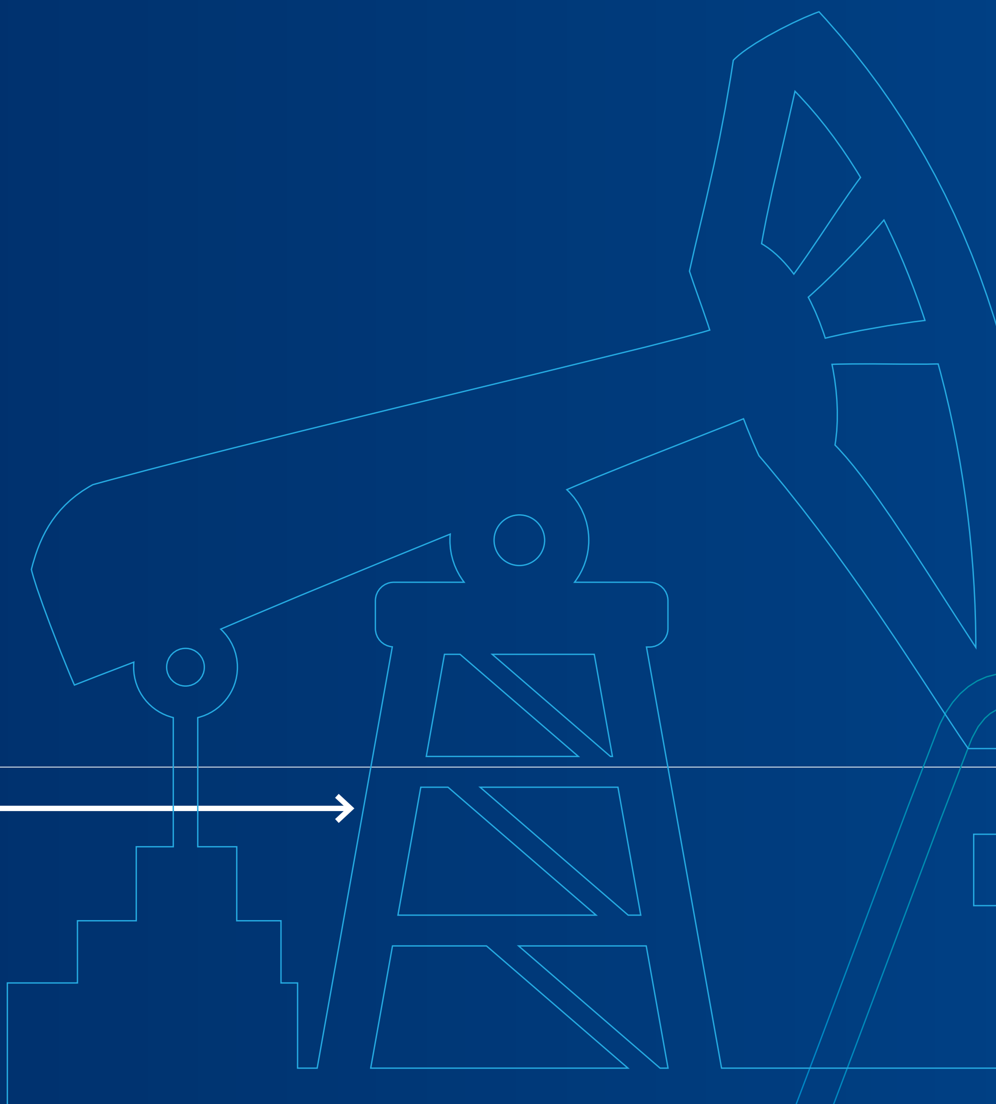
Consolidated Financial Statements



Independent Auditors' Report

To the shareholders and management of Joint Stock Company KazMunaiGas Exploration Production.

We have audited the accompanying consolidated financial statements of Joint Stock Company KazMunaiGas Exploration Production and its subsidiaries ('the Company'), which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the financial position of Joint Stock Company KazMunaiGas Exploration Production and its subsidiaries as of 31 December 2015, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Jim Ducker
Audit Partner

Evgeny Zhemaletdinov
Auditor/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

23 February 2016

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

LLP Ernst & Young Kazakhstan
Al-Farabi ave., 77/7
Esentai Tower
Almaty, 050060
Republic of Kazakhstan
Tel.: +7 (727) 258 59 60
Fax: +7 (727) 258 59 61

Consolidated Statement of Financial Position
Tenge million

	Notes	As at December 31, 2015	As at December 31, 2014
ASSETS			
Non-current assets			
Property, plant and equipment	5	234,367	156,436
Intangible assets	6	9,619	10,855
Investments in joint ventures	8	154,453	95,177
Investments in associate	9	154,241	116,054
Receivable from a jointly controlled entity	8	21,602	13,808
Loans receivable from joint ventures	8	27,941	25,738
Other financial assets	7	33,760	18,567
Deferred tax asset	20	71,904	84,067
VAT recoverable	24	–	42,300
Other assets		5,717	15,472
Total non-current assets		**713,604**	**578,474**
Current assets			
Inventories	10	23,102	26,357
Income taxes prepaid		36,225	23,916
Taxes prepaid and VAT recoverable	24	16,132	37,831
Mineral extraction and rent tax prepaid		6,064	2,581
Prepaid expenses		30,135	30,011
Trade and other receivables	7	105,443	56,570
Receivable from a jointly controlled entity	8	8,822	4,658
Loans receivable from joint ventures	8	–	7,692
Other financial assets	7	833,912	535,513
Cash and cash equivalents	7	237,310	180,245
Total current assets		**1,297,145**	**905,374**
Total assets		**2,010,749**	**1,483,848**
EQUITY			
Share capital	11	163,004	163,004
Other capital reserves		3,945	2,355
Retained earnings		1,311,759	1,098,170
Other components of equity		333,141	75,587
Total equity		1,811,849	**1,339,116**
LIABILITIES			
Non-current liabilities			
Borrowings		5,990	4,218
Deferred tax liability	20	240	569
Provisions	13	45,264	34,929
Total non-current liabilities		**51,494**	**39,716**
Current liabilities			
Borrowings		5,585	3,000
Provisions	13	70,010	8,287
Income taxes payable		13	15
Mineral extraction tax and rent tax payable		22,249	34,200
Trade and other payables		49,549	59,514
Total current liabilities		**147,406**	**105,016**
Total liabilities		**198,900**	**144,732**
Total liabilities and equity		**2,010,749**	**1,483,848**

The notes on pages [84 to 111] are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

