Kazakhstan – China Pipeline LLP

International Financial Reporting Standards Financial Statements

For the year ended 31 D ecember 2019 and Independent Auditor's Report

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Independent Auditor's Report

To the Participants and Management of Kazakhstan-China Pipeline LLP:

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Kazakhstan-China Pipeline LLP (the "Company") as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

The Company's financial statements comprise:

- statement of financial position as at 31 December 2019;
- statement of comprehensive income for the year then ended;
- statement of changes in equity for the year then ended;
- statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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 Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities of management for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent Auditor's Report (continued)

We communicate with management 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.

PricewaterhouseCoopers LLP

5 February 2020

Almaty, Kazakhstan

Approved by:	Signed by:
Dana Inkarbekova	Baurzhan Burkhanbekov
Managing Director PricewaterhouseCoopers LLP (General State License of the Ministry of Finance of the Republic of Kazakhstan №0000005 dated 21 October 1999)	Auditor in Charge (Qualified Auditor's Certificate №0000586 dated 30 October 2006)

Kazakhstan – China Pipeline LLP
Statement of Financial Position

In thousands of Kazakhstani Tenge	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	6	222,132,262	212,641,356
Right-of-use assets		1,199,071	-
Long-term value added tax recoverable	7	695,527	3,444,458
Other non-current assets		144,101	-
Intangible assets		36,528	32,005
Total non-current assets		**224,207,489**	**216,117,819**
Current assets			
Inventories		467,563	428,941
Income tax prepaid		680	2,718
Accounts receivable from related parties	5	68,099	6,583
Trade receivables		1,221	8,234
Assets held for sale		150,387	-
Other current assets	8	2,907,131	1,497,644
Bank deposits	9	17,771,891	16,995,106
Cash and cash equivalents	10	31,937,129	17,508,911
Total current assets		**53,304,101**	**36,448,137**
TOTAL ASSETS		**277,511,590**	**252,565,956**
EQUITY			
Charter capital		13,000,000	13,000,000
Revaluation reserve for property, plant and equipment		53,554,333	43,496,769
Other reserves		(959)	(572)
Accumulated deficit		(7,418,567)	(35,468,991)
TOTAL EQUITY		**59,134,807**	**21,027,206**
LIABILITIES			
Non-current liabilities			
Loans and borrowings	11	151,738,462	178,800,794
Provision for asset retirement obligation	12	7,176,702	5,350,776
Lease liabilities	3	1,615,465	-
Deferred tax liability	20	15,814,864	6,187,798
Other non-current liabilities		9,423	9,578
Total non-current liabilities		**176,354,916**	**190,348,946**
Current liabilities			
Loans and borrowings	11	30,113,834	30,823,721
Trade payables		1,580,106	520,495
Accounts payable to related parties	5	953,542	990,206
Advances for oil transportation - related parties	5	2,625,873	2,797,534
Advances for oil transportation - third parties	13	3,743,341	2,885,880
Income tax payable		23,161	19,826
Other payables and accrued liabilities	14	2,604,570	3,152,142
Lease liabilities	3	377,440	-
Total current liabilities		**42,021,867**	**41,189,804**
TOTAL LIABILITES		**218,376,783**	**231,538,750**
TOTAL EQUITY AND LIABILITES		**277,511,590**	**252,565,956**

Approved for issue and signed on behalf of the Management on 5 February 2020:

Qian Yalin
General Director

Zhang Yubo
Deputy General Director/ Chief Accountant

The accompanying notes on pages 5 to 35 are an integral part of these financial statements

Kazakhstan – China Pipeline LLP
Statement of Comprehensive Income

In thousands of Kazakhstani Tenge	Note	For the year ended 31 December 2019	2018
Revenue	15	76,186,256	60,886,186
Cost of sales	16	(29,806,466)	(28,105,791)
Gross profit		**46,379,790**	**32,780,395**
General and administrative expenses	17	(3,710,298)	(3,541,761)
Other operating (expense)/income, net	18	(139,287)	2,379,058
Impairment loss on property, plant and equipment	6	(318,867)	-
Operating profit		**42,211,338**	**31,617,692**
Finance income	19	1,124,855	223,910
Finance costs	19	(11,661,643)	(40,336,806)
Profit/(loss) before income tax		**31,674,550**	**(8,495,204)**
Income tax (expense)/benefit	20	(6,282,785)	1,043,122
Profit/(loss) for the year		**25,391,765**	**(7,452,082)**
Other comprehensive income			
Revaluation of property, plant and equipment	6	18,217,270	-
Income tax effect	20	(3,643,454)	-
Revaluation of provision for asset retirement obligation		(1,325,756)	(221,179)
Income tax effect		265,151	44,236
Actuarial (loss)/gain from employee benefits liabilities		(484)	866
Income tax effect		97	(173)
Total other comprehensive income/(loss) for the year		**13,512,824**	**(176,250)**
Total comprehensive income/(loss) for the year		**38,904,589**	**(7,628,332)**

Approved for issue and signed on behalf of the Management on 5 February 2020:

Qian Yalin
General Director

Zhang Yubo
Deputy General Director/ Chief Accountant

Kazakhstan – China Pipeline LLP
Statement of Changes in Equity

In thousands of Kazakhstani Tenge	Charter capital	Revaluation reserve for PP&E	Other capital reserves	Accumulated deficit	Total
At 1 January 2018	**13,000,000**	**46,462,731**	**(1,265)**	**(30,798,241)**	**28,663,225**
First-time adoption of IFRS 9	-	-	-	(7,687)	(7,687)
Adjusted balance at 1 January 2018	**13,000,000**	**46,462,731**	**(1,265)**	**(30,805,928)**	**28,655,538**
Loss for the year	-	-	-	(7,452,082)	(7,452,082)
Other comprehensive loss	-	(176,943)	693	-	(176,250)
Total comprehensive loss for the year	**-**	**(176,943)**	**693**	**(7,452,082)**	**(7,628,332)**
Realised revaluation reserve	-	(2,789,019)	-	2,789,019	-
Balance at 1 January 2019	**13,000,000**	**43,496,769**	**(572)**	**(35,468,991)**	**21,027,206**
First-time adoption of IFRS 16	-	-	-	(796,988)	(796,988)
Adjusted balance at 1 January 2019	**13,000,000**	**43,496,769**	**(572)**	**(36,265,979)**	**20,230,218**
Income for the year	-	-	-	25,391,765	25,391,765
Other comprehensive income	-	13,513,211	(387)	-	13,512,824
Total comprehensive income for the year	**-**	**13,513,211**	**(387)**	**25,391,765**	**38,904,589**
Realised revaluation reserve on property, plant and equipment	-	(3,455,647)	-	3,455,647	-
At 31 December 2019	**13,000,000**	**53,554,333**	**(959)**	**(7,418,567)**	**59,134,807**

Approved for issue and signed on behalf of the Management on 5 February 2020:

Qian Yalin
General Director

Zhang Yubo
Deputy General Director/ Chief Accountant

In thousands of Kazakhstani Tenge	Note	For the year ended 31 December 2019	2018
Cash flows from operating activities			
Cash flows from operating activities:			
Transportation services rendered		74,015,896	59,037,489
Advances received		6,369,214	5,683,414
Interest received		172,072	210,552
Other inflows		373,428	303,594
Cash outflows from operating activities			
Payments to suppliers for goods and services		(15,830,067)	(17,489,433)
Advances paid		(2,707)	(12,866)
Salaries payable		(1,808,612)	(1,513,959)
Interests paid	11	(9,942,545)	(11,032,305)
Income tax		(30,304)	(32,556)
Other payments to budget		(5,613,420)	(5,505,658)
Other payments		(687,758)	(482,336)
Net cash flow from operating activities		**47,015,197**	**29,165,936**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(4,178,715)	(1,503,408)
Placement of bank deposits		(35,322,539)	(22,585,728)
Acquisition of intangible assets		(13,056)	(6,651)
Sale of intangible assets		-	618
Withdrawal of bank deposits		34,506,809	18,629,035
Net cash used in investing activities		**(5,007,501)**	**(5,466,134)**
Cash flows from financing activities			
Repayment of loans and borrowings	11	(26,749,100)	(205,973,858)
Loans received net of origination fee	11	-	190,040,533
Settlement of lease liabilities		(580,069)	-
Other		(68,988)	-
Net cash used in financing activities		**(27,398,157)**	**(15,933,325)**
Net increase in cash and cash equivalents		**14,609,539**	**7,766,477**
Effect of exchange rate changes on cash and cash equivalents in foreign currency		(181,321)	1,057,947
Cash and cash equivalents at the beginning of the reporting year	10	**17,508,911**	**8,684,487**
Cash and cash equivalents at the end of the reporting year	10	**31,937,129**	**17,508,911**

