Тау-Кен Самрук

National Mining Company
Tau-Ken Samruk JSC

Consolidated financial statements

For the year ended December 31, 2018

NATIONAL MINING COMPANY TAU-KEN SAMRUK JSC

TABLE OF CONTENT

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of financial position	1-2
Consolidated statement of profit or loss and other comprehensive loss	3
Consolidated statement of cash flows	4-5
Consolidated statement of changes in equity	6
Notes to the consolidated financial statements	7-51

NATIONAL MINING COMPANY TAU-KEN SAMRUK JSC

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

Management of National Mining Company Tau-Ken Samruk JSC (hereinafter – "the Company") and its subsidiaries (hereinafter jointly – the "Group") is responsible for the preparation of the consolidated financial statements, that fairly present, in all material respects, financial position of the Group as at December 31, 2018, and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards (hereinafter – "IFRS").

In preparing the consolidated financial statements, management is responsible for:

- selecting of proper accounting principles and its consistent application;
- presenting information, including accounting policies, in a manner that provides relevance, reliability, comparability and understandability of such information;
- using of reasonable and appropriate estimates and assumptions;
- providing additional disclosures when compliance with the requirements of IFRS is insufficient for users of the consolidated financial statements to understand the impact of particular transactions, as well as other events and conditions on the financial position and financial results of the Group's operation; and
- assessment of the Group's ability to continue as a going concern in the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining the effective and reliable functionality of the internal control system of the Group;
- maintaining adequate accounting system, allowing the preparation of information about the Group's financial position at any time with reasonable accuracy, and to ensure compliance of consolidated financial statements with IFRS;
- maintaining accounting records in accordance with the legislation of the Republic of Kazakhstan;
- adopting measures within its competence to safeguard assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated financial statements of the Group for the year ended December 31, 2018 were approved by management on February 27, 2019.

Chief Business Development Director

Saurambayev N.B.

Chief Accountant

Alpichsheva A. Zh.

Grant Thornton

An instinct for growth™

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INDEPENDENT AUDITOR'S REPORT

To the shareholder and management of National Mining Company Tau-Ken Samruk JSC

Opinion

We have audited the consolidated financial statements of National Mining Company Tau-Ken Samruk JSC (hereinafter – "the Company") and its subsidiaries (hereinafter jointly – the "Group"), which comprise the consolidated statement of financial position as at December 31, 2018, and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated 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 Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information: Annual Report of the Group

Management is responsible for other information that is included in the Annual Report. Other information includes: the statement of the chairman of the management board, information on National Mining Company Tau-Ken Samruk JSC, evaluation of mineral resources, the significant events after the reporting date, operations, financial and economic indicators, risks of uncertainties and internal control, social responsibility and environmental protection, corporate governance, key tasks for 2019 and other information, but does not include the consolidated financial statements and our opinion on it. The annual report is expected to be provided to us after the date of this audit report.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information identified above, when it is provided to us, and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's consolidated financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements, 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 consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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 consolidated 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 Group'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 National Mining Company Tau-Ken Samruk JSC'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 consolidated 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 Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- obtain sufficient appropriate audit evidence relating to the financial information of organizations or activities within the Group, to express an opinion on the consolidated financial statements. We are responsible for the management, control and audit of the Group. We remain fully responsible for our audit opinion.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

We communicate with those charged with governance National Mining Company Tau-Ken Samruk JSC regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Grant Thornton

Yerzhan Dossymbekov

General Director/Auditor
Grant Thornton LLP

Certified Auditor of the Republic of Kazakhstan
Certificate #MF–0000069 on January 20, 2012
The Republic of Kazakhstan

State license #18015053 dated August 3, 2018 (primary issue July 27, 2011) for providing audit services on the territory of the Republic of Kazakhstan, issued by the Committee of Internal State Audit of the Ministry of Finance of the Republic of Kazakhstan

February 27, 2019
Almaty, the Republic of Kazakhstan

NATIONAL MINING COMPANY TAU-KEN SAMRUK JSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018

In thousands of Tenge	Notes	**December 31, 2018**	December 31, 2017*
ASSETS			
Non-current assets			
Property, plant and equipment	8	**62,180,591**	45,767,557
Intangible assets	9	**52,752,009**	52,680,333
Exploration and evaluation assets	10	**3,302,015**	6,848,471
Investments in an associate	11	**483,722,801**	443,335,588
Corporate income tax prepaid		**1,213,257**	606,988
Deferred tax assets	26	**965,880**	–
Inventories	13	**2,310,181**	–
Investment securities	12	**5,439,249**	–
Other non-current assets	14	**9,808,286**	7,911,925
		621,694,269	**557,150,862**
Current assets			
Inventories	13	**23,516,693**	20,718,903
Corporate income tax prepaid		**51,298**	499,910
Other current assets	15	**2,108,623**	1,559,029
Short-term bank deposits	17	**3,664,166**	16,001,573
Cash and cash equivalents	16	**5,043,644**	22,360,756
		34,384,424	**61,140,171**
Assets held for sale	7	**2,324,608**	–
TOTAL ASSETS		**658,403,301**	**618,291,033**
EQUITY AND LIABILITIES			
Equity			
Share capital	18	**252,874,907**	252,874,907
Retained earnings		**91,177,956**	114,582,487
Other components of equity	18	**284,402,251**	223,340,451
Equity attributable to equity holder of the parent		**628,455,114**	**590,797,845**
Non-controlling interests	18	**127,770**	50,625
TOTAL EQUITY		**628,582,884**	**590,848,470**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018 (CONTINUED)

In thousands of Tenge	Notes	**December 31, 2018**	December 31, 2017*
Non-current liabilities			
Loans received	20	**1,552,138**	3,730,646
Accounts payable for acquisition of subsidiary	19	**5,793,232**	5,417,568
Deferred corporate income tax liability	26	**10,246,454**	10,230,917
Other non-current liabilities		**298,049**	200,827
		17,889,873	**19,579,958**
Current liabilities			
Contract liabilities and accounts payable	19	**7,151,177**	7,004,703
Dividends payable		**3,600,477**	–
Other current liabilities	21	**1,174,163**	857,902
		11,925,817	**7,862,605**
Liabilities directly associated with assets held for sale	7	**4,727**	–
TOTAL LIABILITIES		**29,820,417**	**27,442,563**
TOTAL EQUITY AND LIABILITIES		**658,403,301**	**618,291,033**

- Certain amounts in this column do not correspond to the amounts in the financial statements for 2017 due to reclassifications which details are presented in Note 4.

Notes on pages 7 to 51 are an integral part of these consolidated financial statements.

Chief Business Development Director

Saurambayev N.B.

Chief Accountant

Alpichsheva A. Zh.

February 27, 2019
Astana, the Republic of Kazakhstan

NATIONAL MINING COMPANY TAU-KEN SAMRUK JSC

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2018

In thousands of Tenge	Notes	2018	2017
Continuing operations			
Revenues from contracts with customers	22	**267,909,576**	206,312,886
Cost of goods sold	23	**(266,816,144)**	(205,140,795)
Gross profit		**1,093,432**	**1,172,091**
General and administrative expenses	24	**(4,293,665)**	(3,410,580)
Selling expenses		**(452,939)**	(235,687)
Operating loss		**(3,653,172)**	**(2,474,176)**
Finance income	25	**2,362,286**	3,635,086
Finance costs		**(496,928)**	(631,081)
Share in profit of an associate	11	**46,637,013**	58,049,264
Other non-operating income		**1,514,053**	387,354
Other non-operating expenses		**(1,063,833)**	(1,037,796)
Loss on impairment of financial assets		**(111,452)**	-
Loss on impairment of non-financial assets		**(522,053)**	(1,183,512)
Loss on disposal of exploration and evaluation assets	10	**(1,970,033)**	-
Foreign exchange gain / (loss), net		**1,685,714**	(194,615)
Profit before income tax for the year from continuing operations		**44,381,595**	**56,550,524**
Corporate income tax expense	26	**(295,589)**	(55,353)
Profit for the year from continuing operations		**44,086,006**	**56,495,171**
Discontinued operations			
Profit after tax for the year from discontinued operations	7	**–**	95,671
Profit for the year		**44,086,006**	**56,590,842**
Profit for the year attributable to:			
Equity holders of the parent		**44,107,425**	56,600,477
Non-controlling interest	18	**(21,419)**	(9,635)
Other comprehensive income			
Gain / (loss) from currency translation adjustment	11	**61,061,800**	(10,281,517)
Total comprehensive income for the year		**105,147,806**	**46,309,325**
Total comprehensive income for the year attributable to:			
Equity holders of the parent		**105,169,225**	46,318,960
Non-controlling interest	18	**(21,419)**	(9,635)

Notes on pages 7 to 51 are an integral part of these consolidated financial statements.

Chief Business Development Director — Saurambayev N.B.

Chief Accountant — Alpichsheva A. Zh.

February 27, 2019
Astana, the Republic of Kazakhstan

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

In thousands of Tenge	Notes	**2018**	2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax from continuing operations		**44,381,595**	56,550,524
Profit before income tax from discontinued operations		**–**	95,671
Adjustments for:			
Depreciation of property, plant and equipment and amortization of intangible assets	23, 24	**813,547**	811,915
Accrued finance income	25	**(2,360,519)**	(3,635,086)
Accrued finance costs		**496,928**	631,081
Share in profit of an associate	11	**(46,637,013)**	(58,049,264)
Write-off of inventories to net realizable value		**53,636**	416,874
Loss on disposal of exploration and evaluation assets	10	**1,970,033**	–
Loss from impairment of financial assets		**111,452**	–
Loss from impairment of non-financial assets		**408,006**	382,201
Net gain from the disposal of 100% share in subsidiary		**–**	(103,426)
Unrealised foreign exchange, net		**(1,834,673)**	194,615
Provision for impairment of accounts receivable	15	**54,711**	2,449
Provision for unused vacations		**508,835**	128,604
Impairment of VAT recoverable		**82,907**	123,231
Loss from operating activities before changes in working capital		**(1,950,555)**	**(2,450,611)**
Change in inventories		**(4,135,229)**	(1,889,916)
Change in other current assets		**(604,305)**	1,622,809
Change in other non-current assets		**(945,832)**	(121,408)
Change in contract liabilities and accounts payable		**330,188**	586,688
Change in other current liabilities		**809,406**	(195,452)
Cash flows from operating activities		**(6,496,327)**	**(2,447,890)**
Interest received		**1,680,464**	3,218,569
Corporate income tax paid		**(22,455)**	(25,337)
Net cash flows (used in) / received from operating activities		**(4,838,318)**	**745,342**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)

In thousands of Tenge	Notes	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		**(18,083,460)**	(14,121,443)
Purchase of exploration and evaluation assets		**(915,351)**	(1,164,979)
Purchase of other non-current assets		**(690,417)**	(584,578)
Proceeds from sale of property, plant and equipment		**1,041,600**	19,221
Acquisition of intangible assets		**(35,231)**	(82,838)
Acquisition of investment securities	12	**(10,637,785)**	–
Proceeds from sales of intangible assets		–	1,250
Proceeds from sales of exploration and evaluation assets		–	23,384
Commissions and fees paid to bank		**(1,033,107)**	(1,168,639)
Dividends received from an associate	11	**67,311,600**	39,321,127
Proceeds from sale of subsidiary		–	429,365
Repayment of accounts payable for the acquisition of a subsidiary		–	(93,382)
Placement of bank deposits		**(34,191,218)**	(32,554,226)
Withdrawal of bank deposits		**47,643,420**	19,316,901
Cash received from investing activities		**50,410,051**	**9,341,163**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid	18	**(56,399,523)**	(5,617,478)
Proceeds from loans		**778,116**	625,683
Repayment of principal on a loan received from the Shareholder		**(7,746,811)**	–
Cash used in financing activities		**(63,368,218)**	**(4,991,795)**
Net change in cash and cash equivalents		**(17,796,485)**	5,094,710
Effect of change in foreign exchange rates on cash and cash equivalents		**479,398**	(123,864)
Effect from the adoption of IFRS 9 on cash and cash equivalents as at the end of the year		**(25)**	–
Cash and cash equivalents at the beginning of the year	16	**22,360,756**	17,389,910
Cash and cash equivalents at the end of the year	16	**5,043,644**	**22,360,756**

DISCLOSURE OF NON-CASH TRANSACTIONS:

During 2018 certain property, plant and equipment were purchased by an increase in accounts payable in the amount of 179,790 thousand tenge (2017: 1,144,700 thousand tenge).