Tenge million

	Notes	For the year ended December 31, 2015	For the year ended December 31, 2014
Revenue	14	529,812	845,770
Share of results of associate and joint ventures	8, 9	(20,062)	60,191
Finance income	19	26,094	20,762
Total revenue and other income		**535,844**	**926,723**
Production expenses	15	(225,049)	(211,900)
Selling, general and administrative expenses	16	(118,601)	(102,568)
Exploration expenses		(1,892)	(2,127)
Depreciation, depletion and amortization	5, 6	(20,110)	(59,485)
Taxes other than on income	17	(181,501)	(328,211)
Allowance for VAT recoverable	24	(46,753)	–
Impairment of property, plant and equipment	5, 18	(4,358)	(256,683)
Loss on disposal of property, plant and equipment		(260)	(4,221)
Finance costs	19	(14,999)	(8,952)
Foreign exchange gain, net		448,869	108,997
Profit before tax		**371,190**	**61,573**
Income tax expense	20	(127,521)	(14,535)
Profit for the year		**243,669**	**47,038**
Foreign currency translation difference		257,554	53,078
Other comprehensive income for the period to be reclassified to profit and loss in subsequent periods		**257,554**	**53,078**
Total comprehensive income for the year, net of tax		**501,223**	**100,116**
Earnings Per Share – Tenge thousands			
Basic and diluted	12	3.57	0.69

The notes on pages [84 to 111] are an integral part of these consolidated financial statements.

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Consolidated Statement of Cash Flows

Tenge million

	Notes	For the year ended December 31, 2015	For the year ended December 31, 2014
Cash flows from operating activities			
Profit before tax		371,190	61,573
Adjustments to add/(deduct) non-cash items			
Depreciation, depletion and amortization	5, 6	20,110	59,485
Share of results of associate and joint ventures	8, 9	20,062	(60,191)
Loss on disposal of property, plant and equipment (PPE)		260	4,221
Impairment of PPE	5, 18	4,358	256,683
Dry well expense on exploration and evaluation assets	6	–	1,263
Recognition of share-based payments		1,598	–
Forfeiture of share-based payments		(8)	(127)
Unrealised foreign exchange gain on non-operating activities		(424,585)	(76,188)
Allowance on VAT recoverable		46,753	–
Change in provisions		35,993	4,073
Other non-cash income and expense		1,196	247
Add finance costs	19	14,999	8,952
Deduct finance income	19	(26,094)	(20,762)
Working capital adjustments			
Change in other assets		3,676	2,129
Change in inventories		2,841	1,021
Change in taxes prepaid and VAT recoverable		9,888	(12,299)
Change in prepaid expenses		(123)	(7,947)
Change in trade and other receivables		(34,792)	96,684
Change in trade and other payables		(15,330)	(8,629)
Change in mineral extraction and rent tax payable and prepaid		(2,906)	(26,570)
Income tax paid		(99,422)	(87,214)
Net cash (used)/generated from operating activities		**(70,336)**	**196,404**
Cash flows from investing activities			
Purchases of PPE		(88,174)	(132,186)
Proceeds from sale of PPE		171	224
Purchases of intangible assets		(1,901)	(2,042)
Loans provided to the joint ventures	8	(3,389)	(3,895)
Dividends received from joint ventures and associate, net of withholding tax	8, 9	13,822	73,945
Proceeds from withdrawal of financial assets held to maturity		144,960	23,617
Proceeds from sale of other financial assets		–	155
Repayments of receivable from a jointly controlled entity		6,815	4,866
Interest received		14,839	14,654
Net cash generated/(used) in investing activities		**87,143**	**(20,662)**
Cash flows from financing activities			
Repayment of borrowings		(1,241)	(1,093)
Dividends paid to Company's shareholders	3, 11	(28,988)	(128,995)
Net cash used in financing activities		**(30,229)**	**(130,088)**
Net change in cash and cash equivalents		(13,422)	45,654
Cash and cash equivalents at the beginning of the year	7	180,245	119,036
Net foreign exchange difference on cash and cash equivalents		70,487	15,555
Cash and cash equivalents at the end of the year	7	**237,310**	**180,245**

The notes on pages [84 to 111] are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity
Tenge million

	Share capital	Treasury shares	Other capital reserves	Retained earnings	Foreign currency translation reserve	Total equity
As at December 31, 2013	263,095	(100,126)	2,482	1,185,815	22,509	1,373,775
Profit for the year	–	–	–	47,038	–	47,038
Other comprehensive income	–	–	–	–	53,078	53,078
Total comprehensive income	–	–	–	47,038	53,078	100,116
Forfeiture of share-based payments (Note 11)	–	–	(127)	–	–	(127)
Exercise of employee options (Note 11)	–	35	–	–	–	35
Dividends (Note 11)	–	–	–	(134,683)	–	(134,683)
As at December 31, 2014	263,095	(100,091)	2,355	1,098,170	75,587	1,339,116
Profit for the year	–	–	–	243,669	–	243,669
Other comprehensive income	–	–	–	–	257,554	257,554
Total comprehensive income	–	–	–	243,669	257,554	501,223
Recognition of share-based payments (Note 11)	–	–	1,598	–	–	1,598
Forfeiture of share-based payments (Note 11)	–	–	(8)	–	–	(8)
Dividends (Note 11)	–	–	–	(30,080)	–	(30,080)
As at December 31, 2015	263,095	(100,091)	3,945	1,311,759	333,141	1,811,849

The notes on pages [84 to 111] are an integral part of these consolidated financial statements.

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Notes to the Consolidated Financial Statements

Tenge million unless otherwise stated

1. Corporate information and principal activities

KazMunaiGas Exploration Production Joint Stock Company (the 'Company') is incorporated in the Republic of Kazakhstan and is engaged in the acquisition, exploration, development, production, processing and export of hydrocarbons with its core operations of oil and gas properties located in the Pre-Caspian and Mangistau basins of western Kazakhstan. The Company's direct majority shareholder is Joint Stock Company National Company KazMunaiGas ('NC KMG' or the 'Parent Company'), which represents the state's interests in the Kazakh oil and gas industry and which holds 63.21% of the Company's outstanding shares as at December 31, 2015 (2014: 63.21%). The Parent Company is 100% owned by Samruk-Kazyna Sovereign Welfare Fund Joint Stock Company ('Samruk-Kazyna SWF'), which is in turn 100% owned by the government of the Republic of Kazakhstan (the 'Government').

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

2. Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

Exchange rates

The official rate of the Kazakhstan Tenge to the US Dollar at December 31, 2015 and December 31, 2014 was 339.47 and 182.35 Tenge, respectively. Any translation of Tenge amounts to US Dollar or any other hard currency should not be construed as a representation that such Tenge amounts have been, could be or will in the future be converted into hard currency at the exchange rate shown or at any other exchange rate.

Adopted accounting standards and interpretations

The Company has adopted the following new and amended IFRS during the year, which did not have any material effect on the financial performance or position of the Company:

IAS 19	Defined Benefit Plans: Employee Contributions (Amendments);
Improvements to IFRSs	2010-2012 cycle;
Improvements to IFRSs	2011-2013 cycle.

