KazTransOil JSC

Separate financial statements

For the year ended 31 December 2019
with the independent auditor's report

Building a better working world

CONTENTS

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Independent auditor's report

To the Shareholders and board of directors of KazTransOil JSC

Opinion

We have audited the separate financial statements of KazTransOil JSC (hereinafter, the Company), which comprise the separate statement of financial position as at 31 December 2019, the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects the financial position of the Company as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 separate financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the separate financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying separate financial statements.

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Key audit matter	How our audit addressed the key audit matter
Fair value of property, plant and equipment	
The Company assessed fair value of its property, plant and equipment as of 31 July 2019. Property, plant and equipment makes up a significant portion of total assets of the Company as at 31 December 2019. Due to high level of subjectivity in respect of assumptions underlying the assessment of the fair value of property, plant and equipment, we believe that this matter is of the most significance in our audit. The Company uses independent external appraisers in the process of valuation. The fair value of the Company's assets was appraised using the income approach for specialized assets and the market approach for non-specialized assets. Significant assumptions used in calculating the fair value included future transportation volumes, tariffs, discount rate and long-term growth rate. Information about property, plant and equipment is disclosed in Note 5 to the separate financial statements; a description of the accounting policy and key judgements and estimates is included in Notes 3 and 4 to the separate financial statements.	We overviewed the Company's valuation process and assessed the independence and expertise of the external appraisers. For the assets revalued using the income approach we compared input data used by the independent external appraisers with the Company's business plans. We assessed underlying assumptions and compared them with historical data. We engaged our internal valuation specialists to assess the valuation methods applied. We compared data used in discount rate and long-term growth rate calculations with available external information and checked arithmetical accuracy of these calculations. For the assets, revalued using indexation, we assessed calculation of indexes and compared indexes used in calculation of fair value to available external data. For the assets, revalued using direct cost approach, we compared major inputs (technical characteristics of assets (length, width, volume, etc.), cost of materials, cost of construction works, labor input coefficients) to the Company's internal technical documentation. For the assets, revalued using market approach we compared inputs with available market data for similar items. We checked mathematical accuracy of the fair value calculations. We analyzed the disclosures made in the financial statements about the revaluation of property, plant and equipment.

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Other Information included in the Company's 2019 Annual report

Other information consists of the information included in the Company's 2019 Annual Report other than the separate financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and the committee on internal audit of the board of directors for the separate financial statements

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

In preparing the separate 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.

The committee on internal audit of the board of directors is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate financial statements.

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

- Identify and assess the risks of material misstatement of the separate 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 separate 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 separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the committee on internal audit of the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the committee on internal audit of the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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From the matters communicated with the committee on internal audit of the board of directors, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Gulmira Turmagambetova.

Ernst & Young LLP

Gulmira Turmagambetova
Auditor / General Director
Ernst & Young LLP

Auditor Qualification Certificate
No. 0000374 dated 21 February 1998

State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

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16 March 2020

SEPARATE STATEMENT OF FINANCIAL POSITION

In thousands of Tenge	Notes	31 December 2019	31 December 2018
Assets			
Non-current assets			
Property, plant and equipment	5	**668,478,286**	597,851,442
Right-of-use assets	6	**3,902,044**	–
Intangible assets	7	**1,474,018**	1,511,705
Investments in subsidiaries	8	**48,195,522**	57,260,238
Investments in joint ventures	9	**12,504,945**	7,404,945
Advances to suppliers for property, plant and equipment	10	**892,354**	110,135
Bank deposits	16	**2,139,767**	2,778,076
Investments in bonds	19	**919,511**	828,437
Accounts receivable	12	**1,045,987**	–
Other non-current assets		**11,866**	12,585
		739,564,300	667,757,563
Current assets			
Inventories	11	**5,297,061**	4,027,652
Trade and other accounts receivable	12	**4,295,352**	4,242,779
Advances to suppliers	13	**1,115,466**	538,150
Prepayment for income tax		**1,779,984**	941,945
VAT recoverable and other prepaid taxes	14	**1,168,319**	726,283
Other current assets	15	**7,320,851**	7,799,318
Bank deposits	16	**45,960,400**	25,424,203
Cash and cash equivalents	17	**23,375,319**	30,325,124
		90,312,752	74,025,454
Non-current assets held for sale	18	**879,814**	2,406,231
		91,192,566	76,431,685
Total assets		**830,756,866**	744,189,248

The accounting policy and explanatory notes on pages 7 through 60 form an integral part of these separate financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION (continued)

In thousands of Tenge	Notes	31 December 2019	31 December 2018
Equity and liabilities			
Equity			
Share capital	20	**61,937,567**	61,937,567
Treasury shares repurchased from shareholders	20	**(9,549)**	(9,549)
Asset revaluation reserve	20	**247,417,084**	198,867,282
Other capital reserves	20	**(1,892,888)**	(71,795)
Retained earnings		**330,250,403**	322,323,211
Total equity		**637,702,617**	583,046,716
Non-current liabilities			
Employee benefit obligations	21	**15,748,790**	12,939,771
Deferred tax liabilities	35	**80,594,382**	68,003,798
Provision for asset retirement and land recultivation obligation	26	**27,780,887**	21,109,397
Lease liabilities	23	**2,891,445**	–
Deferred income		**6,600**	6,843
		127,022,104	102,059,809
Current liabilities			
Employee benefit obligations	21	**655,489**	660,420
Trade and other accounts payable	22	**13,979,871**	11,919,760
Lease liabilities	23	**1,912,220**	–
Advances received	24	**18,413,168**	20,518,169
Liability on a contribution to charter capital of a joint venture	9	**5,000,000**	–
Other taxes payable	25	**1,263,766**	1,170,165
Provisions	26	**44,097**	1,088,119
Other current liabilities	27	**24,763,534**	23,726,090
		66,032,145	59,082,723
Total liabilities		**193,054,249**	161,142,532
Total equity and liabilities		**830,756,866**	744,189,248
Book value per ordinary share (in Tenge)	20	**1,654**	1,512

Signed and approved for issue on 16 March 2020.

Acting General Director (Chairman of the Management Board) *Arynov S.A.*

Chief Accountant *Sarmagambetova M.K.*

The accounting policy and explanatory notes on pages 7 through 60 form an integral part of these separate financial statements.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

In thousands of Tenge	Notes	For the year ended 31 December 2019	2018
Revenue	28	**222,877,003**	212,519,885
Cost of sales	29	**(141,958,155)**	(139,040,319)
Gross profit		**80,918,848**	73,479,566
General and administrative expenses	30	**(14,383,980)**	(13,858,932)
Other operating income	31	**3,248,282**	2,158,138
Other operating expenses	32	**(3,712,417)**	(2,915,613)
Impairment of investments in a subsidiary	8	**(16,205,432)**	–
Operating profit		**49,865,301**	58,863,159
Net foreign exchange gain		**5,807**	2,588,085
Dividends income	36	**–**	4,338,250
Finance income	33	**2,440,873**	2,595,767
Finance costs	34	**(3,989,274)**	(2,591,256)
Profit before income tax		**48,322,707**	65,794,005
Income tax expense	35	**(14,979,015)**	(13,981,295)
Net profit for the year		**33,343,692**	51,812,710
Earnings per share (in Tenge)	20	**87**	135
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation and impairment of property, plant and equipment, net	5	**82,782,482**	57,472,625
Income tax effect	35	**(16,556,497)**	(11,494,525)
		66,225,985	45,978,100
Charge of provision for asset retirement and land recultivation obligation	26	**(3,334,156)**	(3,102,220)
Income tax effect	35	**666,831**	620,445
		(2,667,325)	(2,481,775)
Actuarial (loss)/gain from employee benefit obligations	21	**(1,872,560)**	688,653
Income tax effect	35	**51,467**	(137,731)
		(1,821,093)	550,922
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods, net		**61,737,567**	44,047,247
Total other comprehensive income for the year, net of tax		**61,737,567**	44,047,247
Total comprehensive income for the year, net of tax		**95,081,259**	95,859,957

Signed and approved for issue on 16 March 2020.

Acting General Director (Chairman of the Management Board) *Arynov S.A.*

Chief Accountant *Sarmagambetova M.K.*

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SEPARATE STATEMENT OF CASH FLOWS

In thousands of Tenge	Notes	For the year ended 31 December 2019	2018
Cash flows from operating activities			
Profit before income tax		**48,322,707**	65,794,005
Non-cash adjustment to reconcile profit before tax to net cash flows			
Depreciation and amortization	29, 30	**48,407,005**	47,996,231
Impairment of investment in subsidiary	8	**16,205,432**	–
Finance costs	34	**3,989,274**	2,591,256
Finance income	33	**(2,440,873)**	(2,595,767)
(Reversal)/charge of impairment of property, plant and equipment, net	31, 32	**(2,129,666)**	292,293
Reversal and revision of estimates on provision on asset retirement and land recultivation obligation, net	32	**1,445,338**	1,162,914
Loss on disposal of property, plant and equipment and intangible assets, net	32	**1,032,908**	1,066,126
Impairment of non-current assets held for sale	32	**960,743**	283,956
Employee benefit obligations, current and past services costs	29, 30	**342,285**	564,099
Charge of other current provisions	30	**315,138**	1,046,994
Expenses on liquidation of idle production facilities	32	**134,212**	106,084
Charge of expected credit losses, net	30	**119,604**	217,662
Write-off of VAT recoverable	30	**98,857**	346,556
Actuarial loss/(gain)	31, 32	**77,964**	(70,352)
Income from recognition of inventories	31	**(74,338)**	(3,454)
Gain from disposal of inventory, net	31	**(35,751)**	(210,650)
Gain on disposal of non-current assets held for sale, net	31	**(34,624)**	(1,513,663)
Foreign exchange gain		**(5,807)**	(2,588,085)
Others		**14,520**	(771)
Operating cash flows before working capital changes		**116,744,928**	114,485,434
(Increase)/decrease in operating assets			
Inventories		**(2,262,702)**	(1,967,308)
Trade and other accounts receivable		**(188,891)**	(1,823,151)
Advances to suppliers		**(577,316)**	(163,674)
VAT recoverable and other prepaid taxes		**(1,227,930)**	1,296,071
Other current assets		**777,386**	(6,346,657)
Increase/(decrease) in operating liabilities			
Trade and other accounts payable		**(360,503)**	1,082,470
Advances received		**(2,105,001)**	2,602,338
Other taxes payable		**93,601**	(466,463)
Other current and non-current liabilities and employee benefit obligations		**(790,545)**	1,513,463
Cash generated from operating activities		**110,103,027**	110,212,523
Income taxe paid		**(18,648,344)**	(17,328,744)
Interest received		**1,758,931**	2,713,885
Net cash flows from operating activities		**93,213,614**	95,597,664

The accounting policy and explanatory notes on pages 7 through 60 form an integral part of these separate financial statements.

SEPARATE STATEMENT OF CASH FLOWS (continued)

In thousands of Tenge	Notes	For the year ended 31 December 2019	2018
Cash flows from investing activities			
Withdrawal of bank deposits		**58,141,587**	33,037,782
Repayment of interest-free loan	15	**575,925**	–
Proceeds from disposal of property, plant and equipment and non-current assets held for sale		**382,949**	31,491,443
Proceeds from bonds redemption	19	**74,177**	43,457
Dividends received		**–**	4,670,625
Contributions to charter capital of a subsidiary	8	**–**	(27,694,677)
Placement of bank deposits		**(78,395,261)**	(27,090,320)
Purchase of property, plant and equipment		**(38,028,907)**	(54,758,405)
Granting of interest-free loan	15	**(1,145,325)**	–
Contribution to charter capital of a joint venture	9	**(100,000)**	–
Purchase of intangible assets		**(29,835)**	(27,895)
Net cash flows used in investing activities		**(58,524,690)**	(40,327,990)
Cash flows from financing activities			
Dividends paid	20	**(40,001,322)**	(61,540,496)
Payment of lease liabilities	23	**(1,851,566)**	–
Net cash flows used in financing activities		**(41,852,888)**	(61,540,496)
Net change in cash and cash equivalents		**(7,163,964)**	(6,270,822)
Net foreign exchange difference		**225,604**	601,826
Change in allowance for expected credit losses	17	**(11,445)**	(17,078)
Cash and cash equivalents at the beginning of the year		**30,325,124**	36,011,198
Cash and cash equivalents at the end of the year	17	**23,375,319**	30,325,124

Signed and approved for issue on 16 March 2020.

Acting General Director (Chairman of the Management Board) *Arynov S.A.*

Chief Accountant *Sarmagambetova M.K.*

The accounting policy and explanatory notes on pages 7 through 60 form an integral part of these separate financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY

In thousands of Tenge	Share capital	Treasury shares repurchased from shareholders	Asset revaluation reserve	Other capital reserves	Retained earnings	Total
As at 31 December 2018	61,937,567	(9,549)	198,867,282	(71,795)	322,323,211	583,046,716
Changes in accounting policy *(Note 3)*	–	–	–	–	**(424,036)**	**(424,036)**
As at 1 January 2019 (restated)	**61,937,567**	**(9,549)**	**198,867,282**	**(71,795)**	**321,899,175**	**582,622,680**
Net profit for the year	–	–	–	–	**33,343,692**	**33,343,692**
Other comprehensive income/(loss)	–	–	**63,558,660**	**(1,821,093)**	–	**61,737,567**
Total comprehensive income/(loss) for the year	–	–	**63,558,660**	**(1,821,093)**	**33,343,692**	**95,081,259**
Amortization of revaluation reserve for revalued property, plant and equipment	–	–	**(15,008,858)**	–	**15,008,858**	–
Dividends *(Note 20)*	–	–	–	–	**(40,001,322)**	**(40,001,322)**
As at 31 December 2019	**61,937,567**	**(9,549)**	**247,417,084**	**(1,892,888)**	**330,250,403**	**637,702,617**
As at 31 December 2017	61,937,567	(9,549)	182,956,116	(622,717)	304,506,370	548,767,787
Changes in accounting policy *(Notes 12, 16 and 17)*	–	–	–	–	(40,532)	(40,532)
As at 1 January 2018 (restated)	61,937,567	(9,549)	182,956,116	(622,717)	304,465,838	548,727,255
Net profit for the year	–	–	–	–	51,812,710	51,812,710
Other comprehensive income	–	–	43,496,325	550,922	–	44,047,247
Total comprehensive income for the year	–	–	43,496,325	550,922	51,812,710	95,859,957
Amortization of revaluation reserve for revalued property, plant and equipment	–	–	(27,585,159)	–	27,585,159	–
Dividends *(Note 20)*	–	–	–	–	(61,540,496)	(61,540,496)
As at 31 December 2018	61,937,567	(9,549)	198,867,282	(71,795)	322,323,211	583,046,716

Signed and approved for issue on 16 March 2020.

