



MunaiTas LLP

Financial statements for the year ended
31 December 2020

MUNAITAS LLP

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT’S RESPONSIBILITY FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020	1
INDEPENDENT AUDITORS’ REPORT	2-4
FINANCIAL STATEMENTS	
Statement of Financial Position	5
Statement of Profit or Loss and Other Comprehensive Income	6
Statement of Changes in Equity	7
Statement of Cash Flows	8
Notes to the financial statements	9-48

MUNAITAS LLP

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Management is responsible for the preparation of the financial statements presenting fairly in all material respects the financial position of MunaiTas LLP (further - the "Company") as of 31 December 2020, and its financial performance, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

Management's responsibility for preparation of the financial statements include:

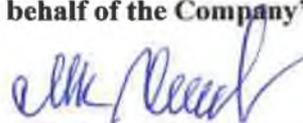
- proper selection and application of the accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions impacting Company's financial position and financial performance; and
- making assessment of the Company's ability to continue as a going concern in the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective and reliable system of internal controls throughout the Company;
- maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- maintaining statutory accounting records in compliance with Kazakhstani legislation and accounting standards;
- taking all reasonably available steps to safeguard the assets of the Company; and
- preventing and detecting fraud and other overrides of control.

These financial statements of the Company for the year ended 31 December 2020 were approved by management on 29 January 2021.

On behalf of the Company's management:


Khalimov M. K.
General Director
(Chairman of the Board)




Hao Yun
First Deputy of
General Director

29 January 2021
Almaty, Republic of Kazakhstan

29 January 2021
Almaty, Republic of Kazakhstan



Independent Auditor's Report

To Participants and Management of MunaiTas LLP:

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of MunaiTas LLP (the "Company") as at 31 December 2020, and the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2020;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

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

Responsibilities of management for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.



Independent Auditor's Report (continued)

Page 2

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



Independent Auditor's Report (continued)

Page 3

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

PricewaterhouseCoopers LLP

29 January 2021

Almaty, Kazakhstan

Approved by:



Dana Inkarbekova

Managing Director of PricewaterhouseCoopers LLP

(General State License of the Ministry of Finance
of the Republic of Kazakhstan №0000005
dated 21 October 1999)

Signed by:




Baurzhan Burkhanbekov

Auditor in charge

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

MUNAITAS LLP

STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2020 (in thousands of Kazakhstani Tenge)

	Notes	31 December 2020	31 December 2019
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	6	42.747.400	33.230.826
Intangible assets		205.967	211.563
Right-of-use assets	7	380.227	505.872
Other non-current assets	8	537.242	267.567
Total non-current assets		43.870.836	34.215.828
CURRENT ASSETS			
Inventories		171.951	53.166
Trade receivables		17.321	12
Current income tax prepayments		101.069	489.540
Held for sale assets		-	33.826
Other receivables	12	-	5.000.000
Other current assets	11	1.371.888	636.012
Short-term financial investments	10	5.484.575	4.822.807
Cash and cash equivalents	9	8.687.482	12.872.827
Total current assets		15.834.286	23.908.190
TOTAL ASSETS		59.705.122	58.124.018
EQUITY AND LIABILITIES			
EQUITY			
Charter capital	13	10.048.600	10.048.600
Retained earnings		33.814.830	30.924.359
Revaluation reserve	14	8.125.664	8.924.952
Total equity		51.989.094	49.897.911
NON-CURRENT LIABILITIES			
Provision for asset retirement obligation	15	1.856.415	1.344.872
Deferred tax liability	25	3.408.394	3.674.945
Long-term lease liabilities	18	187.064	320.491
Total non-current liabilities		5.451.873	5.340.308
CURRENT LIABILITIES			
Trade payables	16	846.543	1.480.276
Advances received	17	829.029	857.760
Short-term lease liabilities	18	277.478	244.029
Other current liabilities		311.105	303.734
Total current liabilities		2.264.155	2.885.799
TOTAL EQUITY AND LIABILITIES		59.705.122	58.124.018

On behalf of the Company's management:


Khalimov M. K.
General Director
(Chairman of the Board)




Hao Yun
First Deputy of
General Director

29 January 2021
Almaty, Republic of Kazakhstan

29 January 2021
Almaty, Republic of Kazakhstan

The accompanying notes are an integral part of these financial statements

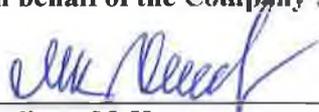
MUNAITAS LLP

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

(in thousands of Kazakhstani Tenge)

	Charter Capital	Revaluation reserve	Retained earnings	Total equity
Balance at 1 January 2019	48.600	9.660.656	28.501.957	38.211.213
Profit for the year	-	-	1.848.077	1.848.077
Other comprehensive loss for the year	-	(161.379)	-	(161.379)
Total comprehensive income for the year	-	(161.379)	1.848.077	1.686.698
Contribution to charter capital (Note 13)	5.000.000	-	-	5.000.000
Contribution capital receivable (Note 13)	5.000.000	-	-	5.000.000
Realised revaluation reserve, net of tax	-	(574.325)	574.325	-
Balance at 31 December 2019	10.048.600	8.924.952	30.924.359	49.897.911
Profit for the year	-	-	2.428.225	2.428.225
Other comprehensive loss for the year	-	(337.042)	-	(337.042)
Total comprehensive income for the year	-	(337.042)	2.428.225	2.091.183
Realised revaluation reserve, net of tax	-	(462.246)	462.246	-
Balance at 31 December 2020	10.048.600	8.125.664	33.814.830	51.989.094

On behalf of the Company's management:


Khalimov M. K.
General Director
(Chairman of the Board)




Hao Yun
First Deputy of
General Director

29 January 2021
Almaty, Republic of Kazakhstan

29 January 2021
Almaty, Republic of Kazakhstan

The accompanying notes are an integral part of these financial statements

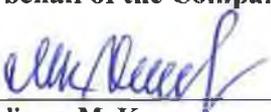
MUNAITAS LLP

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

(in thousands of Kazakhstani Tenge)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit for the period before tax		3.038.181	2.301.428
Adjustments for:			
Depreciation and amortisation		2.177.050	2.016.476
Interest income		(857.042)	(1.205.013)
Finance expense		152.254	158.366
Loss from disposal of property, plant and equipment		33.829	6.918
Reserve for obsolete inventories		(4.861)	1.980
Provision on expected credit losses		(1.454)	15.100
Foreign exchange loss/(gain), net		(485.644)	49.417
Cash flows from operating activities before changes in working capital		4.052.313	3.344.672
Change in trade receivables		(18.865)	8.934
Change in inventories		(113.924)	(11.464)
Change in other current assets		(864.787)	(572.588)
Change in trade payables		58.949	(691.876)
Change in advances received		(28.731)	(115.041)
Change in other current liabilities		7.371	(113.471)
Cash flows from operating activities		3.092.326	1.849.166
Income tax paid		(274.864)	(972.628)
Interest income received on short term deposits		857.042	1.196.639
Net cash generated from operating activities		3.674.504	2.073.177
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment and intangible assets		(12.418.557)	(7.680.405)
Placement of deposits in banks		(10.527.096)	(4.829.342)
Refund of cash deposits		10.561.727	-
Net cash used in investing activities		(12.383.926)	(12.509.747)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Additional contribution to the charter capital	13	5.000.000	5.000.000
Payments for lease liabilities		(268.178)	(240.817)
Net cash received from financing activities		4.731.822	4.759.183
Effect of change in foreign exchange on cash and cash equivalents		(207.745)	(49.417)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(4.185.345)	(5.726.804)
CASH AND CASH EQUIVALENTS, at the beginning of the year	9	12.872.827	18.599.631
CASH AND CASH EQUIVALENTS, at the end of the year	9	8.687.482	12.872.827

On behalf of the Company's management:


Khalimov M. K.
General Director
(Chairman of the Board)

29 January 2021
Almaty, Republic of Kazakhstan




Hao Yun
First Deputy of
General Director

29 January 2021
Almaty, Republic of Kazakhstan

The accompanying notes are an integral part of these financial statements

MUNAITAS LLP

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(in thousands of Kazakhstani Tenge)

1. NATURE OF OPERATIONS

Under the applicable legislation of the Republic of Kazakhstan MunaiTas LLP (“the Company”) is a legal entity, to which all the rights and obligations of the reorganised Joint Stock Company MunaiTas North-West Pipeline Company have been transferred. The participants of the Company are KazTransOil JSC (“KazTransOil”), a subsidiary of KazMunaiGas National Company JSC (“KazMunaiGas”) and CNPC Exploration and Development Company Ltd. (“CNPC E&D”), a subsidiary of PetroChina, owning 51% and 49% in the charter capital, respectively. The Company is jointly controlled by KazTransOil and CNPC E&D on an equal basis in accordance with the constituent documents. KazTransOil is ultimately controlled by NWF Samruk – Kazyna JSC (“Samruk – Kazyna”) which is owned by the government of the Republic of Kazakhstan, and the ultimate controlling party of CNPC E&D is CNPC, a state company of China.

