in use for the CGU is most sensitive to the following assumptions:

- Customer base and average gain per a subscriber;
- Capital investments level;
- EBITDA margin;
- Growth rates, which are based on published industry research;
- Discount rates.

Railway assets

As at December 31, 2015 the Group conducted impairment tests of its railways assets considering them as a single CGU. Future changes caused by implemented reorganization and privatization plans may affect identification of CGU’s and have an impact on the recoverable amount of the railway assets.

The approved development plan for 2016-2020 years was the primary source of information for impairment test. The Group built a discounted cash flows model using WACC of 12.74% and average tariffs growth rate of 4% for 2016-2020 and 5.5% thereafter. As a result of the impairment test, the recoverable amount of railway assets exceeded their carrying value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)**Recoverability of long-term assets (continued)***Railway assets (continued)*

As at December 31, 2016, no impairment has been identified based on the estimate of the value in use of the Group's property, plant and equipment. However, the value in use estimate is most sensitive to the following assumptions:

- Discount rate;
- Volume of transit freight transportation;
- Exchange rate to foreign currencies, including to Swiss franc and US dollar; and
- Volume of capital investments to maintain the assets and continue operations.

Adverse changes to the planned growth rates of cargo and passenger traffic associated with the general trends in the economy, lack of appropriate indexation of tariffs to inflation, the continuing volatility of tenge against foreign currencies, the level of government support, as well as adverse changes in other factors in the future may lead to significant impairment losses in the period in which they occur.

Impairment of financial assets*Cash and bank deposits in KazInvestBank JSC*

In accordance with the Board of the National Bank of the Republic of Kazakhstan Resolution #291, dated December 26, 2016, a decision to revoke the license of KazInvestbank JSC to conduct banking and other transactions and activities on the securities market was made. The National Bank appointed an interim administration. The management of the Fund carried out a series of evaluations to assess the recoverability of the Group's funds placed in KazInvestBank JSC in accordance with the Regulations of the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations dated August 5, 2009 #176.

As a result of the assessment, management of the Group has accrued a provision for impairment of balances with KazInvestBank JSC in the amount of 12,429 million tenge, which reflects the best estimate of the recoverability of these assets (*Note 30*).

Cash and bank deposits in Delta Bank JSC

In February 2017, the rating agency Standard & Poor's downgraded Delta Bank's long-term and short-term credit ratings from "CC/C" to "D/D" ("default") and senior unsecured bond ratings from "CC" to "D".

The Group management assessed the recoverability of the Group's funds placed with "Delta Bank" JSC based on information published by National Bank.

As a result of this evaluation, the provision for impairment of balances with "Delta Bank" JSC in the amount of 15,298 million tenge is reflected in this consolidated financial statement (*Note 30*).

Assets retirement obligations related to oil and gas assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****Assets retirement obligations related to oil and gas assets (continued)**

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

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

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

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

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

The long-term inflation and discount rates used to determine the obligation in the consolidated balance sheet across the Group entities at December 31, 2016 were in the range from 2.04% to 6.7% and from 5.5% to 10.15%, respectively (2015: from 2.10% to 6% and from 5.88% to 10.09%, respectively). Movements in the provision for asset retirement obligations are disclosed in *Note 22*.

Major oil and gas pipelines

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

As at December 31, 2016 the carrying amounts of asset retirement obligations of KazTransOil JSC and Intergas Central Asia JSC relating to decommissioning of pipelines and land were 59,540 million tenge (December 31, 2015: 61,350 million tenge).

Environmental remediation

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

Liabilities are determined based on current information about costs and expected plans for remediation and are recorded on an undiscounted basis if the timing of the procedures has not been agreed with the relevant authorities. The Group’s environmental remediation provision represents management best estimate based on an independent assessment of the anticipated expenditure necessary for the Group to remain in compliance with the current regulatory regime in Kazakhstan and Europe. The Group has classified this obligation as non-current except for the portion of costs included in the annual budget for 2016. For environmental remediation provisions, actual costs can differ from estimates because of changes in laws and regulations, public expectations, discovery and analysis of site conditions and changes in clean-up technology. Further uncertainties related to environmental remediation obligations are detailed in *Note 39*. Movements in the provision for environmental remediation obligations are disclosed in *Note 22*.

Provision for obligations on construction of social assets

As at December 31, 2016, other provisions mainly include provisions for obligations to construct the following projects: Multifunctional ice palace in Astana (NC KTZh), Schuchensko – Borovskoi golf club (NC KMG) and reconstruction of World Expo-Center in Moscow (NC KMG). The total estimated costs were recognized in the equity as Other distributions to the Shareholder. As at December 31, 2016 the carrying amount of the provisions for obligations on construction of social assets were equal to 69,786 million tenge (December 31, 2015: 156,265 million tenge) (*Note 22*).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)**Useful lives of items of property, plant and equipment**

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

Deferred tax assets

Deferred tax assets are recognized for all allowances and unused tax losses to the extent that it is probable that taxable temporary differences and business nature of such expenses will be proved. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of recognized deferred tax assets as at December 31, 2016 was equal to 145,150 million tenge (2015: 116,443 million tenge). Further details are contained in *Note 34*.

Taxation

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

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

In assessing tax risks, management considers to be probable obligations the known areas of non-compliance with tax legislation, which the Group would not appeal or does not believe it could successfully appeal, if additional taxes are charged. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, amendments to the taxation terms of the Group’s subsurface use contracts, the determination of expected outcomes from pending tax proceedings and current outcome of ongoing compliance audits by tax authorities. The provision for taxes disclosed in *Note 22* relates mainly to the Group’s application of Kazakhstan transfer pricing legislation. Further uncertainties related to taxation are disclosed in *Note 39*.

Fair value of financial instruments

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

Employee benefit liability

The Group uses actuarial valuation method for measurement of the present value of defined employee benefit liability and related current service cost (*Note 23*). This involves use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, etc.) as well as financial assumptions (discount rate, future annual financial assistance, future annual minimum salary, future average railway ticket price). Further details on judgements are disclosed in *Note 23*.

Allowances for doubtful accounts receivable and other assets

The Group accrues allowances for doubtful accounts receivable and other assets. Significant judgment is used to estimate doubtful accounts. In estimating doubtful debts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful debts recognized in the consolidated financial statements. At December 31, 2016, allowances for doubtful debts have been recorded in the amount of 118,198 million tenge (2015: 177,625 million tenge) (*Notes 13 and 15*).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Discontinued operations

In September 2015, the Group developed a new privatization plan which was subsequently approved by the Government in December 2015. The new privatization plan envisages sale of certain assets including 51% share in KMG International N.V. group (KMG I). On December 15, 2016, following this plan the Group signed share sale and purchase agreement (SPA) to sell a 51% interest in KMG I. The Group estimated fair value of the 51% share in KMG I at 680 million US dollars (equivalent of 226,637 million tenge).

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

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

Additional disclosures are provided in *Note 6*.

5. ACQUISITIONS

On December 27, 2016, the Group purchased 50% share in KLPE LLP from LG Chem for 1 US dollar (equivalent to 0.332 thousand tenge) in accordance with the option agreement dated March 18, 2016. As a result of this transaction, the Group increased its share in KLPE LLP to 100%. KLPE LLP was founded for the purpose of implementation of the second phase of an integrated gas and chemical complex in Atyrau oblast.

Purchased assets and assumed liabilities

The fair values of KLPE LLP identifiable assets and liabilities as at the date of acquisition were as follows:

<i>In millions of tenge</i>	At the acquisition date
Assets	
Property, plant and equipment	25,882
Intangible assets	3
Other non-current assets	3,130
Advances paid	2
Other current assets	114
Restricted cash	3,254
Cash and cash equivalents	978
Total assets	33,363
Liabilities	
Trade and other current liabilities	2,215
Total liabilities	2,215
Net assets	31,148
Fair value of 50% equity interest	15,574
Income from bargain purchase	(15,574)
Net cash acquired with the subsidiary	978
Net cash flow on acquisition	978

The Group recognised income from bargain purchase in the amount of 15,574 million tenge in the statement of comprehensive income as part of other non-operating income.

The Group recorded net cash acquired with the subsidiary in the amount of 978 million tenge as cash flow from investing activities in the consolidated cash flow statement.

6. DISCONTINUED OPERATIONS AND ASSETS CLASSIFIED AS HELD FOR SALE

Discontinued operations in 2016

KMG International N.V.

In December 2015 the Group decided to sell 51% interest in KMG International N.V. (“KMG I”) under the Complex privatisation plan for 2016-2020. On December 15, 2016 the Group signed a share purchase and sale agreement to sell a 51% interest in KMG I. The disposal is expected to be completed in 2017. This entity represents a separate geographical unit of operation and is classified as discontinued operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Discontinued operations in 2016 (continued)

KMG International N.V. (continued)

The results of operations of KMGI for the years ended December 31, 2016 and 2015 are presented below:

<i>In millions of tenge</i>	2016	2015
Revenue	1,695,688	1,579,288
Cost of sales	(1,170,416)	(1,056,572)
Gross profit	525,272	522,716
General and administrative expenses	(43,434)	(28,106)
Transportation and selling expenses	(53,706)	(49,875)
Revaluation adjustment less costs to sell	(50,237)	(166,525)
Other operating income	-	126
Other operating losses	(2,205)	(29,621)
Operating profit	375,690	248,715
Net foreign exchange loss, net	(2,272)	(1,677)
Finance income	452	1,308
Finance costs	(10,437)	(7,912)
Share in profit of joint ventures and associates, net	1,176	160
Profit before income tax for the year from discontinued operations	364,609	240,594
Income tax benefit	3,590	21,037
Net profit after income tax for the year from discontinued operations	368,199	261,631

IFRS requires to eliminate income generated by entities consolidated into the Group and presented as continuing operations with entities classified as discontinued operations. Accordingly, Group’s profit and loss does not reflect results of continuing and discontinued operations, as if they were presented as separate entities due to significant volumes of crude oil sales from the Group to KMGI. Net loss of KMGI before intercompany eliminations for the years ended December 31, 2016 and 2015 was equal to 13,513 million tenge and 34,162 million tenge, respectively.

The major classes of assets and liabilities of KMGI, classified as held for sale as at December 31, 2016 and 2015, are as follows:

<i>In millions of tenge</i>	2016	2015
Assets		
Property, plant and equipment	585,546	632,565
Intangible assets	73,933	78,832
Investments in associates	12,644	11,497
Deferred tax asset	34,545	39,489
Other non-current assets	2,949	3,932
Inventories	115,235	86,795
Trade accounts receivable	128,944	90,336
Other current assets	36,149	62,551
Cash and cash equivalents	25,004	34,492
Assets classified as held for sale	1,014,949	1,040,489
Liabilities		
Borrowings	201,869	230,088
Deferred tax liabilities	72,935	78,194
Provisions	46,903	53,394
Other non-current liabilities	3,944	556
Trade accounts payable	142,278	40,767
Other taxes payable	19,114	18,352
Other current liabilities	63,183	75,994
Liabilities directly associated with the assets classified as held for sale	550,226	497,345
Net assets directly associated with the disposal group	464,723	543,144

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Discontinued operations in 2016 (continued)

KMG International N.V. (continued)

For the years ended December 31, 2016 and 2015 the net cash flows incurred by KMGI are as follows:

<i>In millions of tenge</i>	2016	2015
Operating	559,895	504,720
Investing	(34,274)	(17,553)
Financing	(24,095)	2,853
Net cash inflow	501,526	490,020

Net cash outflows before elimination of intragroup cash flows in 2016 and 2015 amounted to (9,085) and (10,495), respectively.

Disposals

Altel JSC

On February 29, 2016 Kazakhtelecom JSC and Tele2 Sverige AB finalised the deal on creation of a new mobile company Khan Tengri Holding B.V. on the basis of Altel JSC (subsidiary of Kazakhtelecom JSC) and Mobile Telecom Service LLP.

As a result of this transaction Kazakhtelecom JSC, in exchange for its 100% share in Altel JSC, received 51% shares of Khan Tengri Holding B.V. (including 49.48% voting shares). Kazakhtelecom JSC accounts for its share in Khan Tengri Holding B.V. as an investment in an associate.

Under the terms of the deal Kazakhtelecom JSC provided a financial guarantee to Mobile Telecom Service LLP in respect of the credit line from Kazkommertsbank JSC with a credit limit of 14,000 million tenge and a financial guarantee to Altel JSC in respect of the credit line from the Development Bank of Kazakhstan JSC with the credit limit of 10,009 million tenge.

Also, according to the terms of the deal, Kazakhtelecom JSC and Mobile Telecom Service LLP, agreed to postpone repayment of debt by Mobile Telecom Service LLP until 2031. Accounts receivable from Mobile Telecom Service LLP were discounted using the discount rate of 10%.