Acting General Director (Chairman of the Management Board) _________ *Arynov S.A.*

Chief Accountant _________ *Sarmagambetova M.K.*

The accounting policy and explanatory notes on pages 7 through 60 form an integral part of these separate financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL

On 2 May 2001, the Government of the Republic of Kazakhstan issued a resolution to create a new closed joint stock company National Company "Transportation of Oil and Gas" (hereinafter – "TNG") owned by the Government. Based on that resolution, the Committee for State Property and Privatization of the Ministry of Finance of the Republic of Kazakhstan transferred the "KazTransOil" NOTC CJSC shares to TNG, and, as a result, "KazTransOil" NOTC CJSC was re-registered and renamed as "KazTransOil" CJSC.

Under Decree of the President of the Republic of Kazakhstan dated 20 February 2002, on the basis of closed joint-stock companies, National Oil and Gas Company "Kazakhoil" and National Company "Transport of Oil and Gas", reorganized by merger, the National Company "KazMunayGas" Closed Joint-Stock Company was created and became the sole shareholder of "KazTransOil" CJSC.

On 31 May 2004 in accordance with the requirements of Kazakhstani legislation, "KazTransOil" CJSC was re-registered as "KazTransOil" JSC (hereinafter – "Company").

As at 31 December 2019 10% of shares of the Company are owned by minority shareholders who acquired them within the "People's IPO" program. The major shareholder of the Company, who owns the controlling interest of the Company (90%) is National Company "KazMunayGas" JSC (hereinafter "KMG" or "Parent Company"). 90% of KMG shares are owned by Sovereign Wealth Fund "Samruk-Kazyna" JSC (hereinafter – "Samruk-Kazyna"), controlled by the Government of the Republic of Kazakhstan. 10% of KMG shares are owned by the National Bank of the Republic of Kazakhstan.

As at 31 December 2019 and 2018 the Company had ownership interest in the following companies:

	Place of incorporation	Principal activities	Ownership 31 December 2019	Ownership 31 December 2018
"MunaiTas" LLP (hereinafter – "MunaiTas")	Kazakhstan	Oil transportation	**51%**	51%
"Kazakhstan-China Pipeline" LLP (hereinafter – "KCP")	Kazakhstan	Oil transportation	**50%**	50%
"Batumi Oil Terminal" (hereinafter – "BOT")*	Georgia	Forwarding, transshipment and storage of oil and oil products and operating of Batumi Sea Port	**100%**	100%
"Petrotrans Limited" (hereinafter – "PTL") **	United Arab Emirates	Forwarding of oil and oil products	**100%**	100%
"Main Waterline" LLP (hereinafter – "Main Waterline")	Kazakhstan	Water transportation	**100%**	100%

* *BOT has the exclusive right to manage 100% of the shares of "Batumi Sea Port" LLC (hereinafter – "BSP").*

** *PTL has a branch operating in Republic of Kazakhstan, Nur-Sultan.*

The Company's head office is located in Nur-Sultan, Kazakhstan, at 20 Turan Avenue.

The Company has production facilities, which are located in Mangystau, Atyrau, Western-Kazakhstan, Aktubinsk, Karaganda, Pavlodar, Turkestan, North – Kazakhstan regions of Republic of Kazakhstan and in Shymkent, also the Company has a branch, which is located in Almaty (Research and Development Centre) and representative offices in Russian Federation (Moscow, Omsk and Samara).

The Company is the national operator of the Republic of Kazakhstan on the main oil pipeline. The Company operates network of main oil pipelines of 5,378 km.

The Company provides services for the transportation of oil through main oil pipelines, a transport expedition of Kazakhstani oil through pipelines of other states, services for the operation and maintenance of oil pipelines of other organizations, including joint venture of the Company. The Company's joint ventures MunaiTas and KCP own Kenkiyak-Atyrau, Kenkiyak-Kumkol, and Atasu-Alashankou pipelines mainly used for transportation of Kazakhstani crude oil, and also for transit of Russian oil to China.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

1. GENERAL (continued)

The Company is a natural monopolist and, respectively, is subject to regulation of the Committee on Regulation of Natural Monopolies, Protection of Competition and Consumer rights of the Ministry of National Economy of the Republic of Kazakhstan (hereinafter – "CRNM" or "CRNMPCandCR"). CRNM is responsible for approving the methodology for calculating the tariff and tariff rates for oil transportation in domestic market of the Republic of Kazakhstan.

According to the Law of the Republic of Kazakhstan *On Natural Monopolies* transit of crude oil through the pipelines on the territory of the Republic of Kazakhstan and export from the Republic of Kazakhstan are excluded from the regulation of natural monopolies.

In accordance with the order of CRNMPCandCR the maximum tariff for pumping oil on the domestic market for 2019 is 4,721.72 Tenge per ton for 1,000 kilometers without VAT. Starting from 1 September 2019, CRNM set a temporary compensating tariff in the amount of 4,716.62 Tenge per ton for 1,000 kilometers without VAT.

Starting from 1 April 2018 tariffs for pumping oil on export from the Republic of Kazakhstan equals to 6,398.92 Tenge per ton for 1,000 kilometers without VAT.

Tariff for pumping oil for transit through Kazakhstani part of main oil pipeline "Tuymazy – Omsk – Novosibirsk-2" starting from 1 April 2018 is 4,292.4 Tenge per ton for 1,000 kilometers.

Tariff for transportation of Russian oil through the territory of Kazakhstan to the People's Republic of China on the route border of Russian Federation – border of Republic of Kazakhstan (Priirtyshsk – Atasu (Republic of Kazakhstan) – Alashankou (People's Republic of China) is 4.23 US Dollars per ton (in Priirtyshsk – Atasu sector) (in 2018: 3.11 US Dollars per ton).

In general, tariff rates are based on the cost of capital return on operating assets. In accordance with the legislation of the Republic of Kazakhstan on regulation of natural monopolies, tariff rates cannot be lower than the expenditures required to provide services, and should provide for entity's profitability at the level ensuring effective functioning of a natural monopoly.

These separate financial statements for the year ended 31 December 2019 were approved by Internal Audit Committee of the Company's Board of Directors and signed by the Acting General Director (Chairman of the Management Board) and the Chief Accountant on 16 March 2020.

2. BASIS OF PREPARATION

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

The separate financial statements have been prepared on a historical cost basis, except for property, plant and equipment, which are stated at revalued amounts, and other items described in the accounting policies and notes to the separate financial statements.

The separate financial statements are presented in Tenge and all amounts are rounded to the nearest thousands, except when otherwise indicated.

The separate financial statements provide comparative information in respect of the previous period.

These separate financial statements were issued in addition to the consolidated financial statements of the Company and its subsidiaries. These consolidated financial statements were approved by internal audit committee of the Company's Board of Directors and signed by the Acting General Director (Chairman of the Management Board) and the Chief Accountant of the Company on 16 March 2020. Consolidated financial statements are available on the Company's corporate internet resource.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Investment in a subsidiary

Investment in a subsidiary is accounted for at cost less any impairment in value in the separate financial statements.

The Company assesses at each reporting date whether there is any objective evidence that an investment in a subsidiary may be impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the subsidiary and its carrying value and then recognizes the loss within the statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Interest in joint ventures

Investments in joint ventures are accounted for in these separate financial statements at initial cost less impairment. As discussed in *Note 1*, the Company participates in two jointly controlled entities: KCP and MunaiTas *(Note 9).*

3.3 Foreign currency translation

These separate financial statements are presented in Tenge, which is the Company's functional and presentation currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Company at its functional currency rate prevailing at the date of the transaction first qualified for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of functional currency ruling at the reporting date.

All exchange differences arising from repayment and recalculation of monetary items, are included in the separate statement of comprehensive income.

Non-monetary items that are measured in terms of 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 is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Exchange rates

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

Weighted average currency exchange rates for the year ended 31 December 2019 and 2018 are as follows:

	For the year ended 31 December	
Tenge	**2019**	2018
US Dollars	**382.87**	345.04
Russian Rubles	**5.92**	5.50
Euro	**428.61**	406.88

As at 31 December exchange rates established by KASE are as follows:

Tenge	**2019**	2018
US Dollars	**382.59**	384.20
Russian Rubles	**6.16**	5.52
Euro	**429.00**	439.37

3.4 Current versus non-current classification of assets and liabilities

The Company presents assets and liabilities in the separate 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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Current versus non-current classification of assets and liabilities (continued)

All other assets are classified as non-current.

A liability is current when:

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

The Company classifies all other liabilities as non-current.

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

3.5 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 models 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 separate 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 separate 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 and external appraisers also compares changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purposes of the disclosure of the fair value the Company classified assets and liabilities based on their nature, characteristics and risks inherent in them, as well as the applicable level in the fair value hierarchy, as described above.

An analysis of the fair value of property, plant and equipment and additional information about the methods of its definition are provided in *Notes 4 and 5*.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Non-current assets held for sale and discontinued operations

The Company classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sale will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the separate statement of comprehensive income.

Additional disclosures are provided in *Note 18*. All other notes to the separate financial statements include amounts for continuing operations, unless indicated otherwise.

3.7 Property, plant and equipment

Property, plant and equipment initially are recognized at cost. The subsequent accounting is at fair value less accumulated depreciation (except for land, technological oil and construction in process) and impairment losses recognised after the date of the revaluation.

In identifying excess of technological oil the Company assesses whether the transferred item from customers meets the definition of an asset, and if it is so, recognises the transferred asset as property, plant and equipment. At initial recognition such property, plant and equipment is measured at zero cost and revalued at each reporting date.

The Company periodically engages independent appraisers to revalue property, plant and equipment to their fair value. According to Accounting Policy property, plant and equipment is revalued each 3 years (except for technological oil, which is revalued during the period when the fair value changes) in order to ensure that fair value of the revalued asset does not significantly differ from its book value.

Any revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as expense in the statement of comprehensive income, in this case the increase is recognised through profit in the statement of comprehensive income. A revaluation deficit is recognised as expense in the statement of comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Additionally, accumulated depreciation and impairment as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

The cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Property, plant and equipment (continued)

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Further detailed information about the asset retirement and land recultivation obligation disclosed in *Notes 4 and 26*.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	Years
Buildings	5-50
Machinery and equipment	3-30
Pipelines and transportation assets	5-30
Other	2-10

According to the Company's accounting policy technological oil, 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 comprehensive income when the asset is derecognised.

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

3.8 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. 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 over seven-ten 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 separate 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 separate statement of comprehensive income when the asset is derecognised.

3.9 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 to sell and its value in use.

Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Impairment of non-financial assets (continued)

In determining fair value less selling costs, recent market transactions are taken into account, if available. 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 subsidiaries 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 CGU to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, 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 on inventories) are recognized in the separate statement of comprehensive income in those expense categories consistent with the function of the impaired asset, except for the previously overvalued property, plant and equipment when the revaluation was taken to other comprehensive income. In this case, the impairment is also recognized in other comprehensive income up to the amount previously conducted revaluation.

At each reporting date the Company makes an assessment as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. 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 exceeds 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 through profit or loss, unless the asset is carried at revalued amount. In the latter case the reversal is treated as a revaluation increase.

Information on impairment of non-financial assets is disclosed in *Notes 4 and 5*.

3.10 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 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 *Revenue from Contracts with Customers*.

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

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

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

The Company's financial assets include cash and short-term bank deposits, trade and other receivables, and investments in bonds.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Financial assets (continued)

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 OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

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

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

Financial assets at amortised cost are subsequently measured using the effective interest 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 and other accounts receivables, funds in credit institutions (cash and cash equivalents, bank deposits).

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

The Company includes bonds of "Special financial company DSFK" LLP to this category *(Note 19)*.

Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)

The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; 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.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Company doesn't have financial assets of this category.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Financial assets (continued)

Subsequent measurement (continued)

Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Company doesn't have financial assets of this category.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised (e.g., removed from the Company's separate 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 asset is recognised to the extent of the Company's continuing involvement in the asset.

In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

3.11 Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Disclosures for significant assumptions *(Note 4)*;
- Trade and other accounts receivable *(Note 12)*;
- Bank deposits *(Note 16)*;
- Cash and cash equivalents *(Note 17)*.

The Company recognises an allowance for expected credit losses (ECLs) for all loans and other debt financial assets that are not held at fair value through profit or loss. ECLs 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. ECLs are discounted at an approximation of the original effective interest rate for a similar instrument with a similar credit raiting.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). 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 ECL).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Impairment of financial assets (continued)

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

For funds in credit institutions (bank deposits, cash and cash equivalents), investments in bonds, the Company calculated ECLs based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Company considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. Also it is considered a financial asset in default when contractual payment 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.

3.12 Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

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

The Company's financial liabilities include trade and other accounts payable.

Subsequent measurement

The measurement of financial liabilities depends on their classification.

Trade and other accounts payable

After initial recognition, trade and other accounts payable are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income or loss when the liabilities are derecognised as well as through the effective interest rate amortization process.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income as income or expense.

3.13 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the separate statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3.14 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Cash and cash equivalents

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

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

3.16 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit or loss excluding any reimbursement.

The Company records a provision on asset retirement and land recultivation obligation. Provisions on asset retirement and land recultivation obligation 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 asset retirement and land recultivation obligation. The unwinding of the discount is expensed as incurred and recognised in the separate statement of comprehensive income as a finance cost.

The estimated future costs on asset retirement and land recultivation obligation 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 the cost of the asset *(Notes 4 and 26)*.

3.17 Employee benefits

The Company provides long-term employee benefits to employees before, on and after retirement, in accordance with the Collective agreement between the Company and its employees and Company's Rule of social support of non-working pensioners and disabled people. The Collective agreement provides for one-off retirement payments, financial aid for employees' disability, anniversaries and funeral. The entitlement to benefits is usually conditional on the employee remaining in service up to retirement age.

