



KPMG in Kazakhstan and Central Asia

February 2017

NewsFlash

Tax&Legal

Dear readers,

In this NewsFlash we outline the most important amendments to the Tax Code introduced by the Law¹ "On Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan on Tax and Customs Issues" (hereinafter, the "Law").

The majority of the amendments entered into force on 1 January 2017. Some amendments entered into effect before or after 1 January 2017. We indicated the effective date next to each that provision. In this NewsFlash, we also outlined amendments adopted in 2015 with effective date of 1 January 2017.

CORPORATE INCOME TAX

Tax preferences for organisations managing doubtful and bad assets and for JSC "Fund of Bad Loans" are extended until 1 January 2027.²

To relieve banks from adverse tax implications associated with forgiveness of bad debts, a reduction of provisions earlier deducted for corporate income tax purposes is exempt from taxation if the reduction relates to:³

- A reduction in the amount of claims due to forgiveness of bad debts on loans and interest thereon up to 10 percent of the total amount of liabilities related to the loans and interests at the beginning of the tax period;
- A decrease in the amount of claims on residential mortgage loans (mortgage loans) subject to refinancing under the Residential Mortgage Loan (Mortgage Loan) Refinancing Programme, due to forgiveness of bad debts on loans and interest thereon up to 10 percent of the total amount of liabilities on the loans and interests at the beginning of the tax period.

The provision entered into force on 1 January 2016

The following are exempt from taxation at the source of payment:⁴

- dividends paid to the Unified Accumulation Pension Fund on the placed pension assets;
- interest paid to the organisation guaranteeing individuals deposits.

Special Issue Tax Amendments

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¹ Law No. 26-VI of the Republic of Kazakhstan "On Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan on Tax and Customs Matters," dated 30 November 2016

² Sub-clause 6, clause 2 of Article 90 of the Tax Code, Articles 62, 64, 65, 66, 67, 68, 69 and 70 of the Law "On Introduction of the Tax Code"

³ Sub-clauses 9 and 10, clause 2 of Article 90 of the Tax Code

⁴ Clause 2 of Article 143 of the Tax Code

VALUE ADDED TAX

The amendments save the current turnover threshold for VAT registration for 2017 (30 000 times the monthly index factor) with the following gradual reduction of the threshold:⁵

- 25 000 times the monthly index factor in 2018;
- 20 000 times the monthly index factor in 2019;
- 15 000 times the monthly index factor in 2020.

The Law excludes the provision stating that the tax authorities de-register from VAT register a taxpayer submitting nil VAT declarations for two consecutive tax periods.⁶ The Law also restores the voluntary VAT registration procedure.⁷

Transition to electronic VAT invoicing will take place gradually.

The following groups of taxpayers are required to issue VAT invoices in the electronic form:⁸

- taxpayers subject to the electronic VAT invoicing under local or international legislative acts - starting from 1 January 2017;
- large taxpayers subject to the state monitoring - starting from 1 January 2018;
- all other VAT payers – starting from 1 January 2019.

A taxpayer may issue a hard-copy VAT invoice in case of a technical error in the electronic invoicing system confirmed by the state authorities. After fixing the technical error, the taxpayer should reissue the hard copy VAT invoice in the electronic form within fifteen calendar days after the technical error elimination.⁹

To simplify the procedure for determination of a transaction date for VAT purposes for leasing transactions and prepayments for works and services, the date of transaction for these operations will be determined based on the common procedure for the determination of turnover dates for VAT purposes.¹⁰

The amendments clarify that zero-rate VAT applicable to the transportation of freight by international railway traffic also applies to the transportation of goods by direct international railway-ferry lines.¹¹

The following services of the wagon (container) operators that they provide to transport goods and as a party to the transportation process are exempt from VAT:¹²

- 1) planning the provision of wagons (containers) and agreeing the plan with the parties to the transportation process;
- 2) provision of wagons (containers);
- 3) transportation process management via centralised ongoing control and remote administration of the actual traffic of loaded and empty wagons (containers).

