

Kazakhstan-China Pipeline LLP

**International Financial Reporting Standards
Financial Statements**

**For the year ended 31 December 2020 and
Independent Auditor's Report**

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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 2020, and the Company's financial performance and 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:

- the statement of financial position as at 31 December 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the 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 International Financial Reporting Standards, 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.

Independent Auditor's Report (continued)

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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 judgement 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

(Qualified Auditor's Certificate of the
Republic of Kazakhstan №00000586 dated
30 October 2006)

Kazakhstan-China Pipeline LLP
Statement of Financial Position

In thousands of Kazakhstani Tenge

	Note	31 December 2020	31 December 2019
ASSETS			
Non-current assets			
Property, plant and equipment	6	212,798,381	222,132,262
Right-of-use assets	7	1,111,356	1,199,071
Long-term value added tax recoverable	8	1,562,333	695,527
Other non-current assets		-	144,101
Intangible assets		78,999	36,528
Total non-current assets		215,551,069	224,207,489
Current assets			
Inventories		531,574	467,563
Income tax prepayments		-	680
Accounts receivable from related parties	5	10,052	68,099
Trade receivables		17,801	1,221
Assets held for sale		-	150,387
Other current assets	9	839,588	2,907,131
Bank deposits	10	19,644,522	17,771,891
Cash and cash equivalents	11	49,186,084	31,937,129
Total current assets		70,229,621	53,304,101
TOTAL ASSETS		285,780,690	277,511,590
EQUITY			
Charter capital		13,000,000	13,000,000
Revaluation reserve for property, plant and equipment		47,281,290	53,554,333
Other reserves		(3,262)	(959)
Retained earnings/(Accumulated deficit)		13,538,729	(7,418,567)
TOTAL EQUITY		73,816,757	59,134,807
LIABILITIES			
Non-current liabilities			
Loans and borrowings	12	133,667,996	151,738,462
Provision for asset retirement obligations	13	10,668,868	7,176,702
Lease liabilities	16	1,291,720	1,615,465
Deferred income tax liabilities	22	20,858,571	15,814,864
Other non-current liabilities		15,427	9,423
Total non-current liabilities		166,502,582	176,354,916
Current liabilities			
Loans and borrowings	12	35,528,143	30,113,834
Trade payables		221,605	1,580,106
Accounts payable to related parties	5	875,379	953,542
Advances for oil transportation - related parties	5	1,954,628	2,625,873
Advances for oil transportation - third parties	14	4,181,043	3,743,341
Income tax payable		25,850	23,161
Other payables and accrued liabilities	15	2,092,887	2,604,570
Lease liabilities	16	581,816	377,440
Total current liabilities		45,461,351	42,021,867
TOTAL LIABILITIES		211,963,933	218,376,783
TOTAL EQUITY AND LIABILITIES		285,780,690	277,511,590

Approved for issue and signed on behalf of the Management on 16 February 2021:


Zhang Yubo
Acting General Director

Zhang Yubo
Deputy General Director/ Chief Accountant

Kazakhstan-China Pipeline LLP
Statement of Comprehensive Income

<i>In thousands of Kazakhstani Tenge</i>	Note	For the year ended 31 December	
		2020	2019
Revenue	17	77,827,963	76,186,256
Cost of sales	18	(31,820,884)	(29,806,466)
Gross profit		46,007,079	46,379,790
General and administrative expenses	19	(3,339,254)	(3,710,298)
Other operating income/(expense), net	20	4,456,856	(139,287)
Impairment loss on property, plant and equipment	6	-	(318,867)
Operating profit		47,124,681	42,211,338
Finance income	21	223,207	1,124,855
Finance costs	21	(24,705,448)	(11,661,643)
Profit before income tax		22,642,440	31,674,550
Income tax expense	22	(5,658,603)	(6,282,785)
Profit for the year		16,983,837	25,391,765
Other comprehensive income			
Revaluation of property, plant and equipment	6	-	18,217,270
Income tax effect	22	-	(3,643,454)
Revaluation of provision for asset retirement obligations		(2,874,480)	(1,325,756)
Income tax effect		574,896	265,151
Actuarial loss from employee benefits liabilities		(2,879)	(484)
Income tax effect		576	97
Total other comprehensive (loss)/ income for the year		(2,301,887)	13,512,824
Total comprehensive income for the year		14,681,950	38,904,589

Approved for issue and signed on behalf of the Management on 1 February 2021:


Zhang Yubo
Acting General Director





Zhang Yubo
Deputy General Director/ Chief Accountant

Kazakhstan-China Pipeline LLP
Statement of Changes in Equity

<i>In thousands of Kazakhstani Tenge</i>	Charter capital	Revaluation reserve for PP&E	Other capital reserves	Retained earning/ (Accumulated deficit)	Total
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
Profit 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 for property, plant and equipment	-	(3,455,647)	-	3,455,647	-
Balance at 1 January 2020	13,000,000	53,554,333	(959)	(7,418,567)	59,134,807
Profit for the year	-	-	-	16,983,837	16,983,837
Other comprehensive loss	-	(2,299,584)	(2,303)	-	(2,301,887)
Total comprehensive income for the year	-	(2,299,584)	(2,303)	16,983,837	14,681,950
Realised revaluation reserve for property, plant and equipment	-	(3,973,459)	-	3,973,459	-
At 31 December 2020	13,000,000	47,281,290	(3,262)	13,538,729	73,816,757

Approved for issue and signed on behalf of the Management on 1 February 2021:


