Embamunaigas Joint Stock Company

Financial statements

For the year ended 31 December 2022
with independent auditor's report

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Independent auditor's report

To the Shareholder and Management 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 2022, 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 2022 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' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 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 Management 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.

We communicate with the Management 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

Rustamzhan Sattarov
General Director
Ernst & Young LLP

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

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

050060, Republic of Kazakhstan, Almaty
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23 February 2023

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

In thousands of tenge	Notes	For the year ended 31 December 2022	2021
Revenue from contracts with customers	4	**394,121,621**	316,706,918
Cost of sales	5	**(175,250,804)**	(136,586,413)
Gross profit		**218,870,817**	180,120,505
Selling expenses	6	**(137,038,699)**	(94,066,334)
General and administrative expenses	7	**(12,831,267)**	(9,710,179)
Exploration expenses		**(41,472)**	(134,683)
Gain on reversal impairment of VAT recoverable	20	**2,075,907**	4,463,674
Operating profit		**71,035,286**	80,672,983
Finance income		**2,919,492**	1,763,739
Finance costs		**(3,466,183)**	(3,783,346)
Foreign exchange difference, net		**9,563,259**	3,180,981
Other income		**1,191,949**	800,898
Other expense		**(3,968,320)**	(1,408,869)
Profit before tax		**77,275,483**	81,226,386
Income tax expense	8	**(19,649,667)**	(24,797,290)
Profit for the year		**57,625,816**	56,429,096
Other comprehensive profit/loss			
The amounts of other comprehensive loss not to be reclassified to profit or loss in subsequent periods (net of taxes)			
Income/loss from revaluation on defined benefit plans	16	**2,104,413**	(499,390)
Other comprehensive profit/loss not to be reclassified to profit or loss in subsequent periods		**2,104,413**	(499,390)
Total comprehensive income / (loss) for the year, net of tax		**59,730,229**	55,929,706

"Ембімұнайгаз" АҚ

Deputy General Director for Economics and Finance ________ *R.N. Tasmagambetova*

Chief Accountant ________ *N.Zh. Makhambetov*

The accounting policies and explanatory notes on pages 5 to 34 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

In thousands of tenge	Note	At 31 December 2022	2021
Assets			
Non-current assets			
Property, plant and equipment	9	**187,576,435**	175,556,741
Exploration and evaluation assets	10	**1,280,007**	3,595,324
Intangible assets		**1,487,954**	1,681,570
Other financial assets	11	**49,364,343**	46,956,915
Deferred tax asset	8	**11,036,738**	10,766,894
Advances paid for non-current assets		**1,286,077**	2,533,974
Other non-current assets		**252,031,554**	241,091,418
Current assets			
Inventory	13	**11,910,989**	10,724,327
Corporate income tax prepayment		**7,523,689**	9,626,626
Taxes prepaid and VAT recoverable	12	**3,227,476**	6,367,631
Advances paid and deferred expenses		**4,140,886**	3,406,235
Trade and other accounts receivable	11	**27,990,813**	30,442,242
Other current financial assets	11	**13,122,895**	–
Cash and cash equivalents	11	**60,311,570**	74,630,524
Total current assets		**128,228,318**	135,197,585
Total assets		**380,259,872**	376,289,003
Equity			
Share capital	14	**162,399,820**	162,399,820
Retained earnings		**121,993,913**	127,278,990
Total equity		**284,393,733**	289,678,810
Liabilities			
Non-current liabilities			
Historical obligations	15	**5,687,303**	7,233,017
Provisions	16	**37,221,682**	36,450,915
Other non-current liabilities		**–**	626,791
Total non-current liabilities		**42,908,985**	44,310,723
Current liabilities			
Historical obligations	15	**1,935,315**	653,869
Provisions	16	**10,462,645**	9,337,388
Mineral extraction and rent tax payable		**17,019,060**	13,876,833
Trade and payables		**23,540,134**	18,431,380
Total current liabilities		**52,957,154**	42,299,470
Total liabilities		**95,866,139**	86,610,193
Total liabilities and equity		**380,259,872**	376,289,003

Deputy General Director for Economics and Finance

"Ембімұнайгаз" АҚ

R.N. Tasmagambetova

Chief Accountant

N.Zh. Makhambetov

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STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

In thousands of tenge	Note	For the year ended 31 December 2022	2021
Operating activities			
Profit before tax		**77,275,483**	81,226,386
Adjustments to reconcile profit before tax to net cash flows			
Depreciation and impairment	9, 10	**26,514,677**	26,629,787
Loss on disposal of property, plant and equipment and exploration assets		**1,707,119**	350,013
Unrealized gain from foreign exchange difference, net		**(6,186,387)**	(3,126,185)
Change in provisions		**1,956,195**	(4,857,008)
Recovery of ECL expenses and advances impairment		**(67,115)**	(65,083)
Finance costs		**3,466,183**	3,783,346
Finance income		**(2,919,492)**	(1,763,739)
		101,746,663	102,177,517
Working capital adjustments			
Change in inventories		**(1,186,662)**	(2,063,069)
Change in taxes prepaid		**3,140,155**	10,345,585
Change in advances paid and deferred expenses		**513,244**	(1,949,986)
Change in trade and other receivables		**2,451,429**	(6,669,047)
Change in trade and other payables		**1,976,491**	2,593,779
Change in other current financial assets		**(13,122,895)**	–
Change in mineral extraction tax and rent tax payable		**3,142,227**	10,690,913
		98,660,652	115,125,692
Interest received		**2,919,492**	1,763,738
Income tax paid		**(17,815,165)**	(20,785,331)
Net cash flows from operating activities		**83,764,979**	96,104,099
Investing activities			
Purchase of property, plant and equipment	9	**(35,442,524)**	(32,287,261)
Purchase of intangible assets		**(256,206)**	(126,975)
Withdrawal / (placement) of long-term deposits		**1,080,387**	(2,864,824)
Net cash flows used in investing activities		**(34,618,343)**	(35,279,060)
Financing activities			
Dividends paid to Parent Company	14	**(65,015,316)**	(45,000,016)
Payments of historical liabilities		**(1,440,237)**	(498,298)
Net cash flows used in financing activities		**(66,455,553)**	(45,498,314)
Net change in cash and cash equivalents		**(17,308,917)**	15,326,725
Cash and cash equivalents at 1 January		**74,630,524**	57,561,949
Foreign exchange difference, net		**2,989,963**	1,741,850
Cash and cash equivalents at 31 December	11	**60,311,570**	74,630,524

