



ҚАЗАҚСТАН-ҚЫТАЙ ҚҰБЫРЫ

**KAZAKHSTAN-  
CHINA PIPELINE**

КАЗАХСТАНСКО-КИТАЙСКИЙ ТРУБОПРОВОД

## PRESENTATION

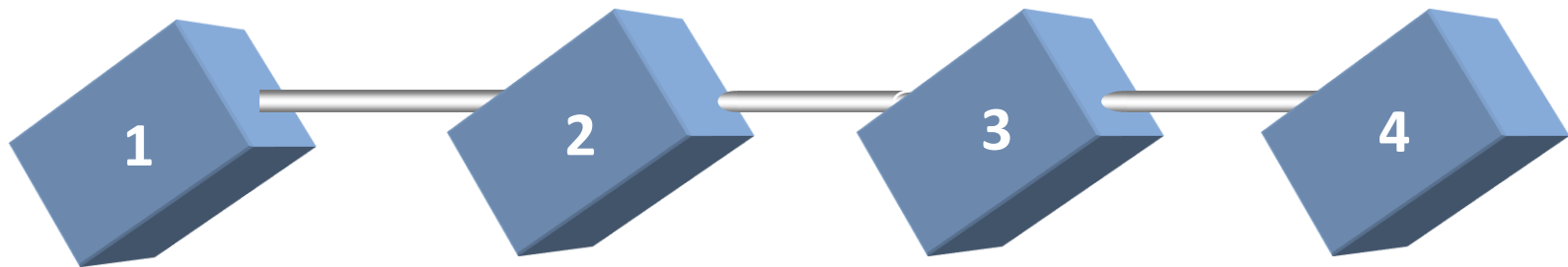
for the hearing of the annual report on activity of Kazakhstan-China Pipeline LLP for the 1 half year of 2019 on provision of a regulated service – transportation of oil through Kenkiyak-Kumkol pipeline within the domestic market, for consumers and other interested persons

Tariff Regulation Department  
July 25, 2019

# Agenda

The objectives of the hearing of the annual report on the Partnership activities for the 1 half year of 2019 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.



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

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

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

Summarization and closing of the Hearing

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

Actual (x1000 tenge)

Reconstruction of PS Kenkiyak – 0  
Reconstruction of PS Kumkol – 0  
Construction of PS Aralsk – 0

Construction of PS Shalkar – 0  
Construction of PS 4 – 0  
Construction of external power supply – 0  
Reconstruction of PS Aralsk – 0

Plan (x1000 tenge)

2015

Reconstruction of PS Kenkiyak – 57 943  
Reconstruction of PS Kumkol – 47 462  
Construction of PS Aralsk – 4 056 095

**4 161 499**

2016

Reconstruction of PS Kenkiyak – 354 024  
Reconstruction of PS Kumkol – 405 442  
Construction of PS Aralsk – 19 845 035

**20 604 501**

2017

Construction of PS Shalkar – 11 835 242  
Construction of PS 4 – 6 548 675  
Construction of power supply – 4 430 669

**22 814 586**

2018

Construction of PS Shalkar – 1 616 512  
Construction of PS 4 – 1 190 668  
Reconstruction of PS Aralsk – 152 679  
Construction of power supply – 805 576

**3 765 435**

2019

Construction of a tank farm at PS Aralsk – **2 768 516**

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

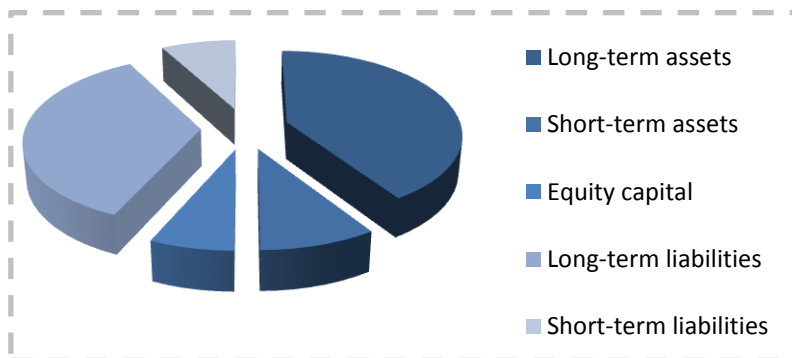
Two loans are refinanced by raising a new loan. On June 27, 2018 the ICBC Limited loan agreement was concluded in the amount of USD 540 million.