The provision entered into effect on 1 January 2016

Lending money for a fee on conditions of maturity and repayment are exempt from VAT regardless of the type of ownership of the lender. In past, the exemption applied only to financial institutions, the National Management Holding and its subsidiaries.¹³

VAT credit payment method is not applicable to goods imported into Kazakhstan for further transfer under international finance lease transactions.¹⁴

EXCISE TAX

Excise tax rates for the following goods will change gradually as follows:¹⁵

| Type of excisable goods | Previously applied rates | From 2 January 2017 until 1 January 2018 | From 1 January 2018 until 1 January 2019 | From 1 January 2019 |
|--|-----------------------------------|--|--|-----------------------------------|
| Ethyl alcohol non-denatured containing 80 and more percent of alcohol by volume being sold or used for production of alcoholic beverages | 60 tenge/litre | 0 tenge/litre | 0 tenge/litre | 0 tenge/litre |
| Alcohol beverages (except for cognac, brandy, wine, wine materials, beer and beer drink) | 1,380 tenge/litre of 100% alcohol | 2,000 tenge/litre of 100% alcohol | 2,275 tenge/litre of 100% alcohol | 2,550 tenge/litre of 100% alcohol |
| Beer and beer drinks | 26 tenge/litre | 39 tenge/litre | 48 tenge/litre | 57 tenge/litre |
| Filter cigarettes | 5,000 tenge/1,000 pcs | 6,200 tenge/1,000 pcs | 7,500 tenge/1,000 pcs | 8,700 tenge/1,000 pcs |
| Cigarettes without filter | 5,000 tenge/1,000 pcs | 6,200 tenge/1,000 pcs | 7,500 tenge/1,000 pcs | 8,700 tenge/1,000 pcs |

SUBSOIL USE

Due to introduction of a procedure for the execution of tax liabilities via payment of taxes in-kind, the Law extended the definition of the National Fund of Kazakhstan in the Budget Code. Now the assets of the National Fund include mineral resources transferred to the fund to execute the tax liabilities related to:

- mineral extraction tax;
- rental tax on exports of crude oil and gas condensate;
- royalty;
- share of the Republic of Kazakhstan under a production sharing agreement

or money from the realization of these mineral resources in the amount determined under tax legislation of Kazakhstan.

The Government will define a legal entity that will act as the recipient of the mineral resources on behalf of the state (hereinafter, the "Recipient"). Subsoil users will transfer mineral resources to the Recipient as the in-kind payment of their tax liabilities.¹⁶

The value of the mineral resources that the Recipient received from subsoil users as in-kind fulfilment of their tax liabilities will not be regarded as taxable income. In addition, the amendments exempt from taxation the Recipient's proceeds from:

⁵ Article 3 of the Law

⁶ Sub-clause 6, clause 4 of Article 571 of the Tax Code

⁷ Exclusion of Article 569 of the Tax Code

⁸ Article 263.2 of the Tax Code

⁹ Article 263.2-1 of the Tax Code

¹⁰ Clauses 2-3 and 8 of Article 237 of the Tax Code

¹¹ Sub-clause 1, clause 3 of Article 244 of the Tax Code

¹² Clause 10 of Article 248 of the Tax Code

¹³ Clause 20 of Article 248 of the Tax Code

¹⁴ Articles 49 and 49-1 of the Law on Introduction of the Tax Code

¹⁵ Clause 4 of Article 2480 of the Tax Code, Article 2 of the Law

¹⁶ Clause 48, Article 12 of the Tax Code

- realization of the mineral resources received from subsoil users as the in-kind fulfilment of their tax liabilities;
- reimbursement of costs related to realization of the mineral resources received from subsoil users as the in-kind fulfilment of their tax liabilities.

Accordingly, the Recipient's expenses related to realization of the mineral resources received from subsoil users to fulfil their tax liabilities are not deductible.¹⁷

The following transactions will be regarded as not subject to VAT:¹⁸

- transfer of the mineral resources from a subsoil user to the Recipient as the in-kind fulfilment of the subsoil user's tax liabilities;
- realization of the mineral resources received from a taxpayer as the in-kind fulfilment of tax liabilities by the Recipient or an entity authorised by the Recipient
- rendering services by the Recipient or an entity authorised by the Recipient with respect to realization of the mineral resources received from a taxpayer as the in-kind fulfilment of the taxpayer's tax liabilities. Services fee in this case should be expressed in the form of a reimbursement of the realization costs.

The following transactions are exempt from VAT:¹⁹

- for the Recipient:
 - realization of the mineral resources received from a subsoil user as the in-kind fulfilment of tax liabilities;
 - reimbursement of expenses related to the realization of the mineral resources received from a subsoil user as the in-kind fulfilment of tax liabilities;
- reimbursement of expenses that an entity authorized by the Recipient incurred to realize the mineral resources received from a subsoil user as the in-kind fulfilment of tax liabilities.