Notes on pages 7 to 51 are an integral part of these consolidated financial statements.

Chief Business Development Director

Saurambayev N.B.

Chief Accountant

Alpichsheva A. Zh.

February 27, 2019
Astana, the Republic of Kazakhstan

NATIONAL MINING COMPANY TAU-KEN SAMRUK JSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018

In thousands of Tenge	Notes	Equity attributable to shareholder of the parent				Non-controlling interests	**Total equity**
		Share capital	Other equity components	Retained earnings	**Total**		
As at December 31, 2016		**252,874,907**	**233,621,968**	**63,599,488**	**550,096,363**	**60,260**	**550,156,623**
Profit for the year		–	–	56,600,477	**56,600,477**	(9,635)	**56,590,842**
Other comprehensive income		–	(10,281,517)	–	**(10,281,517)**	–	**(10,281,517)**
Total comprehensive income for the year		–	(10,281,517)	56,600,477	**46,318,960**	(9,635)	**46,309,325**
Dividends	18	–	–	(5,617,478)	**(5,617,478)**	–	**(5,617,478)**
As at December 31, 2017		**252,874,907**	**223,340,451**	**114,582,487**	**590,797,845**	**50,625**	**590,848,470**
Effect on the adoption of IFRS 9	3	–	–	**(325,108)**	**(325,108)**	–	**(325,108)**
As at January 1, 2018		**252,874,907**	**223,340,451**	**114,257,379**	**590,472,737**	**50,625**	**590,523,362**
Profit for the year		–	–	44,107,425	**44,107,425**	(21,419)	**44,086,006**
Other comprehensive income	11	–	61,061,800	–	**61,061,800**	–	**61,061,800**
Total comprehensive income for the year		–	**61,061,800**	**44,107,425**	**105,169,225**	**(21,419)**	**105,147,806**
Change in non-controlling interests		–	–	(95,970)	**(95,970)**	98,564	**2,594**
Other operations with the shareholder	20	–	–	(4,594,196)	**(4,594,196)**	–	**(4,594,196)**
Acquisition of a subsidiary under common control	6	–	–	1,386,194	**1,386,194**	–	**1,386,194**
Discount on investment securities, net of tax effect in the amount of 970,720 thousand tenge	12	–	–	(3,882,876)	**(3,882,876)**	–	**(3,882,876)**
Dividends	18	–	–	(60,000,000)	**(60,000,000)**	–	**(60,000,000)**
As at December 31, 2018	1	**252,874,907**	**284,402,251**	**91,177,956**	**628,455,114**	**127,770**	**628,582,884**

Notes on pages 7 to 51 are an integral part of these consolidated financial statements.

Chief Business Development Director

Saurambayev N.B.

Chief Accountant

Alpichsheva A. Zh.

February 27, 2019
Astana, the Republic of Kazakhstan

1. GENERAL INFORMATION

National Mining Company Tau-Ken Samruk JSC (hereinafter – "Tau-Ken Samruk" or the "Company") was established in accordance with the Resolution of the Government of the Republic of Kazakhstan #10 dated January 15, 2009 and was registered as a joint stock company on February 2, 2009.

As at December 31, 2018 and December 31, 2017 the sole shareholder of the Company is Sovereign Wealth Fund Samruk-Kazyna JSC (hereinafter – "Samruk-Kazyna" or "Shareholder"). The sole shareholder of Samruk-Kazyna is the Government of the Republic of Kazakhstan.

These consolidated financial statements include the financial statements of the Company and its subsidiaries (hereinafter together - the "Group").

As at December 31, 2018 and 2017 the following companies were subsidiaries of the Group:

Company	Type of operations	Region	**December 31, 2018**	December 31, 2017
Logic Business LLP	Management of investment in KazZinc LLP	Astana	**100.00%**	100.00%
Logic Invest Capital LLP	Management of investment in KazZinc LLP	Astana	**100.00%**	100.00%
Investing house Dana LLP	Management of investment in KazZinc LLP	Astana	**100.00%**	100.00%
ShalkiyaZinc LTD JSC	Exploration, mining and processing of mixed lead-zinc ore	Kyzylorda region	**100.00%**	100.00%
Tau-Ken Altyn LLP	The coordinator of the investment project "Set up of the refining plant and its provision by mineral resource base"	Astana	**100.00%**	100.00%
Severnyi Katpar LLP	Extraction of tungsten	Karaganda region	**100.00%**	100.00%
Tau-Ken Mining LLP	Exploration of non-ferrous metals	Almaty region	**100.00%**	100.00%
Tau-Ken Temir LLP	Metallurgical silicon and by-products production	Karaganda region	**100.00%**	100.00%
JV Alaigyr LLP	Extraction of polymetallic ores	Karaganda region	**100.00%**	100.00%
JV Tau-Ken Project LLP	Exploration of copper, gold and associated components	Karaganda region	**100.00%**	100.00%
Shokpar-Gagarinskoye LLP	Extraction of gold ore	Jambyl region	**100.00%**	100.00%
Tau-Ken Progress LLP	Exploration of non-ferrous metals	Astana	**100.00%**	100.00%
Masalskyi GOK LLP	Development and extraction of iron ore	Akmola region	**93.00%**	98.58%
Silicon mining LLP	Mining of quartz	Astana	**100.00%**	90.10%
SARECO LLP	Production of rare earth metals	Akmola region	**100.00%**	–

The Company's legal address is Dinmukhamed Kunaev str., 8, block "B", Astana, Republic of Kazakhstan. Actual address: E-10 str., 17/10, Astana, the Republic of Kazakhstan.

As at December 31, 2018 number of employees of the Group was 1,342 people (December 31, 2017: 1,354 people).

1. GENERAL INFORMATION (CONTINUED)

Principal activities

The Group is a vertically integrated company and was established to ensure efficient subsoil use activities in the field of:

- exploration, development, extraction, processing activities and sale of solid minerals;
- effective management of subsidiaries and associates of the mining and metallurgical industry;
- development and implementation of new high-tech and efficient technologies in the mining and metallurgical industry;
- restoration of mineral resources of the Republic of Kazakhstan;
- development of off-balance reserves of deposits.

2. BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis of preparation

These consolidated financial statements have been prepared on the historical cost basis.

These consolidated financial statements of the Group are presented in Kazakhstani tenge (hereinafter – "Tenge"). The functional and presentation currency of the consolidated financial statements of the Group is Tenge, except for the consolidated financial statements of an associate, which functional currency is US Dollar. All amounts in these consolidated financial statements are rounded to thousand unless otherwise stated.

Going concern basis

The consolidated financial statements have been prepared in accordance with IFRS based on the assumption that the Group will continue as a going concern. This assumes sale of assets and settlement of liabilities in the normal course of business in the foreseeable future. The management of the Group believes that the Group will be able to continue as a going concern. Management of the Group does not have any intention or necessity to liquidate or significantly reduce the size of its business.

Recognition of the elements of consolidated financial statements

Current versus non-current classification

In the consolidated statement of financial position, the Group represents assets and liabilities based on current / non-current classification. An asset is current when it is:

- expected to be realized or intended to be sold or consumed in the normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realized within 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 twelve months after the reporting period.

All other assets are classified as non-current.

2. BASIS OF PREPARATION (CONTINUED)

Recognition of the elements of consolidated financial statements (continued)

A liability is current when:

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

The Group classifies other liabilities as non-current.

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

Foreign currency translation

In preparing the financial statements, transactions in foreign currencies other than the functional currency (foreign currency) are carried at the exchange rates prevailing as at the transaction date. Monetary items denominated in foreign currencies are translated at the exchange rates prevailing as at the date of consolidated financial statements. Non–monetary items denominated in foreign currencies that are measured at fair value are translated at the exchange rates prevailing at the date of determination of fair value. Non–monetary items measured at historical cost, denominated in foreign currency, are not retranslated. Exchange differences on monetary items, which arise as a result of changes in the exchange rates, are recognized in profit or loss in the period when they arise.

Weighted average exchange rates resulted on the main session of the Kazakhstan Stock Exchange (hereinafter – "KASE") are used as official exchange rates in the Republic of Kazakhstan.

Currency exchange rates of KASE used by the Group in preparing the consolidated financial statements are as follows:

In tenge	**December 31, 2018**	**Average for 2018**	December 31, 2017	Average for 2017
1 US Dollar	**384.20**	**344.71**	332.33	326.00
1 Euro	**439.37**	**406.66**	398.23	368.32

Principles of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries, controlled by the Company, which are listed in Note 1.

Control is exercised if the Group is exposed to risks of changes in revenue from participation in the investee, or has the right to receive such revenues, as well as the ability to influence these revenues through exercising its authority over the investee. In particular, the Group controls an investee only if the following conditions are met:

- the Group has authority over the investee (that is, the existing rights that provide the current ability to manage the significant activities of the investee);
- the Group's exposure to the risk of changes in income from participation in the investee, or the right to receive such income;
- the ability of the Group to use its authority to influence the amount of income.

2. BASIS OF PREPARATION (CONTINUED)

Principles of consolidation (continued)

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- agreement(s) with other holders of voting rights in the investee;
- rights stipulated by other agreements;
- voting rights and potential voting rights held by the Group.

The group re-examines whether there is control over the investee if the facts and circumstances indicate a change in one or more of the three control components. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary. Assets, liabilities, income and expenses of a subsidiary, the acquisition or disposal of which occurred during the year, are included in the consolidated financial statements from the date the Group gains control and are recorded until the Group loses control over the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the relevant assets (including goodwill), liabilities, non-controlling interests and other components of equity and recognizes any resulting profit or loss in profit or loss. Remaining investments are recognized at fair value.

Non-controlling interest

Non-controlling interest represent the interest in the capital of subsidiary, not attributable directly or indirectly to the parent company's shareholder. Non-controlling interest is presented separately in the consolidated statement of profit or loss and other comprehensive income and in the consolidated statement of financial position within equity separately from the parent equity.

Investments in associates and joint ventures

An entity is an associate if the Group has significant influence over its operations and financial activities. Significant influence assumes the right to participate in making decisions concerning the financial and operational activities of the organization, but does not imply control or joint control over such activities.

A joint venture is a joint venture that assumes that the parties that have joint control over the activity, have rights to the net assets of the activity. Joint control is the contractual separation of control over an activity that takes place only when decisions regarding significant activities require the unanimous consent of the parties sharing control.

