KazTransGas JSC

Separate financial statements

For the year ended 31 December 2019,
with independent auditor's report

CONTENTS

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Independent auditor's report

To the Shareholder, Board of Directors and Management of KazTransGas JSC

Opinion

We have audited the separate financial statements of KazTransGas JSC (the Company), which comprise the separate statement of financial position as at 31 December 2019, and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Company as at 31 December 2019 and its separate financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the separate 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 (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the 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 separate financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate 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 separate financial statements.

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Key audit matter	How our audit addressed the key audit matter
VAT recoverable	
As at 31 December 2019, the Group has a significant balance of VAT recoverable of 136 billion tenge, which mainly originated from loss-making sales of gas on the domestic market. The assessment of recoverability of this asset requires significant judgment and assumptions regarding the future increase in the regulated domestic gas sales prices that will enable the Group to generate profits on domestic sales of gas resulting in VAT payable to be offset against VAT recoverable. Therefore, this matter was one of the matters of most significance in our audit. Information associated with the VAT recoverable balance is disclosed in *Note 10* to the separate financial statements.	We obtained understanding of the provisions of the Tax code regarding limitations of the period for offsetting VAT recoverable. We analyzed management's plans with respect to measures to be undertaken to increase tariffs for domestic gas sales that will result in positive margin on the domestic gas sales. We considered the Company's correspondence with the Ministry of National Economy regarding the revision to the gas sales price determination methodology to enable positive margin on the domestic sales of gas. We evaluated the consistency of management's plans with the Group Development Strategy of the Parent.

Other information included in the Company's 2019 Annual Report

Other information consists of the information included in the Company's 2019 Annual Report other than the separate financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2019 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the separate 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 separate 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 separate 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 separate financial statements

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

In preparing the separate 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 separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 separate 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 separate financial statements, including the disclosures, and whether the separate 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.

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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, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the separate 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

Aigerim Nurkenova
Auditor

Qualified audit license No. МФ-0000115 dated 21 September 2012

Gulmira Turmagambetova
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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19 February 2020

SEPARATE STATEMENT OF FINANCIAL POSITION

In thousands of tenge	Notes	As at 31 December 2019	2018
Assets			
Non-current assets			
Property, plant and equipment	4	**4,497,425**	1,428,127
Right-of-use assets		**626,784**	–
Exploration and evaluation assets		**2,160,762**	2,066,562
Investment property	5	**5,844,600**	–
Intangible assets		**1,424,670**	1,523,937
Investments in subsidiaries	6	**422,917,525**	343,036,807
Investments in joint ventures	7	**88,832,799**	77,671,090
Advances paid for non-current assets	8	**1,735,065**	94,211
Loans to related party	9	**153,713,982**	154,926,469
VAT recoverable	10	**112,837,190**	92,477,524
Non-current financial assets	11	**10,971,512**	12,507,275
Deferred tax assets	28	**852,586**	–
Bank deposits		**1,181,051**	1,206,154
		807,595,951	686,938,156
Current assets			
Inventories	13	**49,702,362**	56,599,682
Trade and other receivables	14	**192,366,939**	105,139,306
Prepaid taxes other than income tax	10	**10,029,090**	21,731
Corporate income tax prepaid		**10,686,516**	7,918,843
Loans to related party	9	**48,954,842**	71,392,215
Advances paid	8	**19,373,855**	1,856,939
Other current financial assets	11	**225,788**	225,788
Other current assets		**39,949**	42,549
Bank deposits		**5,502**	10,920
Cash and cash equivalents	12	**7,365,995**	101,104,042
		338,750,838	344,312,015
Total assets		**1,146,346,789**	1,031,250,171

The accounting policies and explanatory notes on pages 6 to 39 are an integral part of these separate financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION (continued)

In thousands of tenge	Notes	As at 31 December 2019	2018
Equity and liabilities			
Equity			
Share capital	15	**192,623,055**	192,623,055
Additional paid-in capital	15	**23,470,656**	22,130,836
Retained earnings		**241,285,322**	194,880,199
		457,379,033	409,634,090
Non-current liabilities			
Debt securities issued	16	**286,174,109**	287,280,070
Interest bearing loans	17	**76,150,474**	76,234,545
Loans from related party	18	**10,549,245**	9,905,541
Financial guarantee obligations	19	**9,442,402**	4,902,896
Deferred tax liabilities	28	**–**	5,954,278
Other non-current financial liabilities		**1,629,513**	–
		383,945,743	384,277,330
Current liabilities			
Debt securities issued	16	**3,312,791**	3,326,732
Interest bearing loans	17	**291,549**	390,676
Loans from related party	18	**183,047**	26,198,509
Financial guarantee obligations	19	**5,464,064**	2,772,224
Provisions	15	**–**	5,700,000
Trade payables	20	**286,690,144**	190,071,890
Taxes payable other than income tax		**280,464**	1,753,715
Contract liabilities		**3,796**	44,040
Other current financial liabilities		**1,610,310**	73,507
Other current liabilities	21	**7,185,848**	7,007,458
		305,022,013	237,338,751
Total liabilities		**688,967,756**	621,616,081
Total equity and liabilities		**1,146,346,789**	1,031,250,171

Deputy of General Director on economics and finance _________ *Zhanuzak T.Zh.*

Chief Accountant _________ *Meldekhanov B.N.*

The accounting policies and explanatory notes on pages 6 to 39 are an integral part of these separate financial statements.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

In thousands of tenge	Notes	For the year ended 31 December 2019	2018
Revenue	22	**919,924,230**	769,078,598
Cost of sales	23	**(502,150,868)**	(358,663,361)
Gross profit		**417,773,362**	410,415,237
General and administrative expenses	24	**(23,154,890)**	(9,442,860)
Selling expenses	25	**(358,222,438)**	(303,549,102)
Reversal of allowance for expected credit losses		**–**	1,142,139
Other operating income		**184,584**	15,213
Other operating expenses	11	**(4,913)**	–
Operating profit		**36,580,705**	98,580,627
Gain on sale of interest ownership	1	**–**	15,109,842
Dividend income	26	**28,531,240**	40,235,397
Finance income	27	**17,910,874**	15,857,799
Finance costs	27	**(22,202,028)**	(19,584,903)
Foreign exchange loss, net		**(2,973,790)**	(11,463,193)
Loss on impairment of investment in subsidiaries	6	**(2.064.438)**	(5,333,267)
Profit before income tax		**55,782,563**	133,402,302
Income tax expenses	28	**(9,377,440)**	(25,226,420)
Net profit for the year		**46,405,123**	108,175,882
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year, net of income tax		**46,405,123**	108,175,882
Earnings per share			
Basic and diluted, earnings per share for the year attributable to the parent company	15	**0.13**	0.31

Deputy of General Director on economics and finance _______ *Zhamuzak T.Zh.*

Chief Accountant _______ *Meldekhanov B.N.*

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SEPARATE STATEMENT OF CASH FLOWS

In thousands of tenge	Notes	For the year ended 31 December 2019	2018
Cash flows from operating activities			
Receipts from customers		**859,978,578**	824,277,209
Taxes refund from budget		**20,668,920**	–
Cash receipts from management fee		–	14,180,776
Interest received		**8,332,506**	6,400,310
Other receipts		**187,745**	185,567
Payments to suppliers		**(864,104,521)**	(730,723,601)
Income tax paid		**(21,200,000)**	(16,862,000)
Other taxes and payments to budget and fund		**(11,500,867)**	(11,684,880)
Interest paid	31	**(19,304,041)**	(14,730,295)
Payments to employees		**(2,178,601)**	(2,170,892)
Other payments		**(1,031,085)**	(3,288,053)
Net cash flows (used in) / received from operating activities		**(30,151,366)**	65,584,141
Cash flows from investing activities			
Proceeds from sale of interest ownership	1	–	14,473,042
Proceeds from property, plant and equipment, intangible assets, and exploration and evaluation assets		**1,432,000**	–
Proceeds from non-current financial assets	11	**194,848**	3,869,038
Withdrawal of bank deposits		**751,546**	255,846
Dividends received	26	**28,531,240**	45,410,196
Loans repaid by related party	9	**25,500,000**	62,294,978
Withdrawal of subsidiaries' share capital	6	**4,000,000**	–
Proceeds from sale of investment securities	31	–	11,910,001
Purchase of non-current financial assets	11	**(3,391,870)**	–
Placement of bank deposits		**(565,040)**	(255,395)
Purchase of property, plant and equipment, intangible assets, and exploration and evaluation assets		**(4,527,016)**	(1,642,780)
Loans provided to related party	9	–	(57,032,435)
Investments in subsidiaries	6	**(82,399,719)**	(89,023,737)
Acquisition of investment securities	31	–	(11,910,001)
Net cash flows used in investing activities		**(30,474,011)**	(21,651,247)
Cash flows from financing activities			
Proceeds on interest bearing loans and debt securities issued	16, 17	–	65,832,000
Payments on lease obligations		**(562,620)**	–
Repayments of loans from related party	18	**(25,321,800)**	(18,524,500)
Other payments on operations with the Shareholder		**(5,700,000)**	–
Loan arrangement fee		–	(694,512)
Net cash flows (used in) / received from financing activities		**(31,584,420)**	46,612,988
Net foreign exchange difference on cash and cash equivalents		**(1,528,250)**	7,653,500
Net change in cash and cash equivalents		**(93,738,047)**	98,199,382
Cash and cash equivalents, at the beginning of the year	12	**101,104,042**	2,904,660
Cash and cash equivalents, at the ending of the year	12	**7,365,995**	101,104,042

Deputy of General Director on economics and finance Zhamzak T.Zh.