Deputy General Director for Economics and Finance — R.N. Tasmagambetova

Chief Accountant — N.Zh. Makhambetov

"Ембімұнайгаз" АҚ

The accounting policies and explanatory notes on pages 5 to 34 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

In thousands of tenge	Note	Share capital	Retained earnings	Total
At 1 January 2021		162,399,820	116,349,300	278,749,120
Profit for the year		–	56,429,096	56,429,096
Other comprehensive loss	16	–	(499,390)	(499,390)
Total comprehensive loss		–	55,929,706	55,929,706
Dividends		–	(45,000,016)	(45,000,016)
At 31 December 2021		**162,399,820**	**127,278,990**	**289,678,810**
Profit for the year		–	**57,625,816**	**57,625,816**
Other comprehensive profit	16	–	**2,104,413**	**2,104,413**
Other comprehensive income		–	**59,730,229**	**59,730,229**
Dividends		–	**(65,015,316)**	**(65,015,316)**
At 31 December 2022		**162,399,820**	**121,993,903**	**284,393,723**

"Ембімұнайгаз" акционерлік қоғамы Қазақстан Республикасы Атырау қ. EMG "Ембімұнайгаз" АҚ

Deputy General Director for Economics and Finance

R.N. Tasmagambetova

Chief Accountant

N.Zh. Makhambetov

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

In thousands of tenge

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

Embamunaigas 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 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 (Taisoigan oilfield), contract No. 992 (West Novobogatinskoe oilfield); contract No. 406 (Liman oilfield); contract No. 3577 (Karaton-Sarkamys oilfield); contract No. 4906 (South-East Novobogat (suprasalt)). On 25 February 2015, addenda to extend contracts were signed between the Ministry of Energy and Embamunaigas JSC 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.

On 9 December 2022, an addendum was signed between Embamunaigas JSC and the Ministry of Energy on fixing the production period at the S. Nurzhanov field (contract No. 3577 Karaton-Sarkamys) for a period of 25 years.

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. As at 31 December 2022, 87.42% of NC KMG's shares are owned by SWF Samruk-Kazyna JSC (hereinafter referred to as the "SWF Samruk- Kazyna"), 9.58% of the shares of the Republican State Institution National Bank of the Republic of Kazakhstan and 3% of the shares are outstanding on the AIX and KASE stock exchanges. The Government of the Republic of Kazakhstan is the sole shareholder of SWF Samruk-Kazyna.

The Company's financial statements for the year ended 31 December 2022 were authorised for issue by the Deputy General Director for Economics and Finance and Chief Accountant on 23 February 2023.

2. BASIS OF PREPARATION

The significant 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.

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). 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 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*.

These financial statements of the Company have been prepared on a going concern basis.

New and amended standards and interpretations

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022 (unless otherwise indicated). The Company has not early adopted any other standard, interpretations or amendments that has been issued but is not yet effective.

2. BASIS OF PREPARATION (continued)

New and amended standards and interpretations (continued)

In 2022, certain standards and amendments that did not have an impact on the Company's financial statements were adopted for the first time:

- *Onerous Contracts – Costs of Fulfilling a Contract* – Amendments to IAS 37;
- *Reference to the Conceptual Framework* – Amendments to IFRS 3;
- *Property, Plant and Equipment: Proceeds before Intended Use* – Amendments to IAS 16 *Leases;*
- IFRS 9 *Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities;*
- Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Subsidiary as a First-Time Adopter;*
- Amendment to IAS 41 *Agriculture - Taxation in fair value measurements.*

Standards issued but not yet effective

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

- IFRS 17 *Insurance Contracts;*
- Amendments to IAS 1 — *Classification of Liabilities as Current or Non-current;*
- Amendments to IAS 8: *Definition of Accounting Estimates;*
- Amendments to IAS 1 and IFRS Practice Statement 2 – *Disclosure of Accounting Policies;*
- Amendments to IAS 12 – *Deferred Taxation Related to Assets and Liabilities Arising from a Single Transaction;*
- Amendments to IFRS 16 – *Lease Liability in a Sale and Leaseback.*

Foreign currency translation

The financial statements are presented in Kazakhstan tenge ("tenge" or "KZT"), which is the Company's functional currency. Transactions in foreign currencies 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 recognized in the statement of comprehensive income.

Exchange rates

The official rate of the Kazakhstan tenge to the US dollar at 31 December 2022 and 2021 was 462.65 tenge and 431.80 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.

Operating environment

In general, the economy of the Republic of Kazakhstan continues to demonstrate some characteristic features inherent in emerging markets. It is particularly sensitive to fluctuations in the prices of oil, gas and other minerals, which make up the bulk of the country's exports. These features also include, but are not limited to, the existence of a national currency without free conversion outside the country and the low level of liquidity in the securities market. Ongoing political tensions in the region, exchange rate volatility have had and may continue to have a negative impact on the economy of the Republic of Kazakhstan, including reduced liquidity and hardships in international debt financing.

2. BASIS OF PREPARATION (continued)

Operating environment (continued)

War in Ukraine

The war in Ukraine, which began in 2022, has led to the emergence of a number of features of accounting under IFRS, affecting financial statements. Many countries have already imposed and continue to impose new sanctions both on individual Russian legal entities and Russian citizens. The mere fact of the current situation, added with potential fluctuations in commodity prices, exchange rates, import and export restrictions, availability of local materials and services and access to local resources will directly affect companies that carry out a scalable activity in the territories of the CIS countries.

However, the above factors did not affect oil demand. The management is unable to foresee the extent or duration of changes in the Kazakh economy or to assess their possible impact on the Company's future financial position. The management believes that it takes all the required steps to support stability and growth of the Company's business under the current circumstances.

Oil and gas field exploration and development expenditures

Exploration license costs

Exploration license costs are capitalized within intangible assets and amortized 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'), amortization 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 capitalized within exploration and evaluation asset 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 carried 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.