Approved for issue and signed on behalf of the Management on 5 February 2020:

Qian Yalin
General Director

Қазақстан Республикасы Алматы қаласы Жауапкершілігі шектеулі серіктестігі
Товарищество с ограниченной ответственностью г.Алматы Республика Казахстан
Қазақстан-Қытай Құбыры
Казахстанско-Китайский Трубопровод

Zhang Yubo
Deputy General Director/ Chief Accountant

1 Company and Its Operations

Kazakhstan-China Pipeline LLP (the "Company") was established as a limited liability partnership on 6 July 2004 in accordance with the legislation of the Republic of Kazakhstan. The Company is owned by two founders: China National Operating and Development Company (CNODC), the subsidiary of China National Petroleum Corporation (CNPC), and KazTransOil Joint Stock Company (KazTransOil), the subsidiary of "National Company "KazMunayGas" Joint Stock Company (KazMunayGas); share of each founder in the charter capital of the Company equals 50%. The Company is jointly controlled by KazTransOil and CNODC on an equal basis. KazTransOil is owned by the Government of the Republic of Kazakhstan through Samruk-Kazyna National Welfare Fund JSC holding company (90%) and the National Bank of the Republic of Kazakhstan (10%), and CNODC is fully owned by the Government of Chinese People's Republic through CNPC state-owned company.

On 17 May 2004, the Government of the People's Republic of China and the Government of the Republic of Kazakhstan signed the Framework Agreement on Development of Overall Cooperation in oil and gas sector. In addition, on 17 May 2004, CNPC and KazMunayGas entered into the Agreement for main construction principles of 965.1 km Atasu-Alashankou oil pipeline, and on 20 December 2006 CNPC and KazMunayGas entered into the Agreement for main construction principles of the second phase of Kazakhstan-China oil pipeline, as well as Additional agreement No. 1 thereto dated 18 August 2007.

On 17 November 2005, the Company received a patent for investment, construction, operation and repair of Atasu-Alashankou oil pipeline in China for a period until 16 November 2025. Therefore, the Company registered its branch in China.

The Company constructed Atasu-Alashankou oil pipeline with capacity of 7 million tons per year and put it into operation on 28 July 2006. In 2008 the Company put into operation additional equipment for increase in capacity of the oil pipeline up to 10 million tons per year.

Technological oil for pipeline filling in the amount of 401,449 metric tons was provided by PetroChina International Kazakhstan LLP (PetroChina). Technological oil is owned by PetroChina.

On 8 May 2008, the Company received an approval for performing installation and construction works for Kenkiyak-Kumkol oil pipeline issued by the Committee for Construction and Housing and Utilities Infrastructure of the Ministry of Industry and Trade of the Republic of Kazakhstan, and signed contracts with OGCC KazStroyService and China Petroleum Pipeline Engineering Kazakhstan LLP for project development, delivery of materials and construction of 794,263 km Kenkiyak-Kumkol oil pipeline with rated annual capacity of first stage of second phase around 10 million tons.

On 1 July 2009, construction of the line section of the oil pipeline Kenkiyak-Kumkol was completed. On 27 June 2009, the Company filled the Kenkiyak-Kumkol oil pipeline with technological oil in the amount of 411,915 metric tons provided by CNPC Aktobemunaygas JSC according to the agreement No. 02-2009 dated 12 February 2009. Technological oil is owned by CNPC Aktobemunaygas JSC. The technological oil shall be returned to CNPC Aktobemunaygas JSC upon completion of Kenkiyak-Kumkol oil pipeline operation.

On 7 October 2009, the Company put into operation the first commissioning and start-up complex of Kenkiyak-Kumkol oil pipeline with rated capacity at the first phase of 10 million tons per year.

On 10 December 2010, the Company completed commissioning of facilities of first stage of second phase of Kenkiyak-Kumkol oil pipeline construction.

In 2011 and 2013 the Company put into operation additional equipment for increase in capacity of Atasu-Alashankou oil pipeline up to 20 million tons per year.

During 2013 and 2014, the Company performed construction works to connect pump station ("NPS") No. 8 to the 35 kV open distribution unit of 500 kV Agadyr substation, including the construction, installation, commissioning activities and start-up operation of the equipment with the capacity of 40,000 kVA.

On 2 March 2015, route roads in the Eastern Kazakhstan region of total distance of 50.06 km were put into operation.

1 Company and Its Operations (Continued)

The Company is treated as a monopolist, and therefore is subject to regulation by the Committee for Regulation of Natural Monopolies and Protection of Competition of the Ministry of National Economy of the Republic of Kazakhstan (the "Committee for Regulation of Natural Monopolies"). The Committee for Regulation of Natural Monopolies approves tariff rates for oil transportation based on reimbursement of costs on assets used. On 20 August 2015, according to Order No. 343-ОД of the Chairman of the Committee for Regulation of Natural Monopolies, the domestic market tariff was approved in the amount of KZT 7,158 per ton per 1,000 km (net of VAT) for 2019 (2018: KZT 6,507 per ton).

On 5 May 2015, the Law of the Republic of Kazakhstan *On Introducing Amendments to Some Legislative Acts of the Republic of Kazakhstan on the Issues of Natural Monopolies and Regulated Markets* was issued, according to which services for transportation of oil and oil products through main pipelines for transit purposes through the Republic of Kazakhstan and export outside the Republic of Kazakhstan are not included in the scope of natural monopolies in the Republic of Kazakhstan. After the enactment, the Company has the right for independent approval of tariff rates for oil transportation for the above-mentioned purposes. On 28 December 2016, the Company approved a tariff for export purposes outside the Republic of Kazakhstan in the amount of KZT 6,799 per ton per 1,000 km (net of VAT) for 2019 (2087: KZT 6,799 per ton).

In 2019 and 2018 the Company transported 857 thousand tons of oil and 1,383 thousand tons of oil, respectively, through Kenkiyak-Kumkol oil pipeline. Additionally, in 2019 and 2018, the Company transported 9,989 thousand tons of transit oil and 9,979 thousand tons of transit oil, respectively, based on the Agreement between the Governments of the Republic of Kazakhstan and the Russian Federation on cooperation in the field of Russian oil transportation through the territory of the Republic of Kazakhstan to People's Republic of China, which came into force on 1 January 2014. The tariff on oil transportation under this agreement is determined in accordance with the contract entered between the Company, KazTransOil and Rosneft Oil Company OJSC.

During 2019 and 2018, the Company transported 5,587 thousand tons of oil and 4,939 thousand tons of oil, respectively, through Kenkiyak-Kumkol oil pipeline.

The Company's registered office is located at the following address: 109B Abay Avenue, Almaty, 050008, Republic of Kazakhstan.

2 Basis of Preparation

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (hereinafter – "IFRS") as adopted by the International Accounting Standards Board (hereinafter – "IASB").

These financial statements have been prepared under the historical cost convention as modified by the revaluation of property, plant and equipment.

These financial statements are presented in Tenge, and all monetary amounts are rounded to the nearest thousand, except where specifically indicated. The functional currency of the Company is Tenge.

3 Significant Accounting Policies

Foreign currency translation

Transactions and balances

Foreign currency transactions are initially recorded by the Company in its functional currency at the rates effective at the date of the transaction first qualified for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rates effective at the reporting date.

Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities are included in the statement of comprehensive income.

3 Significant Accounting Policies (Continued)

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Gains or losses arising on translation of non-monetary items are treated in line with the recognition of gains or losses due to change in fair value (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

Exchange rates

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

Weighted average exchange rates for the years ended 31 December 2019 and 2018 were:

Tenge	**2019**	**2018**
US Dollars	382,87	344,90
Russian Roubles	5,92	5,50
Euro	428,61	406,77
Chinese Yuan	55,45	52,11

At 31 December 2019 and 2018 the exchange rates established at KASE were as follows:

Tenge	**31 December 2019**	**31 December 2018**
US Dollars	382,59	384,20
Russian Roubles	6,16	5,50
Euro	429,00	439,37
Chinese Yuan	54,97	55,88

Current versus non-current classification of assets and liabilities

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- expected to be realised or intended to be sold or consumed in a normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realised within twelve months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

3 Significant Accounting Policies (Continued)

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement

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

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

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

At each reporting date, the Company analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, the Company verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Company in conjuction with the Company's external valuers also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

Property, plant and equipment

Property, plant and equipment are initially recognized at cost. The subsequent accounting is at fair value less accumulated depreciation (except for land and construction in process) and impairment losses, if any.

The Company engages independent experts on a regular basis to reevaluate its property, plant and equipment to their fair value. According to the accounting policy, property, plant and equipment are reevaluated triennially to make sure that the fair vlue of a reevaluated asset does not differ materially from its carrying amount.

3 Significant Accounting Policies (Continued)

The revaluation surplus is recorded in other comprehensive income and allocated to the increase in the asset revaluation reserve included in equity, except for its part which recovers a loss from revaluation of the same assets recognized due to earlier revaluation within profit or loss. The revaluation loss is recognized in profit and loss, except for its part which directly decreases the revaluation surplus on the same asset previously recognized within the asset revaluation reserve.

The difference between depreciation calculated on the basis of the revalued carrying amount of the asset and depreciation calculated on the basis of cost is transferred annually from the asset revaluation reserve to retained earnings. In addition, accumulated depreciation and impairment at the date of revaluation is eliminated with a simultaneous decrease in the gross carrying amount of the asset, and then the net amount is remeasured to the revalued amount of the asset. When an asset is disposed of, the revaluation reserve relating to the particular asset disposed of is transferred to retained earnings.

The cost of fixed assets includes the cost of replacing parts of equipment and borrowing costs in case of long-term construction projects, if the criteria for their capitalization are met. If it is necessary to replace significant components of property, plant and equipment at regular intervals, the Company recognizes such components as separate assets with individual useful lives and depreciates them accordingly. Similarly, during a major inspection, the costs associated with it are recognized in the carrying amount of property, plant and equipment as a replacement of equipment, if all recognition criteria are met. All other repair and maintenance costs are recognized in profit or loss when incurred.

The present value of the expected costs of decommissioning an asset after use is included in the historical cost of the asset if the criteria for recognizing a provision for future costs are met. For more information on the recognized provision for asset decommissioning and land reclamation, please see significant accounting judgments, estimates and assumptions (*Notes 4, 12*).

Depreciation is calculated using the straight-line method over the estimated useful lives as follows:

	In years
Buildings and constructions	5-50
Machinery and equipment	3-30
Pipelines and other vehicles	5-30
Other	2-10

According to the Company's accounting policy, construction in progress and land are not subject to depreciation.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

Residual values, useful lives and methods of depreciation of property, plant and equipment are analysed at each reporting year end and adjusted prospectively, if appropriate.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as finite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization is provided on a straight-line basis over the estimated useful economic life of the assets. Intangible assets are generally amortized during 7-10 years. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible assets.

3 Significant Accounting Policies (Continued)

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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. In determining fair value less costs of disposal, recent market transactions are taken into account (if such exist). If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations (including impairment of inventories) are recognised in the statement of comprehensive income in expense categories consistent with the function of the impaired asset, except for previously revalued property, plant and equipment when the revaluation was recognized within other comprehensive income. In this case, an impairment loss is also recognized in other comprehensive income within the amount of the previous revaluation.

For assets an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in profit or loss.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

3 Significant Accounting Policies (Continued)

Financial assets of the Company include cash and cash equivalents, bank deposits, trade and other accounts receivable.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- financial assets at amortised cost (debt instruments);
- financial assets at fair value through other comprehensive income with recycling of cumulative gains and losses (debt instruments);
- financial assets designated at fair value through other comprehensive income with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

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

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes trade accounts receivables.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired;
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

3 Significant Accounting Policies (Continued)

Impairment of financial assets

The Company recognises an allowance for expected credit losses for all debt instruments not held at fair value through profit or loss. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Expected credit losses are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, expected credit losses are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month expected credit losses). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime expected credit loss).

For trade receivables, the Company applies a simplified approach in calculating expected credit losses. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit losses at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, trade accounts payable, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and trade accounts payable, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, loans and borrowings.

Subsequent measurement

Loans and borrowings

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as finance costs in the statement of comprehensive income.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to *Note 11*.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

3 Significant Accounting Policies (Continued)

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Inventories

Inventories are stated at the lower of cost and net realizable value.

Cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Cost of inventories is determined by using of FIFO basis.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise of cash on hand, cash at banks short-term deposits and other highly liquid investments with a maturity of three months or less.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

Finance income and finance costs.

Finance income includes unwinding of discount, interest income on deposits, loans receivable and other investments. Finance costs include interest expense on loans, interest expense from unwinding of discount on provisions for assets retirement obligations, etc. Finance income and costs also include foreign exchange gains and losses related to loans and borrowings. Foreign exchange gains and losses related to other financial instruments are recognised in other income and expense.

Interest income and expense are recognised on timing basis using the effective interest rate method. All interest and other expenses attributable to borrowings are recognised within finance costs unless such expenses are related to borrowings aimed to finance the construction of property, plant and equipment. In this case, such expenses are capitalised in the period required for construction of an asset and bringing it for intended use.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit or loss excluding any reimbursement. The Company records a provision on asset retirement and land recultivation obligation. Asset retirement and land recultivation obligation costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the provisions for asset retirement and land recultivation obligation.

The unwinding of the discount is expensed as incurred and recognised in the statement of comprehensive income as a finance cost. The estimated future costs of asset retirement and land recultivation are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from cost of revaluation reserve for property, plant and equipment.

3 Significant Accounting Policies (Continued)

Revenue from contracts with customer

The Company's activities are mainly related to the transportation of oil through main pipelines on the territory of the Republic of Kazakhstan. Revenue from contracts with customers is recognised when control of the services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services. The Company has generally concluded that it is the principal in its revenue arrangements, except cases of rendering agent services, because it typically controls the services before transferring them to the customer.

Transportation of oil

The Company recognizes the proceeds from the provision of oil transportation services based on actual volumes over time of transportation route. Customers make 100% advance payment in 10 days prior the date of oil transportation.

(i) Variable consideration

The variable consideration is absent in contracts with customers, due to the absence of discounts, credit payment, concessions in price, incentives, bonuses for results or other similar items. This update had no effect on revenue recognition.

(ii) Significant financing component

Generally, the Company receives short-term advances from its customers. Using the practical expedient in IFRS 15, Company does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

Taxes

Current income tax

Income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities.

The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the Republic of Kazakhstan, where the Company operates and generates taxable income.

Income tax relating to items recognized directly in equity is recognised in equity and not in the profit and loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

3 Significant Accounting Policies (Continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period unless it is recognised in profit or loss.

Value added tax (VAT)

VAT related to sales is payable to the Kazakhstani budget when goods are shipped or services are rendered. Input VAT can be offset against output VAT upon the receipt of a tax invoice from a supplier.

Revenue, expenses and assets are recognized after deduction of VAT, except for instances, where amount of VAT is recognized as a part of costs for asset acquisitions or as a part of expenses.

Tax legislation allows the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases unsettled at the balance sheet date is stated in the statement of financial position on a net basis.