As at the disposal date the net assets of Altel JSC were as follows:

<i>In millions of tenge</i>	At disposal date
Assets	
Property, plant and equipment	28,049
Intangible assets	8,083
Inventories	2,067
Trade accounts receivable	3,889
Cash and cash equivalents	1,683
Other assets	3,365
Total assets	47,136
Liabilities	
Accounts payable	10,424
Other liabilities	5,757
Total liabilities	16,181
Net assets	30,955

Gain on disposal of Altel JSC is presented as follows:

<i>In millions of tenge</i>	At disposal date
Discount on long-term accounts receivable from Khan Tengri Holding B.V.	(7,282)
Financial guarantee to Khan Tengri Holding B.V.	(884)
Investment in Khan Tengri Holding B.V. (an associate arising on disposal of the subsidiary)	80,700
Disposed net assets	(30,955)
Gain on disposal	41,579

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Summary information

Assets classified as held for sale comprised the following:

<i>In millions of tenge</i>	Segment	December 31, 2016	December 31, 2015
KMGI	Oil and gas	1,014,949	1,040,489
Transtelecom JSC	Transportation	89,286	-
Mangistau electricity distribution network company JSC	Energy	31,831	-
Euro-Asia Air JSC	Oil and gas	20,715	25,421
Kazakh-British Technical University JSC	Oil and gas	18,014	-
East Kazakhstan regional energy company JSC	Energy	16,490	-
Tulpar-Talgo LLP	Transportation	15,451	18,075
Aktobe HES JSC	Energy	10,786	-
Altel JSC	Telecommunication	-	48,477
Aysir Turizm Ve Insaat A.S.	Oil and gas	-	14,389
Other		66,392	42,513
		1,283,914	1,189,364

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

<i>In millions of tenge</i>	Segment	December 31, 2016	December 31, 2015
KMGI	Oil and gas	550,226	497,345
Transtelecom JSC	Transportation	75,800	-
Tulpar-Talgo LLP	Transportation	19,306	4,344
Mangistau electricity distribution network company JSC	Energy	19,267	-
Euro-Asia Air JSC	Oil and gas	8,930	11,462
East Kazakhstan regional energy company JSC	Energy	5,702	-
Aktobe HES JSC	Energy	2,213	-
Kazakh-British University	Oil and gas	1,964	-
Altel JSC	Telecommunication	-	48,487
Aysir Turizm Ve Insaat A.S.	Oil and gas	-	3,414
Other		9,288	115
		692,696	565,167

Due to changes in disposal plans Aysir Turizm Ve Insaat A.S. ceased to be classified as held for sale as at December 31, 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT

<i>In millions of tenge</i>	Oil and gas assets	Pipelines and refinery assets	Buildings and premises	Railway tracks and infra-structure	Machinery, equipment and vehicles	Mining assets	Other	Construction in progress	Total
Net book value at January 1, 2015*	2,330,978	1,003,112	699,196	630,972	2,412,150	32,845	65,142	978,544	8,152,939
Foreign currency translation	1,940,724	277,638	44,739	246	42,034	295	4,819	20,124	2,330,619
Additions	203,103	14,438	14,314	30	110,203	10,493	7,825	822,240	1,182,646
Acquisition through business combinations	-	-	2,242	-	5,274	-	617	20	8,153
Disposals	(17,034)	(8,354)	(22,020)	(98)	(40,080)	(12)	(6,498)	(5,474)	(99,570)
Depreciation charge	(43,195)	(68,912)	(42,620)	(23,301)	(196,430)	(9,219)	(13,047)		(396,724)
Depreciation and impairment on disposals	12,676	6,566	13,333	78	36,532	(375)	5,270	3,038	77,493
Impairment, net of reversal of impairment	(48,217)	(8,000)	(19,202)	511	(22,883)		(793)	(39,036)	(137,995)
Discontinued operations / transfer to assets classified as held for sale	(36,667)	(574,615)	(93,631)	-	(40,639)	-	(8,834)	(39,672)	(794,058)
Transfers from/(to) intangible assets	(225)	-	-	-	(19)	-	1	(6,094)	(6,337)
Transfers from/(to) exploration and evaluation assets, investment property	20,111	-	(3,296)	-	-	-	-	-	16,815
Transfer from/(to) inventories, net	(19,991)	2,058	53	(1,986)	4,252	1,116	1,894	6,343	(6,261)
Other transfers and reclassifications	95,010	209,885	92,051	297,624	149,259	5,705	4,929	(854,463)	-
Net book value at December 31, 2015*	4,437,273	853,816	685,159	904,076	2,459,653	40,848	61,325	885,570	10,327,720

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

<i>In millions of tenge</i>	Oil and gas assets	Pipelines and refinery assets	Buildings and premises	Railway tracks and infra-structure	Machinery, equipment and vehicles	Mining assets	Other	Construction in progress	Total
Net book value at December 31, 2015*	4,437,273	853,816	685,159	904,076	2,459,653	40,848	61,325	885,570	10,327,720
Foreign currency translation	(67,897)	-	(1,263)	125	(1,033)	-	(104)	106	(70,066)
Changes in estimates	(49,620)	(6,078)	713	-	-	(808)	(888)	-	(56,681)
Additions	266,864	4,155	8,684	70	109,346	14,168	7,259	842,534	1,253,080
Acquisition through business combinations	-	-	5	-	3	-	13	25,869	25,890
Disposals	(5,647)	(3,112)	(8,580)	(815)	(30,016)	-	(3,894)	(12,201)	(64,265)
Depreciation charge	(75,334)	(49,529)	(51,692)	(23,771)	(199,476)	(10,705)	(10,428)	-	(420,935)
Depreciation and impairment on disposals	5,588	2,583	2,819	445	26,137	-	3,434	3,260	44,266
Impairment, net of reversal of impairment	1,113	(1,207)	(1,678)	(31)	(4,629)	(1,391)	(671)	(43,452)	(51,946)
Discontinued operations / transfer to assets classified as held for sale	(105)	(17)	(6,716)	(9)	(90,427)	-	(2,066)	(20,642)	(119,982)
Transfers to intangible assets	(700,349)	-	-	-	(624)	-	-	(4,988)	(705,961)
Transfers from/(to) exploration and evaluation assets, investment property	(4,370)	-	(3,626)	-	-	3,866	-	-	(4,130)
Transfer from/(to) inventories, net	(707)	645	93	(966)	889	858	222	2,065	3,099
Other transfers and reclassifications	4,890	157,662	140,531	80,785	241,169	-	12,865	(637,902)	-
Net book value at December 31, 2016	3,811,699	958,918	764,449	959,909	2,510,992	46,836	67,067	1,040,219	10,160,089

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

<i>In millions of tenge</i>	Oil and gas assets	Pipelines and refinery assets	Buildings and premises	Railway tracks and infrastructure	Machinery, equipment and vehicles	Mining assets	Other	Construction in progress	Total
Historical cost	4,738,806	1,250,138	1,044,743	1,126,321	3,833,560	83,401	138,847	1,150,865	13,366,681
Accumulated depreciation and impairment	(927,107)	(291,220)	(280,294)	(166,412)	(1,322,568)	(36,565)	(71,780)	(110,646)	(3,206,592)
Net book value at December 31, 2016	3,811,699	958,918	764,449	959,909	2,510,992	46,836	67,067	1,040,219	10,160,089
Historical cost	5,300,428	1,098,396	929,473	1,048,884	3,668,092	65,420	127,285	956,128	13,194,106
Accumulated depreciation and impairment	(863,155)	(244,580)	(244,314)	(144,808)	(1,208,439)	(24,572)	(65,960)	(70,558)	(2,866,386)
Net book value at December 31, 2015*	4,437,273	853,816	685,159	904,076	2,459,653	40,848	61,325	885,570	10,327,720

* Certain amounts given in this table are not consistent with the amounts in the consolidated financial statements for the year ended December 31, 2015, since exploration and evaluation assets and investment property represented separately in the balance sheet. Details are disclosed in Note 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

As at December 31, 2016 property, plant and equipment with net book value of 1,921,660 million tenge was pledged as collateral for some of the Group’s borrowings (2015: 2,387,644 million tenge).

As at December 31, 2016 the carrying amount of property, plant and equipment acquired under finance lease agreements was equal to 104,987 million tenge (2015: 119,652 million tenge).

As at December 31, 2016 the cost of fully amortised property, plant and equipment of the Group was equal to 468,140 million tenge (2015: 470,727 million tenge).

In 2016, the Group capitalized borrowing costs at an average interest rate of 5.2% in the amount of 38,707 million tenge (2015: at the rate of 5.4% in the amount 31,209 million tenge).

8. INTANGIBLE ASSETS

<i>In millions of tenge</i>	Licenses	Software	Goodwill	Marketing related intangible assets	Subsurface use rights	Other	Total
Net book value at January 1, 2015	16,078	41,077	119,399	32,223	43,068	24,053	275,898
Foreign currency translation	1,417	2,995	8,272	23,777	–	7,574	44,035
Additions	1,773	4,624	–	–	288	2,116	8,801
Acquisitions through business combinations	–	–	–	–	10,993	1	10,994
Disposals	(1,725)	(3,859)	–	(9,386)	–	(2,138)	(17,108)
Discontinued operations	(6,315)	(6,379)	(17,820)	(48,345)	–	(3,876)	(82,735)
Amortization charge	(2,875)	(11,890)	–	–	(139)	(2,767)	(17,671)
Transfer from/(to) assets classified as held for sale	(1)	269	(53)	(144)	–	284	355
Accumulated amortization on disposals	1,505	3,565	–	714	–	177	5,961
(Impairment)/reversal of impairment, net	(370)	(73)	(11,922)	1,161	(707)	(6,497)	(18,408)
Transfers from inventories, net	–	21	–	–	–	–	21
Transfers from property, plant and equipment, net	422	2,940	–	–	–	2,975	6,337
Other transfers	1,993	(1,923)	–	–	–	(70)	–
Net book value at December 31, 2015	11,902	31,367	97,876	–	53,503	21,832	216,480
Foreign currency translation	(12,278)	(3)	–	–	(5,369)	(1,351)	(19,001)
Additions	908	20,935	–	–	15,493	617	37,953
Disposals	(406)	(2,710)	–	–	(97)	(574)	(3,787)
Discontinued operations	–	(100)	–	–	–	(9)	(109)
Amortization charge	(3,460)	(10,019)	–	–	(967)	(2,312)	(16,758)
Transfer from/(to) assets classified as held for sale	(1,173)	(1,024)	–	–	–	1,088	(1,109)
Accumulated amortization on disposals	405	2,626	–	–	–	106	3,137
(Impairment)/reversal of impairment, net	1	(109)	–	–	–	(238)	(346)
Transfers to inventories, net	(287)	(192)	–	–	–	–	(479)
Transfers from/(to) property, plant and equipment, net	498,291	5,407	–	–	202,293	(30)	705,961
Transfers from exploration and evaluation assets, investment property	–	–	–	–	523	–	523
Other transfers	77	(319)	–	–	–	242	–
Net book value at December 31, 2016	493,980	45,859	97,876	–	265,379	19,371	922,465
Historical cost	508,282	110,541	139,764	–	273,333	28,874	1,060,794
Accumulated amortization and impairment	(14,302)	(64,682)	(41,888)	–	(7,954)	(9,503)	(138,329)
Net book value at December 31, 2016	493,980	45,859	97,876	–	265,379	19,371	922,465
Historical cost	23,491	89,119	139,764	–	60,508	29,278	342,160
Accumulated amortization and impairment	(11,589)	(57,752)	(41,888)	–	(7,005)	(7,446)	(125,680)
Net book value at December 31, 2015	11,902	31,367	97,876	–	53,503	21,832	216,480

Due to the start of commercial production on Kashagan field in 2016, licenses for 498,057 million tenge and surface use rights in the amount of 202,292 million tenge were transferred from oil and gas assets to intangible assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

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

<i>In millions of tenge</i>	Main activity	Place of business	2016		2015	
			Carrying amount	Percentage ownership	Carrying amount	Percentage ownership
Joint ventures						
Tengizchevroil LLP	Oil and gas exploration and production	Kazakhstan	1,154,183	20.00%	1,028,085	20.00%
Mangystau Investments B. V.	Oil and gas exploration and production Processing and sale of natural gas and refined gas	Kazakhstan	191,813	50.00%	206,542	50.00%
KazRosGas LLP	Oil and gas exploration and production	Kazakhstan	79,658	50.00%	97,407	50.00%
Ural Group Limited BVI	Oil and gas exploration and production	Kazakhstan	72,898	50.00%	70,701	50.00%
JV KazGerMunay LLP	Oil and gas exploration and production	Kazakhstan	71,110	50.00%	82,410	50.00%
KazakhOil-Aktobe LLP	Oil and gas exploration and production	Kazakhstan	39,504	50.00%	57,774	50.00%
Ekibastuzskaya GRES-2 JSC (“EGRES-2”)	Electricity production	Kazakhstan	31,811	50.00%	29,523	50.00%
Kazakhstan Petrochemical Industries Inc. LLP (“KPI LLP”)	Construction of first integrated chemical complex	Kazakhstan	28,870	51.00%	31,676	51.00%
Other			165,257		170,384	
Total joint ventures			1,835,104		1,774,502	
Associates						
Kazzinc LLP	Mining and processing of metal ores, production of refined metals	Kazakhstan	434,889	29.82%	410,904	29.82%
PetroKazakhstan Inc. (“PKI”)	Exploration, production and processing of oil and gas	Kazakhstan	144,252	33.00%	163,617	33.00%
Caspian Pipeline Consortium JSC	Transportation of crude oil	Kazakhstan/ Russia	137,035	20.75%	45,624	20.75%
Khan Tengri Holding B. V. (Note 5)	Telecommunication	Kazakhstan	67,161	51%	-	-
JV KATCO LLP	Exploration, production and processing of uranium	Kazakhstan	39,843	49.00%	48,781	49.00%
JV INKAI LLP	Exploration, production and processing of uranium	Kazakhstan	37,686	40.00%	40,511	40.00%
Other			71,708		63,164	
Total associates			932,574		772,601	
			2,767,678		2,547,103	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

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

<i>In millions of tenge</i>	Tengizchevroil LLP	Mangistau Investments B.V.	KazRosGas LLP	Ural Group Limited BVI	JV KazGerMunay LLP	KazakhOil-Aktobe LLP
Joint ventures						
Non-current assets	6,865,450	395,490	9,641	215,892	152,790	85,936
Current assets, including Cash and cash equivalents	2,424,218	95,376	244,479	311	50,846	28,463
Non-current liabilities, including Non-current financial liabilities	1,795,549	3,871	62,379	297	39,695	10,750
Current liabilities, including Current financial liabilities	2,456,711	65,633	454	68,663	27,510	7,587
	1,333,160	—	—	57,970	—	—
	1,062,041	41,606	94,349	1,743	33,906	27,805
	34,823	—	—	—	—	—
Equity	5,770,916	383,627	159,317	145,797	142,220	79,007
Share of ownership	20.00%	50.00%	50.00%	50.00%	50.00%	50.00%
Carrying amount of investment as at December 31, 2016	1,154,183	191,813	79,658	72,898	71,110	39,504
Revenue	3,568,834	532,017	231,655	40	157,269	54,593
Depreciation, depletion and amortization	(453,763)	(55,343)	(717)	(30)	(36,325)	(16,044)
Finance income	9,239	52	6,256	17	946	525
Finance costs	(172,524)	(4,943)	(100)	(1,652)	(1,231)	(1,006)
Income tax expenses	(316,950)	(20,805)	(14,443)	(187)	(19,873)	(12,180)
Profit/(loss) for the year from continuing operations	739,552	59,532	37,295	(3,155)	10,259	(23,071)
Profit for the year from discontinued operations, net of income tax	—	—	—	—	—	—
Other comprehensive loss	(109,061)	(295)	(286)	(2,751)	(2,645)	—
Total comprehensive income/(loss)	630,491	59,237	37,009	(5,906)	7,614	(23,071)
Unrecognized share of losses	—	—	—	—	—	—
Dividends received	—	44,347	36,253	—	27,515	6,735