2. BASIS OF PREPARATION (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation, depletion and impairment.

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 acquisition 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, plant 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 derecognized 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 current amount of the item) is included in the statement of comprehensive income in the period the item is derecognized.

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 an 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 assessment 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 recognized. 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 recognized in the previous periods. Such reversal is recognized 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 recorded at historical 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 amortized 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

In thousands of tenge

2. BASIS OF PREPARATION (continued)

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 amortized on a straight-line basis over this period. The current value 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, 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 applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

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

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

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (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 or losses are recognized in profit or loss when an asset is derecognized, modified or impaired. The Company's financial assets at amortised cost include trade receivables.

2. BASIS OF PREPARATION (continued)

Financial assets (continued)

Subsequent measurement (continued)

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 benefits of the asset but has transferred control over the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's 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 a provision 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).

NOTES TO THE FINANCIAL STATEMENTS (continued)

In thousands of tenge

2. BASIS OF PREPARATION (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. The financial asset is written off if 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 amortized cost (loans, borrowings and payables).

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 at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchase in the near future. 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. Selected embedded derivatives are also classified as held for trading unless they are classified as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

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 amortized cost (loans, borrowings and payables)

This is the category most relevant to the Company. After initial recognition, trade and other payables are subsequently measured at amortised cost using the effective interest 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 fee 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

In thousands of tenge

2. BASIS OF PREPARATION (continued)

Financial liabilities (continued)

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 a 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.

Inventory

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 amortization ("DD&A") and overheads based on normal capacity.

Net realisable value of crude oil is based on proposed selling price 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 taxed 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.

The carrying amount of VAT recoverable is reduced to the recoverable amount using the allowance account for the impairment of VAT recoverable. The amount of impairment losses is recognised in general and administrative expenses in the statement of comprehensive income.

If the amount of VAT recoverable is subsequently reimbursed from the budget, then the previously recognized impairment loss should be recovered using the allowance account for VAT recoverable impairment.

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.

Equity

Ordinary shares with discretionary dividends are 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 recognized 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

In thousands of tenge

2. BASIS OF PREPARATION (continued)

Provisions (continued)

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 inherent in a specific 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 300,000 tenge per month in 2022 (2021: 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 cost of services of the current period represents an increase in the present value of the employee benefit obligation as a result of the Company's provision of services in the current period. The cost of past services represents the change in the present value of the defined benefit plan liability as a result of changes or reductions in the program. The most significant assumptions used in the accounting for pension liabilities are the discount rate and the expected changes in the mortality rate. 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.

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 recognized 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.

2. BASIS OF PREPARATION (continued)

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 total annual income to deductions in each fiscal 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 JUDGMENTS

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.

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 agreement 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

In thousands of tenge

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Revenue from contracts with customers (continued)

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. Deferred CIT and EPT bases disclosed in *Note 8* are calculated under the terms of the tax legislation. Uncertainties related to taxation are detailed 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 recognized 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 and natural gas prices, reserves, operating costs, decommissioning costs, capital expenditure, dividends and other capital management transactions) and judgement 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 recognized 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 probably that sufficient taxable profit will be available in future periods to use the recognized 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 the commercial reserves, 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 90 per barrel (2021: USD 70 per barrel). The carrying amount of oil and gas assets as at 31 December 2022 is disclosed in *Note 9*.

Since the economic assumptions 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)

In thousands of tenge

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (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 impact the Company's reported financial position and results, which include:

- The carrying amount of oil and gas and other assets (*Note 9*);
- Depreciation, depletion and amortization 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 a depreciation charge proportional 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 tin 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

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. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the 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 to be 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, no indications that the commercial profitability of the deposits declines have been revealed.

The Company calculated the recoverable amount using a discounted cash flow model. The discount rate of 17.09% was obtained based on the Company's after tax weighted average cost of capital. Annually approved business plans are the main source of information, since they contain forecasts of production, sales volumes, revenues, expenses and capital expenditures.

In thousands of tenge

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of oil and gas assets (continued)

Various assumptions such as forecasts of crude oil prices and inflation rate, take into account existing prices, foreign exchange rates and other macroeconomic factors and historical trends and fluctuations. Estimated cash flows were limited to the Production Contract expiration date in 2043. Expenditures up to 2043, were forecasted based on the budget and business plan for 2023-2027, as well as current estimates of the Company's management with respect to possible changes in operating and capital expenditures. The impairment test model is based on the assumption that the Company's revenue in the future will be fully generated from export sales.

Most of the cash flows after this period were projected by applying the assumed inflation rate, excluding capital expenditures, which were based on the best management 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. Sensitivity to changes in the key assumptions was estimated.

The significant baseline assumptions used to estimate the recoverable value of oil and gas assets, together with a quantitative sensitivity analysis, as at 31 December 2022, are presented below:

Significant baseline assumptions	Value	Sensitivity of recoverable value of oil and gas assets to baseline assumptions
Discount rate	17.09%	An increase (decrease) in the discount rate by 1% will lead to a decrease (increase) in the estimated recoverable value by 17,257,893 thousand tenge (18,599,870 thousand tenge).
Production volumes	32,775 thousand tons).	An increase (decrease) in the production volumes by 5% will lead to a decrease (increase) in the estimated recoverable value by 76,142,923 thousand tenge (78,256,120 thousand tenge).
Oil price	Average value - 100.09 US dollars/barrel	An increase (decrease) in the oil price by 5% will lead to a decrease (increase) in the estimated recoverable value by 55,287,513 thousand tenge (84,522,902 thousand tenge).
Foreign exchange rate	The average exchange rate is 585.43 per 1 US dollar	An increase (decrease) in the exchange rate during 2023-2043 by 5% will lead to an increase (decrease) in the estimated recoverable value by 77,783,783 thousand tenge (77,783,783 thousand tenge).

Under the terms of certain contracts, legislation and regulations the Company has legal obligations to dismantle and abandon tangible assets and restore the sites at each field. 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 recultivation 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 recognized. 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.

In thousands of tenge

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of oil and gas assets (continued)

Estimating the future closure costs involves significant estimates and judgements 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 23.90% and 40.85% of the provision at 31 December 2022 and 2021, relate to the final closure costs, respectively. The Company estimates future well abandonment cost using current year prices and the average long-term inflation rate.