The expected costs of the benefits associated with one-off retirement payments are accrued over the period of employment using the same accounting methodology as used for defined benefit post-employment plans with defined payments on the end of labor activity. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred. Other movements are recognised in the current period, including current service cost, any past service cost and the effect of any curtailments or settlements. The most significant assumptions used in accounting for defined benefit obligations are discount rate and mortality rate. The discount rate is used to determine the net present value of future liabilities and each year the unwinding of the discount on those liabilities is charged to the separate statement of comprehensive income as interest cost. The mortality assumption is used to project the future stream of benefit payments, which is then discounted to arrive at a net present value of liabilities.

The results of the revaluation of employee benefits obligations, including actuarial gains and losses, are recognized by the Company as follows:

- Remuneration after termination of employment through other comprehensive income. In subsequent periods, the revaluation results will not be reclassified to profit or loss;
- Other long-term benefits through profit or loss.

Net interest is calculated by applying the discount rate to the net defined benefit obligation or asset, The Company recognises the following changes in the net defined benefit obligation under 'cost of sales', 'administration expenses' and 'finance expenses' in separate statement of comprehensive income (by function):

- Service costs comprising current service costs, past-service costs;
- Net interest expense or income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17 Employee benefits (continued)

Employee benefits are considered as other long-term employee benefits. The expected cost of these benefits is accrued over the period of employment using the same accounting methodology as used for the defined benefit plan.

These obligations are valued by independent qualified actuaries on an annual basis.

Further detailed information is disclosed in *Notes 4 and 21.*

3.18 Revenue and other income recognition

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements (as it typically controls the goods or services before transferring them to the customer), except for transportation expedition contract where the Company is acting as an agent for which the Company recognizes revenue commission for its services.

In the separate financial statements, the Company generally recognizes revenue for the following types:

Rendering of transportation services

Revenue from rendering of transportation and transshipment services is recognized at a point in time on the basis of actual volumes of oil and water transported during the reporting period.

Rendering of pipeline operation and maintenance services

Revenues from pipeline operation and maintenance services are recognized over time, as the buyer simultaneously receives and benefits from the performance of the Company's contractual obligations.

Rendering of other services

Revenue from rendering of other services is recognized as services are provided.

Interest income

For all financial instruments measured at amortized cost and at fair value through profit or loss, as well as at fair value through other comprehensive income, interest income or expense are recognized using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the separate statement of comprehensive income.

Dividends

Dividend income is recognized when the Company's right to receive the payment is established (on the date of dividends approval).

Fees for undelivered oil volumes

Income from fees for undelivered oil volumes is recognized for nominated and non-delivered oil volumes under oil transportation contracts on "ship or pay" terms.

In preparing to adopt IFRS 15, the Company is considering the following:

<u>Variable consideration</u>

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18 Revenue and other income recognition (continued)

Fees for undelivered oil volumes (continued)

Principal versus agent considerations

IFRS 15 requires assessment of whether the Company controls a specified good or service before it is transferred to the customer / customer's buyer.

The Company determined that it acts as a principal for all contracts under which revenue is recognized (since it controls the promised service before it is transferred to customer or to customer's buyer), except for contracts on oil transportation coordination services where Company determined that it does not control the services before they are accepted by the customer's buyer. Hence, Company is an agent, rather than principal in these contracts on oil transportation coordination services.

Advances received from customers

Advance payments received from customers are contractual obligations. The contractual obligations are the obligation to transfer to the buyer the goods or services for which the Company has received compensation from the buyer. If the buyer pays compensation before the Company transfers the product or service to the buyer, the contractual obligation is recognized at the time the payment is made or at the time the payment becomes payable (whichever is earlier). Contractual liabilities are recognized as revenue when the Company fulfills its contractual obligations.

Under IFRS 15, the Company must determine whether there is a significant financing component in its contracts.

The Company receives only short-term advances from its customers. They are presented as part of advances received. The Company determined that the length of time between the delivery of the services to the customer by the Company and the time when the customer pays for such services is relatively short. Therefore, the Company has concluded that given contracts do not contain significant financing component.

In accordance with the requirements for the special purpose consolidated financial statements, the Company has detailed information on revenue recognized under contracts with customers in categories reflecting how economic factors influence the nature, size, timing and uncertainty of revenue and cash flows. Disclosure of detailed revenue is discussed in *Note 28.*

The recognition and measurement requirements in IFRS 15 are also applicable for recognition and measurement of any gains or losses on disposal of non-financial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business. These changes did not affect to the separate financial statements of the Company.

3.19 Taxes

Current income tax

Current 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 Republic of Kazakhstan, where the Company operates and generates taxable income.

Current income tax relating to items recognized in other comprehensive income is recognised in equity and not in the statement of comprehensive income. Management of the Company 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19 Taxes (continued)

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;
- 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.

Value added tax (VAT)

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.20 Equity

Share capital

External costs directly attributable to the issue of new shares, excluding business combinations are shown as a deduction from the proceeds from shares issue in equity.

Treasury shares repurchased from shareholders

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in the share premium.

Dividends

The Company recognises a liability to make cash or non-cash distributions to shareholders, when the distribution is authorised and the distribution is no longer at the discretion of the Company. According to legislation of the Republic of Kazakhstan, distribution is authorised by the shareholders. A corresponding amount is recognised directly in equity.

At the moment of distribution of non-monetary assets the difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognized in the separate statement of comprehensive income.

Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the separate financial statements are authorized for issue.

3.21 Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as at 1 January 2019.

New standards, interpretations and amendments adopted by the Company

The Company applied for the first time certain standards and amendments, which were effective for annual periods beginning on or after 1 January 2019. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the impact of each new standard or amendment are described below:

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21 Changes in accounting policies and disclosures (continued)

New standards, interpretations and amendments adopted by the Company (continued)

IFRS 16 Leases (continued)

(a) Nature of the effect of adoption of IFRS 16

The Company has lease contracts for various items of plant, machinery, vehicles and other equipment. Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as an operating lease. Any prepaid rentand accrued rent were recognised under Advances to suppliers and Trade and other payables, respectively.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Company.

Leases previously accounted for as operating leases

The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients where in it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to contracts with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The effect of adoption of IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows

In thousands of Tenge	**1 January 2019**
Assets	
Right-of-use assets *(Note 6)*	4,983,284
Total assets	**4,983,284**
Liabilities	
Lease liabilities *(Note 23)*	5,513,329
Deferred tax liability *(Note 35)*	(106,009)
Total liabilities	**5,407,320**
Equity	
Retained earnings	(424,036)
Total	**(424,036)**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21 Changes in accounting policies and disclosures (continued)

New standards, interpretations and amendments adopted by the Company (continued)

IFRS 16 Leases (continued)

(a) Nature of the effect of adoption of IFRS 16 (continued)

Leases previously accounted for as operating leases (continued)

Below is a reconciliation of liabilities as at 1 January 2019 with contractual commitments for operating leases as at 31 December 2018:

In thousands of Tenge	
Operating lease contractual commitments as at 31 December 2018	**7,361,333**
The weighted average rate of raising additional borrowings as at 1 January 2019	13.46%
Discounted operating lease liabilities as at 1 January 2019	**5,513,329**
Less:	
Contractual commitments related to short term lease liabilities	–
Contractual commitments related to low value assets	–
Add:	
Contractual commitments related to lease previously classified as a financial lease	–
Payments in the periods specified in the renewal option, not recognized as at 31 December 2018	–
Lease liabilities as at 1 January 2019 *(Note 23)*	**5,513,329**

(b) Summary of new accounting policies

Set out below are the new accounting policies of the Company upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The 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, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating 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 is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21 Changes in accounting policies and disclosures (continued)

New standards, interpretations and amendments adopted by the Company (continued)

IFRS 16 Leases (continued)

(b) Summary of new accounting policies (continued)

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal.

After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Company included the renewal period as part of the lease term for leases of plant and machinery due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on production if a replacement is not readily available.

The following interpretations and amendments are applied for the first time in 2019 and did not affect the separate financial statements of the Company:

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. Using the approach that better predicts the resolution of the uncertainty is required. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. This interpretation do not have any impact on the separate financial statements.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments are applied retrospectively.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21 Changes in accounting policies and disclosures (continued)

New standards, interpretations and amendments adopted by the Company (continued)

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements and will apply only to any future plan amendments, curtailments, or settlements of the Company.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively. Since the Company does not have such long-term interests in its associate and joint venture, the amendments will not an impact on its separate financial statements.

Annual improvements 2015-2017 cycle

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation. These amendments will apply on future business combinations of the Company.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured. These amendments are currently not applicable to the Company but may apply to future transactions.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21 Changes in accounting policies and disclosures (continued)

New standards, interpretations and amendments adopted by the Company (continued)

Annual improvements 2015-2017 cycle (continued)

Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its separate financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its separate financial statements.

Standards issued but not yet effective

The following are the standards and interpretations that were issued but have not yet entered into force on 31 December 2019. The Company intends to apply these standards from the date they enter into force.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*. IFRS 17 establishes a single framework for the accounting for insurance contracts and contains requirements for related disclosures. The new standard replaces IFRS 4 *Insurance Contracts*. The standard is effective for annual periods beginning on or after 1 January 2021. The Company does not expect the standard to have a material impact on its separate financial statements.

Early adoption is permitted provided that the entity also applies IFRS 9 and IFRS 15 at or before the date of first applies IFRS 17. This standard is not applicable to the Company.

Revised version of Conceptual Framework for Financial Reporting

In March 2018, the IASB issued a revised version of *Conceptual Framework for Financial Reporting*. In particular, the revised version introduces new definitions of assets and liabilities, as well as amended definitions of income and expenses. The new version is effective for annual periods beginning on or after January, 2020. The revised version of *Conceptual Framework* is not expected to have a significant impact on the separate financial statements.

Ammendments to IFRS 3: Definition of a Business Combinations

In October 2018, the IASB issued amendments to IFRS 3 *Business Combinations*. The amendments enhance definition of a business set out by the standard. The amendments are effective for acquisitions to occur on or after 1 January 2020; earlier application is permitted. Since the amendments apply prospectively to transactions or other events after the date of first application these amendments is not expected to have a significant impact on the separate financial statements.

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Amendments to IAS 1 and IAS 8 introduce the new definition of material.

The amendments to IAS 1 and IAS 8 are effective on or after 1 January 2020; earlier application is permitted.

The Company does not expect the amendments to have a material impact on its separate financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21 Changes in accounting policies and disclosures (continued)

Standards issued but not yet effective (continued)

Amendments to IFRS 7 Financial Instruments: Disclosures and IFRS 9 Financial Instruments named Interest Rate Benchmark Reform

In September 2019, the IASB issued amendments to IFRS *7 Financial Instruments: Disclosures* and IFRS 9 *Financial Instruments named Interest Rate Benchmark Reform.* The amendments provide relief from certain requirements of hedge accounting, as their fulfillment can lead to discontinuation of hedge accounting due to uncertainty caused by the reform. The amendments are effective on or after 1 January 2020; earlier application is permitted.

These amendments is not expected to have a significant impact on the separate financial statements.

Amendments to IAS 1 Presentation of Financial Statements named Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to IAS 1 *Presentation of Financial Statements named Classification of Liabilities as Current or Non-current.* The amendments clarify requirements for classifying liabilities as current or non-current. The amendments are effective on or after 1 January 2022; earlier application is permitted.

The Company does not expect the amendments to have a material impact on the separate financial statements, as the Company already applies criteria set by the amendments.

The Company does not plan early adoption in respect of above mentioned new standards and amendments to existing standards to which this option is available.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's separate 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 38)*;
- Sensitivity analyses disclosures *(Note 38)*.

Estimates and assumptions

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 separate financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Revaluation of property, plant and equipment

The Company accounts for its property, plant and equipment at fair value. During 2019 the Company engaged independent external appraisers to perform valuation of its property, plant and equipment.

The initial data used to determine the fair value of the office buildings in the cities of the Republic of Kazakhstan with the relevant land plots, as well as vehicles and certain other non-specialized assets, refer to the Level 2 in the fair value hierarchy (unquoted observable inputs).

The remaining property, plant and equipment are specialized and the initial data used for determining their fair value refer to the Level 3 in the fair value hierarchy (unobservable inputs).

Valuation method was at the first stage based on the valuation of the depreciable replacement cost ("cost method"). Cost method 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).

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Revaluation of property, plant and equipment (continued)

As part of the valuation the appraiser also performed a test for adequate profitability using the income approach with analysis of economic depreciation of specialized property, plant and equipment of the Company. Adequate profitability was calculated by assessing value in use. The following assumptions were used in calculation value in use:

Discount rate	13.94%
Long-term growth rate	3.29%

The resulting value in use was below depreciated replacement cost and hence was recorded as fair value of the Company's property, plant and equipment. The results of the assessment of value in use are sensitive to changes in discount rate and long-term growth rate indicators and forecasts along with regarding volumes of services provided, the level of tariffs for services provided, the amount of capital and operating expenditures.

Sensitivity analysis of value of property plant and equipment for the change in the discount rate and long-term growth rate is as follows:

In thousands of Tenge	(Decrease)/ increase in rate	(Decrease)/ increase in value of property, plant and equipment
Discount rate	-0.5%	21,053,605
	+0.5%	(19,176,879)
Inflation rate	-0.5%	(14,573,259)
	+0.5%	16,009,748

As a result of the revaluation, the value of the Company's property plant and equipment (excluding technological oil) increased by 79,804,912 thousand Tenge *(Note 5)*.

Revaluation of technological oil

Technological oil is revalued at each reporting date, due to the fact that fluctuations are quite frequent and significant. Technological oil was revalued on 31 December 2019.

Input data for determining the fair value of technological oil refer to Level 2 in the fair value hierarchy (unquoted observable inputs).