Due to specifics of tax legislation and the Company's operations a certain part of input VAT can be carried over into subsequent years. Such portion of VAT is classified as long-term asset and assessed for impairment and considered as a corporate asset allocated to existing CGU.

Receivables and payables are stated including VAT. The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of VAT recoverable, other taxes prepaid and other taxes payable in the statement of financial position.

3 Significant Accounting Policies (Continued)

Changes in accounting policies and disclosures

IFRS 16, Leases

IFRS 16 was issued in January 2016 and it replaces 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.* The standards establish principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees recognize all leases using a single accounting model.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Lessors continue to classify leases as operating or finance using substantially similar principles as IAS 17. Thus, IFRS 16 did not have impact on leases where the Company is a lessor.

The Company adopted IFRS 16 using the modified retrospective method, at the date of the initial application, 1 January 2019. According to this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company decided to apply a practically relevant transition, which enables its application only to contracts that were previously defined as leases under IAS 17 and IFRIC 4 at the date of initial application. The Company also decided to use the recognition exemption for leases which have a lease term of 12 months or less and contain no purchase options ("short-term lease"), and leases where the underlying asset has a low value ("low-value assets").

Impact of IFRS 16 adoption

The Company has leases for vehicles, buildings and constructions and land plots. Before IFRS 16 adoption, the Company classified each of its leases (as a lessee) at the commencement date as operating lease, and lease payments were recognized in profit or loss on a straight-line basis over the lease term.

Any lease prepayments and accrued lease payments were recorded in "Advances issued" and "Trade and other payables," respectively.

After adoption of IFRS 16, the Company applied a single method for accounting and measurement to leases of all types, excluding short-term leases and lease of low-value assets. The standard provides specific transition requirements and practical techniques, which are applied by the Company.

Leases previously recognized as an operating lease

The Company recognises right-of-use assets and lease liabilities for those leases that were previously classified as an operating lease, except for short-term lease and low-value assets. Right-of-use assets were recognized at their carrying amount, without an interest rate of additional borrowings at the date of initial application, as if the standard had always applied. For certain leases, right-of-use assets were recognised based on the amount of lease liabilities as adjusted for any related previously recognized prepaid and accrued lease payments. Lease liabilities were recognized at present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

3 Significant Accounting Policies (Continued)

The Company also applied the available practical methods whereby it:

- used a single discount rate for lease portfolios with similar characteristics (13.5%);
- relied on its review of leases for onerous provisions immediately before the date of initial application;
- used short-term lease exemption to leases with a lease term of less than 12 months at the date of initial application;
- excluded initial direct costs from measurement of a right-of-use asset at the date of initial application;
- determined a lease term where the contract provided for an extension or cancellation option, based on the past experience.

The effect of IFRS 16 adoption as at 1 January 2019 is provided below:

In thousands of Kazakhstani Tenge	2019
Assets	
Right-of-use assets	1,503,396
Total assets	**1,503,396**
Liabilities	
Lease liabilities	2,300,383
Total liabilities	**2,300,383**
Changes in accounting policies	
Retained earnings	(796,988)
Total	**(796,988)**

Lease liabilities at 31 December 2019 are as follows:

In thousands of Kazakhstani Tenge	31 December 2019
Current portion of liabilities	377,440
Non-current portion of liabilities	1,615,465
Total trade payables	**1,992,905**

Changes in the present value of liabilities for the year ended 31 December 2019 are as follows:

In thousands of Kazakhstani Tenge	2019
At 1 January 2019	**2,300,383**
Unwinding of discount *(Note 19)*	272,591
Payments for the period	(580,069)
At 31 December 2019	**1,992,905**

3 Significant Accounting Policies (Continued)

Executive summary of the new accounting policy:

New provisions of the Company's accounting policy related to application of IFRS 16 that have been applied from the date of initial application are stated below:

Right to use assets

The Company recognizes right-of-use assets at the lease commencement date (i.e. date on which the underlying asset is available for use). Right-of-use assets are measured at cost less accumulated amortisation and impairment losses and adjusted given the revaluation of lease liabilities. Cost of right-of-use assets includes the amount of recognized lease liabilities, initial direct costs and lease payments made on or before the lease commencement date, less any obtained lease exemptions. If there are reasonable doubts that the Company will obtain a title to the leased asset at the end of the lease term, recognized right-of-use assets are amortised on a straight-line basis over the shorter of their useful life and lease term. Right-of-use assets are normally subject to impairment.

Lease liabilities

At the commencement date, the Company recognizes lease liabilities measured at present value of lease payments to be made over the lease term. Lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees. Lease payments also include the exercise price of a purchase option if the Company is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the Company exercising an option to terminate the lease. Variable lease payments which do not depend on an index or rate are expensed in the period in which the event or condition that triggers those payments occurs.

At calculation of the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease cannot be readily determined. After initial recognition, lease liabilities are adjusted through capitalization of discounting costs and decrease in lease payments. In addition, the carrying amount of lease payments is remeasured to reflect any lease medication, change in the lease term, change in fixed lease payments or changed measurement for purchase of the underlying asset.

Lease of low-value assets

The Company elects not to apply the recognition requirements for right-of-use assets to leases for which the underlying asset is of low value. Lease payments associated with those assets of low value are expensed on a straight-line basis over the lease term.

Significant judgement at determination of a lease term for contracts containing an extension option

The Company determines the lease term as the non-cancellable period of a lease, together with both: periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

The Company has an option under certain lease contracts to lease assets for additional terms of three to five years. The Company applies a judgement in assessing whether it is reasonable or not to exercise the extension option. That is the Company considers all relevant facts and circumstances that create an economic incentive for the Company to exercise the option to extend the lease. After the commencement date, the Company revises the lease term if a significant event or change in such circumstances occurs that are controlled by the Company and effects its ability to exercise (or not to exercise) the extension option (for instance, a change in the business strategy). The Company includes a period of extension as a part of the lease term for leased assets due to their significance to its operations. These lease contracts have a short non-cancellable term (i.e. three to five years) and may have a significant adverse impact on the operating activities, if these assets cannot be easily replaced.

3 Significant Accounting Policies (Continued)

Adoption of New or Revised Standards and Interpretations

The revised standards below have become mandatory since 1 January 2020, but did not affect significantly the Company:

- IFRIC 23, *Uncertainty over Income Tax Treatments* (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).

- *Prepayment Features with Negative Compensation* – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

- Amendments to IAS 28, *Long-term Interests in Associates and Joint Ventures* (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

- Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

- Amendments to IAS 19, *Plan Amendment, Curtailment or Settlement* (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

Standards that have been issued but not effective yet

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2020 or later, and which the Company has not early adopted.

- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).

- IFRS 17, *Insurance Contracts* (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).

- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).

- *Definition of a business* – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).

- *Definition of materiality* – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).

- Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Company's financial statements.

4 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Other disclosures relating to the Company's exposure to risks and uncertainties includes:

- financial risk management and policies *(Note 22)*;
- sensitivity analyses disclosures *(Note 22)*.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the special purpose financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Revaluation of property, plant and equipment

The Company recognizes property, plant and equipment at revalued amount. In 2019, the Company engaged an independent professional appraiser, Value Solution LLP (the "appraiser") to evaluate its property, plant and and equipment at 31 July 2019. The appraiser has a professional qualification and relevant experience.

Input data for determining the fair value of property, plant and equipment refer to Level 3 in the fair value hierarchy (unobservable inputs).

Valuation method was at the first stage based on the valuation of the depreciable replacement cost ("cost approach"). Cost approach is used if the valuation object is new or is under construction, it relates to objects with a limited market (specialized assets), for which it is not possible to obtain information on sales prices (in the absence of an active market).

The majority of the Company's property is specialized, its alternative use for other types of activity is impossible. The transactions with assets similar to evaluated ones are absent.

