



ҚАЗАҚСТАН-ҚЫТАЙ ҚҰБЫРЫ

**KAZAKHSTAN-
CHINA PIPELINE**

КАЗАХСТАНСКО-КИТАЙСКИЙ ТРУБОПРОВОД

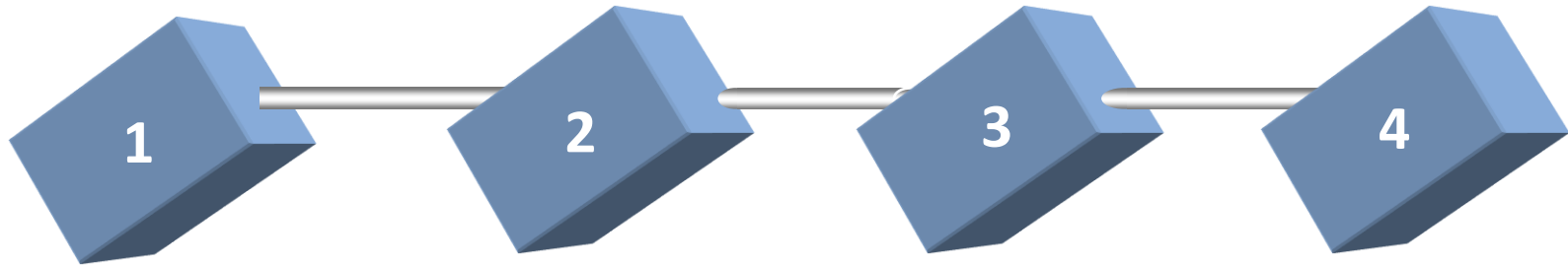
PRESENTATION

for the hearing of the annual report on activity of Kazakhstan-China Pipeline LLP for 2018 on provision of a regulated service – transportation of oil through Kenkiyak-Kumkol pipeline within the domestic market, for consumers and other interested persons

Tariff Regulation Department
April 9, 2019

The objectives of the hearing of the annual report on the Partnership activities for 2017 on provision of regulated services of oil transportation via the Kenkiyak-Kumkol pipeline within the domestic market before consumers and other interested parties (the "Hearing") are:

- strengthening the system of consumer rights protection;
- ensuring transparency of the natural monopolies.



1
Appointment of the Hearing secretary from the Partnership staff to take minutes

2
A speech of the first director in accordance with the annual report procedure

3
Questions and opinions of the Hearing participants with attachment of a written speech to the protocol

4
Summarization and closing of the Hearing



General information

Kazakhstan-China Pipeline LLP was established on July 6, 2004 and operated within the framework of:

Frame agreement between the Governments of the Republic of Kazakhstan and People's Republic of China on development of comprehensive cooperation in the field of oil and gas dated May 17, 2004

Agreement on the main principles of construction (AMPC) of Atasu-Alashankou pipeline dated May 17, 2004 signed between KazMunaiGas and China National Petroleum Corporation (CNPC)

AMPC of the second stage of Kazakhstan-China pipeline dated December 20, 2006 signed between KazMunaiGas and CNPC to increase capacity of Atasu-Alashankou pipeline to 20 million tons a year

AMPC for expansion and operation of Kazakhstan-China pipeline dated April 6, 2013 between KazMunaiGas and CNPC to increase capacity of Kenkiyak-Kumkol pipeline to 20 million tons a year

