Intergas Central Asia JSC

Financial statements

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

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Independent auditor's report

Financial statements

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Independent auditor's report

To the Shareholder, Board of Directors and Management of Intergas Central Asia JSC

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

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Key audit matters

How our audit addressed the key audit matter

Gas pipeline abandonment and site restoration provision

We considered this matter to be one of most significant in our audit because the calculation of gas pipeline abandonment and site restoration provision requires significant judgment due to the inherent complexity in estimating future costs and due to the significance of this liability to the financial statements. The Company's estimation of gas pipeline abandonment and site restoration provision incorporates the effects of expected approach to decommissioning and discount rates, effects of changes in local regulations along with the effects of changes in inflation.

Information associated with gas pipeline abandonment and site restoration is disclosed in *Notes 2 and 15* to the financial statements.

Our procedures involved obtaining understanding of legal and constructive obligations with respect to the decommissioning process based on the contractual arrangements, relevant local regulation and existing business practice. We considered the competence and objectivity of the experts involved by the Company for making future cost estimates. We analyzed the calculations and evaluated the discount rate and inflation rate used.

Compliance with loan covenants

In accordance with the terms of financing arrangements disclosed in *Note 13* in the financial statements, the Company should maintain and comply with certain financial and non-financial covenants. Breaching covenants could result in significant fines and penalties along with funding shortages. In addition, cross default provisions are in place under the Company's financing arrangements. Compliance with covenants was one of the matters of most significance in the audit since it can have a major impact on the going concern assumption used in the preparation of the financial statements, and on the classification of liabilities under financing arrangements in the statement of financial position.

Information about loan covenants is disclosed in *Note 13* to the financial statements.

We examined the terms of financing arrangements. We compared data used in the financial covenants compliance calculations with the financial statements. We tested arithmetic accuracy of financial covenants calculations. We assessed the classification of interest-bearing loans as current or non-current liabilities. We assessed the information disclosed in *Note 13* to the financial statements. In addition, we analyzed non-financial covenants under the Company's financing arrangements.

Other information included in the Company's 2020 Annual report

Other information consists of the information included in the Company's 2020 Annual Report other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2020 Annual report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of Management and the Board of Directors for the Financial Statements

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

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

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

Auditor's Responsibilities for the audit of the financial statements

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

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

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

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

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

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

Ernst & Young LLP

Paul Cohn
Audit Partner

Albert Asmatulayev
Auditor

Auditor qualification certificate
No. МФ-0000461 dated 6 February 2017

Rustamzhan Sattarov
General Director
Ernst and Young LLP

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

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15 February 2021

STATEMENT OF FINANCIAL POSITION

As at December 31, 2020

In thousands of Tenge	**Notes**	**December 31, 2020**	December 31, 2019
Assets			
Non-current assets			
Property, plant and equipment	4	**703,004,494**	710,226,901
Intangible assets		**4,351,733**	3,693,429
Right-of-use assets	23	**34,971,834**	836,509
Advances paid	6	**9,189,769**	61,334,474
Long-term bank deposits	10	**2,029,687**	2,202,745
Other non-current assets		**3,028,084**	248,899
		756,575,601	778,542,957
Current assets			
Inventories	7	**2,423,503**	2,163,133
Trade and other receivables	8	**42,238,407**	67,031,104
Advances paid	6	**180,063**	2,444,224
Prepaid taxes other than income tax	9	**123,974**	5,105,716
Corporate income tax prepaid	22	**20,245,266**	1,690,813
Short-term bank deposits	10	**8,907**	9,609
Cash and cash equivalents	11	**57,600,542**	47,445,656
		122,820,662	125,890,255
Assets held for sale	5	**42,241,262**	–
		165,061,924	125,890,255
Total assets		**921,637,525**	904,433,212
Equity and liabilities			
Equity			
Share capital	12	**392,985,220**	392,985,220
Retained earnings		**280,713,200**	309,386,591
		673,698,420	702,371,811
Non-current liabilities			
Long-term portion of bank loans	13	**37,550,136**	40,231,459
Long-term portion of financial guarantee obligation	14	**8,700,500**	8,848,832
Employee benefit obligations		**474,235**	1,380,004
Gas pipeline abandonment and site restoration provision	15	**75,816,180**	69,851,763
Other non-current financial liabilities		**836,997**	42,793
Deferred income tax liabilities	22	**58,005,469**	49,582,198
		181,383,517	169,937,049
Current liabilities			
Current portion of bank loans	13	**8,766,795**	13,393,466
Current portion of financial guarantee obligation	14	**–**	1,441,787
Employee benefit obligations		**36,006**	61,358
Provisions on gas losses		**–**	203,587
Trade and other payables	16	**12,380,074**	9,486,151
Taxes payable other than income tax		**3,750,981**	1,277,455
Contractual obligations		**1,222,463**	68,944
Other current financial liabilities	23	**35,007,134**	2,279,918
Other current liabilities	17	**5,392,135**	3,911,686
		66,555,588	32,124,352
Total liabilities		**247,939,105**	202,061,401
Total equity and liabilities		**921,637,525**	904,433,212

Deputy General Director Mamutova A.E.

Chief Accountant Tepelbayev B.

The accounting policies and explanatory notes on pages 5 through 36 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2020

In thousands of Tenge	Notes	For the year ended December 31, 2020	2019
Revenue from contracts with customers	18	**193,162,825**	236,541,626
Cost of sales	19	**(109,395,439)**	(101,074,342)
Gross profit		**83,767,386**	135,467,284
General and administrative expenses	20	**(10,531,642)**	(9,907,956)
Reversal of expected credit losses	8, 14	**–**	2,571,997
Other operating income		**2,078,869**	4,760,574
Other operating expenses		**(1,497,882)**	(4,758,299)
Operating profit		**73,816,731**	128,133,600
Foreign exchange gain/(loss), net		**5,232,596**	(508,671)
Finance income		**2,009,011**	2,072,007
Finance costs	21	**(8,358,069)**	(8,489,053)
Profit before income tax		**72,700,269**	121,207,883
Income tax expenses	22	**(16,030,994)**	(27,025,647)
Net profit for the year		**56,669,275**	94,182,236
Other comprehensive income			
Other comprehensive income not to be classified to profit or loss in subsequent periods			
Re-measurement of defined benefit plans – actuarial gain		**39,116**	560,454
Impact of income tax		**(7,824)**	(112,092)
Other comprehensive gain for the year, net of tax		**31,292**	448,362
Total comprehensive income for the year, net of tax		**56,700,567**	94,630,598
Earnings per share in Tenge			
Basic and diluted	12	**0.20**	0.39

Deputy General Director — *Mamitova A.E.*

Chief Accountant — *Tenelbayev B.*

The accounting policies and explanatory notes on pages 5 through 36 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2020

In thousands of Tenge	Notes	For the year ended December 31, 2020	2019
Cash flows from operating activities			
Receipts from customers		**232,978,110**	222,016,121
Payments to suppliers		**(52,743,570)**	(66,175,419)
Payments to employees		**(30,575,711)**	(29,238,526)
Taxes paid other than income tax		**(16,741,919)**	(15,255,302)
VAT refund from the state	9	**6,087,990**	–
Other receipts		**3,706,469**	1,247,985
Other payments		**(8,113,393)**	(3,185,378)
Corporate income tax paid		**(21,170,000)**	(14,100,000)
Interest paid	26	**(5,332,484)**	(5,258,182)
Interest received		**419,600**	383,565
Net cash flows received from operating activities		**108,515,092**	90,434,864
Cash flows from investing activities			
Withdrawal of bank deposits		**433,653**	336,131
Placement of bank deposits		**(260,595)**	(629,000)
Purchase of property, plant and equipment		**(51,272,657)**	(142,907,104)
Purchase of intangible assets		**–**	(434,405)
Proceeds from sale of property, plant and equipment and assets held for sale		**41,835,343**	31,063,493
Net cash flows used in investing activities		**(9,264,256)**	(112,570,885)
Cash flows from financing activities			
Common shares issued	12	**–**	74,486,410
Preferred shares issued	12	**–**	1
Proceeds from bank loans	26	**4,314,938**	22,373,785
Repayment of bank loans	13, 26	**(11,079,997)**	(27,309,740)
Repayment of principal of lease liabilities	26	**(914,376)**	(802,036)
Other payments		**(885,247)**	–
Dividends paid	12	**(85,373,958)**	(16,260,702)
Net cash flows used in financing activities		**(93,938,640)**	52,487,718
Net increase in cash and cash equivalents		**5,312,196**	30,351,697
Effects of exchange rate on cash and cash equivalents		**4,842,690**	(452,028)
Cash and cash equivalents, at the beginning of the year		**47,445,656**	17,545,987
Cash and cash equivalents, at the end of the year	11	**57,600,542**	47,445,656

Deputy General Director _______ *Mamutova A.E.*

Chief Accountant _______ *Tenelbayev B.*

The accounting policies and explanatory notes on pages 5 through 36 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2020

In thousands of Tenge	Share capital	Additional paid-in capital	Retained earnings	Total
As at January 1, 2019	111,091,460	207,115,482	231,308,563	549,515,505
Net profit for the year	–	–	94,182,236	94,182,236
Other comprehensive income, net of tax	–	–	448,362	448,362
Total comprehensive income for the year	–	–	94,630,598	94,630,598
Common shares issued *(Note 12)*	74,486,410	–	–	74,486,410
Preferred shares issued *(Note 12)*	207,407,350	(207,115,482)	(291,868)	–
Dividends on common shares *(Note 12)*	–	–	(16,256,158)	(16,256,158)
Dividends on preferred shares *(Note 12)*	–	–	(4,544)	(4,544)
As at December 31, 2019	392,985,220	–	309,386,591	702,371,811
Net profit for the year	**–**	**–**	**56,669,275**	**56,669,275**
Other comprehensive income, net of tax	**–**	**–**	**31,292**	**31,292**
Total comprehensive income for the year	**–**	**–**	**56,700,567**	**56,700,567**
Dividends on common shares *(Note 12)*	**–**	**–**	**(85,370,844)**	**(85,370,844)**
Dividends on preferred shares *(Note 12)*	**–**	**–**	**(3,114)**	**(3,114)**
As at December 31, 2020	**392,985,220**	**–**	**280,713,200**	**673,698,420**

Deputy General Director Mamutova A.E.