Zhang Yubo
Acting General Director





Zhang Yubo
Deputy General Director/ Chief Accountant

Kazakhstan-China Pipeline LLP
Statement of Cash Flows

In thousands of Kazakhstani Tenge	Note	For the year ended 31 December	
		2020	2019
Cash flows from operating activities			
<i>Cash flows from operating activities:</i>			
Transportation services rendered		75,039,718	74,015,896
Advances received		6,135,671	6,369,214
Interest received		232,984	172,072
Other inflows		1,823,073	373,428
<i>Cash outflows from operating activities</i>			
Payments to suppliers for goods and services		(16,841,463)	(15,830,067)
Advances paid		(91,910)	(2,707)
Salaries paid		(1,754,184)	(1,808,612)
Interests paid	12	(7,890,428)	(9,942,545)
Income tax		(38,875)	(30,304)
Other payments to budget		(4,677,345)	(5,613,420)
Other payments		(581,340)	(687,758)
Net cash flow from operating activities		51,355,901	47,015,197
Cash flows from investing activities			
Acquisition of property, plant and equipment		(6,744,406)	(4,178,715)
Placement of bank deposits		(37,016,732)	(35,322,539)
Acquisition of intangible assets		(10,851)	(13,056)
Sale of other long-term assets		101,047	-
Withdrawal of bank deposits		36,910,390	34,506,809
Net cash used in investing activities		(6,760,552)	(5,007,501)
Cash flows from financing activities			
Repayment of loans and borrowings	12	(27,895,700)	(26,749,100)
Settlement of lease liabilities		(658,340)	(580,069)
Other		(74,288)	(68,988)
Net cash used in financing activities		(28,628,328)	(27,398,157)
Net increase in cash and cash equivalents		15,967,021	14,609,539
Effect of exchange rate changes on cash and cash equivalents in foreign currency		1,281,934	(181,321)
Cash and cash equivalents at the beginning of the reporting year	11	31,937,129	17,508,911
Cash and cash equivalents at the end of the reporting year	11	49,186,084	31,937,129

Approved for issue and signed on behalf of the Management on 1 February 2021:


 Zhang Yubo
 Acting General Director




 Zhang Yubo
 Deputy General Director/ Chief Accountant

1 Company and Its Operations

Kazakhstan-China Pipeline LLP (hereinafter – 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 (hereinafter – “CNODC”), the subsidiary of China National Petroleum Corporation (hereinafter – “CNPC”), and KazTransOil Joint Stock Company (hereinafter – “KazTransOil”), the subsidiary of “National Company “KazMunayGas” Joint Stock Company (hereinafter – “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 the People’s Republic of China 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 long Atasu-Alashankou oil pipeline. 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 valid 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 the PetroChina International Kazakhstan LLP (hereinafter – “PetroChina”). Technological oil belongs to the 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 long 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 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.

Technological oil for pipeline filling is provided by Shippers in accordance with the Technical Agreement in an amount proportional to their share in the total traffic. Technological oil is in safe custody, ownership remains with the Shippers. Technological oil is returned upon termination of obligations under the Oil Transportation Agreement, or upon transfer of technological oil volumes to the pipeline by the third parties, or upon transfer of ownership of technological oil to the third parties, or upon completion of operation of Kenkiyak-Kumkol oil pipeline.

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 (hereinafter – “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.

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 (hereinafter – the “CRNM”). The CRNM approves tariff rates for oil transportation based on reimbursement of costs incurred on assets used. On 31 December 2019, according to Order No. 74-ОД of the Chairman of the CRNM, the domestic market tariff for the period of 2020-2024 was approved in the amount of KZT 7,158 per ton per 1,000 km (net of VAT) for 2020 (2019: KZT 7,158 per ton).

1 Company and Its Operations (Continued)

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 2020 (2019: KZT 6,799 per ton).

In 2020 and 2019 the Company transported 561 thousand tons of oil and 857 thousand tons of oil, respectively, through Atasu-Alashankou oil pipeline. Additionally, in 2020 and 2019, the Company transported 9,989 thousand tons of transit oil and 9,989 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 2020 and 2019, the Company transported 5,685 thousand tons of oil and 5,587 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 initial recognition of financial instruments based on fair value, other than trade receivables, and the revaluation of property, plant and equipment.

The principal accounting policies applied in preparing these financial statements are set out below. These policies have been applied consistently to all reporting periods presented, unless otherwise indicated.

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

Going concern

In making the judgement on the Company's ability to continue as a going concern, the following factors were taken into consideration:

- at 31 December 2020, the surplus of the working capital of the Company amounted to KZT 24,768,270 thousand;
- sufficiency of estimated operating cash flows during the twelve months after the reporting date;
- approval of the investment programme for 2020-2024 by CRNM;
- expected market demand for the Company's services on the present level; and
- possible negative consequences of the claim of the Department of the Committee for regulation of natural monopolies of the Ministry of national economy of Republic of Kazakhstan regarding fulfillment of the Company's investment obligations (Note 23).

Based on the current cash flow forecast of the Company, current intentions and alternative solutions, management believes that the financial statements should be prepared based on going concern that involves the service rendering and fulfilment of liabilities in the normal course of business. Accordingly, the financial statements do not include any adjustments that would be necessary if the Company was not able to continue as a going concern.

2 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.

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 (hereinafter – “KASE”) are used as official exchange rates in the Republic of Kazakhstan.

Weighted average exchange rates for the years ended 31 December 2020 and 2019 were:

<i>KZT</i>	2020	2019
US Dollars	413.46	382.87
Russian Roubles	5.73	5.92
Euro	472.05	428.61
Chinese Yuan	59.98	55.45

At 31 December 2020 and 2019 the exchange rates established at KASE were as follows:

<i>KZT</i>	31 December 2020	31 December 2019
US Dollars	420.91	382.59
Russian Roubles	5.62	6.16
Euro	516.79	429.00
Chinese Yuan	64.36	54.97

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.

3 Significant Accounting Policies (Continued)

The Company classifies all other liabilities as non-current.

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 conjunction 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 value of a reevaluated asset does not differ materially from its carrying amount.

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.

3 Significant Accounting Policies (Continued)

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, 13).

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.

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 cash generating unit's (hereinafter – CGU) 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.

3 Significant Accounting Policies (Continued)

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 as an increase the revaluation surplus.

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 (hereinafter – "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.

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.

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.

3 Significant Accounting Policies (Continued)

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 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.

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.

3 Significant Accounting Policies (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as subsequently measured at amortised cost, except for (i) financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

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 12*.

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.

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.

3 Significant Accounting Policies (Continued)

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 reclamation obligation. Asset retirement and land reclamation 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 reclamation 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 reclamation 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.

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; the progress of service provision is measured based on the actual volumes of services provided at the date of the assessment. 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.

(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.

