
Embamunaigas Joint Stock Company

Financial statements

*For the year ended 31 December 2020,
with independent auditor's report*

CONTENTS

Independent auditor’s report

Financial statements

Statement of comprehensive income	1
Statement of financial position	2
Statement of cash flows	3
Statement of changes in equity	4
Notes to the financial statements	5-32

Independent auditor's report

To the Management and Board of Directors of Embamunaigas Joint Stock Company

Opinion

We have audited the financial statements of Embamunaigas JSC (the Company), which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

Responsibilities of management and the Board of Directors for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

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 skepticism 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.



Building a better
working world

We communicate with the Board of Directors of Embamunaigas JSC 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.

Ernst & Young LLP



Adil Syzdykov
Auditor

Auditor qualification certificate No.
МФ-0000172 dated 23 December 2013

050060, Republic of Kazakhstan, Almaty
Al-Farabi ave., 77/7, Esentai Tower

26 February 2021



Rustamzhan Sattarov
General Director
Ernst & Young LLP

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

STATEMENT OF COMPREHENSIVE INCOME

In thousands of tenge

	Notes	For the year ended 31 December	
		2020	2019
Revenue from contracts with customers	4	244,707,325	450,944,713
Cost of sales	5	(123,982,115)	(150,630,785)
Gross profit		120,725,210	300,313,928
Selling expenses	6	(71,479,811)	(154,561,625)
General and administrative expenses	7	(8,467,540)	14,412,821
Dry wells write-off and exploration expenses		(1,158,120)	(23,245,088)
Impairment of VAT recoverable		–	(2,943,871)
Operating profit		39,619,739	133,976,165
Finance income		1,427,806	1,453,496
Finance costs		(3,656,569)	(3,471,137)
Net foreign exchange differences		8,915,368	(1,101,952)
Impairment of property, plant and equipment and exploration and evaluation assets	9, 10	(60,659,149)	–
Other income		745,089	1,624,024
Other expense		(1,031,260)	(734,859)
(Loss)/income before taxes		(14,638,976)	131,745,737
Income tax expense	8	(3,003,463)	(30,344,706)
(Loss)/profit for the year		(17,642,439)	101,401,031
Other comprehensive loss			
<i>The amounts of other comprehensive loss to be reclassified to profit or loss in subsequent periods (net of taxes)</i>			
Remeasurement loss on defined benefit plans	16	(785,666)	(2,254,491)
Other comprehensive loss not to be reclassified to profit or loss in the subsequent periods:		(785,666)	(2,254,491)
Total comprehensive (loss)/income for the year, net of tax		(18,428,105)	99,146,540

Financial Director – Financial Controller

N.A. Tazhmagambetova

Chief Accountant

N.Zh. Makhambetov

STATEMENT OF FINANCIAL POSITION

In thousands of tenge

		At 31 December	
	Notes	2020	2019
Assets			
Non-current assets			
Property, plant and equipment	9	173,685,026	204,238,506
Exploration and evaluation assets	10	1,031,379	16,387,613
Intangible assets		2,106,305	2,348,126
Other financial assets	11	42,765,614	38,554,106
Deferred tax asset	8	18,446,303	16,866,489
VAT recoverable	12	2,577,409	11,033,076
Advances paid for non-current assets		787,446	2,895,249
Total non-current assets		241,399,482	292,323,165
Current assets			
Inventories	13	8,661,258	9,374,880
Corporate income tax prepaid		5,957,762	1,646,447
Taxes prepaid and VAT recoverable	12	14,135,807	22,856,112
Advances paid and deferred expenses		3,281,500	2,383,693
Trade and other accounts receivable	11	23,597,861	42,413,883
Cash and cash equivalents	11	57,561,949	39,188,958
Total current assets		113,196,137	117,863,973
Total assets		354,595,619	410,187,138
Equity			
Share capital	14	162,399,820	162,399,820
Other reserves		(4,798,207)	(4,012,541)
Retained earnings		121,147,507	138,789,946
Total equity		278,749,120	297,177,225
Liabilities			
Non-current liabilities			
Historical obligations	15	6,918,873	6,127,850
Provisions	16	37,700,451	31,702,151
Other non-current liabilities		651,580	—
Total non-current liabilities		45,270,902	37,830,001
Current liabilities			
Historical obligations	15	637,379	887,581
Provisions	16	9,732,099	13,788,193
Mineral extraction and rent tax payable		3,185,920	26,053,400
Excess profit tax liabilities		—	7,499,604
Trade and other payables		17,020,197	26,951,134
Total current liabilities		30,575,595	75,179,912
Total liabilities		75,846,497	113,009,913
Total liabilities and equity		354,595,619	410,187,138

Financial Director – Financial Controller

N.A. Tazhmagambetova

Chief Accountant

*N.Zh. Makhambetov**The accounting policies and explanatory notes on pages 5 to 32 are an integral part of these financial statements.*

STATEMENT OF CASH FLOWS*In thousands of tenge*

	Notes	For the year ended 31 December	
		2020	2019
Operating activities			
(Loss)/income before taxes		(14,638,976)	131,745,737
Adjustments to reconcile profit before tax to net cash flows			
Depreciation and impairment	9, 10	82,556,652	27,245,663
Loss on disposal of property, plant and equipment and exploration assets		612,983	984,628
Unrealised foreign exchange gain, net		(6,387,986)	(1,335,948)
Change in provisions		(4,030,011)	(20,094,965)
(Recovery)/accrual of ECL expenses		(50,380)	74,037
Finance costs		3,656,569	3,471,137
Finance income		(1,427,806)	(1,453,496)
Other non-cash expenses/(income), net		439,777	(2,211,221)
		60,729,798	138,425,572
Working capital adjustments			
Change in inventories		713,622	1,569,233
Change in taxes prepaid and VAT recoverable		17,175,973	(17,989,843)
Change in advances paid and deferred expenses		(897,807)	382,600
Change in trade accounts receivable		18,866,402	(11,649,067)
Change in trade and other payables		(5,508,694)	(1,954,531)
Change in mineral extraction tax and rent tax payable		(22,867,480)	2,766,320
		66,530,256	111,550,284
Interest received		1,427,806	1,453,308
Income tax paid		(16,394,196)	(26,855,034)
Net cash generated from operating activities		53,245,424	86,148,558
Investing activities			
Purchase of property, plant and equipment		(36,387,594)	(39,784,005)
Purchase of intangibles assets		(243,856)	(468,548)
Placement of term deposits		(430,261)	(953,191)
Net cash flows used in investing activities		(37,061,711)	(41,205,744)
Financing activities			
Dividends paid to Parent company	14	—	(117,401,771)
Payments of historical liabilities		(782,536)	(1,279,059)
Net cash flows used in financing activities		(782,536)	(118,680,830)
Net change in cash and cash equivalents		15,401,177	(73,738,016)
Cash and cash equivalents at 1 January		39,188,958	111,445,891
Net foreign exchange differences		2,971,814	1,481,083
Cash and cash equivalents at 31 December	11	57,561,949	39,188,958

Financial Director – Financial Controller

N.A. Tazhmagambetova

Chief Accountant

*N.Zh. Makhambetov**The accounting policies and explanatory notes on pages 5 to 32 are an integral part of these financial statements.*

STATEMENT OF CHANGES IN EQUITY

In thousands of tenge

	Notes	Share capital	Retained earnings	Total
1 January 2019		162,399,820	153,032,636	315,432,456
Profit for the year		—	101,401,031	101,401,031
Other comprehensive loss	16	—	(2,254,491)	(2,254,491)
Total comprehensive income		—	99,146,540	99,146,540
Dividends		—	(117,401,771)	(117,401,771)
At 31 December 2019		162,399,820	134,777,405	297,177,225
Loss for the year		—	(17,642,439)	(17,642,439)
Other comprehensive loss	16	—	(785,666)	(785,666)
Total comprehensive loss		—	(18,428,105)	(18,428,105)
At 31 December 2020		162,399,820	116,349,300	278,749,120

Financial Director – Financial Controller

N.A. Tazhmagambetova

Chief Accountant

N.Zh. Makhambetov

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2020***In thousands of tenge, unless otherwise indicated***1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES**

Embamunaygas Joint Stock Company (the “Company”) was incorporated in the Republic of Kazakhstan on 27 February 2012 following the decision of the Board of Directors of KazMunaiGas Exploration Production Joint Stock Company (“KMG EP” or the “Parent Company”) dated 31 January 2012.