The following judgments were taken into account by the Company's management when determining fair value of technological oil:

- Technological oil is an integral part of the process of operating the pipeline without which the transportation is not possible and, accordingly, the object of valuation is a specialized asset;
- Technological oil cannot be sold or otherwise disposed due to regulations imposed by CRNM;
- Tariffs are being closely monitored by CRNM and the Government of the Republic of Kazakhstan (except export tariffs and transit through the territory of Kazakhstan) to ensure they will not adversely affect general price index in the country, and thus may be set at the level which will not allow to recover cost of oil, if it was valued at international market price;
- The Company is affected by regulations set by KMG and, should there be a decision to sell some part of oil, subject for do approval of CRNM, it would be sold only to the KMG Company's trading division at internal price;
- And if the Company needs to buy additional oil to fill in new parts of pipeline, it would buy oil from the KMG Company entities at the same internal price.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Revaluation of technological oil (continued)

Taking into account all these factors the fair value of the Company's technological oil was determined based on the price of 63,774 Tenge per ton (as at 31 December 2018: 63,015 per ton). The effect of the change in fair value of the technological oil was equal to 1,938,556 thousand Tenge (as at 31 December 2018: 54,541,851 thousand Tenge), in addition as at 31 December 2019 the revaluation of technological oil surplus in the amount 3,216,187 thousand Tenge (as at 31 December 2018: 3,678,627 thousand Tenge) was recognized; the overall effect of revaluation is equal to 5,154,743 thousand Tenge (as at 31 December 2018: 58,220,478 thousand Tenge) *(Note 5)*.

The volume of oil in the pipeline as at 31 December 2019 amounted to 2,605 thousand tons (as at 31 December 2018: 2,555 thousand tons). According to the results of stock count held at the end of 2019 the oil surplus in the amount of 50,431 tons (for 2018: 58,377 tons) and write-off of oil in the amount of 120 tons (for 2018: 1,457 tons) were recognized in the reporting period.

Impairment of 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. Impairment exists when the carrying value of an asset or cash generating units (hereinafter – "CGU") exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. If no such transactions can be identified, an appropriate valuation model is used. The value in use calculation is based on a discounted cash flow model. 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 individual assets are allocated. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

Impairment of investments in subsidiaries and jointly controlled entities

Impairment of investment in BOT

Due to the recognition in 2019 of a significant impairment of property plant and equipment of BOT, the Company analyzed the value of investments for impairment and determined that the carrying value of investments in BOT exceeded their recoverable amount and, accordingly, the Company accrued impairment as at 31 December 2019 of this excess which amounted to 16,205,432 thousand Tenge *(Note 8)*.

The Company determined that at the end of 2019 the book value of investments in Main Waterline, PTL, KKT and MunaiTas did not exceed their recoverable amount and, accordingly, the Company did not recognize any impairment.

Useful lives of items of property, plant and equipment

The Company assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Asset retirement and land recultivation obligation

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

Asset retirement and land recultivation obligation is estimated based on the value of the work to decommission and rehabilitate calculated by the Company in accordance with the technical regulations of the Republic of Kazakhstan (pipeline decommission expense is equal to 5,954 thousand Tenge per kilometer (2018: 5,671 thousand Tenge)).

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Asset retirement and land recultivation obligation (continued)

Reserve on liquidation of landfills and waste management is also reflected within the asset retirement and land recultivation obligation. The reserve was created in 2013 in accordance with the requirements of Environmental Code of the Republic of Kazakhstan, which states that the owner of the landfills has to create a liquidation fund for recultivation of land and for monitoring of environmental impact right after the closure of the landfill.

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

As a percentage	**2019**	2018
Discount rate	**7.46%**	8.91%
Inflation rate	**5.48%**	5.47%
Period of fulfillment of obligations	**15 year**	16 year

As there is no an active market for highly liquid corporate bonds in the Republic of Kazakhstan and due to the insufficiency of transactions of government bonds, the Company uses risk-free rates of US government treasury bonds as an estimated discount rate, with maturities corresponding to the expected term of the asset retirement and land recultivation, adjusted for country risk and inflation rates of the Republic of Kazakhstan.

As at 31 December 2019 the carrying amount of the asset retirement and land recultivation obligation was 27,780,887 thousand Tenge (as at 31 December 2018: 21,109,397 thousand Tenge) *(Note 26).*

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 such obligations will be due.

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

In thousands of Tenge	**(Decrease)/ increase in rate**	**(Decrease)/ increase in liability**
Discount rate	-0.5%	1,996,206
	+0.5%	(1,852,989)
Inflation rate	-0.5%	(1,895,065)
	+0.5%	2,025,087

Impairment of advances to suppliers

The Company recognized reserve for the impairment of long-term and short-term advances to suppliers. In estimating the reserve historical and anticipated suppliers performance are considered. Changes in the economy, industry and specific characteristics may affect the reserves recorded in the separate financial statements.

As at 31 December 2019 and 2018 these reserves have been created for the amount of 53,905 thousand Tenge (Notes 10 and 13).

Allowances for financial assets

The Company recognises allowances for expected credit losses for trade accounts receivable and funds in credit institutions (cash and cash equivalents, bank deposits).

For trade and other receivables, the Company has applied the standard's simplified approach and has calculated expected credit losses based on lifetime of these financial instruments. The Company used a provision model that is prepared taking into account Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Allowances for financial assets (continued)

For funds in credit institutions (cash and cash equivalents, bank deposits), the Company calculated expected credit losses based on the 12-month period. The 12-month expected credit losses is the portion of lifetime expected credit losses that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit losses.

The Company considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. Also it is considered a financial asset in default when contractual payment 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.

Thus, as at 31 December 2019 and 2018 allowance for expected credit losses was created in the amount of 1,055,238 thousand Tenge and 900,830 thousand Tenge, respectively *(Notes 12, 16 and 17)*. Changes in the economy, industry, or specific customer conditions would have impact to these allowance recorded in the separate financial statements.

Tax provision

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

The Company establishes provisions, based on reasonable estimates, for possible consequences of inspections by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax inspections and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the country.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised.

Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The amount of recognized deferred tax assets as at 31 December 2019 was 9,236,501 thousand Tenge (as at 31 December 2018: 6,588,821 thousand Tenge) *(Note 35)*. As at 31 December 2019 and 2018 the Company did not have unrecognized deferred tax assets.

Employee benefits

The cost of defined long-term employee benefits to employees before, on and after retirement and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases.

Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

As there is no an active market for highly liquid corporate bonds in the Republic of Kazakhstan and due to the insufficiency of transactions on government bonds, the Company uses risk-free rates of US government treasury bonds an estimated discount rate, with extrapolated maturities corresponding to the expected term for fulfilling of employee benefits obligations, adjusted for country risk and inflation rates of the Republic of Kazakhstan.

The mortality rate is based on publicly available mortality tables. Increase in future salary and pension is based on expected future inflation rates for the respective country.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Employee benefits (continued)

Principal actuarial assumptions used for valuation of employee benefit obligations as at 31 December 2019 and 2018 were as follows:

	2019	2018
Discount rate	**7.28%**	8.91%
Future salary increase	**5.0%**	5.0%
Mortality rate	**5.09%**	5.3%

As at 31 December 2019 the average period of post-retirement benefit obligations were 19.31 years (as at 31 December 2018: 19.4 years).

In connection with the certain changes introduced in 2019 to the Regulation on social support of non-working pensioners and disabled people, the Company revised its obligations and reflected the changes as the past service cost *(Note 21).*

Sensitivity analysis of employee benefit obligations for the change in significant estimates as at 31 December 2019 is as follows:

In thousands of Tenge	**(Decrease)/ increase in rate**	**Increase/ (decrease) in liability**
Discount rate	-0.5%	1,019,231
	+0.5%	(920,047)
Future salary increase	-0.5%	(928,279)
	+0.5%	1,023,214
Life duration	-1 year	(160,918)
	+1 year	172,737

5. PROPERTY, PLANT AND EQUIPMENT

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

In thousands of Tenge	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
At revalued amount as at 31 December 2018	5,179,377	234,939,104	18,064,112	79,958,563	147,498,814	160,974,494	19,587,200	34,126,247	700,327,911
Additions	–	78,348	2,728,510	18,473	2,373,094	–	784,905	34,811,376	40,794,706
Disposals	–	(910,442)	(129,839)	(156,755)	(1,937,051)	(7,310)	(532,659)	(89,719)	(3,763,775)
Revaluation (through revaluation reserve) *(Note 20)*	378,084	40,965,425	471,136	8,099,731	25,069,936	5,154,743	1,818,380	832,455	82,789,890
Revaluation/(impairment) (through profit and loss), net *(Note 31)*	25,810	663,483	(571,380)	3,118,803	44,532	–	49,998	(1,161,481)	2,169,765
Subtraction of accumulated depreciation and impairment due to revaluation	–	(43,988,407)	(4,874,270)	(13,734,942)	(51,530,200)	–	(12,098,316)	(313,174)	(126,539,309)
Transfers to non-current assets held for sale *(Note 18)*	(73,519)	–	(339,155)	(672,938)	(31,483)	–	(604)	–	(1,117,699)
Transfers from construction-in-progress	7,856	1,352,304	266,467	1,368,444	10,391,518	–	187,448	(13,574,037)	–
Contribution to charter capital of a subsidiary *(Note 36)*	–	–	–	–	–	–	–	(7,055,042)	(7,055,042)
Transfers to intangible assets *(Note 7)*	–	–	–	–	–	–	–	(245,274)	(245,274)
Transfers and reclassifications	–	26,464	(728,305)	(3,413,930)	4,141,436	–	(36,728)	11,063	–
At revalued amount as at 31 December 2019	5,517,608	233,126,279	14,887,276	74,585,449	136,020,596	166,121,927	9,759,624	47,342,414	687,361,173
Accumulated depreciation and impairment as at 31 December 2018	–	(35,418,917)	(3,867,566)	(11,017,271)	(41,898,491)	–	(9,969,532)	(304,692)	(102,476,469)
Depreciation charge	–	(14,747,923)	(2,256,808)	(5,176,842)	(20,191,506)	–	(4,227,583)	–	(46,600,662)
Disposals	–	793,849	121,069	120,492	1,908,779	–	526,614	21,411	3,492,214
Impairment (through profit and loss) *(Note 31)*	–	(268)	–	(1,588)	–	–	–	(38,243)	(40,099)
Impairment (through revaluation reserve) *(Note 20)*	–	(1,083)	–	(6,325)	–	–	–	–	(7,408)
Subtraction of accumulated depreciation and impairment due to revaluation	–	43,988,407	4,874,270	13,734,942	51,530,200	–	12,098,316	313,174	126,539,309
Transfers to non-current assets held for sale *(Note 18)*	–	–	189,980	8,829	2,465	–	604	–	201,878
Transfers to intangible assets *(Note 7)*	–	–	–	–	–	–	–	7	7
Contribution to charter capital of a subsidiary *(Note 36)*	–	–	–	–	–	–	–	8,343	8,343
Transfers and reclassifications	–	533	1,178	85,494	(87,118)	–	(87)	–	–
Accumulated depreciation and impairment as at 31 December 2019	–	(5,385,402)	(937,877)	(2,252,269)	(8,735,671)	–	(1,571,668)	–	(18,882,887)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

5. PROPERTY, PLANT AND EQUIPMENT (continued)

In thousands of Tenge	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
At revalued amount as at 31 December 2017	6,057,069	227,862,264	10,519,904	85,464,187	144,214,874	102,839,808	17,509,489	35,052,454	629,520,049
Additions	–	40,974	6,548,753	41,517	4,819,108	–	2,149,714	37,081,752	50,681,818
Additions of asset retirement and land recultivation obligation *(Note 26)*	–	106,229	–	–	–	–	–	–	106,229
Transfers from non-current assets held for sale *(Note 18)*	–	–	22,498	–	–	–	–	–	22,498
Disposals	(134,166)	(1,173,251)	(106,752)	(970,256)	(837,029)	(85,792)	(619,631)	(66,547)	(3,993,424)
Revaluation (asset revaluation reserve)	–	–	–	–	–	58,220,478	–	–	58,220,478
Transfers to non-current assets held for sale *(Note 18)*	(698,845)	(14,670)	(708,880)	(8,796,535)	(20,366,938)	–	(899,489)	(1,041,486)	(32,526,843)
Transfers from construction-in-progress	3,468	8,321,832	2,803,906	4,390,043	18,889,560	–	1,455,873	(35,864,682)	–
Contribution to charter capital of a subsidiary	(48,149)	–	(141,515)	(158,722)	(282,254)	–	(37,010)	(310,150)	(977,800)
Transfers to intangible assets *(Note 7)*	–	–	–	–	–	–	–	(725,094)	(725,094)
Transfers and reclassifications	–	(204,274)	(873,802)	(11,671)	1,061,493	–	28,254	–	–
At revalued amount as at 31 December 2018	5,179,377	234,939,104	18,064,112	79,958,563	147,498,814	160,974,494	19,587,200	34,126,247	700,327,911
Accumulated depreciation and impairment as at 31 December 2017	–	(20,559,375)	(2,284,801)	(6,570,464)	(27,082,673)	–	(6,128,463)	(57,641)	(62,683,417)
Depreciation charge	–	(15,644,714)	(1,919,407)	(4,887,806)	(19,998,828)	–	(4,874,250)	–	(47,325,005)
Disposals	–	780,353	95,716	209,238	631,579	59,180	604,743	2,181	2,382,990
Impairment (through expenses) *(Note 32)*	–	(2,185)	(21,567)	(549)	(10,174)	(8,586)	–	(249,232)	(292,293)
Impairment (through revaluation reserve)	–	(2,457)	(16,008)	(672,848)	(5,946)	(50,594)	–	–	(747,853)
Transfers to non-current assets held for sale *(Note 18)*	–	1,333	197,593	892,284	4,524,342	–	422,421	–	6,037,973
Contribution to charter capital of a subsidiary	–	–	80,200	9,448	54,066	–	7,422	–	151,136
Transfers and reclassifications	–	8,128	708	3,426	(10,857)	–	(1,405)	–	–
Accumulated depreciation and impairment as at 31 December 2018	–	(35,418,917)	(3,867,566)	(11,017,271)	(41,898,491)	–	(9,969,532)	(304,692)	(102,476,469)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

5. PROPERTY, PLANT AND EQUIPMENT (continued)

In thousands of Tenge	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
As at 31 December 2019									
At revalued amount	**5,517,608**	**233,126,279**	**14,887,276**	**74,585,449**	**136,020,596**	**166,121,927**	**9,759,624**	**47,342,414**	**687,361,173**
Accumulated depreciation and impairment	**–**	**(5,385,402)**	**(937,877)**	**(2,252,269)**	**(8,735,671)**	**–**	**(1,571,668)**	**–**	**(18,882,887)**
Net book value	**5,517,608**	**227,740,877**	**13,949,399**	**72,333,180**	**127,284,925**	**166,121,927**	**8,187,956**	**47,342,414**	**668,478,286**
As at 31 December 2018									
At revalued amount	5,179,377	234,939,104	18,064,112	79,958,563	147,498,814	160,974,494	19,587,200	34,126,247	700,327,911
Accumulated depreciation and impairment	–	(35,418,917)	(3,867,566)	(11,017,271)	(41,898,491)	–	(9,969,532)	(304,692)	(102,476,469)
Net book value	5,179,377	199,520,187	14,196,546	68,941,292	105,600,323	160,974,494	9,617,668	33,821,555	597,851,442

The carrying value of each revalued class of property, plant and equipment that would have been recognized in the separate financial statements had the assets been carried at cost less any accumulated depreciation and any accumulated impairment loss is as follows:

In thousands of Tenge	Land	Pipelines	Transportation assets	Buildings and constructions	Machinery and equipment	Technological oil	Other	Construction in progress	Total
As at 31 December 2019	**1,032,402**	**154,161,981**	**12,188,102**	**50,095,810**	**92,877,127**	**30,407,831**	**6,018,050**	**47,484,904**	**394,266,207**
As at 31 December 2018	1,051,439	156,700,193	11,451,769	55,732,528	88,572,346	30,409,142	7,554,325	34,157,267	385,629,009

5. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2019 construction in progress mainly includes the following production projects:

- Replacement of a pipe section of the "Astrakhan – Mangyshlak" main water pipeline;
- Overhaul with replacement of the pipeline on the separate sections of the main oil pipelines "Uzen-Atyrau-Samara";
- Replacement and reconstruction of the objects of main oil pipeline (communication lines, power supply, automation system and other).