In using the cost method, certain key elements were taken into account, such as:

- understanding specifics of the asset, its function and environment;
- review and analysis to determine the remaining useful life (to evaluate physical wear) and economic useful life of the asset;
- knowledge of the requirements of financial and economic activities (to evaluate functional or technical obsolescence);
- knowledge of property, plant and equipment by access to available market data; knowledge of construction technologies and materials (to evaluate the cost of a modern equivalent asset); and
- sufficient knowledge to determine the impact of economic/external obsolescence on the cost.

As part of the valuation, the appraiser conducted a test for adequate profitability using the income approach in the analysis of economic depreciation of specialised items of property, plant and equipment of the Company, as a result of which the value in use was determined at KZT 341,403,715 thousand.

4 Significant Accounting Judgements, Estimates and Assumptions (Continued)

The adequate profitability was calculated by evaluating of the value inuse. In calculation of the value in use, the following assumptions were used:

Rate	15,23%
Remaining useful life of the primary asset	17 years

Amortized replacement cost was lower than the obtained value in use, accordingly, it was recorded as fair value of the property, plant and equipment of the Company. The results of evaluation of the value in use are sensitive to projections of scopes of sales of the services provided, level of tariff for services provided and fluctuations in the USD exchange rate:

In thousands of Kazakhstani Tenge	**Increase/(decrease) in value in use**
Change in volumes of transportation +/- 10%	27,192,825/(27,193,398)
Change in tariffs +/- 10%	70,184,797/(65,400,162)
Change in USD rate +/- 10%	30,324,728/(30,324,728)

As a result of revalation, the net amount of impairment on all groups of property, plant and equipment of KZT 318,867 thousand was allocated to the profit and loss account, and the amount revaluation surplus of KZT 18,217,270 thousand was allocated to the revaluation reserve in equity.

Accumulated depreciation was allocated to the carrying amount of property, plant and equipment, and the net amount was reduced to revalued cost of property, plant and equipment.

Asset retirement and land recultivation obligation

According to the Law of the Republic of Kazakhstan *On the Main Pipeline* which came into force on 4 July 2012, the Company has a legal obligation to decommission its oil pipelines at the end of their operating life and to restore the land to its original condition. Activities on land recultivation are carried out when replacing the pipelines at the end of their useful life.

Asset retirement and land recultivation obligation is estimated based on the value of the work to decommission and rehabilitate calculated by the Company in accordance with the technical regulations of the Republic of Kazakhstan (pipeline decommission expense for 1 km during 2019 and 2018 equalled KZT 6,380 thousand and KZT 5,825 thousand, respectively).

The reserve was determined at the end of the reporting period using the projected inflation rate for the expected period of fulfilment of obligations, and the discount rate at the end of the reporting period which is presented below:

	2019	**2018**
Discount rate	8,21%	9,01%
Inflation rate	5,47%	5,50%
Period of fulfilment of obligations on Kenkiyak – Kumkol pipeline	19,97 years	20,97 years
Period of fulfilment of obligations on Atasu – Alashankou pipeline	16,93 years	17,93 years

The discount rate is based on the risk-free US treasury bonds, adjusted on long-term inflation rate and country risk.

As at 31 December 2019 the carrying amount of the asset retirement and land recultivation obligation was KZT 7,176,702 thousand (31 December 2018: KZT 5,350,776 thousand) *(Note 12)*.

Assessing the cost of rehabilitation of the environment is subject to potential changes in environmental requirements and interpretations of the law. Furthermore, uncertainties in the estimates of these costs include potential changes in regulatory requirements, alternative disposal and recovery of damaged land and levels of discount and inflation rates, and the time, when the such obligations will be due.

4 Significant Accounting Judgements, Estimates and Assumptions (Continued)

Sensitivity analysis of asset retirement and land recultivation obligation for the change in significant assumptions as at 31 December 2019 is as follows:

In thousands of Kazakhstani Tenge	(Decrease)/ increase in rate	Increase/ (decrease) in liability
	(0,5%)	(541,254)
Discount rate	0,5%	653,261
	(0,5%)	698,496
Inflation rate	0,5%	(588,427)

Withholding CIT

Based on the notarized copy of ICBC bank certificate legalized in accordance with the laws of the People's Republic of China and the Republic of Kazakhstan, the Company applied the reduced income tax rate of 10% to interest of ICBC bank for the period of 01.01.2019-31.12.2019, in accordance with the Double Tax Treaty. *(Note 4)*

5 Balances and Transactions with Related Parties

Definition of related parties is presented in IAS 24 *Related Party Disclosures*. The parties are considered to be related if one party has the ability to control the other party, is under common control, or may exercise significant influence over the other party in making financial or operational decisions or exercises general control over it.

In considering each possible related party relationship, attention is directed to the nature of the relationship, and not merely the legal form. Information about immediate parent companies and parties exercising ultimate control over the Company is disclosed in *Note 1*.

For the purposes of these financial statements, related parties of the Company include owners, their subsidiaries and entities under common control / significant influence of the owners.

Balances on transactions with related parties as at 31 December 2019 comprise as follows:

In thousands of Kazakhstani Tenge	Parent companies	Entities under common control	Total
Accounts receivable from related parties	5,923	62,176	8,099
Advances for oil transportation from related parties	-	2,625,873	2,625,873
Accounts payable to related parties	773,993	179,549	953,542

The income and expense items on transactions with related parties for the year ended 31 December 2019 are as follows:

In thousands of Kazakhstani Tenge	Parent companies	Entities under common control	Total
Revenue	-	31,609,925	31,609,925
Expenses:			
- Oil-pipeline servicing	8,016,379	687,166	8,703,545
- Capital expenditures	-	4,038	4,038
- Security services	-	1,044,077	1,044,077
- Other services	1,771	311,761	313,532

5 Balances and Transactions with Related Parties (Continued)

Balances on transactions with related parties as at 31 December 2018 comprise as follows:

In thousands of Kazakhstani Tenge	Parent companies	Entities under common control	Total
Accounts receivable from related parties	5,225	1,358	6,583
Advances for oil transportation from related parties	-	2,797,534	2,797,534
Accounts payable to related parties	742,424	247,782	990,206

The income and expense items on transactions with related parties for the year ended 31 December 2018 are as follows:

In thousands of Kazakhstani Tenge	Parent companies	Entities under common control	Total
Revenue	2,057	29,027,093	29,029,150
Expenses:	-	-	-
- Oil-pipeline servicing	7,937,208	642,357	8,579,583
- Security services	-	994,359	994,359
- Other services	2,201	-	341,762

Remuneration to members of the Management Board

Remuneration paid to six members of the Management Board for their services in full-time executive management positions comprises the contractual salary and bonuses. Total amount of remuneration included in general and administrative expenses in the statement of comprehensive income for the year ended 31 December 2019 was KZT 245,156 thousand (31 December 2018: KZT 239,235 thousand).

6 Property, Plant and Equipment

Property, plant and equipment as at 31 December of 2019 and 2018 are as follows:

