NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

1. Corporate information and principal activities

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

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

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

The financial statements of the Company for the year ended December 31, 2019 were authorized for issue by the Chairman of the Management Board, Deputy Chairman of the Management Board on Economy and Finance and Chief Accountant on February 28, 2020.

2. Summary of significant accounting policies

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.

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared under the historical cost convention. 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 judgment in the process of applying the Company's 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.**

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

New and amended standards and interpretations

The Company applied IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this accounting standard are described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IAS 16 Leases

IFRS 16 replaces IAS 17 **Leases**, IFRIC 4 **Determining whether an Arrangement Contains a Lease**, SIC-15 **Operating Leases – Incentives** and SIC-27 **Evaluating the Substance of Transactions Involving the Legal Form of a Lease.** The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for the majority of leases on a balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, the adoption of IFRS 16 did not affect the accounting for leases in which the Company is the lessor.

The Company adopted IFRS 16 for the first time on January 1, 2019 using a full retrospective method of adoption. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at January 1, 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases') as well as for lease contracts in which an underlying asset is of low value (lease of assets of low value).

There is no significant impact on the statement of comprehensive income.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

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

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

The Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Company applies significant judgments in identifying uncertainties regarding the rules for calculating an income tax. Since the Company does not operate in a complex multinational environment, it assessed whether the Interpretation had an impact on its financial statements.

Upon adoption of the Interpretation, the Company considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company's tax filings include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Company determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments will be accepted by the taxation authorities. This clarification had no impact on the financial statements of the Company.

Prepayment Features with Negative Compensation – Amendments to IFRS 9

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the cash flow criterion) and the instrument is held within the appropriate business model enabling such classification. The amendments to IFRS 9 clarify that a financial asset meets the cash flow criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments did not have any impact on financial statements of the Company.

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to: Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity must also determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

These amendments did not affect the financial statements of the Company, since in the reporting period no amendments were made to the plan, its curtailment or settlement.

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

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

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures. These amendments had no impact on the financial statements as the Company does not have long-term interests in associate and joint venture.

Annual IFRS improvements, 2015–2017 cycle

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation. These amendments had no impact on the financial statements of the Company, since the Company does not have such transactions in the presented periods.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Annual IFRS improvements, 2015–2017 cycle (continued)

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

These amendments did not have an effect on the Company's financial statements due to absence of transactions in which the Company obtains joint control.

IAS 12 Income Taxes

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

When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the current policy of the Company complies with the requirements of the amendments, their application did not have an effect on the financial statements of the Company.

IAS 23 Borrowing Costs

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

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. Since the current policy of the Company complies with the requirements of the amendments, their application did not have an effect on the financial statements of the Company.

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

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 replaces IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. There are several scope exceptions. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for insurance contracts with direct participation terms (the variable fee approach).
- A simplified approach (the premium allocation approach) is mainly for short-duration contracts.

IFRS 17 is effective for reporting periods starting on or after January 1, 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Company.

Amendments to IFRS 3 Business Combination

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 **Business Combinations** to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Company will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8 Definition of Material

In October 2018, the IASB issued amendments to IAS 1 **Presentation of Financial Statements** and IAS 8 **Accounting Policies, Changes in Accounting Estimates and Errors** to align the definition of 'material' across the standards and to clarify certain aspects of the definition. According to a new definition, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity".

The amendments to the definition of material is not expected to have a significant impact on the Company's financial statements.

Restatement of comparative information

In preparing the financial statements for the year ended December 31, 2019, the Company reclassified gains on fines and unwinding of the discount on liabilities for employee benefits for the year ended December 31, 2018, as the Company believes that this reclassification is more appropriate for the users of financial statements.

Comparative information in the statement of comprehensive income for the year ended December 31, 2018 contains adjustments presented below. These adjustments had an impact on the statement of financial position and statement on changes in equity. The Company restated comparative data as follows:

	Presentation in the financial statements for 2018	Restatement	Presentation in the financial statements for 2019
Statement of comprehensive income			
Revenue from contracts with customers	433,436,224	**(1,186,481)**	**432,249,743**
Other income	–	**1,186,481**	**1,186,481**
Cost of sales	(137,184,051)	**706,205**	**(136,477,846)**
Finance costs	(2,582,521)	**(706,205)**	**(3,288,726)**
Profit for the year	83,388,989	**–**	**83,388,989**
Total comprehensive income for the year, net of taxes	81,630,939	**–**	**81,630,939**

2. Summary of significant accounting policies (continued)

2.2 Foreign currency translation

The financial statements are presented in Kazakhstani tenge, 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 foreign exchange differences are included within profit and loss.

Exchange rates

The official rate of the Kazakhstan tenge to the US dollar at December 31, 2019 and December 31, 2018 was 381.18 and 384.20 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.

2.3 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 electric energy, 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 drilling of development wells is capitalized within property, plant and equipment, except for expenditure related to development or delineation wells which do not find commercial quantities of hydrocarbons and are written off as dry hole to expenses of the period.

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

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

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

The expected useful lives of property, 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.

2.5 Impairment of non-financial assets

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

Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the Company makes a estimate of its recoverable amount. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market 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

2. Summary of significant accounting policies (continued)

2.6 Evaluation and exploration assets and intangible assets

Exploration and evaluation assets are recorded at historical cost less accumulated impairment losses. Exploration and evaluation assets include capitalized exploration and evaluation costs and costs of acquiring exploration licenses (Subsoil use rights at the exploration and appraisal stage). Exploration rights costs are amortized on a straight-line basis over the estimated period of exploration.

Exploration and evaluation assets are tested for impairment, when the facts and circumstances indicate that exploration and evaluation assets' carrying amount may exceed their recoverable amount.

Intangible assets are stated at cost, less accumulated amortization 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 amount of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the current amount may not be recoverable.