The factors taken into account when determining whether there is significant influence or joint control are similar to those taken into account when determining whether there is control over subsidiaries. The Group's investments in its associate and joint venture are accounted for using the equity method.

2. BASIS OF PREPARATION (CONTINUED)

Investments in associates and joint ventures (continued)

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The Group's share of the profit or loss of the associate and joint venture is presented directly in the statement of profit or loss outside operating profit. It represents profit or loss after taxation and accounting of non-controlling interests in subsidiaries of an associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the financial statements of the Group. If necessary, adjustments are made to it in order to bring the accounting policies in line with the accounting policies of the Group.

After applying the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on its investment in an associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that an investment in an associate or joint venture has been impaired. If there is such evidence, the Group calculates the impairment amount as the difference between the recoverable amount of the associate or joint venture and its book value and recognizes a loss in the statement of profit or loss in the share of profit of the associate and joint venture.

In the event of a loss of significant influence over the associate or joint control of the joint venture, the Group estimates and recognises the remaining investment at fair value. The difference between the carrying amount of the associate or joint venture at the time of the loss of significant influence or joint control and the fair value of the remaining investments and the proceeds of disposal is recognized in profit or loss.

Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

2. BASIS OF PREPARATION (CONTINUED)

Non-current assets held for sale and discontinued operations (continued)

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate consideration transferred measured at fair value at acquisition date and the amount of any non-controlling interests in the acquiree. For each business combination, the Group measures the non-controlling interests in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, fair value of any previously held equity interest in acquired organization is remeasured at its fair value at the acquisition date and any resulting difference is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 *Financial Instruments: Recognition and Measurement*, is measured at fair value, changes in fair value recognized either in profit or loss or as a change in other comprehensive income. If the contingent consideration is not within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing of goodwill acquired in a business combination from the acquisition date, goodwill is allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated as a part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2. BASIS OF PREPARATION (CONTINUED)

Business combinations under common control

Acquisitions of subsidiaries from parties under common control (entities controlled by the ultimate shareholder) are accounted for using the pooling of interest method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at their carrying amounts of the transferring entity (the predecessor) at the date of transfer. Related goodwill, inherent in the predecessor's original acquisition is also recorded in these consolidated financial statements. Difference between the total book value of net assets, including the predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to equity.

3. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards and interpretations adopted this year

The accounting policy adopted in the preparation of the consolidated financial statements is consistent with that applied in the preparation of the Group's financial statements for the year ended December 31, 2017, except for the newly adopted standards and interpretations effective as at January 1, 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

The Group first time applies IFRS 15 "Revenue under contracts with customers" and IFRS 9 "Financial Instruments", which require restatement of comparative information. The nature and impact of these changes is disclosed below. There are some other amendments and interpretations applied for the first time in 2018, but they do not have a material impact on the financial statements of the Group.

IFRS 9 "Financial Instruments"

IFRS 9 "*Financial Instruments*" replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an "expected credit loss" model for the impairment of financial assets.

When adopting IFRS 9, the Group has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement and impairment are recognised in retained earnings.

The adoption of IFRS 9 has impacted the impairment of financial assets applying the expected credit loss model. This affects the other investment securities, trade accounts receivable, cash and cash equivalents. For contract assets arising from IFRS 15 and trade receivables, the Group applies a simplified model of recognising lifetime expected credit losses as these items do not have a significant financing component.

The effect from the adoption of IFRS 9 on the Group's consolidated statement of financial position (increase / (decrease) as at January 1, 2018 is as follows:

In thousands of Tenge	**Notes**	Adjustments
Assets		
Current assets		
Accounts receivable		(4,534)
Cash and cash equivalents	16	(115,551)
Short-term deposits	17	(205,063)
		(325,108)
Equity and liabilities		
Capital		
Retained earnings		(325,108)
		(325,108)

3. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

IFRS 15 «Revenue from Contracts with Customers»

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue items arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group elected to apply the full retrospective method in adopting IFRS 15. The Group sells gold bullions and provides refining services for precious metals. The activities are carried out based on separate agreements identified with the customers. In accordance with the contract, the Group is obliged to transfer ownership to the customer over gold bullions belonging to the seller. The sale of gold bullions is made by separate lots. The price for each lot is determined in Tenge based on the weighted average exchange rate of the Tenge to the US dollar, formed at the morning session of the Kazakhstan Stock Exchange on the date preceding the transaction date, and the average value of the morning and evening fixing of the London Precious Metals Market Association (LBMA) averaged over the whole month of delivery, net of discount, effective on the date of the transaction. Thus, the Group can determine with reasonable accuracy the price of transactions for the reporting period. The performance obligation under the contract is fulfilled by the Group at the moment of transfer of the goods (gold bullions) to the buyer, where the revenue from the sale of this gold is recognized by the Group in full in the relevant period. Thus, the existing approach of recognition of the Group's revenue meets the requirements of IFRS 15, the Group has no effect on the transition to revenue recognition in accordance with IFRS 15.

Generally, the Group receives short-term advances from its customers. Prior to the adoption of IFRS 15, the Group presented these advances as deferred income in the consolidated statement of financial position. For long-term advances received in accordance with the previous accounting policy, interest was not accrued. After the adoption of IFRS 15 the Group used a practical method for short-term advances. Therefore, the Group will not adjust the amount of consideration for the impact of the financing component in contracts when, at the beginning of the contract, the Group expects that the period between when the buyer pays for goods or services and when the goods or services are delivered will be one year or less.

New and revised IFRS – issued but not yet effective

The Group did not adopt the following new and revised IFRS and Interpretations (issued, but not yet effective) as at the date of issuance of these consolidated financial statements of the Group:

IFRS 16 "Leases"

IFRS 16 will replace 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. It completes the IASB's long running project to overhaul lease accounting.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases. IFRS 16 is effective from periods beginning on or after 1 January 2019. Early adoption is permitted; however, the Company have decided not to early adopt.

The Group is planning to adopt IFRS 16 on 1 January 2019 using the Standard's modified retrospective approach. Under this approach the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to equity at the date of initial application. The Group assessed the effect from the adoption and concluded that the effect from the adoption of IFRS 16 on the Group's consolidated financial statements is not significant. Thus, the comparative information will not be restated.

3. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

New and revised IFRS – issued but not yet effective (continued)

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. This standard is not applicable to the Group.

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 and 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.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply the interpretation from its effective date.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. These amendments are not applicable to the Group.

3. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

New and revised IFRS – issued but not yet effective (continued)

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

Amendments to IAS 28: Long-term interests in associates and joint ventures

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

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in any associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

Annual Improvements 2015-2017 Cycle (issued in December 2017)

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation. An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. The amendments will not have an impact on the Group's consolidated financial statements.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured. An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group but may be applied to future transactions.

3. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Annual Improvements 2015-2017 Cycle (issued in December 2017) (continued)

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. The Group does not expect significant effect on its consolidated financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. The Group does not expect significant effect on its consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

Exploration and evaluation assets

Acquisition cost of subsoil use rights

Acquisition cost of subsoil use rights (for exploration and production) includes signature bonuses, historical costs, and obligatory expenditures on environmental and social programs and are capitalized as rights on subsoil use of the field at the exploration and evaluation stage.

Acquisition cost of subsoil use rights are accounted for on a field-by-field basis. Each field is reviewed for impairment on annual basis confirm. If no future activity is planned on the field, the outstanding balance of acquisition costs of the subsoil use right is written off. Upon start of commercial production at the fields, the subsoil use rights are amortized on the basis of unit of production method in proportion of actual production to total proved reserves.

Exploration and evaluation costs

Exploration and evaluation costs include geological and geophysical expenditures; costs directly related to exploration drilling; stripping activities; administrative and other exploration expenses directly attributable to a particular field. These costs include employee remuneration, materials and fuel used, rig rental costs and payments made to the contractors. If no mineral reserves are found, this is an indicator of impairment. All capitalized costs are subject to technical, commercial and management review at least once a year, to confirm the intention of commercial exploitation, or otherwise extraction of benefits from discovery. When this is no longer the case, the costs are written off.

When proved reserves of minerals are determined and the decision to continue development is made, the relevant expenditures are transferred to the mining assets.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Mining assets

Development and production arrangement costs

Development and production arrangement costs include previously capitalized (and reclassified at the start of development) acquisition costs of the subsoil use rights, exploration and evaluation costs; construction of landfills, installation of surface technological facilities required for production, gathering and preparation of mineral resources at the fields; other costs incurred during arrangement of commercial production at the fields; capitalized discounted costs on mine abandonment and site restoration. Development costs are capitalized as property, plant and equipment (mining assets) and accounted for on a field-by-field basis.

Depreciation of mining assets (as part of property, plant and equipment and intangible assets)

Mining assets are amortized using unit of production method based on the actual production from the start of commercial production at the field. Acquisition costs of the subsoil use rights, including discounted mine abandonment and site restoration costs, are amortized on the basis of total proved reserves. Other field development costs are amortized based on the proved developed reserves.

Property, plant and equipment

Property, plant and equipment are stated at cost less of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacement of equipment parts and borrowing costs for long-term construction projects if capitalization criteria are met. When significant parts of property, plant and equipment are required to be replaced in particular time intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates it appropriately. Similarly, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if all recognition criteria are met.

All other repair and maintenance costs are recognised in the profit or loss as incurred. The present value of the expected cost of asset retirement after its use is included in the cost of the respective asset if the recognition criteria for a provision for future expenses are met. Depreciation is calculated on a straight-line method based on the estimated useful lives of property, plant and equipment.

Estimated useful lives of certain assets are as follows:

Group of property, plant and equipment	Useful lives
Building and construction	8-50 years
Machinery and equipment	3-20 years
Vehicles	7-9 years
Computers	3-10 years
Other	3-10 years

When an asset is sold or disposed, the cost and related accumulated depreciation are written off to expenses and any resulting gains or losses on the asset disposal are included in the consolidated statement of profit or loss and other comprehensive income.

Expenditures incurred after the property, plant and equipment have been placed into operation, such as repairs and maintenance and overhaul costs, are normally expensed in the period when such costs are incurred. The expenditures that have resulted in an increase in the future economic benefits expected to be obtained beyond asset's originally assessed standard performance (increase of useful life, capacity, etc.) are capitalized as an additional cost of property, plant and equipment.

The liquidation cost, useful lives and methods of depreciations are reviewed at the end of each financial year, and adjusted prospectively, if necessary.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-current assets

The Group assesses whether there are any indicators of impairment of the carrying amount of exploration and evaluation assets, property, plant and equipment, intangible assets, investments in subsidiaries and investments in associates and joint ventures (hereinafter – "non-current assets") at each reporting date. If such indicators identified, the recoverable amount of the respective asset is being calculated in order to determine the impairment loss amount (if any). The recoverable amount is determined as the higher of two values: an asset's fair value less costs to sell or value in use. When determining the value in use, the expected future cash flows are discounted to the present value using a discount rate before tax, which, in management's opinion, reflects the present market estimate of the time value of money and risks attributable to such asset.

If the recoverable amount of an asset is lower than its carrying amount, the carrying amount of the asset is reduced to the recoverable amount. Impairment losses are recorded immediately in profit or loss. In case where impairment loss is subsequently reversed, the carrying amount of the asset is increased to the amount calculated as a result of new estimate of its recoverable amount, so that new carrying amount does not exceed the carrying amount that would have been determined if the impairment loss was not recognized for the asset in previous years. Reversal of impairment loss is recorded immediately in profit or loss.