The Company was founded to construct and operate the oil pipeline Kenkiyak (Aktobe oblast) – Atyrau (Atyrau oblast) located in the West Kazakhstan. On 18 June 2004 the Company put the pipeline into operations. The Company is considered a monopolist and, accordingly, subject to regulation by the Committee on Regulation of Natural Monopolies of the Ministry of National Economy of the Republic of Kazakhstan (the “Committee”). The Committee approves tariff rates, which are based on return of capital used to construct the assets. During the year ended 31 December 2020 the Company transported 3.324 thousand tons of oil (during the year ended 31 December 2019: 3.235 thousand tons of oil).

The Company’s legal address is: Republic of Kazakhstan, Almaty, 26/29, Timiryazev St.

2. FINANCIAL STATEMENTS PRESENTATION

Basis for financial statement preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The Company’s financial statements are prepared under the historical cost convention, as modified by the valuation of financial instruments and revaluation of property, plant and equipment. The principal accounting policies applied in the preparation of these financial statements are set out below in Note 4. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to new and revised standards adopted by the Company in Note 3).

Use of estimates and assumptions

Preparation of the financial statements in accordance with IFRS assumes that the management makes an estimates and assumptions that affect the assets and liabilities recognised in the financial statements and income and expenses and disclosure of contingent assets and liabilities during the subsequent financial period. Estimates and judgements are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also uses professional judgements and estimates in the process of applying the accounting policies. Due to uncertainty specific to such estimates, actual results reflected in future accounting periods might be based on amounts, which differ from these estimates. Important accounting estimates and professional judgements are presented in Note 5.

2. FINANCIAL STATEMENTS PRESENTATION (CONTINUED)

Functional and presentation currency

The functional and presentation currency of the Company, which reflects economic essence of the Company's operations is Kazakhstani Tenge ("Tenge"). All amounts in these financial statements are presented in thousands of Tenge, unless otherwise stated.

3. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

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

- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).
- Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).

Unless otherwise stated above, these amendments do not have an impact on the Company's financial statements.

New Accounting Pronouncements

Certain new standards have been issued but not yet effective:

- Amendments to IFRS 10 and IAS 28 - "Sale or Contribution of Assets in Transactions between an Investor and its Associate or Joint Venture" (issued 11 September 2014 and effective for annual periods beginning on or after to be determined by the IASB, or after that date).
- COVID-19-Related Rent Concessions Amendment to IFRS 16, issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020.
- IFRS 17 "Insurance Contracts" (issued 18 May 2017 and is effective for annual periods beginning on or after 1 January 2021).
- Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).
- Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).
- Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).

**3. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS
(CONTINUED)**

- Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023).
- Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021).

Unless otherwise indicated above, it is expected that these new standards and explanations will not materially affect the Company's financial statements.

4. PRINCIPLES OF ACCOUNTING POLICY

Property, plant and equipment

Property, plant and equipment, except for construction in progress, after recognition as asset are carried at revaluation cost less accumulated depreciation and provision for impairment, where required.

Property, plant and equipment are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that, which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for property, plant and equipment included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset or as the asset is used by the Company; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Costs of minor repairs and day-to-day maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss for the year within other operating income or costs.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

4. PRINCIPLES OF ACCOUNTING POLICY (CONTINUED)

Depreciation

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their revalued amounts to their residual values over their estimated useful lives:

	Useful lives (in years)
Buildings and constructions	5-50
Oil pipeline	15-25
Machinery and equipment	3-30
Vehicles	2-12
Office equipment and furniture	3-10
Other	3-15

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Company expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Intangible assets

The Company's intangible assets have definite useful lives and primarily include capitalised computer software and licences.

Intangible assets are recorded at purchase cost and amortised using the straight-line method over their estimated economic useful lives from two to seven years.

The gain or loss on derecognition of an intangible asset is measured as the difference between the net disposal of the asset and the carrying amount of the asset and is recognized in profit or loss in the reporting period in which the asset was derecognised.

Inventories

Inventories are recorded at the lower of cost and net realisable value. The cost of inventory on release to production or other disposal is determined on the first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Financial instruments

Depending on their classification, financial instruments are carried at fair value or amortised cost as described below.

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 best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

4. PRINCIPLES OF ACCOUNTING POLICY (CONTINUED)

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses ("ECL"). Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the consolidated statement of financial position. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

4. PRINCIPLES OF ACCOUNTING POLICY (CONTINUED)

Financial assets and liabilities

Financial assets – classification and subsequent measurement – measurement categories. The Company classifies financial assets in the following measurement categories: fair value through profit or loss (“FVTPL”), fair value through other comprehensive income (“FVTOCI”) and amortised cost. The classification and subsequent measurement of debt financial assets depends on: (i) the Company’s business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

The Company’s financial assets are measured at amortised cost and include short-term financial investments, trade receivables and other financial receivables and cash and cash equivalents.

Classification and subsequent measurement of financial assets: a business model. The business model reflects the way the Company applied to manage assets for cash flow: is the goal of the company (i) only to receive the contractual cash flows from the assets (“retaining the assets to get the contractual cash flows”), or (ii) contractual cash flows and cash flows arising from the sale of assets (“retention of assets to obtain contractual cash flows”), or, if either paragraph (i) or paragraph does not apply t (ii), financial assets are classified as "other" business models and measured at FVTPL.

A business model is defined for a group of assets (at the portfolio level) on the basis of all relevant evidence of the activities that the Company intends to carry out in order to achieve the goal set for the portfolio at the valuation date. The factors taken into account by the Company in determining the business model include the purpose and composition of the portfolio, past experience in obtaining cash flows for the respective assets, approaches to risk assessment and management, methods for assessing the profitability of assets and the scheme of payments to managers.

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Company assesses whether the cash flows represent solely payments of principal and interest (“SPPI”).

If the terms of the contract provide for exposure to risk or volatility that does not match the terms of the underlying loan agreement, the relevant financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Company did not change its business model during the current and comparative period and did not make any reclassifications.

Financial assets impairment – credit loss allowance for ECL. The Company assesses, on a forward-looking basis, the ECL for debt instruments measured at amortised cost and FVTOCI for the exposures arising from loan commitments and financial guarantee contracts. The Company measures ECL and recognises net impairment losses on financial and contract assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

4. PRINCIPLES OF ACCOUNTING POLICY (CONTINUED)

The Company applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter (“12 Months ECL”). If the Company identifies a significant increase in credit risk (“SICR”) since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any (“Lifetime ECL”). Refer to Note 28 for a description of how the Company determines when a SICR has occurred. If the Company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Company’s definition of credit impaired assets and definition of default is explained in Note 28. For financial assets that are purchased or originated credit-impaired (“POCI Assets”), the ECL is always measured as a Lifetime ECL. Note 28 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Company incorporates forward-looking information in the ECL models.

Financial assets - derecognition. The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

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

The Company's financial liabilities are represented by the category “financial liabilities measured at amortised cost” and include trade payables and lease liabilities.

Financial liabilities – derecognition. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Offsetting financial instruments. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

4. PRINCIPLES OF ACCOUNTING POLICY (CONTINUED)

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets.

Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Trade and other payables

Trade payables are accrued when the counterparty has performed its obligations under the contract. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Value added tax

Value added tax (“VAT”) related to sales is payable to tax authorities when goods are shipped or services are rendered. Input VAT is reclaimable against output VAT upon receipt of a tax invoice from a supplier. The tax legislation permits the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases, which have not been settled at the statement of financial position date is recognised in the statement of financial position on a net basis.

Right-of-use assets

The Company recognises right-of-use assets at the date the lease begins (that is, at the date when the underlying asset is available for use). Right-of-use assets are measured at historical cost less accumulated depreciation and impairment losses and adjusted for revaluation of lease obligations. The value of right-of-use assets includes the amount of recognised lease obligations, initial direct expenses incurred and rental payments made as of the date or before the start of the lease date, less any lease exemptions received. If the Company is not confident enough in obtaining ownership of the leased asset at the end of the lease term, then recognised assets in the form of right to use are amortised on a straight-line basis over the shortest estimated useful life and the lease term. Right-of-use assets are generally subject to impairment.

4. PRINCIPLES OF ACCOUNTING POLICY (CONTINUED)

Lease obligations

At the lease commencement date, the Company recognises lease obligations that are measured at the present value of the lease payments that must be made during the lease term. Rental payments include fixed payments (including fixed payments on the merits) less any rental incentives to be received, variable rental payments that depend on the index or rate, and amounts that are expected to be paid against residual value guarantees. Lease payments also include the exercise price of the purchase option reasonably determined for execution by the Company and the payment of fines for terminating the lease agreement, if the lease term reflects the Company's option to terminate the lease agreement. Variable rental payments that are independent of the index or rate are recognised as expenses in the period in which the event or condition initiates the payment.

When calculating the present value of rental payments, the Company uses the rate of raising additional borrowed funds at the date of commencement of the lease if the interest rate implicit in the lease agreement cannot be easily determined. After initial recognition, lease liabilities are adjusted by capitalising the cost of discounting and reducing rental payments. In addition, the book value of lease obligations is revalued if there is a modification, a change in the lease term, a change in fixed lease payments or a change in estimate for the purchase of the underlying asset.

Since IFRS 16 contains essentially the same accounting requirements for a lessor as IAS 17, the Company does not expect any significant impact on its financial statements in connection with the reflection of transactions relating to the activities of the Company as a lessor.