№	Item	Measure	2015 год	2016 год	2017 год	2018 год	2019 1 half year
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	6 093 113,33
2	Net income (loss) of the Partnership	-//-	-89 142 517,00	12 649 475,00	12 450 487,00	-7 452 082,49	14 238 933,28
3	Repayment of principal debt	-//-	-27 484 806,00	-30 178 125,00	-27 894 700,00	-44 047 950,00	-13 302 100,00
4	Balance	-//-	-102 253 786,00	-3 087 981,00	-1 341 133,00	-39 515 563,49	7 029 946,62

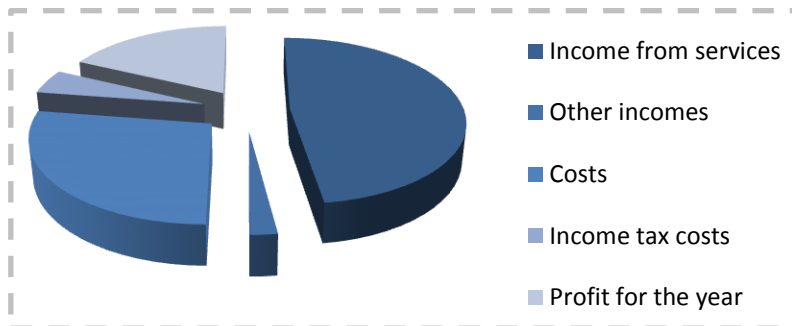
Conclusion: The Partnership lacks the funds not only for implementation of the investment program, but also for repayment of borrowed funds, which is caused by the reduction in the volume of the regulated service of oil transportation and changes in the exchange rate of tenge against the US dollar.

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.

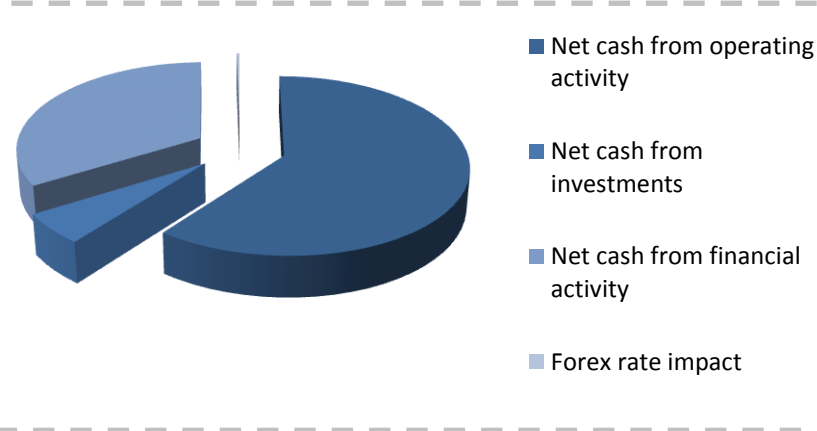
№	Indicators	Measure	Cost
1	Long-term assets	x1000 tenge	209 205 815
1.1	Fixed assets	-/-	206 200 263
2	Short-term assets	-/-	47 341 526
3	Equity capital	-/-	33 944 793
4	Long-term liabilities	-/-	181 875 584
5	Short-term liabilities	-/-	40 726 964