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;

3 Significant Accounting Policies (Continued)

- 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, when VAT incurred on the purchase of assets or services is not reimbursed by the tax authority; in this case 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.

Right of 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.

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.

3 Significant Accounting Policies (Continued)

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 modification, change in the lease term, change in fixed lease payments or changed measurement for purchase of the underlying asset.

Adoption of new or revised standards and interpretations

The following amended standards became effective from 1 January 2020, but did not have any material impact on the Company:

- 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 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).
- 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).
- 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 these adjustments are not expected to affect the Company's financial statements.

Standards that had been issued but not effective yet:

- 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).
- Amendments to IFRS 16 – "COVID-19 Outbreak Lease Concessions" (issued on May 28, 2020 and effective for annual periods beginning on or after June 1, 2020).
- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).
- Revenue before intended use, Onerous Contracts – cost of completion, Conceptual Framework Reference – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and annual improvements to IFRS 2018 –2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022 this date).
- Amendments to IFRS 17 and IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).
- Classification of liabilities as current or non-current, deferral of effectiveness – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023).
- Interest rate reform (IBOR) – Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021).

Unless otherwise described above, these 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 24*);
- sensitivity analysis disclosures (*Note 24*).

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 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.

Useful life of property, plant and equipment

Assessment of useful lives of property, plant and equipment is subject to judgement based on the management's experience of using similar assets. Future economic benefits from assets are mainly gained through their usage. Nevertheless, other factors such as technical and commercial obsolescence often lead to decrease of economic benefits to be derived from the assets. Management assesses the remaining useful life of the assets based on their current technical conditions and expected period during which these assets will bring such benefits to the Company.

Impairment of property, plant and equipment

The Company checks the carrying value of its property, plant and equipment to identify impairment indicators of such assets. The carrying value of property, plant and equipment and other non-financial assets is tested for impairment in case any indicators identified that the carrying value of the assets may not be recoverable.

When conducting an impairment test, the recoverable amount is determined as the higher of an asset's value in use (i.e. the net present value of the discounted forecasted cash flows for the corresponding cash generative unit) and fair value net of the cost to sell (the amount that can be redeemed as a result of selling the asset or a cash generating unit in an arms length transactions entered voluntarily by knowledgeable non-related parties, less the cost of disposal). Where there is no binding sale and purchase agreement or active market, fair value less costs to sell is based on the best information available to reflect the amount the Company could receive for the cash generating unit in an arm's length transaction.

A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or assets groups. For the purpose of the analysis of impairment indicators and in case impairment test is required, management concluded that all of the Company's property, plant and equipment is a separate cash generating unit.

The estimates used for impairment reviews are based on approved budgets, forecasted volumes of oil transported and forecasted tariffs, modified as appropriate to meet the requirements of IAS 36 "Impairment of Assets". Future cash flows are based on:

- forecasted volumes of the oil transported;
- forecasted tariff for the transportation of transit oil, export and domestic markets, and
- future costs of production, capital expenditures and operating expenses.

The recoverable amount of property, plant and equipment was determined using the value in use method. The value in use was determined based on the amount of discounted future cash flows. In this calculation, cash flow forecasts were used, which are based on the strategic planning models of the Company and operating budgets approved by management. Key assumptions that significantly affect projected cash flows include:

- The forecast period – until the year 2036, based on the lifetime of the pipeline.
- The forecast volumes of oil transported and the proportion between the domestic market and exports are determined according to the data from the business plan for the period from year 2021 to year 2025 and the forecasted volumes of transportation for the period of 2025-2036 prepared by the Founder Company – KazTransOil JSC.
- The tariff for the domestic market was calculated based on the legislative acts of the Republic of Kazakhstan regarding the regulation of natural monopolies and is based on the projected operating costs for the provision of the regulated service, on the expected level of profit, as well as the Investment Program of the Company approved by the authorized government body.

4 Significant Accounting Judgements, Estimates and Assumptions (Continued)

- The export tariff was calculated in accordance with the approved internal methodology for calculating tariffs for services for pumping oil through the Company's main pipeline system for export outside the Republic of Kazakhstan and transit through the territory of the Republic of Kazakhstan, determined taking into account the volumes of transportation and projected operating costs for the provision of services for export and transit, and securing the return of debt financing and the expected level of profit.
- The level of profit for the forecast period from 2021 to 2024. was determined based on the approved investment program for 2020-2024. When determining the tariff level from 2025, an assumption on the rate of return was made, which affects the tariff level in the post-forecast period. The profit margin was determined at 11% (estimated weighted average cost of capital) of all operating costs of the Company and assuming the current market conditions. This assumption was made in order to comply with the Law of the Republic of Kazakhstan "On Natural Monopolies", according to which, the tariff must ensure reimbursement of costs for the provision of regulated services and profit, directed to the development and effective functioning of a natural monopoly entity and other goals not prohibited by the legislation of the Republic of Kazakhstan.
- Tariff for transit oil. The company concluded an agreement for the transportation of transit oil until 2023 with an extension option with a fixed tariff in US dollars. This tariff was used during the entire forecast period.
- Cost and other expenses. The Company's expenses are determined according to the business plan for the period from 2021 to 2025, with the extrapolation of subsequent expenses of the last forecast year for the entire calculation horizon – until 2036.
- Discount rate. Cash flows were discounted using a post-tax interest rate of 13.84% per annum, which was based on the weighted average cost of capital of the Company.
- The temporary compensating tariff was included in the forecast of the future cash flows during the impairment test for property, plant and equipment (Note 23).

As a result of such assessment, management concluded that the recoverable amount of the assets of this cash generating unit is higher than their carrying amount as at 31 December 2020.

Management believes that the calculation of future cash flows as at 31 December 2020 based on the above judgments reflects reasonable and valid assumptions and represents the best estimate of the Company.

The Company performed a sensitivity analysis of the recoverable amount of property, plant and equipment as at 31 December 2020 at various levels of the most significant assumptions (with all other variables held constant). Based on the results of the analysis, no reasonably possible changes of separate key assumptions were identified that would cause the property, plant and equipment's carrying amount to exceed its recoverable amount.

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 (hereinafter – 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 (hereinafter – "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.