Intangible assets

Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses. Amortization of intangible assets is calculated on a straight line basis and begins when the asset is ready for use. Intangible assets are identifiable if they result from contractual or other rights, or if they are separable, i.e. they can be sold separately or together with other assets.

Intangible assets include subsoil use rights and other intangible assets. Subsoil use rights are amortized using the production method of depreciation for actual production from the commencement of commercial production at the fields. Other intangible assets include a software license. Amortization is accrued on the basis of a straight-line method based on the estimated useful life of intangible assets of 1-10 years.

Estimated useful lives, residual values and amortization method are reviewed at the end of each year and corrected, if necessary.

Leasing

Determining whether the agreement is a lease or whether it contains evidence of a lease is based on an analysis of the content of the agreement at the date of the commencement of the lease. The agreement is a lease or contains signs of a lease if the implementation of the agreement depends on the use of a particular asset (or assets), and the right to use the asset or assets as a result of this agreement is transferred from one party to the other, even if this asset (or these assets) is not indicated in the agreement explicitly.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends paid in cash

The Company recognizes a liability for dividend payments when the distribution is approved and no longer remains at the discretion of the Company. The corresponding amount is recognized directly in equity.

Financial instruments

Key measurement terms

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost;
- fair value through profit or loss (FVTPL);
- fair value through other comprehensive income (FVOCI).

Financial instruments of the Group include financial assets and financial liabilities which are carried at amortised cost as described below.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write–down for expected impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Classification of financial assets

Financial assets of the Group include short-term bank deposits (Note 17), cash and cash equivalents (Note 16), accounts receivable (Note 15) and investment securities (Note 12). The management determines the classification of the financial assets at initial recognition. Accounts receivable are recognized initially at fair value plus transaction costs. Subsequently, accounts receivable are stated at amortized cost using the effective interest method.

Other accounts receivable are unquoted non–derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. They are included in current assets, except for maturities greater than 12 months after the reporting date, that are classified as non–current assets.

Classification of financial liabilities

Financial liabilities of the Group include financial liabilities carried at amortised cost. The Group's financial liabilities comprise loans, accounts and other payable and accounts payable for acquisition of subsidiary (Note 19 and 20).

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Initial recognition of financial instruments

Financial instruments are initially recorded at fair value plus transaction costs. The transaction price is the prime confirmation of the fair value at initial recognition. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Subsequent measurement of financial assets

Financial assets are measured at amortised cost if the assets meet the following conditions:

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows;
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass–through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Impairment of financial assets carried at amortised cost

Expected credit losses are defined as the difference between all the contractual cash flows that are due to an entity and the cash flows that it actually expects to receive ("cash shortfalls"). This difference is discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). The assessment of impairment for financial assets can either be individually or collectively and is based on how an entity manages its credit risk. If an entity has a small number of receivables with large value and these receivables are managed on an account basis (i.e. individually) it may not be appropriate in that case to base the impairment on a provision matrix as such a matrix would unlikely be in line with the expected credit loss of the individual receivable.

Recognition of credit losses is no longer dependent on the Group identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1")
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").
- "Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month expected credit losses" are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Impairment of financial assets carried at amortised cost (continued)

If the terms of an impaired financial asset held at amortized cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account within the profit or loss for the year.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position include cash at banks and on hand and short-term deposits with a maturity of 3 months or less, which are subject to an insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above minus outstanding bank overdrafts, as they are considered an integral part of the Group's cash management activities.

Provisions

Provisions are recognized when the Group has present obligations (legal or constructive) arising as a result of past events, which will need to be settled, and the amount of such obligations can be reliably measured.

The amount of provision for expected expenses recognized in accounting represents the best estimate of the amount required to settle the obligation determined at the reporting date, taking into account risks and uncertainties typical for such obligations. If the amount of provision for expected expenses is determined based on expected cash flows to settle the obligation, the provision for expected expenses is determined as the discounted cost of such cash flows (if the effect of the time value of money is material).

Recognition of revenues and expenses

Recognition of revenue

Revenue from contracts with customers from the sale of gold bars is recognized when control over the goods is transferred to the buyer in an amount that reflects the compensation that the Group expects to receive in exchange for these goods or services.

Recognition of revenue requires the Group to perform the following steps:

- identification of the contract with the customer;
- identification of the obligations to be performed under the contract;
- determination of the transaction price;
- allocation of the transaction price among the individual duties to be performed under the contract;
- recognition of revenue at the time (or according to) the performance of the obligations to be fulfilled under the contract.

Revenue is recognized either at a specific point in time or during the time when (or how) the Group fulfills its performance obligations by transferring the promised goods to its customers.

Revenues are measured at the fair value of funds received or receivable. When the fair value of the consideration received cannot be reliably measured, the income is measured at the fair value of the goods delivered and services transferred.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recognition of revenues and expenses (continued)

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Interest income

Interest income is recognized as interest accrued, using the effective interest rate, i.e. the rate that discounts the approximate future cash flows through the expected life of the financial instrument to the net carrying amount of the financial asset. Interest income is included in finance income in the consolidated statement of profit or loss and other comprehensive income.

Expenses

The expenses are taken into account at the time of actual receipt of the relevant goods or services, regardless of when cash or cash equivalents were paid, and are shown in the consolidated financial statements in the period to which they relate.

Inventories

Inventories of the Group include materials, work in process, raw materials, intended for use in the production process of finished goods or rendering of services. The Group measures for inventories at the lower of cost or net realizable value.

Cost of inventories includes all actual expenses for purchase, processing costs and other costs incurred in order to bring the inventory to its existing condition and location. Inventories are accounted on the basis of weighted average cost method.

Inventories are measured at the lower of two values: cost or net realizable value. The Group recognizes corresponding provision, by reducing the cost of slow-moving and underutilized inventories to net realizable value. The actual sale amount on disposal of such inventories may differ from the net realizable value. Any such differences could have a material effect on future operating results.

Current corporate income tax

Tax assets and liabilities attributable to the current corporate income tax for the current and previous periods are measured at the amount recoverable from tax authorities, or payable to tax authorities. Tax rates and tax laws used to calculate these amounts, are the rates and laws, which have been actually adopted as at the reporting date in the countries in which the Group operates and generates taxable income.

Current corporate income tax attributable to items recognized directly in equity is recognized in equity.

Deferred corporate income tax

The deferred corporate income tax is calculated using the liability method by determining temporary differences as at the reporting date between the tax base of assets and liabilities and their carrying amount for the purposes of consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred corporate income tax (continued)

Deferred corporate income tax liabilities are recognized for all taxable temporary differences. Deferred corporate income tax assets are recognized for all deductible temporary differences, 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, unused tax credits and unused tax losses can be utilized. Tax assets and tax liabilities are not recognized in the consolidated financial statements when a temporary difference arises as a result of the initial recognition of asset or liability in a deal other than business combination, and, at the time of the transaction, does not affect neither accounting profit nor taxable profit or loss.

The carrying amount of deferred corporate income tax assets is reviewed at each reporting date and reduced to the extent that it is unlikely that sufficient taxable profit will be available to allow utilizing the entire or part of the deferred tax asset.

Unrecognized deferred corporate income tax assets are revised at each reporting date and recognized to the extent that it becomes probable that future taxable profit will allow utilizing the deferred corporate income tax assets.

Deferred tax assets and liabilities are calculated using tax rates (and also provisions of tax laws), which have been approved or practically approved by law at the reporting date and are expected to apply to the period when the tax asset is realized or the tax liability is settled. The measurement of deferred tax assets and liabilities reflects the tax consequences of the Group's intentions (at the reporting date) with respect to the future recovery or settlement of the carrying amount of the assets and liabilities.

Deductions from employees' remuneration

In 2018 the Group pays a social tax to the state budget of the Republic of Kazakhstan in accordance with the tax laws of the Republic of Kazakhstan at flat rate of 9.5% of salaries and other payments to employees, including other benefits (2017: 11%). Part of the social tax in the amount of 3.5% is transferred to the Social Insurance State Fund JSC (2017: 5%).

In 2018 the Group pays compulsory medical insurance at the rate 1.5% of salaries and other payments to employees, including other benefits (2017: 1%).

The Group also withholds up to 10% in 2018 (2017: 10%) from the salaries of its employees as contributions to the Single accumulative pension fund JSC. The Group also pays mandatory professional pension contributions at a rate of 5% of salary in favor of workers employed in hazardous working conditions.

In addition to the contributions to the Single accumulative pension fund, the Group withholds from salaries and other payments to employees, including other benefits, personal income tax at flat rate of 10%.

Value added tax

The tax authorities permit the accounting and settlement of VAT on sales and purchases on a net basis.

VAT payable

The VAT arising during the sale is payable to the tax authorities when the goods are shipped or services are rendered. VAT on purchases is subject to offset against VAT on sales upon receipt of a tax invoice from the supplier. The tax law allows to calculate and pay VAT payable on a net basis. Accordingly, VAT on sales and purchases that were not offset at the reporting date was recognized in the consolidated statement of financial position on a net basis.

In addition, VAT related to sales, which have not been collected at the reporting date, is also included in the amount of VAT payable. Where provision for doubtful debts has been made, impairment loss is recorded for the gross amount of receivable, including VAT. The related VAT liability is reported in the financial statements until the accounts receivable is written off for tax purposes. VAT payable is included into the taxes payable account in the consolidated statement of financial position.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Value added tax (continued)

VAT recoverable

VAT recoverable relates to purchases, which have not been settled at the reporting date. VAT recoverable is recovered by offset against the amount of VAT payable related to sales upon payment of purchases. VAT recoverable is included into the taxes recoverable account in the consolidated statement of financial position.

Contingent assets and liabilities

Contingent assets are not recognized in the consolidated financial statements, but are disclosed if there is a probable inflow of economic benefits.

Contingent liabilities are recognized in the consolidated financial statements only if settlement of such liabilities will require an outflow of resources, which amount can be reliably measured.

Events after reporting period

Events occurred after the end of the year, which provide additional information about the position of the Group as at the date of the consolidated statement of financial position (adjusting events) are reflected in the consolidated financial statements. Events occurred after the end of the year that are not adjusting events are disclosed in notes if they are significant.

Related party transactions

According to IAS 24, "Related party disclosure", the Group discloses the nature of the related party relationships as well as information about those transactions and outstanding account balances necessary for an understanding of the potential effect of the relationships on the consolidated financial statements.

In these consolidated financial statements related parties are considered to be those that have the ability to control or exercise significant influence over operating and financial decisions of other party. When deciding whether the parties are related, a substance of the relationship is taken into account, and not merely its legal form.

Reclassifications

In the consolidated statement of financial position as at December 31, 2017, the Group reclassified certain items in order to align it in accordance with the presentation as at December 31, 2018, as follows:

	December 31, 2017 (before reclassification)	Reclassification	**December 31, 2017 (after reclassification)**
Current assets			
Accounts receivable	645,702	(645,702)	–
Advances paid	598,262	(598,262)	–
Other current assets	814,975	744,054	**1,559,029**
Corporate income tax prepaid	–	499,910	**499,910**
Non-current liabilities			
Loans received	–	625,683	**625,683**
Other non-current liabilities	826,510	(625,683)	**200,827**

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

Preparation of the consolidated financial statements in accordance with IFRS requires the preparation of judgments by management of the Group and use of subjective estimates and assumptions that affect recorded amounts of assets and liabilities and disclosure of information about potential assets and liabilities at the reporting date of the consolidated financial statements and recorded amounts of income and expenses during the reporting period. Despite of the fact that the estimates are based on historical knowledge and other significant factors, events or actions may arise in such a manner, so actual results may differ from these estimations.

