Altius Holdings Inc.

Consolidated Financial Statements
for the year ended 31 December 2018

Contents

Independent Auditors' Report
Consolidated Statement of Profit or Loss and Other Comprehensive Income 5
Consolidated Statement of Financial Position 6
Consolidated Statement of Changes in Equity 7
Consolidated Statement of Cash Flows 8
Notes to the Consolidated Financial Statements 9-50

«КПМГ Аудит» жауапкершілігі
шектеулі серіктестік
Қазақстан, 050051, Алматы,
Достық д-лы, 180,
Тел.: +7 (727) 298-08-98

KPMG Audit LLC
180 Dostyk Avenue, Almaty,
050051, Kazakhstan,
E-mail: company@kpmg.kz

Independent Auditors' Report

To Management of Altius Holdings Inc.

Opinion

We have audited the consolidated financial statements of Altius Holdings Inc. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

«КПМГ Аудит» ЖШС, Қазақстанда тіркелген жауапкершілігі шектеулі серіктестік, Швейцария заңнамасы бойынша тіркелген KPMG International Cooperative ("KPMG International") қауымдастығына кіретін KPMG тәуелсіз фирмалар желісінің мүшесі.

KPMG Audit LLC, a company incorporated under the Laws of the Republic of Kazakhstan, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

The engagement partner on the audit resulting in this independent auditors' report is:

Mukhit Kossayev
KPMG Audit LLC
KPMG Audit LLC
28 February 2019

'000 KZT	Note	2018	2017
Revenue	5	35,066,257	25,484,620
Cost of sales	6	(8,208,247)	(7,933,097)
Gross profit		**26,858,010**	**17,551,523**
Selling expenses	7	(10,566,566)	(8,572,553)
Administrative expenses	8	(1,706,717)	(1,592,733)
Results from operating activities		**14,584,727**	**7,386,237**
Finance income	10	1,553,099	66,614
Finance costs	10	(204,271)	(360,637)
Net finance income/(cost)		**1,348,828**	**(294,023)**
Other income	11	638,073	578,323
Other expenses		(179,324)	(173,440)
Profit before income tax		**16,392,304**	**7,497,097**
Corporate income tax (expense)/benefit	12	(4,162,220)	26,047
Excess profit tax expense	12	(300,668)	(761,795)
Profit for the year		**11,929,416**	**6,761,349**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Foreign currency translation differences for foreign operations		235,533	(69,746)
Other comprehensive income, net of income tax		**235,533**	**(69,746)**
Total comprehensive income for the year		**12,164,949**	**6,691,603**

These consolidated financial statements were approved by management on 28 February 2019 and were signed on its behalf by:

Kim Man Sup
Managing Director

ALTIUS HOLDINGS INC Alberta Canada

Suk Kim
Financial Director

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 50.

'000 KZT	**Note**	**2018**	**2017**
ASSETS			
Property, plant, and equipment	13	15,964,197	16,451,869
Intangible assets	14	1,448,047	1,720,708
Deferred tax assets	12	1,627,342	2,159,864
Other long-term investments	17	857,720	722,342
Non-current assets		**19,897,306**	**21,054,783**
Inventories	15	1,106,298	976,461
Trade and other receivables	16	2,801,746	4,522,076
Income tax prepaid		920,227	1,247,524
Other short-term investments	17	1,152,600	996,990
Cash and cash equivalents	18	3,487,521	3,899,099
Current assets		**9,468,392**	**11,642,150**
Total assets		**29,365,698**	**32,696,933**
EQUITY AND LIABILITIES			
Share capital		145,432	145,432
Foreign currency translation reserve		12,339,558	12,104,025
Retained earnings		10,834,168	14,935,172
Total equity		**23,319,158**	**27,184,629**
Deferred tax liabilities	12	1,307,223	961,113
Abandonment and site restoration provision	21	3,222,522	3,024,095
Total non-current liabilities		**4,529,745**	**3,985,208**
Trade and other payables	22	1,196,571	757,262
Historical cost liabilities	20	-	231,682
Income tax payable		320,224	538,152
Total current liabilities		**1,516,795**	**1,527,096**
Total liabilities		**6,046,540**	**5,512,304**
Total equity and liabilities		**29,365,698**	**32,696,933**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 50.

'000 KZT	Note	Share capital	Foreign currency translation reserve	Retained earnings	Total
Balance at 1 January 2017		145,432	12,173,771	18,921,067	31,240,270
Profit for the year		-	-	6,761,349	6,761,349
Other comprehensive income					
Foreign currency translation differences for foreign operations		-	(69,746)	-	(69,746)
Total other comprehensive income		**-**	**(69,746)**	**-**	**(69,746)**
Total comprehensive income for the year		-	**(69,746)**	**6,761,349**	**6,691,603**
Transactions with owners, recorded directly in equity					
Distribution of dividends	19(b)	-	-	(10,747,244)	(10,747,244)
Total transactions with owners		**-**	**-**	**(10,747,244)**	**(10,747,244)**
Balance at 31 December 2017		**145,432**	**12,104,025**	**14,935,172**	**27,184,629**
Balance at 1 January 2018		145,432	12,104,025	14,935,172	27,184,629
Profit for the year		-	-	11,929,416	11,929,416
Other comprehensive income					
Foreign currency translation differences for foreign operations		-	235,533	-	235,533
Total other comprehensive income		**-**	**235,533**	**-**	**235,533**
Total comprehensive income for the year		**-**	**235,533**	**11,929,416**	**12,164,949**
Transactions with owners, recorded directly in equity					
Distribution of dividends	19(b)	-	-	(16,030,420)	(16,030,420)
Total transactions with owners		-	-	**(16,030,420)**	**(16,030,420)**
Balance at 31 December 2018		**145,432**	**12,339,558**	**10,834,168**	**23,319,158**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 50.

'000 KZT	**Note**	**2018**	**2017**
Cash flows from operating activities			
Profit before income tax		**16,392,304**	**7,497,097**
Adjustments for:			
Depreciation, depletion and amortisation	13,14	2,386,201	2,451,934
Finance costs	10	204,271	360,637
Finance income	10	(1,553,099)	(66,614)
Reversal of allowance for obsolete inventories	8	(10,491)	(5,912)
Loss on disposal of property, plant and equipment and intangible assets		34,820	7,665
Cash from operating activities before changes in working capital		**17,454,006**	**10,244,807**
Change in inventories		(119,346)	338,364
Change in trade and other receivables		1,966,921	(1,198,719)
Change in trade and other payables		441,675	40,563
Cash from operating activities before income tax paid		**19,743,256**	**9,425,015**
Income tax paid		(3,534,688)	(2,651,622)
Net cash from operating activities		**16,208,568**	**6,773,393**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(1,659,719)	(1,059,913)
Acquisition of intangible assets		(201)	(8,745)
Placement of cash to term deposits		(3,210,671)	(1,867,120)
Withdrawal of cash from term deposits		3,188,608	2,340,919
Interest received		26,525	28,201
Payment of historical cost obligations	20	(234,091)	(265,198)
Net cash used in investing activities		**(1,889,549)**	**(831,856)**
Cash flows used in financing activities			
Dividends paid	19(b)	(16,030,420)	(10,747,244)
Net cash used in financing activities		**(16,030,420)**	**(10,747,244)**
Net decrease in cash and cash equivalents		**(1,711,401)**	**(4,805,707)**
Cash and cash equivalents at 1 January		3,899,099	8,850,240
Effect of changes in exchange rates on cash and cash equivalents		1,299,823	(145,434)
Cash and cash equivalents at 31 December	18	**3,487,521**	**3,899,099**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 50.