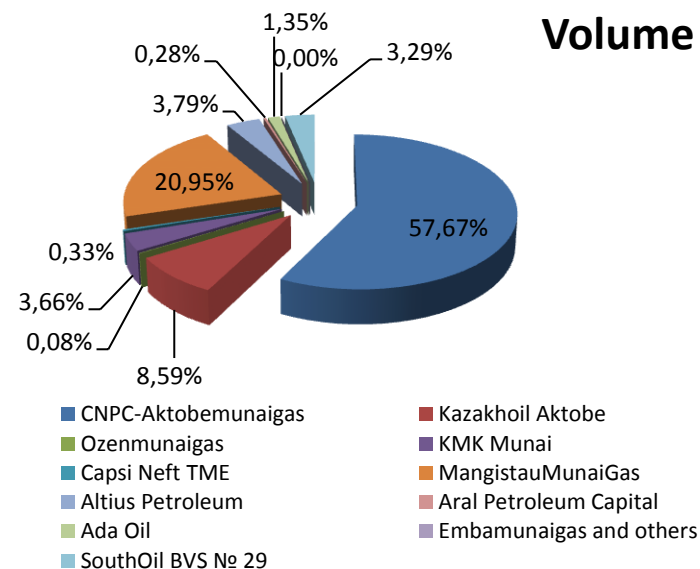
№	Indicators	Measure	Стоимость
1	Income from services	x1000 tenge	38 127 915
2	Other incomes	-/-	1 688 252
3	Costs	-/-	21 824 221
4	Prime cost of services	-/-	14 088 183
5	General and administrative costs	-/-	1 447 935
6	Costs of interest repayment	-/-	6 288 103
8	Income tax costs	-/-	3 755 199
9	Profit for the year	-/-	14 236 747



№	Indicators	Measure	Стоимость
1	Net cash from operating activity	x1000 tenge	24 662 300
1.1	Inflow	-/-	40 963 392
1.2	Outflow	-/-	16 301 092
2	Net cash from investments	-/-	-2 292 575
2.1	Inflow	-/-	16 788 067
2.2	Outflow	-/-	19 080 643
3	Net cash from financial activity	-/-	-13 681 157
3.1	Inflow	-/-	0
3.2	Outflow	-/-	13 681 157
4	Forex rate impact	-/-	-119 266
5	Cash reduction/increase	-/-	8 569 302

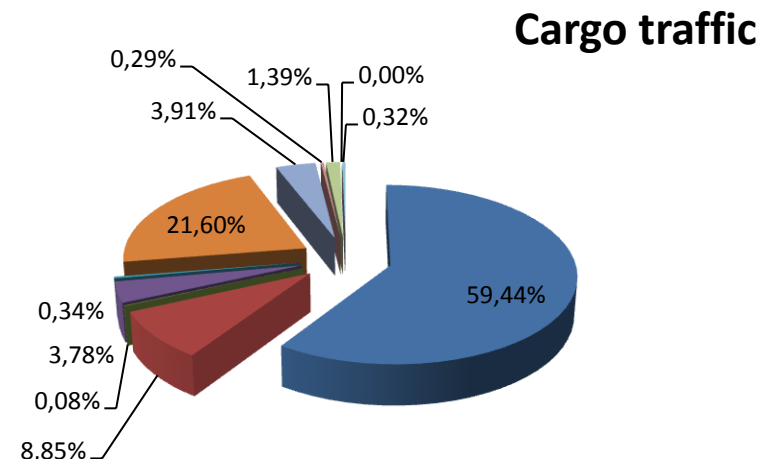


№	Consignors	Volume (x1000 tons)	Cargo traffic (mln.t/km)
1	CNPC-Aktobemunaigas	1 467	1 165
2	Kazakhoil Aktobe	218	173
3	Ozenmunaigas	2	2
4	KMK Munai	93	74
5	Capsi Neft TME	8	7
6	MangistauMunaiGas	533	423
7	Altius Petroleum	96	77
8	Lines Jump	7	6
9	Ada Oil	34	27
10	Embamunaigas and others	0	0
11	SouthOil BVS № 29	84	6
12	Aral Petroleum Capital	2	1
	<b>TOTAL</b>	<b>2 545</b>	<b>1 961</b>