Chief Accountant Tenelbayev B.

The accounting policies and explanatory notes on pages 5 through 36 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

1. GENERAL INFORMATION

Intergas Central Asia JSC (the "Company") was established in accordance with the laws of the Republic of Kazakhstan, The Company was registered on July 1, 1997 as a closed joint stock company. On January 28, 2005 the Company was re-registered as a joint stock company in accordance with the requirements of the legislation.

The Company is 100% owned by KazTransGas JSC (the "Shareholder" and "KTG"), a joint stock company established under the laws of the Republic of Kazakhstan NC KazMunayGas JSC ("KazMunayGas") is the sole shareholder of KazTransGas JSC. The Government represented by "Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna") owns 90% minus 1 (one) share of KazMunayGas, and all subsidiaries of KazMunayGas and Samruk-Kazyna are considered as related parties of the Company *(Note 23)*.

The principal activities of the Company are transportation, sale and storage of natural gas and provision of services on technical maintenance of gas pipelines. The Company operates mainline gas transportation network in the Republic of Kazakhstan pursuant to the Trust management agreement between the Company, Samruk-Kazyna and the Government as represented by the Committee on state property and privatization of the Ministry of finance of the Republic of Kazakhstan (the "Committee") dated December 5, 2014. On June 8, 2018 Samruk Kazyna JSC concluded an additional agreement with KazMunayGas on transfer of all rights and obligations to the latter under Trust management agreement. The additional agreement did not change the status of the Company as a Trustee. In accordance with the agreement concluded on November 12, 2019 between the Company and KazMunayGas the ownership of above mentioned property was transferred to the Company through the issue of preferred shares *(Note 12)*. As a result, the Trust Management agreement was terminated.

The Company's operating activities are regulated by the Law of the Republic of Kazakhstan dated December 27, 2018 No. 204-VI *On Natural Monopolies* (the "Law") as the Company is a natural monopolist in transportation of gas within the Republic of Kazakhstan and storage of natural gas. According to the Law, the Company's gas transportation tariff within the Republic of Kazakhstan and storage tariffs are approved by the Committee of the Republic of Kazakhstan for the Regulation of Natural Monopolies and Protection of Competition under the Ministry of National Economy of the Republic of Kazakhstan.

In accordance with the Decree of the Government of the Republic of Kazakhstan dated June 15, 2018 No. 353, the Company obtained the status of a national operator of main gas pipelines. The main tasks of the national operator are to ensure the interest of the state and transport commodity gas through trunk gas pipelines to the domestic and foreign markets. In addition, the Company will ensure the innovative development of the main gas pipeline system and its integration into the world energy system, enhancement the state's energy potential through diversification of commodity gas flows.

As at December 31, 2020 the Company has commitments of 10,897,378 thousand Tenge under the investment program for 2016-2021 approved by the common order of Vice-Minister of Energy dated July 29, 2016 No. 360 and Chairman of the Committee on Regulation of Natural Monopolies and Protection of Competition under the Ministry of national economy of the Republic of Kazakhstan dated July 29, 2016 No. 203-OD (as at December 31, 2019: 43,461,996 thousand Tenge). As of December 31, 2020, the Company fulfills its obligations under the approved investment program, taking into account the adjustments made.

The Company's head office is located at BC "Bolashak", 12 Alikhan Bokeikhan avenue, Nur-Sultan, Republic of Kazakhstan.

The accompanying financial statements were authorized for issue by the Deputy General Director and Chief Accountant of the Company on February 15, 2021.

2. BASIS OF PREPARATION

The accompanying financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standard Board.

The financial statements have been prepared on a historical cost basis, except for assets and liabilities stated at fair value as disclosed further in the accompanying accounting policies and notes to these financial statements.

All values in these financial statements are rounded to the nearest thousands Tenge, except when otherwise indicated.

2. BASIS OF PREPARATION (continued)

Operating environment

On March 11, 2020, the World Health Organization made an official announcement about the pandemic of the new type of coronavirus COVID-19. According to the Decree of the President of the Republic of Kazakhstan dated March 15, 2020 No. 285 On the Introduction of a State of Emergency in the Republic of Kazakhstan, in order to ensure security a state of emergency was introduced for the period from March 16, 2020 until April 15, 2020 and later extended until May 11, 2020. Major cities of Kazakhstan, including Almaty and Nur-Sultan fell under a quarantine regime; also, the activities of many enterprises in the two above-mentioned cities were suspended. The COVID-19 pandemic has spread globally, with a sharp negative effect on the entire global economy.

On July 5, 2020, State Commission for Ensuring State of Emergency under the President of Kazakhstan, with the consideration of the complications of the epidemiological situation and the increase in the prevalence of coronavirus infection in Kazakhstan, introduced restrictive measures for 14 days, subsequently extended until August 16, 2020.

During 2020, there has been significant volatility in the stock, currency and commodity markets, and depreciation of Tenge against the major world currencies.

Management will continue to monitor the potential effect of the above events and will take all necessary measures to prevent negative consequences for the business.

Foreign currency translation

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

Transactions in foreign currencies are initially recorded in the functional currency spot rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate ruling at the reporting date. All differences are taken to the statement of comprehensive income as gain or loss for the period. Weighted average currency exchange rates established by the Kazakhstan Stock Exchange ("KASE") are used as official currency exchange rates in the Republic of Kazakhstan.

The currency exchange rate of KASE as at December 31, 2020 was 420.91 Tenge to 1 US Dollar. This rate was used to translate monetary assets and liabilities denominated in US Dollars as at December 31, 2020 (as at December 31, 2019: 382.59 Tenge to 1 US Dollar).

Significant accounting judgments, estimates and assumptions

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Taxation

In assessing tax risks, the management considers to be probable obligations those known areas of tax positions which the Company would not appeal or does not believe it could successfully appeal, if assessed by tax authorities. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, the determination of expected outcomes from pending tax proceedings and the outcome of ongoing compliance audits by tax authorities. Further discussion of tax risks is disclosed in *Note 25.*

Deferred tax assets

Deferred tax assets are recognized to the extent that it is probable that taxable temporary differences and business nature of such expenses will be proved, as well as on the successful implementation of tax planning strategies. The Company has legally enforceable right to set off its current tax asset against current tax liability. Deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. In the statements of financial position, deferred tax assets are netted against deferred tax liabilities as they are related to income taxes levied by the same taxation authority. As of December 31, 2020 and 2019 the Company recognized net deferred tax liability. Further details are contained in *Note 22.*

2. BASIS OF PREPARATION (continued)

Significant accounting judgments, estimates and assumptions (continued)

Fair value of financial instruments

Where the fair value of financial assets and liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model.

The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in estimates and judgements about these factors could affect the reported fair value of financial instruments. Further details are contained in *Note 26.*

Estimation of expected credit losses

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Company's credit grading model, which assigns PDs to the individual grades;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as oil price with one year lag, and the effect on PDs, EADs and LGDs.

Useful life of property, plant and equipment

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

Gas pipeline abandonment and site restoration

Under the terms of legislation the Company has legal obligations to dismantle and remove gas pipelines and restore the land.

The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation. The Company reviews gas pipeline abandonment and site restoration provisions at each reporting date and adjust them to reflect the current best estimate in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. Estimating the future 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. Uncertainties related to the final costs are mitigated by the effects of discounting the expected cash flows. The Company estimates future gas pipeline abandonment cost using current year prices and the average long-term inflation rate.

The long-term inflation and discount rates used to determine the liability in the statement of financial position at December 31, 2020 were 5.52% and 7.15%, respectively (2019: 5.49% and 8.44%, respectively). The carrying amount of the pipeline abandonment and site restoration provision as at December 31, 2020 was 75,816,180 thousand Tenge (2019: 69,851,763 thousand Tenge), for more details see *Note 15.*

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION (continued)

Significant accounting judgments, estimates and assumptions (continued)

Gas pipeline abandonment and site restoration (continued)

The following is a sensitivity analysis for significant assumptions as at December 31, 2020:

	Impact on gas pipeline abandonment and site restoration provision	
In thousands of Tenge	**2020**	2019
Assumptions for gas pipeline abandonment and site restoration		
Liquidation cost of 1 km:		
- Increase by 10%	**7,581,741**	6,985,176
- Decrease by 10%	**(7,581,741)**	(6,985,176)
Inflation rate:		
- Increase by 1%	**26,172,208**	25,514,306
- Decrease by 1%	**(19,913,645)**	(18,839,691)
Discount rate:		
- Increase by 1%	**(19,495,811)**	(18,255,547)
- Decrease by 1%	**26,529,324**	24,980,421

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within 12 (twelve) months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 (twelve) months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 (twelve) months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least 12 (twelve) months after the reporting period.