Export of the mineral resources that the Recipient or an entity authorised by the Recipient received from a taxpayer as the in-kind fulfilment of tax liabilities and realize abroad is exempt from rental tax.²⁰

The amendments introduce a new article regulating the procedure for the in-kind fulfilment of tax liabilities with respect to royalty and Kazakhstan's share in a production sharing agreement. Previously, a single Tax Code article (Article 346) established a general procedure for the in-kind fulfilment of tax liabilities with respect to royalty, Kazakhstan's share in a production sharing agreement, mineral extraction tax and export rental tax.²¹

Tax Code provisions regulating the in-kind settlement of tax liabilities entered into force on 1 January 2016



The strategic partner's write-off of liabilities of the national subsoil use company (or a legal entity owned, directly or indirectly by this national company) with respect to interest on investment financing is not regarded as a taxable benefit to the debtor, if the write-off occurred prior to a commercial discovery during the exploration period. The tax-exempt amount is the interest accrued but not paid, that the debtor accounted for in a separate group of amortizable assets under Article 111 of the Tax Code.²²

For ring-fencing purposes income originated from the strategic partner's write-off of liabilities of the national subsoil use company (or a legal entity owned, directly or indirectly by this national company) with respect to investment financing (including interest) should be treated as income from contractual activities.²³

Under the Law on Subsoil and Subsoil Use, investment financing means financing of exploration under a joint activities agreement and/or a financing agreement concluded in the frame of an exploration contract or a contract for exploration and production between the national subsoil use company or a legal entity a stake in which directly or indirectly belongs to the national subsoil use company and the strategic partner under procedures established by the Law on Subsoil and Subsoil Use.²⁴

The amendments supplemented subsoil user's deductible expenses related to training of Kazakhstani personnel and development of local social sphere with the actual expenses that a subsoil user incurs to fulfil its obligations with respect to procurement of goods, works and services requested by the local executive authorities to improve the material and technical base of educational organisations providing training of local personnel in professions directly related to the subsoil sphere.²⁵

For ring-fencing purposes, realization of gas to the national operator at the prices approved by the authorised state authorities upon the state's pre-emptive right will be accounted at the actual selling prices.²⁶

¹⁷ Sub-clause 11, clause 2 of Article 84, and clause 15 of Article 115 of the Tax Code

¹⁸ Sub-clauses 26, 27, 28, clause 3 of Article 231 of the Tax Code

¹⁹ Clauses 26, 27 of Article 248 of the Tax Code

²⁰ Article 301 of the Tax Code

²¹ Article 308-2 and 346 of the Tax Code

²² Sub-clause 12, clause 2 of Article 84 of the Tax Code

²³ Clause 6.1 of Article 310 of the Tax Code

²⁴ Clause 35-1 of Article 1 of the Law on Subsoil and Subsoil Use

²⁵ Sub-clause 1, clause 3 of Article 112 of the Tax Code

²⁶ Clause 10 of Article 310 of the Tax Code

The Law introduces the definition of “commercial discovery” for tax purposes. Commercial discovery means the approval of mineral resources reserves on the contractual territory by the authorized state authorities.²⁷

The amendments supplemented cases triggering a liability to pay the commercial discovery bonus with a commercial discovery of mineral resources resulted from re-estimation of reserves.²⁸

A subsoil user is subject to monitoring of large taxpayers, if on 1 October of the year preceding the year of approval of the list of large taxpayers subject to monitoring it meets the following conditions:²⁹

- the subsoil user has a signed contract for exploration, production or combined exploration and production of mineral resources, except for contracts for exploration and production of commonly occurring minerals and underground water;
- the subsoil user is regarded as a “town-forming legal entity” in accordance with the list approved by the authorised state authorities.

The provision entered into effective on 1 January 2016

TAXATION OF INDIVIDUALS

The following income of individuals related to residential mortgage loans (mortgage loans) received from 1 January 2004 to 31 December 2009, which are subject to refinancing under the Residential Mortgage Loan (Mortgage Loan) Refinancing Programme, shall be exempt from taxes:³⁰

- forgiveness of part of the principal amount of the loan to the extent of interest, commission fees, and forfeitures (fines, penalties) capitalised to the principal amount;
- forgiveness of liabilities on interest, commission fees, and forfeitures (fines, penalties);
- reduction of a claim with respect to the principal amount of a residential mortgage loan (mortgage loan) received in foreign currency, resulted from the recalculation of

the loan at the official exchange rate established by the National Bank on 18 August 2015;

- payment of the state duty for a court claim that a bank or a banking organization made for a borrower, if the borrower falls to certain socially vulnerable categories of individuals in accordance with housing relations legislation of Kazakhstan.