The Company is engaged in exploration, development, production, processing and export of hydrocarbons. Oil and gas activities of the Company are carried out on oil and gas properties located in Atyrau region of Western Kazakhstan. The Company develops oil fields under the following subsoil use contracts: contract No. 37 (Kenbai oilfield), contract No. 61 (South East Novobogatinskoe oilfield), contract No. 211 (23 oilfields), contracts No. 413 (15 oilfields), contract No. 327 (Taisogan oilfield), contract No. 992 (West Novobogatinskoe oilfield); contract No. 406 (Liman oilfield); contract No. 3577 (Karaton-Sarkamys oilfield). On 25 February 2015 addendums to extend contracts between the Ministry of Energy and Embamunaygas JSC were signed for the following contracts: contract No. 37 valid until 2041, contract No. 61 valid until 2048, contract No. 211 valid until 2037, contract No. 413 valid until 2043.

The sole shareholder of the Company is KMG EP. KMG EP’s principal shareholder is National Company KazMunayGas JSC (“NC KMG”), which represents the state’s interests in the Kazakhstan oil and gas industry. Sovereign Wealth Fund Samruk-Kazyna JSC (“Samruk-Kazyna”) owns 90% of NC KMG. Samruk-Kazyna in its turn is 100% owned by the Government of the Republic of Kazakhstan (the “Government”).

The Company’s financial statements for the year ended 31 December 2020 were authorised for issue by the Financial Director – Financial Controller on 28 February 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these financial statements. These financial statements are presented in tenge and all values are rounded to the nearest thousand unless otherwise stated.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in *Note 3*.

New and amended standards and interpretations

The accounting policies adopted in the preparation of the annual financial statements for the year ended 31 December 2020 are consistent with the accounting policies applied in the prior reporting year, except for the following amended standards effective from 1 January 2020. The Company has not early adopted any other standard, clarifications or amendment that has been issued but is not yet effective.

In 2020, certain amendments to the standards that did not have an impact on the Company’s financial statements were adopted for the first time.

- Amendments to IFRS 3: *Definition of a Business*;
- Amendments to IFRS 7, IFRS 9 and IAS 39 – *Interest Rate Benchmark Reform*;
- Amendments to IAS 1 and IAS 8: *Definition of Material*;
- Amendments to IFRS 16 *COVID-19 Related Rent Concessions*.

NOTES TO THE FINANCIAL STATEMENTS (continued)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Basis of preparation (continued)***Standards and interpretations issued but not yet effective*

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

- IFRS 17 *Insurance Contracts*;
- Amendments to IAS 1 – *Classification of Liabilities as Current or Non-current*;
- *Reference to the Conceptual Framework* – Amendments to IFRS 3;
- *Property, Plant and Equipment: Proceeds before Intended Use* – Amendments to IAS 16;
- *Onerous Contracts – Costs of Fulfilling a Contract* – Amendments to IAS 37;
- Amendment to IFRS 1 – *First-time Adoption of International Financial Reporting Standards* – subsidiary as a first-time adopter;
- IFRS 9 *Financial Instruments* – fees in the '10 per cent' test for derecognition of financial liabilities;
- Amendment to IAS 41 – *Agriculture* – taxation in fair value measurements.

Foreign currency translation

The financial statements are presented in Kazakh tenge ("tenge" or "KZT"), which is the Company's functional currency. Transactions in foreign currency are initially recorded at the functional currency rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are recognised in the statement of comprehensive income.

Exchange rates

The official rate of the Kazakh tenge to the US dollar at 31 December 2020 and 2019 was 420.91 and 381.18 tenge, respectively. Any translation of tenge amounts to US dollar or any other hard currency should not be construed as a representation that such tenge amounts have been, could be or will in the future be converted into hard currency at the exchange rate shown or at any other exchange rate.

Impact of the COVID-19 (coronavirus) pandemic and current economic situation

Due to the recent rapid outbreak of the coronavirus pandemic (COVID-19), many countries, including the Republic of Kazakhstan, have introduced quarantine measures, which has had a significant impact on the level and scale of business activity of market participants. Both the pandemic itself and mitigation measures affected the Company's activities in 2020.

As part of implementation of the Decree of the President of the Republic of Kazakhstan *On Imposition of the State of Emergency* and the resolution of the chief sanitary doctor of the Republic of Kazakhstan, the Company transferred the rotational field staff for a longer period of work in order to ensure uninterrupted production and safety of employees. Employees not involved in the production process were sent to downtime for reasons beyond the control of the employee and the employer, with payment of 70% of the salary. Expenses for forced downtime of employees in 2020 amounted to KZT 3,733,043 thousand.

Agreement of the Organisation of Petroleum-Exporting Countries (OPEC)

As part of the agreement of the Organisation of Petroleum-Exporting Countries (OPEC) dated 1 May 2020, the Republic of Kazakhstan has committed to reduce the volume of oil produced. In this regard, the Company reduced the volume of oil produced by 91 thousand tons in 2020 from the previously planned volumes.

NOTES TO THE FINANCIAL STATEMENTS (continued)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Oil and gas fields exploration and development expenditures***Exploration license costs*

Exploration license costs are capitalised within intangible assets and amortised on a straight-line basis over the estimated period of exploration. Each property is reviewed on an annual basis to confirm that drilling activity is planned. If no future activity is planned, the remaining balance of the license cost is written off. Upon determination of economically recoverable reserves ('proved reserves' or 'commercial reserves'), amortisation ceases and the remaining costs are aggregated with exploration expenditure and held on a field-by-field basis as proved properties awaiting approval within other intangible assets. When development is approved internally, and all licenses and approvals are obtained from the appropriate regulatory bodies, then the relevant expenditure is transferred to property, plant and equipment (oil and natural gas properties).

Exploration expenditures

Geological and geophysical exploration costs are charged against income as incurred. Costs directly associated with an exploration well are capitalised within exploration and evaluation assets until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials, fuel and energy used, rig costs and payments made to contractors. If hydrocarbons are not found, the exploration expenditure is written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells (exploration or exploratory-type stratigraphic test wells), are likely to be capable of commercial development then, the costs continue to be carried as an asset.

All such costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

When proved reserves of oil and natural gas are determined and development is sanctioned, the relevant expenditure is transferred to property, plant and equipment (oil and natural gas properties).

Development costs

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, except for expenditure related to development or delineation wells which do not find commercial quantities of hydrocarbons and are written off as dry hole expenditures in the period, is capitalised within property, plant and equipment.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation, depletion and impairment ("DD&A").

The initial cost of assets comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligation, if any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Oil and natural gas properties are depreciated using a unit-of-production method over proved developed reserves. Certain oil and gas property assets with useful lives less than the remaining life of the fields are depreciated on a straight-line basis over useful lives of 4-15 years.

Other property, plant and equipment principally comprise buildings, machinery and equipment which are depreciated on a straight-line basis over average useful lives of 5 to 25 years.

The expected useful lives of property and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The current value of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate the current value may not be recoverable.

An item of property, plant and equipment, inclusive of production wells which stop producing commercial quantities of hydrocarbons and are scheduled for abandonment, is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the period the item is derecognised.

NOTES TO THE FINANCIAL STATEMENTS (continued)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Impairment of non-financial assets**

The Company assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the current value of an asset may not be recoverable.

Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the Company makes a estimate of its recoverable amount.

An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the current value of the asset is increased to its recoverable amount. The increased amount may not exceed the current amount, which would have been determined, net of depreciation or amortisation, had not the impairment loss been recognised in the previous periods. Such reversal is recognised in the statement of comprehensive income.

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Exploration and evaluation assets

Exploration and evaluation assets are carried at cost, less accumulated impairment losses. The right to subsurface use at the exploration and evaluation stage includes the capitalised costs for exploration and evaluation and the costs for acquiring exploration licenses and is accounted for as intangible assets. Exploration rights costs are amortised on a straight-line basis over the estimated period of exploration.

The Company tests exploration and evaluation assets for impairment when the facts and circumstances indicate that the carrying amount of exploration and evaluation assets may exceed their recoverable amount.

Intangible assets

Intangible assets other than subsurface use rights are stated at cost, less accumulated amortisation and accumulated impairment losses. Intangible assets include mainly computer software.

Intangible assets acquired separately from a business are carried initially at cost. The initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Computer software costs have an estimated useful life of 3 to 7 years and are amortised on a straight line basis over this period. The current amount of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the current amount may not be recoverable.