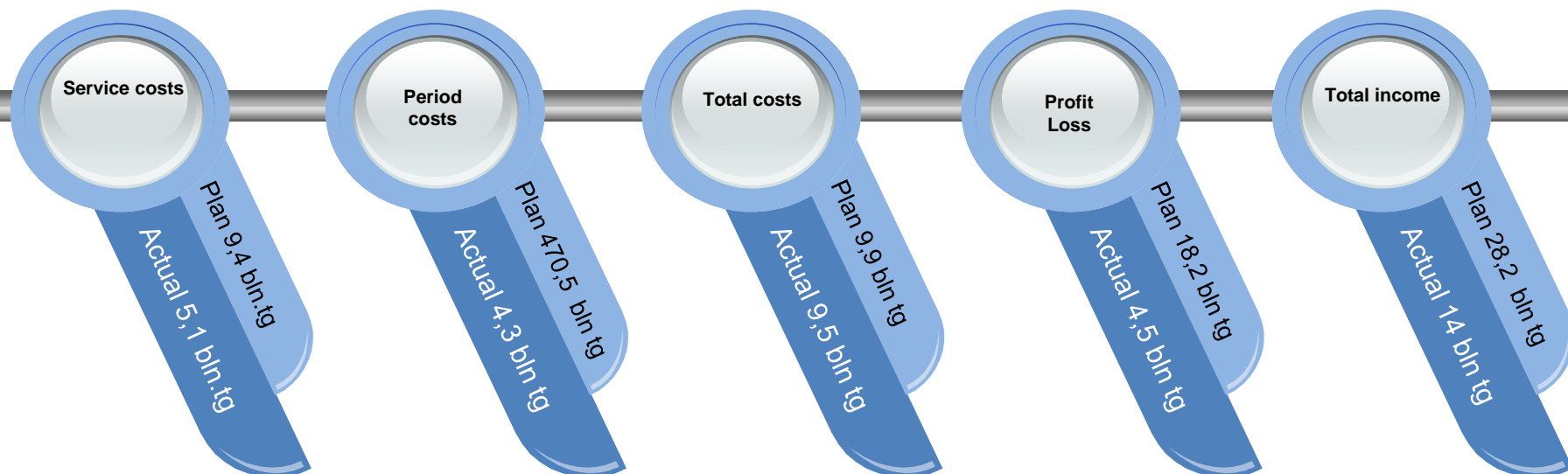
For the first half of 2019 the volume of oil turnover through Kenkiyak-Kumkol pipeline in the domestic market was 1 961 million tons/km with the approved figures of 3 944 million tons / km, which is 50%.

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 99%. The next survey is planned. spend in the second half of this year.



# Tariff estimate

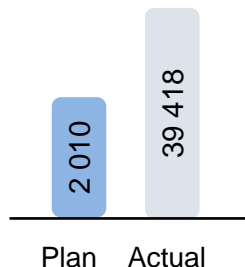
No	Tariff estimate indicators	Measure	Included in the tariff estimate	Actual tariff estimate	Deviation, abs.	Deviation, %
1	Service provision costs	x1000 tenge	9 470 899	5 114 008	-4 356 891	-46%
2	Period costs	-//-	470 542	4 386 707	3 916 164	832%
2.1	General and administrative costs	-//-	470 542	289 777	-180 766	-38%
2.2	Interest costs	-//-	0	4 096 930	4 096 930	
3	Total costs	-//-	9 941 441	9 500 715	-440 726	-4%
4	Profit/Loss	-//-	18 287 470	4 537 880	-13 749 590	-75%
5	Total income	-//-	28 228 911	14 038 595	-14 190 316	-50%
6	Service volume	x1000 tons	5 293	2 545	-2 748	-52%
7	Cargo traffic	mln.t/km	3 944	1 961	-1 982	-50%
8	Specific tariff (excl.VAT)	tenge ton/1000km	7 158,01	7 158,01	0	0%



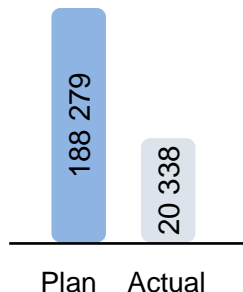


# Service provision costs (I)

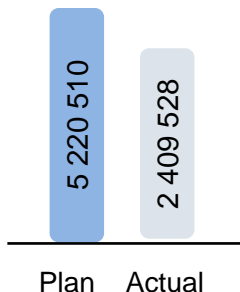
Retirement of materials and purchased products, workwear and spare parts



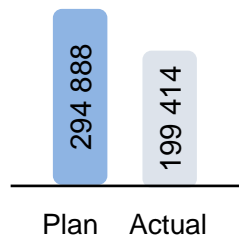
Electricity for pipeline facilities, adopted as per the norms of the Authorized body