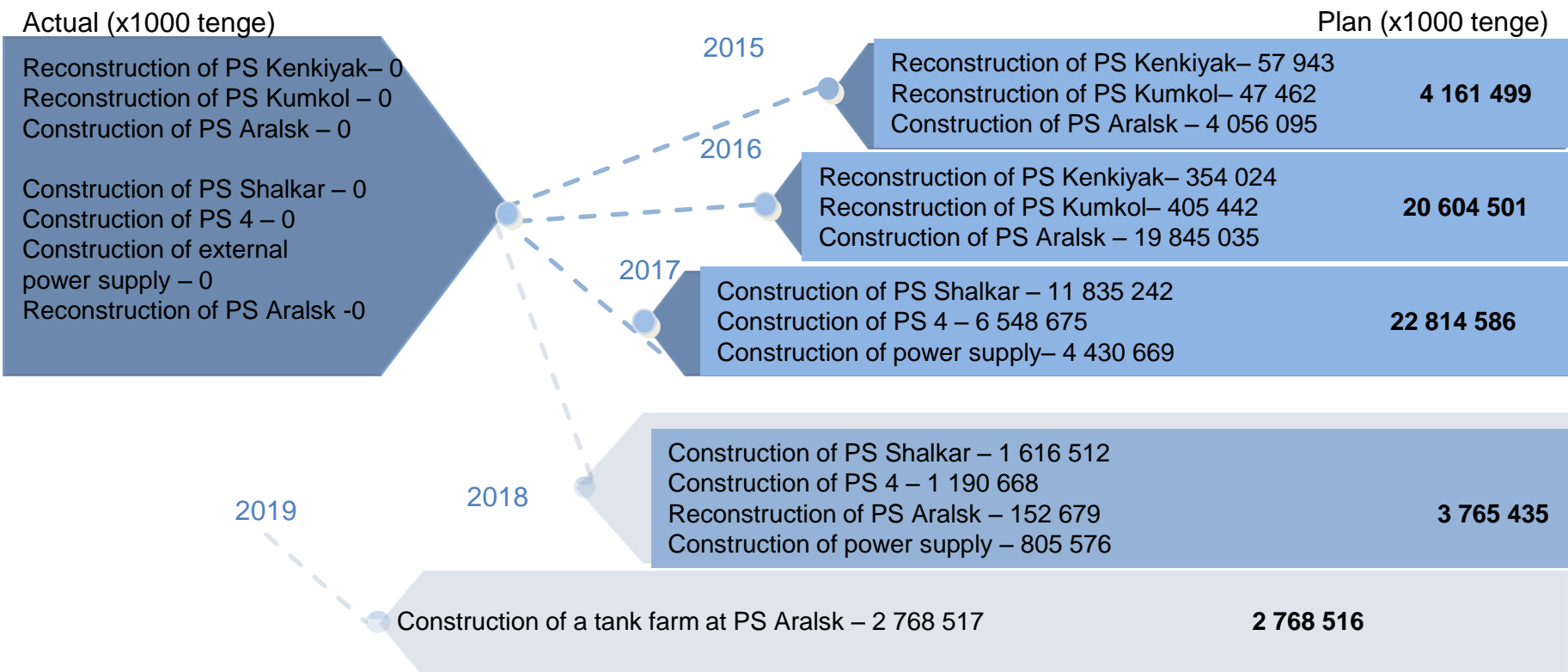
The maximum level of tariffs for a regulated service of oil transportation via the Kenkiyak-Kumkol pipeline of the Partnership within the domestic market for 2015-2019:

Indicator	Unit of measure	2015	2016	2017	2018	2019
Domestic tariff (excl. VAT)	tenge/1 ton for 1000 km	4 889,02	5 377,92	5 915,71	6 507,28	7 158,01



Investment program

The investment program of the Partnership was approved by a joint order of the Committee for regulation of natural monopolies and competition protection of the Ministry of National Economy of the Republic of Kazakhstan dated March 30, 2015 No. 129-OD and the Ministry of Energy of the Republic of Kazakhstan dated April 2, 2015 No. 267



Total capital expenditures in the Investment program for 2015–2019 are 54 114 539 thousand tenge.



Use of own funds

A special procedure for the cost formation, applied during the approval of tariffs for regulated services of natural monopolies, dated April 25, 2013 No. 130-OD.

Investments are made by natural monopolies using own and (or) borrowed funds

Sources of own funds are profit (net income) and depreciation charges

Borrowed funds are repaid using profit (net income) and (or) depreciation charges

The first loan of \$ 1.03 billion was raised to finance the construction of the Kenkiyak-Kumkol oil pipeline.

The second loan of \$ 300 million was raised to refinance liabilities on bonds issued to finance the construction of the Atasu-Alashankou oil pipeline

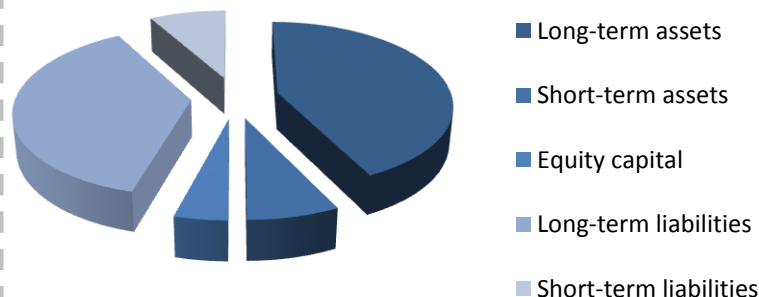
Two loans are refinanced by raising a new loan. On June 27, 2018 the ICBC Limited loan agreement was concluded in the amount of USD 540 million.