In thousands of Kazakhstani Tenge	Land	Buildings and con-structions	Machinery and equipment	Pipeline	Other vehicles	Other	Con-struction in progress	Total
Revalued cost at 31 December 2017	**75,137**	**49,403,876**	**43,081,908**	**130,120,180**	**402,366**	**727,023**	**1,036,364**	**224,846,854**
Additions	-	-	232,328	-	1,490	84,894	2,674,565	2,993,277
Transfers	-	434,267	567,225	1,454,481	-	(1,092)	(2,454,881)	-
Disposals	-	(25,648)	(80,459)	(59,190)	-	(15,405)	-	(180,702)
Revalued cost at 31 December 2018	**75,137**	**49,812,495**	**43,801,002**	**131,515,471**	**403,856**	**795,420**	**1,256,048**	**227,659,429**
Additions	-	-	444,187	-	-	41,069	4,442,154	4,927,410
Decrease in historical cost by writing off accumulated depreciation upon revaluation	-	(4,243,313)	(6,271,925)	(10,378,998)	(159,206)	(320,935)	-	(21,374,377)
Transfers	-	694,395	260,878	1,062,894	-	43,167	(2,061,334)	-
Disposals	-	-	(605)	(1,318)	(161,129)	(4)	(66)	(163,122)
Revaluation of property, plant and equipment	3,020	2,942,640	336,429	14,648,866	80,682	205,633	-	18,217,270
Impairment recorded in the statement of comprehensive income	-	(1,469,977)	(157,512)	(99)	(17)	(19,321)	-	(1,646,926)
Reversal of impairment recorded in the statement of comprehensive income	-	580,176	688,912	23,697	28,206	7,068	-	1,328,059
Revalued cost at 31 December 2019	**78,157**	**48,316,416**	**39,101,366**	**136,870,513**	**192,392**	**752,097**	**3,636,802**	**228,947,743**
Accumulated depreciation and impairment at 31 December 2017	-	(380,651)	(594,876)	(1,064,934)	(15,149)	(30,722)	(986,098)	(3,072,430)
Depreciation charge for the period	-	(2,360,627)	(3,584,168)	(5,759,054)	(90,951)	(189,669)	-	(11,984,469)
Depreciation on disposals	-	1,822	1,260	21,601	-	14,143	-	38,826
Accumulated depreciation and impairment at 31 December 2018	-	**(2,739,456)**	**(4,177,784)**	**(6,802,387)**	**(106,100)**	**(206,248)**	**(986,098)**	**(15,018,073)**
Depreciation charge for the period	-	(2,687,709)	(3,779,035)	(6,466,416)	(84,716)	(165,710)	-	(13,183,586)
Write-off of accumulated depreciation upon revaluation	-	4,243,342	6,276,180	10,375,519	159,206	320,130	-	21,374,377
Depreciation on disposals	-	-	86	971	10,742	2	-	11,801
Accumulated depreciation and impairment at 31 December 2019	-	**(1,183,823)**	**(1,680,553)**	**(2,892,313)**	**(20,868)**	**(51,826)**	**(986,098)**	**(6,815,481)**
As at 31 December 2019								
Revalued cost	78,157	48,316,416	39,101,366	136,870,513	192,392	752,097	3,636,802	228,947,743
Accumulated depreciation and impairment	-	(1,183,823)	(1,680,553)	(2,892,313)	(20,868)	(51,826)	(986,098)	(6,815,481)
Carrying amount	**78,157**	**47,132,593**	**37,420,813**	**133,978,200**	**171,524**	**700,271**	**2,650,704**	**222,132,262**
As at 31 December 2018								
Revalued cost	75,137	49,812,495	43,801,002	131,515,471	403,856	795,420	1,256,048	227,659,429
Accumulated depreciation and impairment	-	(2,739,456)	(4,177,784)	(6,802,387)	(106,100)	(206,248)	(986,098)	(15,018,073)
Carrying amount	**75,137**	**47,073,039**	**39,623,218**	**124,713,084**	**297,756**	**589,172**	**269,950**	**212,641,356**

6 Property, Plant and Equipment (Continued)

Depreciation charge

In thousands of Kazakhstani Tenge	Note	2019	2018
Cost of sales	16	13,034,972	11,837,252
General and administrative expense	17	148,614	147,217
Total depreciation charge		**13,183,856**	**11,984,469**

Information on property, plant and equipment, if carried at historical cost, is presented below:

In thousands of Kazakhstani Tenge	Land	Buildings and con-structions	Machinery and equipment	Pipeline	Other vehicles	Other	Con-struction in progress	Total
As at 31 December 2018								
Cost	5,361	53,840,183	60,640,324	141,650,457	814,560	1,233,678	1,256,048	259,440,611
Accumulated depreciation and impairment	-	(19,101,971)	(33,651,436)	(44,566,913)	(653,770)	(828,073)	(986,098)	(99,788,261)
Net carrying amount	**5,361**	**34,738,212**	**26,988,888**	**97,083,544**	**160,790**	**405,605**	**269,950**	**159,652,350**
As at 31 December 2019								
Cost	5,361	54,528,849	61,341,614	144,025,639	573,876	1,281,551	3,613,432	265,370,322
Accumulated depreciation and impairment	-	(20,996,685)	(36,230,013)	(49,131,396)	(499,623)	(903,910)	(986,098)	(108,747,725)
Net carrying amount	**5,361**	**33,532,164**	**25,111,601**	**94,894,243**	**74,253**	**377,641**	**2,627,334**	**156,622,597**

7 Long-Term Value Added Tax Recoverable

Value added tax ("VAT") represents VAT on purchases. As at 31 December 2019, the Company recorded VAT recoverable in the amount of KZT 695,527 thousand (31 December 2018: KZT 3,444,458 thousand) as a non-current asset, because management of the Company believes that VAT will be offset against future VAT payments during the period exceeding 12 months after 31 December 2019.

8 Other Current Assets

Other current assets as at 31 December 2019 and 2018 are as follows:

In thousands of Kazakhstani Tenge	31 December 2019	31 December 2018
VAT recoverable	2,402,294	1,052,227
Prepaid taxes	358,926	308,664
Deferred expenses	85,024	88,290
Advances paid	2,707	11,508
Other	58,180	36,955
Total other current assets	**2,907,131**	**1,497,644**

9 Bank Deposits

Bank deposits at 31 December 2019 and 2018 are as follows:

In thousands of Kazakhstani Tenge	31 December 2019	31 December 2018
Term deposits with maturity of less than 12 months	17,728,264	16,970,940
Short-term interest receivable	50,821	29,217
Provision	(7,194)	(5,051)
Total bank deposits	**17,771,891**	**16,995,106**

As at 31 December 2019 and 2018 short-term deposits are placed in US Dollars.

10 Cash and Cash Equivalents

Cash and cash equivalents at 31 December 2019 and 2018 are as follows:

In thousands of Kazakhstani Tenge	31 December 2019	31 December 2018
Cash with bank in foreign currency	27,809,841	14,170,088
Cash with bank in Tenge	2,892,616	1,831,309
Cash on saving accounts in Tenge	1,229,049	1,117,550
Cash on saving accounts in foreign currency	-	384,200
Cash on corporate cards	5,813	5,876
Cash in hand	5	-
Provision	(195)	(122)
Total cash and cash equivalents	**31,937,129**	**17,508,911**

Cash in foreign currency is denominated in the following foreign currencies:

In thousands of Kazakhstani Tenge	31 December 2019	31 December 2018
US Dollar	27,768,869	14,519,176
Chinese Yuan	40,972	35,112
Total cash in foreign currency	**27,809,841**	**14,554,288**

11 Loans and Borrowings

Loans and borrowings of the Company as at 31 December 2019 and 2018 are as follows:

In thousands of Kazakhstani Tenge	31 December 2019	31 December 2018
Current portion of loans	30,113,834	30,823,721
Non-current portion of loans	151,738,462	178,800,794
Total loans and borrowings	**181,852,296**	**209,624,515**

11 Loans and Borrowings (Continued)

Changes in liabilities arising from financing activities

Changes in financial liabilities for 2019 and 2018 are as follows:

In thousands of Kazakhstani Tenge	2019	2018
At 1 January	**209,624,515**	**198,884,794**
Cash flows	(36,691,645)	(26,965,630)
Interest expense	10,887,978	11,084,308
Capitalized interest	3,781	-
Changes in foreign exchange rates	(930,665)	27,740,666
Withholding CIT	(1,041,668)	(1,119,623)
At 31 December	**181,852,296**	**209,624,515**

Industrial and Commercial Bank of China and Industrial and Commercial Bank of China in Almaty JSC

On 27 June 2018 the Company signed a loan agreement with the Industrial and Commercial Bank of China and Industrial and Commercial Bank of China in Almaty JSC, acting as an agent. The loan amount was US Dollar 540 million (equivalent to KZT 191,756,400 thousand at the exchange rate on that date) for 6 years with the possibility of early repayment. The loan purpose was to refinance the loans received from Industrial and Commercial Bank of China and ING Bank N.V. and Industrial and Commercial Bank of China and Industrial and Commercial Bank of China in Almaty JSC. The Company has incurred cost on loan arrangement in the amount of KZT 1,715,867 thousand (equivalent of US Dollar 5,010 thousand).