Revenue Recognition

The Company's activities are related to the transportation of oil through main pipelines in the territory of the Republic of Kazakhstan. Revenue from contracts with customers is recognized when control of the services is transferred to the customer and is measured at an amount that reflects the consideration to which the Company expects to be entitled in exchange for such services. The Company has concluded that, as a rule, it acts as the principal in the contracts it has entered into, since the Company controls the services before they are transferred to the customer.

The Company recognises revenue from the provision of oil transportation services based on the actual volumes of services rendered during the transportation period.

(i) Variable consideration

In contracts with customers, there is no variable part of the reimbursement, due to the absence of discounts, loans, price concessions, incentives, performance bonuses or other similar items.

Revenue is income arising in the course of the Company's ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

(ii) Significant financing component

Typically, the Company receives short-term advance payments from customers. As a result of using the practical expedient in IFRS 15, the Company does not adjust the promised consideration for the impact of a significant financing component if, at inception of the contract, it expects that the period between the transfer of the promised good or service to the customer and the customer's payment date for the good or services will be no more than one year.

4. PRINCIPLES OF ACCOUNTING POLICY (CONTINUED)

Provisions for liabilities and charges

Provisions for liabilities and charges are recognised when the Company has a present obligation (legal or constructive) as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be insignificant.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Income tax

Income taxes have been provided for in the financial statements in accordance with Kazakhstani legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the statement of comprehensive income unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than income tax are recorded within operating expenses.

Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets in respect of reducing the taxable base of temporary differences and tax losses incurred for future periods are recognised only when there is a sufficient likelihood of future taxable profit, which can be reduced by the amount of such deductions.

Uncertain tax positions

The Company's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions of Company were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than income tax are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

4. PRINCIPLES OF ACCOUNTING POLICY (CONTINUED)

Foreign currency transactions

The Company's monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Tenge at the official exchange rate of the JSC "Kazakhstan Stock Exchange"(KASE) at the reporting date. Foreign currency transactions are accounted for using the exchange rate of the JSC "Kazakhstan Stock Exchange" (KASE) at the dates of transactions. Foreign exchange gains and losses arising as of the settlement date on these transactions, as well as resulting from the restatement of monetary assets and liabilities denominated in foreign currency are recorded within profit and loss.

As of 31 December 2020 the official exchange rate used for revaluing foreign currency balances was Tenge 420.91 for USD 1 (31 December 2019: Tenge 381.18 for USD 1). Exchange restrictions and currency controls exist relating to converting Tenge into other currencies. Currently, Tenge is not freely convertible in most countries outside of the Republic of Kazakhstan.

Charter capital

Assets contributed to charter capital are recognised at fair value at the time of contribution. The amount of any excess of the fair value of the funds received over the nominal value of the contribution to the charter capital at the time of its legal registration is credited directly to the capital under the heading "share premium".

Dividends

Dividends are recorded as a liability and deducted from equity at the end of reporting period only if they are declared before or at the reporting date inclusively. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Employee benefits

Wages, salaries, contributions to pension funds, paid annual leave and sick leave, bonuses, and other benefits are accrued in the year in which the associated services are rendered by the employees of the Company.

In accordance with the legal requirements of the Republic of Kazakhstan, the Company withholds pension contributions from employees' salaries and transfers them into state pension fund. As pension contributions transferred, the Company does not have further pension obligations. Upon retirement of employees, all pension payments are administered by such pension fund directly.

Oil for filling pipeline

In order to realise permanent process of oil extracting and according to technical agreement on intake, transportation and oil custody to related contract on providing service for transportation of oil, main oil pipeline "Kenkiyak-Atyrau" is fulfilled by oil of service consumers of Company. The Company bears full responsibility for the safety of this oil and will return it to owners, if pipeline is decommissioned or at the end of validity periods of transportation contracts.

The Company does not record an asset or liability on this filled oil as of reporting date.

4. PRINCIPLES OF ACCOUNTING POLICY (CONTINUED)

Positive or negative unbalance

According to the Preliminary national standard of the Republic of Kazakhstan "Main oil pipelines. The Instruction for the calculation of oil» PST RK 43-2015, the Company on a monthly basis conducts an inventory of oil by mass in the oil pipeline. The weight of oil in the linear part of the oil pipeline is determined by the product of the oil volume in the pipeline at the values of the average density, using the temperature and pressure factors (hereinafter referred to as "inventory data"). The calculation is made for individual sites of technological oil pipeline; results obtained are summed and rounded up to a whole number.

In addition, the Company on monthly basis estimates transportation volumes for the current month with consignors (the "estimates"). This estimate contains information in metric tons on oil balance as of month beginning, oil receipt and delivery volume, oil losses and balance as of month end.

Any difference between estimates for a month and inventory data forms positive or negative oil unbalance.

The Company does not recognise positive unbalance in financial statements. Negative unbalance accounted for in accordance with IFRS 37 "Provisions, Contingent Liabilities and Contingent Assets".

Related parties

Related parties include the Company's shareholders, key management personnel and entities wherein the shareholders or key management personnel of the Company have an interest that ensures significant influence on such entities.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Company makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies.

Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Useful life of property, plant and equipment

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

The following key factors should be considered: (a) expected use of assets; (b) estimated wear and tear, which depends on operational factors and operational programs; (c) technical and commercial obsolescence as a result of changes in market conditions.

Revaluation of property, plant and equipment

The Company's property, plant and equipment is carried at fair value based on the reports provided by an independent appraisal company the "AAP – Advisory and Research" LLP, as at 31 October 2018 with relevant professional qualification and recent experience in the valuation of similar property within the similar territory. Fair value was determined in accordance with the current legislation of the Republic of Kazakhstan, Valuation Standards of International Valuation Standards Committee.

Due to the specifics of property, plant and equipment its fair value is estimated based on the various valuation methods that are most appropriate in each particular case.

Thus, the following methods were selected to estimate fair value:

- Land plots – using the residual replacement cost method;
- Buildings and constructions – depreciated replacement cost method;
- Specialised property (property, for which the active market does not exist or is limited) – depreciated replacement cost method;
- Assets having a secondary market (vehicles) – sales comparison approach.

The fair value levels are categorised as follows:

- Quoted (unadjusted) prices for identical assets in active markets (Level 1);
- Data other than quotes included in Level 1, from observable markets for assets both directly (that is, prices) and indirectly (that is, derived from prices) (Level 2);
- Data on assets from non-observed markets (i.e. non-observed data) (Level 3).

The fair value of assets has been estimated as follows:

The fair value of Level 2 of the assets, for which there is an active market, was determined using the market approach based on comparable market transactions adjusted accordingly for differences.

The fair value of Level 3 of these assets, for which a limited number of similar sales was observed in local market, was determined using the cost approach based on the residual replacement cost or reproduction cost. The amortised replacement or reproduction cost was estimated using the following methods:

- (i) The method of enlarged generalised indicators of the cost of substitution/reproduction. According to this method, the substitution/reproduction cost is calculated as a physical parameter (length, area, volume) multiplied by the substitution/reproduction cost per unit, which is determined based on the data from the "KO-Invest" directory, adjusted accordingly for differences.
- (ii) Direct recalculation method. In accordance with this method, replacement/reproduction cost is estimated based on the producer's price plus transportation costs, design, installation and all other necessary expenses.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

- (iii) Initial cost indexation. This method has been applied in those cases, when there was authentic information for using the method of generalised indicators of replacement/reproduction cost and direct recalculation method. The initial cost was adjusted for current prices using inflation rates effective during the period from the asset acquisition date to the valuation date published by Statistics Agency of the Republic of Kazakhstan.

For the calculation of the fair value of assets, estimated using the cost approach, an appraiser assessed their recoverability through the discounted cash flows method. For these purposes, all of the Company's assets were combined into one cash-generating unit, for which future cash flows were analysed to determine the value from the use of these assets. In assessing value in use, future cash flows were discounted at a pre-tax discount rate that reflected market valuation of the time value of money and the risks inherent to the Company at the date of the revaluation.

Comparing the results of the cost method and the cost of discounted cash flow calculated in the framework of the income approach to valuation, management concluded that at the revaluation date the Company's property, plant and equipment are subject to additional economic impairment. Thus, the value of the property determined according to the cost method was reduced to Tenge 24.475.166 thousand as of 31 October 2020.

As stated in the section in "Impairment of property, plant and equipment", the carrying amount of property, plant and equipment approximates the fair value at the reporting date.

Impairment of property, plant and equipment

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

The Company is implementing the project "Increasing the capacity of the Kazakhstan-China oil pipeline (hereinafter referred to as the "Reverse project"), with an increase in the carrying capacity in the reverse direction up to 6 million tons. The project was approved by Samruk-Kazyna National Welfare Fund JSC on 10 July 2018. According to the calculations, this project will require investments in the amount of approximately Tenge 30.9 billion as per the last decision of the Investment Committee of JSC "KazTransOil" dated 8 December 2020 No. 5/2020.

Due to the fact that the authorised body in September 2020 refused to consider the application for a new tariff, assuming application of the incentive method for calculating the tariff for the domestic market, as well as the projected increase in the cost of the investment project, the management assessed the impairment of fixed assets as of 31 December 2020.