Financial assets***Initial recognition and measurement***

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial assets (continued)*****Initial recognition and measurement (continued)***

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

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

Subsequent measurement

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

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

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

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

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

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised from the statement of financial position where:

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial assets (continued)*****Derecognition (continued)***

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

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

Impairment of financial assets

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

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

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

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

Financial liabilities***Initial recognition and measurement***

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

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

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

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss;
- Financial liabilities at amortised cost (loans, borrowings and payables).

NOTES TO THE FINANCIAL STATEMENTS (continued)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial liabilities (continued)*****Subsequent measurement (continued)******Financial liabilities at fair value through profit or loss***

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the income statement.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

Financial liabilities at amortised cost (loans, borrowings and payables)

This is the category most relevant to the Company. Subsequent to initial recognition, trade and other payables are measured at amortised cost, using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of profit or loss.

This category generally applies to trade and other payables.

Derecognition

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

Inventories

Inventories are recorded at the lower of cost on a first in, first out basis separately for each warehouse and net realisable value. Cost includes all costs incurred in the normal course of business in bringing each item to its present location and condition. The cost of crude oil is the cost of production, including the appropriate proportion of depreciation, depletion and amortisation ("DD&A") and overheads based on normal capacity.

Net realisable value of crude oil is based on estimated selling price in the ordinary course of business less any costs expected to be incurred to complete the sale. Materials and supplies inventories are carried at amounts that do not exceed the expected amounts recoverable in the normal course of business.

Value added tax (VAT)

The tax authorities permit the settlement of VAT on sales and purchases on a net basis. Value added tax recoverable represents VAT on purchases on domestic market net of VAT on sales on domestic market. Export sales are zero rated. However VAT offset is allowed only based on the results of a tax audit carried out by the tax authorities to confirm VAT recoverable.

If the effect of the time value of money is material, long-term VAT recoverable is discounted using a risk-free rate that reflects, where appropriate, the risks specific to the asset.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with banks, other short-term highly liquid investments with original maturities of three months or less.

NOTES TO THE FINANCIAL STATEMENTS (continued)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Share capital***Share capital*

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements were authorised for issue.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Defined benefit obligation

The Company withholds 10% from the salary of its employees as the employees' contribution to their designated pension funds. The pension deductions are limited to a maximum of 212,500 tenge per month in 2020 (2019: 212,500 tenge per month). Under the current Kazakhstan legislation, employees are responsible for their retirement benefits. Since 1 January 2014, the Company is also required to transfer mandatory professional pension contributions in the amount of 5% of the income of the majority of its employees to their pension funds.

Long-term employee defined benefit liabilities

The Company provides long-term employee benefits to employees before, on and after retirement, in accordance with the collective agreements between the Company and its employees and other documents. In particular, the Collective agreement and other documents stipulate payment of one-time retirement benefits, early retirement, rendering of material aid to the employees in case of disability, jubilee and death. Eligibility for benefits usually depends on the employee's length of service in the industry prior to retirement.

Accrual of expected expenses on one-time retirement benefits and early retirement benefits is carried out during employee labour activity in accordance with technique, which is used in calculation of defined benefit schemes. Actuarial gains and losses arising in the year are taken to other comprehensive income. For this purpose actuarial gains and losses comprise both the effect of changes in actuarial assumptions and the effect of previous experience owing to the differences between actuarial assumptions and actual data. Other changes are recognised in current period including the cost of current services, past services and the effect of staff reduction or calculations made.

The most significant assumptions used in accounting for defined benefit obligations are the discount rate and the expected changes in mortality. Discount rate is used to determine net present value of future liabilities and each year unwinding of discount on such liabilities is recorded in the statement of comprehensive income as finance costs. Mortality assumption is used to forecast future interest payment flow, which is later discounted to get net present value of liabilities.

Employees benefits apart from lump-sum retirement benefits are considered as other employee benefits. Accrual of expected expenses on these long-term benefits is performed during employee labour activity according to the method, which is used in calculation of defined benefit schemes.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Revenue recognition**

The Company sells crude oil under short-term contracts priced as the average of 5 average (high/low) Brent quotes published by Platt's, adjusted for freight, insurance and quality differentials. Title typically passes and revenues are recognised when crude oil is physically placed onboard a vessel or offloaded from the vessel, transferred into pipe or other delivery mechanism depending on the contractually agreed terms.

The Company's crude oil sale contracts generally specify maximum quantities of crude oil to be delivered over a certain period. Crude oil shipped but not yet delivered to the customer is recorded as inventory in the statement of financial position.

Taxation

Current income tax expense comprises current corporate income tax, excess profit tax and deferred tax.

Income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Company operates and generates taxable income.

Excess profit tax

Excess profit tax ("EPT") is treated as an income tax and forms part of income tax expense. In accordance with the applicable tax legislation enacted as of 1 January 2009, the Company accrues and pays EPT in respect of each subsurface use contract, at varying rates based on the ratio of aggregate annual income to deductions for the year for a particular subsurface use contract. The ratio of aggregate annual income to deductions in each tax year triggering the application of EPT is 1.25:1. EPT rates are applied to the part of the taxable income (taxable income after corporate income tax and allowable adjustments) related to each subsurface use contract in excess of 25% of the deductions attributable to each contract.

Deferred income tax

Deferred tax assets and liabilities are calculated for all temporary differences using the liability method for all temporary differences between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Judgements

In the process of applying the Company's accounting policies, the management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the financial statements:

Revenue from contracts with customers

The Company has determined that all revenue from contracts with customers is received at a point in time, and the recognition of revenue requires the Company's management to make judgements that affect the reported amounts of revenue. Contractual relations for the sale of oil with other terms may result in recognition of revenue over time.

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****Judgements (continued)***Revenue from contracts with customers (continued)*

Judgement is used in assessing whether the Company is a principal or an agent in revenue transactions. In determining that the Company acts as a principal, the terms of the agreements were carefully considered, and it was concluded that the Company controls the product before it is transferred to the buyer. In alternative agreements, the Company can be defined as an agent.

In accordance with the terms of the existing contracts, the Company has determined that shipping or transportation services are not provided to the buyer, and that the only performance obligations relate to the sale of crude oil and petroleum products. Judgement is required in determining whether shipment is provided as a service, and this affects the identification of the performance obligation, recognition of all performance obligations at a point in time or over time, and the overall timing of revenue recognition. The Company's management does not consider the shipping costs to be a separate performance obligation, as the risks and associated rewards pass to the buyer at the time of shipment at the port.

Deferred tax assets

Deferred tax is calculated with respect to both corporate income tax ("CIT") and excess profit tax ("EPT"). Deferred CIT and EPT are calculated on temporary differences for assets and liabilities allocated to contracts for subsoil use at the expected rates. Both deferred CIT and EPT bases disclosed in *Note 8* are calculated in accordance with the tax legislation. Information on tax-related uncertainties is disclosed in *Note 20*.

Deferred tax assets require management to assess the probability that the Company will generate sufficient taxable profit in future periods to use the recognised deferred tax assets. Assumptions about future taxable profit depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil prices, reserves, operating costs, decommissioning costs, capital expenditure, dividends and other capital management transactions) and judgment about the application of existing tax laws. If future cash flows and taxable profit differ materially from estimates, this may affect the Company's ability to realise the net deferred tax assets recognised at the reporting date. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods. The Company's management estimates that it is highly probable that sufficient taxable profit will be available in future periods to use the recognised deferred tax assets.

Estimation uncertainty*Evaluation of oil and gas reserves*

Oil and gas reserves are estimates of the amount of hydrocarbons that can be economically and legally produced in the Company's oil and gas fields. The Company estimates its commercial reserves and resources based on information gathered by qualified specialists regarding geological and technical data on the size, depth, shape and content of the hydrocarbon body, as well as suitable production methods and recovery rates. Commercial reserves are determined using estimates of oil and gas reserves, recovery factors, and future commodity prices, the latter affecting the total amount of recoverable reserves and the share of gross reserves. Future capital expenditures are estimated using assumptions about the number of wells needed to extract commercial reserves, the cost of such wells and associated production capacity, and other capital expenditures.

The Company estimates its reserves of oil and gas in accordance with the methodology of the Society of Petroleum Engineers (SPE). In estimating its reserves, the Company uses long-term planning prices. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year end spot prices. The current long-term Brent crude oil price assumption used in estimating commercial reserves is USD 48 per barrel (2019: USD 62 per barrel). The carrying amount of oil and gas assets as at 31 December 2020 is disclosed in *Note 9*.