Chief Accountant Meldekhanov B.N.

The accounting policies and explanatory notes on pages 6 to 39 are an integral part of these separate financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY

In thousands of tenge	Share capital	Additional paid-in capital	Retained earnings	Total
At 31 December 2019	192,623,055	20,338,142	114,083,051	327,044,248
Effect of adoption of IFRS 9	–	–	(21,678,734)	(21,678,734)
At 1 January 2018	192,623,055	20,338,142	92,404,317	305,365,514
Net profit for the year	–	–	108,175,882	108,175,882
Total comprehensive income for the year	–	–	108,175,882	108,175,882
Contribution by the Shareholder *(Note 15)*	–	1,792,694	–	1,792,694
Other transactions with the Shareholder *(Note 15)*	–	–	(5,700,000)	(5,700,000)
At 31 December 2018	192,623,055	22,130,836	194,880,199	409,634,090
Net profit for the year	**–**	**–**	**46,405,123**	**46,405,123**
Total comprehensive income for the year	**–**	**–**	**46,405,123**	**46,405,123**
Contribution by the Shareholder *(Note 15)*	**–**	**1,339,820**	**–**	**1,339,820**
At 31 December 2019	**192,623,055**	**23,470,656**	**241,285,322**	**457,379,033**

Deputy of General Director on economics and finance — *Zhanuzak T.Zh.*

Chief Accountant — *Meldekhanov B.N.*

The accounting policies and explanatory notes on pages 6 to 39 are an integral part of these separate financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. CORPORATE INFORMATION

KazTransGas JSC (the Company or KTG) is a joint stock company established in accordance with the Resolution of the Government of the Republic of Kazakhstan (the "Government") No. 173 dated 5 February 2000 and registered as a closed joint stock company on 13 March 2000. On 9 June 2004 the Company was re-registered as a joint stock company under the laws of the Republic of Kazakhstan. The Company's head office is registered in the Republic of Kazakhstan, Nur-Sultan, Yesil district, Alikhan Bokeykhan avenue, 12.

NC KazMunayGas JSC (KazMunayGas) is the sole shareholder of KTG. The Government as 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 29)*.

In accordance with the Resolution of the Government of the RK No. 914 dated 5 July 2012, KTG was appointed as the national operator in the area of gas and gas supply. In its role of the national operator, the Company's main activities are aimed to ensure reliable supply of commercial gas to meet the domestic demand in Kazakhstan.

The main activities of the Company also include the following:

- Managing of investment activities for the overall development of the main gas pipeline systems within Kazakhstan;
- Managing of investment activities for gas fields development within Kazakhstan;
- Providing consultancy services in research and development for gas industry;
- Sale of gas to the external and local markets;
- Participation in the development and implementation of state programs for the gas industry development.

The Company had ownership interests in the following entities as at 31 December 2019 and 2018:

Name	Place of incorporation	Principal activities	Ownership 2019	Ownership 2018
Intergas Central Asia JSC (ICA)	Kazakhstan	Transportation and storage of gas and rendering technical services for gas pipelines in Kazakhstan	100%	100%
KazTransGas Aimak JSC (KTG Aimak)	Kazakhstan	Sale of gas to local power distributors, legal entities and individuals	100%	100%
KazTransGas Onimderi LLP (KTG Onimderi)	Kazakhstan	Transportation services	100%	100%
Amangeldy Gas LLP (Amangeldy Gas)	Kazakhstan	Production of natural gas and gas condensate	100%	100%
KMG Kansu Operating LLP	Kazakhstan	Exploration of natural gas and gas condensate	100%	100%
Intergas Finance B.V. (IFBV)	Netherlands	Issue of Eurobonds (raising debt funds)	100%	100%
KazTransGas Bishkek LLC (KTG Bishkek)	Kyrgyzstan	Repair and renewal operations and modernization of the main gas pipeline "Bukhara gas area – Tashkent – Bishkek – Almaty"	100%	100%
Asia Gas Pipeline LLP (AGP)	Kazakhstan	Construction and operating Kazakhstan – China gas pipeline	50%	50%
Beinue-Shymkent Gas Pipeline LLP (BShP)	Kazakhstan	Construction and operating of Beineu-Bozoi-Shymkent gas pipeline	50%	50%

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

1. CORPORATE INFORMATION (continued)

As of 31 December 2017, the Company had 100% legal ownership in KazTransGas Tbilisi LLC (KTG Tbilisi). On 16 March 2009 the City Court of Kutaisi disqualified the Company from exercising rights that give it the ability to direct the relevant activities of KTG Tbilisi. As a result, the Company lost control over KTG Tbilisi and ceased consolidation since the date of loss of control.

On 13 September 2018, the Company and the Government of Georgia signed an arbitration agreement on the peaceful settlement of the dispute as a result of which KazTransGas JSC sold 100% shares of KTG Tbilisi for 15,109,600 thousand tenge (equivalent to 40,000 thousand US dollars). On 28 September 2018, the Company collected proceeds from sale of interest ownership of 14,472,800 thousand tenge (equivalent to 40,000 thousand US dollars).

On 2 October 2018, the Company finalized sale of 50% interest in AstanaGas KMG JSC to Samruk-Kazyna and 50% interest in the entity to Baiterek Venture Fund JSC, a subsidiary of NMH Baiterek JSC. Total amount of gain on disposal and consideration received was 242 thousand tenge.

The accompanying separate financial statements were authorized for issue by the Deputy of General Director on economics and finance and Chief accountant of the Company on 19 February 2020.

These separate financial statements are issued in addition to the consolidated financial statements of KazTransGas JSC and its subsidiaries. The consolidated financial statements of KTG group were authorized for issue by the Deputy of General Director on economics and finance and Chief accountant of the Company on 19 February 2020.

2. BASIS OF PREPARATION

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

These separate financial statements have been prepared on a historical cost basis, except for assets and liabilities that were valued at fair value as described in the accounting policies and the notes to these separate financial statements.

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

Foreign currency translation

Functional and presentation currency

The separate financial statements are presented in Kazakhstani tenge (tenge), which is the functional currency of the Company.

Transactions and balances

Transactions in foreign currencies are initially recorded at functional currency spot rates prevailing at the date when the transaction meets recognition criteria. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences arising from repayment or restatement of monetary items are stated in the separate statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Gains or losses arising on translation of non-monetary items are recorded in accordance with principles of income or expense recognition as a result of change in the item fair value (i.e. exchange differences on items, fair value gains or losses of which are recognized within other comprehensive income or profit or loss, are also recognized within other comprehensive income or profit or loss, respectively).

Foreign exchange rates

Weighted average currency exchange rates established by the Kazakhstan Stock Exchange (KASE) are used as official currency exchange rates in the Republic of Kazakhstan.

As at 31 December 2019, the currency exchange rate of KASE was 382.59 tenge to 1 US dollar. This rate was used for translation of monetary assets and liabilities denominated in US dollar at 31 December 2019 (2018: 384.20 tenge to 1 US dollar).

2. BASIS OF PREPARATION (continued)

Significant accounting judgements, estimates and assumptions

The preparation of the Company's separate 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 reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

In the process of applying the Company's accounting policy, management has made the following judgments, which have the most significant effect on the amounts recognised in the separate financial statements:

Taxation

In assessing tax risks, management considers to be probable obligations the 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 judgement 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 details regarding tax risks are contained in *Note 30*.

Allowance for VAT recoverable

The Company determines whether VAT receivable is doubtful at least on an annual basis. Allowance for doubtful VAT receivable is based on the management's expectations on future VATable turnovers and VAT refund in cash. Significant management judgement is required to determine whether the Company can further defend its right for VAT refund or offset. Further details are contained in *Note 10*.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable temporary differences and business nature of such expenses will be proved, as well as the successful implementation of tax planning strategies. Further details are contained in *Note 28*.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities 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 judgement is required in establishing fair values. The judgements include liquidity risk, credit risk and volatility. Changes in valuations and judgements can affect the fair values of financial instruments.

Allowance for expected credit losses

Management maintains an allowance for expected credit losses resulting from expectations, which based on ability of customers to make required payments. 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.

Impairment of investments in subsidiaries and joint ventures

As at each reporting date the Company assesses existence of objective evidence of impairment of investments in subsidiaries. If such evidence exists, the Company calculates the recoverable amount of investments with respect to individually assessed investments. The recoverable amount of investments represents the greater of fair value of investments less selling expenses and value in of use. If the cost of investments exceeds the recoverable amount, investments are treated as impaired and the cost of investments is written down to the recoverable amount. Value in use represents a discounted value of estimated future cash flows calculated using the current market interest rate adjusted for risks applicable to these investments. In calculating the fair value less costs to sell, the Company uses the respective valuation model. These calculations are supported by quoted prices for similar investments or other available indicators of the fair value. Further details are contained in *Notes 6* and *7*.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New standards, interpretations and amendments adopted to the existing standards and interpretations adopted by the Company for the first time

The following new standards and amendments are not applicable or have no significant impact for the Company:

- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*;
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*;
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*;
- IFRS 3 *Business Combinations* (Annual improvements 2015-2017);
- IFRS 11 *Joint Arrangements* (Annual improvements 2015-2017);
- IAS 12 *Income Taxes* (Annual improvements 2015-2017);
- IAS 23 *Borrowing Costs* (Annual improvements 2015-2017).