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

- The forecast period - until the year 2037, based on the lifetime of the pipeline.
- The forecast volumes of oil to be transported are determined according to the data from the business plan for the period from year 2021 to year 2025, with extrapolation of the transportation volumes of the last forecasted year to the whole calculation horizon - up to year 2037. The management of the Company also determined that starting from 2026 approximately 75 percent of transportation volumes will be directed to the domestic market, based on the business plan and forecasts for oil transportation to the domestic market.
- The tariff for the domestic market was determined in accordance with the legislation of the Republic of Kazakhstan regarding the regulation of natural monopolies and is based on the Company's investment program, as well as the projected operating costs.
- Profit level for the forecast period from 2021-2025 was determined in the amount of planned investment, subject to approval with the authorised body. At the reporting date, there is uncertainty regarding the methodology for calculating the tariff starting from 2026, due to the ambiguity of its calculation in the absence of an investment program. Therefore, when determining the level of tariffs from 2026, an assumption was made in the rate of return, which affects the level of the tariff in the post-forecast period. The profit margin was determined at 15.1% (similar to the estimated weighted average cost of capital) of all operating costs of the Company and assuming current market conditions. This assumption was made in order to comply with the Law of the Republic of Kazakhstan "On Natural Monopolies", according to which, the tariff must ensure reimbursement of costs for the provision of regulated services and profit, directed to the development and effective functioning of the subject of natural monopolies and other purposes not prohibited by the legislation of the Republic of Kazakhstan.
- Discount rate. Cash flows were discounted using a post-tax interest rate of 15.1% per annum, which was based on the weighted average cost of capital of the Company.

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

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

As at the reporting date, management has concluded that there are no facts that would indicate that the carrying amount of property, plant and equipment differs significantly from their fair value.

MUNAITAS LLP

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Below is a sensitivity analysis as at 31 December 2020 showing the amounts of possible impairment at various levels of the most significant assumptions (all other variables held constant) as they deviate from the values used in forecasting cash flows:

	<u>Impairment loss</u>
Change in the ratio of the volumes to be transported between the domestic market and export since 2026 (90% and 10%, respectively)	(10,009,441)
Tariff change (-5%)	(3,305,839)
Change in discount rate (+ 5%)	<u>(9,401,159)</u>

Provisions

The Company's operating activities are subject to compliance with various environmental laws and regulations. The Company estimates the provision for decommissioning of the pipeline based on management's understanding of various legislative requirements and internal engineering assessments. A provision is recorded using the net present value of liquidation costs for assets to be decommissioned at reporting date. Actual costs incurred in future periods may substantially differ from the amounts of provision recorded. In addition, future changes in environmental laws and regulations, estimated pipeline removal terms and discount rates may affect the carrying value of this provision.

Provision for asset retirement obligation

In accordance with the Law of the Republic of Kazakhstan "On the magistral pipeline", which entered into force on 4 July 2012 the Company has a legal obligation to liquidate the magistral pipeline (oil pipeline) after the end of operation and to undertake subsequent implementation measures to restore the environment, including land restoration. Land remediation measures are carried out when replacing of pipeline is performed at the end of its useful life.

Provision for asset retirement obligation is estimated based on the cost calculated by the Company for dismantling works and land reclamation in accordance with the technical rules and regulations in force in the Republic of Kazakhstan.

The amount of reserves was determined at the end of the reporting period using the projected inflation rate for the expected term of the obligation and the discount rate at the end of the reporting period, presented below:

The "Kenkiyak-Atyrau" oil pipeline:

	<u>2020</u>	<u>2019</u>
Discount rate	6.71%	8.12%
Inflation rate	5.50%	5.20%
Term of execution of the obligation on the Kenkiyak-Atyrau pipeline	<u>17 years</u>	<u>18 years</u>

The calculation of the discount rate is based on risk-free rates of US government bonds adjusted for the long-term inflation rate and country risk.

MUNAITAS LLP

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

As at 31 December 2020 the carrying amount of the reserve for asset retirement obligation amounted to Tenge 1.856.415 thousand (as at 31 December 2019: Tenge 1.344.872 thousand) (Note 15).

Estimates of the cost of rectifying damage are subject to potential changes in environmental requirements and interpretations of legislation. In addition, uncertainties in estimates of such costs include potential changes in alternatives, methods for eliminating and restoring breached lands, levels of discount and inflation rates and the period during which this obligation occurs.

The sensitivity analysis of asset retirement obligation for changes in significant assumptions as of 31 December 2020 is presented as follows:

<i>In thousands of Kazakhstani Tenge</i>	(Decrease)/ increase of rate	Increase/ (decrease) of obligation
	-0.5%	162.545
Discount rate	+0.5%	(134.963)
	-0.5%	(120.995)
Inflation rate	+0.5%	182.142

Related party transactions

In the normal course of business, the Company enters into transactions with its related parties. The judgement is applied to determine whether the cost of transactions is market or non-market in the case when there is no active market for such transactions. The judgement is based on prices under similar transactions with non-related parties.

MUNAITAS LLP

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

6. PROPERTY, PLANT AND EQUIPMENT

Below presented are movements in the carrying value of property, plant and equipment at revalued amount:

<i>In thousands of Kazakhstani Tenge</i>	Land	Pipeline	Buildings and constructions	Machinery and equipment	Vehicles	Office equipment and furniture	Other	Construction in progress	Total
At 1 January 2019	677.425	19.288.451	1.671.302	2.600.288	51.211	70.189	11.584	2.430.292	26.800.742
Additions	-	169.939	-	123.015	-	110.893	8.548	8.275.245	8.687.640
Internal movements	-	-	23.079	23.870	-	-	-	(46.949)	-
Disposals	-	(7.009)	(14.316)	(37.540)	(50.739)	(1.894)	(197)	-	(111.695)
At 31 December 2019	677.425	19.451.381	1.680.065	2.709.633	472	179.188	19.935	10.658.588	35.376.687
Additions	-	-	-	205.215	-	27.029	3.399	11.225.355	11.460.998
Internal movements	-	2.966.422	518.760	4.936.864	-	55.691	-	(8.477.737)	-
Disposals	-	(4)	(88.362)	(107.785)	(256)	(6.396)	(44)	-	(202.847)
Transfer to intangible assets	-	-	-	-	-	-	-	(29.977)	(29.977)
Other	-	-	-	-	-	-	-	1	1
At 31 December 2020	677.425	22.417.799	2.110.463	7.743.927	216	255.512	23.290	13.376.230	46.604.862
Accumulated depreciation and impairment losses									
At 1 January 2019	-	(181.958)	(12.387)	(63.789)	(2.864)	(1.437)	(595)	(204.644)	(467.674)
Charged for the year	-	(1.094.487)	(156.754)	(461.377)	(14.353)	(18.235)	(3.932)	-	(1.749.138)
Depreciation on disposals	-	5.506	12.524	36.094	16.913	-	153	-	70.951
Other	-	-	-	-	-	(239)	-	-	(239)
At 31 December 2019	-	(1.270.939)	(156.617)	(489.072)	(304)	(19.911)	(4.374)	(204.644)	(2.145.861)
Charged for the year	-	(1.179.625)	(72.264)	(609.829)	(116)	(26.238)	(4.320)	-	(1.892.392)
Depreciation on disposals	-	3	88.362	107.784	255	6.396	44	-	202.844
Other	-	-	-	-	-	(20.704)	(1.349)	-	(22.053)
At 31 December 2020	-	(2.450.561)	(140.519)	(991.117)	(165)	(60.457)	(9.999)	(204.644)	(3.857.462)
Carrying amount									
At 31 December 2019	677.425	18.180.442	1.523.448	2.220.561	168	159.277	15.561	10.453.944	33.230.826
	677.425	19.967.238	1.969.944	6.752.810	51	195.055	13.291	13.171.586	42.747.400

MUNAITAS LLP

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Below presented are movements in the carrying value of property, plant and equipment at historic cost:

<i>In thousands of Kazakhstani Tenge</i>	<u>Land</u>	<u>Pipeline</u>	<u>Buildings and constructions</u>	<u>Machinery and equipment</u>	<u>Vehicles</u>	<u>Office equipment and furniture</u>	<u>Other</u>	<u>Construction in progress</u>	<u>Total</u>
Cost at 31 December 2019	42.883	23.599.245	2.491.974	6.269.652	83.635	228.651	136.761	10.951.380	43.804.181
Accumulated depreciation at 31 December 2019	-	(13.918.114)	(1.404.358)	(4.648.886)	(83.455)	(59.075)	(128.540)	(292.792)	(20.535.220)
Residual value at 31 December 2019	<u>42.883</u>	<u>9.681.131</u>	<u>1.087.616</u>	<u>1.620.766</u>	<u>180</u>	<u>169.576</u>	<u>8.221</u>	<u>10.658.588</u>	<u>23.268.961</u>
Cost at 31 December 2020	42.883	26.980.419	2.777.572	10.708.325	265	303.797	119.372	13.669.021	54.601.654
Accumulated depreciation at 31 December 2020	-	(14.610.050)	(1.221.971)	(4.418.388)	(206)	(101.370)	(110.169)	(292.792)	(20.754.946)
Residual value at 31 December 2020	<u>42.883</u>	<u>12.370.369</u>	<u>1.555.601</u>	<u>6.289.937</u>	<u>59</u>	<u>202.427</u>	<u>9.203</u>	<u>13.376.229</u>	<u>33.846.708</u>

MUNAITAS LLP

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

On 30 March 2018 the Company received the positive conclusion No. 01-0119/18 on the construction of the project "Increasing the capacity of the Kazakhstan-China oil pipeline up to 6 million tons per year" (hereinafter referred to as the "Reverse Project") from the Republican State Enterprise "State out of departmental examination of projects" of the Committee on Construction and Housing utility of the Ministry of Investments and Development of the Republic of Kazakhstan. Also, the construction of the project was approved by the investment committees of KazTransOil JSC on 25 April 2018, National Company KazMunayGas JSC on 12 June 2018 and National Welfare Fund Samruk-Kazyna JSC on 10 July 2018. On 18 October 2018, representatives of both participants of the Company approved the adjusted business plan for five years, taking into account the capital expenditures under the Reverse Project. In June 2020, the Company commissioned the first stage of the Reverse Project of the Kenkiyak-Atyrau oil pipeline section for a total cost of Tenge 8.391.443 thousand.