2.7 Financial assets

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)

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

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated by the Company 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 derecognized from the statement of financial position where:

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

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.

2. Summary Of Significant Accounting Policies (continued)

2.7 Financial assets (continued)

Impairment of financial assets

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.

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

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

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

2.8 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 the following two categories:

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

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

Gains or losses on liabilities held for trading are recognised in the 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 liabilities as at fair value through profit or loss.

Financial liabilities at amortized cost (loans, borrowings and payables)
This category is the 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.

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, and the difference in the respective carrying amounts is recognised in the income statement.

2.9 Inventories

Inventories are recorded at the lower of cost on a first in, first out basis separately for each warehouse and net realizable 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 realizable 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.

2.10 Value Added Tax (VAT)

The tax authorities permit the settlement of VAT on sales and purchases on a net basis. VAT recoverable represents VAT on domestic purchases net of VAT on domestic sales. Export sales are taxed at zero rate. However, settlement of VAT is allowed only on the basis of the results of a tax audit performed by the tax authorities to confirm the 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.

2. Summary of significant accounting policies (continued)

2.11 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.

2.12 Charter capital

Charter capital

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

Dividends

Dividends are 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.

2.13 Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.14 Provisions

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

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

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

2.15 Employees benefits

The Company withholds 10% from the salary of its employees as the employees' contribution to their designated pension funds. The pension deductions are limited to a maximum of 212,130 tenge per month in 2019 (2018: 212,500 tenge per month). Under the current Kazakhstan legislation, employees are responsible for their retirement benefits. From January 1, 2014 the Company is required to contribute a mandatory 5% of the salary for a majority of its employees to their pension funds.

Long-term employee benefits

The Company offers to its employees long-term benefits prior to and after retirement in accordance with collective agreements between the Company and its employees and other documents. The collective agreement and other documents provide for certain one-off retirement payments, early retirement benefits, financial aid for employees' disability, anniversary and death. Eligibility for benefits is usually based on whether an employee is required to continue working before retirement.

The expected costs of one-off benefits and early retirement benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit post-employment plans. 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 the current period, including the current service costs, the past service costs and the impact of personnel layoff or completed settlements.

The most significant assumptions used in accounting for the benefit liability are the discount rate and mortality rates. 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. The assumption of mortality is used to forecast the future benefit payment flow, which then is discounted to arrive at the net present value of liabilities.

Employees benefits apart from lump-sum retirement benefits are considered as other employee benefits. The expected cost of employee benefits is accrued over the period of employment using the same accounting methodology as used for the defined benefit plan.

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

2.16 Revenue recognition

The Company sells crude oil under short-term agreements priced by reference to Platt's index quotations and 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.

2.17 Income taxes

Current income tax costs comprise current income tax, excess profit tax and deferred 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.

2. Summary of significant accounting policies (continued)

2.17 Income taxes (continued)

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 January 1, 2009, the Company accrues and pays EPT in respect of each subsurface use contract, at varying rates based on the ratio of aggregate annual income to deductions for the year for a particular subsurface use contract. The ratio of aggregate annual income to deductions in each tax year triggering the application of EPT is 1.25:1. EPT rates are applied to the part of the taxable income (taxable income after corporate income tax and allowable adjustments) related to each subsurface use contract in excess of 25% of the deductions attributable to each contract.

Deferred tax assets and liabilities are calculated in respect of all temporary differences using the liability method. Deferred corporate income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred corporate income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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 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.

3. Significant accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities during the reporting period. The most significant estimates are discussed below:

Oil and gas reserves

Oil and gas reserves are a material factor in the Company's computation of depreciation, depletion and amortization ("DD&A"). 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 under SPE methodology, the Company uses the projected prices of analysts. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year end spot prices.

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 subclassified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability.

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. Proved developed reserves are used to calculate the unit of production rates for DD&A.

The Company has included in proved reserves only those quantities that are expected to be produced during the confirmed license period. This is due to the uncertainties surrounding the outcome of such renewal procedures, since the renewal is ultimately at the discretion of the Government. An increase in the Company's license periods and corresponding increase in reported reserves would generally lead to lower DD&A expense and could materially affect earnings and indicate the reversal of impairment. A reduction in proved developed reserves will increase DD&A expense (assuming constant production), reduce income and could also result in an immediate write-down of the property's book value. Given the relatively small number of producing fields, it is possible that any changes in reserve estimates year on year could significantly affect prospective charges for DD&A.

Assets retirement obligations

Under the terms of certain contracts, legislation and regulations the Company has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Company's obligation relates to the ongoing closure of all non-productive wells and final closure activities such as removal of pipes, buildings and 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.

Estimating the future closure costs involves significant estimates and judgments by management. Most of these obligations are many years in the future and, in addition to ambiguities in the legal requirements, the Company's estimate can be affected by changes in asset removal technologies, costs and industry practice. Approximately 37.44% and 34.23% of the provision at December 31, 2019 and 2018, respectively, relate to the final closure costs. The Company estimates future well abandonment cost using current year prices and the average long-term inflation rate.

3. Significant accounting estimates and judgements (continued)

The long-term inflation and discount rates used to determine the carrying value of a liability at December 31, 2019 and 2018 are presented below:

	2019	2018
Discount rate on the provision for abandonment of fields	**7.90%**	10.00%
Inflation rate	**5.40%**	5.00%

Movements in the provision for asset retirement obligations are disclosed in **Note 10**.

Environmental remediation

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

Liabilities are determined based on current information about costs and expected plans for rehabilitation and are recorded on an undiscounted basis with reference to expectations of the management regarding the timing of the required procedures. The Company's environmental remediation provision represents management's best estimate based on an independent assessment of the anticipated expenditure necessary for the Company to remain in compliance with the current regulatory regime in Kazakhstan. The provision for the environmental emissions was recognized in relation to fines and damages for violating environmental legislation based on the results of two unscheduled audits **(Note 20)**. Movements in the environmental rehabilitation obligations are disclosed in **Note 10**.