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

Impairment of non-current assets

The Group assesses whether there are any indicators of impairment of the carrying amount of non-current assets at each reporting date.

Impairment is based on a large number of factors such as: current competitive environment, changes in the expected growth of industry, changes in the availability of financing in the future, technological obsolescence, discontinuance of services, current replacement costs and other changes in conditions that indicate a significant impairment.

If any such indicators exist, the recoverable amount of asset is estimated and compared to its carrying amount. If the carrying amount exceeds the recoverable amount of assets, impairment is recognized. The recoverable amount is determined as the higher of two values: fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate before tax, which, in management's opinion, reflects current market assessments of time value of money and assets' inherent risks. The change in estimated recoverable amount can lead to impairment or its recovery in future periods.

The Group's non-financial assets mainly comprise property, plant and equipment, including mining assets, intangible assets and exploration and evaluation assets, investments in subsidiaries, joint ventures and associates.

As at December 31, 2018 and 2017, management of the Group did not identify any indicators of impairment of non-financial assets.

Useful lives of property, plant and equipment

The Group assesses useful lives of property, plant and equipment and intangible assets at the end of each reporting period. The assessment of the useful life depends on such factors as economic use, repairs and maintenance program, technological improvement and other business factors. Management's assessment of useful life of property, plant and equipment reflects the corresponding information that is available as at the reporting date of these consolidated financial statements.

Reduction of cost of slow-moving and underutilized inventories

Inventories are measured at the lower of two values: cost or net realizable value. The Group recognizes corresponding provision, by reducing the cost of slow-moving and underutilized inventories to net realizable value. The actual sale amount on disposal of such inventories may differ from the net realizable value. Any such differences could have a material effect on future operating results.

Taxation

Various Kazakhstani laws and regulations are not always clearly stated. There may be cases of divergence in opinion between local, regional and national tax authorities. Thus, in the case of accrual of additional charges of taxes by tax authorities, the existing fines and penalties are set in large amount; fines comprise 50% of the amount of additional taxes and penalties are about at 1.25 times of the refinancing rate of the National Bank of the Republic of Kazakhstan from the amount of untimely paid tax. As a result, fines and penalties may significantly exceed the amount of additional taxes.

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

Taxation (continued)

Because of the uncertainties mentioned above, potential amount of taxes, fines and penalties, if such charges arise, may significantly exceed the amount expensed to date and accrued at the reporting date. Differences between estimates and the amounts actually paid, if any, could have a material effect on future operating results.

Deferred tax assets

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which these assets can be utilized. To determine the amount of deferred tax assets that can be recognized in the consolidated financial statements, the Group exercises considerable judgment in relation to the likely timing and the level of future taxable profits and tax planning strategies.

Asset retirement obligations

The Group estimates future site restoration costs based on estimates derived from the internal or external specialists after taking into account the expected method of liquidation and the extent of land reclamation required by legislation and industry practice.

The amount of provision for the site restoration is the present value of the estimated costs that are expected to be required to settle the obligation, adjusted for expected inflation and discounted with the yield of long-term government bonds. Provision for site restoration are reviewed at each reporting date and adjusted to reflect the current best estimate in accordance with IFRIC 1 “Changes in Existing Decommissioning, Restoration of Natural Resources to deal with them and Similar Liabilities”. Estimating the future closure costs involves significant estimates and judgments made by management. Significant judgments used in these assessments include an assessment of the discount rate and the timing of cash flows.

The Group’s management believes that the yield of long-term government bonds, is the best estimate of the applicable discount rate. The discount rate to be applied to the nominal amount, which management expects to spend in the future to restore the site at the field. The Group estimates future site restoration, using current year prices and the average long-term inflation.

The long-term rate of inflation in the Republic of Kazakhstan used in the calculation varies in the range from 2.8% to 14.5% per annum (2017: 2.8% to 14.5%), and the discount rate used to determine the liabilities as at December 31, 2018 is equal to 7.51% (in 2017: 7.51%).

6. INVESTMENTS IN SUBSIDIARIES

The following changes occurred in the composition of subsidiaries of the Group during 2018:

On October 12, 2018, the Group acquired for the amount of 100 tenge a 100% stake in the charter capital of SARECO LLP from NAC Kazatomprom JSC and thus obtained a control over the company owning the plant for the production of collective concentrate of rare earth metals. This transaction represents the business combination under common control.

According to the court decision dated June 27, 2018, and the decisions of the general meeting of participants of Masalskyi GOK LLP dated November 26, 2018, ownership interest in Masalskyi GOK was distributed was as follows: 93.00% for the Company and 7.00% for the non-controlling interest, due to the recognition of the invalidation of operations on the redistribution of shares in 2015 and 2017.

In 2018 the Company increased its share in Silicon mining LLP from 90.01% till 100% as a result of acquisition for 10,228 thousand tenge.

The full list of subsidiaries is presented in Note 1.

7. ASSETS HELD FOR SALE

Shokpar-Gagarinskoye LLP

During 2018, the Group announced the decision of the board of directors to sell the company Shokpar-Gagarinskoye LLP, which is a wholly owned subsidiary of the Group. On December 29, 2018, the Group entered into a sales agreement with a third party. At December 31, 2018, the Shokpar-Gagarinskoye LLP was classified as a disposal group held for sale.

The financial results of the Shokpar-Gagarinskoye company for the year are presented below:

In thousands of Tenge	**2018**	**2017**
General and administrative expenses	**(124)**	(35,044)
Operating loss	**(124)**	(35,044)
Finance income	**1,705**	1,771
Finance costs	**-**	(130)
Impairment loss	**(15,070)**	-
Other non-operating income	**5**	-
Loss before tax	**(13,484)**	(33,403)
Corporate income tax expense	**(256)**	(301)
Loss for the year	**(13,740)**	(33,704)

The main classes of assets and liabilities of Shokpar-Gagarinskoye, classified as held for sale as at December 31, are presented in the table below:

In thousands of Tenge	**Assets and liabilities at December 31, 2018**
Assets	
Property, plant and equipment	**150**
Exploration and evaluation assets	**1,974,101**
Intangible assets	**360**
Other non-current assets	**25,109**
Other current assets	**386**
Cash and cash equivalents	**113**
Assets held for sale	**2,000,219**
Liabilities	
Employee benefit liabilities	**(243)**
Other current liabilities	**(1,566)**
Liabilities directly related to assets held for sale	**(1,809)**
Net assets directly attributable to disposal group	**1,998,410**

Net cash flow of Shokpar-Gagarinskoye:

In thousands of Tenge	**2018**	**2017**
Operating activities	**(40,262)**	(69,797)
Investment activities	**(142,610)**	(292,840)
Finance activities	**182,539**	362,879
Net cash (outflow) / inflow	**(333)**	242

Tau-ken Progress LLP

During 2018, the Group announced the decision of the board of directors to sell Tau-Ken Progress, which is a wholly owned subsidiary of the Group. On November 15, 2018, the Group entered into a sales agreement with a third party. At December 31, 2018, Tau-Ken Progress was classified as a disposal group held for sale.

7. ASSETS HELD FOR SALE (CONTINUED)

Tau-ken Progress LLP (continued)

The results of Tau-Ken Progress for the year are presented below:

In thousands of Tenge	2018	2017
General and administrative expenses	**(36)**	(67)
Operating loss	**(36)**	(67)
Finance income	**62**	18
Finance costs	**-**	(57)
Profit / (loss) before tax	**26**	(106)
Corporate income tax expense	**(9)**	(3)
Profit / (loss) for the year	**17**	(109)

The main asset and liability classes of Tau-Ken Progress, classified as held for sale as at December 31, are presented in the table below:

In thousands of Tenge	Assets and liabilities at December 31, 2018
Assets	
Property, plant and equipment	**31**
Exploration and evaluation assets	**319,517**
Other non-current assets	**4,752**
Other current assets	**37**
Cash and cash equivalents	**52**
Assets held for sale	**324,389**
Liabilities	
Employee benefit liabilities	**(133)**
Other current liabilities	**(2,785)**
Liabilities directly related to assets held for sale	**(2,918)**
Net assets directly attributable to disposal group	**321,471**

Net cash flow of Tau-Ken Progress LLP:

In thousands of Tenge	2018	2017
Operating activities	**(1,147)**	(3,214)
Investment activities	**(390)**	(25,728)
Finance activities	**-**	30,090
Net cash (outflow) / inflow	**(1,537)**	1,148

8. PROPERTY, PLANT AND EQUIPMENT

In thousands of Tenge	Land	Mining assets	Buildings and constructions	Machinery and equipment	Vehicles	Compu-ters	Other	Construction in progress	**Total**
Historical cost:									
As at December 31, 2016	**604,452**	**5,154,041**	**6,589,050**	**10,220,855**	**841,249**	**90,377**	**850,735**	**11,338,442**	**35,689,201**
Additions	–	6,068,923	1,444	1,716,636	263,070	4,873	293,781	5,101,098	**13,449,825**
Changes in accounting estimates	–	(19,157)	–	–	–	–	–	–	**(19,157)**
Internal transfers	–	736,323	2,989,705	323,271	24,046	–	9,511	(4,082,856)	**–**
Transfers from inventories	–	–	–	25,495	–	–	7,902	1,589	**34,986**
Disposals	–	–	(15,099)	(1,565)	–	(480)	(548)	–	**(17,692)**
As at December 31, 2017	**604,452**	**11,940,130**	**9,565,100**	**12,284,692**	**1,128,365**	**94,770**	**1,161,381**	**12,358,273**	**49,137,163**
Additions	–	6,356,406	307,006	764,575	2,544,048	1,479	252,001	8,378,568	**18,604,083**
Changes in accounting estimates	–	(161,796)	–	–	–	–	–	–	**(161,796)**
Acquisition of a subsidiary	8,887	–	78,486	107,399	18,235	–	1,515	–	**214,522**
Internal transfers	–	47,510	1,089,604	(1,203,593)	1,278,776	–	36,569	(1,248,866)	**–**
Transfers from exploration and evaluation assets (*Note 10*)	–	–	–	–	–	–	–	199,690	**199,690**
Transfers from inventories	–	–	4,125	4,713	–	–	2,001	13,574	**24,413**
Transfers to assets held for sale (*Note 7*)	–	–	–	–	–	–	(181)	–	**(181)**
Impairment	–	–	–	–	–	–	–	(408,006)	**(408,006)**
Disposals	(5,481)	(164,369)	(973)	(30,445)	(1,500)	(1,472)	(10,721)	(70,215)	**(285,176)**
As at December 31, 2018	**607,858**	**18,017,881**	**11,043,348**	**11,927,341**	**4,967,924**	**94,777**	**1,442,565**	**19,223,018**	**67,324,712**
Accumulated depreciation and impairment:									
As at December 31, 2016	–	–	**(380,578)**	**(1,343,980)**	**(141,264)**	**(58,299)**	**(135,959)**	**–**	**(2,060,080)**
Charge for the year	–	–	(270,522)	(840,215)	(88,958)	(5,294)	(106,066)	–	**(1,311,055)**
Depreciation on disposals	–	–	258	642	–	476	153	–	**1,529**
As at December 31, 2017	–	–	**(650,842)**	**(2,183,553)**	**(230,222)**	**(63,117)**	**(241,872)**	–	**(3,369,606)**
Charge for the year	–	–	(392,267)	(906,292)	(320,209)	(10,693)	(159,974)	–	**(1,789,435)**
Depreciation on disposals	–	–	–	6,274	400	856	7,390	–	**14,920**
As at December 31, 2018	–	–	**(1,043,109)**	**(3,083,571)**	**(550,031)**	**(72,954)**	**(394,456)**	–	**(5,144,121)**
Net book value:									
As at December 31, 2017	**604,452**	**11,940,130**	**8,914,258**	**10,101,139**	**898,143**	**31,653**	**919,509**	**12,358,273**	**45,767,557**
As at December 31, 2018	**607,858**	**18,017,881**	**10,000,239**	**8,843,770**	**4,417,893**	**21,823**	**1,048,109**	**19,223,018**	**62,180,591**

8. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation charge for the year ended December 31, 2018 includes 702,869 thousand Tenge (year ended December 31, 2017: 676,413 thousand Tenge) recognized in cost of goods sold (Note 23), 98,860 thousand Tenge recognized in general and administrative expenses (year ended December 31, 2017: 128,128 thousand Tenge) (Note 24).