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Company classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the statement of comprehensive income in the year in which the expenditure is incurred.

Intangible assets are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortisation period and the amortisation method are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible assets. The amortization expense on intangible assets is accrued using straight line method over their useful economic lives, which are presented as follows:

	Years
Software	3-20
Other	20

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

Property, plant and equipment

Property, plant and equipment are classified as Buildings and constructions, Gas transportation system, Equipment, Construction in progress, Land, Vehicles and other as appropriate.

Property, plant and equipment is stated at cost net of accumulated depreciation and accumulated impairment loss, if any. Such cost includes the cost of replacing part of the property, plant and equipment, its purchase price, including import duties and non-refundable taxes, borrowing costs for long-term construction projects, if the recognition criteria are met and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

The expenditures that have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of tangible fixed assets beyond its originally assessed standard performance (increase of useful life, capacity, etc.) are capitalized as additional costs of fixed assets. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the statement of comprehensive income as incurred.

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

	Years
Buildings and constructions	8-100
Gas transportation system	40-70
Equipment	3-40
Vehicles	10-30
Other	3-20

Land is not depreciated.

An item of property, plant and equipment and any significant component initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income when the asset is derecognized.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Construction-in-progress represents tangible fixed assets under construction and is recorded at cost. This includes cost of construction and equipment, long-term inventories and other direct costs. Construction-in-progress is not depreciated until such time as respective assets are completed and placed into operational use.

Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

The right-of-use assets are also subject to impairment.

Lease liabilities

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

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of property, plant and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

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 as disclosed in IFRS 15 *Revenue from Contracts with Customers*.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

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 four categories:

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

<u>Financial assets at amortised cost (debt instruments)</u>

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 includes bank deposits and trade and other receivables.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- 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.

Impairment

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. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities

Initial recognition and measurement

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

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

The Company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

Subsequent measurement

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities (continued)

Financial liabilities at amortised cost

This is the category most relevant to the Company. After initial recognition, bank loans and financial guarantee obligation are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

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

This category generally applies to bank loans and financial guarantee obligation.

Trade payables

Liabilities for trade payables are recognized at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

Derecognition

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

Offsetting of financial instruments

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

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Company's cash-generating units to which the individual assets are allocated.

These budgets and forecast calculations are generally covering a period of 5 (five) years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

For assets 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 Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories of natural gas, materials and supplies are valued at the lower of cost or net realizable value.

The cost of inventory is accounted for on the first-in first-out basis.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of 3 (three) months or less.

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

Provisions

Provisions are recognized 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.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

Share capital

Share capital is recognized at cost and is comprised of common and preferred shares. Dividends on common and preferred shares are recognized in the shareholder's equity as a reduction in the period in which they are declared. Dividends that are declared after the year end reporting date are treated as a subsequent event under IAS 10 *Events After the Reporting Period* and disclosed accordingly.

Dividends on the Company's shares are paid in cash. The Shareholder approves the distribution of dividends. Minimum annual dividend on preferred shares is 1% of total par value of preferred shares. The Company pays additional dividends on preferred shares to equate the dividend on preferred shares to the dividend on common shares for the same period. Dividends are not paid if (a) the equity becomes negative; (b) the Company becomes insolvent; or (c) the court or the Shareholder decided to liquidate the Company. The Shareholder has the right to decide not to pay dividends on the Company's shares with obligatory publication in mass media within 10 (ten) days from the date of such decision.

Revenue from contracts with customers and expense recognition

The Company recognizes revenue from contracts with customers in order to reflect the transfer to customers of the promised goods or services in the amount of compensation that the Company is expected to receive in exchange for the specified goods or services. Revenue from contracts with customers was recognized net of indirect taxes.

Rendering of services

Revenue from gas transportation services was recognized over time on the basis of actual volumes of gas transported during the reporting period. The Company concluded that services were provided over time, because the customer simultaneously receives and consumes the benefits provided by the Company.

Interest income

For all financial instruments measured at amortized cost and interest bearing financial assets, interest income is recorded using EIR, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

Interest income is included in finance income in the statement of comprehensive income.

Expenses

Expenses are accounted for at the time the actual flow of the related goods or services occur, regardless of when cash or their equivalent is paid, and are reported in the financial statements in the period to which they relate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying long-term asset are capitalized as part of the cost of that asset. Other borrowing costs are recognized as an expense when incurred. Borrowing costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds.

Employee benefits

The Company provides long-term employee benefits to employees in accordance with the Collective labor agreement on social support of its employees approved by the conference of representatives of the Company's employees. The collective labor agreement provides the payment of compensation payments upon retirement of employees and material assistance for his burial in the event of the death of an employee.

The expected costs of the benefits associated with payments 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 effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred. Other movements are recognized in the current period, including current service cost, any past service cost and the effect of any curtailments or settlements.

The most significant assumptions used in accounting for defined benefit obligations are discount rate and mortality assumptions. The discount rate is used to determine the net present value of future liabilities and each year the unwinding of the discount on those liabilities is charged to the statement of comprehensive income as finance costs. The mortality assumption is used to project the future stream of benefit payments, which is then discounted to arrive at a net present value of liabilities.

The 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.

Current 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, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognised directly in the equity is recognised in the equity and not in the statement of comprehensive income. Management of the Company periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or 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.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred income tax (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in relation to the underlying transaction either in other comprehensive income or directly in the equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value added tax (VAT)

The tax authorities permit the settlement of sales and purchases value added tax (VAT) on a net basis. Thus, value added tax receivable represents VAT on purchases net of VAT on sales.

Value added tax payable

VAT is payable to tax authorities upon collection of receivables from customers. VAT on purchases, which have been settled at the reporting date, is deducted from the amount payable.

In addition, VAT related to sales which have not been collected at the reporting date is also included in the balance of VAT payable.

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT liability is maintained until the debtor is written off for tax purposes.

Value added tax recoverable

VAT recoverable is recorded on accounts related to purchased goods, work and services, which were purchased with VAT and if they were used in order to derive income.

At each reporting date, the VAT recoverable amount is subject to offset against the VAT payable amount.

Contingent assets and contingent liabilities

Contingent assets are not recognized in the financial statements. When the realization of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

Contingent liabilities are not recognized in the financial statements, they are disclosed unless the possibility of an outflow of resources embodying economic benefits is not remote, and the amount of liabilities is material.

Subsequent events

Post-year-end events that provide additional information about the Company's financial position at the reporting date (adjusting events), are recorded in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020, but do not have an impact on the financial statements of the Company. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The list of new and amended standards and interpretations presented below:

- Amendments to IFRS 3 *Business Combinations* named *Definition of a Business*;
- Amendments to IFRS 7 *Financial Instruments: Disclosures* and IFRS 9 *Financial Instruments* named *Interest Rate Benchmark Reform*;
- Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in accounting Estimates and Errors* named *Definition of Material*;
- Revised version of *Conceptual Framework for Financial Reporting*;
- Amendments to IFRS 16 *Leases* named *Covid-19 Related Rent Concessions*.

Standards issued but not yet effective

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

- IFRS 17 *Insurance Contracts*;
- Amendments to IAS 1 *Presentation of Financial Statements* named *Classification of Liabilities as Current or Non-current*;
- Amendments to IFRS 3 *Business Combinations* named *Reference to the Conceptual Framework*;
- Amendments to IAS 16 *Property, Plant and Equipment* named *Proceeds before Intended Use*;
- Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* named *Onerous Contracts – Costs of Fulfilling a Contract*;
- IFRS 1 *First-time Adoption of International Financial Reporting Standards* named *Subsidiary as a first-time adopter*;
- IFRS 9 *Financial Instruments* named *Fees in the "10 per cent" Test for Derecognition of Financial Liabilities*;
- IAS 41 *Agriculture* named *Taxation in Fair Value Measurements*.

The Company does not expect material impact of these standards on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment for the years ended December 31, 2020 and 2019 were as follows:

In thousands of Tenge	Land	Buildings and constructions	Gas transportation system	Equipment	Vehicles	Other	Construction in progress	Total
Cost								
At January 1, 2019	496,707	76,617,936	342,365,016	259,567,546	97,113	5,536,216	133,816,691	818,497,225
Additions	–	3,745	9,911,470	4,022,444	–	27,804	59,828,129	73,793,592
Change in estimate *(Note 15)*	–	–	7,215,909	–	–	–	–	7,215,909
Transfer from inventories	–	–	–	250	–	–	2,135,487	2,135,737
Transfer from other current assets	44,440	273,000	–	56,697	–	–	–	374,137
Transfer to assets classified as held for sale *(Note 5)*	–	(10,941,182)	–	(20,252,978)	–	(68,358)	–	(31,262,518)
Internal transfers	–	25,430,925	14,530,508	124,987,699	–	368,694	(165,317,826)	–
Transfer to intangible assets	–	–	–	–	–	–	(119,122)	(119,122)
Disposals	(58,012)	(24,229)	(317,595)	(203,375)	(51,519)	(88,220)	(395,461)	(1,138,411)
At December 31, 2019	483,135	91,360,195	373,705,308	368,178,283	45,594	5,776,136	29,947,898	869,496,549
Additions	–	–	–	**180,822**	–	**2,108**	**104,488,973**	**104,671,903**
Change in estimate *(Note 15)*	–	–	**285,505**	–	–	–	–	**285,505**
Transfer from inventories	–	–	–	–	–	**125**	**992,691**	**992,816**
Transfer to assets classified as held for sale *(Note 5)*	–	**(15,354,879)**	–	**(75,501,772)**	–	**(217,529)**	–	**(91,074,180)**
Internal transfers	–	**19,137,673**	**10,827,020**	**79,575,160**	–	**1,365,446**	**(110,905,299)**	–
Disposals	**(151,914)**	**(913,645)**	**(45,799)**	**(223,683)**	**(7)**	**(129,994)**	**(5,235)**	**(1,470,277)**
At December 31, 2020	**331,221**	**94,229,344**	**384,772,034**	**372,208,810**	**45,587**	**6,796,292**	**24,519,028**	**882,902,316**
Accumulated depreciation and impairment								
At January 1, 2019	165,486	12,324,684	52,985,758	68,299,057	64,451	4,035,093	607,617	138,482,146
Charge for the year	–	2,982,199	7,625,509	13,957,518	7,388	243,554	–	24,816,168
Internal transfers	–	30,629	17,049	(47,723)	–	45	–	–
Reversal of impairment, net	(107,474)	(527,067)	–	(88,210)	–	–	(260,773)	(983,524)
Transfer to assets classified as held for sale *(Note 5)*	–	(561,317)	–	(2,078,586)	–	(12,549)	–	(2,652,452)
Disposals	(58,012)	(3,512)	(17,837)	(185,673)	(42,265)	(85,391)	–	(392,690)
At December 31, 2019	–	14,245,616	60,610,479	79,856,383	29,574	4,180,752	346,844	159,269,648
Charge for the year	–	**2,663,931**	**7,600,462**	**14,919,246**	**2,172**	**391,634**	–	**25,577,445**
Internal transfers	–	–	–	**60**	–	**(60)**	–	–
Reversal of impairment, net	–	–	–	–	–	–	**(198,735)**	**(198,735)**
Transfer to assets classified as held for sale *(Note 5)*	–	**(570,666)**	–	**(3,719,925)**	–	**(26,034)**	–	**(4,316,625)**
Disposals	–	**(121,571)**	**(4,391)**	**(178,515)**	**(7)**	**(129,427)**	–	**(433,911)**
At December 31, 2020	–	**16,217,310**	**68,206,550**	**90,877,249**	**31,739**	**4,416,865**	**148,109**	**179,897,822**
Net book value								
At December 31, 2019	483,135	77,114,579	313,094,829	288,321,900	16,020	1,595,384	29,601,054	710,226,901
At December 31, 2020	**331,221**	**78,012,034**	**316,565,484**	**281,331,561**	**13,848**	**2,379,427**	**24,370,919**	**703,004,494**

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. PROPERTY, PLANT AND EQUIPMENT (continued)

Additions

During 2020, the additions into construction in progress included pipes and other equipment with amount of 104,488,973 thousand Tenge and generally represent the constructions of the compressor station "1A", Bozoi UGS facility, gas metering stations and overhaul of gas pipelines.

Internal transfers

During 2020, facilities were commissioned for a total amount of 110,905,299 thousand Tenge. A significant part of this transfers relates to 2020 proceeds.

Transfer to assets classified as held for sale

During 2020, the Company classified the "Turkestan" and "Korkyt-ata" gas compressor stations, including all related fixed assets as assets held for sale *(Note 5)*.

Other

As at December 31, 2020, the historical cost of fully depreciated property, plant and equipment in operation was 13,222,254 thousand Tenge (December 31, 2019: 13,113,999 thousand Tenge).

As at December 31, 2020, the Company has capital commitments of approximately 79,609,558 thousand Tenge (December 31, 2019: 18,089,993 thousand Tenge) associated with the acquisition and construction of property, plant and equipment. These capital commitments are partly related to the investment program, which is described in *Note 1*.

5. ASSETS HELD FOR SALE

During 2020, the Company classified the "Turkestan" and "Korkyt-ata" gas compressor stations, including all related fixed assets as assets held for sale *(Note 4)*. On December 29, 2020, the Company completed the sale of the "Turkestan" compressor station. As a result of the sale of this asset, the Company recognized a loss on disposal of property, plant and equipment of 849,368 thousand Tenge.

As of December 31, 2020, the carrying value of assets held for sale of "Korkyt-ata" was 42,241,262 thousand Tenge.

During 2019, the Company classified the "Karaozek" gas compressor station, including all related fixed assets as assets held for sale. On November 11, 2019, the Company completed the sale of the "Karaozek" gas compressor station *(Note 4)*. The book value of the assets sold at the date of disposal amounted to 28,585,929 thousand Tenge. As a result of the sale of this asset, the Company recognized gain from the assets held for sale of 4,109,701 thousand Tenge.

6. ADVANCES PAID

In thousands of Tenge	December 31, 2020	December 31, 2019
Advances paid to suppliers for non-current assets		
Advances paid to third parties for capital repair, construction works and supply of fixed assets	**9,189,769**	61,334,474
	9,189,769	61,334,474
Advances to suppliers for current assets and services		
Advances paid to third parties for supply of materials and rendering current repair services	**173,773**	129,279
Advances paid to related parties *(Note 23)*	**6,290**	2,314,945
	180,063	2,444,224

As of December 31, 2020, advances paid to third parties for capital repairs and construction mainly included 6,351,599 thousand Tenge advances paid to Electro HSBM LLP for major repairs on the section 905-1445 km of 1 line of the "Bukhara MG-Ural", based on the results of VTD with the development of design and estimate documentation (as of December 31, 2019: nil), 1,702,064 thousand Tenge advances paid to Electrokhimzashchita LLP for the construction of the construction of gas measuring stations and rotational camps on the BGR-TBA and Gazli-Shymkent gas pipelines (as of December 31, 2019: 57,652,374 thousand Tenge), 1,134,356 thousand Tenge advances paid to Remstroy-XXI LLP, a significant part of which relates to the overhaul of the BGR-TBA gas pipeline (as at December 31, 2019: 2,211,562 thousand Tenge).

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. INVENTORIES

In thousands of Tenge	December 31, 2020	2019
Gas (at lower of cost and net realisable value)	**1,668,316**	1,175,625
Materials and supplies (at lower of cost and net realisable value)	**755,187**	987,508
	2,423,503	2,163,133

Materials and supplies mainly consist of pipes, spare parts for servicing gas transmission systems, methanol and lubricants for use in gas transportation, and equipment and materials for domestic consumption. Gas includes fuel gas for own needs. In 2020, inventories of 525,414 thousand Tenge were recovered on the balance sheet of inventories at net realizable value (2019: 333,784 thousand Tenge).

8. TRADE AND OTHER RECEIVABLES

In thousands of Tenge	December 31, 2020	2019
Related parties *(Note 23)*	**37,325,266**	59,968,010
Gas transit non-resident customers	**3,456,855**	6,077,949
Local customers	**1,357,747**	1,082,810
Other	**474,339**	244,713
	42,614,207	67,373,482
Allowance for expected credit losses	**(375,800)**	(342,378)
	42,238,407	67,031,104

As at December 31, 2020, accounts receivable from related parties are mainly represented by receivables due from KazTransGas JSC of 30,924,569 thousand Tenge for storage and domestic gas transportation (December 31, 2019: 38,581,464 thousand Tenge); Beineu-Shymkent Gas Pipeline LLP of 2,156,461 thousand Tenge for technical maintenance of gas pipeline and 1,830,955 thousand Tenge for the sale of compressor station Karaozek (December 31, 2019: 12,117,518 thousand Tenge and 1,830,955 thousand Tenge), KazRosGas LLP of 5,011 thousand Tenge for storage and gas transportation for export (December 31, 2019: 3,838,372 thousand Tenge), Asia Gas Pipeline LLP of 1,159,864 thousand Tenge for technical maintenance of gas pipeline (December 31, 2019: 1,287,618 thousand Tenge); KazTransGas Aimak JSC of 1,136,937 thousand Tenge for technical maintenance of gas pipeline (December 31, 2019: 961,589 thousand Tenge).

As at December 31, 2020, trade receivable from gas transit non-resident customers included the amount of 972,555 thousand Tenge due from Gazprom PJSC (as at December 31, 2019: 4,508,256 thousand Tenge), amount of 2,484,300 thousand Tenge due from UzTransGas JSC (as at December 31, 2019: 1,569,693 thousand Tenge), and were denominated in US Dollars.

Movements in the allowance for expected credit losses of trade and other receivables were as follows:

In thousands of Tenge	Individually impaired
At January 1, 2019	(385,478)
Reversal of ECL	6,648
ECL charge	35,048
Effect of foreign exchange difference	1,404
At December 31, 2019	(342,378)
Effect of foreign exchange difference	**(33,422)**
At December 31, 2020	**(375,800)**

Impairment testing was carried out individually in each case, taking into account the situation of a specific legal entity or individual in the aggregate.

As of December 31, 2020, the Company has receivables from KTG JSC (Parent Company of the Company) in the total amount of 30,924,569 thousand Tenge.

8. TRADE AND OTHER RECEIVABLES (continued)

Based on the history of payments and the results of a detailed analysis of the financial position of KTG and the market in which it operates, management determined that KTG has sufficient capabilities to fulfil its contractual obligations. Accordingly, no ECL charge was made in the financial statements for expected credit losses in respect of trade receivables from KTG.