№	Item	Measure	2015 год	2016 год	2017 год	2018 год
1	Depreciation charges on production fixed assets	x1000 tenge	14 373 537,00	14 440 669,00	14 103 080,00	11 984 469,00
2	Net income (loss) of the Partnership	-//-	-89 142 517,00	12 649 475,00	12 450 487,00	-7 452 082,49
3	Repayment of principal debt	-//-	-27 484 806,00	-30 178 125,00	-27 894 700,00	-44 047 950,00
4	Balance	-//-	-102 253 786,00	-3 087 981,00	-1 341 133,00	-39 515 563,49

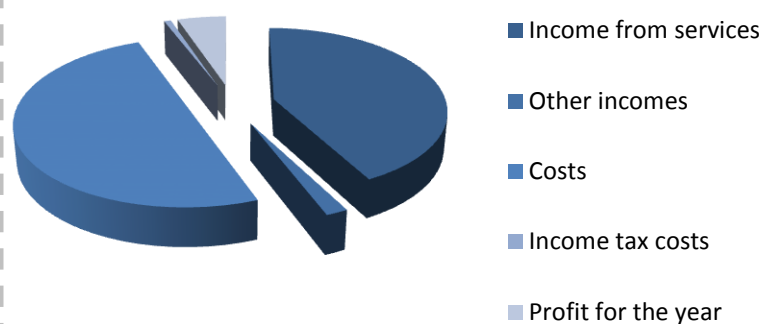
Conclusion: The Partnership lacks the funds not only for implementation of the investment program, but also for repayment of borrowed funds, which is caused by the reduction in the volume of the regulated service of oil transportation and changes in the exchange rate of tenge against the US dollar.

In addition, due to the lack of a resource base, the Partnership Participants (decision of the Investment Committee of JSC NC "KazMunaiGas" dated April 23, 2015 No. 7-15) suspended the realization of the Investment project.

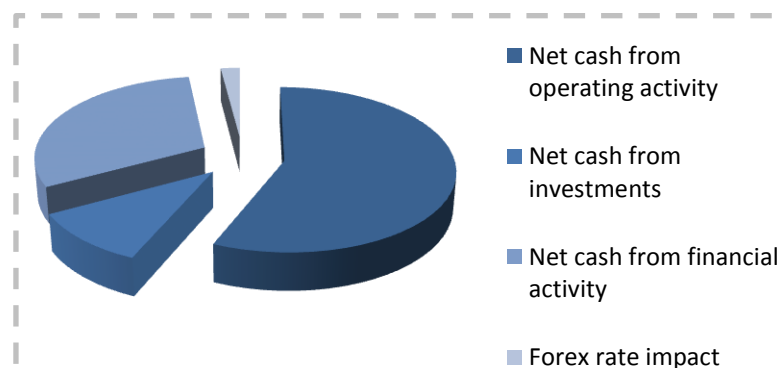
№	Indicators	Measure	Cost
1	Long-term assets	x1000 tenge	216 117 819
1.1	Fixed assets	-//-	212 641 356
2	Short-term assets	-//-	36 448 137
3	Equity capital	-//-	21 027 206
4	Long-term liabilities	-//-	190 348 946
5	Short-term liabilities	-//-	41 189 804



№	Indicators	Measure	Стоимость
1	Income from services	x1000 tenge	60 886 186
2	Other incomes	-//-	2 602 968
3	Costs	-//-	71 984 358
4	Prime cost of services	-//-	28 105 791
5	General and administrative costs	-//-	3 541 761
6	Costs of interest repayment	-//-	12 596 141
7	Costs of non-core activity (loss from depreciation of FA)	-//-	27 740 665
8	Income tax costs	-//-	1 043 122
9	Profit for the year	-//-	-7 452 082