IFRS 16 Leases

The Company applied IFRS 16 *Leases* for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the separate financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

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

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

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

Impact on the statement of financial position as at 1 January 2019:

In thousands of tenge	As at 31 December 2018	Effects of adoption of IFRS 16	As at 1 January 2019
Assets			
Property, plant and equipment	1,428,127	1,159,700	2,587,827
Right-of-use assets	–	1,159,700	1,159,700
Advances paid	1,856,939	(591,009)	1,265,930
Equity and liabilities			
Equity			
Retained earnings	194,880,199	–	194,880,199
Liabilities			
Lease liabilities	–	568,691	568,691

Set out below are the new accounting policies of the Company upon adoption of IFRS 16.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments adopted to the existing standards and interpretations adopted by the Company for the first time (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

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

Upon adoption of the Interpretation, the Company considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company's tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Company determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the separate financial statements of the Company.

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. The following new standards and amendments are not applicable or have no significant impact for the Company:

- IFRS 17 *Insurance Contracts*;
- Amendments to IFRS 3 *Definition of a Business*;
- Amendments to IAS 1 and IAS 8 *Definition of Material*.

Current versus non-current classification

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

- Expected to be realised or intended to sold or consumed in 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification (continued)

A liability is current when:

- It is expected to be settled in 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 Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are always classified as non-current assets and liabilities.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – market quotations at active market for identical assets or liabilities (without any quotations).
- Level 2 – techniques for which all inputs that relate to the lower hierarchy level which have a significant effect on the fair value are observable, either directly or indirectly.
- Level 3 – techniques for which all inputs that relate to the lower hierarchy level which have a significant effect on the fair value are not observable.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Property, plant and equipment

Property, plant and equipment are recognised in the accounting records at cost less accumulated depreciation and impairment losses. The initial cost of property, plant and equipment comprises its purchase price, including import duties, non-refundable taxes, costs of loans that relate directly to the construction of long-term projects if they meet the recognition criteria, the cost of replacement of equipment parts and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

The expenditures that have resulted in an increase in the future economic benefits expected to be obtained beyond its originally assessed standard performance (increase of useful life, capacity, etc.) are capitalized as an additional cost of fixed assets. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised 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 recognised in the profit or loss as incurred.

Depreciation of property, plant and equipment is computed on a straight-line basis over the estimated useful lives as follows:

	Years
Buildings and constructions	20-50
Machinery and equipment	3-30
Motor vehicles	5-20
Other	3-20

Land is not depreciated.

An item of property, plant and equipment and any significant part initially recognised 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 separate statement of comprehensive income in the year when the asset is derecognised.

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 fixed assets under construction and is stated at cost. This includes cost of construction and equipment and other direct costs. Construction-in-progress is not depreciated until such time as construction of such assets is completed and placed into operational use.

Investments in subsidiaries and joint ventures

Investments in subsidiaries and joint ventures are recorded in the separate financial statements at initial cost.

Subsidiaries are all companies controlled by the Company, as a rule, it means the ownership of shares with voting rights more than 50%. Joint ventures are all entities over which the Company has joint control, but not control, generally accompanying a shareholding with voting rights of 50%.

The Company evaluates investments for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered to be impaired and is written down to its recoverable amount.

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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Company as a lessee (continued)

(a) Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease. 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 lease terms.

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) 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 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 or a change in the assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment. 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.

Investment property

Investment property is initially measured at cost, including transaction costs. Since the Company adopted the cost model, after initial recognition, investment property is accounted for in accordance with the cost model as set out in IAS 16 *Property, Plant and Equipment* – cost less accumulated depreciation and less accumulated impairment losses. The depreciation is calculated based on a straight-line method bases over the expected remaining useful average life of 2-100 years.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Initial recognition and measurement (continued)

In order for a financial asset to be classified and measured at amortised cost, 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.

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

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost

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.

Financial assets at fair value through profit or loss

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

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

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

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

Impairment of financial assets

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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

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 as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognized initially at fair value and in the case of loans and borrowings, less directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the separate statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

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

Financial guarantee contracts

Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee.

Subsequently, the liability is measured at the higher of: the best estimate of the expenditure required to settle the present obligation at the reporting date under IAS 37 (before 1 January 2018) or allowance for estimated credit losses calculated according to IFRS 9 (after 1 January 2018), and the amount initially recognised less cumulative amortisation.

Trade payables

Liabilities for accounts payable are carried 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised through the separate statement of comprehensive income.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are only offset and reported at the net amount in the separate statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Company intends to either settle on a net basis, to realise the asset and settle the liability simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded at an active market, the fair value is determined by using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Inventory

Materials and supplies and raw materials are valued at the lower of cost and net realisable value.

Inventories are accounted for on a first in, first out basis.

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 or cash-generating units (CGU) recoverable amount is the higher of fair value of the asset (CGU) less costs to sell and its value in use. Recoverable amount 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, the relevant valuation model is applied. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries 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 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 flow after the fifth year.

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

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 separate statement of comprehensive income.

Cash and short-term deposits

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

For the purpose of the separate 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 recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

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 and dividends

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 are payable at the discretion of the Shareholder. Dividends that are declared after the reporting date are treated as a subsequent event under IAS 10 *Events after the Reporting Date* and disclosed accordingly.

Revenue and expense recognition

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. Revenue is recorded net of indirect taxes. The following specific recognition criteria must also be met before revenue is recognised:

Sales of goods

Revenues from sales of goods are recognised when the significant risks and rewards of ownership of goods have passed to the buyer and generally include one performance obligation. Revenues from sales of goods are recognised over time.

Organisation of transportation services

The Company concludes contracts with customer on organization of transportation services on the territory of Kazakhstan through gas pipelines of it's subsidiary and JV's. The Company fulfills performance obligation on a monthly basis and recognises revenues from organisation of gas transportation services on the actual volumes of services rendered over time.

Management services

The Company recognises management fee, which is related to management of KazMunayGas's joint venture, KazRosGas LLP, at point in time based on the approval of the declaration of dividends of KazRosGas LLP.

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest income is recorded using the 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.

The interest income is recorded as part of finance income in the separate 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 its equivalent is paid, and are reported in the financial statements in the period to which they relate.

Dividends

Dividend income is recognized when the Company's right to distribution is established, which, as a rule, happens when the shareholders approve the dividends.

Contract liabilities

A contract liability is recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Company transfers the related goods or services. Contract liabilities are recognised as revenue when the Company performs under the contract (i.e., transfers control of the related goods or services to the customer).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 equity is recognised in equity and not in the separate statement of comprehensive income. Management 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 tax

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

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

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

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, 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 utilised, except:

- Where 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.

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 utilised. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit 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 realised 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 recognised in correlation to the underlying transaction either in the separate statement of comprehensive income or directly in 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)

Tax authorities allow repaying input VAT and output VAT on a net basis. Thus, VAT receivable represents VAT on purchases net of VAT on sales.

VAT 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.

Where an allowance 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.

VAT receivable

VAT receivable is recorded in the accounting records 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 receivable is subject to offset against the VAT payable amount.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contingent assets and liabilities

Contingent assets are not recognized in the separate 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 separate financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Related party disclosures

Related parties include the key management personnel of the Company, entities in which a substantial interest in the voting power is owned, directly or indirectly, by the Company's key management personnel, KazMunayGas Group companies and entities controlled by Samruk-Kazyna and the Government of the Republic of Kazakhstan.

Non-cash transactions under common control

The Company recognizes transactions under common control with non-monetary assets at fair value, other than business combination, irrespective of the amount stated in the agreement, with difference between that amount and its fair value recognized in equity.

Subsequent events

The results of post-year-end events that provide additional information on the Company's financial position at the reporting date (adjusting events) are reflected in the separate financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the separate financial statements when material.

4. PROPERTY, PLANT AND EQUIPMENT

In thousands of tenge	Equipment	Other	Construction in progress	Total
Cost				
31 December 2017	97,892	855,339	1,338,592	2,291,823
Additions	–	42,838	1,882,373	1,925,211
Transfers	(13,727)	13,727	–	–
Disposals	–	–	(1,432,000)	(1,432,000)
31 December 2018	84,165	911,904	1,788,965	2,785,034
Additions	**367,298**	**8,274**	**2,875,655**	**3,251,227**
Transfers	**822,678**	–	**(822,678)**	–
Disposals	**(7,382)**	**(203,113)**	–	**(210,495)**
31 December 2019	**1,266,759**	**717,065**	**3,841,942**	**5,825,766**
Accumulated depreciation and impairment				
31 December 2017	(23,344)	(582,096)	(546,692)	(1,152,132)
Charge for the year	(26,956)	(177,819)	–	(204,775)
Transfers	515	(515)	–	–
31 December 2018	(49,785)	(760,430)	(546,692)	(1,356,907)
Charge for the year	**(118,403)**	**(58,613)**	–	**(177,016)**
Disposals	**7,382**	**198,200**	–	**205,582**
31 December 2019	**(160,806)**	**(620,843)**	**(546,692)**	**(1,328,341)**
Net book value				
31 December 2018	34,380	151,474	1,242,273	1,428,127
31 December 2019	**1,105,953**	**96,222**	**3,295,250**	**4,497,425**

4. PROPERTY, PLANT AND EQUIPMENT (continued)

Construction in progress

Additions

In 2019, additions to construction-in-progress are related to expenditures on complex works of dispatching an automated system for data collection and gas metering in the amount of 2,805,262 thousand tenge.