Standards issued but not yet effective

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

IFRS 9	Financial instruments: classification and measurement (January 1, 2018);
IFRS 15	Revenue from Contracts with Customers (January 1, 2018);
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations (Amendments) (January 1, 2016);
IFRS 14	Regulatory Deferral Accounts (January 1, 2016);
IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments) (January 1, 2016);
IAS 27	Equity Method in Separate Financial Statements (Amendments) (January 1, 2016);
IAS 1	Disclosure Initiative (Amendments to IAS 1) (1 January, 2016);
IFRS 10, IFRS 12 and IAS2	Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28) (Effective for annual periods beginning on or after 1 January 2016);
Improvements to IFRSs	2012-2014 cycle (January 1, 2016);
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments) (January 1, 2016).
IFRS 16	Leases (January 1, 2019)

2.2 Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its control over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. Inter-company transactions, balances and unrealised gains on transactions between companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries are consistent with those of the Company.

Notes to the Consolidated Financial Statements continued

2. Summary of significant accounting policies continued

2.2 Consolidation continued

Investment in associate and interests in joint arrangements

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

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

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

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

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

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

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

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

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

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

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

2.3 Foreign currency translation

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

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

2.4 Oil and natural gas exploration and development expenditure

Exploration license costs

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

Exploration expenditure

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

2. Summary of significant accounting policies continued

2.4 Oil and natural gas exploration and development expenditure continued

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

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

Development expenditure

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

2.5 Property, plant and equipment

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

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

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

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

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

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

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

2.6 Impairment of non-financial assets

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

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

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

2.7 Intangible assets

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

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

2.8 Financial assets

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

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

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

2. Summary of significant accounting policies continued

2.8 Financial assets continued

Held to maturity investments

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

Trade and other receivables

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

Available for sale financial investments

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

Fair value

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

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

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

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

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

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

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

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

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

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in the statement of comprehensive income.

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

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

Available for sale financial investments

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

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or

2. Summary of significant accounting policies continued

2.8 Financial assets continued

- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.9 Inventories

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

2.10 Value added tax (VAT)

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

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

2.11 Cash and cash equivalents

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

2.12 Share capital

Share capital

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

Treasury shares

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

Dividends

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

Share-based payment transactions

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

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

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

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

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

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

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

2.13 Trade payables

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

2.14 Provisions

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

Financial statements

Notes to the Consolidated Financial Statements continued

2. Summary of significant accounting policies continued

2.15 Borrowings

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

2.16 Employee benefits

The Company withholds 10% from the salary of its employees as the employees' contribution to their pension fund. The pension deductions are limited to a maximum of 160,230 Tenge per month in 2015 (2014: 149,745 Tenge per month). Under the current Kazakhstan legislation, employees are responsible for their retirement benefits. Starting from January 1, 2014 the Company is required to contribute an additional 5% of the salary for a majority of its employees to their pension funds.

2.17 Revenue recognition

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

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

2.18 Income taxes

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

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

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

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

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

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

3. Significant non-cash transactions

During the year ended December 31, 2015 the Company excluded from the consolidated statement of cash flows a non-cash transaction related to the offset of withholding income tax payable against the interest receivable on financial assets in the amount of 1,830 million Tenge (2014: 1,773 million Tenge) and none against dividends received from the associate (2014: 1,499 million Tenge).

4. Significant accounting estimates and judgements

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

Oil and gas reserves

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

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

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

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

4. Significant accounting estimates and judgements continued

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

Recoverability of oil and gas assets

The Company assesses assets or cash-generating units (CGU) for impairment and for reversal of previously impaired amounts whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable or that previously recorded impairment may no longer exist or may have decrease. Where an indicator of impairment or reversal of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term oil prices, discount, inflation and foreign exchange 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. Conversely when the recoverable amount exceeds the carrying amount of a previously impaired asset or CGU the carrying value is increased to the lower of the recoverable amount or the carrying value that would exist if no impairment had been previously made. 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. This recoverable amount is compared to external indicators of fair value before a final judgment with respect to the amount of recoverable value is made. 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.

As at December 31, 2015 the Company carried out a formal assessment of the recoverable amount of JSC 'Ozenmunaigas' due to the declining crude oil prices through 2015 and at the start of 2016 and significant changes to assumptions used in the discounted cash flow model (DCF). As a result of this assessment the estimated recoverable amount was in excess of the carrying value of assets. The following significant changes in the underlying assumptions used in the DCF had the most favorable effect on the final result:

- the license extension (Note 24);
- devaluation of Tenge (Note 2);
- discount rate;
- budgeted reductions in capital expenditures.

Brent crude oil price assumptions and KZT/USD exchange rate projections were based on expectations of independent research organizations. Estimated production volumes are based on the Company's production plan used for the purposes of filing of application for extension of subsoil use contracts. Discount rate is WACC of 10.25%. If these assumptions had been assumed to be 5% lower or higher, the recoverable amount would still be higher than the carrying amount of oil and gas assets at JSC 'Ozenmunaigas'.

To corroborate the results of management's estimation of recoverable value the Company carried out the independent valuation of JSC 'Ozenmunaigas' assets. In addition the Company reviewed and compared valuation to that of other peer group Companies. Management has determined that it will not reverse any previously recorded impairment at December 31, 2015 as the variation of results from different sensitivities in the DCF and other valuation approaches are significant. Most material amongst these are the forecasts for future oil prices, KZT to USD exchange rate, level of Kazakhstani inflation, the Company's ability to control operating and capital expenditures and the current market capitalization.

Asset retirement obligations

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

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

The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market.

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

Estimating the future closure costs involves significant estimates and judgments by management. Most of these obligations are several years in the future and, in addition to ambiguities in the legal requirements, the Company's estimate can be affected by changes in asset removal technologies, costs and industry practice. Approximately 19.07% and 16.60% of the provision at December 31, 2015 and 2014 relates to final closure costs. The Company estimates future well abandonment cost using current year prices and the average long-term inflation rate.

Financial statements

Notes to the Consolidated Financial Statements continued

4. Significant accounting estimates and judgements continued

The long-term inflation and discount rates used to determine the carrying value of obligation at December 31, 2015 were 5.0% and 7.9% respectively (2014: 5.0% and 7.9%). Movements in the provision for asset retirement obligations are disclosed in Note 13.

Environmental remediation

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

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

Further uncertainties related to environmental remediation obligations are detailed in Note 24. Movements in the provision for environmental remediation obligations are disclosed in Note 13.

Taxation

Deferred tax is calculated with respect to both corporate income tax ('CIT') and excess profit tax ('EPT'). Deferred CIT and EPT are calculated on temporary differences for assets and liabilities allocated to contracts for subsoil use at the expected rates. Both deferred CIT and EPT bases are calculated under the terms of the tax legislation enacted in the tax code disclosed in Note 20. Further uncertainties related to taxation are detailed in Note 24.