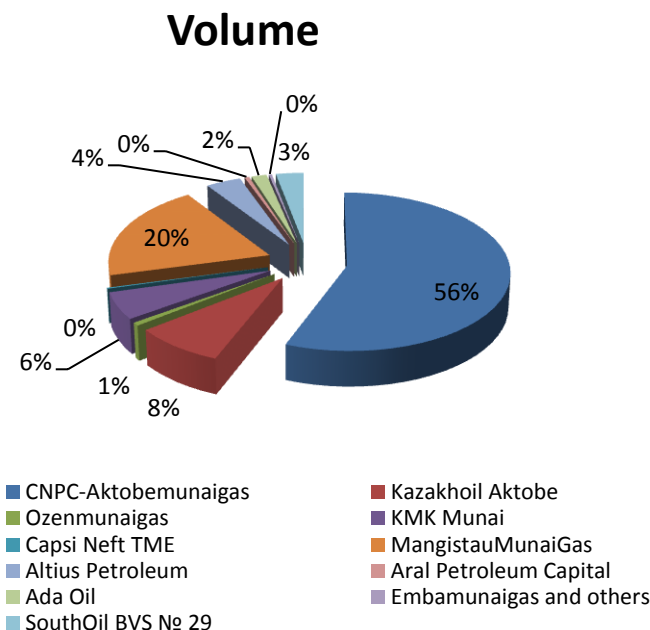
№	Indicators	Measure	Стоимость
1	Net cash from operating activity	x1000 tenge	29 165 936
1.1	Inflow	-//-	65 235 049
1.2	Outflow	-//-	36 069 113
2	Net cash from investments	-//-	-5 466 134
2.1	Inflow	-//-	18 629 653
2.2	Outflow	-//-	24 095 787
3	Net cash from financial activity	-//-	-15 933 325
3.1	Inflow	-//-	190 040 533
3.2	Outflow	-//-	205 973 858
4	Forex rate impact	-//-	1 057 947
5	Cash reduction/increase	-//-	8 824 424





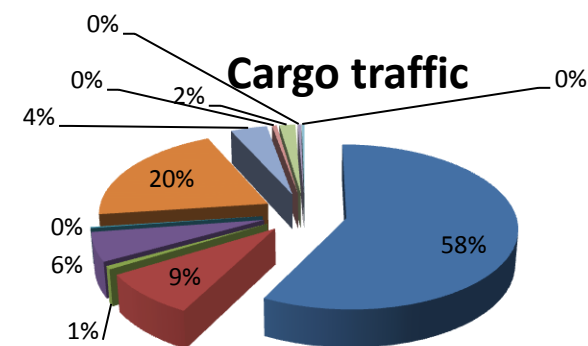
Scope of services and consumer relations in 2017

№	Consignors	Volume (x1000 tons)	Cargo traffic (mln.t/km)
1	CNPC-Aktobemunaigas	2 527	2 007
2	Kazakhoil Aktobe	379	301
3	Ozenmunaigas	30	24
4	KMK Munai	252	200
5	Capsi Neft TME	10	8
6	MangistauMunaiGas	891	707
7	Altius Petroleum	173	137
8	Lines Jump	22	18
9	Ada Oil	75	59
10	Embamunaigas and others	15	12
11	SouthOil BVS № 29	136	10
12	Aral Petroleum Capital	5	4
	TOTAL	4 515	3 488



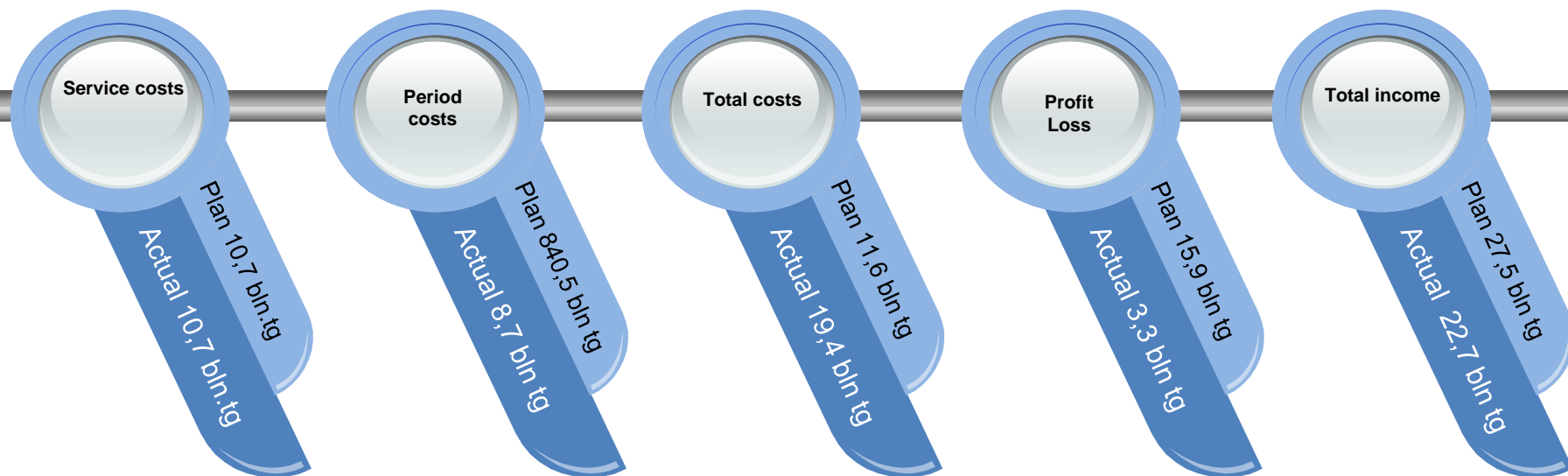
In 2018 the volume of oil turnover through Kenkiyak-Kumkol pipeline in the domestic market was 3 488 million tons/km with the approved figures of 4 227 million tons / km, which is 83%.