5. INVESTMENT PROPERTY

In thousands of tenge	Total
Net book value as at 31 December 2018	–
Additions *(Note 11)*	5,844,600
Net book value as at 31 December 2019	**5,844,600**

As at 31 December 2019 the investment property of 5,844,600 thousand tenge is represented by real estate as apartments and parkings. As at 31 December 2019, the book value of these assets approximate its fair value.

6. INVESTMENTS IN SUBSIDIARIES

As at 31 December, investments in subsidiaries comprised the following:

In thousands of tenge	2019	2018
KazTransGas Aimak JSC	**196,694,954**	190,851,422
Intergas Central Asia JSC	**187,995,938**	112,953,733
Amangeldy Gas LLP	**22,974,930**	22,974,930
KazTransGas Onimdery LLP	**13,397,351**	17,397,351
KMG Kansu Operating LLP	**5,969,716**	4,414,181
Intergas Finance B.V.	**808,353**	304,466
KazTransGas – Bishkek LLC	**43,304**	43,304
Less: allowance for impairment of investments in subsidiaries	**(7,967,018)**	(5,902,580)
	422,917,525	343,036,807

Additions

In 2019, the Company made investments in kind of cash contribution in the total amount of 82,399,719 thousand tenge in the subsidiaries such as Intergas Central Asia JSC, KazTransGas Aimak JSC, KMG Kansu Operating LLP and Intergas Finance B.V. (2018: 89,023,737 thousand tenge in Intergas Central Asia JSC, Astana Gas KMG JSC, KMG Kansu Operating LLP and Intergas Finance B.V.).

In 2019 the Company purchased bonds of SFC DSFK in the amount of 3,391,870 thousand tenge from KTG Aimak *(Note 11)*, difference of cash contribution and fair value of bonds of 2,759,996 thousand tenge was recognized as additional paid-in capital.

In 2019, the Company recognized investments in kind of financial guarantee in the total amount of 790,457 thousand tenge in the subsidiaries such as Intergas Central Asia JSC and KazTransGas Aimak JSC (2018: 2,113,312 thousand tenge).

In 2019, investments were decreased in kind of withdrawal of KazTransGas Onimdery LLP's share capital in the amount of 4,000,000 thousand tenge (2018: nil).

Impairment

In 2019, the Company recognized impairment loss of investments in KMG Kansu Operating LLP and Intergas Finance B.V. in the total amount of 2,064,438 thousand tenge (2019: 5,333,267 thousands tenge of investments in KMG Kansu Operating LLP, Astana Gas KMG JSC and Intergas Finance B.V.).

7. INVESTMENTS IN JOINT VENTURES

As at 31 December, investments in joint ventures comprised the following:

In thousands of tenge	2019	2018
Beineu-Shymkent Gas Pipeline LLP	**88,232,799**	77,071,090
Asia Gas Pipeline LLP	**600,000**	600,000
	88,832,799	77,671,090

In 2019, the Company recognized investments in kind of financial guarantee of 11,161,709 thousand tenge (2018: nil).

8. ADVANCES PAID

In thousands of tenge	2019	2018
Advances paid for non-current assets		
Advances paid to related parties *(Note 29)*	**1,735,065**	–
Advances paid to third parties	**–**	94,211
	1,735,065	94,211
Advances paid for current assets and services		
Advances paid to third parties	**14,053,890**	1,850,370
Advances paid to related parties *(Note 29)*	**5,319,965**	6,569
	19,373,855	1,856,939

9. LOANS TO RELATED PARTY

As at 31 December, loans to related parties comprised the following:

In thousands of tenge	2019	2018
Financial assets at amortized cost		
Interest bearing loans to related party	**154,652,228**	155,864,715
Financial assets at fair value through profit or loss		
Interest-free loans to related party	**46,781,119**	71,392,215
Plus: interest receivable	**2,173,723**	–
Less: impairment	**(938,246)**	(938,246)
	202,668,824	226,318,684
Less: current portion *(Note 29)*	**(48,954,842)**	(71,392,215)
Non-current portion *(Note 29)*	**153,713,982**	154,926,469

Interest bearing loans

In September 2017, the Company provided a loan to BShP of 133,716,000 thousand tenge (equivalent to: 400,000 thousand US dollars) with the interest rate of 5.5% per annum for partial early repayment of the bank loan obtained by BShP under the loan agreement with China Development Bank, Bank of China Limited and Bank of China (Hong Kong) Limited. The maturity date of the loan is 31 August 2029.

During 2018, BShP repaid principal of 4,284,049 thousand tenge (2019: nil).

Interest-free loans

BShP

During 2014-2018 the Company provided interest-free loan to BShP of 79,999,386 thousand tenge (2019: nil). In 2019, BShP repaid principal under the loan agreement of 25,500,000 thousand tenge (2018: 4,238,929).

In 2019, the Company revised expected repayment date of the residual loans provided to BShP. As a result, the repayment period was extended to 31 March 2020. Due to short-term nature, the carrying value of interest-free loans to related party approximates its fair value.

9. LOANS TO RELATED PARTY (continued)

Interest-free loans (continued)

KazRosGas LLP

During 2018, the Company provided interest-free loan to KazRosGas LLP of 7,772,000 thousand tenge payable on demand (2019: nil). The fair value of the provided loan is determined by discounting the future cash flows on the loan using a discount rate of 13% per annum. Respective discount on the interest-free loan of 881,951 thousand tenge was recognised within finance costs *(Note 27)*. During 2018, KazRosGas LLP fully repaid the principal on the loan. During 2018, amortization of the discount on the loan was equal to 881,951 thousand tenge *(Note 27)*.

ICA

During 2018, the Company provided on-demand interest-free loan to ICA of 46,000,000 thousand tenge (2019: nil). During 2018, ICA fully repaid the principal on the loan.

10. VAT RECOVERABLE AND PREPAID TAXES OTHER THAN INCOME TAX

As at 31 December, VAT recoverable and prepaid taxes other than income tax comprised the following:

In thousands of tenge	2019	2018
VAT recoverable	**136,803,761**	97,000,473
Other taxes prepaid	**29,090**	21,731
	136,832,851	97,022,204
Less: allowance for non-recoverable VAT	**(13,966,571)**	(4,522,949)
	122,866,280	92,499,255
Non-current portion	**112,837,190**	92,477,524
Current portion	**10,029,090**	21,731

Movements in the allowance for non-recoverable VAT were as follows:

In thousands of tenge	Individually impaired
At 31 December 2018	(4,522,949)
Charge for the year	(9,443,622)
At 31 December 2019	(13,966,571)

As of 31 December 2019, the Company has 136,803,761 thousand tenge of VAT recoverable, including VAT recoverable originating from domestic loss making sales of gas. With respect to such VAT on loss making domestic sales of gas, the Company is working with the Ministry of National Economy of Kazakhstan to secure an increase in the regulated tariffs for domestic sales of gas to ensure VAT output is sufficient to offset input VAT in the future. As the Tax Code of the Republic of Kazakhstan does not impose limits with respect to the time period to recover input VAT, the Company expects to recover input VAT on domestic sales of gas in full.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

11. NON-CURRENT AND OTHER CURRENT FINANCIAL ASSETS

In thousands of tenge	Currency	Issue	Maturity	Interest rate	2019	2018
Financial assets at amortized cost						
KTG Aimak bonds	KZT	2016	2025	7.5%	**10,654,281**	10,654,281
Amangeldy Gas bonds	KZT	2017	2022	10%	**2,700,000**	2,700,000
Financial assets at fair value through profit or loss						
SFC DSFK bonds	KZT	2017	2032	0.01%	**–**	1,786,827
					13,354,281	15,141,108
Plus: interest receivable					**225,788**	225,788
Less: discount					**(2,382,769)**	(2,633,833)
					11,197,300	12,733,063
Less: current portion					**(225,788)**	(225,788)
Non-current portion					**10,971,512**	12,507,275

SFC DSFK

During 2019, SFC DSFK redeemed bonds of 194,848 thousand tenge (2018: 90,512 thousand tenge).

During 2019, the Company purchased bonds of SFC DSFK of 3,391,870 thousand tenge from KTG Aimak and 3,620,747 thousand tenge from KazRosGas LLP. The principal amount of KazRosGas LLP's bonds is payable starting from 15 January 2020.

In December 2019, the Company exchanged bonds of SFC DSFK with the carrying amount of 5,840,675 thousand tenge for real estate as apartments and parkings in the amount of 5,844,60 thousand tenge. At the date of the transaction the carrying value of the bonds was equal to the fair value. The transaction was accounted for at fair value upon recognition.