On 11 September 2018 The Company fully repaid principal and accrued interest on loan received in 2013 within the loan agreement signed with Industrial and Commercial Bank of China and Industrial and Commercial Bank of China in Almaty JSC, acting as an agent, in the amount of KZT 65,360,500 thousand and KZT 3,345,330 thousand, respectively.

Industrial and Commercial Bank of China and ING Bank N.V.

On 12 August 2018 The Company fully repaid principal and accrued interest on loan in the amount of KZT 140,613,358 thousand and KZT 7,686,975 thousand, respectively.

12 Provision for Asset Retirement and Land Recultivation Obligation

Provision for asset retirement and land recultivation obligation as at 31 December 2019 and 2018 is as following:

In thousands of Kazakhstani Tenge	2019	2018
Carrying amount at 1 January	**5,350,776**	**4,679,349**
Changes in estimates	1,325,756	221,179
Amortisation of discount *(Note 19)*	500,170	450,248
Carrying amount at 31 December	**7,176,702**	**5,350,776**

13 Advances Received for Oil Transportation from Third Parties

Advances received for oil transportation from third parties as at 31 December 2019 mainly include advances received for the transportation of transit oil from Petroleum Company "Rosneft" OJSC in the amount of KZT 3,564,962 thousand (31 December 2018: KZT 2,679,566 thousand).

14 Other Accounts Payable and Accrued Liabilities

Other accounts payable and accrued liabilities as at 31 December 2019 and 2018 are as follows:

In thousands of Kazakhstani Tenge	31 December 2019	31 December 2018
Estimated amounts payable to suppliers	1,954,859	1,845,181
Taxes other than income tax	54,002	56,641
Provision for unused vacations	37,289	42,958
Other accounts payable	558,420	519,642
Income tax for non-resident	-	687,720
Total other accounts payable and accrued liabilities	**2,604,570**	**3,152,142**

Other accounts payable at 31 December 2019 and 31 December 2018 mainly include warranty liabilities on contracts in the amount of KZT 262,538 thousand and KZT 243,003 thousand, respectively.

15 Revenue

Set out below is the disaggregation of the Company's revenue from contracts with customers for the years ended 31 December 2019 and 2018:

In thousands of Kazakhstani Tenge	2019	2018
Type of services		
Transit oil transportation	40,976,470	28,047,811
Domestic oil transportation	29,433,147	22,697,921
Export oil transportation	5,776,639	10,140,454
Total revenue from contracts with customers	**76,186,256**	**60,886,186**
Geographical markets		
Kazakhstan	76,186,256	60,886,186
Total revenue from contracts with customers	**76,186,256**	**60,886,186**
Timing of revenue recognition		
Services transferred over time	76,186,256	60,886,186
Total revenue from contracts with customers	**76,186,256**	**60,886,186**
Revenue		
Sales to residents	35,209,786	32,838,375
Sales to non-residents	40,976,470	28,047,811
Total revenue from contracts with customers	**76,186,256**	**60,886,186**

16 Cost of Sales

Cost of services rendered for the years ended 31 December 2019 and 2018 comprise the following:

In thousands of Kazakhstani Tenge	2019	2018
Depreciation of property, plant and equipment *(Note 6)*	13,034,972	11,837,252
Operational and technical maintenance	9,183,211	8,994,708
Taxes other than income tax	2,926,450	2,922,480
Security services	1,139,248	1,011,397
Road maintenance and repair	669,927	453,173
Electricity expenses	618,412	644,902
Salaries	344,386	317,343
Depreciation of right-of-use assets	304,324	-
Inspection services	183,340	172,270
Other	1,402,196	1,752,266
Total cost of sales	**29,806,466**	**28,105,791**

17 General and Administrative Expenses

General and administrative expense for the years ended 31 December 2019 and 2018 are as follows:

In thousands of Kazakhstani Tenge	2019	2018
Salaries	1,751,854	1,697,812
Salaries of hired administrative personnel (outsourcing)	509,242	449,395
Taxes other than income tax	281,186	292,499
Business trip expenses	275,624	167,345
Depreciation of property, plant and equipment *(Note 6)*	148,614	147,217
Consulting services	84,003	187,537
Insurance	63,943	55,900
Lease expenses	38,148	31,569
Communication	23,973	23,749
Fines and penalties	19,014	853
Transportation expenses	16,199	43,198
Other	498,498	444,687
Total general and administrative expenses	**3,710,298**	**3,541,761**

18 Other Operating (Loss)/Income, Net

Other operating income and expenses for the years ended 31 December 2019 and 2018 are as follows:

In thousands of Kazakhstani Tenge	2019	2018
Foreign exchange loss/(gain) other than loans and borrowings, net	(202,858)	2,403,400
Other income	63,571	(24,342)
Total other operating (expense)/income, net	**(139,287)**	**2,379,058**

19 Finance Costs and Income

Finance costs and income for the years ended 31 December 2019 and 2018 are as follows:

In thousands of Kazakhstani Tenge	2019	2018
Interest on loan from Industrial and Commercial Bank of China and Industrial and Commercial Bank of China in Almaty JSC	10,887,978	7,614,556
Amortization of discount on asset retirement and land recultivation obligation *(Note 12)*	500,170	450,248
Finance costs on actuarial assumptions	904	-
Foreign exchange loss on loans and borrowings, net	-	27,740,666
Interest on loan from Industrial and Commercial Bank of China and ING Bank N.V.	-	3,469,752
Withholding tax expense	-	996,545
Other finance costs	272,591	65,039
Total finance costs	**11,661,643**	**40,336,806**
Foreign exchange gain on loans and borrowings, net	930,665	-
Other finance income	194,190	223,910
Total finance income	**1,124,855**	**223,910**

20 Income Tax Expense

Income tax for the years ended 31 December 2019 and 2018 is as follows:

In thousands of Kazakhstani Tenge	2019	2018
Current income tax expense	33,925	30,365
Deferred income tax expense/(benefit)	6,248,860	(1,073,487)
Income tax expense/(benefit)	**6,282,785**	**(1,043,122)**

Reconciliation between income tax expense and accounting profit multiplied by tax rate for 2019 and 2018:

In thousands of Kazakhstani Tenge	2019	2018
Profit/(loss) before income tax	**31,674,550**	**(8,495,204)**
Official tax rate	20%	20%
Theoretical tax charge /(benefit) at statutory rate of 20%	**6,334,910**	**(1,699,041)**
Tax effect of (non-taxable income)/non-deductible expense	(52,125)	655,919
Income tax expense/(benefit)	**6,282,785**	**(1,043,122)**

Differences between IFRS and statutory taxation regulations in the Republic of Kazakhstan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below.

20 Income Tax Expense (Continued)

In thousands of Kazakhstani Tenge	1 January 2019	Charged/ (credited) to profit or loss	Charged / (credited) to other comprehensive income	31 December 2019
Deferred tax assets				
Loans and borrowings	(36,841)	40,092	-	3,251
Provision for asset retirement and land recultivation obligation	1,070,155	100,034	265,151	1,435,340
Provision for unused vacation	8,574	(1,116)	-	7,458
Employee benefit liabilities	2,132	(59)	97	2,170
Taxes payables	3,682	550	-	4,232
Lease payable	-	398,641	-	398,641
Tax losses carried forward	19,816,740	(7,110,770)	-	12,705,970
Deferred tax asset, gross	**20,864,442**	**(6,572,628)**	**265,248**	**14,557,062**
Deferred tax liability				
Right-of-use assets	-	(239,814)	-	(239,814)
Property, plant and equipment and intangible assets	(27,052,240)	563,582	(3,643,454)	(30,132,112)
Deferred tax liability, gross	**(27,052,240)**	**323,768**	**(3,643,454)**	**(30,371,926)**
Net deferred tax liability	**(6,187,798)**	**(6,248,860)**	**(3,378,206)**	**(15,814,864)**