Since the economic assumptions used may change, as additional geological information is obtained during the operation of the field, the estimates of recoverable reserves may change. The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub-classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability.

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****Estimation uncertainty (continued)***Evaluation of oil and gas reserves (continued)*

Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data; availability of new data; or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Such changes may affect the Company's financial position and results, which include:

- The carrying amount of oil and gas and other assets (*Note 9*);
- Depreciation, depletion and amortisation in the statement of comprehensive income (*Note 9*);
- Asset retirement obligations – if changes in inventory estimates affect expectations about when such actions will occur and the associated costs of such actions (*Notes 9 and 16*);
- The carrying amount of deferred tax assets – may change due to changes in the assessment of the probability of recovery of such assets (*Note 8*).

Depreciation of oil and gas assets

Depreciation of oil and gas assets is calculated using the production method in relation to the amount of proven developed reserves. This results in depreciation in proportion to the depletion of the expected remaining production in the field.

When determining the service life of each object, the limitation of the physical service life is taken into account, as well as current estimates of the economically recoverable reserves of the field. These calculations require the use of estimates and assumptions, including the amount of inventory and future capital expenditures. Changes in proven developed reserves may result from changes in factors or assumptions used in estimating reserves, including:

- The difference between actual and projected crude oil prices;
- Unforeseen operating issues that may affect future capital expenditures.

Impairment of oil and gas assets

During the year, crude oil prices plummeted due to COVID-19 and other factors affecting global supply and demand, and there was a decrease in production volumes compared to previous years. Management considered this to be an indicator of impairment, and the Company conducted an impairment analysis of its cash-generating oil and gas assets.

The Company assesses an asset of a group of assets or cash-generating units (CGU) for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such indication exists, the recoverable amount is estimated, which is regarded as higher of fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as discount rates, future capital requirements, operating performance that are subject to risk and uncertainty. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered impaired and is written down to its recoverable amount.

In assessing recoverable amount the estimated future cash flows are adjusted for the risks specific to the asset group / generating unit and are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is identified as the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the Company and not applicable to the Company in general.

As a result of the impairment test conducted by the Company's management, it was revealed that the commercial profitability of the fields decreased due to the lower price of crude oil compared to its production costs. As a result, an impairment in the amount of KZT 60,659,149 thousand was recognised in the financial statements for the year ended 31 December 2020.

The Company calculates recoverable amount using a discounted cash flow model. The discount rate of 14.4% was derived from the Company's post-tax weighted average cost of capital. Annually approved business plans are the main source of information, as they contained forecasts regarding production volumes, sales volumes, income, expenses and capital expenditure.

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****Estimation uncertainty (continued)***Impairment of oil and gas assets (continued)*

Various assumptions such as price forecasts for crude oil and inflation rates take into account existing prices, foreign exchange rates, other macroeconomic factors, historical trends and variability. Estimated cash flows were limited to the expiration date of the production contracts in 2043. Expenditures up to 2043, were forecasted based on the budget and business plan of the Company, as well as current estimates of the Company's management concerning potential changes in operating and capital expenditures.

After this period the majority of cash flows were forecasted by applying the expected rate of inflation, except for capital expenditures, which were based on the management's best estimate available at the valuation date.

Key assumptions required for measuring the recoverable amount are crude oil prices, production volumes, the exchange rate and the discount rate. The sensitivity to changes in the key assumptions was estimated.

The significant underlying assumptions used to estimate the recoverable amount of oil and gas assets are presented below, together with a quantitative sensitivity analysis as at 31 December 2020:

Significant initial assumptions	Value	Sensitivity of recoverable amounts of oil and gas assets to initial assumptions
Discount rate	14.4%	Increase (decrease) in the discount rate by 1% will result in a decrease (increase) in the estimated recoverable amount by KZT 17,683,267 thousand (KZT 20,066,473 thousand).
Production volumes	44,152 thousand tons	Increase (decrease) in production volumes by 5% will result in an increase (decrease) in the estimated recoverable amount by KZT 53,294,423 thousand (KZT 53,169,368 thousand).
Oil price	Average value is 65.69 US dollars / barrel	Increase (decrease) in the oil price by 5% will result in an increase (decrease) in the estimated recoverable amount by KZT 47,488,068 thousand (KZT 54,080,811 thousand).
Foreign exchange rate	Average exchange rate is 576.84	Increase (decrease) in the exchange rate between 2021 and 2043 by 5% will result in an increase (decrease) in the estimated recoverable amount of KZT 33,322,639 thousand (KZT 33,365,227 thousand).

Assets retirement obligations

Under the terms of certain contracts, legislation and regulations the Company has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Company's obligation relates to the ongoing closure of all non-productive wells and final closure activities such as removal of pipes, buildings and reclamation of the contract territories. Since the license terms cannot be extended at the discretion of the Company, the settlement date of the final closure obligations has been assumed to be the end of each license period.

If the asset retirement obligations were to be settled at the end of the economic life of the properties, the recorded obligation would increase significantly due to the inclusion of all abandonment and closure costs. The extent of the Company's obligations to finance the abandonment of wells and for final closure costs depends on the terms of the respective contracts and current legislation.

Where neither contracts nor legislation include an unambiguous obligation to undertake or finance such final abandonment and closure costs at the end of the license term, no liability has been recognised. There is some uncertainty and significant judgment involved in making such a determination.

Management's assessment of the presence or absence of such obligations could change with shifts in policies and practices of the Government or in the local industry practice. The Company calculates asset retirement obligations separately for each contract.

The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market. The Company revises the obligation to restore the contract territory at each reporting date and adjusts to reflect the best estimate in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration of Natural Resources* to deal with them and similar obligations.

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****Estimation uncertainty (continued)***Assets retirement obligations (continued)*

Estimating the future closure costs involves significant estimates and judgments by management. Most of these obligations are many years in the future and, in addition to ambiguities in the legal requirements, the Company's estimate can be affected by changes in asset removal technologies, costs and industry practice. Approximately 39.94% and 37.44% of the provision at 31 December 2020 and 2019 relates to final closure costs, respectively. The Company estimates future well abandonment cost using current year prices and the average long-term inflation rate.

The long-term inflation and discount rates used to determine the carrying amount of the liability as at 31 December 2020 and 2019 are presented below:

	2020	2019
Discount rate on the field abandonment provision	6.95%	10.00%
Inflation rate	5.53%	5.00%

Movements in the provision for asset retirement obligations are disclosed in *Note 16*.

Environmental remediation

The Company also makes judgments and estimates in establishing provisions for environmental remediation obligations. Environmental expenditures are expensed depending upon their future economic benefit. Expenditures that relate to an existing condition caused by past operations and do not have a future economic benefit are expensed.

Liabilities are determined based on current information about costs and expected plans for remediation and are recorded on a discounted basis based on management's expectations with regard to timing of the procedures required. The Company's environmental remediation provision represents management's best estimate based on an independent assessment of the anticipated expenditure necessary for the Company to remain in compliance with the current regulatory regime in Kazakhstan. The provision for the environmental emissions was recognised in relation to fines and damages for violating environmental legislation based on the results of two unscheduled audits (*Note 20*). Changes in environmental rehabilitation liabilities are disclosed in *Note 16*.

Further uncertainties related to environmental remediation are detailed in *Note 20*. Movements in the provision for environmental remediation obligations are disclosed in *Note 16*.

The long-term inflation and discount rates used to determine the carrying amount of the liability as at 31 December 2020 and 2019 are presented below:

	2020	2019
Discount rate on the environmental provision	7.9%	7.9%
Inflation rate	5.00%	5.00%

Environmental liability

The amount of the provision for the environmental liability is represented by the present value of estimated future expenses in the amount of KZT 5,329,662 thousand with a discount rate of 7.90% and a period until 2022. Changes to the environmental liability are disclosed in *Note 16*.

Provision for expected credit losses of trade receivables and contract assets

The Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For example, if forecast economic conditions (such as GDP) are expected to deteriorate over the next year, which may result in an increase in defaults in the production sector, the historical default rate is adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****Estimation uncertainty (continued)***Provision for expected credit losses of trade receivables and contract assets (continued)*

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. Information on ECLs on the Company's trade receivables is disclosed in *Note 11*.

Sales at preliminary prices

Contracts for the sale of crude oil for export include conditions that allow prices to be adjusted based on the market price at the end of the relevant quotation period (QP) specified in the contract. Sales price adjustments are based on changes in quoted market prices until the end of the QP. Revenue from sales in such cases under these contracts is initially recognised when control is transferred to the buyer and will be measured at the expected amount, based on the forward price.