Amangeldy Gas

In April 2017, the Company purchased 2,700,000 coupon bonds of Amangeldy Gas placed on KASE at par value of 1,000 tenge each bearing 10% per annum with a coupon payment on 7 April each year till 7 April 2022. The purchase price for these bonds was equal to 2,700,000 thousand tenge. As at 31 December 2019, the carrying amount of bonds was equal to 2,897,250 thousand tenge (2018: 2,897,250 thousand tenge) *(Note 29)*.

KTG Aimak

In 2016, the Company purchased 10,654,281 coupon bonds of KTG Aimak placed on KASE at par value of 1,000 tenge each bearing 7.5% per annum with a coupon payment on 18 June and 18 December each year till 18 December 2025 inclusive. The purchase price for these bonds was equal to 7,798,252 thousand tenge. As at 31 December 2019, the carrying amount of bonds was equal to 8,300,050 thousand tenge (2018: 8,048,986 thousand tenge) *(Note 29)*.

In 2015, the Company purchased 3,778,526 coupon bonds of KTG Aimak placed on KASE at par value of 1,000 tenge each bearing 7.5% per annum with a coupon payment on 27 June and 27 December each year till 27 December 2018 inclusive. The purchase price for these bonds was equal to 3,712,720 thousand tenge. In 2018, KTG Aimak fully redeemed bonds.

12. CASH AND CASH EQUIVALENTS

As at 31 December, cash and cash equivalents comprised the following:

In thousands of tenge	2019	2018
Foreign currency bank accounts	**4,744,442**	7,324,169
Deposits in tenge	**2,203,469**	21,134,660
Tenge bank accounts	**411,815**	26,769
Deposits in USD	**–**	72,613,800
Cash on hand	**4,763**	4,644
Cash in transit	**1,506**	–
	7,365,995	101,104,042

As at 31 December 2019, deposits were placed in banks at interest rate of 7.5% per annum in tenge (2018: 7.5% per annum in tenge and 2.45% per annum in US dollars).

As at 31 December 2019 and 2018, cash on the current accounts is non-interest bearing.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

13. INVENTORIES

As at 31 December 2019, inventory represents natural gas of 49,702,362 thousand tenge (2018: 56,599,682 thousand tenge).

14. TRADE AND OTHER RECEIVABLES

As at 31 December, trade receivables comprised the following:

In thousands of tenge	2019	2018
Trade receivables from third parties	**137,130,123**	78,240,801
Trade receivables from related parties *(Note 29)*	**57,027,771**	26,912,080
Other receivables	**591**	1,792,165
	194,158,485	106,945,046
Less: allowance for doubtful debts	**(1,791,546)**	(1,805,740)
	192,366,939	105,139,306

As at 31 December, trade receivables are denominated in following currencies:

In thousands of tenge	2019	2018
USD	**127,987,397**	69,222,477
KZT	**64,379,542**	35,916,829
	192,366,939	105,139,306

Movement in the allowance for doubtful debts were as follows:

In thousands of tenge	2019	2018
Allowance for doubtful debts at the beginning of the year	**(1,805,740)**	(1,766,516)
Effect of adoption of IFRS 9	–	(1,612,321)
Foreign currency translation	**14,194**	(357,106)
Charge for the year	–	(320,817)
Utilized	–	204,565
Recovered	–	2,046,455
Allowance for doubtful debts at the end of the year	**(1,791,546)**	(1,805,740)

As at 31 December, the ageing analysis of trade receivables is as follows:

		Neither past due nor	Past due, but not impaired				
In thousands of tenge	Total	impaired	<30 days	30-60 days	60-90 days	90-120 days	>120 days
2019	**192,366,939**	**192,239,075**	–	–	–	–	**127,864**
2018	105,139,306	104,876,961	–	–	36,861	10,188	215,296

Trade and other receivables are non-interest bearing.

15. EQUITY

	Common shares outstanding (number of shares)				Total
In thousands of tenge	Par value of 100 tenge	Par value of 138 tenge	Par value of 2,500 tenge	Par value of 10,000 tenge	share capital, in thousands of tenge
As of 31 December 2019	**312,167,670**	**1**	**30,976,655**	**8,396,465**	**192,623,055**
As of 31 December 2018	312,167,670	1	30,976,655	8,396,465	192,623,055

Share capital

Common shares give the holder the right to vote on all matters within the competence of the General Shareholders Meeting. Dividends on common shares are paid at the shareholder's discretion. The Company did not distribute any dividends in 2019 and 2018.

15. EQUITY (continued)

Book value per share

In thousands tenge	2019	2018
Total assets	**1,146,346,789**	1,031,250,171
Less: intangible assets	**(1,424,670)**	(1,523,937)
Less: total liabilities	**(688,967,756)**	(621,616,081)
Net assets for common shares	**455,954,363**	408,110,153
Number of common shares	**351,540,791**	351,540,791
Book value per common share in thousands of tenge	**1.3**	1.2

In accordance with the decision of the Exchange Board of Kazakhstan Stock Exchange JSC (KASE) dated 4 October 2010 financial statements shall disclose book value per share (common and preferred) as of the reporting date, calculated in accordance with the KASE rules.

Earnings per share

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

The following table reflects the income and share data used in the basic earnings per share computations for the reporting periods ended:

In thousands tenge	2019	2018
Net income attributable to shareholder for basic and diluted earnings per share	**46,405,123**	108,175,882
Average number of common shares for basic and diluted earnings per share	**351,540,791**	351,540,791
Basic and diluted, earnings per share for the period attributable to the parent (in thousands of tenge)	**0.13**	0.31

Additional paid-in capital

In 2019, the Company recognised additional paid-in capital with respect to discount on loan provided by KazMunayGas of 1,339,820 thousand tenge (2018: 1,792,694 thousand tenge) *(Note 18)*.

Retained earnings

Construction of social facility

In accordance with the order of the President of the Republic of Kazakhstan dated 29 September 2018 and based on the decision of the Government of the Republic of Kazakhstan dated 20 December 2018, the Company recognised provision of 5,700,000 thousand tenge related to future financing of the construction of social facility in the city of Turkestan under the social economic development of Turkestan region. The provision was recorded as other transactions with the Shareholder through retained earnings.

During 2019, the Company transferred cash to finance the construction of the social facility for the total amount of 5,700,000 thousand tenge.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

16. DEBT SECURITIES ISSUED

As at 31 December, the debt securities issued comprised:

In thousands of tenge	Issue	Maturity	Interest rate	2019 US dollar	2019 In thousands of tenge	2018 US dollar	2018 In thousands of tenge
Nominal value	2017	2027	4.375%	750,000,000	286,942,500	750,000,000	288,150,000
				750,000,000	286,942,500	750,000,000	288,150,000
Plus: interest payable				–	3,312,791	–	3,326,732
Less: discount				–	(472,600)	–	(535,936)
Less: unamortised transaction costs				–	(295,791)	–	(333,994)
Less: amount due for settlement within 12 months from the reporting date				–	(3,312,791)	–	(3,326,732)
Amounts due for settlement after 12 months				–	286,174,109	–	287,280,070

17. INTEREST BEARING LOANS

As at 31 December, interest-bearing loans comprised the following:

In thousands of tenge	Maturity	Interest rate	2019	2018
The Corporate and Investment Banking Division of Société Générale	2021	3m LIBOR + 1.35%	**76,518,000**	76,840,000
			76,518,000	76,840,000
Plus: interest payable			**291,549**	390,676
Less: unamortised transaction costs			**(367,526)**	(605,455)
Less: amount due for settlement within 12 months from the reporting date			**(291,549)**	(390,676)
			76,150,474	76,234,545

The Corporate and Investment Banking Division of Société Générale

In accordance with the loan agreement dated 16 April 2018, on 17 May 2018, the Company received a loan from the Corporate and Investment Banking Division of Société Générale of 65,832,000 thousand tenge (equivalent to 200,000 thousand US dollars) for partial financing of the project "Construction of three compressor stations at MG "Beineu-Bozoy-Shymkent" at the rate of 3 months LIBOR + 1.35% per annum. This loan is payable by 16 April 2021.

18. LOANS FROM RELATED PARTY

As at 31 December, loans from related party comprised the following:

In thousands of tenge	2019	2018
Fixed interest rate borrowings	**14,881,897**	40,203,697
	14,881,897	40,203,697
Plus: interest payable	**183,047**	1,220,537
Less: discount	**(4,332,652)**	(5,320,184)
	10,732,292	36,104,050
Less: amount due for settlement within 12 months from the reporting date	**(183,047)**	(26,198,509)
Amounts due after 12 months	**10,549,245**	9,905,541

18. LOANS FROM RELATED PARTY (continued)

Fixed interest rate borrowings

On 6 March 2017, KazMunayGas provided to the Company short-term financing of 25,321,800 thousand tenge at the rate of 5.0% per annum for general corporate purposes. During 2019, the repayment period of the principal was extended until 30 November 2019. Respective discount on the loan of 1,339,820 thousand tenge was recognised as additional paid-in capital (2018: 1,792,694 thousand tenge) *(Note 15)*. During 2019, the loan was fully repaid.