In thousands of Kazakhstani Tenge	1 January 2018	Charged/ (credited) to profit or loss	Charged / (credited) to other comprehensive income	31 December 2018
Deferred tax assets				
Loans and borrowings	609,044	(645,885)	-	(36,841)
Provision for asset retirement and land recultivation obligation	935,870	90,049	44,236	1,070,155
Provision for unused vacation	10,078	(1,504)	-	8,574
Employee benefit liabilities	2,129	176	(173)	2,132
Taxes payables	4,601	(919)	-	3,682
Tax losses carried forward	18,203,643	1,613,097	-	19,816,740
Deferred tax asset, gross	**19,765,365**	**1,055,014**	**44,063**	**20,864,442**
Deferred tax liability				
Property, plant and equipment and intangible assets	(27,070,713)	18,473	-	(27,052,240)
Deferred tax liability, gross	**(27,070,713)**	**18,473**	**-**	**(27,052,240)**
Net deferred tax liabilities	**(7,305,348)**	**1,073,487**	**44,063**	**(6,187,798)**

21 Contingencies and Commitments

Operating environment

In general, the economy of the Republic of Kazakhstan continues to display characteristics of an emerging market. Its economy is particularly sensitive to prices on oil and gas prices and other commodities, which constitute major part of the country's export. These characteristics include, but are not limited to, the existence of national currency that is not freely convertible outside of the country and a low level of liquidity of debt and equity securities in the markets.

Ongoing political tension in the region, volatility of exchange rate have caused and may continue to cause negative impact on the economy of the Republic of Kazakhstan, including decrease in liquidity and creation of difficulties in attracting of international financing.

On 20 August 2015 the National Bank and the Government of the Republic of Kazakhstan made a resolution about discontinuation of supporting the exchange rate of Tenge and implement of new monetary policy, which is based on inflation targeting regime, cancellation of exchange rate trading band and start a free-floating exchange rate. However, the National Bank's exchange rate policy allows it to intervene to prevent dramatic fluctuations of the Tenge exchange rate and to ensure financial stability.

Additionally, the oil and gas sector in the Republic of Kazakhstan is still impacted by political, legislative, fiscal and regulatory developments. The prospects for future economic stability in the Republic of Kazakhstan are largely dependent upon the effectiveness of economic measures undertaken by the Government, together with legal, controlling and political developments, which are beyond the Company's control.

Capital expenditure commitments.

As at 31 December 2019 the Company has contractual capital expenditure commitments in respect of property, plant and equipment totalling KZT 2,435,170 thousand (31 December 2018: KZT 269,950 thousand).

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual, including opinions with respect to IFRS treatment of revenues, expenses and other items in the special purpose financial statements. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe.

Penalties are generally 80% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 1.25. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued as at 31 December 2019.

As at 31 December 2019 the Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Company's tax positions will be sustained, except as provided for or otherwise disclosed in these financial statements.

Environmental matters

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Potential liabilities which may arise as a result of 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 Company's financial position or results of operations except for those described in the present special purpose financial statements *(Notes 4 and 12)*.

21 Contingencies and Commitments (Continued)

Insurance matters

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available.

The Company has insurance coverage over property, third party liability in respect of property and environmental damage arising from accidents on Company's property or relating to Company's operations.

22 Financial Risk Management

The Company's principal financial liabilities comprise of trade and other payables, loans and borrowings. The main purpose of these financial liabilities is to raise funds for the Company's operations. The Company has trade accounts receivable and cash and cash equivalents that arise directly from its operations.

The Company is exposed to market risk that comprises of credit risk, currency risk and liquidity risk.

The management of the Company reviews and agrees policies for managing each of these risks which are summarized below.

Credit risk

The Company trades only with recognized, creditworthy parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. Maximum exposure is the carrying amount of trade accounts receivable. There are no significant concentrations of credit risk within the Company.

The Company places deposits with Kazakhstani and foreign banks (*Notes 9 and 10*). The Company's management reviews credit ratings of these banks periodically to eliminate extraordinary credit risk exposure. The Company's management believes that recent international credit crisis and subsequent changes in credit rating of local banks does not justify extraordinary credit risk. Accordingly, no impairment provision against bank deposits is required.

The table below shows the balances of bank accounts and cash and cash equivalents as at the reporting date using Moody's credit ratings

		Rating		31 December	31 December
Banks	**Location**	**2019**	**2018**	**2019**	**2018**
Halyk bank of Kazakhstan JSC	Kazakhstan	Ba1	Ba1	18,766,916	18,887,262
Industrial and Commercial Bank of China in Almaty JSC	Kazakhstan	A1	A1	30,657,518	15,581,598
Altyn Bank JSC (SB of China Citic Bank Corporation Ltd)	Kazakhstan	Ba1	Ba2	200,150	-
Bank of China in Alashankou JSC	China	A1	A1	40,957	35,112
Bank of China in Kazakhstan JSC	Kazakhstan	A1	A1	42	45
Total				**49,665,583**	**34,504,017**

22 Financial Risk Management (Continued)

Liquidity risk

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

Current assets of the Company mainly included bank deposits of KZT 17,771,891 thousand and cash and cash equivalents of KZT 31,937,129 thousand. Current liabilities mainly included loans and borrowings in the amount of KZT 30,113,834 thousand and accounts payable to related parties of KZT 953,542 thousand, including payables to KazTransOil JSC of KZT 773,993 thousand. In order to improve liquidity, in 2019 the Company obtained the new refinancing loan with larger term of repayment. The Company intends to repay outstanding loans using cash from its operating activities.

The table below summarizes the maturity profile of the Company's financial liabilities at 31 December 2019 and 2018 o based on contractual undiscounted payments.

In thousands of Kazakhstani Tenge	Less than 1 year	From 1 to 2 years	From 2 to 5 years	More than 5 years	Total
At 31 December 2019					
Loans and borrowings	35,480,969	37,760,825	131,502,439	-	204,744,233
Trade and other payables	2,533,648	-	-	-	2,533,648
Contingencies on accounts payable to suppliers	1,954,859	-	-	-	1,954,859
Lease liabilities	377,440	843,384	1,308,730	38,653	2,568,207
Total	**40,346,916**	**38,604,209**	**132,811,169**	**38,653**	**211,800,947**
At 31 December 2018					
Loans and borrowings	36,637,509	35,568,600	128,010,758	43,846,103	244,062,970
Trade and other payables	1,510,701	-	-	-	1,510,701
Contingencies on accounts payable to suppliers	1,845,181	-	-	-	1,845,181
Total	**39,993,391**	**35,568,600**	**128,010,758**	**43,846,103**	**247,418,852**

Currency risk

The table below shows the total amount of foreign currency denominated assets and liabilities that give rise to currency risk.

In thousands of Kazakhstani Tenge	Cash and deposits	Loans and borrowings	Net balance amount
At 31 December 2019			
US Dollar	45,540,760	(181,852,296)	(136,311,536)
At 31 December 2018			
US Dollar	31,514,282	(209,624,515)	(178,110,233)

22 Financial Risk Management (Continued)

The Company does not have formal arrangements to mitigate foreign exchange risks of the Company's operations. The Company also has risks related to transactions in foreign currency. Such risks occur due to loans received in US Dollars.

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

In thousands of Kazakhstani Tenge	**Increase/decrease in exchange rate**	**Effect on profit and equity**
2019		
US Dollars	14,00%/(10,00%)	(15,266,892)/10,904,922
2018		
US Dollars	14,00%/(10,00%)	(19,948,346)/14,248,818

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy equity ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. In order to maintain or change the capital structure Company can regulate amount of dividend payments, return capital to a shareholder or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

Fair value of financial instruments

The carrying amount of cash, bank deposits, trade and other accounts receivable, trade and other accounts payable and other financial liabilities approximates their fair value due to the short-term maturity of these financial instruments.

Loans and borrowings are carried at amortized cost considering floating rate application, whereby carrying amount of loans and borrowings is approximately equal to their fair value.

The fair value of lease liability as of the reporting date is Tenge 1,989,650 thousand.