The contracts for the purchase and sale of crude oil for export with KazMunayGas Trading AG indicate the preliminary prices at the time of shipment. The final sale price is based on the average market price quotes within 5 days after the bill of lading. These price risks in the quoted period correspond to the definition of an embedded derivative in accordance with IFRS 9. The Company applies judgement to determine the fair value of the receivables. The Company presents changes in the fair value of receivables from the date of sale for 2020 as part of revenue (*Note 4*). As at 31 December 2020, the adjustment of receivables under such contracts between the preliminary and final price for 2020 is insignificant.

Defined benefit obligation

The cost of long-term employee benefits before and after retirement and the present value of obligations is determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future benefits increases. Due to the difficulty of assessing the basic assumptions and long-term obligations under the post-employment benefit plans, such obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The WHO Emergency Committee on International Health Regulations declared the outbreak a "public health emergency of international concern" on 30 January 2020. Since then, the virus has spread around the world, including Kazakhstan. On 11 March, the WHO declared the COVID-19 outbreak a pandemic.

The mortality rate is based on publicly available mortality tables that have been adjusted for COVID-19. Future increase in salary is based on expected future inflation rates. Main actuarial assumptions used for evaluation of liabilities on employee benefits as at 31 December 2020 and 2019 are as follows:

<i>As a percentage</i>	2020	2019
Discount rate	7.52%	7.90%
Inflation rate	7.50%	5.40%
Future increase in long-term annual payments	4.00%	5.00%
Future salary increase	4.00%	5.00%

The average duration of the employee benefit obligation at the end of employment as at 31 December 2020 and 2019 was 9.15 years and 7.9 years, respectively.

The sensitivity analysis of employee benefit liabilities to changes in material assumptions as at 31 December 2020 is as follows:

	Decrease	Increase
Discount rate	(0.5%) 534,160	+0.5% (500,816)
Salary growth	(0.5%) (523,891)	+0.5% 555,043

NOTES TO THE FINANCIAL STATEMENTS (continued)**4. REVENUE FROM CONTRACTS WITH CUSTOMERS**

	Recognition of revenue from obligation performance	2020	2019
Export			
Crude oil	At a point in time	191,390,067	418,475,878
Domestic market			
Crude oil	At a point in time	52,726,663	31,954,034
Gas products	At a point in time	229,260	261,058
Other sales and services	Over time	361,335	253,743
		244,707,325	450,944,713
		2020	2019
Geographical market			
Switzerland		191,390,067	418,475,878
Kazakhstan		53,317,258	32,468,835
		244,707,325	450,944,713

In 2020, the preliminary price adjustment reduces revenue from contracts with customers in the amount of KZT 2,008,782 thousand (2019: KZT 1,599,333 thousand).

5. COST OF SALES

	2020	2019
Employee benefits	49,758,187	46,216,556
Depreciation, depletion and amortisation	21,673,765	42,252,428
Mineral extraction tax, net	15,899,652	26,166,365
Repairs and maintenance	15,908,188	17,090,605
Materials and supplies	4,942,041	5,373,890
Transportation expenses	3,734,473	3,437,789
Electric energy	3,147,046	2,846,633
Taxes other than income tax	2,700,526	1,379,055
Change in the provision for environmental liability (Note 16)	—	(25,177)
Other	4,224,852	5,312,461
	121,988,730	150,050,605
Change in crude oil balance	1,993,385	580,180
	123,982,115	150,630,785

Production costs for processing associated gas for 2020 amount to KZT 6,626,872 thousand (2019: KZT 5,872,194 thousand).

Mineral extraction tax expenses in 2020 include the MET tax benefit as a result of changes in tax legislation. The reason for these changes is that underground water extracted along with hydrocarbons and discharged back into the subsurface is water that poses a threat to public health and the environment, and the volumes of such water are not subject to MET starting from 1 January 2018.

6. SELLING EXPENSES

	2020	2019
Rent tax	13,406,618	58,608,228
Export customs duty	23,287,697	54,107,073
Transportation expenses	34,631,714	41,626,987
Sales agent's fee	153,782	219,337
	71,479,811	154,561,625

NOTES TO THE FINANCIAL STATEMENTS (continued)**7. GENERAL AND ADMINISTRATIVE EXPENSES**

	2020	2019
Employee benefits	4,911,965	5,225,706
Repairs and maintenance	757,799	780,039
Consulting and audit services	712,167	808,359
Sponsorship	681,639	–
Depreciation, depletion and amortisation	662,396	1,079,916
Transportation expenses	394,840	492,830
Taxes other than income tax	219,202	696,476
(Recovery)/accrual of ECL allowance	(50,380)	74,037
(Recovery)/accrual of expenses for fines and penalties	(273,409)	597,921
Recovery of the environmental provision	–	(25,419,696)
Other	451,321	1,251,591
	8,467,540	(14,412,821)

8. INCOME TAX

Income tax expense for the period comprised the following:

	2020	2019
Current corporate income tax	4,178,432	27,396,992
Adjustment of corporate income tax for the previous period	(545,372)	832,709
Current excess profit tax	–	8,601,468
Adjustment of excess profit tax for the prior period	950,217	–
Current income tax	4,583,277	36,831,169
Deferred corporate income tax benefit	(5,053,160)	(3,013,117)
Changes in deferred excess profit tax asset	3,473,346	(3,473,346)
Deferred income tax	(1,579,814)	(6,486,463)
Income tax expense	3,003,463	30,344,706

NOTES TO THE FINANCIAL STATEMENTS (continued)**8. INCOME TAX (continued)**

The following table provides a reconciliation of the Kazakhstan income tax rate to the effective tax rate of the Company on profit before tax.

	2020	2019
(Loss)/income before taxes	(14,640,000)	131,745,737
Income tax expense	3,003,463	30,344,706
Effective tax rate	21%	23%
Income tax (benefit)/expenses at statutory rate	(2,928,000)	26,349,147
Adjustment of deferred excess profit tax for the prior period	3,473,346	—
Changes in deferred excess profit tax asset	—	(3,473,346)
Adjustment of excess profit tax for prior periods	950,217	—
Capital construction-in-progress impairment expenses	723,364	—
Adjustment of corporate income tax for the previous period	(545,372)	832,709
Defined benefit expenses	463,752	508,516
Withholding tax	181,159	190,697
Non-deductible expenses	684,997	1,868,636
Current excess profit tax	—	8,601,468
Reversal of the environmental provision	—	(5,083,939)
Impairment of VAT recoverable	—	550,418
Income tax expense	3,003,463	30,344,706

The movements in the deferred tax assets relating to CIT and EPT were as follows:

	Property, plant and equipment and intangible assets	Provisions	Taxes	Exploration expenses	Other	Total
As at 1 January 2019	(4,078,821)	7,437,389	4,657,398	—	2,364,060	10,380,026
Recognised in profit and loss	214,907	778,591	1,904,559	2,615,823	972,583	6,486,463
At 31 December 2019	(3,863,914)	8,215,980	6,561,957	2,615,823	3,336,643	16,866,489
Recognised in profit and loss	9,610,415	(866,858)	(4,871,551)	—	(2,292,192)	1,579,814
At 31 December 2020	5,746,501	7,349,122	1,690,406	2,615,823	1,044,451	18,446,303