The provision is effective from 1 January 2015 to 1 January 2027

Insurance premiums to compensate harm caused to life or health of an employee in connection with the performance of his/her job duties is not regarded as the employee's income not only on the contracts of obligatory insurance of employees against accidents, but also on annuity insurance agreements.³¹

The amendments increase the maximum amount of annual income exempt from taxation for certain socially vulnerable categories of individuals from 55 to 75 times minimum salary established on the beginning of the year.³²

The Law postpones the introduction of personal income tax filing and the related tax amendments until 2020.³³

Personal income tax and social tax declaration for Kazakh citizens is combined with the similar tax declaration for foreign citizens and stateless individuals.³⁴

The tax authorities will estimate the value of the property for individuals' property tax purposes on the basis of data provided by the authorised state authorities appointed by the Government.³⁵ The taxable base for individuals' property tax purposes will not include construction in progress.³⁶

The deadline for the payment of land tax and property tax for individuals will be shifted from 1 October of the current year to 1 October of the year following the reporting period.³⁷

The amendments introduce a separate Tax Code article stating the procedure for informing individuals of their tax liabilities on property, land and vehicle tax calculated by the tax authorities. The tax authorities will provide information via:³⁸

- 1) publication on the Internet resources of the tax authorities;
- 2) insertion in the documents that the utility services providers use for their settlements;
- 3) sending to taxpayer's e-mail;
- 4) SMS messages to cell phone numbers provided by taxpayer.

An individual desiring to obtain this information by e-mails or via SMS messages should provide in writing the tax authorities at the place of his/her residence with his/her e-mail address and cell phone numbers.



²⁷ Articles 318 and 319 of the Tax Code

²⁸ Clause 1 of Article 317 of the Tax Code

²⁹ Clause 2-1 of Article 623 of the Tax Code

³⁰ Clause 3 of Article 155 of the Tax Code

³¹ Sub-clause 13, clause 3 of Article 155 of the Tax Code

³² Article 156 (13 and 13-2) of the Tax Code

³³ Clause 23 of the Law

³⁴ Article 67.1 (1) of the Tax Code

³⁵ Article 406 (1) of the Tax Code

³⁶ Article 405 of the Tax Code

³⁷ Articles 391 (3) and 409 (7) of the Tax Code

³⁸ Article 661-1 of the Tax Code

TAXES AND PAYMENTS TO THE STATE

Special-purpose vehicles subject to property tax are exempt from vehicle tax.³⁹

Buildings and constructions constituting concession objects, the ownership and use rights to which were transferred under concession agreements on concession projects of special significance determined by the Government are exempt from property tax if the value of the object exceeds 50,000,000 times the monthly index factor.⁴⁰

The law postponed until 1 January 2019 an introduction of the provision, according to which if a taxpayer performs an appraisal of immovable property in accordance with legislation on appraisal activities, the tax base of the appraised property for the property tax purposes will be the market value of the property determined in the appraisal report but not less than the average annual book value of the property determined under IFRS and requirements of Kazakh accounting and financial reporting legislation.⁴¹

The base rates of the charges for emissions resulted from flaring of associated and/or natural gas will be increased by 20 times. The amendments cancel the tenfold increase coefficient applicable to base rates in case of excess emissions and twentyfold increase coefficient applied by the local representative authorities (Maslikhats).⁴²

TAX AUDITS

The Law postpones the introduction of E-audit from 1 January 2017 to 1 January 2019.⁴³

To improve the procedure for the pre-trial settlement of tax disputes resulted from tax audits, the amendments introduce a procedure for the agreement of preliminary tax audit acts with taxpayers. A preliminary tax audit act is a document outlining the preliminary tax audit findings prepared by the auditing tax authorities. The authorized tax official will provide a preliminary tax audit act to an audited taxpayer before the preparation of the final tax audit act.