In order to assess the customer satisfaction in the reporting period, the Partnership conducted a survey among the consumers to increase quality of services provided. Consumers were sent questionnaires for completion. The questionnaire results obtained from all consumers showed a high quality of services provided by the Partnership and amounted to 98%.



Tariff estimate

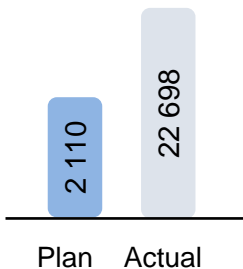
No	Tariff estimate indicators	Measure	Included in the tariff estimate	Actual tariff estimate	Deviation, abs.	Deviation, %
1	Service provision costs	x1000 tenge	10 740 503	10 713 642	-26 860	0%
2	Period costs	-//-	840 542	8 692 793	7 852 251	934%
2.1	General and administrative costs	-//-	474 926	1 039 597	564 671	119%
2.2	Interest costs	-//-	365 616	7 653 196	7 287 580	1993%
3	Total costs	-//-	11 581 045	19 406 435	7 825 391	68%
4	Profit/Loss	-//-	15 922 464	3 291 487	-12 630 977	-79%
5	Total income	-//-	27 503 508	22 697 922	-4 805 586	-17%
6	Service volume	x1000 tons	5 661	4 515	-1 146	-20%
7	Cargo traffic	mln.t/km	4 227	3 488	-738	-17%
8	Specific tariff (excl.VAT)	tenge ton/1000km	6 507,28	6 507,28	0	0%



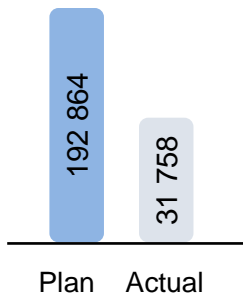


Service provision costs (I)

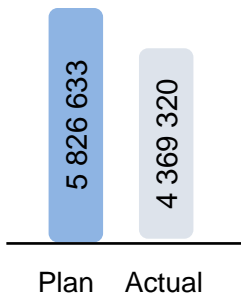
Retirement of materials and purchased products, workwear and spare parts



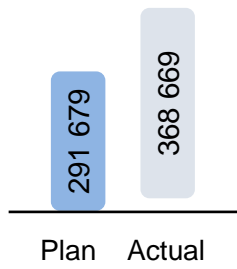
Electricity for pipeline facilities, adopted as per the norms of the Authorized body



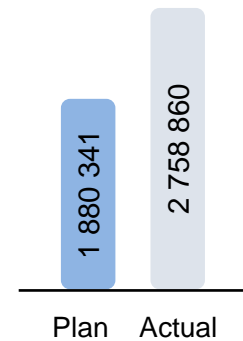
Wear of fixed production assets and IA of pipeline facilities



Security for the linear section, stationary facilities and fire safety



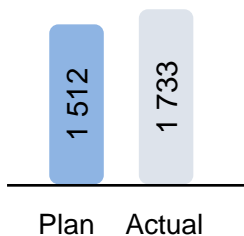
Operation and maintenance of the pipeline



Maintenance and repair of power lines and cells at substations feeding the pipeline facilities