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas assets	Land	Buildings and constructions	Machinery and equipment	Vehicles	Other assets	Capital construction- in-progress	Total
Net book value as at 1 January 2019	124,296,442	310,203	5,029,652	1,417,287	5,535,077	2,242,547	48,824,983	187,656,191
Additions	513,749	-	1,502	5,180	15,395	207,805	34,139,330	34,882,961
Change in ARO estimate	6,027,852	-	-	-	-	-	-	6,027,852
Disposals	(2,124,640)	(2,990)	(40,804)	(52,262)	(441,633)	(172,505)	(344,660)	(3,179,494)
Transfers from capital work in progress	63,792,271	-	69,109	545,767	1,659,782	829,988	(66,896,917)	-
Transfers from exploration and evaluation assets	1,743,043	-	-	-	-	-	1,024,284	2,767,327
Transfers and reclassifications	(129,375)	-	50,242	54,916	21,352	2,865	-	-
Accumulated depreciation on disposals	1,683,837	-	16,067	47,333	391,999	159,435	315,575	2,614,246
Impairment	(16,287)	-	-	(148)	-	(4,240)	(148,363)	(169,038)
Depreciation expenses	(24,315,456)	-	(281,251)	(207,121)	(1,085,300)	(472,411)	-	(26,361,539)
Net book value at 31 December 2019	171,471,436	307,213	4,844,517	1,810,952	6,096,672	2,793,484	16,914,232	204,238,506
Additions	279,871	-	236,515	284	-	1,437	32,284,243	32,802,350
Change in ARO estimate	3,139,840	-	-	-	-	-	-	3,139,840
Disposals	(1,147,645)	-	(96,249)	(20,060)	(81,920)	(132,379)	(557,446)	(2,035,699)
Transfers from capital work in progress	23,687,221	-	1,189,757	920,624	1,114,314	1,464,090	(28,376,006)	-
Transfers and reclassifications	(347,847)	-	(10,600)	65,437	(26,707)	(14,652)	334,369	-
Accumulated depreciation on disposals	983,701	-	46,496	15,785	80,216	125,641	501,812	1,753,651
Impairment	(38,045,662)	(25,945)	(1,114,603)	(361,054)	(1,134,247)	(278,804)	(3,355,896)	(44,316,211)
Depreciation expenses	(19,679,860)	-	(301,458)	(331,515)	(914,194)	(670,384)	-	(21,897,411)
Net book value at 31 December 2020	140,341,055	281,268	4,794,375	2,100,453	5,134,134	3,288,433	17,745,308	173,685,026

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. PROPERTY, PLANT AND EQUIPMENT (continued)

	Oil and gas assets	Land	Buildings and constructions	Machinery and equipment	Vehicles	Other assets	Capital construction- in-progress	Total
At 31 December 2019								
Cost	309,836,997	307,213	6,734,914	2,940,264	10,757,342	5,040,587	17,418,866	353,036,183
Accumulated depreciation	(138,298,915)	–	(1,848,418)	(1,128,847)	(4,660,670)	(2,247,103)	–	(148,183,953)
Accumulated impairment	(66,646)	–	(41,979)	(465)	–	–	(504,634)	(613,724)
Net book value at 31 December 2019	171,471,436	307,213	4,844,517	1,810,952	6,096,672	2,793,484	16,914,232	204,238,506
At 31 December 2020								
Cost	335,783,620	307,213	8,054,772	3,912,987	11,763,873	6,356,768	20,763,442	386,942,675
Accumulated depreciation	(157,112,965)	–	(2,136,474)	(1,451,015)	(5,495,492)	(2,785,217)	–	(168,981,163)
Accumulated impairment	(38,329,600)	(25,945)	(1,123,923)	(361,519)	(1,134,247)	(283,118)	(3,018,134)	(44,276,486)
Net book value at 31 December 2020	140,341,055	281,268	4,794,375	2,100,453	5,134,134	3,288,433	17,745,308	173,685,026

As at 31 December 2020, the cost and corresponding accumulated depreciation of fully amortised, but still in use, property, plant and equipment amounted to KZT 15,902,445 thousand (2019: KZT 9,269,174 thousand).

NOTES TO THE FINANCIAL STATEMENTS (continued)**10. EXPLORATION AND EVALUATION ASSETS**

	Tangible	Intangible	Total
Net book value as at 1 January 2019	19,302,335	–	19,302,335
Additions	4,505,518	395,526	4,901,044
Transfers to property, plant and equipment	(2,767,327)	–	(2,767,327)
Transfers to intangible assets	–	(969,966)	(969,966)
Disposals	(250,342)	–	(250,342)
Transfers and reclassifications	(4,577,768)	4,577,768	–
Depreciation	–	(410,025)	(410,025)
Impairment	(3,418,106)	–	(3,418,106)
Net book value at 31 December 2019	12,794,310	3,593,303	16,387,613
Additions	1,317,661	–	1,317,661
Disposals	(330,865)	–	(330,865)
Depreciation	–	(92)	(92)
Impairment	(12,749,727)	(3,593,211)	(16,342,938)
Net book value at 31 December 2020	1,031,379	–	1,031,379
At 31 December 2019			
Cost	13,688,151	18,315,049	32,003,200
Accumulated depreciation	(2,972)	(14,721,746)	(14,724,718)
Accumulated impairment	(890,869)	–	(890,869)
Net book value at 31 December 2019	12,794,310	3,593,303	16,387,613
At 31 December 2020			
Cost	13,903,581	18,315,049	32,218,630
Accumulated depreciation	(2,972)	(14,721,746)	(14,724,718)
Accumulated impairment	(12,869,230)	(3,593,303)	(16,462,533)
Net book value at 31 December 2020	1,031,379	–	1,031,379

11. FINANCIAL ASSETS**Trade and other accounts receivable**

	2020	2019
Trade accounts receivable	23,559,592	42,393,566
Other	116,473	144,309
	23,676,065	42,537,875
Less: ECL allowance	(78,204)	(123,992)
	23,597,861	42,413,883

As at 31 December 2020, the Company's trade receivables include receivables from the sale of crude oil for export to KazMunayGas Trading AG in the amount of KZT 15,408,303 thousand (2019: KZT 38,534,305 thousand), receivables from NC KMG is KZT 8,151,289 thousand (2019: KZT 3,859,261 thousand).

As at 31 December 2020, 65% of the Company's trade receivables are denominated in US dollars (2019: 91%).

Changes in allowance for expected credit losses on trade receivables and assets under the contract are as follows:

	2020	2019
At 1 January	123,992	49,955
Accrual	53,579	117,450
Recovery	(99,367)	(43,413)
At 31 December	78,204	123,992

NOTES TO THE FINANCIAL STATEMENTS (continued)**11. FINANCIAL ASSETS (continued)****Trade and other accounts receivable (continued)**

As at 31 December 2020, the information about the credit risk exposure on the Company's trade receivables and assets under the contract using a provision matrix:

	Trade accounts receivable						Total
	Contract assets	Current	Up to 30 days	Past due 30-60 days	61-90 days	More than 91 days	
Percentage of expected credit losses	–	0.19%	–	0.59%	–	48.11%	–
Estimated total gross carrying amount	–	23,575,886	–	32,381	–	67,798	23,676,065
Expected credit losses	–	45,397	–	191	–	32,616	78,204

As at 31 December 2019, the information about the credit risk exposure on the Company's trade receivables and assets under the contract using a provision matrix:

	Trade accounts receivable						Total
	Contract assets	Current	Up to 30 days	Past due 30-60 days	61-90 days	More than 91 days	
Percentage of expected credit losses	–	0.29%	–	–	–	–	0.29%
Estimated total gross carrying amount	–	42,360,215	173,803	–	–	3,857	42,538,875
Expected credit losses	–	123,992	–	–	–	–	123,992

Cash and cash equivalents

	2020	2019
Time deposits with banks in US dollars	47,706,301	–
Time deposits with banks in tenge	9,847,623	4,124,000
Cash on accounts with banks in tenge	8,025	15,724
Cash on accounts with banks in US dollars	–	35,049,234
	57,561,949	39,188,958

Cash with banks earns interest at rates based on daily bank deposit rates. Deposits with banks are made for varying periods between one day and three months, depending on the immediate cash requirements of the Company.

The weighted average interest rate on tenge denominated time deposits as at 31 December 2020 was 7.35% (2019: 7.0%), and the weighted average interest rate on time deposits in US dollars was 0.25% (2019: none).

Other financial assets

Non-current financial assets comprise of liquidation fund deposits opened in accordance with subsoil use agreement for each contract until the end of the term of each contract. As at 31 December 2020, the weighted average interest rate on these deposits was 1.05% (2019: 1.04%).

	2020	2019
Financial assets held-to-maturity, US dollars	42,151,326	38,050,549
Financial assets held-to-maturity, tenge	903,060	732,482
ECL allowance	(288,772)	(228,925)
Total non-current financial assets	42,765,614	38,554,106

NOTES TO THE FINANCIAL STATEMENTS (continued)**12. TAXES PREPAID AND VAT RECOVERABLE**

	2020	2019
VAT recoverable	20,121,363	23,071,594
Export customs duty	3,747,749	8,024,056
Damage caused by environment emission	–	10,419,227
Other	518,834	49,041
	24,387,946	41,563,918
Less: provision for impairment of VAT recoverable	(7,674,730)	(7,674,730)
Total taxes prepaid and VAT recoverable	16,713,216	33,889,188
Less: current portion of taxes prepaid	14,135,807	22,856,112
Non-current portion of tax prepayment	2,577,409	11,033,076

13. INVENTORY

	2020	2019
Crude oil (at the lowest of cost and net realisable value)	5,095,432	7,088,817
Materials (at cost)	3,565,826	2,286,063
Total inventories at the lower of cost and net realisable value	8,661,258	9,374,880

As at 31 December 2020, the Company had 87,687 tons of crude oil in storage and transit (2019: 108,165 tons).