5. Property, plant and equipment

	Oil and gas properties	Other assets	Construction work-in-progress	Total
Net book amount at January 1, 2014	**266,210**	**55,756**	**28,709**	**350,675**
Additions	178	2,673	123,188	126,039
Change in ARO estimate	203	–	–	203
Disposals	(4,182)	(1,083)	(1,025)	(6,290)
Transfers from construction-in-progress	107,950	13,027	(120,977)	–
Internal transfers	(48)	25	23	–
Depreciation charge	(52,320)	(5,188)	–	(57,508)
Impairment (Note 18)	(222,330)	(16,451)	(17,902)	(256,683)
Net book amount at December 31, 2014	**95,661**	**48,759**	**12,016**	**156,436**
Additions	326	2,919	93,055	96,300
Change in ARO estimate	5,451	–	–	5,451
Disposals	(353)	(583)	(206)	(1,142)
Transfers from construction-in-progress	84,782	4,054	(88,836)	–
Internal transfers	2,641	(2,567)	(74)	–
Depreciation charge	(14,124)	(4,196)	–	(18,320)
Impairment (Note 18)	–	(3,614)	(744)	(4,358)
Net book amount at December 31, 2015	**174,384**	**44,772**	**15,211**	**234,367**
At December 31, 2015				
Cost	840,027	117,635	25,670	983,332
Accumulated depreciation	(319,434)	(31,679)	–	(351,113)
Accumulated impairment	(346,209)	(41,184)	(10,459)	(397,852)
Net book amount	**174,384**	**44,772**	**15,211**	**234,367**
At December 31, 2014				
Cost	749,948	114,640	29,493	894,081
Accumulated depreciation	(309,629)	(28,550)	–	(338,179)
Accumulated impairment	(344,658)	(37,331)	(17,477)	(399,466)
Net book amount	**95,661**	**48,759**	**12,016**	**156,436**

6. Intangible assets

	Exploration and evaluation assets	Other intangibles	Total
Net book amount at January 1, 2014	8,412	3,652	12,064
Additions	1,440	624	2,064
Dry well write-off	(1,263)	–	(1,263)
Disposals	(17)	(16)	(33)
Amortization charge	(982)	(995)	(1,977)
Net book amount at December 31, 2014	7,590	3,265	10,855
Additions	1,596	492	2,088
Disposals	(1,345)	(164)	(1,509)
Amortization charge	(738)	(1,052)	(1,790)
Impairment	–	(25)	(25)
Net book amount at December 31, 2015	7,103	2,516	9,619
At December 31, 2015			
Cost	47,248	8,485	55,733
Accumulated amortization	(23,480)	(5,841)	(29,321)
Accumulated impairment	(16,665)	(128)	(16,793)
Net book amount	7,103	2,516	9,619
At December 31, 2014			
Cost	41,897	9,271	51,168
Accumulated amortization	(22,075)	(5,933)	(28,008)
Accumulated impairment	(12,232)	(73)	(12,305)
Net book amount	7,590	3,265	10,855

7. Financial assets

Other financial assets	2015	2014
US dollar denominated held to maturity deposits	31,680	16,848
Tenge denominated held to maturity deposits	2,077	1,717
Other	3	2
Total non-current	33,760	18,567
US dollar denominated term deposits	831,122	525,277
Tenge denominated term deposits	–	8,632
Great Britain pound denominated term deposits	2,790	1,571
Euro denominated term deposits	–	33
Total current	833,912	535,513
	867,672	554,080

The weighted average interest rate on US dollar denominated term deposits in 2015 was 3.1% (2014: 1.9%). The weighted average interest rate on Tenge denominated term deposits in 2015 was 12.7% (2014: 7.9%).

Trade and other receivables	2015	2014
Trade receivables	93,027	56,633
Dividend receivables	12,730	–
Other	852	1,022
Allowance for doubtful receivables	(1,166)	(1,085)
	105,443	56,570

Financial statements

Notes to the Consolidated Financial Statements continued

7. Financial assets continued

As at December 31, 2015 the Company's trade receivables included receivables from sales of crude oil to KazMunaiGas Trading AG ('KMG Trading') and KazMunaiGas Refinery and Marketing ('KMG RM'), both subsidiaries of the Parent Company, amounting to 36,824 million Tenge (2014: 45,133 million Tenge) and 52,137 million Tenge (2014: 8,525 million Tenge), respectively. Amount due from KMG RM included 44,081 million Tenge for sales of crude oil to the domestic market at price of 37,000 Tenge per ton (Note 24).

As at December 31, 2015 40% of the Company's trade receivables are denominated in USD (2014: 80%).

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

	2015	2014
Current	104,571	56,159
0-30 days overdue	–	189
30-60 days overdue	291	–
90 and more days overdue	581	222
	105,443	56,570

Cash and cash equivalents	2015	2014
US dollar denominated term deposits with banks	207,440	77,519
Tenge denominated term deposits with banks	12,370	29,401
US dollar denominated cash in banks and on hand	15,488	67,355
Tenge denominated cash in banks and on hand	1,767	5,951
Great Britain pound denominated cash in bank and on hand	245	19
	237,310	180,245

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

The weighted average interest rate on Tenge denominated deposits in 2015 was 15.9% (2014: 6.9%). The weighted average interest rate on US dollar denominated deposits in 2015 was 2.4% (2014: 0.4%).

8. Investments in joint ventures and receivable from a jointly controlled entity

	Ownership share	2015	2014
Interest in JV Kazgermunai LLP ('Kazgermunai')	50%	83,752	69,052
Interest in JV Ural Group Limited BVI ('UGL')	50%	70,701	26,125
Interest in JV KS EP Investments BV ('KS EP Investments')	51%	–	–
		154,453	95,177

Movement in investment in joint ventures during the reporting period:

	2015	2014
Carrying amount at January 1	95,177	88,967
Share of total comprehensive income and loss	(2,289)	37,293
Dividends received	(26,553)	(45,464)
Foreign currency translation difference	71,487	13,217
Share in additional paid in capital	16,631	1,164
Carrying amount at December 31	154,453	95,177

Unrecognised share in loss of KS EP Investments amounted to 8,753 million Tenge for 2015 (2014: 4,297 million Tenge). As at August 31, 2015 the loan receivable from KS EP Investments amounted to 46,358 thousand US dollars (11,017 million Tenge) and was fully provided for at that date. The Company created this valuation allowance due to the default of KS EP Investments on payment of interest and principal on December 31, 2014, absence of loan agreement extension and extension of Karpovskiy Severniy exploration license (expiration date on December 29, 2016) and no commercial reserves found to date. The carrying amount of loan to KS EP as at December 31, 2014 was equal to 42,185 thousand US dollars (7,692 million Tenge).