As at 31 December 2018 construction in progress mainly includes the following production projects:

- Reconstruction of the "Astrakhan – Mangyshlak" water pipeline's objects, including reconstruction of WPS-5;
- Overhaul with replacement of the pipeline of the main oil pipeline "Prorva-Kulsary";
- Reconstruction of fire-fighting system and power supply for production facilities.

As at 31 December 2019:

- The initial cost and corresponding accumulated depreciation of fully depreciated property, plant and equipment still in use were 1,030,764 thousand Tenge (31 December 2018: 745,490 thousand Tenge);
- Construction in progress included materials and spare parts in the amount of 3,647,350 thousand Tenge (as at 31 December 2018: 3,915,956 thousand Tenge), which were acquired for construction works.

Depreciation for the year ended 31 December 2019 included in the cost of construction in progress amounted to 26,734 thousand Tenge (for the year ended 31 December 2018: 33,166 thousand Tenge).

6. RIGHT-OF-USE ASSETS

Right-of-use assets as at 31 December 2019 are as follows:

	Right-of-use assets				
In thousands of Tenge	**Land**	**Transportation assets**	**Buildings and constructions**	**Machinery, equipment and transfer devices**	**Total**
Net book value as at 31 December 2018	–	–	–	–	–
Changes in accounting policy *(Note 3)*	97,419	4,512,445	373,420	–	4,983,284
Additions *(Note 23)*	–	–	–	341,652	341,652
Amortization charge	(10,951)	(1,254,808)	(84,932)	(72,201)	(1,422,892)
Net book value as at 31 December 2019	**86,468**	**3,257,637**	**288,488**	**269,451**	**3,902,044**
As at 31 December 2019					
At cost	131,814	6,106,397	399,633	341,652	6,979,496
Accumulated amortization	(45,346)	(2,848,760)	(111,145)	(72,201)	(3,077,452)
Net book value	**86,468**	**3,257,637**	**288,488**	**269,451**	**3,902,044**

7. INTANGIBLE ASSETS

Intangible assets as at 31 December 2019 and 2018 are as follows:

In thousands of Tenge	Licenses	Software	Other	Total
Net book value as at 31 December 2018	251,210	1,229,514	30,981	1,511,705
Additions	**168,744**	**21,119**	**3**	**189,866**
Transfers from construction-in-progress *(Note 5)*	**86,225**	**159,042**	**–**	**245,267**
Amortization charge	**(60,464)**	**(345,359)**	**(4,362)**	**(410,185)**
Disposals	**–**	**(62,635)**	**–**	**(62,635)**
Net book value as at 31 December 2019	**445,715**	**1,001,681**	**26,622**	**1,474,018**
Net book value as at 31 December 2017	169,562	1,290,053	30,312	1,489,927
Additions	5,518	725	22,768	29,011
Transfers from construction-in-progress *(Note 5)*	133,827	591,267	–	725,094
Amortization charge	(53,909)	(646,933)	(3,550)	(704,392)
Transfers to non-current assets held for sale *(Note 18)*	(1,840)	(5,024)	(18,549)	(25,413)
Contribution to charter capital of a subsidiary	(1,948)	(574)	–	(2,522)
Net book value as at 31 December 2018	251,210	1,229,514	30,981	1,511,705
As at 31 December 2019				
At cost	**938,243**	**4,910,912**	**93,108**	**5,942,263**
Accumulated amortization and impairment	**(492,528)**	**(3,909,231)**	**(66,486)**	**(4,468,245)**
Net book value	**445,715**	**1,001,681**	**26,622**	**1,474,018**
As at 31 December 2018				
At cost	718,946	5,469,393	93,105	6,281,444
Accumulated amortization and impairment	(467,736)	(4,239,879)	(62,124)	(4,769,739)
Net book value	251,210	1,229,514	30,981	1,511,705

8. INVESTMENTS IN SUBSIDIARIES

As at 31 December 2019 and 2018 investments in subsidiaries are as follows:

In thousands of Tenge	**31 December 2019**	31 December 2018
Main Waterline	**36,192,090**	29,051,374
BOT	**9,182,546**	25,387,978
PTL	**2,820,886**	2,820,886
Total	**48,195,522**	57,260,238

As at 31 December 2019 and 2018 the movement of investments in subsidiaries are as follows:

In thousands of Tenge	**2019**	2018
As at 1 January	57,260,238	28,208,864
Contribution to the charter capital of the Main Waterline	**7,140,716**	29,051,374
Impairment of investments in BOT *(Note 4)*	**(16,205,432)**	–
As at 31 December	**48,195,522**	57,260,238

During 2019 the Company made a contribution to the charter capital of the Main Waterline by transferring property plant and equipment in the amount of 7,046,699 thousand Tenge and rights of claim in the amount of 94,017 thousand Tenge. The contribution to the charter capital for 2018 was made by transferring property plant and equipment in the amount of 964,466 thousand Tenge, inventories in the amount of 392,231 thousand Tenge, as well as by transferring cash in the amount of 27,694,677 thousand Tenge.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

9. INVESTMENTS IN JOINT VENTURES

Investments in joint ventures as at 31 December 2019 and 2018 are as follows:

In thousands of Tenge	**31 December 2019**	31 December 2018
KCP	**6,500,000**	6,500,000
MunaiTas	**6,004,945**	904,945
Total	**12,504,945**	7,404,945

At the end of 2019, by the decision of the participants, the charter capital of MunaiTas was increased by the total amount of 10,000,000 thousand Tenge, including the Company's share amounted to 5,100,000 thousand Tenge. The amount of the contribution made by the Company in cash amounted to 100,000 thousand Tenge, the remaining amount of 5,000,000 thousand Tenge is recognized as the liability on a contribution to charter capital of a joint venture.

10. ADVANCES TO SUPPLIERS FOR PROPERTY, PLANT AND EQUIPMENT

Advances to suppliers for property, plant and equipment as at 31 December 2019 and 2018 are as follows:

In thousands of Tenge	**31 December 2019**	31 December 2018
Advances to third parties for property, plant and equipment and construction services	**945,612**	147,275
Advances to related parties for property, plant and equipment and construction services *(Note 36)*	**–**	16,118
	945,612	163,393
Less: impairment	**(53,258)**	(53,258)
Total	**892,354**	110,135

11. INVENTORIES

Inventories as at 31 December 2019 and 2018 are as follows:

In thousands of Tenge	**31 December 2019**	31 December 2018
Spare parts	**3,102,498**	2,040,449
Fuel	**853,858**	722,822
Construction materials	**614,809**	309,632
Overalls	**342,976**	343,169
Chemical reagents	**125,685**	126,741
Goods	**75,785**	97,645
Other	**181,450**	387,194
Total	**5,297,061**	4,027,652

12. TRADE AND OTHER ACCOUNTS RECEIVABLE

Long-term accounts receivable

Long-term accounts receivable as at 31 December 2019 and 2018 are as follows:

In thousands of Tenge	**31 December 2019**	31 December 2018
Other accounts receivable from third parties	**1,123,472**	–
Less: allowance for expected credit losses	**(77,485)**	–
Total	**1,045,987**	–

12. TRADE AND OTHER ACCOUNTS RECEIVABLE (continued)

Long-term accounts receivable (continued)

Movement in allowance for expected credit losses related to long-term accounts receivables is as follows:

In thousands of Tenge	**2019**	2018
As at 1 January	**–**	–
Charge for the year, net *(Note 30)*	**77,485**	–
As at 31 December	**77,485**	–

Current trade and other accounts receivable

Current trade and other accounts receivable as at 31 December 2019 and 2018 are as follows:

In thousands of Tenge	**31 December 2019**	31 December 2018
Trade accounts receivable from third parties	**2,466,649**	2,352,187
Trade accounts receivable from related parties *(Note 36)*	**1,925,781**	1,971,613
Other accounts receivable from third parties	**767,842**	725,594
Other accounts receivable from related parties *(Note 36)*	**509**	19,761
	5,160,781	5,069,155
Less: allowance for expected credit losses	**(865,429)**	(826,376)
Total	**4,295,352**	4,242,779

Movement in allowance for expected credit losses related to trade and other receivables is as follows:

In thousands of Tenge	**2019**	2018
As at 1 January	826,376	600,034
Charge for the year, net *(Note 30)*	**42,119**	217,662
Used for write-off of accounts receivable	**(3,066)**	–
Changes in accounting policy	**–**	8,680
As at 31 December	**865,429**	826,376

Trade and other accounts receivable as at 31 December 2019 and 2018 are denominated in the following currencies:

In thousands of Tenge	**31 December 2019**	31 December 2018
Tenge	**4,293,049**	4,240,874
Foreign currencies	**2,303**	1,905
Total	**4,295,352**	4,242,779

12. TRADE AND OTHER ACCOUNTS RECEIVABLE (continued)

Current trade and other accounts receivable (continued)

Information on the Company's exposure to credit risk from trade and other accounts receivable using the estimated reserves model as at 31 December is provided:

	Trade and other accounts receivable					
		Past due payments				
In thousands of Tenge	**Unexpired**	**Less than 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
As at 31 December 2019						
Estimated total gross carrying value at default	**5,239,318**	**86,005**	**31,075**	**112,163**	**815,692**	**6,284,253**
Expected credit losses	**(143,470)**	**(418)**	**(121)**	**(538)**	**(798,367)**	**(942,914)**

	Trade and other accounts receivable					
		Past due payments				
In thousands of Tenge	Unexpired	Less than 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total
As at 31 December 2018						
Estimated total gross carrying value at default	3,429,337	560,846	44,279	7,027	1,027,666	5,069,155
Expected credit losses	(2,720)	(5,523)	(9,666)	(4,944)	(826,376)	(826,376)

13. ADVANCES TO SUPPLIERS

Advances to suppliers as at 31 December 2019 and 2018 are as follows:

In thousands of Tenge	**31 December 2019**	31 December 2018
Advances to third parties	**566,901**	312,998
Advances to related parties *(Note 36)*	**549,212**	225,799
	1,116,113	538,797
Less: impairment	**(647)**	(647)
Total	**1,115,466**	538,150

14. VAT RECOVERABLE AND OTHER PREPAID TAXES

VAT recoverable and other prepaid taxes as at 31 December 2019 and 2018 are as follows:

In thousands of Tenge	**31 December 2019**	31 December 2018
VAT recoverable	**865,844**	363,990
Property tax	**275,375**	336,982
Withholding tax	**16,756**	15,601
Other taxes prepaid	**10,344**	9,710
Total	**1,168,319**	726,283

15. OTHER CURRENT ASSETS

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

In thousands of Tenge	**31 December 2019**	31 December 2018
Due for oil transportation coordination services	**6,726,960**	7,653,717
Interest-free loan to related party *(Note 36)*	**523,284**	–
Prepaid insurance	**35,760**	128,906
Due from employees	**28,253**	11,357
Deferred expenses	**5,083**	5,338
Other	**1,511**	–
Total	**7,320,851**	7,799,318

Movement in the interest-free loan for 2019 is as follows:

In thousands of Tenge	**2019**
As at 1 January	**–**
Issued for the year	1,145,325
Charge of discount *(Note 34)*	(79,283)
Amortization of discount *(Note 33)*	55,305
Repayment	(575,925)
Accrual of provision for expected credit losses for the year, net *(Note 34)*	(25,962)
Foreign currency translation	3,824
As at 31 December	**523,284**

16. BANK DEPOSITS

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

In thousands of Tenge	**31 December 2019**	31 December 2018
Short-term bank deposits – US Dollars	**45,910,799**	25,357,200
Long-term bank deposits – Tenge	**2,158,180**	2,802,206
Accrued interest on deposits – Tenge	**39,791**	53,150
Accrued interest on deposits – US Dollars	**69,414**	41,315
Less: allowance for expected credit losses	**(78,017)**	(51,592)
Total	**48,100,167**	28,202,279

Movement in allowance for expected credit losses on short-term bank deposits is as follows:

In thousands of Tenge	**2019**	2018
As at 1 January	27,462	–
Changes in accounting policy	**–**	264
Charge for the year, net *(Note 34)*	**32,142**	27,198
As at 31 December	**59,604**	27,462

Movement in allowance for expected credit losses on long-term bank deposits is as follows:

In thousands of Tenge	**2019**	2018
As at 1 January	24,130	–
Changes in accounting policy	**–**	31,251
Reversal for the year *(Note 34)*	**(5,717)**	(7,121)
As at 31 December	**18,413**	24,130

16. BANK DEPOSITS (continued)

As at 31 December 2019 and 2018 bank deposits comprised of the following:

- US Dollars denominated deposits with maturity from 3 to 12 months, with interest from 0.5% per annum (as at 31 December 2018: from 0.5% to 0.7% per annum), maturing from January to June 2020 (as at 31 December 2018: from January to June 2019);
- Restricted long-term bank deposits with interest from 2% to 3.4% per annum maturing in 2028 and in 2027, respectively (as at 31 December 2018: from 2% to 3.5% per annum maturing in 2029 and in 2027, respectively), arranged for the purpose of preferential lending rates for the Company's employees for the purchase of residential property.