Asset retirement obligations

The long-term inflation and discount rates used to determine the carrying amount of the liability at 31 December 2022 and 2021 are presented below:

	2022	2021
Discount rate on the field abandonment provision	**8.59%**	6.99%
Inflation rate	**4.13%**	5.49%

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

Obligations for environmental remediation

The Company evaluates and makes judgments regarding the environmental remediation provisioning each reporting period *(Note 20)*. The 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 existing environmental laws. The provision for environmental emissions was recognized in relation to fines and damages for violating environmental legislation based on the results of two unscheduled audits in 2018. In 2022, the Company fully paid the obligation for environmental emissions *(Note 16)*.

Environmental obligation

The environmental obligation is determined based on current information about costs and expected plans for rehabilitation and are recorded on an undiscounted basis based on management's expectations with regard to timing of the procedures required.

In 2017, the Company developed the "Project for the restoration of oil contaminated soil of oil fields of OGPU Zhaiykmunaigas, OGPU Zhylyoimunaigas, OGPU Dossormunaigas in the period from 2018 to 2022" and generated a provision of 6,270,054 thousand tenge.

The amount of provision for environmental obligation represents present value of estimated future costs discounted at 7.90% for the period until 2022. In 2022, the Company fully implemented the plan for cleaning up the oil contaminated soil *(Note 16)*.

Provision for expected credit losses of trade receivables

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 Company'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.

In thousands of tenge

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision for expected credit losses of trade receivables (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 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. Selling price adjustments are based on changes in quoted market prices before 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 final sale price is based on the average market price quotes within 5 days after the bill of lading. The 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 2022 as part of revenue (*Note 4*). As at 31 December 2022, the adjustment of receivables under such contracts between the preliminary and final price for 2022 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 mortality rate is based on publicly available mortality tables. 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 2022 and 2021 are as follows:

As a percentage	**2022**	2021
Discount rate	**10.36%**	6.50%
Future increase of non-current annual payments (MCI)	**7.50%**	6.20%
Future salary increase (2023)	**9.50%**	10.00%
Future salary increase (2024)	**5.00%**	4.00%
Future salary increase (since 2025)	**4.00%**	5.47%
Male early retirement probability	**15.47%**	17.38%
Female early retirement probability	**3.79%**	4.27%

The average duration of the employee benefit obligation at the end of employment as at 31 December 2022 and 2021 was 9.41 years and 9.16 years, respectively.

NOTES TO THE FINANCIAL STATEMENTS (continued)

In thousands of tenge

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Defined benefit obligation (continued)

The sensitivity analysis of employee benefit liabilities to changes in material assumptions as at 31 December 2022 is as follows:

	Decrease	Increase
Discount rate	**(0.5%)**	**+0.5%**
	452,232	**(929,532)**
Salary growth	**(1,0%)**	**+1,0%**
	(502,996)	**5,136**

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

	Recognition of revenue from obligation performance	2022	2021
Export			
Crude oil	At a point in time	**268,920,027**	223,687,148
Domestic market			
Crude oil	At a point in time	**124,585,448**	92,497,757
Gas products	At a point in time	**246,910**	206,626
Other sales and services	Over time	**369,236**	315,387
		394,121,621	316,706,918

	2022	2021
Geographical market		
Switzerland	**268,920,027**	223,687,148
Kazakhstan	**125,201,594**	93,019,770
	394,121,621	316,706,918

In 2022, the preliminary price adjustment reduces revenue from contracts with customers by 303,002 thousand tenge (2021: 264,908 thousand tenge).

5. COST OF SALES

	2022	2021
Employee benefits	**69,738,515**	50,119,061
Mineral extraction tax, net	**33,275,383**	24,997,733
Depreciation, depletion and amortization	**25,763,054**	25,152,960
Repair and maintenance	**21,924,176**	17,459,799
Transportation expenses	**6,231,419**	5,540,390
Electric energy	**5,220,686**	3,982,459
Materials and supplies	**4,772,509**	4,506,706
Taxes other than income tax	**2,697,576**	2,856,220
Reversal of provision for environmental liability	**–**	(849,000)
Other	**6,853,102**	4,832,768
	176,476,420	138,599,096
Change in crude oil balance	**(1,225,616)**	(2,012,683)
	175,250,804	136,586,413

In thousands of tenge

5. COST OF SALES (continued)

Production costs for processing of associated gas for 2022 amounted to 7,225,576 thousand tenge (2021: 5,942,973 thousand tenge).

6. SELLING EXPENSES

	2022	2021
Rent tax	**65,683,907**	34,781,220
Export customs duty	**36,415,063**	27,405,009
Transportation expenses	**34,852,537**	31,780,055
Sales agent's fee	**87,192**	100,050
	137,038,699	94,066,334

7. GENERAL AND ADMINISTRATIVE EXPENSES

	2022	2021
Employee benefits	**6,341,773**	5,213,381
Sponsorship	**1,640,086**	184,500
Entertainment services	**1,228,618**	–
Repair and maintenance	**1,210,428**	926,062
Depreciation, depletion and amortization	**751,623**	775,825
Transportation expenses	**374,141**	363,646
Taxes other than income tax	**292,713**	204,238
Consulting and audit services	**266,143**	179,438
Provisions for penalty and fines	**152,414**	1,221,981
(Recovery)/accrual of ECL allowance	**(78,260)**	80,823
Other	**651,588**	560,285
	12,831,267	9,710,179

As part of the celebration of the 100th anniversary of Embamunaigas JSC, the Company has sponsored the construction of socially significant facilities in Atyrau region for a total amount of 1,262,882 thousand tenge in 2022.

Also, as part of the celebration of the 100th anniversary of Embamunaigas JSC, the Company incurred expenses for the organization and holding of cultural and sportive events totalling 1,228,618 thousand tenge.