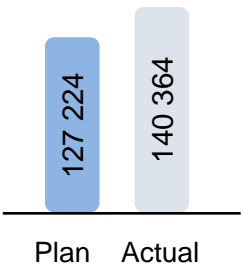
raw materials fuel

Purchase of fuel for company cars



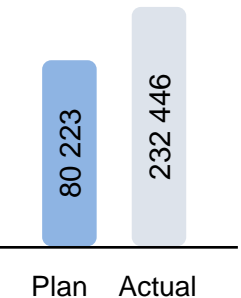
power labor costs

Labor compensation for production personnel with deductions, adopted as per the norms of the Authorized body



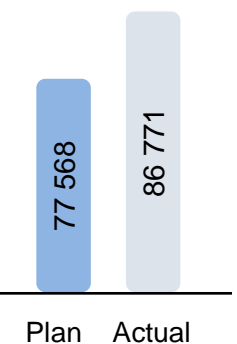
amortization repair

Repair of service roads other repairs



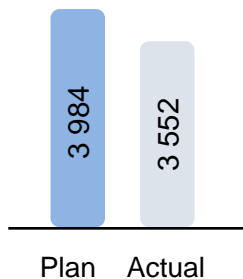
security and fire protection air services

Air patrolling and rotation of KazTransOil staff



O&M services metrology

Calibration of instruments installed at the pipeline facilities



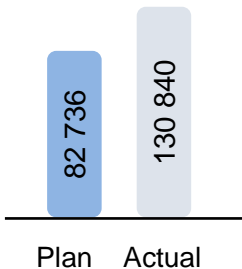
Maintenance and repair of instruments



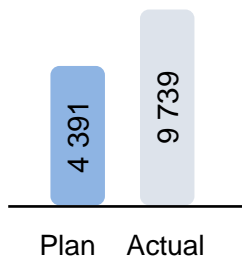


Service(II)

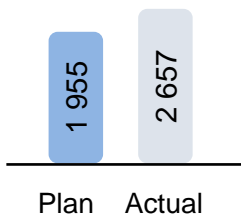
Maintenance and repair of process communication systems of the pipeline



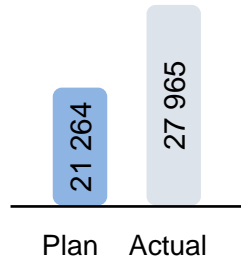
Production monitoring of environment at the pipeline facilities



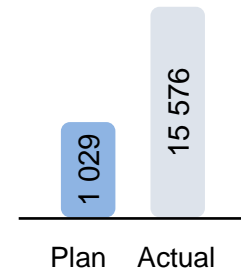
Maintenance and repair of company cars assigned to the sites and CTP's



Maintenance and repair of oil quality and quantity metering system at PS Kenkiyak and PS Kumkol



Accommodation and meals for shift workers



Training and advanced training and daily allowance during the training of production personnel

maintenance of telecom systems

taxes and charges

environmental monitoring and protection

Security and fire alarm

Car maintenance and repair

Servicing and repair of office equipment, software and climate control systems

Maintenance and repair of oil metering stations

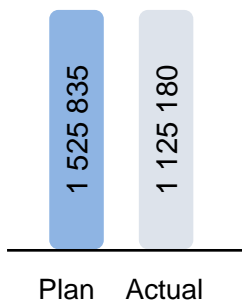
Telecom services

Accommodation, meals for shift workers

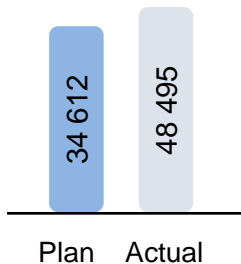
insurance

training and advanced training

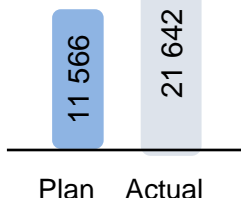
Property tax, land tax, emission and radio frequency use fees



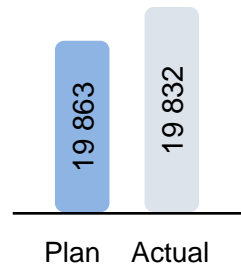
Maintenance and repair of perimeter alarm system, video surveillance and fire alarm



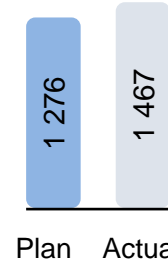
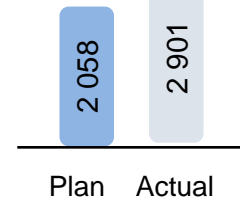
Testing of temperature regimes, diagnostics of assemblies, cleaning of filters and drain system