Further uncertainties related to environmental remediation are detailed in **Note 20.** Movements in the provision for environmental rehabilitation obligations are disclosed in **Note 10.**

Environmental obligation

The amount of provision for environmental liability represents present value of estimated future costs of 4,939,446 thousand tenge discounted at 7.90% for the period until 2023. Movements in the environmental liability are disclosed in **Note 10.**

Taxation

Deferred tax is calculated with respect to both corporate income tax ("CIT") and excess profit tax (EPT). Deferred CIT and EPT are calculated on temporary differences for assets and liabilities allocated to contracts for subsoil use at the expected rates.

Both deferred CIT and EPT bases are calculated under the terms of the tax legislation enacted in the tax code disclosed in **Note 16.** Subsequent uncertainties related to taxation are detailed in **Note 20.**

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 instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the trade receivables of the Company is disclosed in **Note 6.**

Sales at provisional prices

The crude oil export sale agreements contain conditions that allow the prices to be adjusted on the basis of the market price at the end of the relevant quotation period (QP) specified by the agreement. Selling price adjustments are based on changes in quoted market prices before the end of the QP. In such cases revenue from sale under these agreements is initially recognized when control passes to the buyer and will be measured at the expected amount based on the forward price.

The contract for the export sale of crude oil with KazMunayGaz Trading AG provides for preliminary prices for the sale of crude oil, and the final prices are determined based on the average market price of crude oil for 5 days after the date of the bill of lading.

Employee benefits

The Company signed a collective agreement for social benefits to employees. Employee benefits are treated as other long-term payments to employees. The entitlement to these benefits is usually conditional on the completion of a minimum service period. Expected cost of these payments is accrued within working period using accounting methods similar to that used for defined benefit plan. These benefits are unfunded.

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.

3. Significant accounting estimates and judgements (continued)

Employee benefits (continued)

Main actuarial assumptions used for evaluation of liabilities on employee benefits as at December 31, 2019 and 2018 are as follows:

In percent	2019	2018
Discount rate	**7.90%**	10.00%
Inflation rate	**5.40%**	5.00%
Future increase of non-current annual payment	**5.00%**	6.00%
Future salary increase	**5.00%**	6.00%

As at December 31, 2019 and 2018 the average duration of post-retirement benefit obligations was 6.78 years and 7.44 years, respectively.

Sensitivity analysis of employee benefits obligation for the change in significant estimates as at December 31, 2019 is as follows:

	Decrease	Increase
Discount rate	(0.5%)	+0.5%
	379,344	(357,113)
Rate of increase in benefit	(0.5%)	+0.5%
	(356,705)	379,684

4. Property, plant and equipment

	Oil and gas assets	Land	Buildings and constructions	Machinery and equipment	Vehicles	Other assets	Capital construction in progress	Total
Net book value at January 1, 2018	114,702,484	310,203	4,989,762	1,245,153	4,409,912	2,057,530	45,313,901	173,028,945
Additions	31,665	–	16	33,508	28,923	13,356	31,996,274	32,103,743
Changes in estimate of asset retirement obligation	(22,004)	–	–	–	–	–	–	(22,004)
Disposals	(1,438,778)	–	(27,033)	(37,672)	(116,694)	(253,438)	(559,278)	(2,432,893)
Transfers from capital work-in-progress	24,696,346	–	343,509	374,636	1,933,957	759,917	(28,108,364)	–
Transfers from exploration and evaluation assets	3,084,491	–	–	–	–	–	(10,045)	3,074,446
Transfers and reclassifications	(34,568)	–	4,827	(52,645)	46,375	38,451	(2,440)	–
Accumulated depreciation and impairment on disposals	1,105,100	–	13,996	30,224	113,525	278,241	526,179	2,067,265
(Impairment)/reversal of impairment	(1,906)	–	–	–	–	–	(331,244)	(333,150)
Depreciation expenses	(17,826388)	–	(295,425)	(175,917)	(880,921)	(651,510)	–	(19,830,161)
Net book value at December 31, 2018	124,296,442	310,203	5,029,652	1,417,287	5,535,077	2,242,547	48,824,983	187,656,191
Additions	**513,749**	**–**	**1,502**	**5,180**	**15,395**	**207,805**	**34,139,330**	**34,882,961**
Changes in estimate of asset retirement obligation	**6,027,852**	**–**	**–**	**–**	**–**	**–**	**–**	**6,027,852**
Disposals	**(2,124,640)**	**(2,990)**	**(40,804)**	**(52,262)**	**(441,633)**	**(172,505)**	**(344,660)**	**(3,179,494)**
Transfers from capital work-in-progress	**63,792,271**	**–**	**69,109**	**545,767**	**1,659,782**	**829,988**	**(66,896,917)**	**–**
Transfers from exploration and evaluation assets	**1,743,043**	**–**	**–**	**–**	**–**	**–**	**1,024,284**	**2,767,327**
Transfers and reclassifications	**(129,375)**	**–**	**50,242**	**54,916**	**21,352**	**2,865**	**–**	**–**
Accumulated depreciation and impairment on disposals	**1,683,837**	**–**	**16,067**	**47,333**	**391,999**	**159,435**	**315,575**	**2,614,246**
(Impairment)/reversal of impairment	**(16,287)**	**–**	**–**	**(148)**	**–**	**(4,240)**	**(148,363)**	**(169,038)**
Depreciation expenses	**(24,315,456)**	**–**	**(281,251)**	**(207,121)**	**(1,085,300)**	**(472,411)**	**–**	**(26,361,539)**
Net book value at December 31, 2019	**171,471,436**	**307,213**	**4,844,517**	**1,810,952**	**6,096,672**	**2,793,484**	**16,914,232**	**204,238,506**