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

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

<i>In millions of tenge</i>	EGRES-2 JSC	KPI LLP
Non-current assets	151,883	29,983
Current assets, including	9,746	31,662
Cash and cash equivalents	2,185	17,850
Non-current liabilities, including	58,771	93
Non-current financial liabilities	58,573	-
Current liabilities, including	39,237	4,944
Current financial liabilities	35,704	-
Equity	63,621	56,608
Share of ownership	50.00%	51.00%
Carrying amount of investment as at December 31, 2016	31,811	28,870
Revenue	31,480	-
Depreciation, depletion and amortization	(3,611)	(65)
Finance income	32	550
Finance costs	(3,936)	(436)
Income tax expenses	(326)	-
Profit/(loss) for the year from continuing operations	1,575	(5,502)
Profit for the year from discontinued operations, net of income tax	-	-
Other comprehensive income	-	-
Total comprehensive income/(loss)	1,575	(5,502)
Unrecognized share of losses	-	-
Dividends received	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

The following tables illustrate summarized financial information of significant joint ventures, based on IFRS financial statements of these entities for 2015, reflecting equity method accounting adjustments:

<i>In millions of tenge</i>	Tengizchevroil LLP	Mangistau Investments B.V.	KazRosGas LLP	Ural Group Limited BVI	JV KazGerMunay LLP	Kazakhoil-Aktobe LLP
Joint ventures						
Non-current assets	5,924,302	411,943	51,063	207,323	196,074	102,551
Current assets, including	717,423	80,562	176,400	975	50,368	61,428
Cash and cash equivalents	160,542	4,660	77,193	921	32,656	48,138
Non-current liabilities, including	1,150,137	49,495	1,916	63,777	44,473	8,813
Non-current financial liabilities	-	-	-	53,901	-	-
Current liabilities, including	351,163	29,926	30,733	3,118	37,150	39,619
Current financial liabilities	-	-	-	-	-	-
Equity	5,140,425	413,084	194,814	141,403	164,819	115,547
Share of ownership	20.00%	50.00%	50.00%	50.00%	50.00%	50.00%
Carrying amount of investment as at December 31, 2015	1,028,085	206,542	97,407	70,701	82,410	57,774
Revenue	2,764,321	400,903	205,531	16	139,704	49,839
Depreciation, depletion and amortization	(250,414)	(33,903)	(959)	(31)	(18,690)	(21,927)
Finance income	2,756	769	4,043	11	632	509
Finance costs	(21,001)	(3,175)	(57)	(1,079)	(807)	(925)
Income tax expenses	(347,422)	(12,775)	(37,478)	8	(48,569)	(17,518)
Profit/(loss) for the year from continuing operations	810,802	39,406	72,506	(9,831)	5,349	(898)
Profit for the year from discontinued operations, net of income tax	-	-	-	-	-	-
Other comprehensive income	2,269,801	-	79,462	-	77,251	-
Total comprehensive income/(loss)	3,080,603	39,406	151,968	(9,831)	82,600	(898)
Unrecognized share of losses	-	-	-	-	-	-
Dividends received	89,155	9,356	40,911	-	13,822	27,655

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

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

<i>In millions of tenge</i>	GRES-2 JSC	KPI LLP
Non-current assets	150,417	26,618
Current assets, including	10,212	40,919
Cash and cash equivalents	1,533	27,019
Non-current liabilities, including	90,473	564
Non-current financial liabilities	89,979	-
Current liabilities, including	11,110	4,863
Current financial liabilities	4,633	-
Equity	59,046	62,110
Share of ownership	50.00%	51.00%
Carrying amount of investment as at December 31, 2015	29,523	31,676
Revenue	25,863	-
Depreciation, depletion and amortization	(4,098)	(17)
Finance income	5	384
Finance costs	(607)	(370)
Income tax expenses	(6,163)	(1,684)
Profit/(loss) for the year from continuing operations	(25,535)	7,467
Profit for the year from discontinued operations, net of income tax	-	-
Other comprehensive income	-	-
Total comprehensive income/(loss)	(25,535)	7,467
Unrecognized share of losses	-	-
Dividends received	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

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

<i>In millions of tenge</i>	Kazzinc LLP	PetroKazakhstan Inc. (“PKI”)	Caspian Pipeline Consortium JSC	Khan Tengri Holding B.V.	JV KATCO LLP	JV Inkai LLP
Associates						
Non-current assets	1,563,128	459,503	2,099,989	271,416	66,976	137,886
Current assets	342,470	97,179	86,254	29,436	35,413	31,441
Non-current liabilities	254,070	99,253	1,139,220	117,636	8,940	13,470
Current liabilities	110,926	20,300	540,816	51,528	11,672	59,732
Equity	1,540,602	437,129	506,207	131,688	81,777	96,125
Share of ownership	29.82%	33.00%	20.75%	51.00%	49.00%	40.00%
Goodwill	109,075	-	31,997	-	68	-
Impairment	(133,594)	-	-	-	-	-
Unrecognized gain on transactions with associates	-	-	-	-	(296)	(764)
Carrying amount of investment as at December 31, 2016	434,889	144,252	137,035	67,161	39,843	37,686
Revenue	882,390	128,809	546,966	78,190	87,105	48,781
(Loss)/profit for the year from continuing operations	125,380	(47,908)	390,880	(23,395)	34,117	18,833
Other comprehensive (loss)/income	-	(10,771)	79,529	-	-	(1,646)
Total comprehensive income/(loss)	125,380	(58,679)	470,409	(23,395)	34,117	17,187
Unrecognized share of income	-	-	6,199	-	-	-
Dividends received	13,796	-	-	-	25,359	11,013

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

The following tables illustrate summarized financial information of significant associates, based on IFRS financial statements of these entities for 2015, reflecting equity method accounting adjustments:

<i>In millions of tenge</i>	Kazzinc LLP	PetroKazakhstan Inc. (“PKI”)	Caspian Pipeline Consortium JSC	JV KATCO LLP	JV Inkai LLP
Associates					
Non-current assets	1,547,502	584,794	1,979,004	66,893	141,048
Current assets	294,221	126,836	166,134	54,690	37,432
Non-current liabilities	251,209	83,297	1,968,693	9,015	13,560
Current liabilities	168,415	132,525	143,506	13,156	58,448
Equity	1,422,099	495,808	32,939	99,412	106,472
Share of ownership	29.82%	33.00%	20.75%	49.00%	40.00%
Goodwill	58,498	-	32,590	69	-
Impairment	(71,664)	-	-	-	-
Unrecognized gain on transactions with associates	-	-	-	-	(2,078)
Other	-	-	6,199	-	-
Carrying amount of investment as at December 31, 2015	410,904	163,617	45,624	48,781	40,511
Revenue	495,309	127,768	332,604	90,329	46,392
(Loss)/profit for the year from continuing operations	(54,793)	(49,898)	40,785	50,517	12,663
Other comprehensive income	653,789	190,848	108,928	-	45,466
Total comprehensive income	598,996	140,950	149,713	50,517	58,129
Unrecognized share of income	-	-	8,096	-	-
Dividends received	1,882	-	-	20,812	400

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

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

<i>In millions of tenge</i>	2016	2015
Carrying amount of investments as at December 31	165,257	170,384
Net profit/(loss) for the year from continuing operations	190,160	(37,819)
Profit for the year from discontinued operations, net of income tax	–	–
Other comprehensive loss	(66,532)	502
Total comprehensive profit/(loss)	123,628	(37,317)

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

<i>In millions of tenge</i>	2016	2015
Carrying amount of investments as at December 31	71,708	63,164
Net profit/(loss) for the year from continuing operations	20,699	(5,653)
Other comprehensive income	–	9,287
Total comprehensive income	20,699	3,634

In 2016 dividends received from individually insignificant joint ventures and associates were equal to 45,960 million tenge (2015: 21,948 million tenge).

The following table summarizes the movements in equity investments in joint ventures and associates in 2016 and 2015:

<i>In millions of tenge</i>	2016	2015
Balance as at January 1	2,547,103	1,813,834
Share in profit of joint ventures and associates, net (Note 33)	355,969	149,423
Dividends received	(209,523)	(230,980)
Change in dividends receivable	11,218	(18,186)
Acquisitions	101,491	19,543
Disposals	(30,142)	(6,152)
Transfers to assets classified as held for sale	(12,589)	(35,223)
Foreign currency translation	(11,203)	857,853
Other comprehensive (loss)/income, other than foreign currency translation	(2,012)	16,228
Impairment	(159)	(38,370)
Discount on loans given	8,661	16,245
Fair value of guarantees given	8,863	–
Other changes in equity of joint ventures and associates	1	2,888
Balance as at December 31	2,767,678	2,547,103

As at December 31, 2016, the Group’s share in unrecognized losses of joint ventures and associates was equal to 305,653 million tenge (2015: 509,665 million tenge).

10. LOANS ISSUED

As at December 31, loans to customers comprised the following:

<i>In millions of tenge</i>	2016	2015
Loans to large entities	690,791	705,342
Finance lease receivables	39,718	35,547
Other loans	3,119	2,971
Total loans	733,628	743,860
Less: impairment allowance	(32,331)	(20,946)
Loans issued, net	701,297	722,914
Less: current portion	(140,345)	(121,241)
Non-current portion	560,952	601,673

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. LOANS ISSUED (continued)

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

<i>In millions of tenge</i>	2016	2015
Allowance at January 1	20,946	11,722
Charged, net	8,411	9,167
Foreign exchange difference	2,974	57
Allowance at December 31	32,331	20,946

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

<i>In millions of tenge</i>	2016	2015
Within one year	5,850	5,064
Later than one year, but not later than five years	23,331	20,180
After five years	42,771	40,206
Minimum lease payments	71,952	65,450
Less: unearned finance income	(32,234)	(29,903)
Net investment in finance leases	39,718	35,547

11. AMOUNTS DUE FROM CREDIT INSTITUTIONS

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

<i>In millions of tenge</i>	2016	2015
Bank deposits	2,025,127	1,811,401
Loans to credit institutions	344,072	347,449
Less: impairment allowance	(15,298)	-
Amounts due from credit institutions, net	2,353,901	2,158,850
Less: current portion	(1,669,459)	(1,492,619)
Non-current portion	684,442	666,231

<i>In millions of tenge</i>	2016	2015
10 largest local banks	1,248,025	1,247,512
International credit institutions	760,954	640,235
Other local credit institutions	344,922	271,103
	2,353,901	2,158,850

<i>In millions of tenge</i>	2016	2015
Ratings from AAA (Aaa) to AA-(Aa3)	180,158	61,984
Rating from A+(A1) to A-(A3)	578,498	433,680
Rating from BBB+(Baa1) to BBB(Baa2)	2,299	47,596
Rating from BBB-(Baa3) to BB-(Ba3)	414,291	132,225
Rating from B+(B1) to B-(B3)	627,898	1,324,295
Rating from CCC+(Caa1) to CC(Ca)	382,502	-
No rating	168,255	159,070
	2,353,901	2,158,850

As at December 31, 2016 amounts in credit institutions with rating “CCC+(Caa1) till CC(Ca)” are represented by deposits in Kazkommertsbank JSC and Delta Bank JSC. On 30 December 2016 the Standard & Poor’s long-term and short-term Delta Bank JSC credit rating was downgraded from “B/B” to “CCC+/C” then to “D/D” on 16 February 2017 that resulted in recognition of impairment provision in amount of 15,298 million tenge (Note 4).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. AMOUNTS DUE FROM CREDIT INSTITUTIONS (continued)

As at December 31, 2016 amounts in credit institutions with no rating are represented by loans issued to BTA Bank JSC and Zhilstroysberbank Kazakhstan JSC (2015: BTA Bank JSC and Zhilstroysberbank Kazakhstan JSC).

<i>In millions of tenge</i>	2016	2015
Amounts due from credit institutions, denominated in US dollars	1,477,951	1,227,138
Amounts due from credit institutions, denominated in tenge	873,430	924,781
Amounts due from credit institutions, denominated in other currencies	2,520	6,931
	2,353,901	2,158,850

As at December 31, 2016 the weighted average interest rate on amounts due from credit institutions was 4.58% (2015: 5.55%).

As at December 31, 2016 amounts due from credit institutions included cash in the amount of 110,959 million tenge pledged as collateral for certain Group’s borrowings (2015: 111,819 million tenge).

12. OTHER FINANCIAL ASSETS

As at December 31 other financial assets comprised the following:

<i>In millions of tenge</i>	2016	2015
Note receivable from shareholder of joint venture	34,313	30,424
Note receivable from associate	34,838	42,320
Available-for-sale financial assets, including	103,802	108,449
Equity securities	85,928	87,297
Bonds of Kazakhstan financial agencies	8,947	10,935
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	7,861	9,297
Corporate bonds	1,176	1,031
Less: impairment allowance	(110)	(111)
Held to maturity financial assets, including	2,876	2,089
Bonds of Kazakhstan financial agencies	2,876	2,089
Financial assets at fair value through profit and loss, including	17,371	10,276
Other equity securities	17,371	10,276
Derivative financial instruments, including	352	383
Options	352	383
Total financial assets	193,552	193,941
Less: current portion	(27,316)	(15,000)
Non-current portion	166,236	178,941

As at December 31, 2016 the interest rates for available-for-sale financial assets were in the range from 4.5% to 15% (as at December 31, 2015: from 4.5% to 13%).

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

<i>In millions of tenge</i>	2016	2015
Financial assets denominated in tenge	124,049	119,070
Financial assets denominated in US dollars	69,151	74,488
	193,200	193,558

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**12. OTHER FINANCIAL ASSETS (continued)****Investments in Toshiba Nuclear Energy Holdings (US) Inc and Toshiba Nuclear Energy Holdings (UK) Ltd**

In 2007 NAC KAP acquired a 10% interest in Toshiba Nuclear Energy Holdings US, Inc. (“TNEH-US”) and Toshiba Nuclear Energy Holdings UK Ltd (“TNEH-UK”) for 540,000 thousand US dollars (equivalent of 66,005 million tenge at the date of acquisition).

In connection and simultaneously with the acquisition of interest in TNEH-US and TNEH-UK, NAC KAP entered into Put Option and Call Option agreements. The Put Option provides NAC KAP with an option to sell its shares to Toshiba Corporation for an exercise price of 522,180 thousand US dollars and is exercisable from October 1, 2017 until February 28, 2018. The Call Option provides Toshiba Corporation with the right to demand from NAC KAP the sale of its TNEH-US and TNEH-UK shares if the Committee on Foreign Investment of the United States decides that NAC KAP is no longer a strategic partner. In such case, the exercise price will be determined by an independent international appraiser. In March 2017 Toshiba Corporation confirmed its decision to exit its loss-making US nuclear business and filed under Chapter 11 of the United States Bankruptcy Code.

As at December 31, 2016 the options were not exercised by NAC KAP or Toshiba Corporation. The Group classified this investment as available-for-sale as this best reflects the intention and ability of the Group to hold the investment for the long term, until the decision on the exercise of the Put Option is taken.