International, long-distance calls, Internet, equipment lease and satellite communication in the field



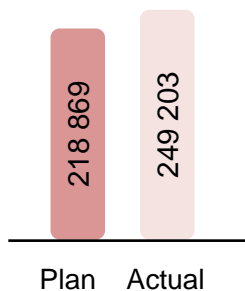
Insurance of facility owners liability and environmental damage as a result of emergency pollution



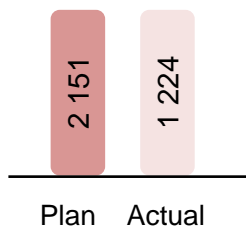


General and administrative costs (I)

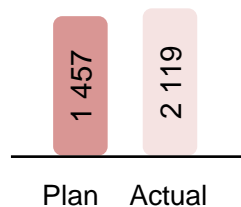
Payroll including income tax and pension deductions, vacation pay



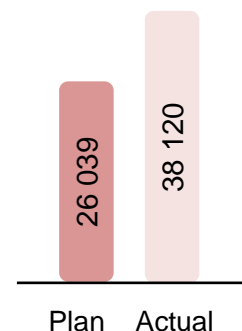
Banking services for settlement operations in tenge and foreign currency, purchase and sale of foreign currency, balance statements



Purchase of fuel for company cars used by administrative and managerial personnel



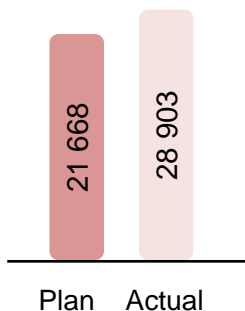
Business trip costs as per the norms of the Regulation «On business trips»



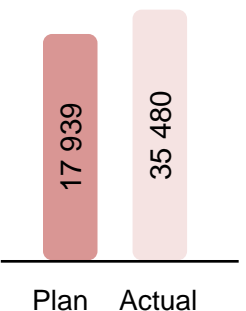
Taxes according to the RK Tax Code and tax payments in PRC

labor costs social tax bank services amortization POL transportation services business trip services telecom services taxes

Social deductions according to the RK Tax Code



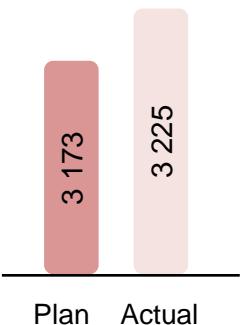
Amortization of non-production fixed assets and intangibles



Maintenance and repair of cars used by the administrative and managerial personnel



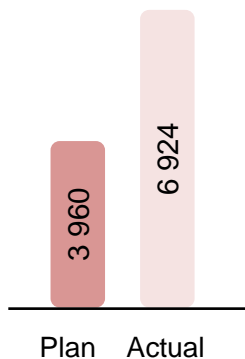
International, long-distance calls, Internet, intracorporate calls



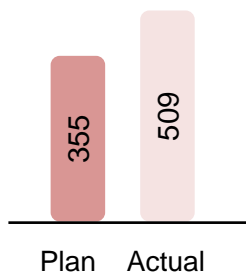


General and administrative costs (II)

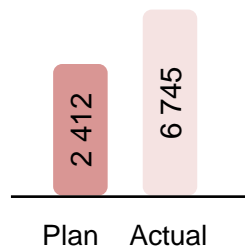
Annual audits of financial statement of the Partnership



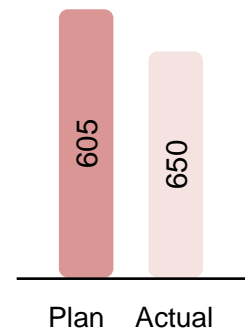
Notary actions calculated based on fixed rates set by the RK Tax Code



Repair and diagnostics of office equipment, maintenance of servers, cartridge refill, purchase and installation of software