On 10 December 2015, KazMunayGas provided to the Company long-term loan of 123,648,000 thousand tenge (equivalent to 400,000 thousand US dollars) to finance repayment of the loan from Syndicate of international banks. The loan has maturity of 36 months and bears interest at the rate of 2.88% per annum. During 2018, the remaining principal under the loan agreement was fully repaid in the amount of 18,524,500 thousand tenge.

19. FINANCIAL GUARANTEE OBLIGATIONS

Movements of financial guarantee obligations were as follows:

In thousands of tenge	2019	2018
As at 1 January	**7,675,120**	9,196,621
Guarantees provided during the year for subsidiaries and joint ventures *(Notes 6 and 7)*	**11,952,166**	2,113,312
Amortization of obligations on guarantees issued, net *(Note 27)*	**(4,618,327)**	(3,775,727)
Foreign currency translation	**(102,493)**	140,914
At 31 December	**14,906,466**	7,675,120
Current portion	**5,464,064**	2,772,224
Non-current portion	**9,442,402**	4,902,896

Guarantee obligations represent the obligations of the Company on guarantees issued to financial institutions related to financing of business activities and significant procurement contracts of its subsidiaries and joint venturers. All of the guarantee agreements are issued at no cost to KTG.

20. TRADE PAYABLES

As at 31 December, trade payables comprised the following:

In thousands of tenge	2019	2018
Due to related parties *(Note 29)*	**216,097,539**	145,555,136
Due to third parties	**70,592,605**	44,516,754
	286,690,144	190,071,890

Trade payables represent amounts due for the gas purchased, assets and services. Trade payables are non-interest bearing, usually settled within 30 days.

As at 31 December, trade payables are denominated in following currencies:

In thousands of tenge	2019	2018
KZT	**268,350,858**	159,909,250
USD	**11,773,113**	18,516,593
RUR	**6,506,771**	11,645,888
Other	**59,402**	159
	286,690,144	190,071,890

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

21. OTHER CURRENT LIABILITIES

As at 31 December, other current liabilities comprised the following:

In thousands of tenge	2019	2018
Gas borrowing	**5,587,811**	5,611,326
Accrued bonuses	**1,566,940**	1,371,072
Payables to pension and social health insurance funds	**31,097**	25,060
	7,185,848	7,007,458

As at 31 December 2019, the Company recognised gas borrowing liability to return 104,323 thousand cubic meters of natural gas borrowed from PetroChina International Company Limited (2018: 104,323 thousand cubic meters).

22. REVENUE

In thousands of tenge	Timing of revenue recognition	2019	2018
Revenue from sales of gas for export	Over time	**674,099,091**	548,698,363
Revenue from sales of gas at the domestic market	Over time	**201,725,164**	220,380,235
Revenue from organisation of transportation services	Over time	**44,099,975**	–
		919,924,230	769,078,598
Geographical markets			
China		**583,227,670**	400,434,292
Kazakhstan		**201,725,164**	220,380,235
CIS		**134,971,396**	148,264,071
		919,924,230	769,078,598

23. COST OF SALES

In 2019, the Company sold 23,926,404 thousand of cubic meters of natural gas (2018: 24,251,098 thousand of cubic meters).

24. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of tenge	2019	2018
Tax provision	**9,443,622**	–
Taxes other than income tax	**5,874,003**	3,113,850
Payroll and related contributions	**3,218,794**	2,995,747
Repair and maintenance	**1,307,496**	184,982
Consulting services	**1,144,547**	1,279,062
Depreciation and amortization	**796,801**	365,548
Depreciation of the right-of-use assets	**532,916**	–
Rent expenses	**174,557**	579,307
Business trip expenses	**165,927**	173,429
Personnel development and qualification upgrade	**60,420**	216,944
Office maintenance expenses	**31,357**	30,352
Communication services	**16,327**	15,835
Bank charges	**14,044**	15,821
Security costs	**6,935**	6,677
Fines and penalties	**–**	10,474
Other	**367,144**	454,832
	23,154,890	9,442,860

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

25. SELLING EXPENSES

In thousands of tenge	2019	2018
Transportation services	**351,401,499**	295,845,066
Storage of gas	**6,818,745**	7,700,753
Other	**2,194**	3,283
	358,222,438	303,549,102

26. DIVIDEND INCOME

In 2019, the Company recognised dividend income of 28,531,240 thousand tenge (2018: 40,235,397 thousand tenge), which was declared for distribution by ICA of 16,260,702 thousand tenge (2018: 39,999,760 thousand tenge), KTG Aimak of 11,836,735 thousand tenge (2018: nil) and KTG Onimderi of 433,803 thousand tenge (2018: 235,637 thousand tenge).

In 2019 and 2018 dividends receivable were fully paid in cash *(Note 29)*.

27. FINANCE INCOME AND FINANCE COSTS

In thousands of tenge	2019	2018
Finance income		
Interest income on loans to related party	**8,698,567**	8,049,903
Amortization of financial guarantee obligations *(Note 19)*	**5,284,918**	4,269,159
Interest income on financial assets	**1,070,345**	1,353,487
Discount on financial liabilities	**902,343**	–
Other income from financial assets	**888,904**	321,994
Interest income on bank deposits	**814,733**	706,370
Amortization of discount of financial assets	**251,064**	274,935
Amortization of discount on loans to related party	**–**	881,951
	17,910,874	15,857,799
Finance costs		
Interest on debt securities issued	**(13,630,010)**	(11,353,809)
Interest on bank loans	**(2,918,951)**	(1,721,283)
Unwinding of discount on loans from related party	**(2,327,352)**	(2,383,455)
Interest on loans from related party	**(1,770,740)**	(2,341,948)
Unwinding of discount on financial guarantee obligations *(Note 19)*	**(666,591)**	(493,432)
Amortization of capitalized costs related to loan arrangement	**(237,929)**	(89,057)
Fees and commissions on loans	**(221,888)**	(174,987)
Interest expense on lease obligations	**(64,164)**	–
Unwinding of discount on debt securities issued	**(61,173)**	(55,249)
Discount on interest free loans to related parties	**–**	(881,951)
Other	**(303,230)**	(89,732)
	(22,202,028)	(19,584,903)

28. INCOME TAX EXPENSES

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

In thousands of tenge	2019	2018
Current income tax expense	**15,407,569**	14,354,746
Deferred income tax (benefit)/expense	**(6,806,864)**	9,337,619
Adjustment of prior year income tax	**776,735**	1,534,055
Income tax expenses	**9,377,440**	25,226,420

28. INCOME TAX EXPENSES (continued)

A reconciliation of corporate income tax expenses applicable to loss before taxation at the official income tax rate, with the current income tax expense for the years ended 31 December is out below:

In thousands of tenge	2019	2018
Profit before income tax	**55,782,563**	133,402,302
Statutory tax rate	**20%**	20%
Theoretical income tax expense	**11,156,513**	26,680,460
Tax effect of permanent differences		
Accrual/(reversal) of tax provision	**1,888,724**	(1,015,600)
Taxes other than on income	**861,145**	498,873
Adjustments to the corporate income tax of the previous year	**776,735**	1,534,055
Interest on bank loans	**583,790**	344,257
Unwinding of discount on loans from related party and debt securities issued	**477,705**	487,741
Loss on impairment of investment sales and subsidiaries	**412,888**	1,066,653
Non-deductible foreign exchange differences, net	**55,283**	3,527,134
Non-deductible expenses related to storage of gas	–	1,079,672
Amortization of discount of financial assets	**(50,174)**	(54,710)
Amortization of financial guarantee obligations	**(923,665)**	(755,145)
Dividend income	**(5,706,248)**	(8,047,079)
Other non-taxable differences	**(155,256)**	(119,891)
Income tax expenses	**9,377,440**	25,226,420

As at 31 December 2019 and 2018, components of deferred income tax assets/(liabilities) are as follows:

In thousands of tenge	2019	Charged to profit and loss	2018	Charged to profit and loss	As at 1 January 2018	Effect of adoption of IFRS 9	2017
Deferred income tax assets							
Expenditures accounted for on an accrual basis	–	–	–	(2,734,550)	2,734,550	–	2,734,550
Allowance for expected credit loss	**547,122**	**(2,839)**	549,961	156,548	393,413	393,413	–
Other provisions	**359,558**	**45,656**	313,902	25,871	288,031	–	288,031
Other	**74,379**	**20,439**	53,940	86,593	(32,653)	–	(32,653)
	981,059	**63,256**	917,803	(2,465,538)	3,383,341	393,413	2,989,928
Deferred income tax liabilities							
Inventories	–	**6,872,081**	(6,872,081)	(6,872,081)	–	–	–
Discounting on financial liabilities	**(128,473)**	**(128,473)**	–	–	–	–	–
	(128,473)	**6,743,608**	(6,872,081)	(6,872,081)	–	–	–
Deferred income tax assets, net	**852,586**	**6,806,864**	(5,954,278)	(9,337,619)	3,383,341	393,413	2,989,928

According to the Tax code of the Republic of Kazakhstan, all deferred tax assets expire after 5 (five) years except tax losses carry forward expiring after 10 (ten) years.

29. RELATED PARTY TRANSACTIONS

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 services on gas transportation, which are provided based on the tariffs available to the related and third parties. Outstanding balances at the year-end are unsecured, non-interest bearing and settlement occurs in cash.