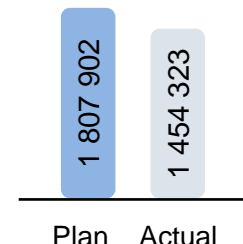
Wear of fixed production assets and IA of pipeline facilities



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

power

labor costs

amortization

repair

security and fire protection

air services

O&M services

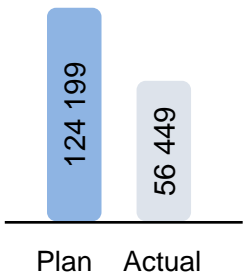
metrology

Maintenance and repair of instruments

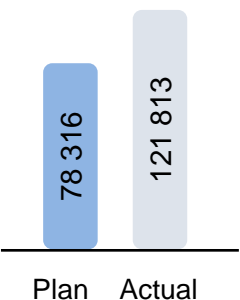
Purchase of fuel for company cars



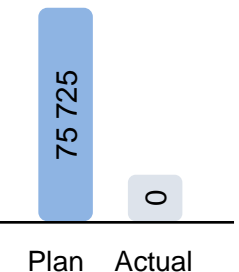
Labor compensation for production personnel with deductions, adopted as per the norms of the Authorized body



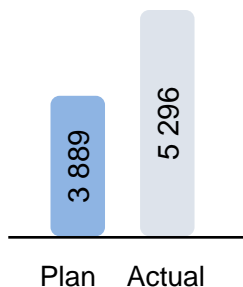
Repair of service roads other repairs



Air patrolling and rotation of KazTransOil staff



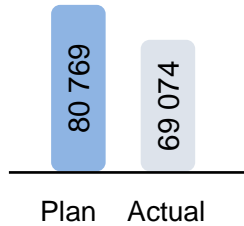
Calibration of instruments installed at the pipeline facilities



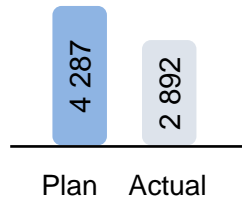


# Service(II)

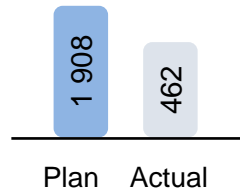
Maintenance and repair of process communication systems of the pipeline



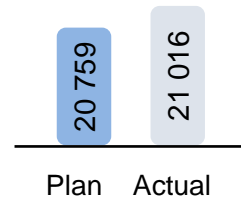
Production monitoring of environment at the pipeline facilities



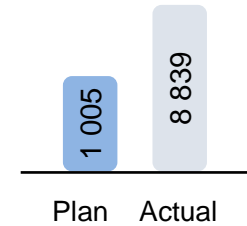
Maintenance and repair of company cars assigned to the sites and CTP's



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

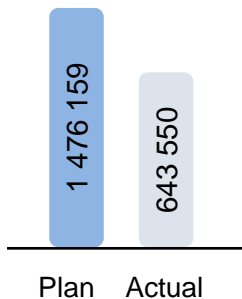
Telecom services

Accommodation, meals for shift workers

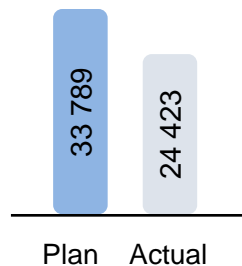
insurance

training and advanced training

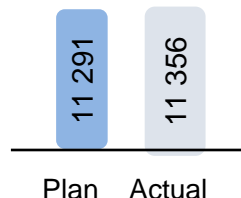
Property tax, land tax, emission and radio frequency use fees



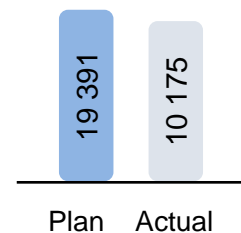
Maintenance and repair of perimeter alarm system, video surveillance and fire alarm