4. Property, plant and equipment (continued)

	Oil and gas assets	Land	Buildings and constructions	Machinery and equipment	Vehicles	Other assets	Capital construction in progress	Total
At December 31, 2018								
Cost	240,110,278	310,203	6,625,018	2,314,100	9,501,673	4,178,971	49,496,828	312,537,071
Accumulated depreciation	(115,699,798)	–	(1,553,387)	(896,813)	(3,966,596)	(1,936,424)	–	(124,053,018)
Accumulated impairment	(114,038)	–	(41,979)	–	–	–	(671,845)	(827,862)
Net book value at December 31, 2018	124,296,442	310,203	5,029,652	1,417,287	5,535,077	2,242,547	48,824,983	187,656,191
At December 31, 2019								
Cost	**309,836,997**	**307,213**	**6,734,914**	**2,940,264**	**10,757,342**	**5,040,587**	**17,418,866**	**353,036,183**
Accumulated depreciation	**(138,298,915)**	**–**	**(1,848,418)**	**(1,128,847)**	**(4,660,670)**	**(2,247,103)**	**–**	**(148,183,953)**
Accumulated impairment	**(66,646)**	**–**	**(41,979)**	**(465)**	**–**	**–**	**(504,634)**	**(613,724)**
Net book value at December 31, 2019	**171,471,436**	**307,213**	**4,844,517**	**1,810,952**	**6,096,672**	**2,793,484**	**16,914,232**	**204,238,506**

5. Exploration and evaluation assets

	Tangible	Intangible	Total
Net book value at January 1, 2018	12,286,508	1,575,519	13,862,027
Additions	11,646,848	–	11,646,848
Transfers to property, plant and equipment	(3,084,491)	–	(3,084,491)
Disposals	(482,482)	–	(482,482)
Amortization charge	–	(1,575,519)	(1,575,519)
Impairment	(1,064,048)	–	(1,064,048)
Net book value at December 31, 2018	19,302,335	–	19,302,335
Additions	**4,505,518**	**395,526**	**4,901,044**
Transfers to property, plant and equipment	**(2,767,327)**	**–**	**(2,767,327)**
Transfers to intangible assets	**–**	**(969,966)**	**(969,966)**
Disposals	**(250,342)**	**–**	**(250,342)**
Transfers and reclassifications	**(4,577,768)**	**4,577,768**	**–**
Depreciation	**–**	**(410,025)**	**(410,025)**
Impairment	**(3,418,106)**	**–**	**(3,418,106)**
Net book value at December 31, 2019	**12,794,310**	**3,593,303**	**16,387,613**
At December 31, 2018			
Cost	20,788,919	14,722,365	35,511,284
Accumulated amortization	(422,536)	(14,722,365)	(15,144,901)
Accumulated impairment	(1,064,048)	–	(1,064,048)
Net book value at December 31, 2018	19,302,335	–	19,302,335
At December 31, 2019			
Cost	**13,688,151**	**18,315,049**	**32,003,200**
Accumulated amortization	**(2, 972)**	**(14,721,746)**	**(14,724,718)**
Accumulated impairment	**(890,869)**	**–**	**(890,869)**
Net book value at December 31, 2019	**12,794,310**	**3,593,303**	**16,387,613**

6. Financial assets

Trade and other accounts receivable

	2019	2018
Trade receivables	**42,393,566**	30,846,793
Other	**144,309**	42,015
	42,537,875	30,888,808
Less: provision for expected credit losses	**(123,992)**	(49,955)
	42,413,883	30,838,853

As at December 31, 2019 the Company's trade receivables included receivables from sales of crude oil to KazMunayGas Trading AG ("KMG Trading"), subsidiary of NC KMG, in the amount of 38,534,305 thousand tenge (2018: 26,839,255 thousand tenge).

As at December 31, 2019 trade receivables of the Company are denominated in US dollars by 91% (2018: 87%).

Changes in the provision for expected credit losses on receivables and contract assets are presented below:

	2019	2018
At January 1	**49,955**	–
Charge (Note 14)	**74,037**	49,955
As at December 31	**123,992**	49,955

As at December 31, 2019, information on the Company's exposure to credit risk on trade receivables and contract assets using the allowance matrix is as follows:

		Trade receivables					
			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	–	**0.30%**	–	–	–	–	
Estimated total gross carrying value	–	**42,236,223**	**173,803**	–	–	**3,857**	**42,537,875**
Expected credit losses	–	**123,992**	–	–	–	–	**123,992**

As at December 31, 2018, information on the Company's exposure to credit risk on trade receivables and contract assets using the allowance matrix is as follows:

		Trade receivables					
			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	–	0.16%	–	–	–	–	0.16%
Estimated total gross carrying value	–	30,797,201	14,943	–	–	26,709	30,888,808
Expected credit losses	–	49,955	–	–	–	–	49,955

Cash and cash equivalents

	2019	2018
Placements with banks – US dollars	**35,049,234**	110,538,211
Time deposits with banks – tenge	**4,124,000**	897,986
Placements with banks – tenge	**15,724**	9,694
	39,188,958	111,445,891

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 December 31, 2019 was 7.0% (2018: 7.0%).

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. The weighted average interest rate on these deposits as at December 31, 2019 was 1.04% (2018: 1.04%).

	2019	2018
Financial assets held to maturity in US dollars	**38,050,549**	37,652,551
Financial assets held to maturity in tenge	**732,482**	645,889
Provision for expected credit losses	**(228,925)**	(293,009)
Total non-current financial assets	**38,554,106**	38,005,431

7. Inventories

	2019	2018
Crude oil (at the lower of cost and net realisable value)	**7,088,817**	7,668,997
Materials, at cost	**2,286,063**	3,275,116
Total inventories at the lower of cost and net realisable value	**9,374,880**	10,944,113

As at December 31, 2019 the Company had 108,165 tons of crude oil in storage and transit (2018: 118,817 tons).