As at 31 December 2020 and 31 December 2019, the Company had no any restrictions on use of its property, plant and equipment.

Depreciation charge is allocated to the following items:

In thousands of Kazakhstani Tenge

	<u>2020</u>	<u>2019</u>
Cost of services	1.868.002	1.723.531
General and administrative expenses	<u>24.390</u>	<u>25.607</u>
Total	<u>1.892.392</u>	<u>1.749.138</u>

7. RIGHT-OF-USE ASSETS

	<u>Building</u>	<u>Vehicles</u>	<u>Total</u>
Residual value at 31 December 2018	-	-	-
Additions	174.980	557.843	732.823
Charged for the year	(87.490)	(139.461)	(226.951)
Residual value at 31 December 2019	<u>87.490</u>	<u>418.382</u>	<u>505.872</u>
Cost at 31 December 2019	174.980	557.843	732.823
Accumulated depreciation at 31 December 2019	<u>(87.490)</u>	<u>(139.461)</u>	<u>(226.951)</u>
Modification	106.186	-	106.186
Charged for the year	(96.378)	(135.453)	(231.831)
Residual value at 31 December 2020	<u>97.298</u>	<u>282.929</u>	<u>380.227</u>
Cost at 31 December 2020	281.166	557.843	839.009
Accumulated depreciation at 31 December 2020	<u>(183.868)</u>	<u>(274.914)</u>	<u>(458.782)</u>

MUNAITAS LLP

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

8. OTHER NON-CURRENT ASSETS

<i>In thousands Kazakhstani Tenge</i>	31 December 2020	31 December 2019
Advances given for property, plant and equipment	288.407	-
Emergency inventory stock	248.835	267.567
Total	537.242	267.567

9. CASH AND CASH EQUIVALENTS

<i>In thousands of Kazakhstani Tenge</i>	31 December 2020	31 December 2019
Cash on bank deposits with maturity less than three months, in Tenge	8.654.000	12.864.500
Cash on bank accounts, in Tenge	33.782	8.771
Expected credit loss allowance	(300)	(444)
Total	8.687.482	12.872.827

Cash on bank deposits have maturities of less than three months as at opening date.

The table below presents the analysis of the credit quality of cash and cash equivalents based on the levels of credit risk as at 31 December 2020. Description of the Company's credit risk classification policy is presented in Note 28.

<i>In thousands of Kazakhstani Tenge</i>	Cash on bank deposits	Cash on bank accounts	Total
- Perfect level	-	2.245	2.245
- Good level	8.653.700	31.144	8.684.844
- Requires special monitoring	-	393	393
Total cash and cash equivalents, excluding cash on hand	8.653.700	33.782	8.687.482

The table below presents the analysis of the credit quality of cash and cash equivalents based on the levels of credit risk as at 31 December 2019.

<i>In thousands of Kazakhstani Tenge</i>	Cash on bank deposits	Cash on bank accounts	Total
- Perfect level	-	7.488	7.488
- Good level	-	-	-
- Satisfactory level	12.854.056	891	12.864.947
- Requires special monitoring	-	392	392
Total cash and cash equivalents, excluding cash on hand	12.854.056	8.771	12.872.827

MUNAITAS LLP

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

10. SHORT-TERM FINANCIAL INVESTMENTS

Short-term financial investments represent cash on a bank deposit with Halyk Bank of Kazakhstan JSC for a term of more than three months, with an effective rate of 0.2% per annum and denominated in US Dollars, without the right to partial withdrawal and replenishment.

<i>В тысячах казахстанских тенге</i>	<u>31 December 2020</u>	<u>31 December 2019</u>
	<u>Cash on bank deposits</u>	<u>Cash on bank deposits</u>
- Good level	5.484.575	-
- Satisfactory level	-	4.822.807
Total short-term financial investments	<u>5.484.575</u>	<u>4.822.807</u>

11. OTHER CURRENT ASSETS

<i>In thousands Kazakhstani Tenge</i>	<u>31 December 2020</u>	<u>31 December 2019</u>
VAT receivable	1.333.740	590.233
Other current assets	38.148	45.779
Total	<u>1.371.888</u>	<u>636.012</u>

Management believes that VAT receivable will be utilised against future VAT liabilities in the subsequent period.

12. OTHER RECEIVABLES

Other receivables as at 31 December 2019 represent a contribution to the charter capital receivable in the amount of Tenge 5.000.000 thousand from the participant of the Company KazTransOil, which was fully paid in 2020 (Notes 13).

13. CHARTER CAPITAL

On 4 September 2019 at an extraordinary general meeting of participants of the Company, it was decided to increase the authorised capital of the Company to Tenge 10.048.600 thousand. On 25 November 2019, the Company registered these changes with state justice authorities and until the moment of registration, the participants paid half of the increased amount of capital, which was received in the amount of Tenge 4.900.000 thousand and Tenge 100.000 thousand from CNPC E&D and KazTransOil, respectively. As of the reporting date 31 December 2020, the charter capital was fully paid by the participants.

MUNAITAS LLP

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

13. CHARTER CAPITAL (CONTINUED)

Presented below is the participants' structure of the Company at 31 December 2020:

31 December 2020				
<i>B In thousands Kazakhstani Tenge</i>	Ownership percentage	Paid capital	Unpaid capital	Total
KazTransOil	51%	5.124.786	-	5.124.786
CNPC E&D	49%	4.923.814	-	4.923.814
Total	100%	10.048.600	-	10.048.600

Presented below is the participants' structure of the Company at 31 December 2019:

31 December 2019				
<i>B In thousands Kazakhstani Tenge</i>	Ownership percentage	Paid capital	Unpaid capital	Total
KazTransOil	51%	124.786	5.000.000	5.124.786
CNPC E&D	49%	4.923.814	-	4.923.814
Total	100%	5.048.600	5.000.000	10.048.600

14. REVALUATION RESERVE

<i>In thousands of Kazakhstani Tenge</i>	2020	2019
Amount at the beginning of the year	8.924.952	9.660.656
Revaluation of property, plant and equipment	-	-
Changes in estimates of provision for asset retirement obligation	(421.303)	(201.724)
Deferred tax liability	84.261	40.345
Realised revaluation reserve	(462.246)	(574.325)
Amount at the end of the year	8.125.664	8.924.952

15. PROVISION FOR ASSET RETIREMENT OBLIGATION

<i>In thousands of Kazakhstani Tenge</i>	2020	2019
At 1 January	1.344.872	1.057.295
Change in estimates for the period	421.303	201.724
Amortisation of discount for the period	90.240	85.853
At 31 December	1.856.415	1.344.872

In accordance with Law of the Republic of Kazakhstan "On Main Pipeline" No. 21-V dated 22 June 2012, the Company is under a legal obligation to dismantle and liquidate the pipeline, as well as to restore the land. As at 31 December 2020 and 31 December 2019, the Company made best estimation of asset retirement obligation and recognised liabilities in the statement of financial position.

MUNAITAS LLP

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

16. TRADE PAYABLES

<i>In thousands of Kazakhstani Tenge</i>	<u>31 December 2020</u>	<u>31 December 2019</u>
Trade payables to related parties (Note 26)	174.750	189.890
Trade payables to third parties	<u>671.793</u>	<u>1.290.386</u>
Total	<u>846.543</u>	<u>1.480.276</u>

As at 31 December 2020 and 31 December 2019, trade payables of the Company are expressed in Kazakhstani Tenge.