The amount of borrowing costs that were capitalized during the year ended December 31, 2018 amounted to 70,411 thousand Tenge (2017: nil). The rate used to determine the amount of borrowing costs to be capitalized was 6.25% and represents the effective interest rate on a loan received from Eurasian Development Bank JSC.

As at December 31, 2018, property, plant and equipment with a carrying value of 244,079 thousand Tenge were pledged as collateral under a loan agreement with JSC Eurasian Development Bank (2017: 267,506) (Note 20).

9. INTANGIBLE ASSETS

In thousands of Tenge	Subsoil use rights	Other	**Total**
Historical cost:			
As at December 31, 2016	**52,504,453**	**136,377**	**52,640,830**
Additions	–	128,546	**128,546**
Disposals	–	(625)	**(625)**
As at December 31, 2017	**52,504,453**	**264,298**	**52,768,751**
Additions	–	66,971	**66,971**
Acquisition of subsidiaries	38,946	–	**38,946**
Disposals	–	(1,191)	**(1,191)**
Transfers to assets held for sale (Note 7)	–	(360)	**(360)**
As at December 31, 2018	**52,543,399**	**329,718**	**52,873,117**
Accumulated amortization:			
As at December 31, 2016	–	**(38,716)**	**(38,716)**
Amortization charge for year	–	(49,702)	**(49,702)**
As at December 31, 2017	–	**(88,418)**	**(88,418)**
Amortization charge for year	–	(32,690)	**(32,690)**
As at December 31, 2018	–	**(121,108)**	**(121,108)**
Net book value:			
As at December 31, 2017	**52,504,453**	**175,880**	**52,680,333**
As at December 31, 2018	**52,543,399**	**208,610**	**52,752,009**

Amortization of intangible assets for the year ended December 31, 2018, includes 288 thousand Tenge (year ended December 31, 2017: nil) recognized in cost of goods sold (Note 23), 11,818 thousand Tenge in general and administrative expenses (year ended December 31, 2017: 7,374 thousand Tenge.) (Note 24).

Subsoil use rights are represented by recognized intangible assets acquired as a result of business combinations of Shalkiya Zinc LTD, Masalskyi GOK and Severnyi Katpar LLP.

As at December 31, 2018 and December 31, 2017 intangible assets of the Group were not pledged as collateral.

10. EXPLORATION AND EVALUATION ASSETS

In thousands of Tenge	Exploration and evaluation assets
As at December 31, 2016	**5,854,548**
Additions	1,377,657
Disposals	(1,533)
Impairment	(382,201)
As at December 31, 2017	**6,848,471**
Additions	916,885
Transfers to property, plant and equipment (Note 8)	(199,690)
Disposals	(1,970,033)
Assets held for sale (Note 7)	(2,293,618)
As at December 31, 2018	**3,302,015**

The exploration and evaluation assets include the following capitalized costs:

In thousands of Tenge	**December 31, 2018**	December 31, 2017
Geological and geophysical works	**2,648,327**	5,958,125
Services for preparation of project feasibility study	**70,869**	166,780
Payroll and related expenses	**63,322**	87,389
Contributions to social-economic regional development and development of its infrastructure	**35,355**	66,460
Subscription bonus	**33,880**	358,784
Geological information	**1,851**	6,651
Other	**448,411**	601,349
Impairment	**-**	(397,067)
	3,302,015	**6,848,471**

The change in the provision for impairment of exploration and evaluation assets for the year ended December 31, 2018 is as follows:

In thousands of Tenge	**2018**	**2017**
As at January 1	**397,067**	**14,866**
Accrued	**-**	**382,201**
Write-off	**(397,067)**	
As at December 31	**-**	**397,067**

11. INVESTMENTS IN AN ASSOCIATE

In thousands of Tenge	**December 31, 2018**		December 31, 2017	
	Share	**Amount**	Share	Amount
Kazzinc LLP	**29.8221%**	**483,722,801**	29.8221%	443,335,588

In thousands of Tenge	Primary activity	Country where the main activity is conducted and location	A description of the nature of the relationship between the Group and the organization and whether it is strategically important to the Group	The fair value of investments (if investments are accounted for using the equity method, if there is a quoted market price for the investment)
Kazzinc LLP	Extraction and processing of metal ores, production of refined metals	The Republic of Kazakhstan	The organization is strategically important for the Group's Shareholder	Not quoted

11. INVESTMENTS IN AN ASSOCIATE (CONTINUED)

Movements in investments in an associate are presented as follows:

In thousands of Tenge	
As at January 1, 2017	**434,888,968**
Share in profit of an associate	58,049,264
Dividends	(39,321,127)
Foreign currency translation	(10,281,517)
As at December 31, 2017	**443,335,588**
Share in profit of an associate	46,637,013
Dividends	(67,311,600)
Foreign currency translation	61,061,800
As at December 31, 2018	**483,722,801**

Kazzinc LLP

In accordance with the decision of the general meeting of owners of Kazzinc LLP dated 15 March 2018, the total amount of dividends declared to the owners of Kazzinc LLP for the year ended December 31, 2017 was equal to 232,110,000 thousand Tenge, 67,311,600 thousand Tenge out of total amount of dividends were distributed to the Group and were paid in cash.

In accordance with the decision of the general meeting of owners of Kazzinc LLP dated 16 March 2017, the total amount of dividends declared to the owners of Kazzinc LLP for the year ended December 31, 2016 was equal to 131,676,462 thousand Tenge, 39,268,687 thousand Tenge out of total amount of dividends were distributed to the Group and were paid in cash.

The summarized financial information of the associate is provided below, as well as reconciling this information with the carrying amount of the investment in the consolidated financial statements:

In thousands of Tenge	**December 31, 2018**	December 31, 2017
Current assets	**373,228,720**	407,770,904
Non-current assets	**1,656,829,585**	1,444,462,721
Current liabilities	**(98,006,622)**	(95,859,259)
Non-current liabilities	**(310,018,280)**	(269,773,530)
Equity	**1,622,033,403**	**1,486,600,836**
Carrying value of investment	**483,722,801**	**443,335,588**

In thousands of Tenge	**2018**	2017
Revenue	**1,081,320,447**	999,280,372
Net profit	**156,384,518**	194,652,485
The Group's share in net profit for the year	**46,637,013**	**58,049,264**

12. INVESTMENT SECURITIES

In November 2018 by decision of the Government of the Republic of Kazakhstan - the ultimate shareholder of the Company, the Group acquired 10,604,910 bonds of Tsesnabank JSC at the Kazakhstan Stock Exchange at a nominal value of 1 thousand tenge for each with a maturity of 10 years, with a nominal interest rate of 4% per annum. Under the terms of the issue, interest is paid at the end of each year, during the circulation period.

This asset was classified as a financial asset at amortized cost and measured at fair value at the recognition date. The discount rate of 12.19% was determined at the rate of the average yield of government securities adjusted for the bank's rating. The discount was amounted to 4,853,596 thousand tenge and is recognized in the consolidated statement of changes in equity in retained earnings less deferred corporate income tax in the amount of 970,720 thousand tenge.

As at December 31, 2018, the Group recognized an expected 12-month credit loss from the impairment of investment securities in the amount of 372,454 thousand tenge, recognized in the consolidated statement of profit or loss.

13. INVENTORIES

Current assets include the following inventories:

In thousands of Tenge	**December 31, 2018**	December 31, 2017
Finished goods	**13,345,996**	4,669,231
Work-in-progress	**7,748,892**	5,955,012
Raw materials and suppliers	**2,453,021**	10,163,236
Goods	**2,640**	–
Less: reserve on write off of inventories to net realizable value	**(33,856)**	(68,576)
	23,516,693	**20,718,903**

The finished goods mainly include: refined gold and silver bullions. Work in progress mainly includes: semi-finished gold and silver, and electrolyte of gold and silver. Raw materials and materials include mainly semi-finished gold and silver purchased from third parties for processing.

The change in reserve on write off of inventories to net realizable value for the year ended December 31 is presented below:

In thousands of Tenge	**2018**	2017
As at January 1	**68,576**	207,635
Accrued / (recovered) (Note 24)	**53,636**	(127,147)
Written off	**(88,356)**	(11,912)
As at December 31	**33,856**	**68,576**

Within long-term assets, as at December 31, 2018, the inventories in the amount of 2,310,181 were planned to be used by the Group to create long-term assets.

14. OTHER NON-CURRENT ASSETS

In thousands of Tenge	**December 31, 2018**	December 31, 2017
Taxes recoverable, except corporate income tax	**4,801,517**	3,480,294
Advances for non-current assets	**2,512,950**	2,853,783
Prepaid expenses	**2,186,578**	1,153,624
Other non-current assets	**307,241**	424,224
	9,808,286	7,911,925

As at December 31, 2018, prepaid expenses include a commission and fee for reservation of a loan in the amount of 2,186,578 thousand tenge, paid to EBRD under a loan agreement (December 31, 2017: 1,153,624 thousand tenge) (Note 20).

15. OTHER CURRENT ASSETS

In thousands of Tenge	**December 31, 2018**	December 31, 2017
VAT recoverable	**1,048,281**	4,256
Accounts receivable from third parties	**681,915**	655,879
Accounts receivable from related parties	**33,697**	–
Advances paid	**238,777**	598,262
Other current assets	**170,841**	310,809
Less: provision for doubtful debts	**(64,888)**	(10,177)
	2,108,623	1,559,029

15. OTHER CURRENT ASSETS (CONTINUED)

The movement in provision for doubtful debts for the year ended December 31 is presented as follows:

In thousands of Tenge	**2018**	2017
As at January 1	**10,177**	7,728
Effect from application of IFRS 9	**4,534**	–
Accrued	**50,177**	2,449
As at December 31	**64,888**	**10,177**

16. CASH AND CASH EQUIVALENTS

In thousands of Tenge	**December 31, 2018**	December 31, 2017
Current bank accounts in Tenge	**3,457,195**	2,535,797
Short-term bank deposits with maturity less than 90 days, Tenge	**1,526,507**	11,828,004
Current bank accounts in Euro	**29,099**	1,292
Current bank accounts in US Dollars	**24,915**	3,742,049
Short-term bank deposits with maturity less than 90 days, US Dollar	**5,276**	1,785,921
Cash on hand	**671**	–
Current bank accounts in other currencies	**6**	183
Short-term bank deposits with maturity less than 90 days, Euro	**–**	141,220
Cash in transit	**–**	2,326,290
Less: provision for impairment	**(25)**	–
Total cash and cash equivalents	**5,043,644**	**22,360,756**

Movement in the provision for impairment in cash and cash equivalents is presented as follows:

In thousands of Tenge		**2018**	2017
As at January 1		**–**	–
Effect from application of IFRS 9	3	**115,511**	–
Recovered		**(115,486)**	–
As at December 31		**25**	–

17. SHORT-TERM BANK DEPOSITS

In thousands of Tenge	**December 31, 2018**	December 31, 2017
Short-term bank deposits with maturity from 3 months till one year, Tenge	**1,881,351**	**6,294,093**
Short-term bank deposits with maturity from 3 months till one year, US Dollar	**1,842,362**	**9,707,480**
Less: provision for impairment	**(59,547)**	–
Total short-term bank deposits	**3,664,166**	**16,001,573**

Movement in the provision for impairment in short term bank deposits is presented as follows:

In thousands of Tenge		**2018**	2017
As at January 1		**–**	–
Effect from application of IFRS 9	3	**205,063**	–
Recovered		**(145,516)**	–
As at December 31		**59,547**	–

18. SHARE CAPITAL

Share capital

In thousands of Tenge	Ordinary shares	
	Quantity	Amount
As at January 1, 2017	292,887	252,874,907
As at December 31, 2017	292,887	252,874,907
As at December 31, 2018	**292,887**	**252,874,907**

The Company's share capital comprises of ordinary shares. Each ordinary share gives a right for one vote. There were no changes in the share capital in 2018 and 2017.