1 Reporting entity

(a) Business environment

The operations of Altius Holdings Inc. (the "Company") and its subsidiary (together referred to as the "Group") are primarily located in Kazakhstan. Consequently, the Group is exposed to the economic and financial markets of Kazakhstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kazakhstan. In addition, depreciation of the Kazakhstan tenge which took place during 2015, and a reduction in the global price of oil, have increased the level of uncertainty in the business environment.

The consolidated financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(b) Organisation and operations

Altius Holdings Inc. is an independent upstream oil and gas company with a portfolio of development and production assets located in Kazakhstan. The Group operates four production fields located in Kazakhstan.

Altius Holdings Inc. is an entity established under the law of Canada. The Company is wholly owned by KNOC Black Hill Ltd., a Canadian entity, which is controlled by Korea National Oil Corporation, which, in its turn, is ultimately controlled by the Government of the Republic of Korea.

The registered legal address of the Company is 4500 Bankers Hall East, 855 - 2nd Street SW, Calgary, AB, T2P 4K7, Canada.

Altius Petroleum International B.V. ("API B.V."), 100% subsidiary of the Company, is engaged in oil and gas development and production on Akzhar, Besbolek, Karataikyz and Alimbai fields located in North-Western Kazakhstan through its branches in Aktobe and Atyrau cities. The Group's operating licenses, which were obtained from the Government of the Republic of Kazakhstan, expire in 2021-2036 (the "Subsoil use agreements").

2 Basis of accounting

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

This is the first set of the Group's annual financial statements in which IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* have been applied. Changes to significant accounting policies are described in Note 28.

3 Functional and presentation currency

The national currency of the Republic of Kazakhstan is the Kazakhstan Tenge ("KZT"), which is the currency in which these consolidated financial statements are presented. All financial information presented in KZT has been rounded to the nearest thousands, except when otherwise indicated.

3 Functional and presentation currency, continued

The functional currency of Altius Holdings Inc. and Altius Petroleum International B.V. is US Dollar ("USD"). The results and financial position of a subsidiary whose functional currency is different from the presentation currency are translated into presentation currency using the following procedures:

- assets and liabilities for a statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for a statement presenting profit or loss and other comprehensive income are translated at exchange rates at the dates of the transactions; and
- all resulting exchange differences shall be recognised in other comprehensive income.

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

The currency exchange rate of KASE as at 31 December 2018 was KZT 384.2 to USD 1. This rate was used to translate monetary assets and liabilities denominated in USD as at 31 December 2018 (2017: KZT 332.33 to USD 1).

4 Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 27(h) – depreciation of property, plant and equipment;
- Note 27(i) – amortisation of intangible assets;
- Note 27(k) – impairment; and
- Note 12 – income tax expense.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 12 – recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used;
- Note 13 – impairment test: key assumptions used in projected discounted cash flows;
- Note 21 – abandonment and site restoration provision;
- Note 24 – commitments; and
- Note 25 – contingencies.

4 Use of estimates and judgments, continued

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

Under the framework with respect to the measurement of fair values the Financial Controller has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Chief Financial Officer.

The Financial Controller regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the Financial Controller assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified. Significant valuation issues are reported to the Chief Financial Officer.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- *Level 1:* quoted prices (unadjusted) in active markets for identical assets or liabilities;
- *Level 2:* inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- *Level 3:* inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

All financial instruments of the Group are carried at amortised cost and categorised as Level 2, with the exception for trade receivables from export sales of crude oil, which are measured at fair value through profit or loss and categorised as Level 3 of the fair value hierarchy. Management estimates that the carrying amount of trade receivables from export sales of crude oil is approximately equal to its fair value due to the fact that export sales transactions are closed in the quoted market and a payment is made within 30 days.

5 Revenue

'000 KZT	2018	2017
Export sales of crude oil	21,921,285	19,528,118
Domestic sales of crude oil	13,144,972	5,956,502
	35,066,257	**25,484,620**

Crude oil sales prices are determined in accordance with the terms of contracts concluded with customers and based on an arithmetic average of spot prices adjusted for discounts agreed between the parties in advance. In accordance with the terms of contracts with customers, the Group has one single performance obligation for each contract, and revenue is recognized when the goods are delivered and accepted at the point negotiated in contracts.

Approximately 63% (2017: 77%) of the Group's revenue is attributable to sales transactions with a single customer.

6 Cost of sales

'000 KZT	Note	2018	2017
Depreciation, depletion and amortisation		2,175,222	2,236,860
Mineral extraction tax		1,575,346	1,112,139
Rent of specialised equipment and transport		967,214	1,019,086
Repair and maintenance		882,875	859,838
Personnel costs and related taxes	9	862,936	850,547
Fuel and electricity		304,894	260,376
Taxes other than income tax		293,722	315,142
Services		266,935	256,765
Oil for own use		176,825	184,299
Materials and supplies		134,005	160,968
Catering		111,515	122,773
Security		72,958	77,338
Insurance		38,093	37,991
Training and education		7,144	15,774
Other		338,563	423,201
		8,208,247	**7,933,097**

7 Selling expenses

'000 KZT	Note	2018	2017
Rental tax		3,627,708	2,217,255
Transportation		3,478,490	3,311,713
Custom duties		2,991,527	2,579,584
Depreciation	13	166,331	168,932
Collection and storage of crude oil		136,548	127,748
Personnel costs and related taxes	9	87,958	80,253
Other		78,004	87,068
		10,566,566	**8,572,553**

8 Administrative expenses

'000 KZT	Note	2018	2017
Personnel costs and related taxes	9	1,107,996	896,112
Professional services		177,810	164,306
Rent and office maintenance		115,662	143,073
Donations		80,720	62,308
Training and education		80,522	71,466
Business trip expenses		50,620	50,273
Depreciation and amortisation		17,645	19,466
Communication		11,600	13,653
(Reversal) / accrual of provision on fines and penalties		(1,941)	99,275
Reversal of allowance for obsolete inventories	15	(10,491)	(5,912)
Other		76,574	78,713
		1,706,717	**1,592,733**

9 Personnel costs

'000 KZT	2018	2017
Wages and salaries	1,884,959	1,661,295
Social tax and compulsory social security contributions	217,440	198,947
	2,102,399	**1,860,242**

Personnel costs of KZT 862,936 thousand (2017: KZT 850,547 thousand) have been charged to cost of sales, KZT 1,107,996 thousand (2017: KZT 896,112 thousand) to administrative expenses and KZT 87,958 thousand (2017: KZT 80,253 thousand) to selling expenses and KZT 43,509 thousand (2017: KZT 33,330 thousand) to other expenses.