Dispatch of mail and cargo



Bank fees, legal services, agent fee, insurance fee including withholding income tax

audit services

legal services

notary services

consulting services

Servicing and repair of office equipment, software

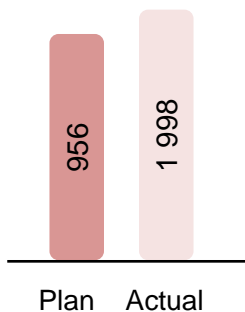
insurance

courier service, mail

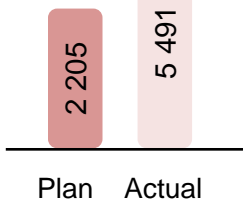
maintenance of administrative buildings

financing costs

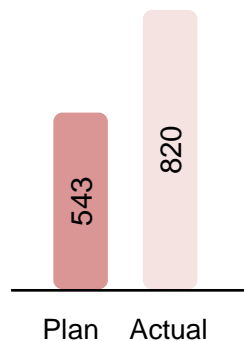
Access to the information system «Paragraph»



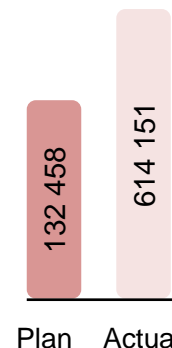
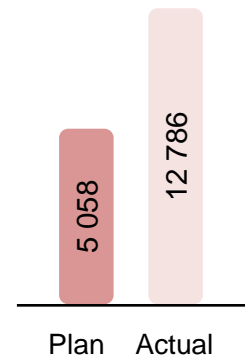
Unified catalogue of goods, works and services, map of local content monitoring, electronic procurement information system



Employer's liability and mandatory car insurance

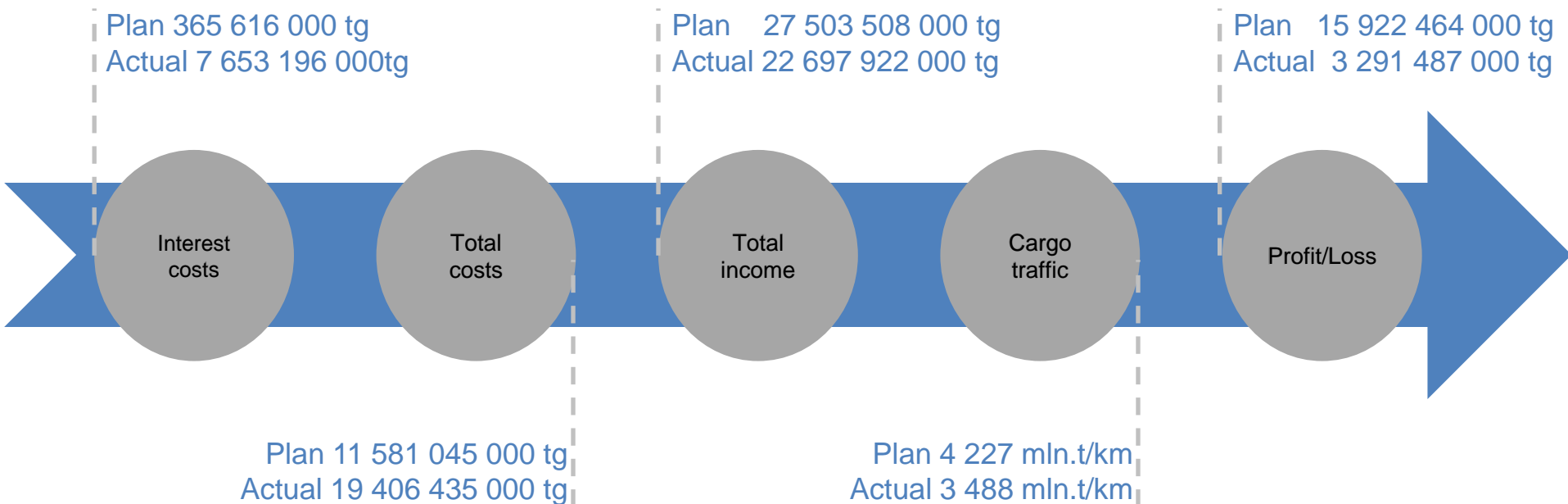


Utilities, office and administrative building maintenance in Almaty



Activity results and perspectives

The results of Kazakhstan-China Pipeline activities for provision of regulated services of oil transportation via the Kenkiyak-Kumkol pipeline within the domestic market in 2018:



Perspectives of Kazakhstan-China Pipeline LLP: 1) Increase of economic efficiency of the Partnership activities through reduction of financial burden; 2) Optimization of business processes through automation; 3) Submission of a request to the authorized body for approval of tariffs for the regulated service for 2020-2004.

Thank you for
attention!