8. Equity

Authorized shares

The total number of authorized shares is 32,479,964 pieces with par value of 5 thousand tenge per share, all of which are fully owned by the Parent Company as at December 31, 2019 and 2018 (2018: 32,479,964 with par value of 5 thousand tenge per share).

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 2019, the Company declared and distributed dividends to the Parent in the amount of 117,401,771 thousand tenge in two payments: 71,401,697 thousand tenge or 2,198 tenge per share and 46,000,074 thousand tenge or 1,416 tenge per share (2018: 85,844,545 thousand tenge or 2,643 tenge per share).

9. Historical obligations

Historical obligations are denominated in US dollars and represent obligations to reimburse historical costs incurred by the Government prior to the acquisition of certain licenses by the Company: contract №327 – Taisogan field, contract №406 – Liman field, contract №3577 – Karaton-Sarkamys field, contract №992 – Novobogatinskoye Zapadnoye field. Historical obligation payments extend until 2033. The Company has discounted these obligations at an interest rate of 9% and accounts for these historical obligations at amortized cost.

10. Provisions

	Environmental liability	Environment emission provision	Provisions for taxes	Asset retirement obligation	Employee benefits	Total
At January 1, 2018	6,693,073	–	5,693,365	11,870,741	7,686,396	31,943,575
Additional provisions	–	34,212,260	2,541,741	316,037	1,281,712	38,351,750
Unused amounts reversed	–	–	(1,340,391)	–	–	(1,340,391)
Unwinding of discount	669,307	–	–	1,187,074	706,205	2,562,586
Changes in estimates	(109,116)	–	–	(1,540,967)	1,463,628	(186,455)
Utilized during the year	(1,226,239)	(8,142,619)	–	(233,167)	(1,248,693)	(10,850,718)
At December 31, 2018	6,027,025	26,069,641	6,894,715	11,599,718	9,889,248	60,480,347
Current portion	1,499,705	26,069,641	6,894,715	991,200	873,834	36,329,095
Non-current portion	4,527,320	–	–	10,608,518	9,015,414	24,151,252
At December 31, 2018	6,027,025	26,069,641	6,894,715	11,599,718	9,889,248	60,480,347
Additional provisions	**–**	**2,066,418**	**–**	**254,748**	**292,648**	**2,613,814**
Unused amounts reversed	**–**	**(17,078,502)**	**–**	**–**	**–**	**(17,078,502)**
Reclassification	**–**	**–**	**–**	**–**	**–**	**–**
Unwinding of discount	**602,701**	**–**	**–**	**1,159,972**	**933,156**	**2,695,829**
Changes in estimates	**(25,177)**	**–**	**–**	**6,027,852**	**2,254,491**	**8,257,166**
Utilized during the year	**(1,665,103)**	**(6,472,612)**	**(1,010,030)**	**(1,215,192)**	**(1,115,373)**	**(11,478,310)**
At December 31, 2019	**4,939,446**	**4,584,945**	**5,884,685**	**17,827,098**	**12,254,170**	**45,490,344**
Current portion	**1,977,081**	**4,584,945**	**5,884,685**	**349,924**	**991,558**	**13,788,193**
Non-current portion	**2,962,365**	**–**	**–**	**17,477,174**	**11,262,612**	**31,702,151**
At December 31, 2019	**4,939,446**	**4,584,945**	**5,884,685**	**17,827,098**	**12,254,170**	**45,490,344**

10. Provisions (continued)

Changes in employee defined benefit obligations during 2019 and 2018 are as follows:

	2019	2018
The present value of defined benefit obligations at the beginning of a year	**9,889,248**	7,686,396
Current service costs	**243,641**	202,650
Interest expenses	**933,155**	706,205
Actuarial losses/(gains) – charged to profit and loss	**49,008**	(294,422)
Actuarial losses – charged to other comprehensive loss	**2,254,491**	1,758,050
Interest paid	**(1,115,373)**	(1,248,693)
Cost of services of previous years	**–**	1,079,062
Present value of defined benefit obligations at the end of the year	**12,254,170**	9,889,248
Less: Current portion of present value of defined benefits obligation	**(991,558)**	(873,834)
Non-current portion of present value of defined benefits obligation	**11,262,612**	9,015,414

Employee benefits

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

	2019	2018
Present value of defined benefits liability at the end of the year	**12,254,170**	9,889,248
Net liabilities	**12,254,170**	9,889,248
Current service costs	**243,641**	202,651
Interest expenses	**933,155**	706,205
Actuarial losses/(gains) – charged to profit and loss	**49,008**	(294,423)
Actuarial losses – charged to other comprehensive loss	**2,254,491**	1,758,050
Past service costs	**–**	1,079,062
Expenses recognized during the year	**3,480,295**	3,451,545

The cost of current services and services of previous years is included in the statement of comprehensive income within production expenses, general and administrative expenses.

11. Revenue from contracts with customers

	2019	2018
Export		
Crude oil	**418,475,878**	405,660,182

	2019	2018
Domestic		
Crude oil	**31,954,034**	26,100,568
Gas products	**261,058**	193,732
Other sales and services	**253,743**	295,261
	450,944,713	432,249,743

	2019	2018
Geographical market		
Switzerland	**418,475,878**	405,660,182
Kazakhstan	**32,468,835**	26,589,561
	450,944,713	432,249,743

The contract for the export sale of crude oil with KazMunayGaz Trading AG provides for preliminary prices for the sale of crude oil, and the final prices are determined based on the average market price of crude oil for 5 (five) days after the date of the bill of lading. In 2019, adjustment at the preliminary price increases revenue from contracts with customers by 1,599,333 thousand tenge (2018: 1,608,490 thousand tenge). Adjusted revenue at the preliminary price will not affect the amount of recognized revenue from contracts with customers.