Set out below is the information about the credit risk exposure on the Company's trade and other receivables using a provision matrix:

In thousands of Tenge	Total	Current	Days past due			
			<30 days	31-60 days	61-90 days	>91 days
December 31, 2020						
Expected credit loss rate	**0.89%**	**0.16%**	**0.73%**	**1.23%**	**0.26%**	**9.61%**
Estimated total gross carrying amount at default	**42,238,407**	**36,685,964**	**1,701,403**	**516,731**	**243,624**	**3,090,685**
Expected credit loss	**375,800**	**59,469**	**12,414**	**6,739**	**627**	**296,910**
December 31, 2019						
Expected credit loss rate	0.51%	0.18%	0.03%	0.2%	0.65%	3.33%
Estimated total gross carrying amount at default	67,031,104	35,663,078	9,239,225	9,934,695	5,680,708	6,513,398
Expected credit loss	342,378	65,803	2,563	20,234	36,704	217,074

9. PREPAID TAXES OTHER THAN INCOME TAX

In thousands of Tenge	December 31, 2020	December 31, 2019
VAT recoverable	**–**	4,722,562
Other	**123,974**	460,782
	123,974	5,183,344
Minus: allowance for non-recoverable VAT	**–**	(77,628)
	123,974	5,105,716
Current portion	**123,974**	5,105,716

During 2020, the Company received a VAT refund from the state of 11,087,990 thousand Tenge, of which 6,087,990 thousand Tenge in cash and 5,000,000 thousand Tenge offset against CIT. As of December 31, 2020, the Company used the VAT recoverable provision of 77,628 thousand Tenge.

10. BANK DEPOSITS

In thousands of Tenge	December 31, 2020	December 31, 2019
Long-term bank deposits		
Tenge bank deposits with maturity more than one year	**2,029,687**	2,202,745
	2,029,687	2,202,745
Short-term bank deposits		
Tenge bank deposits with maturity more than three months and less than one year	**8,907**	9,609
	8,907	9,609

As at December 31, 2020 long-term deposits of 2,029,687 thousand Tenge were placed as guarantee on housing loans issued by Halyk Bank Kazakhstan JSC to the Company's employees (December 31, 2019: 2,202,745 thousand Tenge) at the rate of 1% per annum (2019: 1% per annum).

As at December 31, 2020 short-term bank deposits included interest receivable with Halyk Bank Kazakhstan JSC of 8,907 thousand Tenge (December 31, 2019: 9,609 thousand Tenge).

11. CASH AND CASH EQUIVALENTS

In thousands of Tenge	December 31, 2020	2019
US Dollar bank accounts	**21,179,097**	41,534,158
Tenge bank accounts	**6,178**	3,022,153
Rouble bank accounts	**2,514**	–
Tenge deposits with maturity less than three months Cash on hand	**36,412,753**	2,889,345
	57,600,542	47,445,656

As at December 31, 2020 the weighted average interest rate on current bank accounts was 0% in US Dollars and 0.08% in Tenge, respectively (December 31, 2019: 0% in US Dollars and 0.10% in Tenge, respectively).

As at December 31, 2020 deposits with maturity less than three months included deposits with Halyk Bank Kazakhstan JSC denominated in Tenge of 36,412,753 thousand Tenge (December 31, 2019: deposits denominated in Tenge of 2,889,345 thousand Tenge). Deposits with maturity less than three months earn interest at the rate of 7.49% per annum (December 31, 2019: 7.75% per annum).

12. EQUITY

Share capital

	Number of shares		In thousands of Tenge	
	December 31, 2020	December 31, 2019	**December 31, 2020**	December 31, 2019
Common voting shares	**246,886,387**	246,886,387	**185,546,933**	185,546,933
Preferred non-voting shares	**41,522,720**	41,522,720	**207,438,287**	207,438,287
	288,409,107	288,409,107	**392,985,220**	392,985,220

Common shares issued

In 2020, the Company did not issue ordinary shares (in 2019: 99,315,214 ordinary shares were issued at a par value of 750 Tenge each for a total amount of 74,486,410 thousand Tenge).

Preferred shares issued

The Company held the assets of the mainline gas transportation network under the trust management agreement with KazMunayGas *(Note 1)*. In accordance with the Decree of the Government of the Republic of Kazakhstan No. 733 dated October 3, 2019 *On the Disposition of Strategic Objects*, the Company completed activities related to the re-registration of gas concession assets. Accordingly, the Company issued 41,481,470 preference shares with par value of 5,000 Tenge each for the total amount of 207,407,350 thousand Tenge to KazMunayGas on 207,115,482 thousand Tenge in order to receive the ownership for pipeline assets.

As a result, of the above transaction the Company recognized decrease in additional paid-in capital of 207,115,482 thousand Tenge and increase of share capital of 207,407,350 thousand Tenge. The difference of 291,868 thousand Tenge between the additional paid-in capital and issued preference shares was recognized in retained earnings.

On May 22, 2020, the Board of Directors of KazMunayGas approved the transfer of its preferred shares in the Company in favor of KazTransGas.

The preference shares are not redeemable at fixed date or at the option of the holder. However, the Company is obliged to make minimum dividend payments to the holder of the shares. The preference shares are planned to be converted to common shares.

Dividends

As of December 31, 2020 the Company paid dividends on common shares of 85,370,844 thousand Tenge (2019: 16,256,158 thousand Tenge) and dividends on preferred shares of 3,114 thousand Tenge (2019:4,544 thousand Tenge) in accordance with the decision of the Board of Directors of the Shareholder.

12. EQUITY (continued)

Book value per share

In thousands of Tenge	2020	2019
Total assets	**921,637,525**	904,433,212
Less: intangible assets	**(4,351,733)**	(3,693,429)
Less: total liabilities	**(247,939,105)**	(202,061,401)
Less: preferred shares	**(207,438,287)**	(207,438,287)
Net assets for common shares	**461,908,400**	491,240,095
Number of common shares as at reporting date	**246,886,387**	246,886,387
Book value per common share, thousands of Tenge	**1.87**	1.99

Earnings per share

Basic and diluted earnings per share are calculated by dividing net income for the year attributable to common shareholders by the number of shares outstanding during the year.

The following reflects the income and share data used in the basic earnings per share computations for the years ended December 31:

	For the year ended December 31,	
In thousands of Tenge	2020	2019
Net income attributable to Shareholder for basic and diluted earnings per share	**56,669,275**	94,182,236
Adjustment on preferred shares	**(8,158,766)**	(13,559,567)
Net income attributable to Shareholder for basic and diluted earnings per common share	**48,510,509**	80,622,669
Average number of common shares for basic and diluted earnings per share	**246,886,387**	207,324,925
Basic and diluted earnings per share for the year, thousands of Tenge	**0.20**	0.39

No earnings per share dilutive instruments were issued as at and during the years ended December 31, 2020 and 2019.

13. BANK LOANS

As at December 31, 2020 and 2019 bank loans comprised the following:

In thousands of Tenge	Date of issue	Maturity	Interest rate	December 31, 2020	December 31, 2019
European Bank for Reconstruction and Development	July 26, 2016	June 5, 2026	3m CPI + margin (2.15%) + 50 bp cost	**34,091,427**	42,939,522
European Bank for Reconstruction and Development	June 18, 2018, September 18, 2019 and February 13, 2020	June 5, 2026	6m CPI + margin (2.15%) + 100 bp cost	**12,225,504**	10,685,403
				46,316,931	53,624,925
Less: amount due for settlement within 12 months				**(8,766,795)**	(13,393,466)
Amounts due for settlement after 12 months				**37,550,136**	40,231,459

13. BANK LOANS (continued)

European Bank for Reconstruction and Development

In accordance with the loan agreement dated May 26, 2016, on July 26, 2016 the Company received a loan from the European Bank for Reconstruction and Development (hereinafter referred to "EBRD") of 140,000,000 US Dollars (equivalent to 48,143,200 thousand Tenge) for the purpose of restructuring existing obligations. In May 2017, the Company received second tranche of 80,000,000 US Dollars (equivalent to 25,254,400 thousand Tenge) under the loan agreement. Under the terms of the loan agreement, all payments related to the loan are made in US Dollars. On October 23, 2017, according to the letter received from the European Bank for Reconstruction and Development, the principal on the loan was converted from 203,077 thousand US Dollars to 68,213,539 thousand Tenge. The exchange rate used for conversion was 335.9 Tenge per 1 US Dollar. Interest rate was changed from 3m LIBOR plus 3.15% per annum to 3m CPI plus 3.15% per annum and 50 basis points cost and is to be paid quarterly.

The Company is repaying this loan in 26 (twenty six) consecutive equal quarterly instalments starting June 5, 2017. During 2020, the Company repaid the principal debt under the loan agreement in the amount of 8,763,544 thousand Tenge.

On June 18, 2018, in accordance with the loan agreement dated May 26, 2016, the Company received another loan from EBRD of 4,621,477 thousand Tenge for the modernization of the Bozoi UGS facility, which will be repaid by 32 (thirty two) equal quarterly instalments starting from September 2018.

On September 18, 2019, in accordance with the loan agreement dated May 26, 2016, the Company received the second tranche of a loan from the EBRD of 7,255,785 thousand Tenge for the modernization of the Bozoi UGS facility, which will be repaid by 27 (twenty seven) equal quarterly payments starting from December 2019.

On February 13, 2020, in accordance with the loan agreement dated May 26, 2016, the Company received the third tranche of a loan from the EBRD of 4,314,938 thousand Tenge for the modernization of the Bozoi UGS facility, which will be repaid in 26 (twenty six) equal quarterly instalments starting from March 2020.

During 2020, the Company has entered into an Agreement on amendments to the main loan agreement with EBRD. Per amendments, the margin rate of the interest rate was changed from 3.15% to 2.15% per annum.