Significant transactions with related parties for the years ended 31 December 2019 and 2018 and balances as at 31 December 2019 and 2018 are as follows:

In thousands of tenge	Trade receivables	Loans to related party	Advanced paid	Other financial assets	Other receivables
As at 31 December 2019					
Subsidiaries	**57,027,771**	**–**	**–**	**11,197,300**	**–**
Joint venturers in which the Company is a venturer	**–**	**202,668,824**	**–**	**–**	**9**
Joint venturers, in which KazMunayGas is a venturer	**–**	**–**	**5,319,068**	**–**	**59**
Entities under common control of Samruk-Kazyna and the Government	**–**	**–**	**1,735,962**	**–**	**–**
	57,027,771	**202,668,824**	**7,055,030**	**11,197,300**	**68**

In thousands of tenge	Trade receivables	Loans to related party	Advanced paid	Other financial assets	Other receivables
As at 31 December 2018					
Subsidiaries	26,802,080	–	–	10,946,236	–
Joint venturers in which the Company is a venturer	–	226,318,684	–	–	–
Joint ventures in which Samruk-Kazyna and the Government are venturers	110,000	–	–	–	1,603,840
Entities under common control of Samruk-Kazyna and the Government	–	–	6,569	–	–
	26,912,080	226,318,684	6,569	10,946,236	1,603,840

In thousands of tenge	Trade payables	Loans from related party	Financial guarantee obligations	Other financial liabilities
As at 31 December 2019				
Subsidiaries	**49,031,137**	**–**	**5,264,683**	**–**
Joint venturers in which the Company is a venturer	**128,931,094**	**–**	**9,641,783**	**–**
Entities under common control of KazMunayGas	**923,002**	**–**	**–**	**–**
Joint venturers, in which KazMunayGas is a venturer	**35,434,291**	**–**	**–**	**2,978,381**
Entities under common control of Samruk-Kazyna and the Government	**1,778,015**	**10,732,292**	**–**	**20,985**
	216,097,539	**10,732,292**	**14,906,466**	**2,999,366**

29. RELATED PARTY TRANSACTIONS (continued)

Terms and conditions of transactions with related parties (continued)

In thousands of tenge	Trade payables	Loans from related party	Financial guarantee obligations	Other financial liabilities
As at 31 December 2018				
Subsidiaries	33,314,116	–	6,826,145	–
Joint venturers in which the Company is a venturer	56,855,632	–	848,975	–
Entities under common control of KazMunayGas	757,906	–	–	–
Joint venturers, in which KazMunayGas is a venturer	54,375,843	–	–	–
Entities under common control of Samruk-Kazyna and the Government	251,639	36,104,050	–	20,015
	145,555,136	36,104,050	7,675,120	20,015

In thousands of tenge	**2019**	2018
Sales of goods and services		
Subsidiaries	**169,566,333**	183,680,253
Entities under common control of Samruk-Kazyna and the Government	**–**	147
	169,566,333	183,680,400
Dividend income		
Subsidiaries	**28,531,240**	40,235,397
	28,531,240	40,235,397
Finance income		
Subsidiaries	**4,189,922**	4,729,243
Joint venturers in which the Company is a venturer	**12,002,602**	9,221,801
Joint ventures in which KazMunayGas is a venturer	**902,343**	881,951
	17,094,867	14,832,995
Purchases of goods and services		
Subsidiaries	**96,301,846**	90,453,688
Joint venturers in which the Company is a venturer	**271,149,864**	219,680,197
Entities under common control of KazMunayGas	**3,806,515**	3,288,683
Joint venturers, in which KazMunayGas is a venturer	**115,475,203**	88,540,730
Entities under common control of Samruk-Kazyna and the Government	**744,374**	509,640
	487,477,802	402,472,938
Finance costs		
Subsidiaries	**517,867**	412,946
Joint venturers in which the Company is a venturer	**148,724**	80,486
Joint ventures in which KazMunayGas is a venturer	**259,977**	881,951
Entities under common control of Samruk-Kazyna and the Government	**4,098,092**	4,725,403
	5,024,660	6,100,786

During 2019, BShP repaid interest of 6,488,345 thousand tenge (2018: principal of 4,284,049 thousand tenge and interest of 4,251,879 thousand tenge).

In 2019, BShP repaid principal under the loan agreement of 25,500,000 thousand tenge (2018: 4,238,929 thousand tenge).

In 2018, the Company provided additional interest-free loan to BShP of 3,260,435 thousand tenge (2019: nil) for the construction of the Beineu-Shymkent trunk gas pipeline and for general corporate purposes.

During 2018, the Company provided interest-free loan to KazRosGas LLP of 7,772,000 thousand tenge for general corporate purposes. During 2018, KazRosGas LLP fully repaid principal under the loan agreement.

29. RELATED PARTY TRANSACTIONS (continued)

Terms and conditions of transactions with related parties (continued)

During 2019, the Company repaid principal and interest under the loan agreements of 25,321,800 thousand tenge and 2,716,707 thousand tenge, respectively, to KazMunayGas (2018: principal of 18,524,500 thousand tenge and interest of 2,291,971 thousand tenge).

During 2018, the Company provided on-demand interest-free loan to ICA of 46,000,000 thousand tenge for construction of gas compressor stations (2019: nil). During 2018, ICA fully repaid the principal under the loan agreement.

During 2018, the KTG Aimak fully redeemed bonds of 3,778,526 thousand tenge (2019: nil).

In 2019 and 2018, the Company issued financial guarantee to ICA and KTG Aimak for the additional financing received under the loan agreements concluded with European Bank for Reconstruction and Development and Development Bank of Kazakhstan.

On 14 August 2019, BShP concluded a loan agreement with MUFG Bank LTD and Bank of China LTD for the purpose of refinancing the current loan from China Development Bank, Bank of China Limited and Bank of China (Hong Kong) Limited with the interest rate of 3m LIBOR + 1.65% per annum. This loan is payable by 20 December 2024. On 23 August 2019, the current loan was fully repaid by BShP, and the Company issued financial guarantee to BShP under the guarantee agreement to comply with the payment obligations to MUFG Bank LTD and Bank of China LTD.

In 2019, dividends receivable were paid in cash of 28,531,240 thousand tenge (2018: 45,410,196 thousand tenge).

Compensation to key management personnel

Key management personnel comprise members of the Management Board and independent directors of the Company, totaling 9 persons as at 31 December 2019 (2018: 9 persons). In 2019 and 2018 total amount of compensation to key management was equal to 563,314 thousand tenge and 453,277 thousand tenge respectively, consisting mainly of salaries and other payments and was included in general and administrative expenses in the statement of comprehensive income.

30. COMMITMENTS AND CONTINGENCIES

Commitments for capital expenditures

As at 31 December 2019, the Company has capital commitments of approximately 4,427,695 thousand tenge, excluding VAT (2018: 178,383 thousand tenge, excluding VAT), related to construction of property, plant and equipment and intangible assets.

Operating environment

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

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

30. COMMITMENTS AND CONTINGENCIES (continued)

Taxation (continued)

Transfer pricing control (continued)

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. 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 31 December 2019. 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.

Environmental matters

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. Potential liabilities which may arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation cannot be reasonably estimated.

According to current legislation, management believes that there are no probable or possible environmental liabilities which could have a material adverse effect on the Company's separate financial performance and its financial position.

Insurance matters

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Company property or relating to Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's separate financial performance and financial position.

Legal actions and claims

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

31. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial liabilities comprise debt securities issued, interest bearing loans, loans from related party, trade payables and financial guarantee obligations. The main purpose of these financial liabilities is to finance the Company's operations and to provide guarantees to banks on behalf of subsidiaries and joint venturers to support their operations. The Company's principal financial assets consist of loans to related parties, trade receivables, cash and cash equivalents, bank deposits and other financial assets, which arise directly from its operations.

The Company is mainly 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

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

The Company has no formal agreements for the analysis and mitigation of risks related to changes in interest rates, since management assesses the risk as low.

The sensitivity analysis in the sections below relates to positions as at 31 December 2019 and 2018.

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

Market risk (continued)

The sensitivity analysis have been prepared on the basis 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.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's borrowings with floating interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates (Libor), with all other variables held constant, of the Company's (loss)/profit before income tax (through the impact on floating rate borrowings). There is no impact on the Company's equity.

In thousands of tenge	Increase/ decrease in basis points	Effect on profit before income tax
2019		
Libor	**+0.35%**	**(267,813)**
	-0.35%	**267,813**
2018		
Libor	+0.5%	(384,200)
	-0.15%	115,260

Assumptions of changes in basis points within analysis of sensitivity to interest rate changes are based on a currently observable market situation.

Currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of foreign exchange rates changes. As a result of significant debt securities issued and trade payables denominated in the US dollar, the Company's separate statement of financial position can be affected significantly by movement in the USD/KZT exchange rates. The financial and economic activities also have transactional currency exposures. Such exposure arises from revenue in US dollar.

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

In thousands of tenge	Increase/ decrease in the rate	Effect on profit before income tax
2019		
US dollars	**+12%**	**(30,604,911)**
	-9%	**22,953,684**
2018		
US dollars	+14%	(33,401,343)
	-10%	23,858,102

In thousands of tenge	Increase/ decrease in the rate	Effect on profit before income tax
2019		
Ruble	**+12%**	**(780,813)**
	-12%	**780,813**
2018		
Ruble	+14%	(1,630,424)
	-9%	1,048,130

31. 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. The Company's management reviews credit ratings of these banks periodically to eliminate extraordinary credit risk exposure. The Company's management believes that recent international credit crisis and subsequent changes in credit rating of local banks does not justify extraordinary credit risk. Accordingly, no impairment allowance against bank deposits is required.