12. Cost of sales

	2019	2018
Employee benefits	**46,216,556**	47,615,167
Mineral extraction tax	**42,252,428**	38,382,677
Depreciation, depletion and amortization	**26,166,365**	19,583,791
Repairs and maintenance	**17,090,605**	14,307,636
Materials and supplies	**5,373,890**	3,726,813
Transportation expenses	**3,437,789**	2,722,610
Electric energy	**2,846,633**	2,992,286
Taxes other than income tax	**1,379,055**	4,519,290
Movement in the provision for environmental liability **(Note 10)**	**(25,177)**	(109,116)
Decrease in asset retirement obligation in excess of capitalized asset	**–**	(821,187)
Other	**5,312,461**	5,898,532
	150,050,605	138,818,499
Change in crude oil balance	**580,180**	(2,340,653)
	150,630,785	136,477,846

The production costs for processing of associated gas for 2019 amounted to 5,872,194 thousand tenge (2018: 3,987,608 thousand tenge).

13. Selling expenses

	2019	2018
Rent tax	**58,608,228**	63,900,063
Export customs duty	**54,107,073**	53,889,693
Transportation expenses	**41,626,987**	37,489,248
Sales agent's fee	**219,337**	218,027
	154,561,625	155,497,031

14. General and administrative expenses

	2019	2018
Employee benefits	**5,225,706**	4,900,339
Depreciation, depletion and amortization	**1,079,916**	2,150,372
Advisory and audit services	**808,359**	130,646
Repairs and maintenance	**780,039**	485,349
Taxes other than income tax	**696,476**	292,128
Fines and penalties	**597,921**	951,300
Transportation expenses	**492,830**	445,139
Accrual of provision for expected credit losses **(Note 6)**	**74,037**	49,955
Sponsorship	**–**	206,954
(Reversal)/charge of environmental provision	**(25,419,696)**	34,505,578
Other	**1,251,591**	980,445
	(14,412,821)	45,098,205

15. Dry wells write-off and exploration expenses

in 2019, the Company conducted field seismic surveys at the Taisogan block to detail the geological structure and determine oil and gas prospects, as well as process and interpret seismic data on exploration assets in the amount of 19,451,364 thousand tenge (2018: 1,586,116 thousand tenge). Also, the Company recognized write-off of dry wells in the amount of 3,418,106 thousand tenge (2018: 1,064,048 thousand tenge) and other exploration expenses in the amount of 375,618 thousand tenge (2018: 92,115 thousand tenge).

16. Income tax

Income tax expenses comprised the following for the years ended December 31:

	2019	2018
Current corporate income tax	**27,396,992**	33,793,029
Corporate income tax adjustment	**832,709**	(204,009)
Current excess profit tax	**8,601,468**	–
Excess profit tax adjustment	**–**	(4,058,638)
Current income tax	**36,831,169**	29,530,382
Deferred corporate income tax benefit	**(3,013,117)**	(1,449,917)
Changes in unrecognized deferred excess profit tax asset	**(3,473,346)**	–
Deferred excess profit tax expense	**–**	1,485,795
Deferred income tax	**(6,486,463)**	35,878
Income tax expense	**30,344,706**	29,566,260

In 2018, in accordance with paragraph 2 of Article 758 of the Tax Code of the Republic of Kazakhstan for the purpose of calculating the EPT for 2017, the Company made a one-time deduction of the cumulative capital expenditures that are chargeable but not charged to deductions for the purposes of calculating the excess profit tax from January 1, 2009 to January 1, 2018

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

	2019	2018
Profit before taxation	**131,747,737**	112,955,249
Income tax expense	**30,344,706**	29,566,260
Effective tax rate	**23%**	26%
Income tax expenses at statutory rate	**26,349,547**	22,591,050
Withholding tax	**190,697**	210,776
Current excess profit tax	**8,601,468**	–
Adjustment of excess profit tax for the previous years	**–**	(3,202,977)
Adjustment of deferred excess profit tax for the previous years	**–**	1,485,795
Adjustment of corporate income tax related to previous years	**832,709**	(306,758)
Impairment of VAT recoverable	**550,418**	144,562
Accrual of corporate income tax provision	**–**	102,749
Reversal of provision for excess profit tax	**–**	(855,661)
Changes in unrecognized deferred excess profit tax asset	**(3,473,346)**	–
(Reversal)/charge of environmental provision	**(5,083,939)**	6,901,116
Non-deductible expenses	**2,377,152**	2,495,608
Income tax expense	**30,344,706**	29,566,260

16. Income tax (continued)

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

	2019			2018		
	Corporate income tax	Excess profit tax	Total	Corporate income tax	Excess profit tax	Total
Deferred tax assets						
Taxes	**5,210,680**	**1,351,277**	**6,561,957**	4,657,398	–	4,657,398
Abandonment obligation	**3,565,420**	**910,710**	**4,476,130**	2,319,944	–	2,319,944
Historical obligations	**1,403,086**	**363,858**	**1,766,944**	1,476,075	–	1,476,075
Export customs duty	**1,245,476**	**330,849**	**1,576,325**	1,663,521	–	1,663,521
Accrued liabilities to employees	**314,915**	**81,666**	**396,581**	1,977,849	–	1,977,849
Other	**4,759,896**	**1,192,570**	**5,952,466**	2,364,060	–	2,364,060
	16,499,473	**4,230,930**	**20,730,403**	14,458,847	–	14,458,847
Deferred tax liability						
Property, plant and equipment	**3,106,330**	**757,584**	**3,863,914**	4,078,821	–	4,078,821
	3,106,330	**757,584**	**3,863,914**	4,078,821	–	4,078,821
Net deferred tax liabilities/ (assets)	**13,393,143**	**3,473,346**	**16,866,489**	10,380,026	–	10,380,026