During 2020, the Company repaid principal debt in amount of 2,316,453 thousand Tenge. During 2020, the Company accrued interest on two loans in the amount of 5,252,733 thousand Tenge. As at December 31, 2020, interest payable on the loan is equal to 292,176 thousand Tenge (December 31, 2019: 371,927 thousand Tenge).

Capitalization of borrowing costs

In 2020, the Company capitalized interest expense on loans received from EBRD of KZT 2,890,482 thousand to property, plant and equipment (2019: 2,525,199 thousand Tenge).

Covenants

According to the terms of bank loans, in which the Company is a borrower or guarantor, the Company must ensure that certain financial ratios are met, such as (a) the ratio of Net Financial Debt to Net Capitalization of the Company, no more than 0.5; and (b) the ratio of Net Financial Debt to EBITDA, not more than 4.0. The Company reports on financial ratios on a semi-annual basis. Failure to comply with financial ratios gives lenders the right to demand early repayment of loans. As of December 31, 2020, the Company complies with all financial ratios.

14. FINANCIAL GUARANTEE OBLIGATIONS

	December 31,	
In thousands of Tenge	**2020**	2019
Guarantees provided for Shareholder *(Note 23)*	**8,700,500**	10,290,619
	8,700,500	10,290,619

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. FINANCIAL GUARANTEE OBLIGATIONS (continued)

Movements in financial obligations comprised the following:

In thousands of Tenge	2020	2019
As at January 1	**10,290,619**	14,501,632
Reversal of expected credit losses	**–**	(2,565,349)
Amortization of obligations on guarantees issued, net	**(1,590,119)**	(1,645,664)
At December 31	**8,700,500**	10,290,619
Current portion	**–**	1,441,787
Non-current portion	**8,700,500**	8,848,832

Guarantees provided for Shareholder

In accordance with the agreement dated September 26, 2017, the Company issued a guarantee with respect to Eurobonds issued by Shareholder on the Irish Stock Exchange. The amount of the guarantee is 750,000,000 US Dollars. The guarantee is initially recognized at fair value of 12,921,997 thousand Tenge within statement of changes in equity as Other transactions with the Shareholder. The guarantee is issued for 10 years until 2027.

In accordance with the agreement dated February 16, 2018, the Company issued a guarantee for the syndicated loan of Shareholder to ING Bank of 200,000,000 US Dollars. The guarantee was initially recognized at fair value in the amount of 867,013 thousand Tenge within statement of changes in equity within Other transactions with Shareholder. In 2020, the loan was fully repaid, which resulted in the derecognition of the guarantee.

15. GAS PIPELINE ABANDONMENT AND SITE RESTORATION PROVISION

Movements in the gas pipeline abandonment and site restoration provision for the year ended December 31, 2020 and 2019 were as follows:

	December 31,	
In thousands of Tenge	2020	2019
At January 1	**69,851,763**	57,173,225
Change in estimates *(Note 4)*	**285,505**	7,215,909
Unwinding of discount *(Note 21)*	**5,678,912**	5,462,629
At December 31	**75,816,180**	69,851,763

As at December 31, 2020 the long-term inflation and discount rates used to determine the provision were 5.52% and 7.15%, respectively (as at December 31, 2019: 5.49% and 8.44% respectively).

When installing main gas pipelines, the Company fully created a reserve for future costs of decommissioning these gas pipelines. The provision for pipeline abandonment and site restoration of 75,816,180 thousand Tenge represents the present value of the pipeline abandonment and site restoration costs related to property, plant and equipment, which are expected to be incurred in the period from 2031 to 2084.

16. TRADE AND OTHER PAYABLES

	December 31,	
In thousands of Tenge	2020	2019
Payables for purchased gas		
Payables to related parties *(Note 23)*	**1,687,873**	1,168,559
	1,687,873	1,168,559
Payables for assets and services received		
Payables to third parties	**8,633,952**	6,565,731
Payables to related parties *(Note 23)*	**2,058,249**	1,751,861
	10,692,201	8,317,592
	12,380,074	9,486,151

Payables are non-interest bearing and normally settled on 30 (thirty) day terms.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. TRADE AND OTHER PAYABLES (continued)

As at December 31, 2020 and 2019 the trade payables are denominated in the following currencies:

In thousands of Tenge	December 31, 2020	2019
Trade payables in Tenge	**11,992,514**	8,680,574
Trade payables in US Dollars	**322,703**	793,476
Trade payables in Euro	**14,569**	12,094
Trade payables in Roubles	**50,288**	7
	12,380,074	9,486,151

17. OTHER CURRENT LIABILITIES

In thousands of Tenge	December 31, 2020	2019
Provision for annual bonuses	**4,596,000**	2,890,815
Pension contributions payable	**468,954**	673,034
Other	**327,181**	347,837
	5,392,135	3,911,686

18. REVENUE FROM CONTRACTS WITH CUSTOMERS

In thousands of Tenge	For the year ended December 31, 2020	2019
Transportation services		
Transportation of gas for export	**83,204,436**	100,348,241
Transportation of gas within Kazakhstan	**32,798,448**	28,442,281
Transportation of Central Asian gas (transit)	**30,455,619**	55,475,878
Transportation of Russian gas (transit)	**14,045,317**	19,104,350
	160,503,820	203,370,750
Storage and maintenance services		
Revenue from technical maintenance of gas pipelines	**27,402,026**	26,351,677
Storage of gas	**5,256,979**	6,819,199
	193,162,825	236,541,626

Transportation of gas for export

In 2020, the volume of gas transported for export was 12,687 million cubic meters (2019: 18,823 million cubic meters). In 2020, decrease in revenue is mostly due to fall in volume of gas transported by KazTransGas to PetroChina. The main reason was the COVID-19 pandemic. The Company recognizes revenue from gas export transportation services over time.

Transportation of Central Asian and Russian gas (transit)

In 2020, 23.98% of total revenues were attributable to GazProm Group (2019: 33.02%). The Company recognizes revenue from transportation services for Central Asian and Russian gas over time.

Revenue from technical maintenance of gas pipelines

In 2020, the Company recognized revenues from maintenance of gas pipelines from Beineu-Shymkent Gas Pipeline LLP for services to support the operation of the Beineu-Bozoy-Shymkent gas pipeline using compressor stations Turkestan, Korkyt-ata and Aral for a total amount of 13,391,495 thousand Tenge (2019: 10,299,574 thousand Tenge).

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. COST OF SALES

In thousands of Tenge	For the year ended December 31, 2020	2019
Salaries and social contributions	**37,991,356**	33,620,856
Depreciation and amortization	**25,547,721**	24,737,570
Transportation expenses	**13,522,301**	12,407,953
Fuel gas and gas losses	**9,826,572**	11,042,190
Taxes other than income tax	**5,956,840**	5,812,502
Expense relating to short-term leases	**3,736,396**	76,557
Security expenses	**2,899,217**	2,593,621
Repair and maintenance	**2,367,003**	2,723,895
Third party services	**1,994,421**	1,492,881
Electricity	**1,328,085**	1,477,675
Communication expenses	**998,987**	958,321
Diagnostical expenses	**740,424**	714,712
Insurance	**686,981**	556,605
Business trip expenses	**667,018**	861,768
Materials and supplies	**633,882**	1,398,968
Air service expenses	**90,047**	276,856
Reversal of impairment of non-current assets	**(198,735)**	(260,773)
Other	**606,923**	582,185
Total	**109,395,439**	101,074,342

20. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of Tenge	For the year ended December 31, 2020	2019
Salaries and social contributions	**4,991,095**	5,035,859
Depreciation and amortization	**1,532,719**	1,319,128
Repair and maintenance	**847,126**	512,152
Medical insurance	**603,800**	566,064
Payments to labour union	**344,879**	317,819
Utilities	**341,390**	318,160
Expense relating to short-term leases and leases of low-value assets	**335,085**	259,680
Professional services	**301,717**	310,109
Third party services	**237,790**	248,530
Write-down/(reversal) of inventory to net realisable value	**224,650**	(309,894)
Education of students	**117,322**	173,546
Communication	**109,420**	112,252
Holidays and sports activities	**107,612**	198,877
Security expenses	**78,379**	77,779
Taxes other than income tax	**62,666**	87,733
Stationery and printing expenses	**58,452**	100,591
Business and representation expenses	**32,486**	140,305
Professional education expenses	**22,583**	59,527
Fines and penalties	**4,801**	11,373
Allowance for non-recoverable VAT	**–**	7,061
Other	**177,670**	361,305
	10,531,642	9,907,956

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. FINANCE COSTS

In thousands of Tenge	For the year ended December 31, 2020	2019
Amortization of discount on gas pipeline abandonment and site restoration provision *(Note 15)*	**5,678,912**	5,462,629
Interest expenses on bank loans	**2,428,376**	2,678,293
Amortization of discount on employee benefit obligations	**120,591**	160,848
Interest expense on lease liabilities	**23,444**	86,006
Amortization of discount on financial obligations	**22,100**	–
Other	**84,646**	101,277
	8,358,069	8,489,053

22. INCOME TAX EXPENSES

The Company is subject to corporate income tax at the prevailing statutory rate of 20%.