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

8. Investments in joint ventures and receivable from a jointly controlled entity continued

Kazgermunai

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

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

	2015	2014
Cash and cash equivalents	32,656	37,630
Other current assets	17,712	15,425
Non-current assets	198,757	136,167
	249,125	**189,222**
Current liabilities	37,149	27,694
Non-current liabilities	44,472	23,424
	81,621	**51,118**
Net assets	**167,504**	**138,104**
Proportion of the company's ownership	**50%**	**50%**
Carrying value of the investment	**83,752**	**69,052**
Revenues	139,608	250,694
Operating expenses	(85,611)	(115,899)
– including depreciation and amortization	(18,690)	(13,713)
– including equity method accounting adjustments	(2,758)	(7,251)
Profit from operations	**53,997**	**134,795**
Finance income	632	1,053
Finance cost	(807)	(663)
Profit before tax	**53,822**	**135,185**
Income tax expense	(48,569)	(51,840)
Profit and other comprehensive income for the year	**5,253**	**83,345**
Company's share of the comprehensive income for the year	**2,627**	**41,673**

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

Financial statements

Notes to the Consolidated Financial Statements continued

8. Investments in joint ventures and receivable from a jointly controlled entity continued

UGL

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

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

	2015	2014
Cash and cash equivalents	921	214
Other current assets	54	17
Non-current assets	207,323	105,155
	208,298	105,386
Current liabilities	3,118	515
Non-current financial liabilities	53,901	49,942
Non-current liabilities	9,877	2,680
	66,896	53,137
Net assets	141,402	52,249
Proportion of the company's ownership	50%	50%
Carrying value of the investment	70,701	26,125
Revenues	16	88
Operating expenses	(8,787)	(1,920)
Loss from operations	(8,771)	(1,832)
Finance income	11	8
Finance cost	(1,079)	(613)
Loss before tax	(9,839)	(2,437)
Income tax benefit/(expense)	8	(17)
Loss and other comprehensive loss for the year	(9,831)	(2,454)
Company's share of the comprehensive loss for the year	(4,916)	(1,227)

During 2015 the Company provided interest free loans in the amount of 15,250 thousand US dollars (3,389 million Tenge) to UGL (2014: 6,100 thousand US dollars or 1,093 million Tenge). On initial recognition the loans were recognised at the fair value of 4,478 thousand US dollars (995 million Tenge) determined by discounting future cash flows. Investments in UGL were adjusted accordingly to recognize effect of discounting.

During 2015 the Company reviewed its expectations with respect to the repayment of the loans from UGL. As a result of the review the payback period of the loans was extended to 2020-2024 from 2015-2018. This extension resulted in a decrease of the carrying amount of these loans by 14,174 million Tenge. Carrying value of the loans from UGL totaled 82,309 thousand US dollars (27,941 million Tenge) at December 31, 2015 (2014: 141,149 thousand US dollars or 25,738 million Tenge).

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

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

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

CCEL is contractually obliged to declare dividends on an annual basis based on available distributable equity. At the same time, for the period until 2020 the Company is contractually obliged to transfer any dividends received from CCEL, in excess of a Guaranteed Amount, to CITIC, up to the Total Maximum Amount, which amounts to 515.5 million US dollars (174,994 million Tenge) as at December 31, 2015 (2014: 509.5 million US dollars or 92,912 million Tenge). The Total Maximum Amount represents the balance of the Company's share of the original purchase price funded by CITIC plus accrued interest. The Company has no obligation to pay amounts to CITIC unless it receives an equivalent amount from CCEL. Accordingly, the Company recognizes in its statement of financial position only the right to receive dividends from CCEL in the Guaranteed Amount on an annual basis until 2020, plus the right to retain any dividends in excess of the total Maximum Guaranteed Amount. The carrying amount of this receivable at December 31, 2015 amounted to 89.3 million US dollars (30,314 million Tenge) (2014: 100.5 million US dollars or 18,331 million Tenge) net of unamortized transaction costs.

8. Investments in joint ventures and receivable from a jointly controlled entity continued

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

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

9. Investments in associate

	Ownership share	2015	2014
Interest in Petrokazakhstan Inc. ('PKI')	33%	154,241	116,054

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

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

Movement in investment in associate during the reporting period:

	2015	2014
Carrying amount at January 1	**116,054**	**107,095**
Share of the total comprehensive (loss)/income	(40,467)	18,738
Dividends received	–	(29,981)
Foreign currency translation difference	78,654	20,202
Carrying amount at December 31	**154,241**	**116,054**

The following table illustrates the summarized financial information of PKI, based on its IFRS financial statements, and reconciliation with the Company's carrying value of investment:

	2015	2014
Cash and cash equivalents	48,568	23,371
Other current assets	78,268	73,831
Non-current assets	556,382	416,493
	683,218	**513,695**
Current liabilities	132,525	86,751
Non-current liabilities	83,297	75,266
	215,822	**162,017**
Net assets	**467,396**	**351,678**
Proportion of the company's ownership	**33%**	**33%**
Carrying value of the investment	**154,241**	**116,054**
Revenues	127,768	263,445
Operating expenses	(158,803)	(174,633)
– including depreciation and amortization	(38,348)	(36,002)
– including equity method accounting adjustments	(22,082)	(17,273)
(Loss)/profit from operations	**(31,035)**	**88,812**
Share in (loss)/profit of joint ventures	(12,909)	32,527
Finance income	234	690
Finance cost	(6,050)	(4,065)
(Loss)/profit before tax	**(49,760)**	**117,964**
Income tax expense	(4,098)	(52,100)
(Loss)/profit for the year	**(53,858)**	**65,864**
Other comprehensive loss	(68,770)	(9,084)
Total comprehensive (loss)/income for the year	**(122,628)**	**56,780**
Company's share of the comprehensive (loss)/income for the year	**(40,467)**	**18,738**

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10. Inventories

	2015	2014
Crude oil	9,218	12,574
Materials	13,884	13,783
	23,102	26,357

As at December 31, 2015 the Company had 266,022 tons (2014: 324,311 tons) of crude oil in storage and transit.

11. Share capital

	Shares outstanding	
	Number of shares	Tenge million
As at January 1, 2014	68,159,309	162,969
Reduction of treasury stock due to exercise of share options	3,326	35
As at December 31, 2014	68,162,635	163,004
Reduction of treasury stock due to exercise of share options	–	–
As at December 31, 2015	68,162,635	163,004

11.1 Share capital

Authorized shares

The total number of authorized shares is 74,357,042 (2014: 74,357,042). 70,220,935 of authorized shares are ordinary shares (2014: 70,220,935) and 4,136,107 are non-redeemable preference shares (2014: 4,136,107). 43,087,006 of the outstanding shares are owned by the Parent Company as at December 31, 2015 (2014: 43,087,006). The shares of the Company have no par value.

Dividends

In accordance with Kazakhstan legislation, dividends may not be declared if the Company has negative equity in its Kazakh statutory financial statements or if the payment of dividends would result in negative equity in the statutory financial statements. Total dividends per share recognised as distributions to equity holders during 2015 amounted to 440 Tenge per share (2014: 1,976 Tenge per share) for both the outstanding ordinary and preferred shares as at June 1, 2015, the date of record.