8. INCOME TAX

Income tax expense for the period comprised the following:

	2022	2021
Current corporate income tax	**17,845,520**	16,709,359
Adjustment of corporate income tax for the prior period	**84,479**	(229,587)
Current excess profit tax	**167,151**	2,091,292
Adjustment of excess profit tax for the prior period	**253,643**	(1,453,183)
Adjustment of corporate income tax provision for the prior period	**1,567,305**	–
Current income tax	**19,918,098**	17,117,881
Deferred corporate income tax (benefit)/expense	**(268,431)**	7,679,409
Deferred income tax	**(268,431)**	7,679,409
Income tax expense	**19,649,667**	24,797,290

In thousands of tenge

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.

	2022	2021
Profit before taxation	**77,275,483**	81,226,386
Income tax expense	**19,649,667**	24,795,876
Effective tax rate	**25%**	31%
Income tax expense at statutory rate	**15,455,097**	16,245,277
Adjustment of excess profit tax for the prior period	**253,643**	(1,454,597)
Adjustment of corporate income tax for the prior period	**84,479**	(229,587)
Defined benefit expenses	**671,941**	380,823
Withholding tax	**388,990**	207,506
Non-deductible expenses	**645,760**	716,933
Current excess profit tax	**167,151**	2,091,292
Non-deductible expenses from sale below cost	**415,301**	333,481
Adjustment of corporate income tax provision for the prior period	**1,567,305**	–
Adjustment of the prior years' deferred tax asset	**–**	6,506,162
Income tax expense	**19,649,667**	24,797,290

The adjustment of the corporate income tax provision for the prior period mainly represents the recalculation of the provision for possible risks of CIT assessment with respect to the risk of reimbursement of expenses related to the oil transportation after loading on a tanker.

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

	Property, plant and equipment and intangible assets	Provisions and historical obligations	Taxes	Exploration expenses	Other	Total
At 1 January 2021	5.746.501	7.349.122	1.690.406	2.615.823	1.044.451	18.446.303
Recognized in profit and loss	(5.460.666)	(427.841)	821.036	(2.615.823)	3.885	(7.679.409)
At 31 December 2021	285.835	6.921.281	2.511.442	–	1.048.336	10.766.894
Recognized in profit and loss	**(343.651)**	**(607.323)**	**1.037.277**	**–**	**183.541**	**269.844**
At 31 December 2022	**(57.816)**	**6.313.958**	**3.548.719**	**–**	**1.231.877**	**11.036.738**

NOTES TO THE FINANCIAL STATEMENTS (continued)

In thousands of tenge

9. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas assets	Land	Buildings and construc-tions	Machinery and equipment	Vehicles	Other assets	Capital construction-in-progress	Total
Net book value at 1 January 2021	140,341,055	281,268	4,794,375	2,100,453	5,134,134	3,288,433	17,745,308	173,685,026
Additions	318,231	1,507	52	1,788	–	13,429	28,148,616	28,483,623
Changes in estimate of asset retirement obligation	(239,500)	–	–	–	–	–	–	(239,500)
Disposals	(6,028,171)	(372)	(25,052)	(25,379)	(204,154)	(209,474)	(144,809)	(6,637,411)
Transfers from capital work-in-progress	31,833,964	–	5,718,079	313,414	–	995,917	(38,861,374)	–
Transfers and reclassifications	(2,540,136)	21,899	(1,543,751)	741,659	54,652	676,245	2,589,432	–
Accumulated depreciation on disposals	5,714,156	–	16,183	20,017	195,382	196,852	144,808	6,287,398
Write-off	(562,961)	–	–	–	–	–	(138,041)	(701,002)
Depreciation expenses	(22,987,383)	–	(297,413)	(297,894)	(997,665)	(741,038)	–	(25,321,393)
Net book value at 31 December 2021	**145,849,255**	**304,302**	**8,662,473**	**2,854,058**	**4,182,349**	**4,220,364**	**9,483,940**	**175,556,741**
Additions	**141,680**	**–**	**525**	**355**	**–**	**16,911**	**37,537,407**	**37,696,878**
Change in ARO estimate *(Note 16)*	**(1,098,435)**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,098,435)**
Disposals	**(2,644,466)**	**(61,670)**	**(15,088)**	**(66,308)**	**(830,837)**	**(228,077)**	**(26,301)**	**(3,872,747)**
Transfers from capital work-in-progress	**26,697,449**	**–**	**174,755**	**200,282**	**249,674**	**848,308**	**(28,170,468)**	**–**
Transfers from exploration and evaluation assets *(Note 10)*	**3,252,867**	**–**	**–**	**–**	**–**	**–**	**–**	**3,252,867**
Transfers and reclassifications	**(28,722)**	**–**	**86,323**	**(110,831)**	**1,822**	**36,604**	**14,804**	**–**
Accumulated depreciation on disposals	**2,361,085**	**12,192**	**6,412**	**58,302**	**792,001**	**139,078**	**24,444**	**3,393,514**
Write-off	**–**	**–**	**–**	**–**	**–**	**–**	**(1,300,184)**	**(1,300,184)**
Depreciation expenses	**(23,670,869)**	**–**	**(351,815)**	**(368,565)**	**(829,938)**	**(831,012)**	**–**	**(26,052,199)**
Net book value at 31 December 2022	**150,859,844**	**254,824**	**8,563,585**	**2,567,293**	**3,565,071**	**4,202,176**	**17,563,642**	**187,576,435**

NOTES TO THE FINANCIAL STATEMENTS (continued)

In thousands of tenge

9. PROPERTY, PLANT AND EQUIPMENT (continued)

	Oil and gas assets	Land	Buildings and construc-tions	Machinery and equipment	Vehicles	Other assets	Capital construction -in-progress	Total
At 31 December 2021								
Cost	361,087,900	335,848	12,473,618	5,008,477	11,648,102	7,924,912	10,070,526	408,549,383
Accumulated depreciation	(176,910,651)	–	(2,422,618)	(1,729,135)	(6,324,594)	(3,346,521)	–	(190,733,519)
Accumulated impairment	(38,327,994)	(31,546)	(1,388,527)	(425,284)	(1,141,159)	(358,027)	(586,586)	(42,259,123)
Net book value at 31 December 2021	**145,849,255**	**304,302**	**8,662,473**	**2,854,058**	**4,182,349**	**4,220,364**	**9,483,940**	**175,556,741**
At 31 December 2022								
Cost	**394,263,742**	**274,177**	**12,732,905**	**4,997,772**	**11,072,214**	**8,595,597**	**19,412,177**	**451,348,584**
Accumulated depreciation	**(199,100,985)**	**–**	**(2,776,032)**	**(2,021,767)**	**(6,392,627)**	**(4,037,026)**	**–**	**(214,328,437)**
Accumulated impairment	**(44,302,913)**	**(19,357)**	**(1,393,288)**	**(408,712)**	**(1,114,513)**	**(356,394)**	**(1,848,535)**	**(49,443,712)**
Net book value at 31 December 2022	**150,859,844**	**254,820**	**8,563,585**	**2,567,293**	**3,565,074**	**4,202,177**	**17,563,642**	**187,576,435**