17. CASH AND CASH EQUIVALENTS

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

In thousands of Tenge	**31 December 2019**	31 December 2018
Time deposits with banks – Tenge	**19,238,432**	27,107,538
Current accounts with banks – US Dollars	**3,643,342**	2,226,640
Current accounts with banks – Tenge	**472,215**	960,416
Current accounts with banks – Russian Rubles	**32,182**	31,447
Other current accounts with banks	**23,175**	21,567
Cash in hand	**280**	378
Less: allowance for expected credit losses	**(34,307)**	(22,862)
Total	**23,375,319**	30,325,124

Movement in allowance for expected credit losses on cash and cash equivalents is as follows:

In thousands of Tenge	**2019**	2018
As at 1 January	22,862	5,784
Changes in accounting policy	–	337
Charge for the year, net *(Note 34)*	**8,883**	16,901
Foreign currency translation	**2,562**	(160)
As at 31 December	**34,307**	22,862

As at 31 December 2019 current accounts and time deposits with maturity less than 3 months in Tenge placed with Kazakhstani banks carried interest ranging from 6.75% to 8.60% per annum (as at 31 December 2018: from 6.55% to 7.50% per annum).

Interest for current accounts placed in US dollars ranged as at 31 December 2019 and 2018 from 0.25% per annum.

18. NON-CURRENT ASSETS HELD FOR SALE

Changes in non-current assets held for sale for the twelve months ended 31 December 2019 and 2018 are as follows:

In thousands of Tenge	**2019**	2018
As at 1 January	2,406,231	2,848,498
Transferred from property plant and equipment and intangible assets *(Notes 5, 7)*	**915,821**	26,514,283
Impairment for the year *(Note 32)*	**(960,743)**	(283,956)
Sold	**(1,481,495)**	(26,650,096)
Transferred to property plant and equipment *(Note 5)*	–	(22,498)
As at 31 December	**879,814**	2,406,231

As at 31 December 2019 non-current assets held for sale are represented by property of the administrative residential building in Almaty, as well as unused vehicles. The Company plans to recover their carrying amount through sale rather than through continuing use. These assets were recognized at the lower of their carrying amount and fair value less costs to sell and are available for immediate sale in their present condition.

18. NON-CURRENT ASSETS HELD FOR SALE (continued)

During 2018 the Company classified as long-term assets held for sale and subsequently sold the property of the Astrakhan-Mangyshlak main waterline and administrative building in Astana, including property plant and equipment with carrying value of 26,488,870 thousand Tenge and intangible assets with the carrying value of 25,413 thousand Tenge *(Notes 5, 7)*. In addition, during 2018, the Company sold individual vehicles with a carrying value of KZT 135,813 thousand Tenge.

As at 31 December 2018 non-current assets held for sale are represented by property of an administrative residental building in Pavlodar, which was sold within 12 months ended 31 December 2019 on terms of installment payments over a ten-year period, as well as certain vehicles. The net amount of income from the sale of the above-mentioned assets amounted to 34,624 thousand Tenge *(Note 31)*.

19. INVESTMENTS IN BONDS

In December 2017, in accordance with the Decision of the Government of the Republic of Kazakhstan dated 7 November 2017, the Company purchased bonds of "Special Financial Company DSFK" LLP (hereinafter – "DSFK bonds") using the funds placed with RBK Bank JSC. The nominal amount of the bonds was 5,019,520 thousand Tenge, the number of bonds is 5,019,520 thousand units. DSFK bonds carry coupon interest of 0.01% per annum and mature in 15 years. The above mentioned bonds are secured by a financial guarantee of "Kazakhmys Corporation" LLP of 1,379,913 thousand Tenge. The guarantee is exercisable upon request of the Company not earlier than the fifth anniversary after the inception of the bonds. The Company revised the fair value of bonds based on a market lending rate of 12.4% and, as a result, recognized income from a review of the fair value of bonds in the amount of 165,251 thousand Tenge *(Note 33)*. So, the carrying value of investments in bonds as of 31 December 2019 amounted to 919,511 thousand Tenge (as at 31 December 2018: 828,437 thousand Tenge).

During the 2019 and 2018 years the issuer repurchased 74,177 thousand units of bonds and 43,457 thousand units of bonds at a price of 1 Tenge per 1 bond, respectively. In 2018, as a result of the revision of the fair value of bonds based on the market interest rate of 12.7%, income from revision of fair value in the amount of 122,932 thousand Tenge was recognized *(Note 33)*.

20. EQUITY

Share capital

As at 31 December 2019 and 2018 the Company's share capital comprised of 384,635,600 common shares authorized, issued and fully paid in the amount of 62,503,284 thousand Tenge, except for 1 share, which was authorized but not issued and not paid.

As at 31 December 2019 and 2018 the share capital was equal to 61,937,567 thousand Tenge, net of consulting costs related to the issuance of shares in the amount of 565,717 thousand Tenge.

Treasury shares repurchased from shareholders

In 2016 based on request of a minority shareholder and the subsequent decision of the Board of Directors, the Company repurchased the announced common shares in the amount of 7,500 units for 9,549 thousand Tenge.

Asset revaluation reserve

As at 31 December 2019, asset revaluation reserve of the Company amounted to 247.417.084 thousand Tenge (as at 31 December 2018: 198,867,282 thousand Tenge). Change in this reserve is related to revaluation/impairment of property plant and equipment in the amount of 82,782,482 thousand Tenge *(Note 5)*, revision of asset retirement and land recultivation obligation in the amount of 3,334,156 thousand Tenge *(Note 26)*, net of deferred income tax in the amount of 15,889,666 thousand Tenge *(Note 35)*, as well as depreciation of the revaluation reserve of property plant and equipment in the amount 15,008,858 thousand Tenge.

Other capital reserves

As at 31 December 2019 other capital reserves represent a loss amounted to 1,892,888 thousand Tenge (31 December 2018: 71,795 thousand Tenge). Change in this reserve is due to recognition of actuarial losses from revaluation of the Company's employee benefit obligations under defined benefit plans in the amount of 1,872,560 thousand Tenge *(Note 21)*, income tax effect of which amounted to 51,467 thousand Tenge *(Note 35)*. For the same period of 2018 actuarial gain from revaluation of the Company's employee benefit obligations under defined benefit plans amounted to 688,653 thousand Tenge *(Note 21)*, income tax effect of which amounted to 137,731 thousand Tenge *(Note 35)*.

20. EQUITY (continued)

Dividends

During 2019 the Company accrued and paid dividends as the result of 2018 year to the shareholders based on the decision of the general meeting of shareholders dated 28 May 2019 in the amount 40,001,322 thousand Tenge (calculated as 104 Tenge per 1 share), with the use of net income received in 2018, in the amount 38,484,983 thousand Tenge and retained earnings of previous years in the amount 1,516,339 thousand Tenge, including 36,001,892 thousand Tenge *(Note 36)* related to KMG and 3,999,430 thousand Tenge related to minority shareholders.

During 2018 the Company accrued and paid dividends as the result of 2017 year to the shareholders based on the decision of the general meeting of shareholders dated 24 May 2018 in the amount 61,540,496 thousand Tenge (calculated as 160 Tenge per 1 share), with the use of net income received in 2017, in the amount 50,117,856 thousand Tenge and retained earnings of previous years in the amount 11,422,640 thousand Tenge, including 55,387,527 thousand Tenge *(Note 36)* related to KMG and 6,152,969 thousand Tenge related to minority shareholders.

Earning per share

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

As the Company does not issue convertible financial instruments, basic earnings per share of the Company are equal to diluted earnings per share.

The following reflects the net profit and share data used in the basic earnings per share computations:

In thousands of Tenge	**2019**	2018
Net profit for the period attributable to ordinary equity holders of the Company	**33,343,692**	51,812,710
Weighted average number of ordinary shares for the year for basic earnings per share	**384,628,099**	384,628,099
Basic earnings per share, in relation to profit for the year attributable to ordinary equity holders of the Company (in Tenge)	**87**	135

Book value per ordinary share

Book value per ordinary share of the Company calculated in accordance with the requirements of KASE is as follows:

In thousands of Tenge	**31 December 2019**	31 December 2018
Total assets	**830,756,866**	744,189,248
Less: intangible assets *(Note 7)*	**(1,474,018)**	(1,511,705)
Less: total liabilities	**(193,054,249)**	(161,142,532)
Net assets for calculation of book value per ordinary share	**636,228,599**	581,535,011
Number of ordinary shares	**384,628,099**	384,628,099
Book value per ordinary share (in Tenge)	**1,654**	1,512

21. EMPLOYEE BENEFIT OBLIGATIONS

The Company has employee benefit obligations, mainly consisting of additional payments for pensions and jubilee obligations, applicable to all employees. These payments are unfunded.

Employee benefit obligations as at 31 December 2019 and 2018 are as follows:

In thousands of Tenge	**31 December 2019**	31 December 2018
Current portion of employee benefit obligations	**655,489**	660,420
Non-current portion of employee benefit obligations	**15,748,790**	12,939,771
Total	**16,404,279**	13,600,191

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

21. EMPLOYEE BENEFIT OBLIGATIONS (continued)

Changes in the present value of employee benefit obligations for the years ended 31 December 2019 and 2018 are as follows:

In thousands of Tenge	**2019**	2018
Employee benefit obligations as at 1 January	13,600,191	13,340,926
Interest cost *(Note 34)*	**1,181,901**	1,163,566
Current services cost *(Notes 29, 30)*	**711,767**	564,099
Past services cost *(Notes 4, 29, 30)*	**(369,482)**	–
Actuarial loss/(gain) through profit and loss *(Notes 31, 32)*	**77,964**	(70,352)
Actuarial loss/(gain) through other comprehensive income *(Note 20)*	**1,872,560**	(688,653)
Benefits paid	**(670,622)**	(709,395)
Employee benefit obligations as at 31 December	**16,404,279**	13,600,191

22. TRADE AND OTHER ACCOUNTS PAYABLE

Trade and other accounts payable as at 31 December 2019 and 2018 are as follows:

In thousands of Tenge	**31 December 2019**	31 December 2018
Accounts payable to third parties for goods and services	**8,072,670**	8,018,198
Accounts payable to related parties for goods and services *(Note 36)*	**4,796,575**	3,215,782
Other accounts payable to third parties	**1,106,445**	682,590
Other accounts payable to related parties *(Note 36)*	**4,181**	3,190
Total	**13,979,871**	11,919,760

Trade and other accounts payable included payables to related and third parties, related to property, plant and equipment and construction-in-progress in the amount of 7,697,365 thousand Tenge (as at 31 December 2018: 5,251,686 thousand Tenge). The increase in trade payables as at 31 December 2019 is associated with capital works on replacement of the sections of the "Prorva-Kulsary" oil pipeline, "Astrakhan-Mangyshlak" water pipeline and modernization of the fiber-optic communication lines.

Trade and other accounts payables as at 31 December 2019 and 2018 are in the following currencies:

In thousands of Tenge	**31 December 2019**	31 December 2018
Tenge	**13,938,816**	11,867,720
US Dollars	**18,297**	29,816
Euro	**17,928**	18,454
Russian Rubles	**4,830**	3,770
Total	**13,979,871**	11,919,760

23. LEASE LIABILITIES

Lease liabilities as at 31 December 2019 and 2018 are as follows:

In thousands of Tenge	**31 December 2019**	31 December 2018
Non-current portion of obligations	**2,891,445**	–
Current portion of obligations	**1,912,220**	–
Total	**4,803,665**	–

23. LEASE LIABILITIES (continued)

Changes in the present value of obligations for the twelve months ended 31 December 2019 are as follows:

In thousands of Tenge	2019
As at 1 January	–
Changes in accounting policy *(Note 3)*	5,513,329
Additions for the period *(Note 6)*	341,652
Unwinding of discount on obligations *(Note 34)*	638,724
Transfer from trade and other payables	161,526
Payments for the period	(1,851,566)
As at 31 December	**4,803,665**

The information below describes the cost of expenses related to lease reflected in the separate statement of comprehensive income:

In thousands of Tenge	For the year ended 31 December 2019
Right-of-use assets amortization *(Note 6)*	1,422,892
Unwinding of discount on obligations *(Note 34)*	638,723
Low-value assets lease expenses *(Note 29)*	2,047
Total	**2,063,662**

24. ADVANCES RECEIVED

Advances received as at 31 December 2019 and 2018 are as follows:

In thousands of Tenge	**31 December 2019**	31 December 2018
Advances received from related parties *(Note 36)*	**11,220,896**	13,139,519
Advances received from third parties	**7,192,272**	7,378,650
Total	**18,413,168**	20,518,169

25. OTHER TAXES PAYABLE

Other taxes payable as at 31 December 2019 and 2018 are as follows:

In thousands of Tenge	**31 December 2019**	31 December 2018
Personal income tax	**643,579**	611,394
Social tax	**561,363**	522,585
Property tax	**16,891**	439
VAT payable	**9,502**	9,787
Other taxes	**32,431**	25,960
Total	**1,263,766**	1,170,165

26. PROVISIONS

Movement in provisions for the years ended 31 December 2019 and 2018 are as follow:

Short-term provisions

In thousands of Tenge	Provision on compensating tariff	Provision for administrative fines	Provision for sponsorship*	Other provisions	Total
As at 31 December 2018	1,046,994	–	–	41,125	1,088,119
Charge for the year *(Note 30)*	**18,100**	**297,038**	**1,200,000**	**–**	**1,515,138**
Used	**(1,062,122)**	**(297,038)**	**(1,200,000)**	**–**	**(2,559,160)**
As at 31 December 2019	**2,972**	**–**	**–**	**41,125**	**44,097**
As at 31 December 2017	–	–	–	41,125	41,125
Charge for the year *(Note 30)*	1,046,994	–	–	–	1,046,994
As at 31 December 2018	1,046,994	–	–	41,125	1,088,119

* *Pursuant to the instructions of the Head of State from 29 September 2018 and the decision of the Management Board of KMG from 11 February 2019, as well as the decision of the Board of Directors of the Company from 29 January 2019, the Company in the reporting period provided sponsorship for the construction of the facility in Turkestan in the amount of 2,200,000 thousand Tenge (Note 30) of which 1,200,000 thousand Tenge was paid from the reserve accrued in March 2019.*

Long-term provisions

Asset retirement and land recultivation obligation

As at 31 December 2019 and 2018 the Company revised the long-term provisions considering current best estimate. Assumptions used and the sensitivity to changes in the inflation and discount rates are reflected in *Note 4*.