17. ADVANCES RECEIVED

<i>In thousands of Kazakhstani Tenge</i>	<u>31 December 2020</u>	<u>31 December 2019</u>
Advances received from related parties (Note 26) – contract liabilities	609.965	726.561
Advances received from third parties - contract liabilities	<u>219.064</u>	<u>131.199</u>
Total	<u>829.029</u>	<u>857.760</u>

18. LEASE LIABILITIES

<i>In thousands of Kazakhstani Tenge</i>	<u>31 December 2020</u>	<u>31 December 2019</u>
Short-term liabilities	277.478	244.029
Long-term liabilities	<u>187.064</u>	<u>320.491</u>
Total	<u>464.542</u>	<u>564.520</u>

	<u>For the year ended 31 December</u>	
	<u>2020</u>	<u>2019</u>
At 1 January	564.520	732.823
Modification	106.186	-
Unwinding of discount	62.014	72.514
Payments for the period	<u>(268.178)</u>	<u>(240.817)</u>
At 31 December	<u>464.542</u>	<u>564.520</u>

The following is information on the expenses recognised in the income statement:

	<u>For the year ended 31 December</u>	
	<u>2020</u>	<u>2019</u>
Amortisation of right-of-use assets (Note 7)	231.831	226.951
Unwinding of discount	<u>62.014</u>	<u>72.514</u>
Total	<u>293.845</u>	<u>299.465</u>

MUNAITAS LLP

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

19. REVENUE FROM CONTRACTS WITH CUSTOMERS

<i>In thousands of Kazakhstani Tenge</i>	<u>2020</u>	<u>2019</u>
Revenues from related parties	5.668.435	5.745.975
Revenues from third parties	<u>1.833.005</u>	<u>1.490.021</u>
Total	<u>7.501.440</u>	<u>7.235.996</u>
<i>In thousands of Kazakhstani Tenge</i>	<u>2020</u>	<u>2019</u>
Revenue from oil transportation services to domestic market	3.918.631	3.071.361
Revenue from oil transportation services to export market	<u>3.582.809</u>	<u>4.164.635</u>
Total	<u>7.501.440</u>	<u>7.235.996</u>

The Company's revenue represents revenue from contracts with customers. The company earns revenue from the transfer of oil transportation services during the period. In the current reporting period, revenue was recognised in the amount of 857.760 thousand tenge in relation to liabilities under contracts with customers that related to advances received (Note 17).

Revenue from external customers for each group of similar products or services is shown in the table below:

<i>In thousands of Kazakhstani Tenge</i>	<u>2020</u>	<u>2019</u>
Geographical regions		
Kazakhstan	7.501.440	7.235.996
Total revenue from contracts with customers	<u>7.501.440</u>	<u>7.235.996</u>
Revenue recognition terms		
Services are provided during the period	<u>7.501.440</u>	<u>7.235.996</u>
Total revenue from contracts with customers	<u>7.501.440</u>	<u>7.235.996</u>

20. COST OF SERVICES

<i>In thousands of Kazakhstani Tenge</i>	<u>2020</u>	<u>2019</u>
Depreciation and amortisation	1.904.394	1.760.026
Pipeline maintenance	1.495.447	1.427.242
Property tax	377.173	336.606
Security services	300.254	321.521
Payroll and related taxes	233.121	222.639
Maintenance of communication equipment	78.367	79.645
Insurance of pipeline	72.809	52.633
Air patrol of pipeline	34.363	51.364
Materials	9.014	19.441
Other	<u>292.697</u>	<u>223.372</u>
Total	<u>4.797.639</u>	<u>4.494.489</u>

MUNAITAS LLP

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

21. GENERAL AND ADMINISTRATIVE EXPENSES

<i>In thousands of Kazakhstani Tenge</i>	<u>2020</u>	<u>2019</u>
Payroll and related taxes	879.653	832.779
Amortisation of right-of-use assets	181.714	226.951
Depreciation and amortisation	39.393	29.499
Consulting services expenses	33.378	55.521
Rent operating expenses	31.504	52.642
Vacation reserve	17.732	20.842
Business trip expenses	16.883	88.191
Security services	14.331	13.124
Entertainment expense	2.826	11.487
Other	117.727	119.724
Total	<u>1.335.141</u>	<u>1.450.760</u>

22. INTEREST INCOME

Interest income represents accrued interest on deposits for the years 2020 and 2019.

23. FOREIGN EXCHANGE GAINS AND LOSSES, NET

Foreign exchange gains and losses represent net gain/(loss) from revaluation of short-term financial assets and cash and cash equivalents denominated in US dollars. During 2020, the national currency of the Republic of Kazakhstan devalued against the US dollar by approximately 10% compared to the beginning of the year.

24. OTHER INCOME

<i>In thousands of Kazakhstani Tenge</i>	<u>2020</u>	<u>2019</u>
Fines, penalties	439.342	18.902
Other	141.988	61.283
Total	<u>581.330</u>	<u>80.185</u>

Other operating income from accrued fines represents the payment of a fine by JSC CNPC-AMG for the delivery of oil with quality indicators that do not meet the requirements of the contract for the provision of oil transportation services.

25. INCOME TAX

Income tax expense includes the following:

<i>In thousands of Kazakhstani Tenge</i>	<u>2020</u>	<u>2019</u>
Current income tax expense	792.246	752.712
Deferred income tax benefit	(182.290)	(299.361)
Income tax expense	<u>609.956</u>	<u>453.351</u>

Income tax for the year ended 31 December 2020 was assessed at the annual average effective rate of 20 percent (for the year ended 31 December 2019; 20 percent).

MUNAITAS LLP

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

25. INCOME TAX (CONTINUED)

Reconciliation between the expected and the actual taxation charge is provided below:

<i>In thousands of Kazakhstani Tenge</i>	<u>2020</u>	<u>2019</u>
Profit before tax	3.038.181	2.301.428
Effective tax rate	20%	20%
Expected charge at rate of 20%	<u>607.636</u>	<u>460.286</u>
Other	<u>2.320</u>	<u>(6.935)</u>
Income tax expense for the year	<u>609.656</u>	<u>453.351</u>

Net deferred tax liabilities arising from temporary differences between tax accounting in the Republic of Kazakhstan and accounting in accordance with IFRS are presented as follows:

<i>In thousands of Kazakhstani Tenge</i>	1 January 2020	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2020
Tax effect of temporary differences:				
Provision for asset retirement obligation	268.974	18.048	84.261	371.283
Provision for unused vacation	33.178	12.364	-	45.542
Impairment provision for construction in progress	40.929	-	-	40.929
Lease liabilities	112.904	(19.996)	-	92.908
Provision for slow-moving inventory	3.412	(972)	-	2.440
Other	<u>9.486</u>	<u>(3.755)</u>	<u>-</u>	<u>5.731</u>
Gross deferred tax assets	<u>468.883</u>	<u>5.689</u>	<u>84.261</u>	<u>558.833</u>
Deferred tax liabilities from:				
Property, plant and equipment and intangible assets	(4.042.654)	151.472	-	(3.891.182)
Right-of-use assets	<u>(101.174)</u>	<u>25.129</u>	<u>-</u>	<u>(76.045)</u>
Gross deferred tax liabilities	<u>(4.143.828)</u>	<u>176.601</u>	<u>-</u>	<u>(3.967.227)</u>
Less: offset against deferred tax assets	68.883	5.689	84.261	558.833
Net deferred tax (liabilities)/assets	<u>(3.674.945)</u>	<u>182.290</u>	<u>84.261</u>	<u>(3.408.394)</u>

MUNAITAS LLP

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

25. INCOME TAX (CONTINUED)

<i>In thousands of Kazakhstani Tenge</i>	1 January 2019	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2019
Tax effect of temporary differences:				
Provision for asset retirement obligation	211.459	17.170	40.345	268.974
Provision for unused vacation	52.322	(19.144)	-	33.178
Impairment provision for construction in progress	40.929	-	-	40.929
Lease liabilities	-	112.904	-	112.904
Provision for slow-moving inventory	3.808	(396)	-	3.412
Other	818	8.668	-	9.486
Gross deferred tax assets	309.336	119.202	40.345	468.883
Deferred tax liabilities from:				
Property, plant and equipment and intangible assets	(4.323.987)	281.333	-	(4.042.654)
Right-of-use assets	-	(101.174)	-	(101.174)
Gross deferred tax liabilities	(4.323.987)	180.159	-	(4.143.828)
Less: offset against deferred tax assets	309.336	119.202	40.345	468.883
Net deferred tax (liabilities)/assets	(4.014.651)	299.361	40.345	(3.674.945)

26. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

The related parties include Company's participants, affiliates or companies over which the Company or its participants have a significant influence, and key management personnel.

The nature of relations with those related parties with whom the Company entered into significant transactions or had significant balances outstanding at 31 December 2020 and 2019 is presented below.