As at 31 December 2022, the cost and corresponding accumulated depreciation of fully amortised, but still in use, property, plant and equipment amounted to KZT 17,960,952 thousand (2021: KZT 15,689,981 thousand), where buildings and constructions amounted to KZT 677,530 thousand (2021: KZT 536,532 thousand), oil and gas assets amounted to KZT 15,419,896 thousand tenge (2021: KZT 14,004,082 thousand), vehicles and other property, plant and equipment amounted to KZT 1,863,526 thousand (KZT 1,149,546 thousand)

In 2022, by the Decision of the Ministry of Energy of the Republic of Kazakhstan, permits were issued to assign hydrocarbon production sites for the S.Nurzhanov fields (contract No. 3577 Karaton-Sarkamys) and Uaz Severny (contract No. 327 Taisoigan). Commercial discovery gives the contractor the exclusive right to proceed to the production stage. Thus, assets for the S.Nurzhanov and Uaz Severny fields were transferred from exploration and evaluation assets to oil and gas production assets at carrying amount of KZT 3,252,867 thousand as at 30 September 2022.

NOTES TO THE FINANCIAL STATEMENTS (continued)

In thousands of tenge

10. EXPLORATION AND EVALUATION ASSETS

	Tangible	Intangible	Total
Net book value at 1 January 2021	1,031,379	–	1,031,379
Additions	2,563,945	–	2,563,945
Net book value at 31 December 2021	**3,595,324**	**–**	**3,595,324**
Additions	**983,855**	**–**	**983,855**
Transfers from exploration and evaluation assets to property, plant and equipment *(Note 9)*	**(3,299,172)**	**–**	**(3,299,172)**
Net book value at 31 December 2022	**1,280,007**	**–**	**1,280,007**
At 31 December 2021			
Cost	16,467,526	18,315,049	34,782,575
Accumulated depreciation	(2,352)	(14,722,365)	(14,724,717)
Accumulated impairment	(12,869,850)	(3,592,684)	(16,462,534)
Net book value at 31 December 2021	**3,595,324**	**–**	**3,595,324**
At 31 December 2022			
Cost	**7,258,374**	**18,315,049**	**25,573,423**
Accumulated depreciation	**(2,352)**	**(14,722,365)**	**(14,724,717)**
Accumulated impairment	**(5,976,015)**	**(3,592,684)**	**(9,568,699)**
Net book value at 31 December 2022	**1,280,007**	**–**	**1,280,007**

11. FINANCIAL ASSETS

Trade and other accounts receivable

	2022	2021
Trade receivables	**27,980,705**	30,460,721
Other	**90,874**	140,547
	28,071,579	30,601,268
Less: ECL allowance	**(80,766)**	(159,026)
	27,990,813	30,442,242

As at 31 December 2022, the Company's trade receivables include receivables from the sale of crude oil for export to KazMunayGas Trading AG in the amount of KZT 12,783,977 thousand (2021: KZT 14,830,194 thousand), as well as NC KMG receivables from the sale of crude oil to domestic market in the amount of KZT 15,079,967 thousand (2021: KZT 15,477,755 thousand).

As at 31 December 2022, 46% of the Company's trade receivables are denominated in US dollars (2021: 49%).

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

	2022	2021
At 1 January	**159,026**	78,204
Accrual	**214,369**	96,795
Recovery	**(292,629)**	(15,973)
At 31 December	**80,766**	159,026

In thousands of tenge

11. FINANCIAL ASSETS (continued)

Trade and other accounts receivable (continued)

As at 31 December 2022, 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						
			Past due				
	Contract assets	Current	Up to 30 days	30-60 days	61-90 days	More than 91 days	Total
Percentage of expected credit losses	–	0.07%	–	–	0.98%	87.55%	–
Estimated total gross carrying amount	–	27,973,021	–	–	63,378	35,180	28,071,579
ECL	–	49,346	–	–	621	30,799	80,766

As at 31 December 2021, 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						
			Past due				
	Contract assets	Current	Up to 30 days	30-60 days	61-90 days	More than 91 days	Total
Percentage of expected credit losses	–	0.41%	–	–	–	35.71%	–
Estimated total gross carrying amount	–	30,501,991	–	–	–	99,277	30,601,268
ECL	–	123,572	–	–	–	35,454	159,026

Cash and cash equivalents

	2022	2021
Time deposits with banks in US dollars	**59,403,771**	68,854,177
Time deposits with banks in tenge	**890,235**	5,395,906
Cash on accounts with banks in tenge	**3,246**	16,462
Cash on accounts with banks in US dollars	**14,318**	363,979
	60,311,570	74,630,524

Cash with banks earns interest at rates based on daily bank deposit rates. Deposits with banks are made for varying periods of 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 2022 was 14.75% (2021: 8.6%), and the weighted average interest rate on time deposits in US dollars was 0.25% (2021: 0.25%).

Other current financial assets

Other current financial assets represent a payment in the amount of KZT 13,122,895 thousand made by a related party, KMG AG Trading, under a crude oil export purchase and sale agreement. The payment was made by the related party on 27 December 2022. As at 31 December 2022, no funds have been credited to the Company's bank account.

NOTES TO THE FINANCIAL STATEMENTS (continued)

In thousands of tenge

11. FINANCIAL ASSETS (continued)

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 2022, the weighted average interest rate on these deposits was 1.02% (2021: 1.10%).