4 Significant Accounting Judgements, Estimates and Assumptions (Continued)

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. As part of the preparation of these financial statements, the Company performed an analysis and found no indicators that the fair value of property, plant and equipment as at 31 December 2020 could have changed significantly.

Asset retirement and land reclamation 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 reclamation are carried out when replacing the pipelines at the end of their useful life.

Asset retirement and land reclamation 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 2020 and 2019 equalled KZT 7,009 thousand and KZT 6,380 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:

	2020	2019
Discount rate	6.81%	8.21%
Inflation rate	5.59%	5.47%
Period of fulfilment of obligations on Kenkiyak-Kumkol pipeline	19 years	20 years
Period of fulfilment of obligations on Atasu-Alashankou pipeline	16 years	17 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 2020 the carrying amount of the asset retirement and land reclamation obligation was KZT 10,668,868 thousand (31 December 2019: KZT 7,176,702 thousand) (*Note 13*).

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.

Sensitivity analysis of asset retirement and land reclamation obligation for the change in significant assumptions as at 31 December 2020 is as follows:

<i>In thousands of Kazakhstani Tenge</i>	(Decrease)/ increase in rate	Increase/ (decrease) in liability
	-0,5%	891,453
Discount rate	+0,5%	(818,451)
	-0,5%	(881,035)
Inflation rate	+0,5%	932,360

4 Significant Accounting Judgements, Estimates and Assumptions (Continued)

Significant judgment in determining the lease term for renewable contracts

The Company defines the lease term as a non-cancellable lease term, together with periods covering the option to extend this lease, if there is a reason to believe that it will be executed, or any periods covered by the option to terminate the lease, if it is assumed that this option will not be implemented.

The Company has the option under certain leases to lease assets for additional periods from three to five years. The Company applies judgment in assessing whether it is reasonable to use the renewal option. That is, all relevant factors that create an economic incentive for its renewal are taken into account. After the initial date, the Company reviews the lease term if a significant event or change of circumstances occurs that is under its control and affects its ability to use (or not use) the possibility of extension (for example, a change in business strategy). The Company included the extension period as part of the lease term for the rental objects due to their importance to its business. These lease agreements have a short, non-cancellable period (i.e., three to five years) and can have a significant adverse effect on operations if the replacement of these assets is not readily available.

Positive or negative unbalance

According to the National standard of the Republic of Kazakhstan "Main oil pipelines. The Instruction for the calculation of oil» ST RK 1476-2015, the Company determines the actual presence of oil in the oil pipelines and compares the actual volume of oil with accounting data, for the purposes of safeguarding the oil ("inventory count"), once in a year as of 24:00 Moscow time on December 31. During the inventory count, the mass of oil is determined in the linear part of the main oil pipelines and in the technological pipelines. The weight of oil mass is determined as the product of the average oil density adjusted to an actual temperature and pressure at the site using coefficients depending on the average pressure and average temperature of oil in the pipeline.

Losses associated with an error in the balance of delivered and received oil are determined as the difference between the incoming and outgoing parts of the balance (unbalance) and appear in the form of surpluses (positive unbalance) and shortages (negative unbalance) and are reflected in a separate line of the executive balance.

The Company does not recognise positive unbalance in financial statements on the basis that the Company does not have control over the asset due to the absence of a legally enforceable right to the unbalance.

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 2020 comprise as follows:

<i>In thousands of Kazakhstani Tenge</i>	Parent companies	Entities under common control	Total
Accounts receivable from related parties	10,022	30	10,052
Advances received for oil transportation from related parties	-	1,954,628	1,954,628
Accounts payable to related parties	819,869	55,510	875,379

The income and expense items on transactions with related parties for the year ended 31 December 2020 are as follows:

<i>In thousands of Kazakhstani Tenge</i>	Parent companies	Entities under common control	Total
Revenue	49,213	29,591,024	29,640,237
Expenses:			
- Oil-pipeline servicing	8,598,997	(3,606)	8,595,391
- Capital expenditures	-	8,444	8,444
- Security services	-	346,752	346,752
- Other services	34,633	326,098	360,731

5 Balances and Transactions with Related Parties (Continued)

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

<i>In thousands of Kazakhstani Tenge</i>	Founder companies	Entities under common control	Total
Accounts receivable from related parties	5,923	62,176	68,099
Advances received 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:

<i>In thousands of Kazakhstani Tenge</i>	Founder 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

Remuneration to the 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 2020 was KZT 183,441 thousand (31 December 2019: KZT 245,156 thousand).

6 Property, Plant and Equipment

Property, plant and equipment as at 31 December of 2020 and 2019 are as follows:

<i>In thousands of Kazakhstani Tenge</i>	Land	Buildings and constructions	Machinery and equipment	Pipeline	Other vehicles	Other	Construction in progress	Total
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	-	-	(805)	(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
Additions	-	-	227,003	-	-	26,992	4,795,714	5,049,709
Transfers	-	596,735	2,477,903	27,264	-	46,358	(3,148,260)	-
Disposals	-	(306)	(3,128)	(848)	-	(8,954)	(41,839)	(55,075)
Revalued cost at 31 December 2020	78,157	48,912,845	41,803,144	136,896,929	192,392	816,493	5,242,417	233,942,377
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)
Depreciation charge for the period	-	(2,883,948)	(4,103,445)	(7,161,284)	(50,083)	(140,959)	-	(14,339,719)
Depreciation on disposals	-	35	2,998	24	-	8,147	-	11,204
Accumulated depreciation and impairment at 31 December 2020	-	(4,067,736)	(5,781,000)	(10,053,573)	(70,951)	(184,638)	(986,098)	(21,143,996)
As at 31 December 2020								
Revalued cost	78,157	48,912,845	41,803,144	136,896,929	192,392	816,493	5,242,417	233,942,377
Accumulated depreciation and impairment	-	(4,067,736)	(5,781,000)	(10,053,573)	(70,951)	(184,638)	(986,098)	(21,143,996)
Carrying amount	78,157	44,845,109	36,022,144	126,843,356	121,441	631,855	4,256,319	212,798,381
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