10 Finance income and finance costs

'000 KZT	Note	2018	2017
Net foreign exchange gain		1,506,253	-
Amortisation of guarantee payable	26(c)(iii)	-	40,541
Other finance income		46,846	26,073
Finance income		**1,553,099**	**66,614**
Unwinding of discount	20, 21	(200,068)	(207,129)
Other finance costs		(4,203)	-
Net foreign exchange loss		-	(153,508)
Finance costs		**(204,271)**	**(360,637)**
Net finance income/(costs) recognised in profit or loss		**1,348,828**	**(294,023)**

11 Other income

'000 KZT	2018	2017
Income from services on collection and storage of crude oil	606,732	544,559
Other income	31,341	33,764
	638,073	**578,323**

12 Income tax

The Group's applicable tax rate for Kazakhstani operations is the income tax of 20%. The Group is also subject to branch profit tax of 5% after corporate income tax as determined under the laws of the Republic of Kazakhstan. Altius Holdings Inc., an entity registered in the Canada, has an applicable rate of 27%. API B.V., an entity registered in the Netherlands, has an applicable rate of 25%. The Group is a subsoil user that is subject to excess profit tax which is determined based on a subsoil user's net profits for the year.

'000 KZT	2018	2017
Current income tax		
Corporate income tax	4,091,137	2,379,085
Excess profit tax	-	697,621
Overprovided in prior years	(447,080)	(371,642)
	3,644,057	**2,705,064**
Deferred tax benefit		
Corporate income tax	518,163	(2,033,490)
Excess profit tax	300,668	64,174
	818,831	**(1,969,316)**
Total income tax expense	**4,462,888**	**735,748**

12 Income tax, continued

(a) Reconciliation of effective tax rate:

	2018		2017	
	'000 KZT	**%**	**'000 KZT**	**%**
Profit before income tax	**16,392,304**	**100**	**7,497,097**	**100**
Income tax at applicable tax rate	3,278,461	20.00	1,499,420	20.00
Branch profit tax expense	652,996	3.98	300,763	4.01
Recognition of tax effect of previously unrecognised tax losses	526,939	3.21	(2,037,926)	(27.18)
Change in tax rate	317,146	1.93	58,129	0.78
Tax effect of non-deductible items	145,947	0.89	181,249	2.42
Effect of tax rates in foreign jurisdictions	4,957	0.03	(717)	(0.01)
Excess profit tax	-	-	697,621	9.31
Tax on dividends	-	-	402,806	5.37
Deferred excess profit tax	(16,478)	(0.1)	6,045	0.08
Overprovided in prior years	(447,080)	(2.73)	(371,642)	(4.96)
	4,462,888	**27.23**	**735,748**	**9.81**

(b) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
'000 KZT	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Property, plant and equipment	-	-	(2,325,265)	(1,772,971)	(2,325,265)	(1,772,971)
Abandonment and site restoration provision	1,104,157	794,303	-	-	1,104,157	794,303
Historical cost liabilities	-	70,921	-	-	-	70,921
Trade and other payables	42,970	44,123	-	-	42,970	44,123
Inventories	47,071	24,449	-	-	47,071	24,449
Tax loss carry-forwards	1,451,186	2,037,926		-	1,451,186	2,037,926
Tax assets/(liabilities)	**2,645,384**	**2,971,722**	**(2,325,265)**	**(1,772,971)**	**320,119**	**1,198,751**
Set off of tax	(1,018,042)	(811,858)	1,018,042	811,858	-	-
Net tax assets/(liabilities)	**1,627,342**	**2,159,864**	**(1,307,223)**	**(961,113)**	**320,119**	**1,198,751**

12 Income tax, continued

(c) Movement in temporary differences during the year

'000 KZT	1 January 2018	Recognised in profit or loss	Recognised directly in equity	31 December 2018
Property, plant and equipment	(1,772,971)	(552,294)	-	(2,325,265)
Abandonment and site restoration provision	794,303	309,854	-	1,104,157
Historical cost liabilities	55,603	(55,603)	-	-
Trade and other payables	44,123	(1,153)	-	42,970
Inventories	39,767	7,304	-	47,071
Tax loss carried forward	2,037,926	(526,939)	(59,801)	1,451,186
	1,198,751	**(818,831)**	**(59,801)**	**320,119**

'000 KZT	1 January 2017	Recognised in profit or loss	Recognised directly in equity	31 December 2017
Property, plant and equipment	(1,545,837)	(227,134)	-	(1,772,971)
Abandonment and site restoration provision	529,761	264,542	-	794,303
Historical cost liabilities	139,290	(83,687)	-	55,603
Trade and other payables	48,810	(4,687)	-	44,123
Inventories	36,762	3,005	-	39,767
Tax loss carried forward	20,649	2,017,277	-	2,037,926
	(770,565)	**1,969,316**	-	**1,198,751**

The deferred income tax asset, limited to the sum of future taxable interest income from loans issued to related parties, has been recognized in the amount of KZT 2,037,926 thousand as at 31 December 2017. During 2018 it has been decreased for the realized interest income during the period amounted to KZT 586,740 thousand.

The tax losses arisen as a result of the Group's operations in the Republic of Kazakhstan expire in ten years. The deductible temporary differences do not expire under current tax legislation.

Deferred tax assets and liabilities could not be offset under different subsoil use agreements or as a part of different legal entities, because there is no legally enforceable right to set off current tax assets against current tax liabilities.

(d) Unrecognised deferred tax assets

At 31 December 2018 deferred tax assets have not been recognised in respect of the following items:

- Deferred tax assets of KZT 218,400 thousand (2017: KZT 218,400 thousand) with respect to temporary differences arisen on a impairment loss recognised for property, plant and equipment recognised in 2016. Deferred tax asset has not been recognised because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.
- Deferred tax assets of KZT 6,487,232 thousand (2017: KZT 6,133,908 thousand) with respect to an impairment loss on loans issued to related parties have not been recognised because the impairment loss is not deductible for tax purposes.

13 Property, plant and equipment

'000 KZT	Oil and gas property	Construction-in-progress	Other property, plant and equipment	Total
Cost				
Balance at 1 January 2017	32,800,207	918,220	1,346,973	35,065,400
Additions	651,690	886,136	30,133	1,567,959
Disposals	(15,254)	(12,905)	(14,735)	(42,894)
Internal transfers	681,167	(692,002)	10,835	-
Balance at 31 December 2017	**34,117,810**	**1,099,449**	**1,373,206**	**36,590,465**
Balance at 1 January 2018	34,117,810	1,099,449	1,373,206	36,590,465
Additions	155,071	1,455,873	57,269	1,668,213
Disposals	(83,417)	-	(18,400)	(101,817)
Internal transfers	1,308,079	(1,355,622)	47,543	-
Balance at 31 December 2018	**35,497,543**	**1,199,700**	**1,459,618**	**38,156,861**
Depreciation and impairment losses				
Balance at 1 January 2017	(16,940,887)	(434,373)	(656,402)	(18,031,662)
Depreciation for the year	(2,053,889)	-	(74,122)	(2,128,011)
Disposals	7,702	-	13,375	21,077
Balance at 31 December 2017	**(18,987,074)**	**(434,373)**	**(717,149)**	**(20,138,596)**
Balance at 1 January 2018	(18,987,074)	(434,373)	(717,149)	(20,138,596)
Depreciation for the year	(2,053,043)	-	(62,505)	(2,115,548)
Disposals	47,860	-	13,620	61,480
Balance at 31 December 2018	**(20,992,257)**	**(434,373)**	**(766,034)**	**(22,192,664)**
Carrying amounts				
At 1 January 2017	15,859,320	483,847	690,571	17,033,738
At 31 December 2017	**15,130,736**	**665,076**	**656,057**	**16,451,869**
At 31 December 2018	**14,505,286**	**765,327**	**693,584**	**15,964,197**