	2022	2021
Financial assets held-to-maturity, US dollars	**48,791,515**	46,073,133
Financial assets held-to-maturity, tenge	**697,411**	997,220
ECL allowance	**(124,583)**	(113,438)
Total non-current financial assets	**49,364,343**	46,956,915

12. TAXES PREPAID AND VAT RECOVERABLE

	2022	2021
VAT recoverable	**3,207,236**	6,415,331
Export customs duty	**820,332**	2,982,612
Other	**162,960**	180,743
	4,190,528	9,578,686
Less: provision for impairment of VAT recoverable	**(963,052)**	(3,211,055)
Total prepaid taxes and VAT recoverable	**3,227,476**	6,367,631

Changes in provision for VAT recoverable are set out below:

	2022	2021
At 1 January	**3,211,055**	7,674,730
Reversal	**(2,075,907)**	(4,463,675)
Written off against the provision	**(172,096)**	–
At 31 December	**963,052**	3,211,055

13. INVENTORY

	2022	2021
Crude oil (at the lower of cost and net realisable value)	**8,333,731**	**7,108,115**
Materials at cost	**3,577,258**	**3,616,212**
Total inventories at the lower of cost and net realisable value)	**11,910,989**	**10,724,327**

As at 31 December 2022, the Company had 104,798 tons of crude oil in storage and transit (2021: 90,584 tons).

14. EQUITY

Authorized shares

As at 31 December 2022 the total number of authorized shares is 32,479,964 with par value of 5,000 tenge each, all of which are owned by the Parent Company (2021: 32,479,964 with par value of 5,000 tenge 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 2022, the Company declared and paid dividends to the Parent Company in the amount of 65,015,316 thousand tenge or 2,002 tenge per share.

In thousands of tenge

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. 406 – Liman field, contract No. 3577 – Karaton-Sarkamys field, contract No. 992 – West Novobogatinskoye field.

In 2021, the Company paid its obligations under Contract No. 327 – field under the Taisogan block. Payment for reimbursement of historical costs is paid by the subsurface user from the beginning of production on the contract territory and the onset of the earliest of the following dates: 1) announcement of commercial discovery; 2) transition to the production period in accordance with the legislation of the Republic of Kazakhstan on subsoil and subsoil use; 3) issuance of a production license; 4) conclusion of a production contract. In October 2021, the Company received the minutes of the meeting of the State Commission on Mineral Reserves on proving oil and gas reserves of the S.Nurzhanov field in the Karaton-Sarkamys block.

In 2022, the Company made the first payment under the Karaton-Sarkamys contract for the fourth quarter of 2021. Payments on historical liabilities will be made until 2031, 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 3,348,324 thousand tenge in the statement of comprehensive income. In 2022, the Company recognised finance costs in the amount of KZT 717,292 thousand (2021: KZT 679,474 thousand).

16. PROVISIONS

	Environmental obligation *(Note 3)*	Environment emission provision	Provisions for taxes *(Note 8)*	Asset retirement obligation	Defined benefit obligation	Total
At 1 January 2021	5,329,662	563,313	5,884,685	22,233,019	13,421,871	47,432,550
Additional provisions	–	71,570	577,826	217,582	685,518	1,552,496
Unused amounts reversed	(849,000)	–	–	–	–	(849,000)
Unwinding of discount	421,043	–	–	1,545,195	961,848	2,928,086
Changes in estimates	–	–	–	(239,501)	499,390	259,889
Used during the year	(3,705,712)	(563,313)	–	(4,000)	(1,262,693)	(5,535,718)
At 31 December 2021	**1,195,993**	**71,570**	**6,462,511**	**23,752,295**	**14,305,934**	**45,788,303**
Current portion	1,195,993	71,570	6,462,511	723,733	883,581	9,337,388
Non-current portion	–	–	–	23,028,562	13,422,353	36,450,915
At 31 December 2021	**1,195,993**	**71,570**	**6,462,511**	**23,752,295**	**14,305,934**	**45,788,303**
Additional provisions	**–**	**–**	**1,567,305**	**129,497**	**3,100,976**	**4,797,778**
Transfers and reclassifications	**–**	**–**	**–**	**–**	**643,615**	**643,615**
Unwinding of discount	**–**	**–**	**–**	**1,661,024**	**921,987**	**2,583,011**
Changes in estimates	**–**	**–**	**–**	**(1,098,435)**	**(2,104,413)**	**(3,202,848)**
Used during the year	**(1,195,993)**	**(71,570)**	**–**	**(87,038)**	**(1,570,931)**	**(2,925,532)**
At 31 December 2022	**–**	**–**	**8,029,816**	**24,357,343**	**15,297,168**	**47,684,327**
Current portion	**–**	**–**	**8,029,816**	**944,421**	**1,488,408**	**10,462,645**
Non-current portion	**–**	**–**	**–**	**23,412,922**	**13,808,760**	**37,221,682**
At 31 December 2022	**–**	**–**	**8,029,816**	**24,357,343**	**15,297,168**	**47,684,327**

NOTES TO THE FINANCIAL STATEMENTS (continued)

In thousands of tenge

16. PROVISIONS (continued)

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

	2022	2021
Present value of defined benefit obligations at the end of the year	**13,808,760**	13,405,934
Net liabilities	**13,808,760**	13,405,934
Current service costs	**262,110**	263,435
Interest expense	**921,987**	966,848
Actuarial losses – charged to profit and loss	**10,227**	84,245
Actuarial losses - charged to other comprehensive loss	**(2,104,413)**	499,390
Past service costs	**2,828,639**	332,838
Costs recognized during the year	**1,918,550**	2,146,756

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.