6 Property, Plant and Equipment (Continued)

Depreciation charge

<i>In thousands of Kazakhstani Tenge</i>	Note	2020	2019
Cost of sales	18	14,241,265	13,034,972
General and administrative expenses	19	98,454	148,614
Total depreciation charge		14,339,719	13,183,586

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

<i>In thousands of Kazakhstani Tenge</i>	Land	Buildings and constructions	Machinery and equipment	Pipeline	Other vehicles	Other	Construction in progress	Total
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
As at 31 December 2020								
Cost	5,361	55,125,294	64,016,022	146,930,242	573,876	1,346,314	5,219,047	273,216,156
Accumulated depreciation and impairment	-	(23,010,731)	(38,971,205)	(53,988,276)	(524,094)	(972,933)	(986,098)	(118,453,337)
Net carrying amount	5,361	32,114,563	25,044,817	92,941,966	49,782	373,381	4,232,949	154,762,819

7 Right-of-use assets

<i>In thousands of Kazakhstani Tenge</i>	Land	Buildings and structures	Total
Carrying amount at 1 January 2019	8,096	1,495,300	1,503,396
Depreciation charge	(196)	(304,129)	(304,325)
Carrying amount at 31 December 2019	7,900	1,191,171	1,199,071
Additions	-	282,951	282,951
Disposals	(392)	-	(392)
Depreciation charge	(185)	(370,089)	(370,274)
Carrying amount at 31 December 2020	7,323	1,104,033	1,111,356
Carrying amount at 30 December 2020			
Cost	7,704	1,778,251	1,785,955
Accumulated depreciation	(381)	(674,218)	(674,599)
Carrying amount at 31 December 2020	7,323	1,104,033	1,111,356

8 Long-Term Value Added Tax Recoverable

Value added tax (hereinafter – “VAT”) represents VAT on purchases. As at 31 December 2020, the Company recorded VAT recoverable in the amount of KZT 1,562,333 thousand (31 December 2019: KZT 695,527 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 2020.

9 Other Current Assets

Other current assets as at 31 December 2020 and 2019 are as follows:

<i>In thousands of Kazakhstani Tenge</i>	31 December 2020	31 December 2019
VAT recoverable	249,161	2,402,294
Prepaid taxes	362,026	358,926
Deferred expenses	97,617	85,024
Advances paid	92,460	2,707
Other	38,324	58,180
Total other current assets	839,588	2,907,131

10 Bank Deposits

Bank deposits at 31 December 2020 and 2019 are as follows:

<i>In thousands of Kazakhstani Tenge</i>	31 December 2020	31 December 2019
Term deposits with maturity of less than 12 months	19,615,957	17,728,264
Short-term interest receivable	40,867	50,821
Provision	(12,302)	(7,194)
Total bank deposits	19,644,522	17,771,891

As at 31 December 2020 and 2019 short-term deposits are placed in US Dollars. The effective interest rate was 0.6% per annum in 2020 (0.5% per annum in 2019).

11 Cash and Cash Equivalents

Cash and cash equivalents at 31 December 2020 and 2019 are as follows:

<i>In thousands of Kazakhstani Tenge</i>	31 December 2020	31 December 2019
Cash in bank in foreign currency	41,029,180	27,809,841
Cash in bank in KZT	6,758,065	2,892,616
Cash on saving accounts in KZT	1,394,663	1,229,049
Cash on corporate cards	4,563	5,813
Cash on hand	-	5
Provision	(387)	(195)
Total cash and cash equivalents	49,186,084	31,937,129

11 Cash and Cash Equivalents (Continued)

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

<i>In thousands of Kazakhstani Tenge</i>	31 December 2020	31 December 2019
US Dollar	40,953,392	27,768,869
Chinese Yuan	75,788	40,972
Total cash in foreign currency	41,029,180	27,809,841

12 Loans and Borrowings

Loans and borrowings of the Company as at 31 December 2020 and 2019 are as follows:

<i>In thousands of Kazakhstani Tenge</i>	31 December 2020	31 December 2019
Current portion of loans	35,528,143	30,113,834
Non-current portion of loans	133,667,996	151,738,462
Total loans and borrowings	169,196,139	181,852,296

Changes in liabilities arising from financing activities

Changes in financial liabilities for 2020 and 2019 are as follows:

<i>In thousands of Kazakhstani Tenge</i>	2020	2019
At 1 January	181,852,296	209,624,515
Cash flows	(35,786,128)	(36,691,645)
Interest expense	7,554,576	10,887,978
Capitalized interest	12,858	3,781
Changes in foreign exchange rates	16,278,507	(930,665)
Withholding CIT	(715,970)	(1,041,668)
At 31 December	169,196,139	181,852,296

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).

13 Provision for Asset Retirement Obligations

Provision for asset retirement and land recultivation obligation as at 31 December 2020 and 2019 is as follows:

<i>In thousands of Kazakhstani Tenge</i>	2020	2019
Carrying amount at 1 January	7,176,702	5,350,776
Changes in estimates	2,874,480	1,325,756
Amortisation of discount (Note 21)	617,686	500,170
Carrying amount at 31 December	10,668,868	7,176,702

14 Advances Received for Oil Transportation from Third Parties

Advances received for oil transportation from third parties as at 31 December 2020 mainly include advances received for the transportation of transit oil from Petroleum Company "Rosneft" OJSC in the amount of KZT 3,880,915 thousand (31 December 2019: KZT 3,564,962 thousand).

15 Other Payables and Accrued Liabilities

Other payables and accrued liabilities as at 31 December 2020 and 2019 are as follows:

<i>In thousands of Kazakhstani Tenge</i>	31 December 2020	31 December 2019
Accrued liabilities	1,133,304	1,954,859
Other payables	634,077	558,420
Provision for unused vacations	33,226	37,289
Taxes other than income tax	96,399	54,002
Income tax for non-resident	195,881	-
Total other accounts payable and accrued liabilities	2,092,887	2,604,570

Accrued liabilities represent liabilities for operations from operating activities related to the reporting period, in respect of which the Company did not receive any formalized documents from suppliers as at the reporting date.

Other payables at 31 December 2020 and 31 December 2019 mainly include warranty liabilities on contracts in the amount of KZT 318,626 thousand and KZT 262,538 thousand, respectively, and short-term estimated employee benefit liabilities in the amount of KZT 244,382 thousand and KZT 243,719 thousand.