11.2 Employee share option plans

The expense recognised for share option plans related to employee services received during the year is 1,598 million Tenge (2014: nil).

Employee option plans

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

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

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

11. Share capital continued

11.2 Employee share option plans continued

Movement in the year

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

	2015		2014	
	No.	WAEP	No.	WAEP
Outstanding at January 1	1,136,523	19.54	1,354,307	19.61
Granted during the year	677,231	–	–	–
Exercised during the year	–	–	(19,954)	14.16
Forfeited during the year	(78,214)	17.79	(197,830)	20.51
Expired during the year	(177,980)	26.47	–	–
Outstanding at December 31	1,557,560	10.34	1,136,523	19.54
Exercisable at December 31	1,557,560	10.34	1,136,523	19.54

The weighted average remaining contractual life for share options outstanding as at December 31, 2015 is 3.46 years (2014: 2.87 years). The range of exercise price for options outstanding at December 31, 2015 was 0.00 US Dollars – 26.10 US dollars per GDR (2014: 13.00 US Dollars – 26.47 US Dollars). The EOP 1, EOP 2 and EOP 3 are equity settled plans and the fair value is measured at the grant date.

11.3 Kazakhstan Stock Exchange disclosure requirement

The Kazakhstan Stock Exchange enacted on October 11, 2010 a requirement for disclosure of the total equity less other intangible assets (Note 6) per shares outstanding as at year end. As at December 31, 2015 the amount per share outstanding is 26,544 Tenge (December 31, 2014: 19,598 Tenge).

12. Earnings per share

	2015	2014
Weighted average number of all shares outstanding	68,162,635	68,160,405
Profit for the year	243,669	47,038
Basic and diluted earnings per share	3.57	0.69

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

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13. Provisions

	Environmental remediation	Taxes and related fines and penalties	Asset retirement obligation	Other	Total
At January 1, 2014	**17,520**	**14,625**	**16,195**	**5,930**	**54,270**
Additional provisions	–	1,481	422	2,928	4,831
Unused amounts reversed	–	–	(64)	–	(64)
Unwinding of discount	1,097	–	1,268	–	2,365
Changes in estimate	1,110	–	(284)	–	826
Used during the year	(2,277)	(15,174)	(924)	(637)	(19,012)
At December 31, 2014	**17,450**	**932**	**16,613**	**8,221**	**43,216**
Current portion	5,912	932	502	941	8,287
Non-current portion	11,538	–	16,111	7,280	34,929
Additional provisions	–	60,086	165	9,049	69,300
Unwinding of discount	1,267	–	1,317	–	2,584
Changes in estimate	127	–	3,599	–	3,726
Used during the year	(1,234)	(932)	(372)	(1,014)	(3,552)
At December 31, 2015	**17,610**	**60,086**	**21,322**	**16,256**	**115,274**
Current portion	8,270	60,086	556	1,098	70,010
Non-current portion	9,340	–	20,766	15,158	45,264

As at December 31, 2015 tax provision includes 32,240 million Tenge related to the 2009-2012 Comprehensive Tax audit comprising of 16,125 million Tenge of principal and 16,115 million Tenge of fines and penalties. In addition, the Company has undertaken a review of its tax accounts from the period covered by the audit to the date of these financial statements and has made an additional provision of 27,846 million Tenge for amounts that are believed to be more likely than not to be ultimately paid. This amount comprises of 22,380 million Tenge of principal and 5,466 million of penalties. The Company's management believes its interpretations of the tax legislation are appropriate and that the Company has justifiable arguments for its tax positions, but in light of the current environment (Note 24) and recent court outcomes management has modified its estimate as to the ultimate amount of tax charges.

14. Revenue

	2015	2014
Export:		
Crude oil	364,484	706,940
Gas products	891	2,586
Domestic (Note 24):		
Crude oil	145,285	109,169
Gas products	6,498	10,993
Refined products	1,394	2,863
Other sales and services	11,260	13,219
	529,812	845,770

15. Production expenses

	2015	2014
Employee benefits	153,928	130,367
Repairs and maintenance	20,206	26,781
Energy	18,389	16,706
Materials and supplies	18,357	20,050
Transportation services	5,345	5,875
Change in crude oil balance	3,356	1,373
Processing expenses	1,109	1,205
Change in estimate of environmental remediation obligation (Note 13)	127	1,110
Decrease in asset retirement obligation in excess of capitalized asset	(1,686)	–
Other	5,918	8,433
	225,049	211,900

16. Selling, general and administrative expenses

	2015	2014
Transportation expenses	66,637	68,687
Fines and penalties (Note 13)	24,737	3,592
Employee benefits	19,364	16,758
Consulting and audit services	1,889	2,188
Repairs and maintenance	1,026	1,023
Sponsorship	726	933
Management fees and commissions	–	4,451
Other	4,222	4,936
	118,601	102,568

17. Taxes other than on income

	2015	2014
Mineral extraction tax	67,160	89,840
Export customs duty	65,588	74,227
Rent tax	39,838	151,861
Property tax	6,265	6,204
Other taxes	2,650	6,079
	181,501	328,211

18. Impairment of property, plant and equipment

	2015	2014
Impairment of oil and gas assets (Notes 4, 5)	–	255,375
Social objects impairment	4,358	942
Other	–	366
	4,358	256,683

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19. Finance income/costs

19.1 Finance income

	2015	2014
Interest income on deposits with banks	15,719	13,499
Interest income on receivable from joint ventures and jointly controlled entities	7,265	7,108
Unwinding of discount on long-term VAT recoverable (Note 24)	1,860	–
Other	1,250	155
	26,094	20,762

19.2 Finance costs

	2015	2014
Valuation allowance on loan to KS EP (Note 8)	11,017	–
Unwinding of discount on asset retirement obligation	1,317	1,083
Unwinding of discount on ecology remediation obligation	1,267	1,097
Recognition of discount on long-term VAT recoverable (Note 24)	1,051	5,036
Interest expense	347	1,626
Other	–	110
	14,999	8,952

20. Income taxes

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

	2015	2014
Corporate income tax	109,124	52,727
Excess profit tax	6,563	11,831
Current income tax	115,687	64,558
Corporate income tax	8,847	(49,152)
Excess profit tax	2,987	(871)
Deferred income tax	11,834	(50,023)
Income tax expense	127,521	14,535

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

	2015	2014
Profit before tax	371,190	61,573
Income tax	127,521	14,535
Effective tax rate	34%	24%
Statutory income tax	20%	20%
Increase/(decrease) resulting from		
Withholding tax	1%	2%
Excess profit tax	1%	5%
Income tax of prior years	7%	15%
Share of result of associate and joint ventures	(1%)	(20%)
Non-taxable income	(2%)	(1%)
Asset retirement obligation and environmental remediation	–	(11%)
Allowance for VAT recoverable	3%	–
Non-deductible expenses	5%	14%
Effective tax rate	34%	24%