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 2022 and 2021 and the balances with related parties at 31 December 2022 and 2021 are as follows:

	2022	2021
Sale of goods and services		
Entities under common control of NC KMG	**272,923,650**	224,433,616
NC KMG	**124,581,406**	92,463,211
Quality bank expenses on crude oil sold (Entity under common control of NC KMG)	**(144,923)**	(33,778)
Entities under common control of SWF Samruk-Kazyna	**247,918**	40,966
Purchase of goods and services		
Entities under common control of NC KMG	**34,805,073**	34,515,891
NC KMG	**1,745,473**	910,195
Entities under common control of SWF Samruk-Kazyna	**531,135**	449,375
Salaries and other short-term benefits		
Members of the Board of Directors	**24,000**	17,333
Number	**3**	2
Members of the Management Board	**234,282**	264,642
Number	**7**	5
Trade and other accounts receivable		
Entities under common control of NC KMG	**28,724,303**	17,511,475
NC KMG	**15,079,967**	15,477,755
Entities under common control of SWF Samruk-Kazyna	**63,200**	27,132
Trade accounts payable		
Entities under common control of NC KMG	**1,227,687**	1,059,352
NC KMG	**145,178**	223,966
Entities under common control of SWF Samruk-Kazyna	**59,188**	72,590

NOTES TO THE FINANCIAL STATEMENTS (continued)

In thousands of tenge

17. RELATED PARTY TRANSACTIONS (continued)

Sales and receivables

Sales to related parties comprise export and domestic sales of crude oil and oil products to subsidiaries of NC KMG. Export sales to related parties represented 942,613 tons of crude oil in 2022 (2021: 1,081,616 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 285,446 tenge in 2022 (206,839 tenge in 2021).

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 amounted to 1,585,277 tons of crude oil production in 2022 (2021: 1,407,661 tons). Prices for the local market sales are determined by agreement with NC KMG (*Note 20*). In 2022, the Company received an average of about 78,589 tenge per ton for oil delivered to the domestic market (in 2021, an average of about 65,710 tenge).

Purchases and payables

NC KMG is the Company's crude oil export agent. Agency commission for crude oil sales amounted to KZT 87,192 thousand (2021: KZT 100,050 thousand). Transportation services, which are provided by Caspian Pipeline Consortium were reimbursed to the Parent Company in the amount of KZT 787,128 thousand for 46,545 tons (2021: KZT 48,018 thousand for 2,997 tons).

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Foreign 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
2022		
US dollar	**+21.00%**	**26,654,741**
US dollar	**(21.00%)**	**(26,654,741)**
2021		
US dollar	+13.00%	15,895,813
US dollar	(10.00%)	(12,227,548)

In thousands of tenge

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Company is exposed to credit risk in relation to its receivables. The Company's vast majority of sales is made to an affiliate, NC KMG, and the Company has a significant concentration risk of the receivable from this affiliate *(Notes 11 and 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 the financial assets held in banks at the reporting date using the Standard and Poor's credit ratings, unless otherwise indicated.

		Rating			
Banks	**Location**	**31 December 2022**	31 December 2021	**2022**	2021
Halyk Bank JSC	Kazakhstan	**BB (stable)**	BB (stable)	**109.517.356**	120.867.702
First Heartland Jusan Bank JSC	Kazakhstan	**B (negative)**	B (negative)	**254.236**	543.998
				109.687.058	121.411.700

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

Liquidity risk

The Company monitors its liquidity risk using a current 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.

The table below summarizes the maturity profile of the Company's financial liabilities at 31 December 2022 and 2021 based on contractual undiscounted payments:

At 31 December 2022	**On demand**	**Less than 3 months**	**3-12 months**	**1-5 years**	**More than 5 years**	**Total**
Historical obligations	**–**	**387.063**	**1.548.252**	**6.193.007**	**4.081.001**	**12.209.323**
Trade and other payables	**23.540.134**	**–**	**–**	**–**	**–**	**23.540.134**
	23.540.134	**387.063**	**1.161.189**	**6.193.007**	**5.629.253**	**36.910.646**

At 31 December 2021	**On demand**	**Less than 3 months**	**3-12 months**	**1-5 years**	**More than 5 years**	**Total**
Historical obligations	–	130.774	392.322	5.139.092	6.636.764	12.298.952
Trade and other payables	18.431.380	–	–	–	–	18.431.380
	18.431.380	**130.774**	**392.322**	**5.139.092**	**6.636.764**	**30.730.332**

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

Capital includes the entire equity of the Company. 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 2022, 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 2022 and 2021.

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 2022 and 2021, the Company did not have any financial instruments classified as financial instruments of 1 or 2 levels.

For the years ended 31 December 2022 and 2021 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 Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Domestic market obligations

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

Starting from 1 April 2016, the Company stopped crude oil sales to KazMunayGas Refining Marketing JSC and sold oil to the Parent Company. On 1 July 2018, the Company started crude oil sales 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.

20. CONTRACTUAL AND CONTINGENT ASSETS AND LIABILITIES (continued)

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 IFRS 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 as at 31 December 2022.

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

Since 2021, the Company revised the approach of deducting depreciation costs from exploration expenses for CIT purposes, in accordance with Articles 258, 259 of the Tax Code of the Republic of Kazakhstan. The approach to deducting deposits/withdrawal of liquidation deposits under some subsurface use contracts has also been revised. The Company's management assesses the risk of incorrect classification of general and indirect income and expenses as low.

As at 31 December 2022, the Company has a provision for probable assessment of CIT and CIT penalties in the amount of KZT 8,029,816 thousand (*Note 16*).

Taxation on export transactions

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

In 2022, 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 TP Law, the authorized 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 TP.

The collection of all necessary documents, including originals of primary documentation on export operations confirming the size of the differentials for 2022, 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 assessment of related tax liabilities, penalties and administrative fines in connection with the adjustment of taxable items due to lack of documents is not significant.

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 16*, 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.

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 of 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 performance and cash flows.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

In thousands of tenge

20. CONTRACTUAL AND CONTINGENT ASSETS AND LIABILITIES (continued)

Oil field licenses (continued)

The principal licenses of the Company and their expiry dates are presented in the below table:

Contract	Contract No.	Expiry date	Type of contract
Kenbai	No. 37	2041	Production
South-East Novobogatinskoe	No. 61	2048	Production
23 oilfields	No. 211	2037	Production
15 oilfields	No. 413	2043	Production
Taisoigan	No. 327	2035	Production
West Novobogatinskoe	No. 4955	2027	Production
Liman	No. 406	2033	Exploration
Karaton-Sarkamys	No. 3577	2047	Exploration and production
South-East Novobogat (suprasalt)	No. 4906	2026	Production

Commitments arising from oilfield licenses

Year	Capital expenditures	Operating expenses
2023	69,782,597	1,756,727
2024	4,243,257	1,744,898
2025	1,811,748	1,737,166
2026	–	1,729,988
2027-2048	–	9,224,047
	75,837,602	**16,192,826**

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