16 Lease liabilities

<i>In thousands of Kazakhstani Tenge</i>	31 December 2020	31 December 2019
Current portion of liabilities	581,816	377,440
Long-term portion of liabilities	1,291,720	1,615,465
Total lease liabilities	1,873,536	1,992,905

Changes in current value of liabilities are as follows:

<i>In thousands of Kazakhstani Tenge</i>	2020	2019
At 1 January	1,992,905	2,300,383
Additions	285,215	-
Unwinding of discount (Note 21)	253,756	272,591
Payments for the period	(658,340)	(580,069)
At 31 December	1,873,536	1,992,905

17 Revenue

Set out below is the disaggregation of the Company's revenue from contracts with customers for the years ended 31 December 2020 and 2019:

<i>In thousands of Kazakhstani Tenge</i>	2020	2019
Type of services		
Transit oil transportation	44,344,079	40,976,470
Domestic oil transportation	28,562,339	29,433,147
Export oil transportation	4,921,545	5,776,639
Total revenue from contracts with customers	77,827,963	76,186,256
Geographical markets		
Kazakhstan	77,827,963	76,186,256
Total revenue from contracts with customers	77,827,963	76,186,256
Timing of revenue recognition		
Services transferred over time	77,827,963	76,186,256
Total revenue from contracts with customers	77,827,963	76,186,256
Revenue		
Sales to residents	33,483,884	35,209,786
Sales to non-residents	44,344,079	40,976,470
Total revenue from contracts with customers	77,827,963	76,186,256

18 Cost of Sales

Cost of services rendered for the years ended 31 December 2020 and 2019 comprise the following:

<i>In thousands of Kazakhstani Tenge</i>	2020	2019
Depreciation of property, plant and equipment (Note 6)	14,241,265	13,034,972
Operational and technical maintenance	10,318,284	9,183,211
Taxes other than income tax	2,891,687	2,926,450
Security services	1,269,514	1,139,248
Electricity expenses	690,564	618,412
Road maintenance and repair	375,969	669,927
Salaries	356,098	344,386
Depreciation of right-of-use assets	342,339	304,324
Inspection services	205,027	183,340
Other	1,130,137	1,402,196
Total cost of sales	31,820,884	29,806,466

19 General and Administrative Expenses

General and administrative expenses for the years ended 31 December 2020 and 2019 are as follows:

<i>In thousands of Kazakhstani Tenge</i>	2020	2019
Salaries	1,703,335	1,751,854
Salaries of hired administrative personnel (outsourcing)	528,131	509,242
Taxes other than income tax	272,152	281,186
Business trip expenses	163,930	275,624
Depreciation of property, plant and equipment (Note 6)	98,454	148,614
Insurance	56,581	63,943
Consulting services	39,613	84,003
Depreciation of right-of-use assets	27,935	-
Communication expenses	24,711	23,973
Transportation expenses	13,879	16,199
Lease expenses	8,303	38,148
Penalties	37	19,014
Other	402,193	498,498
Total general and administrative expenses	3,339,254	3,710,298

20 Other Operating Income/(Expense), Net

Other operating income and expenses for the years ended 31 December 2020 and 2019 are as follows:

<i>In thousands of Kazakhstani Tenge</i>	2020	2019
Foreign exchange profit/(loss) other than loans and borrowings, net	2,946,899	(202,858)
Income from the accrued fine	1,473,142	-
Other income (net)	36,815	63,571
Total other operating income/(expense), net	4,456,856	(139,287)

Income from the fine of CNPC-Aktobemunaigas JSC was accrued for violations of the quality requirements for oil delivered to the main oil pipeline system under the Agreement for the provision of oil transportation services during 2020.

21 Finance Costs and Income

Finance costs and income for the years ended 31 December 2020 and 2019 are as follows:

<i>In thousands of Kazakhstani Tenge</i>	2020	2019
Negative exchange rate difference on loans and borrowings, net	16,278,507	-
Interest on loan from Industrial and Commercial Bank of China and Industrial and Commercial Bank of China in Almaty JSC	7,554,576	10,887,978
Amortization of discount on asset retirement and land recultivation obligation (Note 13)	617,686	500,170
Finance costs on actuarial assumptions	923	904
Other finance costs	253,756	272,591
Total finance costs	24,705,448	11,661,643
Foreign exchange gain on loans and borrowings, net	-	930,665
Other finance income	223,207	194,190
Total finance income	223,207	1,124,855

22 Income Tax Expense

Income tax for the years ended 31 December 2020 and 2019 is as follows:

<i>In thousands of Kazakhstani Tenge</i>	2020	2019
Current income tax expense	39,427	33,925
Deferred income tax expense	5,619,176	6,248,860
Income tax expense	5,658,603	6,282,785

Reconciliation between income tax expense and accounting profit multiplied by tax rate for 2020 and 2019:

<i>In thousands of Kazakhstani Tenge</i>	2020	2019
Profit before income tax	22,642,440	31,674,550
Official tax rate	20%	20%
Theoretical tax charge at statutory rate of 20%	4,528,488	6,334,910
Revision of the fixed assets' tax base for the prior periods	873,761	-
Tax effect of non-deductible expenses and non-taxable income	256,354	(52,125)
Income tax expense	5,658,603	6,282,785

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.

<i>In thousands of Kazakhstani Tenge</i>	1 January 2020	Charged/ (credited) to profit or loss	Charged / (credited) to other compre- hensive income	31 December 2020
Deferred tax assets				
Loans and borrowings	3,251	(4,248)	-	(997)
Provision for asset retirement and land reclamation obligation	1,435,340	123,538	574,896	2,133,774
Provision for unused vacation	7,458	(813)	-	6,645
Employee benefit liabilities	2,170	502	576	3,248
Taxes payables	4,232	312	-	4,544
Lease payable	398,641	(23,934)	-	374,707
Tax losses carried forward	12,705,970	(5,975,160)	-	6,730,810
Deferred tax asset, gross	14,557,062	(5,879,803)	575,472	9,252,731
Deferred tax liability				
Right-of-use assets	(239,814)	17,542	-	(222,272)
Property, plant and equipment and intangible assets	(30,132,112)	243,082	-	(29,889,030)
Deferred tax liability, gross	(30,371,926)	260,624	-	(30,111,302)
Net deferred tax liability	(15,814,864)	(5,619,179)	575,472	(20,858,571)

22 Income Tax Expense (Continued)

<i>In thousands of Kazakhstani Tenge</i>	1 January 2019	Charged/ (credited) to profit or loss	Charged / (credited) to other compre- hensive 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 liabilities	(6,187,798)	(6,248,860)	(3,378,206)	(15,814,864)

23 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 and other minerals, 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.