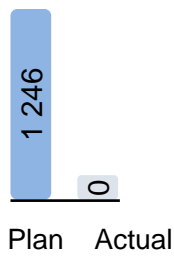
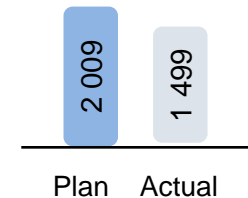
Testing of temperature regimes, diagnostics of assemblies, cleaning of filters and drain system



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



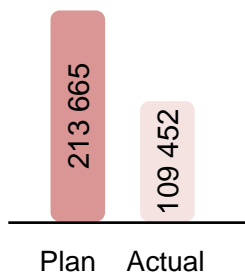
Insurance of facility owners liability and environmental damage as a result of emergency pollution



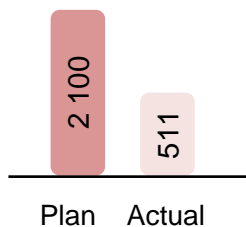


# General and administrative costs (I)

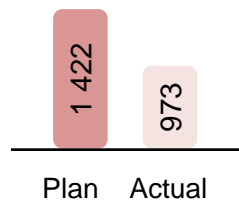
Payroll including income tax and pension deductions, vacation pay



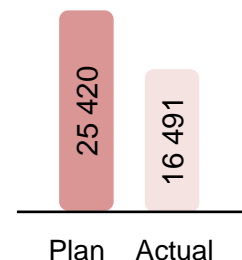
Banking services for settlement operations in tenge and foreign currency, purchase and sale of foreign currency, balance statements



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

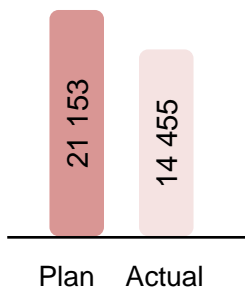
transportation services

business trip services

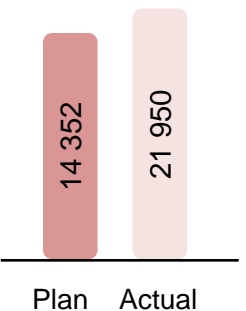
telecom services

taxes

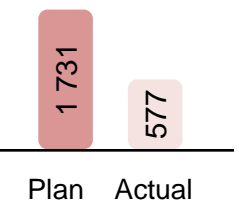
Social deductions according to the RK Tax Code



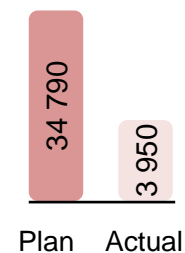
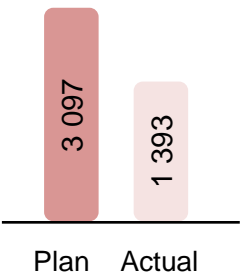
Amortization of non-production fixed assets and intangibles



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

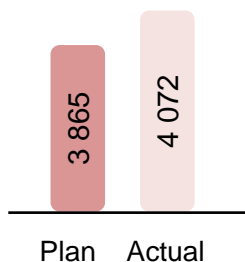


International, long-distance calls, Internet, intracorporate calls

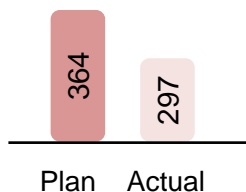


# General and administrative costs (II)

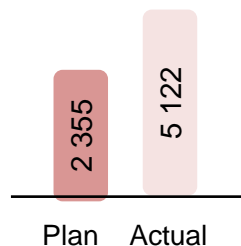
Annual audits of financial statement of the Partnership



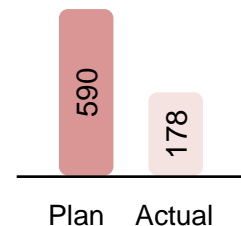
Notary actions calculated based on fixed rates set by the RK Tax Code



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

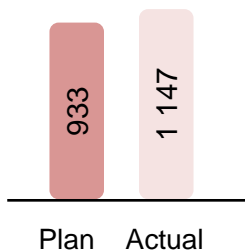
insurance

courier service, mail

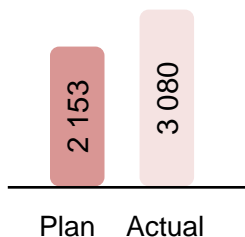
maintenance of administrative buildings

financing costs

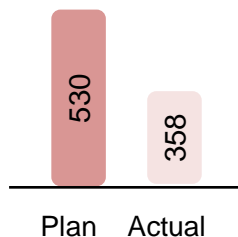
Access to the information system «Paragraph»