In thousands of Tenge	**2019**	2018
As at 1 January	21,109,397	15,347,322
Charge for the year through asset *(Note 5)*	**–**	106,229
Revision of estimates through other comprehensive loss *(Note 20)*	**3,334,156**	3,102,220
Reversal of reserve and revision of estimates through profit or loss, net *(Note 32)*	**1,445,338**	1,162,914
Unwinding of discount on asset retirement and land recultivation obligation *(Note 34)*	**1,891,996**	1,390,712
As at 31 December	**27,780,887**	21,109,397

27. OTHER CURRENT LIABILITIES

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

In thousands of Tenge	**31 December 2019**	31 December 2018
Salaries and other compensations	**10,397,648**	10,034,627
Accounts payable for oil transportation coordination services to related parties *(Note 36)*	**8,193,956**	8,437,279
Accounts payable for oil transportation coordination services to third parties	**5,192,306**	4,319,474
Accounts payable to pension fund	**829,214**	784,099
Other accruals	**150,410**	150,611
Total	**24,763,534**	23,726,090

Salaries and other compensations comprise of current salary payable, remunerations based on the year results and vacation payments payable.

28. REVENUE

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

In thousands of Tenge	**2019**	2018
Crude oil transportation	**199,874,262**	189,600,250
Pipeline operation and maintenance services	**16,885,704**	13,541,838
Fees for undelivered oil volumes	**5,248,781**	4,852,920
Water transportation	**–**	3,644,628
Oil transportation coordination services	**677,031**	691,347
Oil storage services	**52,861**	77,375
Other	**138,364**	111,527
Total	**222,877,003**	212,519,885
Geographical regions		
Kazakhstan	**198,765,579**	195,115,370
Russia	**24,111,424**	17,404,515
Total revenue from contracts with customers	**222,877,003**	212,519,885
Timing of revenue recognition		
At a point in time	**205,991,299**	198,978,047
Over time	**16,885,704**	13,541,838
Total revenue under contracts with customers	**222,877,003**	212,519,885

For the year ended 31 December 2019 revenue from the five major customers amounted to 53,294,711 thousand Tenge, 32,177,845 thousand Tenge, 13,868,640 thousand Tenge, 11,417,470 thousand Tenge and 9,525,424 thousand Tenge. For the year ended 31 December 2018 revenue from these customers amounted to 50,677,435 thousand Tenge, 29,489,655 thousand Tenge, 13,563,399 thousand Tenge, 10,956,630 thousand Tenge and 9,450,461 thousand Tenge, respectively.

29. COST OF SALES

Cost of sales for the years ended 31 December 2019 and 2018 are as follows:

In thousands of Tenge	**2019**	2018
Personnel costs	**49,852,635**	47,355,702
Depreciation and amortization	**47,282,263**	46,571,484
Taxes other than income tax	**8,041,984**	7,797,951
Repair and maintenance	**7,786,190**	6,476,028
Materials and fuel	**7,443,146**	7,137,725
Electric energy	**4,929,729**	6,209,207
Security services	**4,650,952**	4,494,166
Gas expense	**2,316,756**	2,442,293
Food and accomodation	**2,013,049**	1,786,131
Environmental protection	**1,948,893**	1,033,549
Business trip expenses	**928,814**	965,925
Insurance	**512,515**	495,503
Outstaffing services	**421,816**	442,744
Communication services	**346,471**	237,221
Diagnostics of production assets	**322,617**	357,267
Post-employment benefits *(Note 21)*	**310,087**	526,701
Air services	**239,144**	1,057,842
Transportation services	**159,454**	1,539,620
Rent expenses *(Note 21)*	**2,047**	177,515
Other	**2,449,593**	1,935,745
Total	**141,958,155**	139,040,319

The increase in personnel costs is associated with the indexation of wages of production personnel.

The increase in depreciation and amortization expenses is primarily associated with a significant commissioning of objects of construction in progress at the end of 2018, also recognition of the right-of-use assets in the reporting period *(Note 6)*.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

29. COST OF SALES (continued)

The reduction in electric energy costs is associated with the transfer by the Company of water transportation services to the Main Waterline from 2 July 2018.

The increase in the cost of environmental protection associated with the implementation of measures to restore disturbed lands (historical pollution) along the main oil pipeline.

The reduction in the costs of air services is associated with a temporary cessation of flights starting from second quarter of 2019.

The decrease in 2019 of both transportation services and rent expenses is associated with the introduction of IFRS 16 *Leases* starting from 1 January 2019, according to which these costs are treated as lease with recognition of the right-of-use assets.

30. GENERAL AND ADMINISTRATIVE EXPENSES

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

In thousands of Tenge	**2019**	2018
Personnel costs	**7,390,451**	7,371,138
Charity expenses *(Note 26)*	**2,200,000**	–
Depreciation and amortization	**1,124,742**	1,424,747
Office maintenance	**504,545**	552,025
Charge of provision *(Note 26)*	**315,138**	1,046,994
Social sphere expenses	**287,430**	326,233
Repair and maintenance	**259,324**	392,037
Business trip expenses	**252,148**	255,556
Outstaffing services	**219,826**	201,357
Taxes other than income tax	**209,826**	245,487
Consulting services	**159,062**	151,770
Communication services	**148,359**	129,400
Information services	**126,764**	125,226
Charge of allowance for expected credit losses, net *(Note 12)*	**119,604**	217,662
Advertising expenses	**106,911**	82,425
Write-off of VAT recoverable	**98,857**	346,556
Bank costs	**60,480**	68,960
Insurance	**35,903**	30,533
Materials and fuel	**34,272**	91,174
Post-employment benefits *(Note 21)*	**32,198**	37,398
Charge of provision for obsolete invertories, net	**16,095**	–
Transportation services	**14,041**	160,243
Rent expenses	**–**	29,144
Other	**668,004**	572,867
Total	**14,383,980**	13,858,932

31. OTHER OPERATING INCOME

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

In thousands of Tenge	**2019**	2018
Income from reversal of impairment of property plant and equipment, net *(Note 5)*	**2,129,666**	–
Income from fines and penalties	**843,597**	252,833
Insurance payments	**121,285**	87,852
Income from recognition of inventories	**74,338**	3,454
Income from sale of inventories, net	**35,751**	210,650
Incom ftrom sale of non-current assets held for sale, net *(Note 18)*	**34,624**	1,513,663
Actuarial gain *(Note 21)*	**–**	70,352
Other income	**9,021**	19,334
Total	**3,248,282**	2,158,138

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

32. OTHER OPERATING EXPENSES

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

In thousands of Tenge	2019	2018
Reversal and revision of estimates on provision on asset retirement and land recultivation obligation, net *(Note 26)*	**1,445,338**	1,162,914
Loss from disposal of property, plant and equipment and intangible assets, net	**1,032,908**	1,066,126
Impairment of property, plant and equipment *(Note 5)*	**–**	292,293
Impairment of non-current assets held for sale *(Note 18)*	**960,743**	283,956
Expenses for liquidation of idle production facilities	**134,212**	106,084
Actuarial loss *(Note 21)*	**77,964**	–
Other expenses	**61,252**	4,240
Total	**3,712,417**	2,915,613

33. FINANCE INCOME

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

In thousands of Tenge	2019	2018
Interest income on bank deposits and current accounts	**2,080,293**	2,468,573
Income from revision the fair value of bond's *(Note 19)*	**165,251**	122,932
Unwinding of discount on long-term accounts receivable	**136,479**	–
Discount on interest-free loan *(Note 15)*	**55,305**	–
Other finance income	**3,545**	4,262
Total	**2,440,873**	2,595,767

34. FINANCE COSTS

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

In thousands of Tenge	2019	2018
Unwinding of discount on asset retirement and land recultivation obligation *(Note 26)*	**1,891,996**	1,390,712
Interest cost on employee benefit obligations *(Note 21)*	**1,181,901**	1,163,566
Accrual of discount on lease liabilities *(Note 23)*	**638,724**	–
Accrual of discount on long-term accounts receivable	**136,100**	–
Accrual of discount on interest-free loan *(Note 15)*	**79,283**	–
Charge of allowance for expected credit losses of cash and cash equivalents, bank deposits, net *(Notes 16 and 17)*	**35,308**	36,978
Change of allowance for expected credit losses of interest-free loan *(Note 15)*	**25,962**	–
Total	**3,989,274**	2,591,256

35. INCOME TAX EXPENSE

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

In thousands of Tenge	2019	2018
Current income tax expense	**18,204,284**	19,254,332
Changes in estimates of current income tax of the prior periods	**(83,663)**	1,034,264
Deferred income tax benefits	**(3,141,606)**	(6,307,301)
Income tax expense	**14,979,015**	13,981,295

35. INCOME TAX EXPENSE (continued)

A reconciliation of income tax expense on accounting profit, multiplied by income tax rate and current income tax expense for the years ended 31 December 2019 and 2018 is as follows:

In thousands of Tenge	**2019**	2018
Profit before income tax	**48,322,707**	65,794,005
Statutory rate	**20%**	20%
Income tax expense on accounting profit	**9,664,541**	13,158,801
Adjustments for the past periods	**(83,663)**	1,034,264
Impairment of investment in subsidiary	**3,241,086**	–
Gain on surplus of technological oil	**789,688**	788,242
Non-deductible expense on long-term employee benefit obligations	**276,396**	44,213
Non-deductible loss on write of VAT recoverable	**191,400**	78,505
Representative expenses and holiday events	**76,146**	70,479
Non-deductible fines	**63,304**	209,399
Income of foreign subsidiaries	**–**	156,838
Impairment of non-depreciable property, plant and equipment	**–**	93,462
Revision of estimates on taxable temporary differences related to property, plant and equipment	**281.813**	(1,065,393)
Dividends income	**–**	(867,650)
Impairment of investments in bonds	**–**	–
Other non-deductible expenses	**478.304**	280,135
Income tax expense reported in the separate statement of comprehensive income	**14,979,015**	13,981,295

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

35. INCOME TAX EXPENSE (continued)

Deferred income tax balances, calculated by applying the statutory income tax rates in effect at the respective separate statement of financial position dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the separate financial statements are comprised of the following as at 31 December:

In thousands of Tenge	**31 December 2019**	**Charged to profit and loss**	**Charged to other comprehen-sive income**	**Charged to retained earnings**	31 December 2018	Charged to profit and loss	Charged to other comprehen-sive income	1 January 2018
Deferred tax assets								
Employee benefits and other employee compensation and related costs *(Note 20)*	**2,093,359**	**104,995**	**51,467**	**–**	1,936,897	137,689	(137,731)	1,936,939
Reserve for impairment of advances to suppliers	**26,278**	**15,497**	**–**	**–**	10,781	(124)	–	10,905
Allowance for expected credit losses	**195,551**	**15,386**	**–**	**–**	180,165	60,159	–	120,006
Provision for obsolete and slow-moving inventories	**4,457**	**1,104**	**–**	**–**	3,353	(170)	–	3,523
Provision for assets retirement and land recultivation obligation *(Note 20)*	**5,556,177**	**667,466**	**666,831**	**–**	4,221,880	531,970	620,445	3,069,465
Taxes payable	**119,165**	**(6,751)**	**–**	**–**	125,916	(21,437)	–	147,353
Provision for environmental protection and other provisions	**8,819**	**594**	**–**	**–**	8,225	–	–	8,225
Lease liabilities *(Notes 3)*	**923,469**	**(179,197)**	**–**	**1,102,666**	–	–	–	–
Discount on long-term accounts receivable	**231,981**	**231,981**	**–**	**–**	–	–	–	–
Revaluation of investments in bonds	**77,245**	**(24,359)**	**–**	**–**	101,604	(24,586)	–	126,190
	9,236,501	**826,716**	**718,298**	**1,102,666**	6,588,821	683,501	482,714	5,422,606
Deferred tax liabilities								
Investments in joint ventures	**(176,032)**	**–**	**–**	**–**	(176,032)	–	–	(176,032)
Right-of-use assets *(Notes 3, 7)*	**(780,409)**	**216,248**	**–**	**(996,657)**	–	–	–	–
Property, plant and equipment *(Note 20)*	**(88,874,442)**	**2,098,642**	**(16,556,497)**	**–**	(74,416,587)	5,623,800	(11,494,525)	(68,545,862)
	(89,830,883)	**2,314,890**	**(16,556,497)**	**(996,657)**	(74,592,619)	5,623,800	(11,494,525)	(68,721,894)
Net deferred income tax liabilities	**(80,594,382)**	**3,141,606**	**(15,838,199)**	**106,009**	(68,003,798)	6,307,301	(11,011,811)	(63,299,288)

The deferred taxes on property, plant and equipment represent differences between tax and book base of property, plant and equipment due to different depreciation rates in tax and accounting books and impairment of property, plant and equipment.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

36. RELATED PARTY TRANSACTIONS

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related party transactions were made on terms agreed to between the parties that may not necessarily be at market rates, except for certain regulated services, which are provided based on the tariffs available to related and third parties.

The following tables provide the total amount of transactions, which have been entered into with related parties during 2019 and 2018 and the related balances as at 31 December 2019 and 2018.