As at the date of this report the official exchange rate of the National Bank of the Republic Kazakhstan was Tenge 424.22 per USD 1 compared to Tenge 384.20 per USD 1 as at 31 December 2019. Therefore, uncertainty remains in relation to the exchange rate of Tenge and future actions of National Bank and the Government of the Republic of Kazakhstan and the impact of these factors on the economy of the Republic of Kazakhstan.

In September 2020 Standard & Poor's, international rating agency affirmed the long-term foreign and local currency sovereign credit ratings of Kazakhstan of "BBB-" and short-term foreign and local currency sovereign credit ratings as of "A-3", and the Kazakhstan national scale – "kzAAA". The outlook is stable (long-term ratings). The stable outlook is supported by the government's strong balance sheet, built on past budgetary surpluses accumulated in the National Fund of the Republic of Kazakhstan, low government debt, total volume of which will not exceed the external liquid assets of the state within two years, as well as measures implemented by the Government of the Republic of Kazakhstan aimed at controlling the negative consequences of the pandemic on the economy.

Low oil prices, decrease in its production due to the OPEC agreement and the impact of COVID-19 containment measures have adversely affected the economy of Kazakhstan in 2020, but economic growth is projected to recover in 2021, which will average to approximately 4% in 2020 -2023.

This economic environment has a significant impact on the Company's operations and financial position. Management is taking necessary measures to ensure sustainability of the Company's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

23 Contingencies and Commitments (Continued)

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.

For the purpose of measurement of expected credit losses (hereinafter – “ECL”) the Company uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected.

In December 2019, news from China about the outbreak of a new virus first appeared. On 11 March 2020, the World Health Organization announced an outbreak of a new type of coronavirus, COVID19, as a pandemic. According to the decree of the President of the Republic of Kazakhstan dated 15 March 2020 No. 285 “On the introduction of a state of emergency in the Republic of Kazakhstan,” a state of emergency was introduced in the country for the period from 16 March 2020 until 11 May 2020.

Most of the cities of Kazakhstan fell under the quarantine regime, and in the period from 30 March to 11 May this year, the operations of most industrial enterprises were suspended. At the suggestion of the Ministry of Health of the Republic of Kazakhstan, in order to further stabilize the epidemiological situation, it was decided to further extend the restrictive measures in the country. The Company's activities for the period of quarantine were not suspended, the work of office employees was organized remotely.

At the same time, on 9 March 2020, oil quotes collapsed amid the disagreements of the OPEC members, the price of Brent crude oil in March this year fell below USD 25 per barrel. Impairment of Tenge against the US dollar amounted to 10.88% since the beginning of 2020 at the date of issue of the financial statements. As a result of depreciation of tenge against the US dollar for 12 months ended 31 December 2020, the Company incurred foreign exchange losses in the amount of KZT 13,331,608 thousand.

COVID-19 epidemic is spreading globally, having a dramatic negative effect on the entire world economy. Management considers this outbreak to be a non-correcting event after the reporting date. As of the date of the issue of these financial statements, the situation is still developing; to date, there has not been any significant effect on the Company's revenues and deliveries, but the future effect is difficult to predict. Management will continue to monitor the potential effect of the above events and will take all necessary measures to prevent negative consequences for the business, however:

- the consequences of downtime/quarantine due to the COVID-19 pandemic will lead to a slowdown in business activity in general, which may affect the Company's financial performance in the future;
- the drop in oil prices could have a negative effect on the Company's revenue, due to decrease in production volumes, and accordingly in oil transportation volumes;
- as part of new agreements between OPEC members and other oil-producing countries, Kazakhstan and Russia have committed to cut production levels, which may lead to a decrease in oil transportation;
- further depreciation of Tenge against the US dollar will negatively affect the financial results of the Company due to the fact that 97% of the financial liabilities of the Company are denominated in foreign currency.

Management is unable to predict the extent or duration of changes in the Kazakhstani economy or evaluate their possible impact on the financial position of the Company in the future. Management believes that it is taking all necessary measures to maintain the sustainability and growth of the Company in current circumstances.

In the opinion of the Company's management, this event related to the outbreak of the virus does not have a material effect on the measurement of assets and liabilities in the financial statements as of 31 December 2020.

Capital expenditure commitments

As at 31 December 2020 the Company has contractual capital expenditure commitments in respect of property, plant and equipment totalling KZT 1,251,745 thousand (31 December 2019: KZT 2,435,170 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 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 2020.

23 Contingencies and Commitments (Continued)

As at 31 December 2020 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.

Fulfillment of investment program

On July 20, 2020, Protocol No. 25 on an administrative offense was handed over to the Company from the Department of the Committee for Regulation of Natural Monopolies of the Ministry of National Economy of the Republic of Kazakhstan for Almaty (hereinafter – "DCRNM"), which indicates failure to fulfill the obligation provided for by the Law of the Republic of Kazakhstan "On Natural Monopolies" (Article 26). In accordance with the law, a natural monopoly entity is obliged to fulfill the measures of the approved investment program, the cost of these measures is included in the calculation of the tariff on the domestic market. According to the protocol, the Company in 2019 did not fulfill the activities of the 2015-2019 Investment Program approved in 2015.

On August 3, 2020 DCRNM, by its Resolution No. 25, imposed an administrative penalty in the amount of 1,600 MCI or 4,444,800 tenge in an administrative offense case. On August 11, 2020 the Company filed an appeal against the Resolution on the administrative offense to Specialized Interdistrict Administrative Court of Almaty (hereinafter – "SIEC"). By the Resolution of SIEC, on October 13, 2020, the DCRNM Resolution dated 3 August, 2020 was cancelled due to the absence of an administrative offense.