The table below shows the balances of cash and deposits in banks at the reporting date using authorized rating agencies' credit rating symbols:

In thousands of tenge	Location	2019	2018	2019	2018
Citi Bank Kazakhstan JSC	Kazakhstan	**A+/stable**	A/stable/P-1	**4,761,600**	727,228
Halyk Bank of Kazakhstan JSC	Kazakhstan	**BB/stable**	BB/stable	**3,780,431**	22,384,096
Forte Bank JSC	Kazakhstan	**B+/stable**	B3/positive	**3,610**	3,617
Central Depository of Securities JSC	Kazakhstan	**A+/positive/A**	A+/positive/A	**428**	474
GazPromBank	Russia	**B/stable**	BB+/stable	**98**	6,586,155
SB Bank of China	Kazakhstan	**–**	A/stable	**83**	92
Citibank N.A. London	England	**–**	A+/stable	**18**	19
Altyn Bank JSC	Kazakhstan	**BBB-/stable**	Ba1/stable	**11**	981
Bank of Tokyo-Mitsubishi UFJ, Ltd (London Branch)	England	**–**	A/positive	**–**	72,613,800
Bank RBK JSC	Kazakhstan	**–**	B-/stable	**–**	10
				8,546,279	102,316,472

At the current level of operations, management believes that the Company has established appropriate credit verification procedures and monitoring of industrial consumers, which enabled the Company to trade only with recognised, creditworthy third parties. The Company monitors the outstanding trade 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.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, bank deposits, loans to related parties, other financial assets and trade receivables, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the current amount of these instruments.

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.

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

In thousands of tenge	On demand	1 to 3 months	3 months to 1 year	1 to 5 years	>5 years	Total
At 31 December 2019						
Debt securities issued	**–**	**6,276,867**	**6,276,867**	**50,214,936**	**324,603,702**	**387,372,372**
Trade payables	**–**	**286,690,144**	**–**	**–**	**–**	**286,690,144**
Interest bearing loans	**–**	**635,231**	**1,891,884**	**77,532,989**	**–**	**80,060,104**
Loans from related party	**–**	**259,317**	**259,317**	**16,954,992**	**–**	**17,473,626**
Financial guarantee obligations	**142,016**	**16,341,758**	**48,799,029**	**206,912,941**	**20,103,356**	**292,299,100**
Other financial liabilities	**927,702**	**261,442**	**673,261**	**2,019,784**	**–**	**3,882,189**
	1,069,718	**310,464,759**	**57,900,358**	**353,635,642**	**344,707,058**	**1,067,777,535**

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

Liquidity risk (continued)

In thousands of tenge	On demand	1 to 3 months	3 months to 1 year	1 to 5 years	>5 years	Total
At 31 December 2018						
Debt securities issued	–	6,303,281	6,303,281	50,426,248	338,576,248	401,609,058
Trade payables	–	190,071,890	–	–	–	190,071,890
Interest bearing loans	–	781,352	2,318,577	81,230,858	–	84,330,787
Loans from related party	–	26,847,207	259,317	2,074,536	15,399,090	44,580,150
Financial guarantee obligations	151,562	11,826,913	41,785,592	108,644,387	27,356,522	189,764,976
Other financial liabilities	–	–	73,507	–	–	73,507
	151,562	235,830,643	50,740,274	242,376,029	381,331,860	910,430,368

As at 31 December 2019 and 2018, the financial guarantee obligations present the amounts of original contracts the Company guaranteed.

Capital management

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 maximize shareholder 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. There were no changes in the Company's approach to capital management as compared to 2018.

The capital structure of the Company consists of debt, which includes debt securities issued, interest bearing loans and loans from related party disclosed in *Notes 16, 17* and *18*, and equity, comprising share capital, additional paid-in capital and retained earnings as disclosed in *Note 15*.

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 year-end was as follows:

In thousands of tenge	2019	2018
Debt securities issued *(Note 16)*	**289,486,900**	290,606,802
Loans from related party *(Note 18)*	**10,732,292**	36,104,050
Interest bearing loans *(Note 17)*	**76,442,023**	76,625,221
Less: cash and cash equivalents, bank deposits	**(8,552,548)**	(102,321,116)
Total debt	**368,108,667**	301,014,957
Equity	**457,379,033**	409,634,090
Debt-to-equity ratio	**0.80**	0.73

Fair value of financial instruments

The carrying value of the Company's financial instruments as of 31 December 2019 and 2018 are reasonable approximation of their fair value, except for the financial instruments disclosed below:

	2019				
			Fair value by level of assessment		
In thousands of tenge	**Carrying amount**	**Fair value**	**Quotations in active markets (Level 1)**	**Essential observed input data (Level 2)**	**Essential unobservable input data (Level 3)**
Financial assets					
Interest bearing loans to related party	**155,887,705**	**155,294,894**	**–**	**–**	**155,294,894**
Other financial assets	**11,197,300**	**12,740,806**	**12,740,806**	**–**	**–**
Financial liabilities					
Debt securities issued	**(289,486,900)**	**(287,414,560)**	**(287,414,560)**	**–**	**–**
Interest bearing loans	**(76,442,023)**	**(76,809,549)**	**–**	**(76,809,549)**	**–**
Loans from related party	**(10,732,292)**	**(10,601,986)**	**–**	**(10,601,986)**	**–**

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

Fair value of financial instruments (continued)

	2018				
			Fair value by level of assessment		
In thousands of tenge	Carrying amount	Fair value	Quotations in active markets (Level 1)	Essential observed input data (Level 2)	Essential unobservable input data (Level 3)
Financial assets					
Interest bearing loans to related party	154,926,469	144,948,730	–	–	144,948,730
Other financial assets	12,733,063	14,354,207	12,567,380	–	1,786,827
Financial liabilities					
Debt securities issued	(290,606,802)	(271,296,147)	(271,296,147)	–	–
Interest bearing loans	(76,625,221)	(77,230,676)	–	(77,230,676)	–
Loans from related party	(36,104,050)	(34,757,307)	–	(34,757,307)	–

Estimates and assumptions

The management of the Company has determined that the fair value of cash and bank deposits, dividends receivable, trade receivables, trade payables, financial guarantee obligations and other financial liabilities approximates their carrying amount mainly due to short-term nature of these instruments.

The fair value of quoted bonds is based on price quotations at the reporting date.

The fair values of long-term loans are determined by the DCF method using rates currently available for debt on similar terms, credit risk and remaining maturities.

There have been no transfers between Level 1 and Level 2 during 2019 and 2018.

Changes in liabilities arising from financial activities

In thousands of tenge	1 January 2019	Proceeds	Repayments	Repayment of interest	Foreign exchange gains or losses	Others	31 December 2019
Financial liabilities							
Debt securities issued	290,606,802	–	–	(13,576,598)	(1,272,690)	13,729,386	289,486,900
Interest bearing loans	76,625,221	–	–	(3,010,736)	(329,342)	3,156,880	76,442,023
Loans from related party	36,104,050	–	(25,321,800)	(2,716,707)	–	2,666,749	10,732,292
Total liabilities arising from financing activities	403,336,073	–	(25,321,800)	(19,304,041)	(1,602,032)	19,553,015	376,661,215

In thousands of tenge	1 January 2018	Proceeds	Repayments	Repayment of interest	Foreign exchange gains or losses	Others	31 December 2018
Financial liabilities							
Debt securities issued	251,244,525	–	–	(11,078,484)	38,993,500	11,447,261	290,606,802
Interest bearing loans	–	65,832,000	–	(1,359,840)	11,037,233	1,115,828	76,625,221
Loans from related party	52,157,705	–	(18,524,500)	(2,291,971)	1,921,631	2,841,185	36,104,050
Total liabilities arising from financing activities	303,402,230	65,832,000	(18,524,500)	(14,730,295)	51,952,364	15,404,274	403,336,073

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

Changes in liabilities arising from financial activities (continued)

The "Others" column mainly represents interest accrued, amortization of discount and costs associated with the organization of loans. The Company classifies interest paid as cash flows from operating activities.

Investment securities

During 2018, the Company took advantage of broker services to acquire for trading purposes Government and other securities at the Kazakhstan Stock Exchange providing a yield at the rate of 8.3% per annum under the repurchase agreement ("REPO") for the total amount of 11,910,001 thousand tenge. The period of holding the securities was overnight. The Company recognized interest income on the REPO transactions of 2,694 thousand tenge.

32. SEGMENT REPORTING

The main business operations of the Company are related to gas trading to external and local markets. The Company considers only 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.

In 2019, the Company generated 63% of its revenues from PetroChina Group, 18% from KTG Aimak, 13% from Gazprom Group, and 2% from Crudex Energy International Ltd (2018: 24% from KTG Aimak, 11% from Gazprom Group, 52% from PetroChina Group and 8% from Crudex Energy International Ltd).

33. SUBSEQUENT EVENTS

The Company had no significant events after the end of the reporting period.