Other components of the capital

Other components of the capital represent a foreign currency translation reserve attributable to the associate Kazzinc LLP.

Dividends

During 2018 based on the results of 2017 the Group declared and fully paid dividends to Samruk-Kazyna in the amount of 60,000,000 thousand Tenge. (2017: 5,617,478 thousand Tenge)

Non-controlling interest in Masalskyi GOK LLP and Silicon mining LLP

In thousands of Tenge	**2017**
As at January 1	**60,260**
Total comprehensive loss for the period attributable to non-controlling interest	**(9,635)**
As at December 31	**50,625**

In thousands of Tenge	2018
As at January 1	**50,625**
Change in non-controlling interest	**83,342**
Acquisition of a subsidiary	**15,222**
Total comprehensive loss for the period attributable to non-controlling interests	**(21,419)**
As at December 31	**127,770**

19. CONTRACT LIABILITIES AND ACCOUNTS PAYABLE

In thousands of Tenge	**December 31, 2018**	December 31, 2017
Accounts payable for the acquisition of a subsidiary (Note 29)	**5,793,232**	5,417,568
Accounts payable to third parties	**4,807,103**	3,328,940
Contract liabilities to related parties (Note 29)	**2,379,519**	3,655,849
Accounts payable to related parties (Note 29)	**173,719**	19,914
	13,153,573	**12,422,271**
Current portion	**7,151,177**	7,004,703
Non-current portion	**6,002,396**	5,417,568
	13,153,573	**12,422,271**

As at December 31, 2018 and 2017 accounts payable for the acquisition of a subsidiary are represented by debt to the Investment Fund of Kazakhstan JSC for the acquisition of a 100% interest in the authorized capital of Silicon Kazakhstan LLP, which transferred assets and liabilities to Tau-Ken Temir LLP in 2016 (Note 29).

20. LOANS RECEIVED

As at December 31, 2017 and 2018 loans received are as follows:

In thousands of Tenge	Repayment date	Currency	Rate, %	**December 31, 2018**	December 31, 2017
Eurasian Bank of Development	December 30, 2023	US Dollar	6.25%	**1,596,622**	625,683
Less: amortised loan origination fee		US Dollar		**(44,484)**	(56,280)
Loans received from Shareholder	June 30, 2024	Tenge	0.1%	–	3,104,963
Total				**1,552,138**	**3,674,366**

Loan received from the Eurasian Bank of Development ("EABD")

On December 30, 2016, JV Alaigyr LLP, a subsidiary, signed a loan agreement for 7 years with EBD for the amount of 56 million US Dollars to finance a construction of an enrichment plant at an interest rate of 6.25% per annum with the maturity in 2023. In accordance with the signed agreement, JV Alaigyr LLP should comply with certain financial and non-financial covenants. As at December 31, 2018 the Company complied with the covenants.

As security for the loan agreement, the Group provided the following to EADB as a pledge for a period corresponding to the term of the loan agreement:

- the right to claim cash to be received under the contract with Kazzinc LLP in case of non-payment of the debt;
- certain property, plant and equipment of the Group in the amount of 244,079 thousand tenge as at December 31, 2018 (Note 8);
- subsoil use right under the contract for the extraction of polymetallic ores at the Alaigyr deposit.

According to the terms of the loan agreement, in 2017 the Group paid a fee in the amount of 56,280 thousand tenge for receiving a loan. This commission is part of the effective interest rate and is amortized over the term of the loan agreement as part of interest expense in the statement of profit or loss.

Loans received from the Shareholder

During 2018, the Group repaid the loan from the Shareholder in the amount of 7,746,793 thousand tenge ahead of schedule. The unamortized discount on the date of payment of this loan in the amount of 4,594,196 thousand tenge was recognized in the consolidated statement of changes in equity.

21. OTHER CURRENT LIABILITIES

In thousands of Tenge	**December 31, 2018**	December 31, 2017
Debt to employees	**613,460**	308,863
Taxes payable, other than corporate income tax	**310,302**	210,226
Subsoil use contract obligations	**117,360**	119,783
Other current liabilities	**133,041**	219,030
	1,174,163	857,902

22. REVENUES FROM CONTRACTS WITH CUSTOMERS

In thousands of Tenge	**2018**	2017
Sale of gold	**257,475,423**	193,796,598
Sale of silicon	**10,138,776**	9,887,011
Refining Services	**289,272**	-
Sale of silver	**-**	2,620,544
Other	**6,105**	8,733
	267,909,576	206,312,886

The Group mainly sells its finished products in the form of gold bullion weighting 12 kilograms with a gold content of 99.99% to the single buyer, the National Bank of the Republic of Kazakhstan, related party (entities under common control of the State). During 2018 and 2017 the Company sold finished goods with a total weight 18,302 kg, and 14,594 kg, respectively.

23. COST OF GOODS SOLD

In thousands of Tenge	**2018**	2017
Materials and raw materials	**271,197,970**	192,230,343
Electricity	**2,726,282**	2,610,088
Payroll and related taxes	**1,179,787**	1,040,975
Depreciation and amortization (Notes 8 and 9)	**703,157**	676,413
Inventories	**426,092**	772,686
Other	**1,087,357**	706,375
Change in finished goods and work in progress (Note 13)	**(10,470,645)**	7,103,915
	266,816,144	205,140,795

24. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of Tenge	**2018**	2017
Payroll and related taxes	**2,569,478**	2,126,085
Professional and consulting services	**307,900**	311,753
Taxes other than corporate income tax	**259,696**	35,319
Business trip expenses	**254,689**	98,196
Rent expenses	**163,345**	192,560
Other services	**150,947**	10,440
Depreciation and amortization (Notes 8 and 9)	**110,678**	135,502
Representative expenses	**76,427**	5,310
Utilities	**61,663**	69,889
Communication services	**31,275**	13,609
Provisions on accounts receivable	**50,177**	93,791
Write off / (recovery) of inventories to net realizable value	**12,302**	(127,147)
Other	**245,088**	445,273
	4,293,665	**3,410,580**

25. FINANCE INCOME

In thousands of Tenge	**2018**	2017
Finance income from bank deposits	**2,301,897**	3,635,086
Finance income from investment securities	**60,389**	-
	2,362,286	**3,635,086**

26. CORPORATE INCOME TAX

In 2018 and 2017 the Group was subject to corporate income tax at the official rate of 20%.

Tau-Ken Altyn LLP, a subsidiary, operates on the territory of industrial park of the Special economic zone "Astana – new city". As per provisions of the Tax Code of the Republic of Kazakhstan (hereinafter – "Code"), while determining the amount of corporate income tax to be paid to the budget Tau-Ken Altyn LLP reduces the amount of the corporate income tax calculated in accordance with the Code by 100 per cent from revenues received from the sale of goods, work, services resulting from priority activities.

In thousands of Tenge	**2018**	2017
Current corporate income tax	**(275,212)**	(18,043)
Deferred corporate income tax	**(20,377)**	(37,310)
Corporate income tax expense	**(295,589)**	**(55,353)**

Reconciliation of corporate income tax expense calculated from the accounting profit before income tax at the statutory income tax rate to corporate income tax expense for the years ended December 31, 2018 and 2017 is presented below:

In thousands of Tenge	**2018**	2017
Profit before income tax	**44,381,595**	56,550,524
Statutory tax rate	**20%**	20%
Corporate income tax expense at the statutory rate	**8,876,319**	11,310,105
Change in unrecognised deferred tax assets	**733,148**	51,072
Share in profit of an associate	**(9,327,403)**	(11,609,811)
Other	**13,525**	303,987
Corporate income tax expense	**295,589**	55,353

26. CORPORATE INCOME TAX (CONTINUED)

As at 31 December, components of deferred corporate income tax assets and liabilities are as follows:

In thousands of Tenge	**2018**	**Changes recognized in the statement of changes in equity**	**Changes recognized in the statement of profit or loss and other comprehensive income**	2017	Changes recognized in the statement of profit or loss and other comprehensive income	2016
Deferred corporate income tax assets						
Tax loss carried forward	**1,382,348**	**–**	**496,104**	886,244	102,059	784,185
Discount on recognition of investment securities	**965,880**	**970,720**	**(4,840)**	–	–	–
Capitalized expenses in tax accounting	**558,979**	–	–	558,979	25,786	533,193
Unused vacations reserve	**101,961**	–	44,461	57,500	18,213	39,287
Provision on expected credit losses (IFRS 9)	**86,405**	**–**	**86,405**	–	–	–
Accrued liabilities under subsoil use contracts	**24,176**	**–**	**(16,060)**	40,236	(25,448)	65,684
Provision for doubtful debts	**12,977**	**–**	**12,977**	–	(1,546)	1,546
Accrued liabilities for payment of subscription bonus	**–**	**–**	**(4,873)**	4,873	4,873	–
Other	**134,190**	**–**	**111,674**	22,516	(72,865)	95,381
	3,266,916	**970,720**	**725,848**	**1,570,348**	**51,072**	**1,519,276**
Less: unrecognized deferred income tax assets	**(2,301,036)**	**–**	**(730,688)**	**1,570,348**	**51,072**	**(1,519,276)**
Net deferred corporate income tax assets	**965,880**	**970,720**	**(4,840)**	–	–	–
Deferred corporate income tax liabilities						
Property, plant and equipment	**(253,254)**	**–**	**(31,583)**	(221,671)	(154,602)	(67,069)
Assessment of Intangible assets at fair value	**(9,993,200)**	**–**	**13,438**	(10,006,638)	119,900	(10,126,538)
Other liabilities	**–**	**–**	**2,608**	(2,608)	(2,608)	–
Deferred corporate income tax liabilities	**(10,246,454)**	**–**	**(15,537)**	**(10,230,917)**	**(37,310)**	**(10,193,607)**
Net deferred corporate income tax liabilities	**(9,280,574)**	**970,720**	**(20,377)**	**(10,230,917)**	**(37,310)**	**(10,193,607)**

26. CORPORATE INCOME TAX (CONTINUED)

Reconciliation of deferred income tax liabilities, net:

In thousands of Tenge	**2018**	2017
As at January 1	**10,230,917**	10,193,607
Income tax expense for the period recognized in profit or loss	**20,377**	37,310
Changes recognized in the statement of changes in equity	**(970,720)**	–
As at December 31	**9,280,574**	10,230,917

Deferred corporate income tax related to assessment of intangible assets at fair value is deferred income tax acquired within business combination with ShalkiyaZinc, MGOK and Severnyi Katpar LLP.