As at December 31, 2016 carrying amount of the Put Option and investments were equal to 66,005 million tenge (as at December 31, 2015: 66,005 million tenge).

Equity securities (available for sale financial assets) – common shares of KKB

As at December 31, 2016 amount of the Fund’s interest in KKB common shares was equal to 85,517,241 shares, the fair value of these shares was equal to 18,643 million tenge (2015: 20,011 million tenge).

13. OTHER NON-CURRENT ASSETS

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

<i>In millions of tenge</i>	2016	2015
Advances paid for non-current assets	277,302	268,915
Long-term VAT receivable	148,338	136,902
Restricted cash	53,571	66,843
Long-term receivables	27,882	94,721
Long-term inventories	16,202	45,258
Prepaid expenses	10,601	18,258
Deposits in Kazinvestbank JSC (Note 4)	4,189	–
Non-financial assets held for the benefit of the Shareholder	–	54,245
Other	29,823	47,160
Less: impairment provision	(56,584)	(124,386)
	511,324	607,916

As at December 31, 2016 the Group’s restricted cash was primarily represented by letter of credit in the total amount of 38,146 million tenge (2015: 43,163 million tenge). This cash is intended for payments under the contract, concluded between Karabatan Utility Solutions LLP and South Korean company Doosan Heavy Industries & Construction Co. Ltd for the equipment and construction of gas turbine station.

According to the decree of the Management Board of the National Bank of the Republic of Kazakhstan #291 dated December 26, 2016 the license of Kazinvestbank JSC to conduct bank operations on financial securities markets was recalled.

Deposits in Kazinvestbank JSC include claims of the Group as well as current accounts and term deposits, placed in the tier 2 bank Kazinvestbank JSC, that have been reclassified as of the reporting date from Cash and cash equivalents and from amounts due from credit institutions and partly impaired due to the license withdrawal (Note 4).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**14. INVENTORIES**

As at December 31 inventories comprised the following:

<i>In millions of tenge</i>	2016	2015
Uranium products	83,623	65,882
Production materials and supplies	38,657	33,890
Work in progress	36,310	25,137
Oil and gas industry materials and supplies	27,464	26,026
Goods for resale	21,220	25,177
Gas processed products	20,580	33,353
Fuel	17,775	17,798
Oil refined products for sale	12,881	25,867
Railway industry materials and supplies	11,103	10,003
Crude oil	9,723	11,606
Aircraft spare parts	7,206	5,687
Telecommunication equipment spare parts	3,075	2,685
Uranium industry materials and supplies	2,170	2,733
Electric transmission equipment spare parts	1,882	7,440
Other materials and supplies	40,813	37,672
Less: provision for obsolete and slow moving inventories	(14,784)	(12,612)
	319,698	318,344

15. TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

As at December 31 trade accounts receivable comprised the following:

<i>In millions of tenge</i>	2016	2015
Trade accounts receivable	464,848	310,367
Less: allowance for doubtful debts	(26,362)	(27,119)
	438,486	283,248

As at December 31 other current assets comprised the following:

<i>In millions of tenge</i>	2016	2015
Advances paid and deferred expenses	137,032	64,840
Other accounts receivable	110,034	40,011
Non-financial assets for distribution to the Shareholder	60,216	86,755
Other prepaid taxes	52,969	38,974
Restricted cash	19,170	31,259
Dividends receivable	12,737	22,911
Deposits in Kazinvestbank JSK (Note 4 and 13)	11,892	-
Amounts due from employees	5,007	5,063
Other	25,861	23,357
Less: impairment allowance	(35,252)	(26,120)
	399,666	287,050

At December 31, 2016 the Group's receivables in the amount of 127 million tenge were pledged under certain Group borrowings (2015: 29 million tenge).

Movements in the allowance for doubtful debts on trade accounts receivable and impairment allowance for other current assets were as follows:

<i>In millions of tenge</i>	2016	2015
Allowance at January 1	53,239	73,958
Change in estimate	238	9
Charged, net	14,848	26,306
Foreign currency translation	(122)	5,083
Write-off, net	(4,536)	(2,750)
Transfers to assets classified as held for sale	(2,053)	(49,367)
Allowance at December 31	61,614	53,239

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

At December 31, 2016 3,143 million tenge of the Group’s receivables were interest bearing (2015: nil).

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

<i>In millions of tenge</i>	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-60 days	60-90 days	90-120 days	>120 days
2016	438,486	402,763	5,778	9,303	4,926	1,557	14,159
2015	283,248	234,859	6,343	10,174	5,275	1,344	25,253

16. CASH AND CASH EQUIVALENTS

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

<i>In millions of tenge</i>	2016	2015
Bank deposits – US dollars	532,598	519,162
Bank deposits – tenge	364,073	166,241
Bank deposits – other currency	334	3,747
Current accounts with banks – US dollars	335,631	231,677
Current accounts with banks – tenge	283,505	248,431
Current accounts with banks – other currency	11,184	29,750
Cash in transit	14,957	3,985
Cash on hand	4,789	3,464
Reverse repurchase agreements with other banks with contractual maturity of three months or less	6,964	100
	1,554,035	1,206,557

Short-term bank deposits are placed for varying periods of between 1 (one) day and 3 (three) months, depending on immediate cash needs of the Group. As at December 31, 2016 the weighted average interest rates for short-term bank deposits and current accounts were 3.32% and 1.81%, respectively (2015: 5.68% and 1.28%, respectively).

17. EQUITY

17.1 Share capital

During 2016 and 2015 the Fund issued common shares, which were paid as follows:

Payment for shares	Number of shares authorized and issued	Par value per share, in tenge	Share capital in millions of tenge
As at December 31, 2014	3,481,623,734		4,620,562
Cash contributions	12,000	11,619,075; 12,700,435;	149,539
Property contributions	31,477	20,648,187; 4,171,027;10,466,896; 13,456,258;19,354,725	142,443
Contribution of state-owned shares	297	12,542,000	3,725
As at December 31, 2015	3,481,667,508		4,916,269
Cash contributions	3,000	36,400,000; 20,000,000; 81,523,000	137,923
Property contributions	250	17,862,160	4,466
As at December 31, 2016	3,481,670,758		5,058,658

As at December 31, 2016 3,481,670,758 shares of the Fund were fully paid.

Cash contributions

In 2016 the Shareholder made cash contributions to the Fund’s share capital in the amount of 137,923 million tenge. These amounts were aimed to finance projects implemented by subsidiaries of the Fund.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. EQUITY (continued)**17.1 Share capital (continued)***Property contributions*

In May 2016 the State property and privatization committee made in-kind contribution to the Fund’s share capital in the form of design estimate documentation of gas-turbine station, which has been developed for implementation of strategic investment project “Construction of the infrastructure of the first integrated gas chemical complex in Atyrau region” for fair value of 4,466 million tenge. This property is subject to subsequent transfer to the charter capital of subsidiary United Chemical Company LLP (“UCC”).

17.2 Discount on loans from the Government

In July 2016 the Fund received below-market loan from the Ministry of Finance of the Republic of Kazakhstan in the amount of 5,500 million tenge. Discount on initial recognition of this loan of 4,007 million tenge was recognized as a one-time gain in the consolidated statement of changes in equity.

17.3 Dividends*Dividends attributable to equity holder of the Parent*

On November 1, 2016 the Fund paid dividends to the Shareholder of 10,393 million tenge based on financial results for 2015 according to the Resolution of the Government dated November 1, 2016.

Dividends attributable to non-controlling interest

In 2016 the Group declared dividends of 10,574 million tenge to the holders of non-controlling interest in KazTransOil JSC (“KTO”), Air Astana JSC, Kazakhtelecom JSC, EP KMG and other entities.

In 2016 the Group declared dividends of 5,975 million tenge to the National Bank of the Republic of Kazakhstan as the holder of non-controlling interest in NC KMG.

17.4 Other transactions with the Shareholder*Provision for onerous obligation of Karabatan Utility Solutions LLP*

In 2016, the Group recognised an additional net provision for onerous obligation of 58,470 million tenge due to increase in the volume of construction and unprofitability of the gas turbine power station construction project. The project is being implemented by Karabatan Utility Solutions LLP, a subsidiary of UCC LLP. The loss on the project was calculated as the excess of investments in the project over its net present value using the internal average rate of return of Samruk-Kazyna of 8.7%. The additional provision on onerous obligation of 58,470, million tenge was recognized in the consolidated statement of changes in equity as Other transactions with Shareholder.

Early repayment of loans from the Government by property of NC KTZh.

In December 2016 an agreement was concluded between the Ministry of Finance of the Republic of Kazakhstan, the Fund and KTZh, according to which the Group transferred and the Ministry of Finance accepted property of KTZh, including administrative technological complex “Transport Tower”, Rehabilitation Center assets and teleradio complex of equipment as early repayment of budgetary loans. The total book value of the principal of six loans at the maturity date was equal to 47,833 million tenge.

The early extinguishment was recognized in equity in the amount of the difference between principal amount of loans and cost of transferred property of 29,961 million tenge net of the discount on loans of 26,048 million tenge as Other transactions with Shareholder.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**17. EQUITY (continued)****17.5 Other distributions to the Shareholder***Social projects financing*

During 2016, in accordance with the order of the Shareholder, the Fund financed various social projects for 39,525 million tenge. Also, the Group financed the expenditures related to running an International Exhibition Astana EXPO-2017 of 2,145 million tenge.

Construction and transfer of fixed assets

During 2016 the Group decreased obligation on construction of the multifunctional Ice palace in Astana and Exhibition Center in Moscow by 823 million tenge and 152 million tenge respectively, and recognized a provision for construction of kindergartens in Astana of 446 million tenge.

Other distributions

During 2016 the Group recognized the results of operations of PSA LLP, which acts as the Government Body for the Production Sharing Agreements in oil and gas area, of 5,852 million tenge as Other distributions to the Shareholder.

17.6 Change in ownership interests of subsidiaries – sale of non-controlling interest as at December 31*Disposal of 49% shares of Transtelecom JSC*

In 2016 the Group sold 49% of shares of Transtelecom JSC to a third party and received a consideration of 9,000 million tenge. As a result, the Group recognised non-controlling interest in Transtelecom JSC of 11,425 million tenge, the difference of 2,425 million tenge was recognized in the Group’s retained earnings.

17.7 Non-controlling interest

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

	Non-controlling interest			
	2016		2015	
	Share	Carrying amount	Share	Carrying amount
NC KazMunayGas JSC	10.00%	1,407,038	10.00% + 1	1,337,359
Kazakhtelecom JSC	49.00%	174,079	49.00%	148,362
KEGOC JSC	10.00% – 1	17,720	10.00% – 1	14,646
Air Astana JSC	49.00%	13,528	49.00%	13,224
Other		28,227		13,917
		1,640,592		1,527,508

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. EQUITY (continued)

17.7 Non-controlling interest (continued)

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. EQUITY (continued)

17.7 Non-controlling interest (continued)

The following tables illustrate summarized financial information of subsidiaries, in which there are significant non-controlling interests as at December 31, 2015 and for the year then ended:

<i>In millions of tenge</i>	KazMunayGas JSC	NC Kazakhstan JSC	Kazakhstan JSC	KEGOC JSC	Air Astana JSC
Summarized balance sheet					
Non-current assets	7,322,050		318,470	246,121	101,610
Current assets	3,387,608		118,024	106,078	106,741
Non-current liabilities	(3,330,345)		(61,028)	(165,198)	(138,221)
Current liabilities	(1,289,135)		(83,045)	(40,543)	(43,094)
Total equity	6,090,178		292,421	146,458	27,036
Attributable to:					
Equity holder of the Parent	4,752,819		144,059	131,812	13,812
Non-controlling interest	1,337,359		148,362	14,646	13,224
Summarized statement of comprehensive income					
(Loss)/profit for the year from continuing operations	(176,119)		26,357	1,381	10,363
Profit for the year from discontinued operations	670,802		-	-	-
Other comprehensive income/(loss)	1,072,553		(4,056)	-	(30,745)
Total comprehensive income for the year, net of tax	1,567,236		22,301	1,381	(20,382)
Attributable to:					
Equity holder of the Parent	1,228,056		11,465	1,243	(10,394)
Non-controlling interest	339,180		10,836	138	(9,988)
Dividends paid to non-controlling interest	(15,851)		(534)	(886)	(854)
Summarised cash flow information					
Operating activity	146,447		69,493	49,976	25,883
Investing activity	1,222,935		(43,542)	(32,871)	(25,928)
Financing activity	(1,630,541)		(23,949)	(23,053)	(10,064)
Net (decrease)/increase in cash and cash equivalents	(261,159)		2,002	(5,948)	(10,109)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**17. EQUITY (continued)****17.8 Currency translation reserve**

The currency translation reserve is used to record exchange differences arising from the translation of financial statements of the subsidiaries, whose functional currency is not tenge and whose financial statements are included in the consolidated financial statements. In 2016 foreign translation difference amounted to 104,033 million tenge.

Certain borrowings of the Group denominated in US dollars were designated as hedge instrument for the net investment in the foreign operations. As at December 31, 2016 unrealized foreign currency gain of 79,682 million tenge resulting from translation of these borrowings were offset against currency translation reserve recognized in other comprehensive income.

17.9 Hedge reserve

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

In 2015 NC KTZh entered into a cash flow hedge with Eurobonds denominated in Swiss francs (CHF) and maturing in 2019 and 2022, to reduce the risk of changes in sales revenue from transit, expressed in CHF. As at December 31, 2016 hedge income attributable to equity holders of the Parent of 4,417 million tenge.

In 2015 Air Astana entered into a cash flow hedge with finance lease obligations denominated in US dollars, to reduce the risk of changes in sales revenue expressed in US dollars. As at December 31, 2016 hedge income amounted to 5,004 million tenge before tax of 1,001 million tenge (*Note 21*). Hedge income attributable to non-controlling interest comprised 1,962 million tenge.