On August 27, 2020 the Company received the Order No. 78-OD (hereinafter – "the Order") from DCRNM on approval of a temporary compensating tariff (hereinafter – "TCT") for regulated services of pumping oil through the Kenkiyak-Kumkol main pipeline to the domestic market effective from October 1, 2020, for a period of 2 years (the decision on TCT was agreed with the central authorized body - the Committee on Regulation of Natural Monopolies of Ministry of National Economy of the Republic of Kazakhstan (hereinafter – "CRNM")). The amount of compensation (unjustified income) in the opinion of CRNM and DCRNM amounted to 29 billion tenge.

Non-fulfillment of the approved Investment program is due to a shortage of funds associated with a significant decrease in the volume of oil transportation to domestic market and a change in the exchange rate of the national currency against US dollar which led to an increase in financial burden for servicing a foreign currency loan.

On September 18, 2020 the Company filed an appeal against the Order to the CRNM (a higher state body). In accordance with paragraph 4 of Article 65 of the Law of Republic of Kazakhstan "On Legal Acts", filing an appeal (complaint) against the Order to a higher state body suspends the Order until the relevant decision is made. At the time of suspension of the Order the Company applies the tariffs approved by the Authorized Body for 2020-2024.

The CRNM did not make a decision on the appeal within the prescribed timeframe and, in a letter dated November 5, 2020 notified the Company of the Company's right to challenge the Order in court.

On November 5, 2020 the Company filed an application to challenge the Order to the SIEC and challenged actions of DCRNM in court. By the decision of SIEC dated December 23, 2020 (hereinafter – the "SIEC Decision") the Order was declared illegal. The SIEC decision did not enter into legal force due to the possibility of appeal against the decision.

On January 26, 2021 the DCRNM filed an appeal against the SIEC Decision dated December 23, 2020 to Almaty City Court (appeal instance).

The Company's management assessed the risks taking the maximum estimated amount of implementation of TCT to the projected working capital for the next 12 months and concluded that the Company will have sufficient liquidity to continue its business in full capacity. Also, the TCT was taken into account in forecasting future cash flows during the impairment test of property, plant and equipment, as a result of which no impairment losses were detected as at 31 December 2020.

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 financial statements (*Notes 4 and 13*).

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.

24 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. Customers make 100% advance payment the Company which minimises the trade receivable credit risk. There are no significant concentrations of credit risk within the Company.

The Company places deposits with Kazakhstani and foreign banks (*Notes 10 and 11*). The Company's management reviews credit ratings of these banks periodically to eliminate extraordinary credit risk exposure. In accordance with IFRS 9, the Company accrues allowances for expected credit losses in respect of funds with credit institutions.

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

Banks	Location	Rating		31 December 2020	31 December 2019
		2020	2019		
Halyk bank of Kazakhstan JSC	Kazakhstan	Ba1	Ba1	20,846,427	18,766,916
Industrial and Commercial Bank of China in Almaty JSC	Kazakhstan	A1	A1	47,666,695	30,657,518
Altyn Bank JSC (SB of China Citic Bank Corporation Ltd)	Kazakhstan	Ba1	Ba1	213,479	200,150
Bank of China in Alashankou JSC	China	A1	A1	75,789	40,957
Bank of China in Kazakhstan JSC	Kazakhstan	A1	A1	39	42
Total				68,802,428	49,665,583

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 include bank deposits of 19,644,522 KZT thousand and cash and cash equivalents of KZT 49,186,084 thousand. Current liabilities mainly included loans and borrowings in the amount of KZT 35,528,143 thousand and accounts payable to related parties of KZT 875,379 thousand, including payables to KazTransOil JSC of KZT 819,869 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.

24 Financial Risk Management (Continued)

The table below summarizes the maturity profile of the Company's financial liabilities at 31 December 2020 and 2019 based on contractual undiscounted payments.

<i>In thousands of Kazakhstani Tenge</i>	Less than 1 year	From 1 to 2 years	From 2 to 5 years	More than 5 years	Total
At 31 December 2020					
Loans and borrowings	38,092,473	45,327,752	94,969,349	-	178,389,574
Trade and other payables	1,096,984	-	-	-	1,096,984
Contingencies on accounts payable to suppliers	1,133,304	-	-	-	1,133,304
Lease liabilities	697,663	679,567	746,844	2,222	2,126,296
Total	41,020,424	46,007,319	95,716,193	2,222	182,746,158
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

Currency risk

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

<i>In thousands of Kazakhstani Tenge</i>	Cash and deposits	Loans and borrowings	Net balance amount
At 31 December 2020			
US Dollar	60,597,914	(169,196,139)	(108,598,225)
At 31 December 2019			
US Dollar	45,540,760	(181,852,296)	(136,311,536)

The Company does not have formal arrangements to mitigate foreign exchange risks of the Company's operations.

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).

<i>In thousands of Kazakhstani Tenge</i>	Increase/decrease in exchange rate	Effect on profit and equity
2020		
US Dollars	+10,00%/-10,00%	(8,687,858)/8,687,858
2019		
US Dollars	+14,00%/-10,00%	(15,266,892)/10,904,923

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 2020 and 2019.

24 Financial Risk Management (Continued)

Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs).

All of the Company's financial instruments are carried at amortised cost. Their fair values were determined using level 3 measurements of the fair value hierarchy, based on the available market data or relevant valuation techniques.

However, judgement is required to interpret market data to determine the estimated fair value. The Republic of Kazakhstan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions, and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on the credit risk of the counterparty.

Due to the short-term nature of cash, bank deposits, trade and other receivables, their carrying amount approximates their fair value.

Financial liabilities carried at amortised cost

The fair value of unquoted fixed interest rate instruments with stated maturities were estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risks and remaining maturities.

Due to the short-term nature of trade payables, their carrying amount approximates their fair value.

Loans and borrowings are carried at amortised cost which approximates their fair value due to the fact that interest rate under attracted loans is floating.

The fair value of lease liabilities as of the reporting date is KZT 1,873,535 thousand.