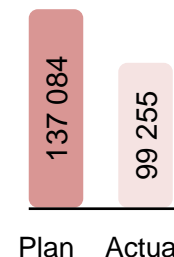
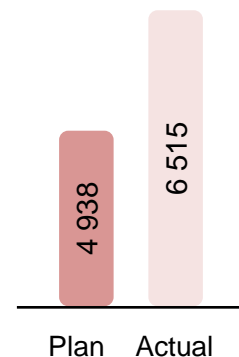
Unified catalogue of goods, works and services, map of local content monitoring, electronic procurement information system



Employer's liability and mandatory car insurance

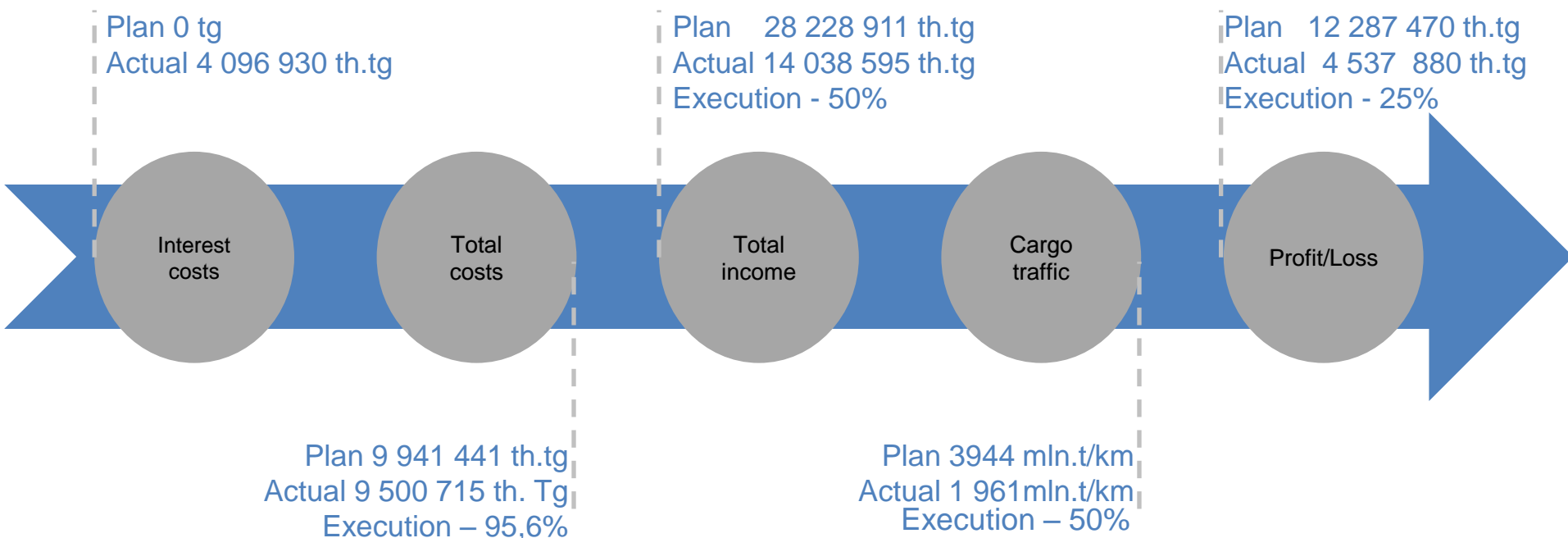


Utilities, office and administrative building maintenance in Almaty



# 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 the 1 half year of 2019 :



Perspectives of Kazakhstan-China Pipeline LLP:

- 1) Increase of economic efficiency of the Partnership activities through reduction of financial burden;
- 2) Submission of a request to the authorized body for approval of tariffs for the regulated service for 2020-2004.

Thank you for  
attention!