In thousands of Tenge	For the year ended December 31, 2020	2019
Current income tax expense	**7,481,295**	21,860,345
Adjustment of prior year income tax	**134,252**	150,752
Deferred income tax expense	**8,415,447**	5,014,550
	16,030,994	27,025,647

A reconciliation of income tax expense applicable to profit before income tax at the statutory income tax rate to income tax expenses recognized in the financial statements is as follows for the years ended December 31, 2020:

In thousands of Tenge	For the year ended December 31, 2020	2019
Profit before income tax	**72,700,269**	121,207,883
Statutory tax rate	**20%**	20%
At the statutory income tax rate	**14,540,054**	24,241,577
Adjustment of prior years' income tax	**134,252**	150,752
Tax effect of permanent differences		
Unwinding of discount on gas pipeline abandonment and site restoration provision	**1,135,783**	1,092,526
VAT expense Trust management agreement	**–**	916,707
Allowance for non-recoverable VAT	**–**	1,412
Amortization of financial guarantee obligation	**(318,024)**	(329,133)
Other non-taxable expenses	**538,929**	951,806
	16,030,994	27,025,647
Effective tax rate	**22%**	22%

22. INCOME TAX EXPENSES (continued)

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

In thousands of Tenge	December 31, 2020	Charged to profit and loss	Charged to other comprehensive income	December 31, 2019	Charged to profit and loss	Charged to other comprehensive income	January 1, 2019
Deferred tax assets							
Accrued vacations and other liabilities	1,165,178	365,855	–	799,323	226,458	–	572,865
Inventories	304,234	(95,231)	–	399,465	(66,757)	–	466,222
Allowance for trade and other receivables, advances paid and taxes receivable	75,160	(8,842)	–	84,002	(101,868)	–	185,870
Provision for gas reservoir losses	–	(13,436)	–	13,436	(29,362)	–	42,798
Tax loss on Trust Management Agreement	–	–	–	–	(3,937,524)	–	3,937,524
Other	163,974	125,460	(7,824)	46,338	(612,967)	(112,091)	771,396
	1,708,546	373,806	(7,824)	1,342,564	(4,522,020)	(112,091)	5,976,675
Deferred tax liabilities							
Property, plant and equipment	(59,714,015)	(8,789,253)	–	(50,924,762)	(492,530)	–	(50,432,232)
	(59,714,015)	(8,789,253)	–	(50,924,762)	(492,530)	–	(50,432,232)
Net deferred income tax liabilities	(58,005,469)	(8,415,447)	(7,824)	(49,582,198)	(5,014,550)	(112,091)	(44,455,557)

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

As at December 31, 2020 the Company had corporate income tax prepaid of 20,245,266 thousand Tenge (as at December 31, 2019: 1,690,813 thousand Tenge).

23. RELATED PARTY TRANSACTIONS

Related parties include key management personnel of the Company, companies included in KazTransGas Group, KazMunayGas Group and Samruk Kazyna Group.

Terms and conditions of transactions with related parties

Related party transactions were made on terms agreed to between the parties that may not necessarily be at market rates, except for gas transportation services which are provided based on the tariffs available to related and third parties. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash, except as discussed below.

For the year ended December 31, 2020, the Company had no allowance for receivables relating to amounts owed by related parties (December 31, 2019: nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

23. RELATED PARTY TRANSACTIONS (continued)

Terms and conditions of transactions with related parties (continued)

The major transactions with related parties for the years ended December 31, 2020 and 2019 were as follows:

In thousands of Tenge	For the year ended December 31, 2020	2019
Revenue		
Gas transportation services		
KazTransGas and companies under its control	**81,579,194**	77,867,514
Companies under joint control of KazMunayGas	**31,340,202**	51,940,874
Companies under control of KazMunayGas	**–**	805
	112,919,396	129,809,193
Gas storage		
KazTransGas and companies under its control	**5,256,979**	6,819,199
	5,256,979	6,819,199
Technical maintenance of gas pipelines		
Companies under joint control of KazTransGas	**15,191,720**	14,696,726
KazTransGas and companies under its control	**10,305,365**	9,970,529
Companies under control of Samruk-Kazyna	**13,393**	7,548
Companies under joint control of Samruk-Kazyna	**1,191**	–
Companies under control of KazMunayGas	**1,187**	1,187
	25,512,856	24,675,990
	143,689,231	161,304,382
Finance income		
KazTransGas and companies under its control	**1,590,119**	1,645,664
	1,590,119	1,645,664
Other income from related parties		
Companies under joint control of KazTransGas	**4,106**	4,113,807
Companies under control of KazMunayGas	**136**	47,699
KazTransGas and companies under its control	**37,182**	26,729
Companies under joint control of KazMunayGas	**499,838**	11,920
Companies under control of Samruk-Kazyna	**17,101**	2,823
	558,363	4,202,978
	2,148,482	5,848,642

In thousands of Tenge	For the year ended December 31, 2020	2019
Purchases of natural gas		
KazTransGas and companies under its control	**9,732,871**	10,819,636
	9,732,871	10,819,636
Other goods and services from related parties		
KazTransGas and companies under its control	**11,327,769**	10,499,389
Companies under control of Samruk-Kazyna	**2,300,708**	2,276,167
Companies under control of KazMunayGas	**612,121**	1,348,534
Companies under joint control of KazMunayGas	**82,146**	82,146
	14,322,744	14,206,236
Short-term rent expenses		
Companies under joint control of Samruk-Kazyna	**3,657,120**	–
	3,657,120	–
VAT expenses under Trust Management Agreement		
Companies under joint control of Samruk-Kazyna	**–**	4,583,536
	–	4,583,536

23. RELATED PARTY TRANSACTIONS (continued)

Terms and conditions of transactions with related parties (continued)

In thousands of Tenge	December 31, 2019	2018
Trade and other receivables		
KazTransGas and companies under its control	**32,065,200**	39,546,648
Companies under joint control of KazTransGas	**5,247,280**	15,347,091
Companies under joint control of KazMunayGas	**10,713**	5,071,242
Companies under control of Samruk-Kazyna	**2,073**	2,729
Companies under control of KazMunayGas	**–**	300
	37,325,266	59,968,010
Advances paid		
Companies under control of KazMunayGas	**–**	2,310,546
Companies under control of Samruk-Kazyna	**6,290**	4,399
	6,290	2,314,945
Other long-term receivable		
KazTransGas and companies under its control	**2,445,348**	–
	2,445,348	–
Accounts payable for purchased gas		
KazTransGas and companies under its control	**1,687,873**	1,168,559
	1,687,873	1,168,559
Accounts payable for received assets and services		
KazTransGas and companies under its control	**1,144,337**	1,295,810
Companies under control of Samruk-Kazyna	**675,714**	422,120
Companies under control of KazMunayGas	**238,198**	33,931
	2,058,249	1,751,861
Financial guarantee obligation		
KazTransGas and companies under its control	**8,700,500**	10,290,619
	8,700,500	10,290,619
Contract liabilities		
Companies under joint control of Samruk-Kazyna	**1,101,038**	–
	1,101,038	–

Lease liabilities

On December 25, 2020, the Company modified its existing lease agreement for the Saryarka MG with AstanaGas KMG JSC, previously accounted for as a short-term lease. AstanaGas KMG JSC is an entity under the joint control of Samruk-Kazyna. As a result of the modification, the lease term was extended to December 31, 2021. As of the date of modification, the Company estimated the incremental borrowing rate at 11% per annum. As at 31 December 2020, the present value of the lease liability and right-of-use assets is 32,498,293 thousand Tenge.

Dividends paid to the Shareholder

During 2020 the Company paid dividends to the KazTrasnGaz JSC in the total amount of 85,370,847 thousand Tenge (2019: 16,256,158 thousand Tenge) and to NC KazMunayGas JSC in amount of 3,111 thousand Tenge for preferred shares (2019: 4,544 thousand Tenge).

Compensation to key management personnel

Key management personnel are members of the Management Board and independent directors of the Company, with a total of 7 people as at December 31, 2020 (December 31, 2019: 7 people). Key management personnel compensation included in administrative expenses in the interim statement of comprehensive income is 106,161 thousand Tenge for 2020 (December 31, 2019: 102,968 thousand Tenge). The amount of remuneration to key management personnel paid from the reserve created in the year of the previous payment year is 257,957 thousand Tenge for 2020 (December 31, 2019: 251,666 thousand Tenge).

Compensation to the key management personnel comprised of salary and other payments in accordance with internal regulations of the Company.

24. SEGMENT REPORTING

The Company's business operations are located in the Republic of Kazakhstan and relate primarily to transportation, storage of natural gas and provision of technical maintenance services on gas pipelines. Although the Company operates mainline gas transportation network in different regions within the Republic of Kazakhstan, the Company's chief operating decision maker reviews the Company's operations and allocates resources on the level of the Company. Therefore, the Company considers that it only has one reportable segment under IFRS 8. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the financial statements prepared in accordance with IFRS.

During 2020, the Company generated 45% of its revenue from KazTransGas JSC, 20% from the Gazprom Group and 13% from Tengizchevroil LLP (for the 12 months ended December 31, 2019: 35.80% of KazTransGas JSC, 28.39% of Gazprom Group and 15.15% of Tengizchevroil LLP).

25. COMMITMENTS AND CONTINGENT LIABILITITES

Environmental matters

The Company is subject to various environmental laws and regulations. Management believes that the Company has met Government requirements concerning environmental matters.

Operating environment

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.