13 Property, plant and equipment, continued

(a) Depreciation

Depreciation expense of KZT 1,912,048 thousand (2017: KZT 1,917,719 thousand) has been charged to cost of sales, KZT 10,166 thousand (2017: KZT 14,684 thousand) to administrative expenses, KZT 166,331 thousand (2017: KZT 168,932 thousand) to selling expenses and KZT 27,003 thousand (2017: KZT 26,676 thousand) to other expenses.

(b) Impairment test

Due to positive changes of market prices for crude oil throughout the year, the management considered that there were indications showing that the recoverable amount of property, plant and equipment and intangible assets of cash generating unit Alimbai might be higher than its carrying amount, since impairment loss amounted to KZT 910,000 thousand had been recognised in 2016. The cash generating unit was determined by separating a group of assets of a particular oilfield, that generates cash inflows and are largely independent of the cash inflows from other groups of assets. The recoverable amount of assets was estimated based on their value in use as determined by discounting the future cash flows of cash generating unit generated from the continuing use of property, plant and equipment and from its ultimate disposal.

The estimated recoverable amount of the cash generating unit Alimbai approximates its carrying amount.

The key assumptions used in the estimation of value in use are:

- future nominal cash flows are estimated for the period of the subsoil use agreement's duration ending 2036;
- forecast for nominal annual oil Brent price during forecast period changes from a minimum to a maximum level of USD 70 per barrel and USD 88 per barrel, respectively. Oil price forecast as at 17 December 2018 was obtained from *Consensus Economics;*
- annual drop of oil output during the forecast period changes from a minimum to a maximum level of 14% to 50%, respectively;
- pre-tax discount rate is 20.8%; the discount rate was estimated based on experience, and industry weighted average cost of capital, which was based on a possible range of debt leveraging of 25% at a market interest rate of 14.4%;
- inflation rates and exchange rate of KZT against USD as at 1 January 2019 are taken from the report *Country Outlook* produced by *The Economist Intelligence Unit*.

The management performed sensitivity analysis of the key assumptions used. Reasonably possible changes at the reporting date to one of the relevant assumptions, holding other assumptions constant, would have affected value in use by the amounts shown below.

31 December 2018	**Value in use**	
'000 KZT	**Increase**	**Decrease**
Pre-tax discount rate (1% movement)	(4,646)	4,690
Future annual production growth (1% movement)	16,077	(16,077)
Future nominal annual oil prices growth (1% movement)	32,169	(32,633)

14 Intangible assets

'000 KZT	2018	2017
Cost		
Balance at 1 January	6,681,557	6,672,812
Additions	201	8,745
Disposals	(2,209)	-
Balance at 31 December	**6,679,549**	**6,681,557**
Amortisation		
Balance at 1 January	(4,960,849)	(4,636,926)
Amortisation for the year	(270,653)	(323,923)
Balance at 31 December	**(5,231,502)**	**(4,960,849)**
Carrying amounts	-	-
At 31 December	**1,448,047**	**1,720,708**

15 Inventories

'000 KZT	2018	2017
Materials	788,819	756,560
Crude oil	410,868	334,980
Work in progress	33,203	22,004
	1,232,890	**1,113,544**
Allowance for obsolete inventories	(126,592)	(137,083)
	1,106,298	**976,461**

16 Trade and other receivables

'000 KZT	2018	2017
Value-added tax and other taxes prepaid	1,172,362	1,229,379
Trade receivables	1,042,087	2,636,328
Advances paid	468,148	442,689
Other receivables	119,149	213,680
	2,801,746	**4,522,076**

16 Trade and other receivables, continued

'000 KZT	2018	2017
Trade receivables from export sales of crude oil measured at fair value through profit or loss	1,034,643	2,043,981
Trade and other receivables measured at amortised cost	126,593	806,027
	1,161,236	**2,850,008**

The Group classified trade receivables from export sales of crude oil and domestic sales of crude oil to Customs Solution LLC as at fair value through profit or loss due to the fact that in accordance with the contractual terms of the financial instrument cash flows are not solely payments of principal and interest, but depend on changes in the market prices after the transfer of control.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 23.

Value-added tax and other taxes prepaid

'000 KZT	2018	2017
Mineral extraction tax prepaid	381,633	337,976
Rental tax prepaid	278,257	160,922
Value-added tax receivable	252,840	387,340
Export customs duties prepaid	174,270	247,529
Personal income tax prepaid	19,910	20,287
Other	65,452	75,325
	1,172,362	**1,229,379**

17 Other short-term and long-term investments

'000 KZT	2018	2017
Deposits in USD	2,009,458	1,717,936
Deposits in KZT	862	1,396
	2,010,320	**1,719,332**
Non-current	857,720	722,342
Current	1,152,600	996,990
	2,010,320	**1,719,332**

As at 31 December 2018, the Group held restricted cash deposits which amounted to KZT 856,858 thousand (2017: KZT 720,946 thousand) which are accumulated for the purpose of abandonment and site restoration of oil fields. The deposits mature at the inception of the liquidation programmes approved by the Ministry of Energy of the Republic of Kazakhstan. As at 31 December 2018, the Group also held restricted cash deposits amounted to KZT 862 thousand (2017: KZT 1,396 thousand) which are accumulated for the purpose securing its obligations on expatriate staff.

As at 31 December 2018 term deposits amounting to KZT 1,152,600 thousand (2017: KZT 996,990 thousand) are the bank deposits placed in USD with maturity period of more than three months with an average interest rate of 1.8% (2017: 1.8%). The effective interest rate approximates the nominal interest rate as per deposit placement agreements.

17 Other short-term and long-term investments, continued

The Group's exposure to credit and currency risks and impairment losses related to other short-term and long-term investments is disclosed in Note 23.

18 Cash and cash equivalents

'000 KZT	2018	2017
Bank balances	3,485,006	3,889,714
Petty cash	2,515	9,385
	3,487,521	**3,899,099**

The Group's exposure to credit and currency risks and impairment losses related to cash and cash equivalents is disclosed in Note 23.