Trade accounts payable to related parties were as follows:

<i>In thousands of Kazakhstani Tenge</i>	Nature of relations	2020	2019
KazTransOil JSC	Company under control of Samruk-Kazyna	150.063	159.881
KMG Security LLP	Company under control of Samruk-Kazyna	24.687	23.939
Semser-Ort Sondyrushy LLP	Company under control of Samruk-Kazyna	-	6.070
Total		174.750	189.890

MUNAITAS LLP

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

26. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Outstanding balances on advances received from related parties were as follows:

<i>In thousands of Kazakhstani Tenge</i>	Nature of relations	2020	2019
Mangistaumunaigas JSC	Company under control of Samruk-Kazyna	359.534	442.522
CNPC Aktobemunaigas JSC	Company under control of CNPC	137.789	209.175
Kazakhturkmunai LLP	Company under control of Samruk-Kazyna	17.797	29.690
Embamunaigas JSC	Company under control of Samruk-Kazyna	84.701	33.179
Kazakhoil Aktobe LLP	Jointly controlled company of Samruk-Kazyna	10.144	11.995
Total		609.965	726.561

Trade transactions with related parties for the year ended 31 December were as follows:

<i>In thousands of Kazakhstani Tenge</i>	Nature of relations	2020	2019
<i>Transportation services:</i>			
CNPC Aktobemunaigas JSC	Company under control of CNPC	1.871.332	1.989.495
Mangistaumunaigas JSC	Company under control of Samruk-Kazyna	2.384.307	2.756.338
Kazakhturkmunai LLP	Company under control of Samruk-Kazyna	209.855	423.941
Kazakhoil Aktobe LLP	Jointly controlled company of Samruk-Kazyna	273.649	308.547
Embamunaigas JSC	Company under control of Samruk-Kazyna	928.324	261.314
Ozenmunaigas JSC	Company under control of Samruk-Kazyna	-	5.146
KazTransOil JSC	Company under control of Samruk-Kazyna	968	-
Karazhanbasmunai JSC	Company under control of Samruk-Kazyna	-	1.194
<i>Rental of FOL:</i>			
KazTransOil JSC	Company under control of Samruk-Kazyna	29.336	29.579
<i>Other:</i>			
KazMunaiGaz Onimderi LLP	Company under control of Samruk-Kazyna	-	1.514
Total		5.697.771	5.777.068

Purchase transactions with related parties for the year ended 31 December were as follows:

<i>In thousands of Kazakhstani Tenge</i>	Nature of relations	2020	2019
<i>Pipeline maintenance:</i>			
KazTransOil JSC	Company under control of Samruk-Kazyna	1.495.447	1.427.242
<i>Security services:</i>			
KMG Security LLP	Company under control of Samruk-Kazyna	260.586	256.490
Semser-Ort Sondyrushy LLP	Company under control of Samruk-Kazyna	-	65.031
<i>Other services:</i>			
Samruk-Kazyna Contract LLP	Company under control of Samruk-Kazyna	12.147	9.717
KazTransOil JSC	Company under control of Samruk-Kazyna	4.665	4.948
Total		1.772.845	1.763.428

26. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Terms and conditions of related party transactions

The outstanding balances at the end of the year do not have collateral and settlements are performed in cash. No warranties have been provided or received with regards to trade receivables from related parties. The management is unable to predict the extent of changes or to assess the impact of such changes on these financial statements.

Key management personnel compensation

Key management personnel consist of the Company's management, which comprised 4 persons as of 31 December 2020 (2019: 4 persons). The total compensation to key management personnel which is included in general and administrative expenses in the statement of profit or loss and other comprehensive income was Tenge 83.139 thousand for the year 2020 (2019: Tenge 145.067 thousand). Compensation payable to key management personnel for fulfilment of their executive management functions consists of contractual salary, bonuses, vacation payments and financial aid.

27. CONTINGENCIES AND COMMITMENTS

Political and economic situation in Kazakhstan

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

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

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

As at the date of this report the official exchange rate of the National Bank of the Republic Kazakhstan was Tenge 423.42 per USD 1, compared to Tenge 420.71 per USD 1 as at 31 December 2020 (31 December 2019: Tenge 381.18 per USD 1). Therefore, uncertainty remains in relation to exchange rate of Tenge and future action of National Bank and the Government of the Republic of Kazakhstan and the impact of these factors on the economy of the Republic of Kazakhstan.

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

27. CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

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

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

Management is unable to predict the extent and duration of changes in the Kazakhstani economy, nor quantify their impact, if any, on the Company's financial position in future. Management believes it is taking all the necessary measures to support the sustainability and growth of the Company's business in the current circumstances.

For the purpose of measurement of ECL the Company uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Note 28 provides more information of how the Company incorporated forward-looking information in the ECL models.

Tax legislation

The tax environment in the Republic of Kazakhstan is subject to changes and inconsistent application and interpretations. Non-compliance with Kazakhstani law and regulations as interpreted by the Kazakhstani authorities may lead to the accrual of the additional taxes, penalties and interest.

Kazakhstani tax legislation and practice is in the state of continuous development, and therefore is subject to varying interpretations and frequent changes, which may be retroactive. In certain situations, to determine a tax base, the tax legislation refers to IFRS provisions. In such cases, interpretation of IFRS provisions by the Kazakhstani tax authorities may differ from accounting policies, judgments and estimates used by the management for preparation of these financial statements, and this may result in additional tax liabilities for the Company. Tax periods remain open to retroactive review by the Kazakhstani tax authorities for five years.

The Company management believes that its interpretation of the relevant legislation is appropriate and the Company's tax positions will be sustained. In the Company's management opinion, no material losses will be incurred in respect of existing and potential tax claims in excess of provision that have been made in these financial statements.

Legal proceedings

In the ordinary course of business, the Company may be subject to litigations and claims. The Company's management believes that the final obligation, if any, arises from such litigations and claims, will not have a material adverse effect on the future financial position or core business of the Company.

27. CONTINGENCIES AND COMMITMENTS (CONTINUED)

Environmental and site restoration obligations

The Company believes it is currently in compliance with all existing Republic of Kazakhstan environmental laws and regulations. However, Kazakhstan environmental laws and regulations may change in the future. The Company is unable to predict the timing or extent to which these environmental laws and regulations may change. Such change, if it occurs, may require the Company to modernise technology to meet more stringent standards.

Insurance

The Company insured workers against damage related to accidents and sudden illness, obligations of third parties (life, health and property) and has environmental insurance in relation with its main activity. The Company has an insurance contract for the property complex of the “Kenkiyak-Atyrau” pipeline.

Oil for pipeline filling

The Company obtained oil for the pipeline filling required for its operation from the customers free of charge under the oil transportation contracts. The Company is fully liable for such oil safety and shall return it to the owners in case of the pipeline decommissioning or upon expiration of the oil transportation contracts. The Company did not record any assets or liabilities in respect to this oil filled at the reporting date. As of 31 December 2020, oil for the pipeline filling was 86 thousand tons (2019: 95 thousand tons).

Contractual commitments

As of 31 December 2020, the Company had contractual capital commitments totalling Tenge 4.462.621 thousand. (2019: Tenge 13.679.122 thousand).

Impact of COVID-19

In December 2019, news from China about the outbreak of a new virus first appeared. On 11 March 2020, the World Health Organization announced an outbreak of a new type of coronavirus, COVID19, as a pandemic. According to the decree of the President of the Republic of Kazakhstan dated 15 March 2020 No. 285 “On the introduction of a state of emergency in the Republic of Kazakhstan,” a state of emergency was introduced in the country for the period from 16 March 2020 until 1 May 2020. Most of the cities of Kazakhstan fell under the quarantine regime, and in the period from 30 March to 1 May this year, the operations of most industrial enterprises were suspended. At the suggestion of the Ministry of Health of the Republic of Kazakhstan, in order to further stabilize the epidemiological situation, it was decided to further extend the restrictive measures in the country. The Company's activities for the period of quarantine were not suspended, the work of office employees was organized remotely.

At the same time, on 9 March 2020, oil quotes collapsed amid the disagreements of the OPEC members, the price of Brent crude oil in March this year fell below USD 20 per barrel.

The Tenge depreciated against the US dollar since the beginning of 2020 by approximately 11%. Due to the fact that the Company has no liabilities denominated in US dollars, the depreciation of tenge did not have any negative consequences for the Company.

As of the date of the issuance of these financial statements, the situation is still developing. To date, there has been no significant effect on the Company's revenues and supplies, but the future effect is difficult to predict.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

27. CONTINGENCIES AND COMMITMENTS (CONTINUED)

Management will continue to monitor the potential effect of the above events and will take all necessary actions to prevent negative consequences for the business, however:

- the consequences of downtime/quarantine due to the COVID-19 pandemic will lead to a slowdown in business activity in general, which may affect the Company's financial performance in the future;
- as part of new agreements between OPEC members and other oil-producing countries, Kazakhstan and Russia have committed to cut production levels, which may lead to a decrease in oil transportation/production.

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

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

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

In the normal course of business, the Company is subject to currency, credit and operational risks. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company does not use any derivative financial instruments to hedge risk exposures.

Main categories of financial instruments

<i>In thousands of Kazakhstani Tenge</i>	31 December 2020	31 December 2019
<i>Financial assets at amortised cost:</i>		
Trade receivables	17.321	12
Other receivables	-	5.000.000
Short-term financial investments	5.484.575	4.822.807
Cash and cash equivalents	8.687.482	12.872.827
Total financial assets	14.189.378	22.695.646
<i>Financial liabilities at amortised cost:</i>		
Trade payables	846.543	1.480.276
Short-term lease liabilities	277.478	244.029
Long-term lease liabilities	187.064	320.491
Total financial liabilities	1.237.911	2.044.796

Currency risk

In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored on a monthly basis.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**
28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

The table below summarises the Company's exposure to foreign currency exchange rate risk at the end of the reporting period:

<i>In thousands of Kazakhstani Tenge</i>	На 31 декабря 2020 г.			На 31 декабря 2019 г.		
	Monetary financial Assets	Monetary financial liabilities	Net position	Monetary financial assets	Monetary financial liabilities	Net position
US Dollars	5.484.575	-	5.484.575	4.822.807	-	4.822.807
	5.484.575	-	5.484.575	4.822.807	-	4.822.807

<i>In thousands of Kazakhstani Tenge</i>	At 31 December 2020		At 31 December 2019	
	Effect on profit	Effect on capital	Effect on profit	Effect on capital
US Dollar appreciation by [10%] (2019: appreciation by [10] %)	438.766	438.766	385.825	385.825
US Dollar depreciation by [10%] (2019: depreciation by [10] %)	(438.766)	(438.766)	(385.825)	(385.825)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial liabilities as they mature. The Company controls the risk of insufficient cash using the current liquidity planning instrument. This instrument is used for maturity analysis, as well as to forecast cash flows from operating activities.