Non-current advances given advances to related parties for property, plant and equipment are as follows:

In thousands of Tenge	Notes	31 December 2019	31 December 2018
Non-current advances given to related parties for property, plant and equipment and construction services			
Non-current advances to entities under common control of Samruk-Kazyna Group		–	–
Non-current advances to entities under common control of KMG		–	16,118
Total non-current advances given to related parties for property, plant and equipment and construction services	10	–	16,118

Trade and other accounts receivables from related parties are as follows:

In thousands of Tenge	Notes	31 December 2019	31 December 2018
Trade and other accounts receivable from related parties			
Trade accounts receivable from joint ventures		**931,715**	994,993
Trade accounts receivable from entities under common control of Samruk-Kazyna Group		**872,538**	816,489
Trade accounts receivable from entities under common control of KMG		**121,528**	160,131
Total trade accounts receivable from related parties	12	**1,925,781**	1,971,613
Other accounts receivables from entities under common control of KMG and Samruk-Kazyna Group		**509**	19,761
Total other accounts receivable from related parties	12	**509**	19,761
Less: allowance for expected credit losses		**(4,095)**	(5,177)
Total		**1,922,195**	1,986,197

Advances provided to related parties are as follows:

In thousands of Tenge	Notes	31 December 2019	31 December 2018
Advances paid to related parties			
Advances paid to entities under common control of KMG		**548,107**	210,957
Advances paid to entities under common control of Samruk-Kazyna Group		**1,105**	14,842
Total advances paid to related parties	13	**549,212**	225,799

In thousands of Tenge	Notes	31 December 2019	31 December 2018
Interest-free loan to subsidiary (BOT)		**523,284**	–
Total	15	**523,284**	–

36. RELATED PARTY TRANSACTIONS (continued)

Trade and other accounts payable to related parties are as follows:

In thousands of Tenge	Notes	31 December 2019	31 December 2018
Trade accounts payable to related parties for goods and services			
Trade accounts payable to entities under common control of KMG		**1,870,512**	1,875,226
Trade accounts payable to entities under common control of Samruk-Kazyna Group		**2,917,379**	1,333,398
Trade accounts payable to joint ventures		**8,684**	7,158
Total trade accounts payable to related parties for goods and services	22	**4,796,575**	3,215,782
Other payables to entities under common control of Samruk-Kazyna Group		**2,344**	2,493
Other payables to joint ventures		**1,837**	–
Other payables to entities under common control of KMG		**–**	697
Total other payables to related parties	22	**4,181**	3,190
Total trade and other accounts payable to related parties		**4,800,756**	3,218,972

Advances received from related parties are as follows:

In thousands of Tenge	Notes	31 December 2019	31 December 2018
Advances received from related parties			
Advances from entities under common control of KMG		**10,979,288**	12,811,346
Advances from entities under common control of Samruk-Kazyna Group		**241,608**	328,173
Total advances received from related parties	24	**11,220,896**	13,139,519

Other current liabilities to related parties are as follows:

In thousands of Tenge	Notes	31 December 2019	31 December 2018
Accounts payable for oil transportation coordination services to related parties			
Accounts payable for oil transportation coordination services to entities under common control of KMG		**8,193,956**	8,437,279
Total of accounts payable for oil transportation coordination services to related parties	27	**8,193,956**	8,437,279
Employee benefits obligation of key management personnel			
Employee benefits obligation of key management personnel		**52,873**	55,559
Total employee benefits obligation of key management personnel		**52,873**	55,559
Total other current liabilities to related parties		**8,246,829**	8,492,838

36. RELATED PARTY TRANSACTIONS (continued)

During the years ended 31 December the Company had the following transactions with the related parties:

In thousands of Tenge	For the year ended 31 December **2019**	2018
Sales to related parties		
Revenue from main activities with entities under common control of KMG	**118,378,579**	117,333,681
Revenue from main activities with joint ventures	**9,473,092**	9,284,834
Revenue from main activities with entities under common control of Samruk-Kazyna Group	**7,780,007**	5,718,602
Revenue from main activities with subsidiary	**845,333**	310,031
Income from disposal of non-current assets held for sale, property, plant and equipment and inventories to subsidiary	**–**	1,382,673
Income from sale of non-current assets held for sale to KMG	**–**	372,976
Income from other activities with entities under common control of Samruk-Kazyna Group	**24,040**	57,756
Income from other activities with entities under common control of KMG	**534,291**	39,021
Income from other activities with subsidiaries	**25,028**	–
Income from other activities with joint ventures	**950**	1,238
Total	**137,061,320**	134,500,812

Revenue from main activities with entities under common control of KMG is related to the services of oil and water transportation. Starting from 2 July 2018 water transportation activity was transferred to the Main Waterline.

Purchases of services and assets from related parties is as follows:

In thousands of Tenge	For the year ended 31 December **2019**	2018
Purchases from related parties		
Purchases of property, plant and equipment from entities under common control of Samruk-Kazyna Group	**16,608,319**	17,627,906
Purchases of property, plant and equipment from a subsidiary (PTL)	**2,857,828**	6,611,962
Purchases of services from entities under common control of KMG	**5,840,444**	5,665,308
Purchases of services from entities under common control of Samruk-Kazyna Group	**2,644,932**	2,913,150
Purchases of inventory from subsidiary (PTL)	**3,583,288**	2,328,757
Purchases of inventory from entities under common control of KMG	**572,619**	1,429,260
Purchases of services from subsidiary (PTL)	**579,191**	465,191
Purchases of property, plant and equipment and intangible assets from entities under common control of KMG	**204,201**	190,740
Purchases of services from joint ventures	**84,103**	34,645
Purchases of inventory from entities under common control of Samruk-Kazyna Group	**–**	165
Total	**32,974,925**	37,267,084

In 2019 the Company acquired property, plant and equipment from related party under common control of Samruk-Kazyna Group in the amount of 16,608,319 thousand Tenge, as part of the projects under overhaul with replacement of the main oil pipeline Prorva-Kulsary and water pipeline "Astrakhan – Mangyshlak".

Financial income of the Company's transactions with related parties is as follows:

In thousands of Tenge	For the year ended 31 December **2019**	2018
Financial income from related parties		
Dividend income from subsidiary (PTL)	**–**	4,338,250
Write-off of discount on interest-free loan to subsidiary (BOT)	**55,305**	–
Total	**55,305**	4,338,250

36. RELATED PARTY TRANSACTIONS (continued)

Cash flow from related parties to dividends are presented as follows:

In thousands of Tenge	For the year ended 31 December 2019	2018
Dividend income from related parties		
Payment of KMG dividends *(Note 20)*	**36,001,892**	55,387,527
Total	**36,001,892**	55,387,527

Total accrued compensation to key management personnel for the year ended 31 December 2019 amounts to 887,705 thousand Tenge (for the year ended 31 December 2018: 834,325 thousand Tenge). Payments to key personnel consist primarily of payroll costs and remuneration established by contracts and Company's internal regulations.

37. CONTINGENT LIABILITIES AND COMMITMENTS

Operating environment

Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Kazakhstan economy continued to be negatively impacted by a significant drop in crude oil prices and a significant devaluation of Kazakhstani Tenge that took place in 2015. The combination of the above along with other factors resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth. Management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

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 usual, 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 proceeding the year of review. Under certain circumstances reviews may cover longer periods.

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

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

Transfer pricing control

Transfer pricing control in Kazakhstan has a very wide scope and applies to many transactions that directly or indirectly relate to international business regardless of whether the transaction participants are related or not. The transfer pricing legislation requires that all taxes applicable to a transaction should be calculated based on market price determined in accordance with the "arm's length" principle.

The transfer pricing law is not explicit and there is little precedence with some of its provisions. Moreover, the law is not supported by detailed guidance. As a result, application of transfer pricing control to various types of transactions is not clearly regulated.

Because of the uncertainties associated with the Kazakhstan transfer pricing legislation, there is a risk that the tax authorities may take a position that differs from the Company's position, which could result in additional taxes, fines and interest as at 31 December 2019.

As at 31 December 2019 the Management believes that its interpretation of the transfer pricing legislation is appropriate and that it is probable that the Company's positions with regard to transfer pricing will be sustained.

37. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Environmental obligations

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 disclosed in these separate financial statements *(Notes 4, 24)*.

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 or environmental damage arising from accidents on Company's property or relating to the Company's operations.

Contractual obligations

As at 31 December 2019 the Company had contractual obligations to acquire property, plant and equipment, and construction services for the amount of 22,963,704 thousand Tenge (as at 31 December 2018: 38,869,144 thousand Tenge).

Investment program commitments

In accordance with the Law of the Republic of Kazakhstan *On Natural Monopolies*, the Company, as a subject of natural monopolies, within the approved maximum tariffs for 2015-2019, has an obligation to execute an investment program aimed at capital construction / reconstruction / overhaul / diagnostics of production facilities for 2015-2019 (approved by the joint order of the Ministry of Energy of the Republic of Kazakhstan and the CRNMPCandCR), in the total amount of 191 billion Tenge.

As at 31 December 2019 Company's commitments for the execution of the investment program is 26.6 billion Tenge (as at 31 December 2018: 51.8 billion Tenge).

In relation to production needs, in order to maintain the current level of production, in the second half of 2018, the Company sent to the Ministry of Energy of the Republic of Kazakhstan and CRNMPCandCR proposals for adjusting the above investment program for 2018-2019. In response to the Company's appeal, CRNMPCandCR refused to adjust the investment program in connection with the existing remarks, which accordingly entails the risk of applying a temporary compensating tariff for non-compliance with the certain measures of the investment program in relation to the service for pumping oil to the domestic market and returning to consumers unreasonably received income in relation to the water supply services.

A temporary compensating tariff can be applied to the Company's services of oil pumping to the domestic market and supplying water for twelve months, starting from 1 July 2020. With regard to the water supply service, the Company considers the corresponding risk of the return of unreasonably received income as remote due to the fact that starting from 2 July 2018 this activity was transferred to the Main Waterline.

In turn, the Company disagreeing with the comments of CRNMPCandCR will appeal its refusal to adjust the above-mentioned investment program in the court.

Oil contamination in Druzhba pipeline

In connection with cases of oil contamination detected in April-May of this year in the Druzhba pipeline owned by "Transneft" PJSC, the Company determined that it would not incur any costs associated with cases of contamination of Kazakhstani oil in this pipeline, because under the agreement on provision of transportation services for Kazakhstani oil in transit through the territory of the Russian Federation for 2019 between the Company and "Transneft" PJSC, the last one should compensate to the Kazakhstani oil companies with documented expenses.

As at 28 February 2020 "Transneft" PJSC reimbursed to all Kazakhstani oil companies costs associated with cases of Kazakhstani oil contamination in the Druzhba pipeline.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial liabilities comprise trade and other payables. The main purpose of these financial liabilities is to raise finance for the Company's operations. The Company has trade receivables and cash and cash equivalents that arise directly from its operations.

The Company is exposed to market risk, which consists of: credit risk, currency risk and liquidity risk.

The Company's management reviews and approves the following measures taken to manage these risks.

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. There are no significant concentrations of credit risk within the Company.

The Company places deposits with Kazakhstani banks *(Notes 15 and 16)*. Management of the Company reviews credit ratings of these banks periodically to eliminate extraordinary credit risk exposure. In accordance with IFRS 9, the Company accruals allowances for expected credit losses in respect of funds with credit institutions.

The table below shows the balances of bank deposits and cash and cash equivalents at the separate statement of financial position date using the "Moody's", "Fitch" and "Standard & Poor's" credit ratings.

		Rating			
In thousands of Tenge	**Location**	**31 December 2019**	31 December 2018	**31 December 2019**	31 December 2018
Bank					
"Halyk Bank of Kazakhstan" JSC	Kazakhstan	**BB+/Positive**	BB/Positive	**68,473,123**	58,517,520
"ForteBank" JSC	Kazakhstan	**B+/Stable**	B/Stable	**2,994,572**	–
"Sberbank" JSC	Russia	**Baa3**	Baa3	**7,511**	9,338
"Sberbank Russia" SB JSC	Kazakhstan	**BBB-/Stable**	BB+/Positive	**–**	167
Total				**71,475,206**	58,527,025

Liquidity risks

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. accounts receivable, other financial assets) and projected cash flows from operations.

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

In thousands of Tenge	**On demand**	**More than 1 year**	**1 to 2 years**	**2 to 5 years**	**Less than 5 years**	**Total**
As at 31 December 2019						
Trade and other payables	**–**	**13,437,028**	**533,014**	**5,217**	**4,612**	**13,979,871**
Other liabilities	**5,000,000**	**–**	**–**	**–**	**–**	**5,000,000**
Total	**5,000,000**	**13,437,028**	**533,014**	**5,217**	**4,612**	**18,979,871**
As at 31 December 2018						
Trade and other payables	–	11,846,776	67,552	820	4,612	11,919,760
Total	–	11,846,776	67,552	820	4,612	11,919,760

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Currency risk

The table below shows the total amount of foreign currency denominated assets and liabilities that increase foreign exchange exposure.

In thousands of Tenge	US Dollar	Russian Ruble	Euro	Total
As at 31 December 2019				
Assets	**50,087,233**	**34,485**	**–**	**50,121,718**
Liabilities	**18,297**	**77,358**	**17,928**	**113,583**
As at 31 December 2018				
Assets	27,625,155	37,829	–	27,662,984
Liabilities	29,944	65,608	18,454	114,006

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, euro and Russian ruble exchange rate, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no significant impact on the Company's equity.

In thousands of Tenge	Increase/ decrease in exchange rate	Effect on profit before tax
2019		
US Dollar	**+12.00%**	**6,008,272**
	-9.00%	**(4,506,204)**
Russian Ruble	**+12.00%**	**(5,145)**
	-12.00%	**5,145**
Euro	**+12.00%**	**(2,151)**
	-9.00%	**1,614**
2018		
US Dollar	+14.00%	3,863,330
	-10.00%	(2,759,521)
Russian Ruble	+14.00%	(3,889)
	-9.00%	2,500
Euro	+14.00%	(2,584)
	-10.00%	1,845

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. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Company has sufficient cash, exceeding its debt as at the reporting date.

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

As at 31 December 2019 and 2018 the Company does not have significant debts.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value of financial instruments

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

39. SUBSEQUENT EVENTS

Starting from 1 January 2020 a temporary tariff for the service of oil pumping to the domestic market in the amount of 4,109.50 Tenge per 1 ton per 1,000 km was set, valid until the approval of new tariffs.

On 29 January 2020 the Company approved a tariff for the service of oil pumping oil for export outside the Republic of Kazakhstan in the amount of 7,358.76 Tenge per 1 ton per 1,000 km, which will be applied starting from 1 March 2020.

On 13 February 2020, in accordance with the decision of the Board of Directors dated 28 June 2019, the Company made an additional contribution to the charter capital of Main Waterline in the amount of 857,529 thousand Tenge.

The outbreak of novel coronavirus continues to spread throughout the world. The Company will closely monitor the evolving coronavirus situation, yet an estimate of its financial effect cannot be made at this stage.

As at 16 March 2020 the exchange rate of US Dollar at the end of the KASE session amounted to 434.9 Tenge per 1 Dollar.