14. EQUITY**Authorised shares**

The total number of authorised shares is 32,479,964 with par value of 5,000 tenge each, all of which are owned by the Parent Company as at 31 December 2020 and 2019 (2019: 32,479,964 with par value of KZT 5,000 each).

Dividends

In accordance with Kazakhstan legislation, dividends may not be declared if the Company has negative equity or if the payment of dividends would result in negative equity. In 2020, the Company did not declare and pay any dividend to the Parent Company (2019: KZT 117,401,771 thousand or KZT 3,614 per share).

15. HISTORICAL OBLIGATIONS

Historical obligations are denominated in US dollars and represent obligations to reimburse historical costs incurred by the Government of the Republic of Kazakhstan prior to the acquisition of certain licenses by the Company: contract No. 327 – Taisogan field, contract No. 406 – Liman field, contract No. 3577 – Karaton-Sarkamys field, contract No. 992 – Novobogatinskoye Zapadnoye field. Payments on historical liabilities will be made until 2033, and the fair value of the liabilities at the date of initial recognition has been calculated on the basis of expected cash flows using a discount rate of 9% per annum. Upon initial recognition of liabilities to the Government of the Republic of Kazakhstan, the Company recognised a discount in the amount of KZT 3,348,324 thousand in the statement of comprehensive income. In 2020, the Company recognised finance costs in the amount of KZT 626,914 thousand (2019: KZT 645,335 thousand).

NOTES TO THE FINANCIAL STATEMENTS (continued)**16. PROVISIONS**

	Environmental obligation	Environment emission provision	Provisions for taxes	Assets retirement obligations	Defined benefit obligation	Total
As at 1 January 2019	6,027,025	26,069,641	6,894,715	11,599,718	9,889,248	60,480,347
Additional provisions	—	2,066,418	—	254,748	292,648	2,613,814
Unused amounts reversed	—	(17,078,502)	—	—	—	(17,078,502)
Unwinding of discount	602,701	—	—	1,159,972	933,156	2,695,829
Changes in estimate	(25,177)	—	—	6,027,852	2,254,491	8,257,166
Utilised during the year	(1,665,103)	(6,472,612)	(1,010,030)	(1,215,192)	(1,115,373)	(11,478,310)
At 31 December 2019	4,939,446	4,584,945	5,884,685	17,827,098	12,254,170	45,490,344
Current portion	1,977,081	4,584,945	5,884,685	349,924	991,558	13,788,193
Non-current portion	2,962,365	—	—	17,477,174	11,262,612	31,702,151
At 31 December 2019	4,939,446	4,584,945	5,884,685	17,827,098	12,254,170	45,490,344
Additional provisions	—	563,313	2,901,249	312,767	661,093	4,438,422
Unused amounts reversed	—	(1,221,175)	(2,901,249)	—	—	(4,122,424)
Unwinding of discount	390,216	—	—	1,387,169	920,904	2,698,289
Changes in estimate	—	—	—	3,139,840	785,666	3,925,506
Utilised during the year	—	(3,363,770)	—	(433,855)	(1,199,962)	(4,997,587)
At 31 December 2020	5,329,662	563,313	5,884,685	22,233,019	13,421,871	47,432,550
Current portion	1,977,081	563,313	5,884,685	248,126	1,058,894	9,732,099
Non-current portion	3,352,581	—	—	21,984,893	12,362,977	37,700,451
At 31 December 2020	5,329,662	563,313	5,884,685	22,233,019	13,421,871	47,432,550

In 2020, the provision in the amount of KZT 1,221,175 thousand, which was accrued for a possible administrative penalty for emissions into the environment, was reversed due to the absence of a statement of claim.

With the expiration of the statute of limitations on the payment of taxes, in 2020, the accrued tax provision for the period from 2014 to 2015 was written off. The Company accrued tax provisions in the amount of KZT 2,901,249 thousand for 2018-2020.

Amounts recognised on defined benefit obligation in the statement of financial position and statement of comprehensive income are presented as follows:

	2020	2019
Present value of defined benefit obligation at the end of the year	13,421,871	12,254,170
Net liabilities	13,421,871	12,254,170
Current service costs	263,008	243,641
Interest expense	920,904	933,155
Actuarial losses – charged to profit and loss	54,185	49,008
Actuarial losses – charged to other comprehensive loss	785,666	2,254,491
Past service costs	343,900	—
Costs recognised during the year	2,367,663	3,480,295

The cost of current services and services of prior years is included in the statement of comprehensive income as part of operating expenses, general and administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS (continued)**17. RELATED PARTY TRANSACTIONS**

The category 'entities under common control' comprises entities controlled by the Parent Company and NC KMG. The category 'other related parties' comprises entities controlled by SWF Samruk-Kazyna. Sales and purchases with related parties during the years ended 31 December 2020 and 2019 and the balances with related parties at 31 December 2020 and 2019 are as follows:

	2020	2019
Sale of goods and services		
Entities under common control	194,263,778	423,712,813
NC KMG	53,021,254	31,956,767
Parent Company	102,313	66,186
Quality bank income/(expenses) on crude oil sold (Parent Company)	284,989	(4,508,557)
Other related parties	—	716
Purchases of goods and services		
Entities under common control	35,701,520	19,687,286
NC KMG	2,820,135	11,553,547
Other related parties	224,782	229,942
Salaries and other short-term benefits		
Members of the Board of Directors	50,567	56,738
Number	3	4
Members of the Management Board	267,619	267,574
Number	6	8
Trade and other accounts receivable		
Entities under common control	18,119,840	40,856,246
Parent Company	8,140,472	3,806,104
Other related parties	4,298	4,040
Trade accounts payable		
Entities under common control	1,668,317	1,692,706
Parent company	184,905	377,764
Other related parties	21,104	18,882

Sales and receivables

Sales to related parties comprise mainly export and domestic sales of crude oil and oil products to subsidiaries of NC KMG. Export sales to related parties represented 1,662,511 tons of crude oil for 2020 (2019: 2,371,208 tons). The sales of crude oil are priced by reference to Platt's index quotations and adjusted for freight, trader's margin and quality differentials. For these exports of crude oil the Company received an average price per ton of approximately KZT 114,950 in 2020 (KZT 178,384 in 2019).

In addition, the Company supplies crude oil to the domestic market through NC KMG, the parent company, in accordance with the Resolution of the Government of the Republic of Kazakhstan, the ultimate controlling shareholder of NC KMG. Those supplies to the domestic market represented 927,311 tons of crude oil production in 2020 (2019: 503,326 tons). Prices for the local market sales are determined by agreement with NC KMG (*Note 20*). In 2020, the Company received an average of KZT 56,860 per ton of oil delivered to the domestic market (2019: an average of KZT 63,486).

Purchases and payables

NC KMG is the Company's crude oil export agent. Agency commissions for crude oil sales amounted to KZT 153,782 thousand (2019: KZT 219,337 thousand). Transportation services provided by the Caspian Pipeline Consortium were reimbursed to the Parent Company in the amount of KZT 1,780,542 thousand (2019: KZT 10,348,636 thousand).

NOTES TO THE FINANCIAL STATEMENTS (continued)**18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company has various financial liabilities such as loans, trade and other payables. The Company has various financial assets such as accounts receivable, short-term and long-term deposits, cash and cash equivalents.

The Company is exposed to currency risk, credit risk, liquidity risk and the risk of changes in commodity prices.

Currency risk

The Company's exposure to the risk of changes in foreign exchange rates relates mainly to the Company's operating activities, as the majority of its sales are denominated in US dollars whilst almost all of its costs are denominated in tenge, and to its investments denominated in foreign currencies.