19 Share capital

(a) Share capital

	Ordinary shares	
Number of shares unless otherwise stated	**2018**	**2017**
In issue at 1 January	182,644,452	182,644,452
Issued for cash	-	-
In issue at 31 December, fully paid	**182,644,452**	**182,644,452**

All ordinary shares rank equally with regard to the Company's residual assets.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

(b) Dividends

In accordance with the dividends distribution policy, approved by the shareholders of the Company, and according to the Resolutions of the Board of Directors of the Company during 2018 the Company declared and paid dividends in the amount of KZT 16,030,420 thousand (equivalent to USD 45,000 thousand) (2017: KZT 10,747,244 thousand equivalent to USD 33,345 thousand). The dividends paid are classified as outflows in the financing activities in the consolidated statement of cash flows.

20 Historical cost liabilities

'000 KZT	2018	2017
Balance at 1 January	231,682	493,880
Change in estimates	-	(793)
Foreign currency exchange difference	-	(604)
Payment	(234,091)	(265,198)
Unwinding of discount	2,409	4,397
Balance at 31 December	**-**	**231,682**
Non-current	-	-
Current	-	231,682
	-	**231,682**

20 Historical cost liabilities, continued

According to the Subsoil use agreements the Group assumed obligations related to the historical cost of geological and geophysical data and drilling works incurred by the Government of Republic of Kazakhstan.

Payments of historical costs should be made on quarterly basis over 5-10 years from the date of commencement of production, provided that reserves are proved and commercial production has commenced.

At the inception of the Subsoil use agreements the historical costs have been determined in the amount of USD 7,533,879 payable to the Government. At 31 December 2018 the Group has no obligation in relation to historical costs.

21 Abandonment and site restoration provision

'000 KZT	2018	2017
Balance at 1 January	3,024,095	2,327,462
Provision for the year	110,078	42,150
Change in estimates	(109,310)	451,751
Unwinding of discount	197,659	202,732
Balance at 31 December	**3,222,522**	**3,024,095**

In order to comply with the subsoil use contractual obligations, subsoil users are obliged to perform decommissioning and restoration works upon the abandonment of the field. Accordingly, the obligation, which is subject to significant judgment, was accrued.

The cost of restoration was estimated considering the prices and local risks. The decommissioning obligation was accrued based on the best estimates available by that date. The decommissioning obligation for Akzhar, Besbolek, Karataikyz and Alimbai fields over the term of the contract adjusted at an inflation rate of 4.82% is KZT 6,536,876 thousand (2017: KZT 5,961,702 thousand). As at 31 December 2018 the present value of the decommissioning obligation was discounted at a rate of 7.39% (2017: 6.46%).

22 Trade and other payables

'000 KZT	2018	2017
Trade payables	632,111	477,833
Taxes payable	275,427	25,317
Vacation pay accrual	169,832	179,663
Advances received	68,106	51,579
Other payables	51,095	22,870
	1,196,571	**757,262**

22 Trade and other payables, continued

Taxes payable

'000 KZT	2018	2017
Social tax	1,744	5,429
Other taxes	273,683	19,888
	275,427	**25,317**

The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in Note 23.

23 Fair value and risk management

(a) Classification in the financial statements and fair value

The Group's management believes that fair value of financial assets and liabilities of the Group approximates its carrying amounts, due to their nature and short maturity of financial assets and liabilities.

(b) Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

(i) Risk management framework

The management has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management is established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits with a significant involvement of the ultimate controlling party.

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and deposits held with financial institutions.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

		Carrying amount	
'000 KZT	Note	2018	2017
Cash and cash equivalents	18	3,485,006	3,889,714
Other long-term and short-term investments	17	2,010,320	1,719,332
Trade and other receivables	16	1,161,236	2,850,008
		6,656,562	**8,459,054**

23 Fair value and risk management, continued

(b) Financial risk management, continued

(ii) Credit risk, continued

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of the Group's customer base, including the default risk of the industry and country, in which customers operate, particularly in the currently deteriorating economic circumstances. Approximately 63% (2017: 77%) of the Group's revenue is attributable to sales transactions with a single customer.

The Group's most significant customer, Euro-Asian Oil S.A., accounts for KZT 1,034,643 thousand of the trade and other receivables carrying amount at 31 December 2018 (2017: KZT 2,043,981 thousand).

More than 50% of the Group's customers have been transacting with the Group for more than three years, and no impairment loss has been recognised against these customers. Trade and other receivables relate mainly to the Group's wholesale customers.

A summary of the Group's exposure to credit risk for trade and other receivables is as follows.

'000 KZT	2018 Not-credit impaired	2018 Credit-impaired
Other customers:		
– Four or more years' trading history with the Group	126,593	-
Total gross carrying amount	**126,593**	**-**
Impairment loss	-	-
	126,593	**-**

Comparative information under IAS 39

An analysis of the credit quality of trade and other receivables that were neither past due nor impaired and the ageing of trade and other receivables that were past due but not impaired as at 31 December 2017 is as follows.

'000 KZT	2017
Neither past due nor impaired	
External credit rating at least Baa3 from Moody's or BBB- from Standard & Poor's	2,043,981
Other customers:	
– Four or more years' trading history with the Group	806,027
Total not impaired trade receivables	**2,850,008**

Trade and other receivables was neither past due nor impaired as at 31 December 2018.

23 Fair value and risk management, continued

(b) Financial risk management, continued

(ii) Credit risk, continued

Trade and other receivables, continued

Expected credit loss assessment for customers as at 1 January and 31 December 2018

The Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to external credit rating definitions from agencies Moody's and Standard & Poor's.

Upon initial application of IFRS 9 the Group did not recognise an impairment loss as at 1 January 2018 due to immaterial effect.

The following table provides information about the exposure to credit risk and ECLs for trade and other receivables for customers as at 31 December 2018.

'000 KZT	2018	
	Gross carrying amount	**Loss allowance**
Current (not past due)	126,593	-
	126,593	**-**

Cash and cash equivalents and other long-term and short-term investments

The Group held cash and cash equivalents and other long-term and short-term investments of KZT 3,485,006 thousand and KZT 2,010,320 thousand, respectively (2017: KZT 3,889,714 thousand and KZT 1,719,332 thousand, respectively), which represents its maximum credit exposure on these assets. The cash and cash equivalents and other long-term and short-term investments are held with bank and financial institution counterparties, which are rated 'Ba2' to 'Aa3' based on Moody's.

Impairment on cash and cash equivalents and other long-term and short-term investments has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents and other long-term and short-term investments have low credit risk based on the external credit ratings of the counterparties.

Financial guarantees

As at 31 December 2018 the Group had no outstanding financial guarantees.

Financial guarantees issued to Shinhan Bank Kazakhstan JSC and Altyn Bank JSC expired on 31 August 2017 and 30 May 2017, respectively. During the reporting period no cash outflows took place and no guarantee prolongation was made.

23 Fair value and risk management, continued

(b) Financial risk management, continued

(ii) Credit risk, continued

Loans to related parties

The Group limits its exposure to credit risk by only investing with counterparties which are controlled by Korea National Oil Corporation, ultimate controlling party.

As at 31 December 2015 the management accrued an impairment loss of KZT 22,964,327 thousand (equivalent to USD 67,540 thousand) in respect of loans issued to intermediate parent due to significant financial difficulties being experienced by the ultimate debtor due to continuous decline for prices of crude oil and devaluation of KZT. As at 31 December 2018, management found no indicators the loans issued to related parties become recoverable.

(iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Exposure to liquidity risk

The following are the contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted and include estimated interest payments and exclude the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

2018 **'000 KZT**	**Carrying amount**	**Total contractual cash flows**	**Less than 2 months**	**2-12 months**	**1-2 years**
Non-derivative financial liabilities					
Trade and other payables	683,206	683,206	683,206	-	-
	683,206	**683,206**	**683,206**	**-**	**-**

2017 **'000 KZT**	**Carrying amount**	**Total contractual cash flows**	**Less than 2 months**	**2-12 months**	**1-2 years**
Non-derivative financial liabilities					
Trade and other payables	500,703	500,703	500,703	-	-
Historical cost liabilities	231,682	234,537	-	234,537	-
	732,385	**735,240**	**500,703**	**234,537**	**-**

23 Fair value and risk management, continued

(b) Financial risk management, continued

(iv) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will negatively affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between currencies in which sales, purchases and borrowings are primarily denominated and the functional currency of Group entities. The functional currency of the Group entities are KZT and USD. The currency in which these transactions are primarily denominated is USD. In respect of other monetary assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

'000 KZT	**USD-denominated**	
	2018	**2017**
Cash and cash equivalents	2,609,203	3,306,442
Trade receivables	1,034,643	2,043,981
Other short-term investments	1,152,600	996,990
Other long-term investments	856,858	720,946
Historical cost liabilities	-	(231,632)
Net exposure	**5,653,304**	**6,836,727**

The following significant exchange rates applied during the year:

in KZT	**Average rate**		**Reporting date spot rate**	
	2018	**2017**	**2018**	**2017**
USD 1	345.04	326.04	384.20	332.33

23 Fair value and risk management, continued

(b) Financial risk management, continued

(iv) Market risk, continued

Sensitivity analysis

A strengthening (weakening) of the KZT, as indicated below, against the following currencies at 31 December would have increased (decreased) profit or loss, net of corporate income tax, by the amounts shown below. There would have been no effect directly in equity. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	Carrying amount	
'000 KZT	**Strengthening of KZT (10%)**	**Weakening of KZT (10%)**
31 December 2018		
USD	(452,264)	452,264
31 December 2017		
USD	(546,938)	546,938

(v) Interest rate

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity. As at 31 December 2018 the Group was not subject to significant exposure of interest rate risk.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial instruments as fair value through profit or loss. Therefore a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

(vi) Price risk

The Group's revenue is generated from sale of crude oil. Historically prices for crude oil was volatile and changed significantly in response to changes in supply and demand, market uncertainty, the activities of the global and regional economy and industry cycling.

Prices are also subject to government actions, including tariff and import/export duties, speculation and excess supply of crude oil to markets. These external factors and changes in markets make it difficult to estimate future prices.

Prolonged decline in commodity prices may significantly or adversely affect the Group's operations, financial results, cash flows and a value of financial assets measured at fair value through profit or loss. The Group does not hedge its significant exposure to risk of changes in commodity prices.

Sensitivity analysis – risk of change in price

For trade receivables at fair value through profit or loss (in 2017: at amortised cost), a 10% increase in oil prices as at the reporting date would lead to an increase in profit or loss of KZT 103,464 thousand (in 2017: KZT 204,398 thousand). An equivalent change in oil prices in the opposite direction would lead to a decrease in profit or loss by KZT 103,464 thousand (in 2017: KZT 204,398 thousand). The sensitivity of fair value reflects the sensitivity of each financial asset at fair value through profit or loss to fluctuations in market prices.

23 Fair value and risk management, continued

(c) Capital management

The management's key policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, which the Group defines as result from operating activities divided by total shareholders' equity.

Neither the Company nor its subsidiary are subject to externally imposed capital requirements. There were no changes in the Group's approach to capital management during the year.

24 Commitments

The Group's major commitments according to the terms and conditions of the Subsoil use agreements are as follows:

(a) Social and education commitments

As required by the Subsoil use agreements the Group is obliged to spend USD 177,027 (equivalent to KZT 58,831 thousand) per annum to finance social development of the region and 1 percent from the operating expenditures incurred during the year for education purposes of the citizens of Kazakhstan on an annual basis until the end of the Subsoil use agreement. As at 31 December 2018 management of the Group believes that the Group substantially complied with social and education commitments.

(b) Domestic sales commitment

As required by the Subsoil use agreements the Group is obliged to sell 15% of crude oil produced on Akzhar, Besbolek and Karataikyz fields and 20% on the Alimbai field on domestic market. In 2018 the Group sold 193,000 tonnes (2017: 156,000 tonnes) on domestic market that comprises 57% (2017: 48%) of total production volume. As at 31 December 2018 management of the Group believes that the Group fully complied with domestic sales commitments.

(c) Local content

According to the requirements of the Subsoil use agreements the Group is obliged to hire Kazakhstani personnel and purchase goods, works and services of Kazakhstan origin in the following percentage (depending on field):

- Services: not less than 70%-87% from the total cost;
- Goods: not less than 30%-35% from the total cost.

As at 31 December 2018 management of the Group believes that the Group fully complied with local content commitments.

(d) Minimal work programme commitments

In accordance with minimal work programme the Group has capital commitments for 2018 of KZT 603,979 thousand (2017: KZT 647,245 thousand). As at 31 December 2018 management of the Group believes that the Group substantially complied with minimal work program requirements.

24 Commitments, continued

(e) Subsoil use legislation

Under the Law on Subsoil and Subsoil Use of the Republic of Kazakhstan dated 24 June 2010 (the "Law") subsoil users should have an approved general work program as a mandatory part of the Subsoil use agreements. The general work program has to be prepared based on a field-development program and include estimated annual extraction volumes, expenses and other data for the whole Subsoil use agreements' period. Non-compliance with the requirements of the Law may potentially result in early termination of the Subsoil use agreements by the Ministry of Energy of the Republic of Kazakhstan. As at 31 December 2018 the Group has substantially fulfilled its contractual obligations.

The management of the Group believes that it has undertaken all reasonable steps to comply with the requirements of the Law and subsequent interpretation of requirements of the Law will not have a significant impact on the Group's business and financial performance.

25 Contingencies

(a) Insurance

The insurance industry in the Republic of Kazakhstan is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for a certain properties which have minor values, while other mandatory insurances including third party liabilities in respect of property or environment damages are in place. Management believes that a potential risk and/or damage from such properties without adequate insurance coverage would not have a material adverse effect on the Group's operations and financial position.

(b) Environmental contingencies

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. Potential liabilities which may arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation cannot be reasonably estimated. Under existing legislation management believes that there are no probable or possible liabilities which could have a material adverse effect on the Group's financial position or results of operations.

(c) Taxation contingencies in Kazakhstan

The taxation system in Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities, including opinions with respect to IFRS treatment of revenues, expenses and other items in the consolidated financial statements. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year generally remains open for review by the tax authorities for five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Kazakhstan that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

26 Related party transactions

(a) Control relationships

The Group's immediate parent company is KNOC Black Hill Ltd. (Canada), which is controlled by Korea National Oil Corporation, which produces publicly available financial statements. KNOC is ultimately controlled by the Government of the Republic of Korea.