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 December 31, 2019 and 2018 and the balances with related parties at December 31, 2019 and 2018 are as follows:

	2019	2018
Sale of goods and services		
Entities under common control	**423,712,813**	418,891,104
NC KMG	**31,956,767**	14,402,922
Parent	**66,186**	11,697,646
Quality bank expenses on crude oil sold (Parent company)	**(4,508,557)**	(7,424,663)
Other related parties	**716**	34,727
Purchases of goods and services		
Entities under common control	**19,687,286**	17,396,986
NC KMG	**11,553,547**	5,311,068
Other related parties	**229,942**	1,859,124

	2019	2018
Salary and other short-term benefits		
Members of the Board of Directors	**56,738**	54,219
Quantity	**4**	3
Members of the Management Board	**267,574**	221,277
Quantity	**8**	8
Trade and other accounts receivable		
Entities under common control	**40,856,246**	29,927,445
Parent	**3,806,104**	3,935,086
Other related parties	**4,040**	122,041
Trade accounts payable		
Entities under common control	**1,692,706**	2,100,522
Parent company	**377,764**	1,371,427
Other related parties	**18,882**	772,698

Sales and receivables

Sales to related parties comprise mainly export and domestic sales of crude oil and oil products to subsidiaries of NC KMG. Export sales to related parties represented 2,371,208 tons of crude oil in 2019 (2018: 2,357,044 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 178,384 tenge in 2019 (175,255 tenge in 2018).

In addition, the Company supplies crude oil to the domestic market through the Parent, NC KazMunayGas JSC, in accordance with the Resolution of the Kazakhstan Government, the ultimate controlling shareholder of NC KMG. Those supplies to the domestic market amounted to 503,326 tons of crude oil produced in 2019 (2018: 492,369 тонн). Prices for the domestic market sales are determined by agreement with NC KMG. **(Note 20)**. In 2019, the Company received an average of about 63,486 tenge per ton for oil delivered to the domestic market (in 2018, an average of about 53,010 tenge).

Purchases and payables

NC KMG is the Company's crude oil export agent. Agency commission for crude oil sales amounted to 219,337 thousand tenge (2018: 218,027 thousand tenge). Transportation services, which are provided by Caspian Pipeline Consortium were reimbursed by the Parent in the amount of 10,348,636 thousand tenge (2018: 10,488,635 thousand tenge).

18. Financial risk management objectives and policies

The Company has various financial liabilities such as borrowings, 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 commodity price risk.

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 US dollar exchange rate, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ decrease in tenge per US dollar rate	Effect on profit before tax
2019		
US dollar	**+12,00%**	**12,502,154**
US dollar	**–9,00%**	**(9,376,616)**
2018		
US dollar	+14,00%	23,470,950
US dollar	–10,00%	(16,764,964)

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 6 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 in relation to 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's cash management policy. The Company's maximum exposure to credit risk arising from default of the financial institutions is equal to the carrying amounts 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 stated.

Banks	Location	Rating[1] December 31, 2019	Rating[1] December 31, 2018	2019	2018
Halyk Bank of Kazakhstan JSC	Kazakhstan	**BB (stable)**	BB (stable)	**77,278,661**	149,038,765
ATF Bank JSC	Kazakhstan	**B (negative)**	B (negative)	**464,403**	412,557
				77,743,064	149,451,322

Liquidity risk

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

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

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

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

At December 31, 2018	On demand	Less than 3 months	3-12 months	1 year – 5 years	Over 5 years	Total
Historical obligations	–	796,317	589,023	2,511,819	9,762,312	13,659,471
Trade and other accounts payable	28,905,666	–	–	–	–	28,905,666
	28,905,666	796,317	589,023	2,511,819	9,762,312	42,565,137

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.

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

18. Financial risk management objectives and policies (continued)

Capital management

Capital includes the entire equity of the Company. The main objective of the Company in relation to capital management is to ensure stable creditworthiness and capital adequacy for conducting the Company's business and achieving strategic goals.

As at December 31, 2019 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 December 31, 2019 and 2018.

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 December 31, 2019 and 2018, the Company did not have any financial instruments classified as financial instruments of 1 or 2 levels.

For the years ended December 31, 2019 and 2018 there were no transfers between Levels 1, 2 and 3 of the financial instruments' fair value.

20. Commitments and contingencies

Operating and economic environment

The Republic of 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 April 1, 2016 the Company ceased sales of crude oil to "KazMunaiGas – Refinery and Marketing" JSC and sold oil to to the Parent Company. The Company started selling crude oil to NC KMG from July 1, 2018 based on the contract for oil procurement.

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

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual, including opinions on approaches to revenue, expenses and other items of the financial statements. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2018.

The management believes that its interpretation of the tax legislation is appropriate, and the Company has acceptable grounds for the tax position.

VAT recoverable

Provision for VAT recoverable as at December 31, 2019 is 7,674,730 thousand tenge (2018: 5,039,434 thousand tenge).

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. Besides the amounts disclosed in **Note 10**, the management believes that there are no probable environmental liabilities that may have a material adverse effect on the Company's financial position, operating performance and cash flows.

Environment emission provision

Environmental audit

On July 23, 2018, Embamunaigas JSC received a resolution from the Department of Ecology of the Atyrau Region to pay a fine in the amount of 8,908,222 thousand tenge for violations of environmental legislation, which were identified as part of an unscheduled environmental audit conducted in April-June 2018. This fine was associated with emissions of harmful substances above the established standards as a result of gas flaring in the period from November 1, 2017 to June 12, 2018. On September 17, 2018, the Atyrau Regional Court decided to reduce the amount of the fine to 6,681,167 thousand tenge. On October 19, 2018, the Company fully paid this fine to the state budget.