17.10 Other capital reserves

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

17.11 Book value per share

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

<i>In millions of tenge</i>	2016	2015
Total assets	22,460,860	20,889,684
Less: intangible assets	(922,465)	(216,480)
Less: total liabilities	(11,469,186)	(10,488,312)
Net assets for common shares	10,069,209	10,184,892
Number of common shares as at December 31	3,481,670,758	3,481,667,508
Book value per common share, tenge	2,892	2,925
Earnings per share		
Weighted average number of common shares for basic and diluted earnings per share	3,481,669,063	3,481,652,133
Basic and diluted share in net profit for the period	165.21	87.55
Basic and diluted share in net profit/(loss) from continuing operations	59.45	12.40

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**18. BORROWINGS**

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

<i>In millions of tenge</i>	2016	2015
Fixed interest rate borrowings	3,776,764	4,097,890
Floating interest rate borrowings	1,973,964	1,994,821
	5,750,728	6,092,711
Less: amounts due for settlement within 12 months	(820,570)	(716,907)
Amounts due for settlement after 12 months	4,930,158	5,375,804
<i>In millions of tenge</i>	2016	2015
US dollar-denominated borrowings	4,587,544	5,012,062
Tenge-denominated borrowings	935,849	812,584
Other currency-denominated borrowings	227,335	268,065
	5,750,728	6,092,711

Under the terms of some loan agreements, respective subsidiaries of the Group are obliged to comply with certain covenants. The Group reviews compliance with all the Group loan covenants at each reporting date. As at December 31, 2016 the total amount of borrowings with some covenant conditions not being met and for which agreement letter for non-application of covenants in the reporting period has been received of 99,519 million tenge.

Bonds issuance and repayment

During 2016 NC KTZh redeemed Eurobonds issued at the Singapore Stock Exchange of 350 million US dollars (equivalent to 118,676 million tenge at the exchange rate as of the date of repayment).

During 2016 Intergas Central Asia JSC, subsidiary of NC KMG, redeemed bonds issued at the London Stock Exchange of 157 million US dollars (equivalent to 53,488 million tenge at the exchange rate as of the date of repayment).

During 2016 NC KTZh issued bonds at the Kazakhstan Stock Exchange of 50,000 million tenge for the period of 10 years for partial refinancing of Eurobonds.

During 2016 NC KMG redeemed Eurobonds in the amount of 369 million US dollars (equivalent to 123,667 million tenge at the exchange rate as of the date of redemption).

During 2016 NC KMG partially redeemed bonds, of 51,216 million tenge, which were held by the Development Bank of Kazakhstan JSC.

During 2016 the KEGOK issued bonds at the Kazakhstan Stock Exchange to finance power lines construction projects under “Nurly Zhol” state program of 47,500 million tenge.

During 2016 Kazakhstan Engineering JSC fully redeemed bonds 200 million US dollars (equivalent to 67,138 million tenge at the exchange rate as of the date of redemption).

Other loans

During 2016 NC KMG repaid the loan to the ING Bank in the amount of 400 million US dollars (equivalent to 138,696 million tenge at the exchange rate as of the date of repayment).

On August 31, 2016 NC KMG acquired 27% interest in the project Zhambyl (“Project”) from KC Kazakh B.V. The loan given by KC Kazakh B.V. for financing of NC KMG’s share in the Project was written-off. Accordingly, the Group recognized an income of 62,513 million tenge.

During 2016 under the General Agreement of Intergas Central Asia JSC, subsidiary of NC KMG, with Citibank. total amount of received funds equaled 566 million US dollars (equivalent to 194,605 million tenge at the exchange rate as at the date of receipt) and the total amount repaid equaled 442 million US dollars (equivalent to 152,981 million tenge at the exchange rate as at the date of repayment).

During 2016, Intergas Central Asia JSC, a subsidiary of NC KMG, received a loan from European Bank Reconstruction and Development of 140 million US dollars (equivalent to 48.143 million tenge at the exchange rate as of the date of receipt).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**18. BORROWINGS (continued)****Other loans (continued)**

During 2016 NC KTZh received 100 million US dollars (equivalent to 32,766 million tenge at the exchange rate as of the date of receipt) from the European Bank of Reconstruction and Development for the purpose of partial redemption of Eurobonds.

As at December 31, 2016 the carrying amount of borrowings by the Group subsidiaries is presented below:

<i>In millions of tenge</i>	2016	2015
NC KMG and its subsidiaries	3,072,540	3,221,341
NC KTZh and its subsidiaries	1,086,719	1,203,388
The Fund	854,533	858,040
Samruk-Energy and its subsidiaries	329,179	353,466
KEGOC and its subsidiaries	175,099	171,231
NAC KAP and its subsidiaries	127,765	172,621
Other subsidiaries of the Fund	104,893	112,624
Total borrowings	5,750,728	6,092,711

19. LOANS FROM THE GOVERNMENT OF THE REPUBLIC OF KAZAKHSTAN

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

<i>In millions of tenge</i>	2016	2015
Bonds acquired by the National Bank of the Republic of Kazakhstan using the assets of the National Fund	796,275	727,882
Loans from the Government of the Republic of Kazakhstan	60,036	77,249
Bonds acquired by the National Bank of the Republic of Kazakhstan	62,100	61,306
	918,411	866,437
<u>Less: amounts due for settlement within 12 months</u>	<u>(6,231)</u>	<u>(6,722)</u>
Amounts due for settlement after 12 months	912,180	859,715

During 2016 the Fund issued 0.1% 10-year bonds for 97,000 million tenge to finance low interest rate loans to be given to construction companies under “Nurly Zhol” State infrastructure development program. These bonds were acquired by the National Bank of the Republic of Kazakhstan using the assets of the National Fund of the Republic of Kazakhstan.

The discount of 52,319 million tenge arising at the inception of the bonds was recognized within other liabilities.

20. OTHER NON-CURRENT LIABILITIES

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

<i>In millions of tenge</i>	2016	2015
Prepayment on oil supply agreements	1,068,819	-
Payables for acquisition of additional interest in the North-Caspian project	250,523	766,014
Government grant liability	47,413	-
Deferred income	22,587	21,821
Long-term payables and other liabilities	87,446	51,984
	1,476,788	839,819

Oil supply agreement*NC KMG*

During 2016 the NC KMG Group entered into a long-term crude oil and liquefied petroleum gas (“LPG”) supply agreement. The total minimum delivery volume approximates 30 million tons of crude oil and 1 million tons of LPG in the period from the date of the contract to March 2020 from Tengizchevroil LLP (“Tengizchevroil”), Mangistaumunaigaz JSC and Karazhanbasmunai JSC oil production.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**20. OTHER NON-CURRENT LIABILITIES (continued)****Oil supply agreement (continued)***NC KMG (continued)*

The delivery of oil under this agreement commenced from April 2016. The NC KMG Group considers this agreement to be a regular way agreement to deliver non-financial items in accordance with the Group’s expected sale requirements.

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

Under this agreement the NC KMG Group received prepayment of 2,966 million US dollars (equivalent of 1,012,020 million tenge at the date of transaction), which is to be discharged by oil supply from Tengizchevroil (joint venture of the NC KMG Group) starting from April 2017.

The outstanding balance of prepayment is subject to interest at LIBOR + 1.85% per annum.

KMG Kashagan B.V.

During 2016, KMG Kashagan B.V. entered into a long-term crude oil supply agreement. In accordance with the terms of the agreement, during the period from January 2017 till December 2021 KMG Kashagan B.V. will supply the minimum volume of oil approximate of 7 million tons from Kashagan field. As part of the agreement, KMG Kashagan B.V. received prepayment of 990 thousand USD less transaction costs, which will be discharged by supply of crude oil produced at Kashagan field from January 2019.

The Agreement stipulates price determination on the basis of current market quotation and prepayment is discharged by physical supply of crude oil. According to the terms of the agreement, supply of oil commenced from January 2017. KMG Kashagan B.V. considers the agreement as a contract, which was signed for the purpose of delivery of non-financial items in compliance with the the KMG Kashagan B.V. expectations and sale requirements.

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

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

On October 31, 2008 all participants of the North-Caspian project (the “NCP” or the “Project) signed an agreement according to which all project participants except for KMG Kashagan agreed to partially sell their interest in the project on proportional basis in order to increase the interest of KMG Kashagan in NCP from 8.33% to 16.81% retrospectively from January 1, 2008. The acquisition cost consisted of fixed amount of 1.78 billion US dollars plus annual interest at LIBOR + 3%, which is annually capitalised within the principal amount. Additional 8.48% interest acquired was used as collateral for this liability.

The obligation is payable in three equal annual installments after commercial oil production at Kashagan field starts. Commercial production took place on November 1, 2016, consequently first installment was made and the amount corresponding to the second installment was reclassified from long-term to short-term liabilities.

As at December 31, 2016 the amortized cost of this payable was equal to 522,120 million tenge (as at December 31, 2015: 766,014 million tenge).

As at December 31, 2016 and 2015 carrying amount of these financial liabilities approximates to their fair value.

Government grant liability

During 2016 the Group recognized a government grant liability in accordance with the Nurly Zhol state program (*Note 19*). Since the recognition the liability has been reduced for the amount of income on government grant in the amount of 4,326 million tenge. Government grant income is calculated by applying the proportion of loans issued to the total amount of the discount.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. FINANCE LEASE LIABILITIES

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

During 2012-2014 Air Astana JSC (“Air Astana”), subsidiary of the Group, acquired 11 (eleven) aircrafts under fixed interest finance lease agreements. The lease term for each aircraft is 12 (twelve) years. Air Astana has the option to purchase each aircraft for a nominal amount at the end of the lease. Loans provided by financial institutions to the lessor in respect of 6 (six) new Airbus were guaranteed by European Export Credit Agencies, 3 (three) Boeing 767 aircrafts were guaranteed by US Export Import Bank and 2 (two) Embraer aircrafts were guaranteed by Brazilian Development Bank. Air Astana pledged the leased assets with carrying amount of 74,353 million tenge to secure finance lease liabilities (2015: 81,277 million tenge).

As at December 31, 2016 interest calculation was based on effective interest rates ranging from 3.09% to 19.7% (2015: from 3.09% to 19.7%).

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

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

<i>In millions of tenge</i>	2015	
	Minimum lease Payments	Present value of minimum lease payments
Within one year	24,977	19,364
Two to five years inclusive	77,367	62,969
After five years	76,986	71,864
Less: amounts representing finance costs	(25,133)	-
Present value of minimum lease payments	154,197	154,197
Less: amounts due for settlement within 12 months	(24,977)	(19,364)
Amounts due for settlement after 12 months	129,220	134,833

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

On July 1, 2015 Air Astana JSC hedged a portion of US dollar finance lease liabilities with highly probable future US dollar revenue streams. At December 31, 2016, finance lease liabilities of 75,741 million tenge (2015: 85,117 million tenge) are designated as hedging instrument denominated in US dollars of highly probable revenue forecasted for the period 2015-2025. The Group expects that this hedging relationship will be highly effective since the future cash outflows on the lease liabilities being hedged match the future cash inflows of the expected revenue.

As at December 31, 2016, a foreign currency income of 5,004 million tenge (2015: loss in the amount of 38,430) before deferred income tax of 1,001 million tenge on the finance lease liabilities (2015: 7,686 million tenge), representing an effective portion of the hedge, was reclassified to other comprehensive income as hedging reserve (Note 17.9).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. PROVISIONS

As at December 31 provisions comprised the following:

<i>In millions of tenge</i>	Asset retirement obligations	Provision for environmental remediation	Provision for taxes	Provision for construction of social objects	Other	Total
Provision at January 1, 2015	130,988	42,199	15,718	160,931	33,040	382,876
Foreign currency translation	42,743	16,290	9,415	–	6,691	75,139
Change in estimate	(1,781)	(333)	8,670	2,544	(802)	8,298
Unwinding of discount	10,340	1,413	–	–	368	12,121
Provision for the year	963	102	60,559	(30)	46,089	107,683
Transfer to liabilities associated with assets classified as held for sale	(2,651)	(35,196)	–	–	(12,811)	(50,658)
Use of provision	(609)	(2,588)	(14,181)	(7,180)	(15,774)	(40,332)
Reversal of unused amounts	(690)	(1,815)	–	–	(149)	(2,654)
Provision at December 31, 2015	179,303	20,072	80,181	156,265	56,652	492,473
Foreign currency translation	(591)	–	77	–	(328)	(842)
Change in estimate	(62,219)	(3,104)	–	–	–	(65,323)
Unwinding of discount	12,630	1,407	–	–	783	14,820
Provision for the year	2,328	10	9,275	447	66,585	78,645
Additions through business combinations	–	–	–	–	2,187	2,187
Transfer to liabilities associated with assets classified as held for sale	(118)	–	–	–	56	(62)
Use of provision	(3,041)	(1,274)	(20,496)	(86,926)	(33,192)	(144,929)
Reversal of unused amounts	(74)	–	(20,989)	–	(471)	(21,534)
Provision at December 31, 2016	128,218	17,111	48,048	69,786	92,272	355,435

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

<i>In millions of tenge</i>	Asset retirement obligations	Provision for environmental remediation	Provision for taxes	Provision for construction of social objects	Other	Total
Current portion	1,024	8,311	63,228	107,664	40,693	220,920
Non-current portion	178,279	11,761	16,953	48,601	15,959	271,553
Provision at December 31, 2015	179,303	20,072	80,181	156,265	56,652	492,473
Current portion	916	486	48,048	63,104	80,945	193,499
Non-current portion	127,302	16,625	–	6,682	11,327	161,936
Provision at December 31, 2016	128,218	17,111	48,048	69,786	92,272	355,435

Provision for onerous obligation – United Chemical Company LLP (UCC)

In 2016, the UCC recognised the provision on onerous obligation in the net amount of 58,470 million tenge (2015: 5,612 million tenge) on Karabatan Utility Solutions LLP for the construction of Gas turbine power station as Other transactions with the Shareholder within equity. In 2016, the Group decreased the carrying value of capital construction in progress of Karabatan Utility Solutions LLP of 27,386 million tenge against provision (2015: 2,888 million tenge).

In 2016, the UCC also recognised additional provision on onerous obligation in the net amount of 486 million tenge (2015: 1,656 million tenge) on the infrastructure construction project SEZ “Chemical Park Taraz” and recorded this transaction in the consolidated income statement and other comprehensive income. The Group also decreased the carrying value of capital construction in progress of Chemical Park Taraz against this accumulated provision of 2,315 million tenge (2015: 9,054 million tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. EMPLOYEE BENEFIT LIABILITY

State contribution scheme

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

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

Defined benefit plan

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

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

<i>In millions of tenge</i>	2016	2015
Present value of defined benefit obligation	73,059	78,823
Liability falling due within one year	(6,172)	(6,384)
Liability falling due after one year	66,887	72,439

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

<i>In millions of tenge</i>	2016	2015
Total liability at the beginning of the year	78,823	66,851
Current service cost	2,956	4,578
Past service cost	2,066	7,737
Interest cost	5,971	5,162
Benefits paid during the year	(6,935)	(6,741)
Unrecorded past service cost	(73)	(2,040)
Actuarial (losses)/gain recognized during the period in other comprehensive income	(7,424)	4,378
Actuarial (losses)/gain recognized during the period in profit and loss	(1,324)	1,256
Transfer to assets held for sale	(1,001)	(2,358)
Total liability at the end of the year	73,059	78,823

Total service cost, including current service cost, interest cost, past service cost, unrecorded past service cost and actuarial loss, of 2,172 million tenge was recognized in the consolidated statement of comprehensive income within respective line items in 2016 (2015: 21,071 million tenge).