20. Income taxes continued

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

Deferred tax assets	Fixed and Intangible assets	Provisions	Taxes	Other	Total
At January 1, 2014	14,885	928	13,623	4,920	34,356
Recognised in the statement of comprehensive income	48,171	7,337	(5,754)	(43)	49,711
At December 31, 2014	63,056	8,265	7,869	4,877	84,067
Recognised in the statement of comprehensive income	(13,033)	5,368	(3,413)	(1,085)	(12,163)
At December 31, 2015	50,023	13,633	4,456	3,792	71,904

Deferred tax liabilities	Fixed and Intangible assets	Provisions	Taxes	Other	Total
At January 1, 2014	(943)	68	1	(7)	(881)
Recognised in the statement of comprehensive income	305	1	1	5	312
At December 31, 2014	(638)	69	2	(2)	(569)
Recognised in the statement of comprehensive income	398	(69)	(2)	2	329
At December 31, 2015	(240)	–	–	–	(240)

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

21. Related party transactions

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

Sales and purchases with related parties during the twelve months ended December 31, 2015 and 2014 and the balances with related parties at December 31, 2015 and December 31, 2014 are as follows:

	2015	2014
Revenue and other income		
Entities under common control	535,105	849,240
Other state controlled entities	31	45
Associate	29	23
Parent company	–	155
Joint ventures	4,973	6,023
Purchases of goods and services		
Entities under common control	40,316	39,882
Other state controlled entities	18,410	18,069
Parent Company	–	4,451
Joint ventures	57	71
Interest earned on financial assets		
Interest earned on loans to Joint ventures	4,323	4,084
Average interest rate on loans to Joint ventures	1.04%	1.11%
Valuation allowance on financial assets		
Joint ventures	11,017	–
Salaries and other short-term benefits		
Members of the Board of Directors	179	157
Members of the Management Board	473	337
Share-based payments		
Members of the Management Board	331	–

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21. Related party transactions continued

	2015	2014
Trade and other receivables		
Entities under common control	95,516	58,305
Joint ventures	72,306	52,677
Other state controlled entities	2,796	2,274
Associate	7	15
Trade payables		
Entities under common control	2,530	1,907
Other state controlled entities	327	454
Joint ventures	28	–

Sales and receivables

Sales to related parties comprise mainly export and domestic sales of crude oil and oil products to subsidiaries of NC KMG. Export sales to related parties represented 4,646,981 tons of crude oil in 2015 (2014: 5,571,211 tons). The sales of crude oil are priced by reference to Platt's index quotations and adjusted for freight, trader's margin and quality differentials. For these exports of crude oil the Company received an average price per ton of approximately 81,046 Tenge in 2015 (2014: 130,608 Tenge).

In addition, the Company supplies crude oil and gas products to the local market through JSC 'KazMunaiGas Refinery and Marketing', a subsidiary of the Parent Company, at the directive of the Kazakhstan government, the ultimate controlling shareholder of the Parent Company. Those supplies to the domestic market represented 2,680,244 tons of crude oil production in 2015 (2014: 1,912,000 tons). Prices for the local market sales are determined by agreement with the Parent Company (Note 24). For deliveries to the local market in 2015 the Company received an average price per produced crude oil ton of around 37,000 Tenge (2014: 48,000 Tenge).

Sales to 'entities under common control' also include revenue from counter sale of 916,300 tons of crude oil (2014: 447,000 tons) to the Russian Federation (Note 24) through JSC 'KazMunaiGas Refinery and Marketing'. The sales of crude oil are priced by reference to Platt's index quotations and adjusted for spreads between Brent and Urals and reduced by Russian export customs duty, trader's margin, differential and difference between transportation expenses to Russia-Belarus border and the Russia-Kazakhstan border. For these counter deliveries of crude oil the Company received an average price per ton of approximately 50,289 Tenge in 2015 (2014: 38,871 Tenge).

Purchases and payables

Management fees to the Parent Company amounted to nil in 2015 (2014: 4,451 million Tenge). Transportation services related to the shipment of 6,467,528 tons of crude oil (2014: 6,033,932 tons) and transshipment of 1,849,985 tons of crude oil to Caspian Pipeline Consortium collection point in 2015 (2014: 1,991,256 tons) were purchased from a subsidiary of the Parent Company for 33,727 million Tenge in 2015 (2014: 32,472 million Tenge). The remaining services purchased from subsidiaries of NC KMG include primarily payments for security services and processing.

Share based payments to members of the Management Board

Share based payments to members of the Management Board represents the amortization of share based payments over the vesting period. During 2015 the Company granted 140,259 options to the members of the Management Board (2014: nil).

22. Financial risk management objective and policies

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

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

Interest rate risk

As of December 31, 2015 the Company has no floating interest rate borrowings and no exposure to interest rate risk.

Foreign currency risk

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

	Increase/decrease in Tenge to US dollar exchange rate	Effect on profit before tax
2015		
US dollar	+20.00%	174,285
US dollar	-5.00%	(43,571)
2014		
US dollar	+25.00%	150,804
US dollar	-5.00%	(30,161)

Credit risk

The Company is exposed to credit risk in relation to its trade receivables. The Company's vast majority of sales are made to an affiliate of the Parent and the Company has a significant concentration risk of the receivable from this affiliate (Notes 7, 21). An additional number of minor receivables are grouped into homogeneous groups and assessed for impairment collectively on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

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

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

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

	Location	Rating[1] 2015	Rating[1] 2014	2015	2014
Halyk Bank	Kazakhstan	BB+ (negative)	BB+ (stable)	294,748	134,632
BNP Paribas	UK	A+ (negative)	A+ (negative)	170,156	88,756
Deutsche Bank	UK	BBB+ (stable)	A (negative)	170,097	110,518
ING Bank	Netherlands	A (stable)	A (negative)	144,901	61,177
Citi Bank N.A.	UK branch	A (positive)	A (stable)	100,390	81,378
Kazkommertsbank	Kazakhstan	B- (negative)	B (stable)	99,394	83,245
HSBC Plc	UK	A (stable)	AA- (negative)	62,230	33,186
Credit Suisse	Switzerland	BBB+ (stable)	A (negative)	30,301	11,439
ATF Bank (Fitch)	Kazakhstan	B- (stable)	B- (stable)	18,229	12,309
Eurasian Bank	Kazakhstan	B (stable)	B+ (positive)	11,231	47,623
Sberbank	Kazakhstan	BB+ (negative)	Ba2 (negative)	100	19,603
RBS NV	UK	BBB- (negative)	Baa2 (negative)	2,790	1,571
BankCenterCredit (Moody's)	Kazakhstan	B2 (stable)	B2 (stable)	37	79
Citi Bank Kazakhstan	Kazakhstan	Not available	Not available	6	12,104
Tsesna Bank	Kazakhstan	B+ (stable)	B+ (stable)	–	36,578
Other				372	127
				1,104,982	734,325

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

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22. Financial risk management objective and policies continued

Liquidity risk

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

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

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2015 based on contractual undiscounted payments:

At December 31, 2014	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Borrowings	–	361	2,944	4,752	778	8,835
Trade and other payables	59,514	–	–	–	–	59,514
	59,514	**361**	**2,944**	**4,752**	**778**	**68,349**

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

Commodity price risk

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

Capital management

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

As at December 31, 2015 the Company had a strong financial position and a conservative capital structure. Going forward, the Company intends to maintain a capital structure which allows it the flexibility to take advantage of growth opportunities as and when they arise.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policy or processes during the years ended December 31, 2015 and 2014.