In addition, on the above fact, on September 24, 2018, the Department of Ecology in the Atyrau region issued an order to Embamunaigas JSC to compensate for environmental damage in the amount of 7,835,414 thousand tenge. On January 30, 2019, the Specialized Interdistrict Economic Court of the Atyrau Region ruled to satisfy the claim of the Department of Ecology for the Atyrau Region to recover damage to the environment in the amount of 7,835,414 thousand tenge.

On October 18, 2018, Embamunaigas JSC received a resolution from the Department of Ecology of the Atyrau Region to pay a fine in the amount of 6,861,703 thousand tenge for violation of environmental legislation following the second unscheduled audit for the period from June 12, 2018 to October 10, 2018, as well as October 26, 2018, the Department of Ecology for the Atyrau region, based on the results of the re-audit of Embamunaigas, issued an order to compensate for damages amounting to 6,032,506 thousand tenge, caused during the specified period.

In December 2018, Embamunaigas JSC completed commissioning works and commissioned an associated gas processing facility. In this connection, the management of Embamunaigas JSC does not expect further violations of environmental legislation regarding gas flaring.

20. Commitments and contingencies (continued)

Environment emission provision (continued)

Environmental audit (continued)

According to the results of two unscheduled audits, the Company accrued a provision in the amount of 27,410,790 thousand tenge. In addition, in 2018, the Company accrued a provision in the amount of 6,801,470 thousand tenge (including 2,066,418 thousand tenge of damage for the period from October 10, to December 28, 2018 for the third inspection) related to the expected administrative fine and environmental damage for the period of OctoberDecember in 2018. The accrued provision during 2018 totalled to 34,212,260 thousand tenge **(Note 10)**.

In November 2018, the Special Administrative Court of Atyrau decided to recover from the Company 1,461,452 thousand tenge (reduced from 6,861,703 thousand tenge) following the second unscheduled audit for the period from November 1, 2017 till June 12, 2018, the Company recognized a liability related to this fine as at December 31, 2018 and on January 3, 2019, this fine was paid to the state budget. In January 2019, the Appeal Commission reversed the judgement of the Special Administrative Court of Atyrau and ordered to restore the fine to 6,861,703 thousand tenge, in February 2019, the Company paid the remainder of the fine to the state budget in the amount of 5,400,251 thousand tenge.

In October 2019, the Company filed an appeal to the administrative court of Atyrau region regarding the amount of the previously paid fine in the amount of 6,861,703 thousand tenge. In November 2019, the court of the Atyrau region ordered to recover 1,662,191 thousand tenge (reduced from 6,681,167 thousand tenge) from the Company based on the results of the first unscheduled audit for the period from November 1, 2017 till June 12, 2018 and 1,461,452 thousand tenge (reduced from 6,861,703 thousand tenge) based on the results of the second unscheduled audit for the period from June 12, 2018 till October 10. According to the results of the decision of the court of Atyrau region following two audits, the Company submitted a request for the return of the previously paid administrative fine in the amount of 10,419,227 thousand tenge.

Also, the Company recalculated the amount of the administrative fine based on the results of the third audit for the period from October 10, 2018 till December 28, 2018 to 1,221,175 thousand tenge. As a result, a provision for an administrative fine was reduced by 3,478,877 thousand tenge.

In June 2019, the Company increased the previously created provision for the third audit by 2 times to 4,132,836 thousand tenge using the multiplying ratio. In December 2019, the Company received an order from the Department of Ecology in Atyrau Oblast to indemnify for environmental damage in the amount of 1,072,361 thousand tenge (reduced from 4,132,836 thousand tenge); as of December 31, 2019, the Company reclassified this amount within current liabilities and paid in January 2020. Also, in January 2020, decisions of the specialized inter-district economic court of Atyrau region were issued to recover environmental damage in the amount of 2,082,587 thousand tenge (reduced from 7,835,414 thousand tenge) based on the first unscheduled inspection for the period from November 1, 2017 till June 12, 2018 and 1,281,183 thousand tenge (reduced from 6,032,506 thousand tenge) based on the results of the second unscheduled audit for the period from June 12, 2018 till October 10, 2018. As a result, a provision for an environmental damage was reduced by 13,564,627 thousand tenge.

Oilfield 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 district 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 profits tax to explore and produce oil and gas from these fields.

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

Field	Contract	Expiry date
Kenbai	№ 37	2041
South-East Novobogatinskoe	№ 61	2048
23 fields	№ 211	2037
15 fields	№ 413	2043
Taisoigan	№ 327	2035
West Novobogatinskoe	№ 992	2027
Liman	№ 406	2033
Karaton-Sarkamys	№ 3577	2020

Commitments arising from oilfield licenses

Year	Capital expenditures	Operating expenses
2020	58,725,611	2,780,187
2021	1,107,503	1,278,011
2022	1,095,018	1,572,789
2023–2048	–	11,175,992
	60,928,132	**16,806,979**

Contacts

Address:
1 Valikhanov Street, Atyrau, Republic of Kazakhstan, 060002

PR Service
Tel.: +7 (7122) 99-34-77, 99-34-21, 35-50-56, 99-32-09.
E-mail: L.Suleimenova@emg.kmgep.kz.

Document Support Group
Tel.: +7 (7122) 99-31-35, 99-32-93.
Fax: +7 (7122) 35-41-27.
E-mail: info@emg.kmgep.kz.

Procurement and Local Content Department
Tel: +7 (7122) 99-34-42.

Logistics Department
Tel.: +7 (7122) 76-47-78.

Social Policy Department
Tel.: +7 (7122) 35-49-04.