(b) Transactions with key management personnel

Management remuneration

Total compensation to key management personnel for the year ended 31 December 2018 amounted KZT 284,938 thousand (2017: KZT 202,037 thousand) which were recognised within administrative expenses.

(c) Other related parties transactions

(i) Revenue

'000 KZT	Transaction value 2018	Transaction value 2017	Outstanding balance 2018	Outstanding balance 2017
Sales of materials and services to related party				
ADA Oil LLP	494,330	444,139	590	(48)
KNOC Caspian LLP	-	4,084	-	4,084
	494,330	**448,223**	**590**	**4,036**

(ii) Loans and borrowings

'000 KZT	Transaction value 2018	Transaction value 2017	Outstanding balance 2018	Outstanding balance 2017
KNOC Kaz B.V.	-	-	19,210,000	16,616,500
Kernhem International B.V.	-	-	6,738,927	5,829,119
Impairment provision	-	-	(25,948,927)	(22,445,619)
	-	**-**	**-**	**-**

In 2011 the Group issued a loan to KNOC Kaz B.V. in amount of USD 49,125 thousand bearing an interest rate of 7.985% per annum and repayable on 11 August 2021.

In 2011 the Group issued a loan to Kernhem International B.V. in amount of USD 875 thousand bearing an interest rate of 8% per annum and repayable on 11 August 2021.

In 2015 the Group has created a provision for impairment that represents management estimate of losses in respect of irrecoverable loans for the full amount of loans issued and interest accrued on those loans. As at 31 December 2018 management performed subsequent analysis of financial performance of the borrowers and found no indicators the loans issued to related parties become recoverable.

26 Related party transactions, continued

(iii) Financial guarantee issued

During 2014 the Group has issued a financial guarantee to Shinhan Bank Kazakhstan JSC and London Branch of Shinhan Bank JSC to secure liabilities of Ken-Sary LLP, an entity under common control. For the year ended 31 December 2018 the amortisation of guarantee liability, disclosed as a part of finance income in Note 10, amounted to nil (2017: KZT 40,541 thousand), since the guarantee expired on 31 August 2017.

During 2016, the API B.V. has issued a financial guarantee to Altyn Bank JSC, subsidiary of Halyk Bank JSC, to secure liabilities of KNOC Caspian LLP, Ken-Sary LLP and Meerbusch LLP (the "Borrowers"), entities under common control. Liability under the financial guarantee was become due when Borrowers do not meet their obligations under the credit line with Altyn Bank JSC and the Group receives a request letter from the bank. The guarantee covered the amount of USD 10,000 thousand (equivalent to KZT 3,332,900 thousand). The entities under common control have not used the bank facilities and the credit line agreement and the guarantee expired on 30 May 2017.

27 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 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 power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

27 Significant accounting policies, continued

(b) Revenue

(i) Goods sold

The buyer obtains control of crude oil when it is delivered to and has been accepted at the destination point. The destination point under the contract is a tanker, a pipeline, railway stations or an oil refinery. Invoices are generated and revenue is recognised at that point in time.

For the export and domestic sales, the parties, at the end of each month sign an addendum to the sales contract, where they specify the preliminary price and quantity of goods to be supplied by the seller to the buyer next month. For export sales the parties, generally, agree to make a price adjustment and approve the final price of the crude oil using the mean of quotations for Brent crude oil price, as published in Platt's Crude Oil Market Wire in the month of delivery. For domestic sales the parties, generally, agree to make a price adjustment using the average value between the maximum (biggest) and the minimum (lower) price in the first published Argus Caspian Market in the month of delivery.

Payment is made normally within thirty banking days after the month of delivery.

(ii) Services

Revenue from services rendered is recognised in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Revenue recognition under IFRS 15 (applicable from 1 January 2018)

All contracts for the sale of crude oil have one performance obligation. Revenue is recognised when the goods are delivered and received at the destination.

Revenue is estimated based on the compensation specified in the contract with the customer. Under IFRS 15, revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

Based on its assessment, the Group also believes that the current contracts do not contain a significant financing component because there is no difference between the transaction price and the price at which crude oil is sold, provided that duration of a period between the time when obligation is performed and payment date is less than 12 months.

(iv) Revenue recognition under IAS 18 (applicable before 1 January 2018)

Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For the export sales of crude oil, transfer usually occurs when the product is physically transferred on customer’s vessel (FOB – Free on Board); for local shipments transfer occurs upon loading of crude oil into the main pipeline (DAP – Delivered at Point).

27 Significant accounting policies, continued

(c) Finance income and costs

The Group's finance income and finance costs include:

- interest income;
- interest expense;
- the foreign currency gain or loss on financial assets and financial liabilities.

Interest income or expense is recognised using the effective interest method.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments which are recognised in other comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to the presentation currency at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to non-controlling interests.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such item form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

27 Significant accounting policies, continued

(e) Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(f) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;
- taxable temporary differences arising on the initial recognition of goodwill.

A deferred tax asset is recognised for unused tax losses, unused tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of Republic of Kazakhstan, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

27 Significant accounting policies, continued

(f) Income tax, continued

(ii) Deferred tax, continued

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average basis, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

The Group recognises a write-down on inventories based on an assessment of the net realisable value of the inventories. A write-down is applied to inventories where events or changes in circumstances indicate that the net realisable value is less than cost. The determination of net realisable value requires the use of judgement and estimates. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Where the expectation is different from the original estimates, such difference will impact the carrying value of inventories and a write-down on inventories is charged to profit or loss in the periods in which such an estimate has been changed.

(h) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent expenditure

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

27 Significant accounting policies, continued

(h) Property, plant and equipment, continued

(iii) Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value.

Oil and gas properties are depreciated on a units-of-production basis over the proved developed reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. Land is not depreciated.

Other property, plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives and include infrastructure that is not consumed as a proportion of production or that is commonly used in many fields and non-oil and gas assets such as office buildings, motor vehicles, information technology equipment and office fixtures and fittings.

The estimated useful lives of significant items of property, plant and equipment for the current and comparative periods are as follows:

- buildings and constructions 18 years;
- machinery and equipment 6-10 years;
- vehicles 4 years;
- other property, plant and equipment 4-7 years;
- oil and gas properties units-of-production basis.

Units-of-production rates are calculated by reference to proved developed reserves determined in accordance with the Society of Petroleum Engineers rules. The Group engaged independent appraisers Oilfield Production Consultants to evaluate oil reserves for the Besbolek, Karataykiz and Alimbai oilfields and KazNIGRI LLC for the Akzhar oilfield as at 1 January 2019.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(i) Intangible assets

(i) Subsoil use rights

Subsoil use rights are measured at cost less accumulated amortisation and accumulated impairment losses. The cost of acquisition of mineral rights comprises the capitalised expenditure relating to the reimbursement of historical costs. The Group is committed to reimburse historical costs incurred by the Government of the Republic of Kazakhstan in respect of licensing blocks prior to licences being issued. These historical costs are recognised as part of the acquisition cost with a corresponding liability equal to the present value of payments to be made during the licence period.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

27 Significant accounting policies, continued

(i) Intangible assets, continued

(iv) Amortisation

Intangible assets are amortised on a straight-line basis over their estimated useful lives of 2 to 7 years or using units-of-production method. The amortisation method used reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Units-of-production rates are based on estimated proved oil reserves, see Note 27(h)(iii).