For these purposes, the Company has developed a range of internal policies, aimed at establishing control procedures for appropriate placing of temporary excess cash, invoice processing and payments, as well as preparation of operational budgets.

MUNAITAS LLP

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

The table below provides analysis of the Company's financial liabilities by relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The fair value of the Company's financial liabilities at 31 December 2020 and 31 December 2019 falls within Level 3 hierarchy. The data provided based on the undiscounted cash flows of financial statements of the Company based on the earliest date on which the Company can be required to pay.

<i>In thousands of Kazakhstani Tenge</i>	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-3 years	Over 3 years
31 December 2020						
Trade payables	(846.543)	(846.543)	(846.543)	-	-	-
Short-term lease liabilities	(277.478)	(282.460)	(282.460)	-	-	-
Long-term lease liabilities	(187.064)	(191.205)	-	(191.205)	-	-
Other financial liabilities	(20.471)	(20.471)	(20.471)	-	-	-
Total financial liabilities	(1.331.556)	(1.340.679)	(1.149.474)	(191.205)	-	-

<i>In thousands of Kazakhstani Tenge</i>	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-3 years	Over 3 years
31 December 2019						
Trade payables	(1.480.276)	(1.480.276)	(1.480.276)	-	-	-
Short-term lease liabilities	(244.029)	(308.483)	(308.483)	-	-	-
Long-term lease liabilities	(320.491)	(395.219)	-	(188.951)	(206.268)	-
Other financial liabilities	(20.471)	(56.007)	-	-	-	-
Total financial liabilities	(2.065.267)	(2.239.985)	(1.788.759)	(188.951)	(206.268)	-

Credit risk

The Company exposes itself to a credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Exposure to credit risk arises as a result of the Company's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

The Company's maximum exposure to a credit risk is reflected in the carrying amounts of financial assets in the statement of financial position. Financial assets which are potentially subject to a credit risk mainly consist of cash, bank deposits and trade and other receivables. Total carrying value of cash, bank deposits and trade and other receivables is Tenge 14.189.378 thousand and represents the maximum amount exposed to a credit risk (2019: Tenge 22.695.646 thousand).

Management carefully manages its exposure to a credit risk. The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

For measuring credit risk and grading financial instruments by the amount of credit risk, the Company applies two approaches – an Internal Risk-Based (IRB) rating system or risk grades estimated by external international rating agencies (Standard & Poor’s - “S&P”, Fitch, Moody’s). Internal and external credit ratings are mapped on an internally defined master scale with a specified range of probabilities of default.

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- Excellent – strong credit quality with low expected credit risk;
- Good – adequate credit quality with a moderate credit risk;
- Satisfactory – moderate credit quality with a satisfactory credit risk;
- Special monitoring – facilities that require closer monitoring and remedial management; and
- Default – facilities in which a default has occurred.

Cash is placed with financial institutions of the Republic of Kazakhstan which are considered to have minimal risk of default at the moment of placement.

The table below presents an analysis of financial assets by credit quality based on the S&P rating as of 31 December 2020 and 31 December 2019:

<i>In thousands of Kazakhstani Tenge</i>		31 December 2020	31 December 2019
<i>Cash and cash equivalents</i>			
BB/stable/B, kzA+	Halyk Bank of Kazakhstan JSC Bank of China in Kazakhstan SB	8.684.844	12.864.946
A/stable/A-1	JSC*	2.245	7.489
Unrated**	KazInvestBank JSC	393	392
Total cash and cash equivalents		8.687.482	12.872.827
<i>Short-term financial investments</i>			
BB/stable/B, kzA+	Halyk Bank of Kazakhstan JSC	5.484.575	4.822.807
Total short-term financial investments		5.484.575	4.822.807
<i>Other receivables</i>			
BB/negative/B	KazTransOil JSC	-	5.000.000
Trade receivables	Unrated	17.321	12
Total financial assets		14.189.378	22.695.622

* Rating is given for the international bank. Rating for the Kazakhstani branch of the bank is unavailable.

** In accordance with the Resolution of the Management Board of the National Bank of the Republic of Kazakhstan dated 26 December 2016, it was resolved to cancel the license of Kazinvestbank JSC for banking and other transactions in securities market. The Company did not create provision for the impairment of cash.

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Expected credit loss (ECL) measurement

ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Company: Probability of Default (“PD”), Exposure at Default (“EAD”), Loss Given Default (“LGD”) and Discount Rate.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor (“CCF”). CCF is a coefficient that shows the probability of conversion of the committed amounts to an on-balance sheet exposure within a defined period.

PD is an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate (“EIR”) for the financial instrument or an approximation thereof.

Expected credit losses are modelled over instrument’s lifetime period. The lifetime period is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any.

Management models Lifetime ECL, that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The 12-month ECL, represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining lifetime period of the financial instrument if it is less than a year.

The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates consider forward looking information, that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

For purposes of measuring PD, the Company defines default as a situation when the exposure meets one or more of the following criteria:

- the borrower is more than 90 days past due on its contractual payments;
- international rating agencies have classified the borrower in the default rating class;
- the borrower meets the unlikelihood-to-pay criteria listed below:
 - the borrower is insolvent;
 - the borrower is in breach of financial covenant(s);
 - it is becoming likely that the borrower will enter bankruptcy.

For purposes of disclosure, the Company fully aligned the definition of default with the definition of credit-impaired assets. The default definition stated above is applied to all types of financial assets of the Company.

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

The assessment whether or not there has been a significant increase in credit risk ("SICR") since initial recognition is performed on an individual basis and on a portfolio basis. For other financial assets, SICR is assessed either on a portfolio basis or an individual basis, depending on the existence of scoring models. The criteria used to identify an SICR are monitored and reviewed periodically for appropriateness by the management of the Company. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

The level of ECL that is recognised in these financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs.

The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Company monitors whether that indicator continues to exist or has changed. ECL for POCI financial assets is always measured on a lifetime basis. The Company therefore only recognises the cumulative changes in lifetime expected credit losses.

The Company has two approaches for ECL measurement: (i) assessment on an individual basis; (ii) assessment based on external ratings. The Company assesses on an individual basis for trade receivables, depending on its materiality. The Company performs an assessment based on external ratings for cash and cash equivalents.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained above, and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future year during the lifetime period for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier month). This effectively calculates an ECL for each future period, that is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The key principles of calculating the credit risk parameters

The EADs are determined based on the expected payment profile, that varies by product type. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis for amortising products and bullet repayment loans. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation. For revolving products, the EAD is predicted by taking the current drawn balance and adding a "credit conversion factor" that accounts for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type, current limit utilisation and other borrower-specific behavioural characteristics.

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for supportable forward-looking information when appropriate. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months PDs over the life of the instrument. The Company uses different statistical approaches depending on the segment and product type to calculate lifetime PDs, such as the extrapolation of 12-month PDs based on migration matrixes, developing lifetime PD curves based on the historical default data, hazard rate approach or other.

LGD represents the Company's expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty, type and seniority of the claim, and the availability of collateral or other credit support. The 12-month and lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event.

Interest rate risk

As at 31 December 2020 and 31 December 2019 the Company did not have outstanding borrowings or other interest bearing obligations. Accordingly, at 31 December 2020 and 31 December 2019 the Company was not exposed to interest rate risk.

Operational risk

Operational risk is the risk that the Company may incur financial loss caused by business interruption or potential damage of the Company's property as a result of natural disasters or technological emergencies.

As of 31 December 2020 and 31 December 2019 management believes that the Company has adequate insurance policy for civil liability and loss of assets.

29. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for participants and benefits for other partners and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain and adjust the level of the capital, the Company may adjust the amount of dividends paid to participants, return capital to participants, make an additional contribution to the charter capital, or sell assets to reduce debt. The amount of the capital that the Company managed as at 31 December 2020 amounted to Tenge 51,989,094 thousand (2019: Tenge 49,897,911 thousand).

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which a financial instrument can be exchanged in a current transaction between interested parties, except in cases of sale or liquidation under compulsion. The best evidence of fair value is the price of a financial instrument quoted in an active market.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) Level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) Level 3 measurements are valuations not based on observable market data (that is, unobservable inputs).

MUNAITAS LLP

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

Financial assets carried at amortised cost

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on the credit risk of the counterparty. Due to the short-term nature of trade receivables, their carrying amount approximates their fair value.

Financial liabilities carried at amortised cost

Fair values of other liabilities were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturities were estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risks and remaining maturities. The fair value of liabilities repayable on demand or after a notice period (“demandable liabilities”) is estimated as the amount payable on demand, discounted from the first date on which the amount could be required to be paid. Due to the short-term nature of trade payables, their carrying amount approximates their fair value.

31. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the management of the Company on 29 January 2021.