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

	2016	2015
Discount rate	9.64%	7.75%
Expected rate of increase of future annual financial assistance	5.99%	5.47%
Expected rate of increase of future annual minimum salary	5.29%	6.63%
Expected rate of increase of future annual railway ticket price	7%	10.2%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**24. OTHER CURRENT LIABILITIES**

As at December 31 other current liabilities comprised the following:

<i>In millions of tenge</i>	2016	2015
Payables for acquisition of additional interest in the North-Caspian project (Note 20)	271,597	-
Prepayment on oil supply agreements (Note 20)	249,968	-
Advances received and deferred income	123,938	119,419
Due to employees	93,139	78,787
Other taxes payable	61,614	66,851
Amounts due to customers	24,027	21,069
Dividends payable	3,965	7,225
Other estimated liabilities	2,252	5,738
Other	62,477	56,879
	892,977	355,968

25. REVENUE

Revenue comprised the following for the years ended December 31:

<i>In millions of tenge</i>	2016	2015
Sales of crude oil	702,052	121,652
Railway cargo transportation	684,271	620,918
Sales of uranium products	317,789	303,998
Oil and gas transportation	314,765	296,617
Sales of gas products	292,783	213,782
Sales of oil refined products	282,718	212,499
Electricity complex	232,899	230,192
Air transportation	227,324	172,314
Telecommunication services	201,439	180,705
Sales of refined gold	154,042	92,200
Electricity transmission services	115,775	98,028
Oil processing fees	98,380	78,046
Railway passenger transportation	81,279	72,926
Interest revenue	56,394	49,933
Postal services	35,381	31,837
Other revenue	296,203	315,984
Less: indirect taxes and commercial discounts	(1,215)	(643)
	4,092,279	3,090,988

Sales of crude oil to the market is performed through KMGJ except sales under the oil supply agreement (Note 20).

26. GOVERNMENT GRANTS

According to the Resolution of the Government of the Republic of Kazakhstan #1188 dated November 11, 2004 *On the Approval of Subsidies for Carrier Losses Related to Provision of Passenger Transportation*, starting from January 1, 2005, NC KTZh receives government grants as a compensation for carriers' losses on socially important destinations. There are no unfulfilled conditions or contingences attached to these grants. The amount of subsidy for the year ended December 31, 2016 was equal to 22,530 million tenge (2015: 21,722 million tenge).

According to the Resolution of the Government of the Republic of Kazakhstan #1039 dated October 7, 2004 *On the Approval of Subsidies for Telecommunication Operators Losses Related to the Provision of Universal Telecommunication Services to the Population*, starting from 4th quarter of 2004, KTC receives government grants as compensation for operators' losses on telecommunication services to socially-important regions. There are no unfulfilled conditions or contingencies attached to these grants. The amount of subsidy for the year ended December 31, 2016 was equal to 7,353 million tenge (2015: 7,010 million tenge).

Other income from government grants and subsidies for the year ended December 31, 2016 were equal to 4,326 million tenge (2015: nil) (Note 20).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. COST OF SALES

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

<i>In millions of tenge</i>	2016	2015
Materials and supplies	1,236,201	747,700
Personnel costs, including social taxes and withdrawals	726,650	687,728
Depreciation, depletion and amortization	400,621	340,490
Fuel and energy	223,419	209,823
Production services received	177,324	156,582
Repair and maintenance	125,117	100,498
Interest expense	109,749	74,641
Rent	62,583	39,249
Transportation expenses	53,356	49,155
Taxes other than social tax and withdrawals	50,381	42,172
Mineral extraction tax	49,658	79,462
Other	182,043	187,532
	3,397,102	2,715,032

28. GENERAL AND ADMINISTRATIVE EXPENSES

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

<i>In millions of tenge</i>	2016	2015
Personnel costs, including social taxes and withdrawals	160,205	152,819
Taxes other than income tax	32,850	26,401
Consulting services	29,648	26,429
Sponsorship and charitable donations	16,665	17,746
Depreciation and amortization	16,442	19,414
Rent	9,364	6,384
Allowance for doubtful debts	8,574	12,972
Business trips	6,413	5,449
Repair and maintenance	5,869	4,573
Fines and penalties, net	(11,916)	49,248
Other	70,587	59,143
	344,701	380,578

Fines and penalties, net includes the reversal of provisions for tax related fine and penalties at KazMunaiGas Exploration Production JSC of 18,754 million tenge following a favorable court decision.

29. TRANSPORTATION AND SELLING EXPENSES

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

<i>In millions of tenge</i>	2016	2015
Custom duties	84,199	84,639
Transportation	74,730	44,996
Rent tax	19,981	41,557
Personnel costs, including social taxes and withdrawals	10,306	10,979
Commission fees to agents and advertising	7,880	8,070
Depreciation and amortization	6,530	6,890
Other	14,714	14,137
	218,340	211,268

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. IMPAIRMENT LOSS

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

<i>In millions of tenge</i>	2016	2015
Impairment of property, plant and equipment and intangible assets	23,218	132,262
Impairment of cash and bank deposits placed in Deltabank JSC (Note 4)	15,298	-
Impairment of cash and bank deposits placed in Kazinvestbank JSC (Note 4)	12,429	-
Impairment of loans issued (Note 10)	8,411	9,167
Impairment of investments in joint ventures and associates (Note 9)	159	38,370
Impairment of non-current inventories	-	36,047
Impairment of goodwill	-	11,922
Impairment of VAT receivable	(6,856)	54,509
Other	15,995	9,993
	68,654	292,270

31. FINANCE COSTS

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

<i>In millions of tenge</i>	2016	2015
Interest on loans and debt securities issued	320,198	256,064
Interest on payable for the acquisition of additional interest in North Caspian Project	36,241	19,601
Discount on provisions and other payables	15,714	12,784
Interest on finance lease liabilities	7,915	6,385
Other	20,887	26,655
	400,955	321,489

32. FINANCE INCOME

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

<i>In millions of tenge</i>	2016	2015
Interest income on amounts due from credit institutions and cash and cash equivalents	124,022	96,364
Gain from derecognition of liabilities (Note 18)	62,513	44,412
Income from loans and financial assets	44,720	31,663
Unwinding of discount on long-term receivables	12,684	10,725
Dividend income	7,308	7,067
Guarantee income	5,899	5,959
Gain from early redemption of debt securities issued	-	54,837
Other	16,592	31,095
	273,738	282,122

During 2016, NC KMG acquired 27% share in project Zhambyl from KC Kazakh B.V. Wherein, based on the agreement, the loan received from KC Kazakh B.V. on financing KMG’s share in project Zhambyl was written-off. In the result, the Group recognized income of 62,513 million tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

<i>In millions of tenge</i>	2016	2015
Tengizchevroil LLP	147,910	162,160
Caspian Pipeline Consortium JSC	74,909	367
Kazzinc LLP	37,388	(16,339)
Mangistau Investments B.V.	29,766	19,703
KazRosGas LLP	18,648	36,253
JV KATCO LLP	16,422	25,856
COU CJSC	12,556	(1,203)
Karatau LLP	11,990	10,043
Valsera Holdings B.V.	10,414	(123)
JV Akbastau JSC	10,174	8,080
Beineu-Shymkent Pipeline LLP	(8,796)	(60,433)
Kazakhoil Aktobe LLP	(11,536)	(449)
Khan Tengri Holding B.V.	(13,539)	-
Petro Kazakhstan Ink	(15,810)	(16,466)
Other	35,473	(18,026)
	355,969	149,423

34. INCOME TAX EXPENSES

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

<i>In millions of tenge</i>	2016	2015
Current income tax expenses		
Corporate income tax (CIT)	125,219	200,960
Withholding tax on dividends and interest income	16,147	27,431
Excess profit tax	(1,128)	8,131
Deferred income tax expense/(benefit)		
Corporate income tax (CIT)	(4,804)	(44,360)
Withholding tax on dividends and interest income	18,915	79,045
Excess profit tax	15,543	2,812
Income tax expenses	169,892	274,019

A reconciliation of income tax expenses applicable to profit before income tax at the statutory income tax rate (20% in 2016 and 2015) to income tax expenses was as follows for the years ended December 31:

<i>In millions of tenge</i>	2016	2015
Accounting profit before income tax from continuing operations	376,893	317,190
Accounting profit before income tax from discontinued operations	364,609	240,594
Income tax expenses on accounting profit	148,300	111,557
Tax effect of other items, which are not deductible or assessable for taxation purposes	152,253	14,235
Change in unrecognized deferred tax assets	(98,311)	73,307
Excess profit tax	14,415	10,943
Effect of different corporate income tax rates	(8,496)	3,082
Share in non-taxable profit of joint ventures and associates	(50,370)	(5,190)
Other differences	8,510	45,048
Total corporate income tax expenses	166,302	252,982
Add: income tax benefit attributable to discontinued operations	3,590	21,037
Income tax expense from continuing operations	169,892	274,019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. INCOME TAX EXPENSES (continued)

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

<i>In millions of tenge</i>	2016					2015				
	Corporate income tax	Excess profit tax	Withholding tax	Total	Corporate income tax	Excess profit tax	Withholding tax	Total		
Deferred tax assets										
Property, plant and equipment	89,894	(1,900)	-	87,994	127,736	(1,900)	-	125,836		
Tax loss carryforward	594,312	-	-	594,312	325,717	-	-	325,717		
Employee related accruals	13,457	46	-	13,503	13,635	7	-	13,642		
Impairment of financial assets	5,340	-	-	5,340	8,250	-	-	8,250		
Provision for environmental remediation	16,418	-	-	16,418	14,794	-	-	14,794		
Other accruals	3,921	163	-	4,084	3,000	31	-	3,031		
Other	33,637	-	-	33,637	42,390	-	-	42,390		
Less: unrecognized deferred tax assets	(413,898)	-	-	(413,898)	(241,084)	-	-	(241,084)		
Less: deferred tax assets offset with deferred tax liabilities	(196,240)	-	-	(196,240)	(176,133)	-	-	(176,133)		
Deferred tax assets	146,841	(1,691)	-	145,150	118,305	(1,862)	-	116,443		
Deferred tax liabilities										
Property, plant and equipment	573,088	15,716	-	588,804	538,376	2	-	538,378		
Undistributed earnings of joint ventures and associates	-	-	173,069	173,069	-	-	154,154	154,154		
Other	17,612	-	-	17,612	10,615	-	-	10,615		
Less: deferred tax assets offset with deferred tax liabilities	(196,240)	-	-	(196,240)	(176,133)	-	-	(176,133)		
Deferred tax liabilities	394,460	15,716	173,069	583,245	372,858	2	154,154	527,014		
Net deferred tax liabilities	(247,619)	(17,407)	(173,069)	(438,095)	(254,553)	(1,864)	(154,154)	(410,571)		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. INCOME TAX EXPENSES (continued)

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

<i>In millions of tenge</i>	2016			2015			Total
	Corporate income tax	Excess profit tax	Withholding tax	Corporate income tax	Excess profit tax	Withholding tax	
Balance at January 1	254,553	1,864	154,154	334,724	(94)	75,187	409,817
Foreign currency translation	1,707	-	-	7,120	(854)	(78)	6,188
Charged to other comprehensive income	817	-	-	(8,107)	-	-	(8,107)
Acquisitions of subsidiaries	-	-	-	4,768	-	-	4,768
Discontinued operations (Note 6)	(4,654)	-	-	(39,592)	-	-	(39,592)
(Credited)/charged to profit and loss	(4,804)	15,543	18,915	(44,360)	2,812	79,045	37,497
Balance at December 31	247,619	17,407	173,069	254,553	1,864	154,154	410,571

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Unrecognized deferred tax asset arising mainly from tax losses carry forward were equal to 413,898 million tenge as at December 31, 2016 (2015: 241,084 million tenge).

Tax losses carryforwards as at December 31, 2016 in the Republic of Kazakhstan expire for tax purposes 10 (ten) years from the date they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. CONSOLIDATION

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

		Ownership percentage	
		2016	2015
1	National Company “KazMunayGas” JSC (“NC KMG”) and subsidiaries	90%	90% – 1
2	“KMG Kashagan” B.V.	100.00%	100.00%
3	National Company “Kazakhstan Temir Zholy” JSC (“NC KTZh”) and subsidiaries	100.00%	100.00%
4	National Atomic Company “Kazatomprom” JSC (“NAC KAP”) and subsidiaries	100.00%	100.00%
5	“Samruk-Energy” JSC (“Samruk-Energy”) and subsidiaries	100.00%	100.00%
6	“Kazakhstan Electricity Grid Operating Company” JSC (“KEGOC”) and subsidiaries	90% + 1	90% + 1
7	“Kazpost” JSC and subsidiaries	100.00%	100.00%
8	“Kazakhtelecom” JSC (“KTC”) and subsidiaries	51.00%	51.00%
9	“Air Astana” JSC (“Air Astana”)	51.00%	51.00%
10	National Company “Kazakhstan Engineering” JSC (“Kazakhstan Engineering”) and subsidiaries	100.00%	100.00%
11	Real Estate Fund “Samruk-Kazyna” JSC and subsidiaries	100.00%	100.00%
12	National Mining Company “Tau-Ken Samruk” and subsidiaries	100.00%	100.00%
13	“United Chemical Company” LLP and subsidiaries (“UCC”)	100.00%	100.00%
14	“Samruk-Kazyna Invest” LLP	100.00%	100.00%
15	“Samruk-Kazyna Contract” LLP	100.00%	100.00%
16	“KOREM” JSC	100.00%	100.00%
17	“International Airport Atyrau” JSC	100.00%	100.00%
18	“International Airport Aktobe” JSC	100.00%	100.00%
19	“Airport Pavlodar” JSC	100.00%	100.00%
20	“SK Business Service” LLP and subsidiaries	100.00%	100.00%
21	“Qazaq Air” JSC	100.00%	100.00%
22	“Kazakh nuclear power plants” JSC	–	100.00%
23	Aviation Company “Air Kazakhstan” JSC	53.55%	53.55%

36. SIGNIFICANT NON-CASH TRANSACTIONS

The following significant non-cash transactions have been excluded from the consolidated statement of cash flows for the year ended December 31, 2016:

1. Acquisition of property, plant and equipment financed by bank loans of 153,314 million tenge.
2. Hedging of net investments in certain subsidiaries classified as foreign operations against selected borrowings of the Group denominated in US dollars. Effect of 2016 hedging was equal to 79,682 million tenge which was reclassified from profits and losses to other comprehensive income, under exchange differences on translation of foreign operations (*Note 17.8*).
3. Transfer of the History Museum to the Government of RK of 55.816 million tenge.
4. Creation of an onerous obligation of 58.470 million tenge (*Note 17.4*).
5. Borrowings of Altel JSC of 29,991 million tenge were transferred to Kazakhtelecom JSC.