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rates for US dollar, the probability of which can be reasonably assumed, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in tenge exchange rate against US dollar rate	Effect on profit before tax
2020		
US dollar	+14.00%	13,672,631
US dollar	(11.00%)	(10,742,781)
2019		
US dollar	+12.00%	12,502,154
US dollar	(9.00%)	(9,376,616)

Credit risk

The Company is exposed to credit risk in relation to its receivables. The Company's vast majority of sales are made to an affiliate of NC KMG and the Company has a significant concentration risk of the receivable from this affiliate (*Notes 11, 17*). Additional number of minor receivables are grouped into homogeneous groups and assessed for impairment collectively on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

The Company is also exposed to credit risk from its investing activities. The Company mostly places the deposits with Kazakhstan banks. Credit risk from balances with financial institutions is managed by the Company's treasury department in accordance with the Parent Company's treasury policy. The maximum sensitivity of the Company to credit risk arising from default of financial institutions is equal to the carrying amount of these financial assets.

The table below shows the balances of financial assets held in banks at the reporting date using the Standard and Poor's credit ratings, unless otherwise indicated:

Banks	Location	Rating ¹		2020	2019
		31 December 2020	31 December 2019		
Halyk Bank of Kazakhstan JSC	Kazakhstan	BB (stable)	BB (stable)	99,827,529	77,278,661
ATF Bank JSC (Fitch)	Kazakhstan	B (negative)	B (negative)	500,034	464,403
				100,327,563	77,743,064

¹ Source: official sites of the banks and rating agencies as at 31 December of the respective year.

Liquidity risk

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

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of short and long-term deposits in local banks.

NOTES TO THE FINANCIAL STATEMENTS (continued)**18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Liquidity risk (continued)**

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

At 31 December 2020	On demand	Less than 3 months	3-12 months	1 to 5 years	More than 5 years	Total
Historical obligations	–	127,476	382,427	4,286,278	7,877,954	12,674,136
Trade and other payables	17,020,197	–	–	–	–	17,020,197
	17,020,197	127,476	382,427	4,286,278	7,877,954	29,694,333

At 31 December 2019	On demand	Less than 3 months	3-12 months	1 to 5 years	More than 5 years	Total
Historical obligations	–	195,518	506,907	3,079,201	8,441,071	12,222,697
Trade and other payables	26,951,135	–	–	–	–	26,951,135
	26,951,135	195,518	506,907	3,079,201	8,441,071	39,173,832

Commodity price risk

The Company is exposed to the effect of fluctuations in the price of crude oil, which is quoted in US dollars on international markets. The Company prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of crude oil prices in the future.

Capital management

Equity includes all of the Company's equity. The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and available funds to support its business and strategic objectives.

As at 31 December 2020, the Company had a strong financial position and a conservative capital structure. Going forward, the Company intends to maintain a capital structure which allows it the flexibility to take advantage of growth opportunities as and when they arise.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policy or processes during the years ended 31 December 2020 and 2019.

19. FINANCIAL INSTRUMENTS

The fair value of financial instruments such as short-term trade receivables, trade payables and historical obligations approximately equals to their carrying value.

As at 31 December 2020 and 2019, the Company did not have any financial instruments classified as financial instruments of 1 or 2 levels.

For the years ended 31 December 2020 and 2019 there were no transfers between Levels 1, 2 and 3 of the financial instruments' fair value.

20. CONTRACTUAL AND CONTINGENT ASSETS AND LIABILITIES**Political and economic environment**

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**20. CONTRACTUAL AND CONTINGENT ASSETS AND LIABILITIES (continued)****Domestic market obligations**

The Kazakhstan government requires oil producers to supply a portion of their crude oil production to the domestic market to meet domestic energy requirements.

Starting from 1 April 2016, the Company stopped selling crude oil to KazMunayGas Refining Marketing JSC and sold oil to the Parent Company. On 1 July 2018, the Company started selling crude oil to NC KMG based on the oil purchase agreement.

If the Government does require additional crude oil to be delivered over and above the quantities currently supplied by the Company, such supplies will take precedence over market sales and will generate substantially less revenue than crude oil sold on the export market, which may materially and adversely affect the Company's business, prospects, financial condition and results of operations.

Taxation

Tax legislation and regulatory framework of the Republic of Kazakhstan are subject to constant changes and allow for different interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual, including opinions on approaches to revenue, expenses and other items of the financial statements. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2019.

The Company's management believes its interpretations of the tax legislation are appropriate and that the Company has justifiable arguments for its tax positions.

Taxation on export transactions

According to the Law of the Republic of Kazakhstan On Transfer Pricing, international business transactions, as well as certain transactions made in the Republic of Kazakhstan, regardless of the relationship between the parties or the degree of deviation of the transaction price from the market price, are subject to state control in transfer pricing. When calculating market prices, the components of the differential must be documented or confirmed by sources of information.

In 2020, as well as in prior periods, the Company exported oil to a related party that is part of the NC KMG Group. In accordance with the requirements of the Law on Transfer Pricing, the authorised bodies have the right to request from the participants of the transaction, government agencies and third parties the information necessary to determine the market price and differential, as well as other data for monitoring the transfer pricing.

The collection of all necessary documents, including the originals of the primary documentation on export operations, confirming the amount of the differential for 2020, in full and before the start of the tax audit in accordance with the applicable requirements of the Law of the Republic of Kazakhstan On Transfer Pricing is carried out by NC KMG, which is an oil sales agent.

The Company's management believes that the risk of additional tax liabilities, penalties and administrative penalties in connection with the adjustment of taxable items due to the lack of documents is not significant.

VAT recoverable and provision for impairment of VAT

VAT recoverable is recorded in accounting on purchased goods, works and services that were purchased with VAT, in case that they were used for the purpose of obtaining income. As at 31 December 2020, VAT recoverable amounted to KZT 20,121,363 thousand (2019: KZT 23,071,593 thousand).

The provision for impairment of VAT recoverable was calculated at 100% of the amount of the long-term portion of VAT recoverable for the period from 2012 to 2015 and amounted to KZT 2,487,496 thousand (2019: KZT 2,758,269 thousand). The Company calculated the provision for impairment of VAT recoverable for the period from 2016 to 2019 in the amount of 30% of the total amount of VAT, as the most likely amount of VAT not recoverable in the amount of KZT 5,187,233 thousand (2019: KZT 4,916,460 thousand).

Environment emission provision

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. Other than those amounts provided for in *Note 10*, management believes that there are no probable environmental liabilities, which could have a material adverse effect on the Company's financial position, operating results or cash flows.

NOTES TO THE FINANCIAL STATEMENTS (continued)**20. CONTRACTUAL AND CONTINGENT ASSETS AND LIABILITIES (continued)****Environment emission provision (continued)***Environmental audit*

On 2 December 2020, the Company received a notification from the RSI Western Interregional Department of State Inspection in the Oil and Gas Complex of the Ministry of Energy of the Republic of Kazakhstan on payment of damage in the amount of KZT 558,246 thousand caused as a result of violation of the requirements for rational and integrated use of subsurface resources in the production of hydrocarbons, which were identified as part of an unscheduled environmental audit conducted in May 2019. This damage was related to the burning of crude gas for the period from 1 November 2017 to 9 October 2018. The provision for this amount was accrued in 2020.

Oil field licenses

The Company is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its oilfield licenses and related subsoil use contract. Management cooperates with governmental authorities to agree on remedial actions necessary to resolve any findings resulting from these reviews. Failure to comply with the license provisions may result in fines, penalties, restriction, suspension or withdrawal of the license.

The Company's management believes that any issues of non-compliance will be resolved through negotiations or corrective actions without any material effect on the Company's financial position, operating results and cash flows.

The Company's oil and gas fields are located on land belonging to the Atyrau regional administration. Licenses are issued by the Ministry of Oil and Gas of Kazakhstan and the Company pays mineral extraction and excess profits tax to explore and produce oil and gas from these fields.

The principle licenses of the Company and their expiry dates are:

Location	Contract	Expiry date
Kenbai	No. 37	2041
South East Novobogatinskoe	No. 61	2048
23 oilfields	No. 211	2037
15 oilfields	No. 413	2043
Taysoygan	No. 327	2035
West Novobogatinskoe	No. 992	2027
Liman	No. 406	2033
Karaton-Sarkamys	No. 3577	2022

Commitments arising from oilfield and exploration licenses

Year	Capital expenditures	Operating expenses
2021	45,344,828	1,384,062
2022	25,827,906	1,709,500
2023	619,730	1,679,547
2024-2048	211,818	11,928,061
	72,004,282	16,701,170

NOTES TO THE FINANCIAL STATEMENTS (continued)

Contact information

The Company's legal address is:

Embamunaigas Joint Stock Company

1 Valikhanov Str.

060002 Atyrau

Republic of Kazakhstan

Tel.: +7 (7122) 32 29 24

Fax: +7 (7122) 35 41 34

www.embamunaigas.kz