A taxpayer is entitled to appeal against a preliminary tax audit act in a written form. The authorized state organization will approve the categories of taxpayers subject to the new tax audit procedures, procedures and deadlines for the provision of preliminary tax audit acts to audited taxpayers, submission of written objections against the preliminary tax audit acts and consideration of the objections.⁴⁴

A tax audit will be suspended for the time between the date of delivery of a preliminary tax audit act to an audited taxpayer and the date of the taxpayer's appeal to the preliminary tax audit act, and also for the period between the date of receipt of the written appeal by the tax authorities and the date of the tax authorities response to the appeal.⁴⁵

If the statute of limitation in respect of a tax liability expires within the period of submission of a taxpayer appeal against a preliminary tax audit act or during an appeal's review by the tax authorities, the statute of limitation related to the



tax liability is suspended for this period under the procedure established by legislation of Kazakhstan.⁴⁶

The Law amended the procedure for appealing tax audit findings by taxpayers (tax agents). A taxpayer should submit an appeal against tax audit findings to the authorised state organization (instead of the superior tax committee). The authorized state organization will establish the Appeal Committee that will consider taxpayers' appeals against tax audit findings. The authorised state organization will also establish the structure and the regulations of the Appeal Committee.

A taxpayer should send a copy of an appeal against tax audit findings to the tax authorities that conducted the tax audit and to the tax authorities that considered the taxpayer's objections against the preliminary tax audit act. Upon the completion of consideration of the taxpayer's appeal, the authorised state organization will issue an informed decision.⁴⁷

As the Appeal Committee needs time to prepare responses on inquiries, analyse tax audit report, review and structure the received materials, the Law clarifies suspension and extension periods for appeals consideration. Appeal consideration will be suspended:

- in case of targeted and additional targeted tax audits – for fifteen working days from the date when the authorised state organization receives the final tax audit report (earlier – until the tax audit completion);
- in case of sending inquiries to the local, foreign or other state organisations on matters in competence of these organisations – for fifteen working days from the date of receipt of response on each single inquiry (earlier – until the date of receipt of response).

The amendments specify the deadline for the state authorities to inform a taxpayer of the suspension of an appeal consideration – three working days from the date of sending an inquiry or appointing a targeted tax audit.

The amendments extended the list of cases for a prolongation of an appeal consideration period:⁴⁸

³⁹ Articles 366 and 367 of the Tax Code

⁴⁰ Article 396 of the Tax Code

⁴¹ Sub-clause 15, clause 25 of the Law

⁴² Clauses 3, 9 and 10 of Article 495 of the Tax Code

⁴³ Sub-clause 15, clause 25 of the Law

⁴⁴ Article 636-1 of the Tax Code

⁴⁵ Clause 4, Article 629 of the Tax Code

⁴⁶ Clauses 7 and 7-1 of Article 46 of the Tax Code

⁴⁷ Articles 667 and 671 of the Tax Code

⁴⁸ Article 672 of the Tax Code

- if a taxpayer (tax agent) provides the Appeal Committee with additional information related to an appeal, the appeal consideration extends for fifteen working days in every single case of the provision of the additional materials.
- the authorised state organization extends an appeal consideration up to ninety business days, if it needs extra time to analyse the appeal-related issues. In this case, the authorised state organization sends a notice to the audited taxpayer (tax agent) within three business days from the date of extension of the appeal consideration.

The deadline for the commencement of a targeted tax audit appointed by the Appeal Committee upon the consideration of a taxpayer's appeal increased from five to ten business days after the tax authorities receive the document on conducting the audit.⁴⁹

As the newly introduced Tax Code provisions assigns the Appeal Committee for consideration of tax appeals against tax audit findings, the Law fully excludes Chapter 94 of the Tax Code that previously governed the procedure for the consideration of taxpayers' appeals by the authorised state organization.

The Tax Code provisions governing pre-court regulations of tax disputes and consideration of preliminary tax audit acts will enter into force on 1 July 2017.

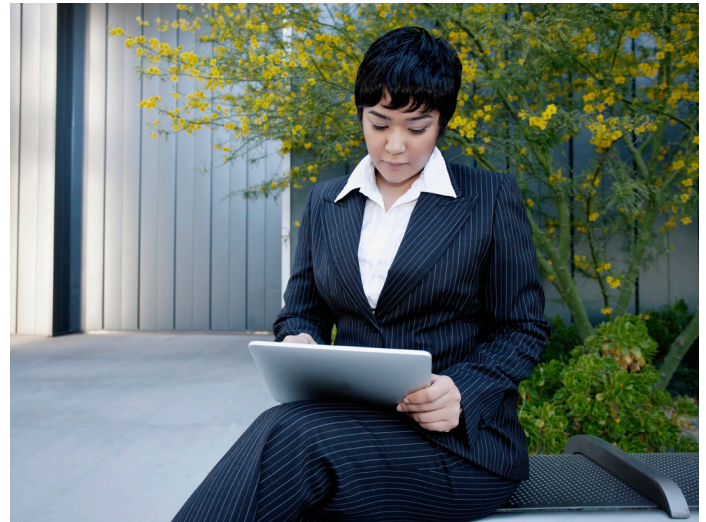
GENERAL PROVISIONS

The Law postpones the introduction of electronic accompanying consignment notes for goods to 1 January 2020.⁵⁰