23. Financial instruments

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

24. 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.

The National Bank of the Republic of Kazakhstan shifted to inflation targeting policy on August 20, 2015. As a result of implementation of the policy the official exchange rate went up from 188.38 Tenge per 1 US Dollar to 339.47 Tenge per 1 US Dollar as at 31 December 2015.

In 2015, the Kazakhstan economy was negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Kazakhstan Tenge. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

24. Commitments and contingencies continued

Russian Federation market obligation

According to an inter-governmental agreement between Kazakhstan and the Russian Federation, Kazakhstan fulfills counter deliveries to the Russian Federation. JSC 'KazMunaiGas Refinery and Marketing', a related party, was determined as an operator and the Company was determined as one of the suppliers through governmental quotas. Based on this inter-governmental agreement in September 2014 the Company has concluded a contract with JSC 'KazMunaiGas Refinery and Marketing' to supply crude oil to the Russian Federation (Note 21). The contract was valid till December 31, 2014 without pre-determined volumes. In March 2015 the Company concluded an additional contract for 2015. During 2015 the Company has counter delivered 916 thousand tons of crude oil (2014: 447 thousand tons). These supplies are additional to the obligation of the Company to supply crude oil to the local market and were completed in August of 2015.

Local market obligation

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

The Company supplies oil and gas products to the local market by selling to JSC 'KazMunaiGas Refinery and Marketing', a subsidiary of the Parent Company. Prices for local market sales are determined through an annual negotiation process with JSC 'KazMunaiGas Refinery and Marketing' and the Parent Company. These prices are finally approved by the Independent Non-Executive Directors of the Company ('INEDs'), as required by the Charter of the Company.

During 2015, per instructions from NC KMG, for crude oil supplied to Atyrau Oil Refinery Plant ('ANPZ') and to Pavlodar Oil Refinery Plant ('PNHZ') the Company was paid by JSC 'KazMunaiGas Refinery and Marketing' an average price of approximately 21,288 Tenge and 32,923 Tenge per ton, respectively. These prices were disputed by the Company and its INEDs and were not formally agreed.

In the fourth quarter of 2015 an agreement was reached whereby for all volumes shipped to ANPZ and PNHZ in 2015 the Company was to receive 37,000 Tenge per ton. These financial statements have been adjusted in the fourth quarter to reflect the agreed price.

During 2015 the Company's subsidiaries delivered 2,754,459 tons of oil (2014: 2,014,377 tons) to the domestic market. The Company's share in the delivery of oil to the domestic market of its joint venture Kazgermunai comprised 1,051,000 tons in 2015 (2014: 971,250 tons). The Company's share in the delivery of oil to the domestic market of its associate PetroKazakhstan Inc. comprised 925,389 tons in 2015 (2014: 946,081 tons).

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2015.

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

2009-2012 Comprehensive tax audit

On September 2, 2015 the Company received the final tax assessment related to the 2009-2012 Comprehensive tax audit for 38,511 million Tenge (Note 13), including additional taxes of 18,620 million Tenge, 9,697 million Tenge penalty and 10,194 million Tenge of fine. As of September 28, 2015 as per the decision of the Committee of the State Revenues, fines were reduced from 10,194 million Tenge to 9,306 million Tenge. The Company does not agree with the results of the tax audit and has sent an appeal of the additional charges to the Committee of the State Revenues on September 7, 2015. Pending the results of the appeal management will consider further actions including but not limited to appealing to the appropriate courts.

Value-added-tax (VAT) recoverability

Total VAT claim related to the Company's sale of assets to JSC 'Ozenmunaigas' and JSC 'Embamunaigas' in 2012 amounted to 46,558 million Tenge. The tax authorities have conducted various audits and have repeatedly denied the Company's requests to have these VAT amounts recognised as recoverable. During 9 months of 2015 the amount was classified as a long term in the financial statements and discounted at 7.93% over the period ending December 31, 2016.

As at September 30, 2015 discounted amount comprised 42,306 million Tenge. In the fourth quarter of 2015 the Company reassessed its tax position regarding VAT and believes that it is more probable than not that it will ultimately be unsuccessful in its claim and consequently created a valuation allowance for the amount of 42,306 million Tenge.

During 2015 the Tax authorities carried out VAT tax audits of JSC 'Ozenmunaigas' and JSC 'Embamunaigas' covering period of 2013 and 2014. As a result of these audits nonrecoverable VAT amounted to 4,447 million Tenge, which was provided for in these financial statements.

The Companies disagrees with the tax authorities' position and will continue to defend its interest in courts.

Notes to the Consolidated Financial Statements continued

24. Commitments and contingencies continued

Environment

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

Oilfield licenses

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

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

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

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

Commitments arising from oilfield and exploration licenses

Year	Capital expenditures	Operational expenditures
2016	81,218	4,124
2017	4,700	4,044
2018	2,504	4,044
2019	2,036	3,529
2020-2048	–	5,315
	90,458	**21,056**

Crude oil supply commitments

The Company has obligations to supply oil and oil products to the local market under government directives (Note 21).

Commitments of Kazgermunai

The Company's share in the commitments of Kazgermunai is as follows as at December 31, 2015:

Year	Capital expenditures	Operational expenditures
2016	5,737	5,200

Commitments of UGL

The Company's share in the commitments of UGL is as follows as at December 31, 2015:

Year	Capital expenditures	Operational expenditures
2016	3,504	780

Commitments of PKI

The Company's share in the commitments of PKI is as follows as at December 31, 2015:

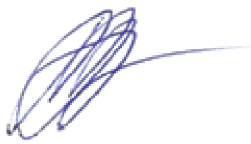
Year	Capital expenditures
2016	1,376

These consolidated financial statements have been signed below by the following persons on behalf of the Company and in the capacities indicated on February 23, 2016:

Iskaziyev K.O.
Chief Executive Officer

Abdulgafarov D.Y.
Chief Financial Officer

Drader S., CA
Financial Director-Financial Controller



Zainelova A. A., CPA
Chief Accountant