37. RELATED PARTY DISCLOSURES

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. RELATED PARTY DISCLOSURES (continued)

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

<i>In millions of tenge</i>		Associates	Joint ventures where the Group is a venture	Other state- controlled entities
Due from related parties	2016	40,896	116,231	11,340
	2015	45,744	39,058	10,771
Due to related parties	2016	38,829	155,585	9,265
	2015	43,127	91,496	1,836
Sale of goods and services	2016	54,764	366,709	259,975
	2015	48,968	261,978	189,293
Purchase of goods and services	2016	206,588	698,052	10,722
	2015	163,644	239,436	11,691
Other income/(loss)	2016	(2,969)	2,107	8,765
	2015	95,576	63,453	(91,085)
Cash and cash equivalents, and amounts due from credit institutions (assets)	2016	–	34	241,929
	2015	–	–	222,003
Loans issued	2016	182,394	246,388	187,227
	2015	217,010	237,449	193,667
Borrowings	2016	–	755	1,706,153
	2015	–	217	1,746,804
Other assets	2016	14,187	82,520	8,890
	2015	10,591	48,843	14,385
Other liabilities	2016	7,032	15,470	51,939
	2015	2,614	13,349	26,842
Interest received	2016	15,873	23,967	20,300
	2015	17,557	18,061	14,546
Interest accrued	2016	6,063	4,976	113,710
	2015	3,066	86	63,012

As at December 31, 2016 some of the Group’s borrowings in the amount of 76,155 million tenge were guaranteed by the Government of the Republic of Kazakhstan (as at December 31, 2015: 87,901 million tenge).

Total compensation to key management personnel included in general and administrative expenses in the consolidated statement of comprehensive income was equal to 7,182 million tenge for the year ended December 31, 2016 (2015: 5,618 million tenge). Compensation to key management personnel mainly consists of contractual salary and other payments based on achievement of operating results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Interest rate risk

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

The Group’s exposure to interest risk relates primarily to the Group’s long-term and short-term borrowings with variable interest rates (*Note 18*).

The following table demonstrates the sensitivity of the Group’s profit before income tax (through the impact on variable rate borrowings) and equity (through the impact on the fair value of investments available for sale) to a reasonably possible change in variable LIBOR interest rates, with all other variables held constant.

<i>In millions of tenge</i>	Increase/ (decrease) in basis points*	Effect on profit and loss
2016		
US dollar	60/(8)	(15,640)/2,090
2015		
US dollar	50/(12)	(13,841)/3,322

* 1 basis point = 0.01%.

Currency risk

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

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

<i>In millions of tenge</i>	Increase/(decrease) in exchange rate	Effect on profit and loss
2016		
US dollar	13.00%/(13.00%)	(261,631)/261,631
Euro	15.00%/(15.00%)	(18,710)/18,710
2015		
US dollar	60.00%/(20.00%)	(818,961)/288,318
Euro	60.00%/(20.00%)	(68,987)/22,996

Credit risk

Credit risk arising from the inability of a party to meet the terms of the Group’s financial instrument contracts is generally limited to the amounts, if any, by which the counterparty’s obligations exceed the obligations of the Group to that party. It is the Group’s policy to enter into financial instruments with a diversity of creditworthy parties. The maximum exposure to credit risk is represented by carrying amount of each financial asset. The Group considers that its maximum exposure is reflected by the amount of loans issued (*Note 10*), amount due from credit institutions (*Note 11*), trade accounts receivable and other current assets (*Note 15*), other financial assets (*Note 12*), and cash and cash equivalents (*Note 16*), net of allowances for impairment recognized at the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Credit risk (continued)

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

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

Liquidity risk

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

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

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

<i>In millions of tenge</i>	On demand	Due later than 1 month but not later than 3 months	Due later than 3 months but not later than 1 year	Due later than 1 year but not later than 5 years	Due after 5 years	Total
At December 31, 2016						
Loans from the Government of the Republic of Kazakhstan	13	24	35,640	189,319	2,827,145	3,052,141
Borrowings	96,758	55,001	822,439	3,252,694	2,660,013	6,886,905
Finance lease liabilities	688	5,631	18,720	71,981	59,091	156,111
Due to customers	24,014	–	12	16	–	24,042
Trade and other payables	248,541	284,922	52,403	6,366	6,925	599,157
Derivatives	–	–	–	–	–	–
	370,014	345,578	929,214	3,520,376	5,553,174	10,718,356
At December 31, 2015						
Loans from the Government of the Republic of Kazakhstan	13	24	36,168	166,616	2,831,991	3,034,812
Borrowings	63,408	70,753	727,895	4,236,512	3,157,838	8,256,406
Finance lease liabilities	70	6,170	18,687	77,294	76,986	179,207
Due to customers	21,049	8	12	17	–	21,086
Trade and other payables	103,738	248,023	153,794	1,698	4,731	511,984
Derivatives	–	–	236	–	–	236
	188,278	324,978	936,792	4,482,137	6,071,546	12,003,731

Capital management

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Fair values of financial instruments

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

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

As at December 31, 2016 and 2015 the carrying amount of the Group’s financial instruments approximates their fair value except for the following financial instruments:

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

<i>In millions of tenge</i>	Level 1	Level 2	Level 3	December 31, 2015
Financial instruments category				
Assets				
Available-for-sale financial assets	29,907	10,335	1,166	41,408
Financial assets at fair value through profit and loss	-	-	10,276	10,276
Derivative financial assets	-	-	383	383
Liabilities				
Derivative financial liabilities	-	175	61	236

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Fair values of financial instruments (continued)

<i>In millions of tenge</i>	December 31, 2015				
	Carrying amount	Fair value	Fair value by level of assessment		
			Quotations in an active market (Level 1)	From the observed market (Level 2)	Based on the significant amount of unobserved (Level 3)
Financial assets					
Amounts due from credit institutions	2,158,850	2,138,505	1,094,521	971,906	72,078
Financial liabilities					
Borrowings	6,092,711	6,036,972	3,658,256	1,994,714	384,002
Loans from the Government of the Republic of Kazakhstan	866,437	849,567	-	849,567	-
Guarantee obligations	36,332	88,948	-	88,948	-

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

39. COMMITMENTS AND CONTINGENCIES

Operating environment

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

In general, the economy of the Republic of Kazakhstan continues to displays characteristics of an emerging market. The economy is particularly sensitive to changes in oil and gas prices and other minerals, which constitute major part of the country’s export.

Low prices of oil and other minerals, volatility of exchange rate have caused and may continue to have negative impact on the economy of the Republic of Kazakhstan, including decline in liquidity and difficulties in attracting of international financing.

Kazakhstan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Kazakhstan. While the Government of RK has introduced a range of stabilization measures aimed at providing liquidity to Kazakhstan banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group’s financial position, results of operations and business prospects.

While management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group’s results and financial position in a manner not currently determinable.

Taxation

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

As at December 31, 2016, Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group’s tax positions will be sustained, except as provided for or otherwise disclosed in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**39. COMMITMENTS AND CONTINGENCIES (continued)****Taxation (continued)**

As at December 31, 2016 contingent liabilities related to taxation comprised the following:

2009-2012 Comprehensive tax audit of KMG EP (NC KMG)

Based on the results of the 2009-2012 Comprehensive tax audit in 2015 KMG EP received a tax assessment for 38,512 million tenge, including tax principal, administrative fine and penalty. KMG EP did not agree with the results of the tax audit and sent an appeal to the Committee of the State Revenues. As per the decision of Special Interdistrict Administrative court of Astana the amount of administrative fine was reduced to 2,002 million tenge. The KMG EP plans to appeal the remaining amount of 13,486 million tenge to the appropriate courts. The accompanying consolidated financial statements include provisions for the entire claim balance.

VAT recoverability of KMG EP (NC KMG)

On August 31, 2016 the KMG EP 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 Ozenmunaigas JSC and Embamunaigas JSC (subsidiaries of KMG EP) 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 KMG EP in 2016. In these financials, the KMG EP has reversed 24,567 million tenge of previously accrued VAT allowance.

Legal proceedings*KazMunayGas Trading AG (former – Vector Energy AG) litigations with SC Bioromoil SRL (KMG International N.V.)*

As at December 31, 2016, KazMunayGas Trading AG is engaged in litigations with SC Bioromoil SRL. SC Bioromoil SRL was seeking to recover the costs related to the Romanian customs duties in relation to the sale of biodiesel in 2009 and 2010 and compensation for lost profits. As of December 31, 2016 the total amount of claims was equal to 26.9 million US dollars (equivalent to 8,965 million tenge). As at December 31, 2016 the Group recorded a provision of 22 million US dollars for this claim (equivalent to 7,332 million tenge) (as at December 31, 2015: nil).

Civil litigation (KMG International N.V.)

According to a Decree issued April 22, 2016, prosecutors of Romania with the General Headquarters of the Department for Fight Against Organized Crime and Terrorism (DIICOT) have ordered a reclassification and continued investigation of the case against 26 suspects under charges of organized crime (14 of them were former employees of KMG I).

In accordance to the same Decree, several civil responsible parties were added to the case, which include KMG I, SC Oilfield Exploration Business Solutions SA and SC Rompetrol Rafinare S.A. (KMGI subsidiaries). The amount of claims of the civil action is RON 1,724,168,825, USD 290,786,616 and EUR 34,941,924 (equivalent to 760 million US dollars or 253,300 million tenge).

By Decree issued on May 6, 2016, the DIICOT have applied a prejudgment seizure on KMG I, SC Oilfield Exploration Business Solutions SA and SC Rompetrol Rafinare S.A. movable and immovable assets except for bank accounts, receivables and inventories. Prescribed seizure does not impact the operational activity of the companies. KMGI appealed the seizure orders in domestic courts and international arbitration. The hearing of Supreme Court was on June 13, 2016. The Supreme Court rejected in full the appeal. The investigation is ongoing and court trial is expected after investigation is finished. On July 22, 2016 the Company and KMGI submitted to the Romanian authorities the Notice of Investment Dispute based on the Agreement between the Government of Romania and the Government of the Republic of Kazakhstan, the Agreement between the Government of the Kingdom of the Netherlands and the Government of Romania and the Energy Charter Treaty. The submission of the aforementioned Notice represents the first procedural step that might give rise to an arbitration dispute between an investor and the country where the investment was made. If a settlement between the Group and Romanian authorities fail to be reached, the case will be referred to and settled by the International Centre for Settlement of Investment Disputes under World Bank or to the Arbitration Institute of the Stockholm Chamber of Commerce.

Management believes that until the completion of the investigation and presentation of information on claims, the creation of reserves is not required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. COMMITMENTS AND CONTINGENCIES (continued)**Legal proceedings (continued)***Litigations of KMG Drilling & Services LLP subsidiary of KMG JSC (“KMG D&S”)*

KMG D&S (subsidiary of the Group) is involved in arbitration proceedings with Consortium of companies “Ersai Caspian Contractor” LLP and “Caspian Offshore and Marine Construction” LLP (“Consortium” or “Claimants”) related to procurement contract on construction of juck-up drilling rig (JUDR), which is handled by the London Court of International Arbitration. On January 17, 2017 KMG D&S received the claim from Consortium. Operative part of the Statement of case includes the following Claimant’s demands:

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

The total claim amounted more than 141,501 thousand US dollars (equivalent to 47,161 million tenge) and is not final the statement of case claims on appreciation of value based on currency adjustments and reimbursement of additional expenses of Consortium however, amounts are not specified under this claims.

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

There is uncertainty about the result of judicial proceedings. As of December 31, 2016 the Group had not recognized the provision for given claim.

Commodity price risk

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

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

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

Cost recovery audits

Under the base principles of the production sharing agreements (“PSA”), the Government transferred to contractors the exclusive rights to conduct activities in the subsurface use area, but did not transfer rights to this subsurface use area either to ownership or lease. Thus, all extracted and processed oil (i.e. the hydrocarbons produced) are the property of the Government. Works are carried out on the basis of compensation and the Government pays the contractors not in cash but in the form of the portion of oil production, thereby allowing the contractors to recover their costs and earn profit.

In accordance with the PSA not all costs incurred by the contractors could be reimbursed. Certain expenditures need to be approved by the authorized bodies. The authorized bodies conduct the cost recovery audits. In accordance with the costs recovery audits completed prior to December 31, 2016 certain amounts of the costs incurred by contractors were assessed as non-recoverable. The parties to the PSA are in negotiations with respect to the recoverability of those costs.

As of December 31, 2016 the Group’s share in the total disputed amounts of costs is 201,091 million tenge (2015: 217,166 million tenge). The Group and its partners under the production sharing agreements are in negotiation with the Government with respect to the recoverability of these costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. COMMITMENTS AND CONTINGENCIES (continued)

Kazakhstan local market obligation

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

Kazakhstan local market oil prices are significantly lower than export prices and even lower than the normal domestic market prices determined in an arm-length transaction. If the Government does require additional crude oil to be delivered over and above the quantities currently supplied by the NC KMG Group, 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 NC KMG Group’s business, prospects, consolidated financial position and results of operations.

In 2016, in accordance with its obligations, the Group delivered 3,236,644 tons of crude oil (December 31, 2015: 5,510,786 tons), including joint ventures, to the Kazakhstan market.

Oil supply commitments

As of December 31, 2016 the Group had commitments under the oil supply agreement in the amount of 24.6 million tons to be delivered till March 2020.