The amendments introduce the definition and the formula of an average exchange rate for the period.⁵¹ For tax purposes, foreign exchange gains/losses should be accounted for under the International Financial Reporting Standards and requirements of Kazakhstani legislation on accounting and financial reporting at the market exchange rate.⁵² Transactions in foreign currency are accounted for at the market exchange rate on the last business day preceding the transaction date (earlier - market exchange rate on the transaction date).

To exclude non-profit organisations from the list of the large taxpayers subject to the state monitoring, the amendments specify that the state monitoring extends on the large taxpayers representing commercial organizations except for state entities.⁵³

The provision is effective from 1 January 2016



The following financial institutions are required to submit information to the tax authorities:⁵⁴

- Custodians, the single registrar, brokers and dealers having a right to maintain clients' accounts as nominee holders of securities – via telecommunications networks (or as requested by the tax authorities) – information on accounts, balances and movement of securities on accounts opened to nonresident individuals, nonresident legal entities, and legal entities beneficiary owners of which are nonresidents;
- Custodians managing investment portfolio – via telecommunications networks (or as requested by the tax authorities) – information on other assets owned by nonresident individuals, nonresident legal entities and legal entities beneficiary owners of which are nonresidents;
- Insurance companies operating in the life insurance sector – via telecommunications networks (or as requested by the tax authorities) – information on signed accumulative insurance contracts beneficiaries of which are nonresident individuals;
- Banks and banking organizations – via telecommunications networks (or as requested by the tax authorities) – information on numbers and balances on available bank accounts and information on availability, type and value of other property, including those placed on metal accounts or being managed by nonresident individuals, nonresident legal entities and legal entities beneficiary owners of which are nonresidents.

⁴⁹ Article 675 of the Tax Code

⁵⁰ Sub-clause 16, clause 25 of the Law

⁵¹ Article 12 of the Tax Code

⁵² Clause 4 of Article 57 of the Tax Code

⁵³ Clause 2-1 of Article 623 of the Tax Code

⁵⁴ Articles 581 and 583-1 of the Tax Code

The tax authorities in agreement with the National Bank of Kazakhstan will establish the procedure and the deadlines for the submission of the information.

To confirm tax residency in foreign state, a nonresident can provide a hard copy of an electronic version of the residency certificate placed on the Internet resource of the foreign competent authorities. In this case, a diplomatic or consular legalisation of the residency certificate is not required.⁵⁵

If a nonresident does not have the foundation documents or an obligation to register with a trade register (shareholders register or other similar document provided for by the nonresident's home country legislation), under requirements of the nonresident's home country legislation, the nonresident provides to a Kazakh tax agent a state-issued document serving as the basis for establishment of the nonresident. The legal force of the document should be confirmed by the relevant state authorities of the nonresident's home country.⁵⁶

The amendments obligate a lessor of trade facilities or trade places in trade facilities to file a register of the lease agreements with the tax authorities at the lessor's location by 31 March of the year following the reporting year. The register will reflect information on the lessees, lease charges, and the rented facilities.⁵⁷

⁵⁵ Clauses 4 and 5, Article 219 of the Tax Code

⁵⁶ Clause 4 of Article 212 and Article 219 of the Tax Code

⁵⁷ Article 67-1 of the Tax Code

Contact us

Rustem Sadykov

Partner,
Head of Tax&Legal
E: rsadykov@kpmg.kz

Inna Alkhimova

Partner
Tax&Legal
E: ialkhimova@kpmg.kz

KPMG in Kazakhstan Almaty office

180 Dostyk Avenue
Almaty 050051
T: +7 727 298 08 98
F: +7 727 298 07 08
E: company@kpmg.kz

Astana office

Samal 12
Astana 010000
T: +7 7172 55 28 88
F: +7 7172 55 28 00
E: company@kpmg.kz

Atyrau office

34A Satpayev Street
Atyrau 060011
T: +7 7122 55 62 00
F: +7 7122 55 62 02
E: company@kpmg.kz

www.kpmg.kz

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