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(j) Financial instruments

(i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through profit or loss (FVTPL) – trade receivables from export and domestic sales of crude oil.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

27 Significant accounting policies, continued

(j) Financial instruments, continued

(ii) Classification and subsequent measurement, continued

Financial assets – Business model assessment: Policy applicable from 1 January 2018

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

27 Significant accounting policies, continued

(j) Financial instruments, continued

(ii) Classification and subsequent measurement, continued

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018, continued

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets – Subsequent measurement and gains and losses: Policy applicable from 1 January 2018

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial assets – Policy applicable before 1 January 2018

The Group classified its financial assets into one of the following categories:

- loans and receivables;

Financial assets – Subsequent measurement and gains and losses: Policy applicable before 1 January 2018

Loans and receivables	Measured at amortised cost using the effective interest method.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

27 Significant accounting policies, continued

(j) Financial instruments, continued

(iii) Modification of financial assets and financial liabilities, continued

Financial assets, continued

The Group performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Group assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Group analogizes to the guidance on the derecognition of financial liabilities.

The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with SPPI criterion (e.g. inclusion of conversion feature).

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Group applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Group recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms.

The Group performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

27 Significant accounting policies, continued

(j) Financial instruments, continued

(iii) Modification of financial assets and financial liabilities, continued

Financial liabilities, continued

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(iv) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(k) Impairment

(i) Non-derivative financial assets

Policy applicable from 1 January 2018

Financial instruments and contract assets

The Group recognises loss allowances for ECLs on financial assets measured at amortised cost.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

27 Significant accounting policies, continued

(k) Impairment, continued

(i) Non-derivative financial assets, continued

Policy applicable from 1 January 2018, continued

Financial instruments and contract assets, continued

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

27 Significant accounting policies, continued

(k) Impairment, continued

(i) Non-derivative financial assets, continued

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

The Group classifies non-derivative financial assets into the following categories: loans and receivables. The Group classifies non-derivative financial liabilities into the other financial liabilities category.

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets and financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables category comprise the following classes of financial assets: trade and other receivables as presented in Note 16, other long-term and short-term investments as presented in Note 17, cash and cash equivalents as presented in Note 18 and loans issued to related parties as presented in Note 26.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

27 Significant accounting policies, continued

(k) Impairment, continued

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or are not yet available for use, the recoverable amount is estimated each year at the same time.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating unit (CGU).

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

27 Significant accounting policies, continued

(l) Provisions, continued

(i) Abandonment and site restoration provision

The Group estimates future dismantlement and site restoration cost for oil and gas properties with reference to the estimates provided from either internal or external engineers after taking into consideration the anticipated method of dismantlement and the extent of site restoration required in accordance with current legislation and industry practice.

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. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related property, plant and equipment. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the decommissioning provision is included as a finance cost. The Group estimates future abandonment cost of oil and gas assets using current year prices and the average long-term inflation rate. The settlement of obligation is estimated to be the date of a license expiry or proved reserve depletion whichever is earlier.

The Group reviews abandonment and site restoration obligations at each reporting date, and adjust them to reflect the current best estimate in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*.

(m) Leases

(i) Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

At inception or upon reassessment of an arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

(ii) Leased assets

Assets held by the Group under leases that transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's consolidated statement of financial position.

27 Significant accounting policies, continued

(m) Leases, continued

(iii) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(n) Other expenses

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in profit or loss as incurred.

28 Changes in significant accounting policies

The Group has initially applied IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

(a) IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

There was no material impact on the Group's statement of financial position as at 31 December 2018, its statement of profit or loss and OCI for the year ended 31 December 2018 and its statement of cash flows for the year ended 31 December 2018.

For additional information about the Group's accounting policies relating to revenue recognition, see Note 27(b).

(b) IFRS 9 *Financial Instruments*

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Group has adopted consequential amendments to IFRS 7 Financial Instruments: disclosures that are applied to disclosures about 2018 but have not been generally applied to comparative information.

(i) Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

28 Changes in significant accounting policies, continued

(b) IFRS 9 *Financial Instruments*, continued

(i) Classification and measurement of financial assets and financial liabilities, continued

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities.

For an explanation of how the Group classifies and measures financial instruments, treats modifications and accounts for related gains and losses under IFRS 9, see Note 27 (j).

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2018.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements.

Financial assets	***Note***	**Original classification under IAS 39**	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Trade receivables from export sales of crude oil	(a)	Loans and receivables	Mandatorily at FVTPL	1,034,643	1,034,643
Trade and other receivables	(b)	Loans and receivables	Amortised cost	126,593	126,593
Cash and cash equivalents	(b)	Loans and receivables	Amortised cost	3,485,006	3,485,006
Other short-term and long-term investments	(b)	Loans and receivables	Amortised cost	2,010,320	2,010,320
Total financial assets				**6,656,562**	**6,656,562**

(a) Trade receivables from export sales of crude oil that were classified as loans and receivables under IAS 39 are now classified at FVTPL. As of 1 January 2018 the fair value of this financial asset was equal to its carrying amount.

(b) Trade and other receivables, cash and cash equivalents, other short-term and long-term investments that were classified as loans and receivables under IAS 39 are now classified at amortised cost. As of 1 January 2018 the amount of allowance for impairment during the transition to IFRS 9 was insignificant, therefore they were not recognized as of 1 January 2018 during the transition to IFRS 9.

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile.

28 Changes in significant accounting policies, continued

(b) IFRS 9 *Financial Instruments, continued*

(ii) Impairment of financial assets, continued

As of 1 January 2018 the Group determined that the application of the impairment requirements of IFRS 9 was immaterial.

Additional information about how the Group measures the allowance for impairment is described in Note 27(j).

(iii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- The Group has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative periods have been restated only for retrospective application of the cost of hedging approach for forward points (see below). Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
    - The determination of the business model within which a financial asset is held.
    - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

29 New standards and interpretations not yet adopted

IFRS 16 *Leases* is effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

(a) IFRS 16 Leases

The Group is required to adopt IFRS 16 *Leases* from 1 January 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change, because the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*

29 New standards and interpretations not yet adopted, continued

(a) IFRS 16 Leases, continued

(i) Leases in which the Group is a lessee

The Group will recognise new assets and liabilities for its operating leases of specialised equipment and transport (see Note 6). The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease.

Based on the information currently available, the Group estimates that it will recognise additional lease liabilities of KZT 2,332,000 thousand as at 1 January 2019.

(ii) Transition

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

(b) Other standards and interpretations

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- IFRIC 23 *Uncertainty over Tax Treatments*.
- *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*.
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*.
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*.
- *Annual Improvements to IFRS Standards 2015–2017 Cycle* – various standards.
- *Amendments to References to Conceptual Framework in IFRS Standards*.
- *IFRS 17 Insurance Contracts.*