Commitments under oilfield and mining field licenses and subsurface use contracts

As at December 31, 2016 the Group had following commitments on fulfillment of minimal work programs with respect to the requirements of their oilfield and mining licenses and related subsurface use contracts with the Government (in millions of tenge):

Year	Capital expenditures	Operational expenditures
2017	185,000	49,414
2018	50,702	44,217
2019	36,578	44,364
2020	30,703	45,139
2021-2048	166,892	248,456
Total	469,875	431,590

Operating lease commitments

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

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

<i>In millions of tenge</i>	2016	2015
Within one year	23,317	21,124
From one to five years	97,193	95,432
Over five years	90,321	117,460
Total	210,831	234,016

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**39. COMMITMENTS AND CONTINGENCIES (continued)****Commitments to extend guarantees, letters of credit and other commitments related to settlement operations (continued)**

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

<i>In millions of tenge</i>	2016	2015
Guarantees	762,820	807,285

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

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

Capital commitments*NC KTZh*

As at December 31, 2016, the NC KTZh Group had capital commitments for the construction of Zhezkazgan-Beineu and Arkalyk-Shubarkol railways, purchase of long rails, development of railway center in Astana including construction of railway station, acquisition of freight and passenger electric locomotives, freight and passenger diesel locomotives in the total amount of 1,136,590 million tenge (as at December 31, 2015: 409,412 million tenge). This amount includes commitments for the purchase of long rails from associate Aktobe Rail and Section Mill Plant LLP in the amount of 165,348 million tenge (as at December 31, 2015: nil), electric locomotives from the associate Electrovoz Kurastyru Zauyty LLP in the amount of 119,285 million tenge (as at December 31, 2015: 179,247 million tenge) and diesel locomotives from joint venture Locomotive Kurastyru Zauyty JSC in the amount of 714,652 million tenge (as at December 31, 2015: 42 million tenge).

NC KMG

As at December 31, 2016 NC KMG, including its joint ventures, had capital commitments of approximately 995,000 million tenge related to acquisition and construction of property, plant and equipment (as at December 31, 2015: 730,000 million tenge).

KMG Kashagan

As at December 31, 2016 in accordance with Kashagan Development Plan and Budget, KMG Kashagan had capital commitments on acquisition, construction or development of undivided interest exploration and evaluation assets and oil and gas development assets in the amount of to 2,186,552 thousand US dollars (728,756 million tenge). As at December 31, 2015 capital commitments were equal to 715,389 thousand US dollars (243,239 million tenge).

Samruk Energy

As at December 31, 2016 capital commitments of Group under the contracts on acquisition of plant, property and equipment were equal to 125,661 million tenge (as at December 31, 2015: 128,417 million tenge).

As at December 31, 2016 long term capital expenditure commitments of Samruk-Energy JSC joint ventures Forum Muider and EGRES-2 comprised 47,115 million tenge (as at December 31, 2015: 49,037 million tenge). As at December 31, 2016 the Group's share in the long-term contractual capital commitments of associate (BTTP) amounted to 409,099 million tenge (2015: 320,068 million tenge).

UCC

As at December 31, 2016 Group had contractual obligations on purchase of property, plant and equipment and construction services under investment projects in the amount of 124,243 million tenge (as at December 31, 2015: 137,383 million tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. COMMITMENTS AND CONTINGENCIES (continued)**Capital commitments (continued)***KTC*

The Group generally enters into contracts for the completion of construction projects and purchase of telecommunication equipment. As at December 31, 2016, the Group had contractual obligations in the total amount of 11,108 million tenge (2015: 9,145 million tenge) mainly related to purchase of telecommunication equipment and construction of telecommunication network.

Real Estate Fund

As at December 31, 2016 Group had contractual obligations in the amount of 73,739 million tenge under contracts with construction companies (December 31, 2015: 8,666 million tenge).

Kazakhstan Electricity Grid Operating Company JSC (KEGOC)

To ensure the stable and reliable performance of the national electricity grid, the KEGOC developed a capital investment plan. As at December 31, 2016, the Group's outstanding contractual commitments within the frameworks of this plan amount to 45,624 million tenge (December 31, 2015: 84,277 million tenge). Due to the fact that a significant part of the plan on capital investments and, open contracts in particular, consist of equipment and spare parts purchased outside of the Republic of Kazakhstan, there is a likelihood of fluctuations in the value of contractual obligations. The main cause of these variations is the effect of changes in exchange rates caused by the transition to the regime of free-floating exchange rate in the framework of the implementation of target-based inflation.

“Green Quarter” project

In December 2013 the Group signed an agreement with BI Corporation LLP on the joint implementation of the Green Quarter project. According to the concluded agreement, the Group will finance the project for a total of 44,000 million tenge, where the Group's own funds will amount to 15,000 million tenge.

As of December 31, 2016 the Group has financed this Project in the amount of 30,800 million tenge. The Group expects to provide remaining financing during the 2017.

Obligation under the option agreement to buy an interest in KLPE LLP (hereinafter, “option agreement”)

According to the option agreement between the Company and LG Chem, if within 2 (two) years from the date of the option agreement, the Company will sell the share purchased from LG Chem to a new member in the amount of not less than 35% in total, half of the difference between the actual price of sale by the Company of such share to a new member, but not more than half (50%) of the remaining charter capital shall be reimbursed by the Company to LG Chem within 30 business days after payment is received under the Share Purchase Agreement between the Buyer and the new member.

KLPE LLP is currently looking for a strategic partner to attract investments to the project. Accordingly, for the purpose of attracting investment from strategic partner based on available data the Management of UCC confirms that as December 31, 2016 future sales price of interest of in KLPE LLP to the partner will comprise 1 (one) US dollar. As a result, no commitment arises due to LG Chem in accordance with option agreement dated March 18, 2016.

Commitments on recycle use of anti-crisis funds

In accordance with the decision of the State commission on economy modernization issues of the Republic of Kazakhstan dated 5 April 2012, dated 30 January 2013 and dated 7 October 2013 the Group has commitment to finance certain remaining investment projects in the total amount of 31,514 million tenge.

As at December 31, 2016 the Group's commitments included commitments to finance investment projects of 9,080 million tenge and commitments to finance the program “Affordable housing – 2020” of 22,434 million tenge.

Commitments under investment projects using the funds from Republican budget

As at December 31, 2016 Group's commitments on implementation of investment projects using funds from the Republican budget were equal to 2,030 million tenge (as at December 31, 2015: 2,030 million tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

40. SEGMENT REPORTING

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

40. SEGMENT REPORTING (continued)

The following table represents information about profit and loss, assets and liabilities of operating segments of the Group for 2016:

<i>In millions of tenge</i>	Oil and gas	Mining	Trans- portation	Telecom- munication	Energy	Industrial	Corporate center	Other	Elimination	Total
Revenues from sales to external customers	1,829,618	566,679	1,012,129	236,579	315,044	70,336	48,955	12,939	-	4,092,279
Revenues from sales to other segments	61,936	18,606	13,334	3,971	40,621	7,406	104,084	2,906	(252,864)	-
Total revenue	1,891,554	585,285	1,025,463	240,550	355,665	77,742	153,039	15,845	(252,864)	4,092,279
Gross profit	295,653	113,080	184,303	74,041	119,654	7,623	35,803	5,548	(106,319)	729,386
General and administrative expenses	(121,151)	(33,414)	(89,631)	(28,336)	(31,722)	(9,270)	(34,148)	(3,166)	6,137	(344,701)
Transportation and selling expenses	(200,754)	(7,283)	(6,984)	(3,591)	(3,336)	(1,021)	-	-	4,629	(218,340)
Finance income	169,592	18,041	9,962	6,792	10,099	4,748	117,839	7,482	(70,817)	273,738
Finance costs	(271,055)	(11,559)	(97,325)	(7,234)	(26,266)	(6,419)	(11,352)	(1,870)	32,125	(400,955)
Share in profits of joint ventures and associates	257,121	112,131	670	(13,568)	4,970	(5,352)	-	(3)	-	355,969
Foreign exchange gain/(loss), net	(12,671)	3,114	15,901	(640)	6,614	747	(36,101)	(22)	(525)	(23,583)
Depreciation, depletion and amortization	(190,076)	(16,985)	(124,342)	(33,498)	(56,811)	(1,879)	(712)	(363)	438	(424,228)
Impairment of property, plant and equipment	(3,250)	(13,626)	(4,996)	(23)	(349)	(582)	-	-	-	(22,826)
Impairment of other assets	(15,015)	(8,426)	(3,688)	(720)	(1,070)	(1,063)	(12,091)	(3,755)	-	(45,828)
Income tax expenses	(105,653)	(18,185)	1,821	(11,266)	(18,395)	39	(14,850)	(1,911)	(1,492)	(169,892)
Net (loss)/profit for the year from continuing operations	(6,684)	149,005	27,696	56,391	61,751	4,848	47,566	2,859	(136,431)	207,001
Net profit/(loss) for the year from discontinued operations	368,199	-	-	-	-	-	-	-	-	368,199
Total net profit/(loss) for the period	361,515	149,005	27,696	56,391	61,751	4,848	47,566	2,859	(136,431)	575,200
Other segment information										
Total assets of the segment	14,131,230	1,395,264	3,254,303	545,512	1,482,227	309,795	7,539,497	244,898	(6,441,866)	22,460,860
Total liabilities of the segment	6,534,000	279,047	2,061,124	170,711	756,234	121,716	2,081,221	165,946	(700,813)	11,469,186
Allowances for doubtful debts	4,363	491	178	922	1,531	303	779	101	(94)	8,574
Investments in joint ventures and associates	1,947,125	608,918	23,078	67,161	118,552	39,296	-	53	(36,505)	2,767,678
Capital expenditures	755,128	38,690	333,057	21,881	119,145	40,456	13,999	175	(770)	1,321,761

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

40. SEGMENT REPORTING (continued)

The following table represents information about profit and loss, assets and liabilities of operating segments of the Group for 2015:

<i>In millions of tenge</i>	Oil and gas	Mining	Trans- portation	Telecom- munication	Energy	Industrial	Corporate center	Other	Elimination	Total
Revenues from sales to external customers	1,061,984	478,804	887,151	249,997	299,610	59,871	46,402	7,169	-	3,090,988
Revenues from sales to other segments	51,954	16,342	17,865	4,229	39,472	7,663	69,952	2,146	(209,623)	-
Total revenue	1,113,938	495,146	905,016	254,226	339,082	67,534	116,354	9,315	(209,623)	3,090,988
Gross profit	(1,358)	105,560	150,661	72,857	108,633	7,314	33,932	2,943	(75,854)	404,688
General and administrative expenses	(162,387)	(27,910)	(88,472)	(32,145)	(22,259)	(7,942)	(42,650)	(3,357)	6,544	(380,578)
Transportation and selling expenses	(195,362)	(4,473)	(6,259)	(7,027)	(3,204)	(894)	-	-	5,951	(211,268)
Finance income	175,781	23,740	7,731	5,012	7,019	6,529	64,326	4,515	(12,531)	282,122
Finance costs	(220,202)	(8,786)	(71,674)	(8,507)	(28,501)	(3,347)	(1,454)	(1,785)	22,767	(321,489)
Share in profits of joint ventures and associates	125,856	36,511	(12,188)	-	(10,062)	8,369	-	937	-	149,423
Foreign exchange gain/(loss), net	520,421	(52,442)	(436,120)	4,207	(121,434)	(8,651)	(5,289)	624	782,043	683,359
Depreciation, depletion and amortization	(141,966)	(18,892)	(118,218)	(32,505)	(50,015)	(1,274)	(398)	(355)	-	(363,623)
Impairment of property, plant and equipment	(99,300)	(21,157)	(1,990)	(35)	(3,572)	(1,656)	-	-	-	(127,710)
Impairment of goodwill	(11,922)	-	-	-	-	-	-	-	-	(11,922)
Impairment of other assets	(112,371)	(9,680)	(2,792)	(1,043)	(129)	-	(26,630)	7	-	(152,638)
Income tax expenses	(233,165)	(13,164)	4,031	(9,271)	(5,998)	73	(14,239)	(933)	(1,353)	(274,019)
Net loss for the year from continuing operations	(217,415)	22,508	(450,536)	26,805	(75,997)	326	7,925	3,188	726,367	43,171
Net profit/(loss) for the year from discontinued operations	262,601	(2)	(465)	-	-	-	(2)	-	(501)	261,631
Total net profit/(loss) for the period	45,186	22,506	(451,001)	26,805	(75,997)	326	7,923	3,188	725,866	304,802
Other segment information										
Total assets of the segment	12,932,833	1,319,030	3,109,511	497,259	1,411,125	322,312	6,929,328	204,432	(5,836,146)	20,889,684
Total liabilities of the segment	5,672,714	347,732	2,100,302	184,982	749,528	118,649	1,843,254	107,368	(636,217)	10,488,312
Allowances for doubtful debts	3,744	808	9,947	881	(2,250)	358	(517)	-	1	12,972
Investments in joint ventures and associates	1,798,243	575,814	33,003	-	104,788	71,749	(21,757)	21,767	(36,504)	2,547,103
Capital expenditures	701,923	45,021	291,059	41,975	127,751	22,552	492	187	1	1,230,961

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

41. SUBSEQUENT EVENTS**Borrowings***Borrowing from HSBC*

In March 2017, the Group, represented by a subsidiary of KTZh-Cargo Transportation JSC, as part of the General Framework Agreement with HSBC France in conjunction with HSBC Bank Plc and HSBC Kazakhstan JSC, under the guarantee of the export credit agency COFACE, concluded on May 31, 2012 to finance the purchase of freight and passenger electric locomotives for a total of 880,877,000 euro and additional agreement #2 of the gas distribution system of May 27, 2013, has borrowed funds for a total of 25,815,555 euro (8,750 million tenge).

Borrowing from Halyk Bank of Kazakhstan

In February 2017, the NC KTZh Group received loans from “Halyk Bank of Kazakhstan” JSC in the amount of 20,000 million tenge with 13% interest rate per annum with a maturity within a year.

Guarantees received

On February 13, 2017 a guarantee agreement was signed between the Fund and China Development Bank (CDB) in respect of the loan of KPI LLP due to CDB under loan agreement. Loan agreement between KPI LLP and CDB was signed on September 3, 2016 in the amount of 2 billion US dollars with interest rate of 5.8% and maturity of 20 years.

Legal proceedings

On March 10, 2017 NC KMG filed a claim to the specialized inter-district court of Astana against Delta Bank JSC on the recovery of bank deposit in the amount of 20,000 thousand US dollars (6,303 million tenge), penalties in the amount of 490 thousand US dollars (154 million tenge) and state duty in the amount of 615 thousand US dollars (194 million tenge).

Change in Group structure

On February 23, 2017 Kazakh-Uzbek Trade House Neftekhim Trading LLP joint venture was registered. The main business activity of joint venture is delivery of petrochemical and chemical products. The share of UCC LLP in the share capital of the Neftekhim Petrochemical is 49%.

Dividends declared

In accordance with the decision of the general meeting of participants of Kazzinc LLP dated March, 16 2017, the order of distribution of net income of Kazzinc LLP based on the results of 2016 was approved. The total amount of dividends declared to the participants of Kazzinc LLP was equal to 131,676 million tenge, from which 39,269 million tenge were distributed to the Group NMC Tau-Ken Samruk JSC and were paid on March 29, 2017.