Taxation

Kazakhstan's tax, currency and customs legislation and regulations are subject to ongoing changes and varying interpretations. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities. Recent events within Kazakhstan suggest that the tax authorities are taking a more assertive position in interpretation of the legislation and check of tax calculation. As consequence, tax bodies can make a complaint on those deals and methods of the account on which earlier they did not show claims. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for 5 (five) calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Transfer pricing control

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

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

Due to uncertainties associated with the Kazakhstani law on transfer pricing there is a risk that the tax authorities may take a position on this issue different from that of the Company, which may result in assessment of additional taxes, fines and penalties as of December 31, 2020. As of December 31, 2020, management believes that its interpretation of the transfer pricing legislation is appropriate and that it is probable that the Company's positions with regard to transfer pricing will be sustained.

Legal actions and claim

In the ordinary course of business, the Company is subject to legal actions and claims. Management believes that the ultimate liability, if any, arising from such actions or claims will not have a material adverse effect on the financial position and financial results of future operations of the Company.

26. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial liabilities comprise loans, financial guarantee liabilities, trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations and to provide guarantees to support its operations. The Company has trade and other receivables, cash and short-term bank deposits, restricted cash, that arise directly from its operations.

The Company is exposed to market risk, credit risk and liquidity risk.

The Company's management oversees the management of these risks. The Company's management is supported by department of internal controls and risk management that advises on financial risks and the appropriate financial risk governance framework for the Company. The department of internal controls and risk management provides assurance to the Company's management that the Company's financial risk-taking activities are governed by appropriate policies and procedures.

Market risk

The market rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices include two types of risks: interest rate risk and currency risk. Financial instruments affected by market risk include loans received, debt securitites and deposits.

The sensitivity analysis in the sections below relates to positions as at December 31, 2020 and 2019.

The sensitivity analysis has been prepared on the basis of the assumption that the amount of net debt, the ratio of fixed to floating interest rates of the debt and the proportion of financial instruments in foreign currencies are all constant.

Currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As a result of significant borrowings, and accounts payable denominated in US Dollars, the Company's statement of financial position can be affected significantly by movement in the US Dollar/Tenge exchange rates. The Company also has transactional currency exposures. Such exposure arises from revenue in US Dollars. Approximately 23.04% of the Company's revenue for 2020 is denominated in US dollars, while 2.44% of purchases are denominated in US dollars.

The following table demonstrates the sensitivity of the Company's profit before income tax to reasonably possible changes in the US Dollar exchange rate, with all other variables held constant. There is no impact on the Company's equity.

In thousands of Tenge	Increase/ (decrease) in US Dollar rate	Effect on profit before income tax
2020	**+14%**	**3,404,265**
	(11%)	**(2,674,780)**
2019	+12%	5,618,551
	(9%)	(4,213,913)

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Company's exposure to risk of changes in market and interest rates related primarily to the Company's long-term borrowing with floating interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in three months CPI, with all other variables held constant, of the Company's profit before income tax.

In thousands of Tenge	Increase/ (decrease) of 3m CPI	Effect on profit before income tax
2020	**0.25%**	**434,442**
	(0.25%)	**(434,442)**
2019	0.25%	483,601
	(0.25%)	(483,601)

26. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

Credit risk is the risk that one party with financial instrument will not be able to fulfil an obligation and cause the other party to incur a financial loss. The Company is exposed to a credit risk from its operating activities and certain types of investing activities. With regard to investing activities, the Company places deposits with Kazakhstani banks *(Notes 10 and 11)*.

The Company's management reviews credit ratings of these banks periodically to eliminate extraordinary credit risk exposure. The Company's management believes that the recent international credit crisis and subsequent changes in the credit ratings of local banks is not an excuse for extreme credit risk. The management of the Company believes no impairment provision against bank deposits is required.

The table below shows the balances of bank deposits at the reporting date using Standard & Poor's credit rating symbols.

In thousands of Tenge	Location	Agency	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Halyk Bank of Kazakhstan JSC	Kazakhstan	Standard & Poor's	**BB/stable**	BB/stable	**2,038,594**	2,212,354

The table below shows the balances of current cash accounts in banks at the reporting date using Standard & Poor's and Fitch's credit rating symbols.

In thousands of Tenge	Location	Agency	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Halyk Bank of Kazakhstan JSC	Kazakhstan	Standard & Poor's	**BB/stable**	BB/stable	**44,295,274**	8,141,745
Citibank Kazakhstan JSC	Kazakhstan	Standard & Poor's	**A+/stable**	A+/stable	**13,304,948**	39,295,991
ForteBank JSC	Kazakhstan	Standard & Poor's	**B+/stable**	B/stable	**320**	7,920
					57,600,542	47,445,656

The management believes that, with the current level of operations the Company has established appropriate procedures on credit control and monitoring of customers, which enables the Company to carry out trade transactions with recognised, creditworthy third parties.

The Company monitors the outstanding receivables on an ongoing basis with the result that the Company's exposure to bad debts is not significant. Credit risks are taken through individual impairments. Concentration of credit risks mainly relates to the key accounts, in particular, to international customers.

With respect to credit risk arising from other financial assets of the Company, which comprise cash and cash equivalents, short-term bank deposits and trade and other receivables, and provided financial guarantees the Company's exposure to credit risk arises from default of the counterparty.

The maximum credit risk exposure for the financial assets is the carrying amount as disclosed in *Note 8*.

For financial guarantees issued the maximum credit risk exposure equals the nominal value of the guaranteed loan agreement as disclosed in *Note 14*.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with its financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

26. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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

In thousands of Tenge	On demand	From one to three months	From three months to one year	From one to five years	More than five years	Total
As at December 31, 2020						
Trade and other payables	–	12,380,074	–	–	–	12,380,074
Bank loans	–	3,126,853	9,183,688	42,377,548	4,387,825	59,075,914
Financial guarantee obligations	–	6,503,375	6,503,375	52,027,000	323,310,651	388,344,401
Other non-current financial liabilities	–	–	454,272	467,900	–	922,172
Other financial liabilities	322,137	1,009,705	34,737,076	–	–	36,068,918
	322,137	23,020,007	50,878,411	94,872,448	327,698,476	496,791,479
As at December 31, 2019						
Trade and other payables	–	9,486,151	–	–	–	9,486,151
Bank loans	–	4,470,860	13,163,823	44,486,171	2,683,948	64,804,802
Financial guarantee obligations	–	6,912,098	8,168,751	127,747,925	324,603,702	467,432,476
Other financial liabilities	255,322	42,929	1,981,666	–	–	2,279,917
	255,322	20,912,038	23,314,240	172,234,096	327,287,650	544,003,346

Capital management

Capital includes preferred shares and equity attributable to the equity holders of the shareholder.

The primary objective of the company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders value.

The Company manages its capital to ensure that the company will be able to continue as a going concern while maximising the return to stakeholders through optimisation of the debt and equity structure. Compared to 2019, the overall strategy of the Company has remained unchanged.

The capital structure of the company consists of bank loans disclosed in *Note 13* and equity, comprising issued share capital, additional paid-in capital and retained earnings as disclosed in *Note 12.*

The company's management reviews the capital structure on a semi-annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Company has a target debt-to-equity ratio of no more than 1.5.

The debt-to-equity ratio at the yearend was as follows:

In thousands of Tenge	**December 31, 2020**	December 31, 2019
Bank loans	**46,316,931**	53,624,925
Total debt	**46,316,931**	53,624,925
Equity	**673,698,420**	702,371,811
Debt-to-equity ratio	**0.07**	0.08

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value of financial instruments

Set out below is a comparison, by class, of the carrying amounts and fair values of the Company's financial instruments, excluding the carrying amount, which is a reasonable approximation of fair value:

	Carrying amount		Fair values	
In thousands of Tenge	**December 31, 2020**	December 31, 2019	**December 31, 2020**	December 31, 2019
Financial liabilities				
Bank loans *(Level 2)*	**46,316,931**	53,624,925	**46,902,581**	53,747,391

Estimates and assumptions

The fair value of the financial assets and liabilities is the amount at which the asset could be sold or the liability transferred in a current transaction between market participants, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair value of unquoted instruments, loans from banks and other financial liabilities, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Fair value hierarchy

Fair value of long-term loans received as at December 31, 2020 and December 31, 2019 was assessed using significant observable inputs (Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable).

Changes in liabilities arising from financing activities

Below is the movement of liabilities arising from financing activities of the Company for the years ended December 31:

In thousands of Tenge	January 1, 2020	**Cash inflow**	**Cash outflow**	**Interest paid**	**Foreign exchange gains**	**Others**	**December 31, 2020**
Financial liabilities							
Bank loans	53,624,925	**4,314,938**	**(11,079,997)**	**(5,332,484)**	**–**	**4,789,549**	**46,316,931**
Lease liabilities *(Note 3)*	–	**–**	**(914,376)**	**–**	**–**	**35,130,596**	**34,216,220**
Total liabilities arising from financial activities	53,624,925	**4,314,938**	**(11,994,373)**	**(5,332,484)**	**–**	**39,920,145**	**80,533,151**

In thousands of Tenge	January 1, 2019	Cash inflow	Cash outflow	Interest paid	Foreign exchange gains	Others	December 31, 2019
Financial liabilities							
Bank loans	58,723,339	22,373,785	(27,309,740)	(5,258,182)	(24,327)	5,120,050	53,624,925
Lease liabilities *(Note 3)*	802,036	–	(802,036)	–	–	–	–
Total liabilities arising from financial activities	59,525,375	22,373,785	(28,111,776)	(5,258,182)	(24,327)	5,120,050	53,624,925

The "Others" column represents accrual of interest and amortization of costs associated with the organization of loans, including lease liabilities. The Company classifies interest paid as cash flows from operating activities.

27. SUBSEQUENT EVENTS

No significant subsequent events occurred after the reporting date.