As at December 31, 2018 unrecognised deferred tax assets were equal to 2,301,036 thousand Tenge (2017: 1,570,348 thousand Tenge) and were mainly attributed to the tax loss carried forward. These losses can be utilised within 10 (ten) years. Due to the uncertainty over the likelihood of availability of taxable profit in the future, against which these losses can be utilized, the corresponding deferred tax asset was not recognized.

27. CONTRACTUAL AND CONTINGENT LIABILITIES

Environment where the Group carries out its financial and business activities

Kazakhstan continues economic reforms and development of its legal, tax and regulatory infrastructure which would meet requirements of a market economy. The stability of the Kazakhstani economy will be largely dependent upon these reforms and effectiveness of economic, financial and monetary measures undertaken by the Government.

The Kazakhstani economy is vulnerable to market fluctuations and global economic slowdowns. The global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Kazakhstan. While the Kazakhstani Government has introduced a range of stabilization measures aimed at providing liquidity and supporting foreign debt refinancing for Kazakhstani banks and companies, there is an uncertainty regarding the access to sources of capital and cost of capital for the Group and its counterparties, which could affect the financial position, results of operations and business prospects of the Group.

Given that the economy of Kazakhstan largely depends on exports of oil and other mineral resources, the world prices for which have significantly fallen in recent years, especially for hydrocarbons, there is a currently observable decline in the economic development of the country. In addition, the currently ongoing economic sanctions against Russia indirectly affect the economy of Kazakhstan, given the large economic relations between these countries. As a consequence of these negative impacts, on August 20, 2015, the National Bank and the Government of the Republic of Kazakhstan decided to move to a free floating exchange rate, after that the national currency Tenge significantly devalued against major world currencies.

The management of the Group believes it is undertaking all necessary measures to support the economic sustainability of the Group in such circumstances. However, further deterioration in the areas described above could negatively affect the results and financial position of the Group. The possible impact is not currently determinable.

Seasonality

The principal activity of the Group is exploration, development, extraction, processing and sale of solid minerals; these areas are not subject to seasonality or cyclic recurrence of operations.

Taxation

The provisions of various tax laws and regulations are not always clearly written and their interpretation depends on the opinion of tax inspectors and the officials of the Ministry of Finance of the Republic of Kazakhstan. There are instances of a dissent between local, regional and national tax authorities.

The applied current system of fines and penalties for identified violations on the basis of existing tax laws in Kazakhstan is severe. Penalties include fines, usually amounting to 50% of the additionally imposed taxes and penalty which is assessed at the refinancing rate established by the National Bank of the Republic of Kazakhstan multiplied by 1.25. As a result, the amount of fines and penalties may significantly exceed the amount of additionally imposed taxes.

27. CONTRACTUAL AND CONTINGENT LIABILITIES (CONTINUED)

Taxation (continued)

The Group believes that it has paid or accrued all applicable taxes. In uncertain cases, the Group has accrued tax liabilities based on management's estimates. Accrual of contingent liabilities in the reporting period, in which there is a possibility of additional costs, which can be determined with reasonable accuracy, is allowed by the policy of the Group.

The potential amount of taxes, fines and penalties may exceed the amount expensed to date and accrued as at December 31, 2018, because of the uncertainties associated with Kazakhstan's tax system. Despite the possibility of imposing such amounts, and their potentially significant nature, the management of the Group believes that it is either not probable, not reasonably determinable, or both simultaneously.

The development of the political situation in Kazakhstan can affect the activity and financial position of the Group, including the application of existing and future legislation and regulatory acts in taxation. The Group does not believe that these contingencies are any more significant in relation to its activities than those of similar enterprises in Kazakhstan.

The Management believes that as at December 31, 2018 its interpretation of the relevant legislation is appropriate and it is probable that the Group's tax position will be sustained.

Environmental protection

The Group's management believes that the Group complies with the requirements of laws and regulations of the Republic of Kazakhstan in relation to environmental issues. However, in case of change of Kazakhstani laws and regulations on environmental protection, the Group cannot predict the timing and the degree of changes.

Legal issues

In the ordinary course of business, the Group may be subject to various lawsuits and claims. The Group's management believes that the actual obligations, if any, will not materially impact the current financial position and financial results of the Group. Therefore, provisions were not recognized in these consolidated financial statements.

Legal claim from ENRC N.V.

In December 2018 ENRC N.V. claimed to the specialized inter-district economic court of the Akmola region with a claim for recovery from the Company in the amount of USD 9,773,423 and expenses on payment of state fees in the amount of 109,072 thousand tenge. The management of the Group believes that the stated claim is not lawful and the collection of the claim of ENRC N.V. is unlikely.

The Group assesses the probability of material obligations arising under specific circumstances and recognizes corresponding provision in the consolidated financial statements only when it is probable that an outflow of resources will be necessary to settle the obligations and the amount of the obligation can be reliably measured.

The Group's management believes that the actual liabilities, if any, will not materially impact the current financial position and financial results of the Company. Therefore, no provision has been recognized in these financial statements.

Insurance

The insurance market in Kazakhstan is emerging and many types of insurance widespread in other countries are not yet available in Kazakhstan. Meanwhile, the Group has insurance coverage related to ongoing drilling and capital repair of mines, as well as civil liability against third parties at a level of generally accepted principles in mining industry. Management believes that as at December 31, 2018 the Group's insurance program was in compliance with the main terms of the subsoil use contracts.

27. CONTRACTUAL AND CONTINGENT LIABILITIES (CONTINUED)

Obligations under subsoil use contracts

As at December 31, 2018 the Group has the following obligations under long-term working programs of subsoil use contracts:

In thousands of Tenge	Fulfillment of obligations for the year ended December 31, 2018	Obligations under long-term working program					
		2018	2019	2020	2021-2026	2027-2037	2038-2047
Shalkiya deposit	15,257,261	18,264,160	72,659,354	62,199,621	200,366,725	653,113,609	593,739,644
Alaigyr deposit	4,265,346	7,064,700	26,902,400	19,294,300	122,897,200	226,028,100	–
Severnyi Katpar deposit	921,613	364,419	7,337,776	6,983,003	35,512,333	–	–
Spasskaya CMZ deposit	754,563	1,146,481	–	–	–	–	–
Aktas deposit	743,316	1,182,871	490,538	450,050	2,777,454	–	–
Verhniye Kayrakty deposit	455,044	490,350	81,133	–	–	–	–
Masalskoye deposit	215,895	17,796,000	3,652,000	2,313,000	30,787,000	–	–
South-Moiynty area deposit	15,343	257,013	256,032	112,843	–	–	–
Melovoe deposit	3,738	496,016	–	–	–	–	–
Progress deposit	1,590	204,431	68,937	–	–	–	–
East Alaigyr deposit	400	94,079	63,177	52,897	326,655	–	–
	22,634,109	**47,360,520**	**111,511,347**	**91,405,744**	**392,667,367**	**879,141,709**	**593,739,644**

The Group's operations are subject to inspection by the state authorities with respect to the compliance with the requirements of the subsoil use contracts. Management cooperates with state authorities to agree on remedial actions necessary to resolve any findings resulting from these inspections. Failure to comply with the provisions contained in the subsoil use contracts may result in fines, penalties, limitation, suspension or revocation of the corresponding contract. The Group's management believes that any disputes related to non-compliance with contract terms will be resolved through negotiations or remedial actions and will not have a significant impact on the consolidated financial statements of the Group.

27. CONTRACTUAL AND CONTINGENT LIABILITIES (CONTINUED)

Loans and guarantees

Loan agreement with the European Bank for Reconstruction and Development ("EBRD")

As at December 31, 2018, JSC ShalkiyaZinc LTD, a subsidiary, is entitled to receive cash under the credit line with EBRD at a rate of LIBOR plus 2.5% per annum for up to 295 million US Dollars (December 31, 2017: up to 350 million US dollars) for the construction of an enrichment plant, a tailing dump, on-site nets, an ore production complex and mining capital works at the Shalkiya mine. Under the terms of this line, the principal debt must be repaid in equal installments every six months from June 20, 2021 to December 20, 2029.

The loan is provided under the irrevocable guarantee of Samruk-Kazyna and under the guarantee of the Group for the fulfillment of contractual terms related to the implementation of the project. In accordance with the terms, ShalkiyaZinc LTD JSC must, throughout the entire term of the agreement, comply with covenants, such as meeting construction deadlines; compliance with the requirements of state, supervisory, tax authorities; performance of relevant financial indicators and other. As at December 31, 2018, the Company complied with these covenants.

As at December 31, 2018, ShalkiyaZinc LTD JSC did not receive cash under this loan agreement. As at December 31, 2018, prepaid expenses include a commission and a fee for reserving a loan in the total amount of 2,186,578 thousand tenge, paid by the EBRD under this agreement (December 31, 2017: 1,153,624 thousand tenge) (Note 14).

Operating lease agreements

As at December 31, 2018 and 2017 the Group has no non-cancellable operating lease agreements.

Investment related agreements

On October 2, 2018, the Group signed a turnkey agreement for the supply of equipment, design and construction of a concentrator at the Shalkiya lead-zinc deposit with Engineering Dobersek GmbH for a total amount of 317 US dollars. According to the contract, the annual capacity of the processing plant after reaching its design capacity at the end of 2021 will amount to 4 million tons of polymetallic ores. It is expected that the launch of the first start-up complex will be carried out in 2020 with an output of the design capacity of 2 million tons of complex ores, and the launch of the second start-up complex is planned in the 4th quarter of 2021 - with a total capacity of two start-up complexes of 4 million tons of complex ores.

As at December 31, 2018 and 2017 the Group has no other investment related agreements, except for subsoil use contracts.

28. FINANCIAL INSTRUMENTS, FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to the following risks associated with financial instruments:

- credit risk;
- liquidity risk;
- market risk.

This note provides information about the Group's exposure to all of the above mentioned risks, the objectives, policies and processes of the Group for measuring and managing these risks as well as the Group's capital management.

The Group's risk management policies are established to identify and analyze risks faced by the Group, to determine the appropriate risk limits and controls, to monitor risks and comply with limits. Policies and risk management systems are reviewed on a regular basis to reflect changes in market conditions and the Group's activities.

Market risk

Market risk is the risk that the fair value of future cash flows on a financial instrument will fluctuate due to changes in market prices.

Interest rate change risk

Interest rate change risk is the risk that the fair value of future cash flows on a financial instrument will fluctuate due to changes in market interest rates. The Group does not have financial instruments with floating interest rate.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to repay all its obligations, when they fall due. The Group controls the liquidity risk by maintaining an adequate level of leverage (debt and equity instruments) and by controlling the cash budget.

The table below summarizes the maturity profile of non-derivative financial liabilities of the Group under the terms of contracts and the agreed payment schedules. This table was prepared on the basis of undiscounted cash flows of financial liabilities and the earliest maturity date of the Group's obligations.

In thousands of Tenge	On demand	rom 1 month to 3 months	'rom 3 months to 1 year	1 year to 5 years	More than 5 years	**Total**
December 31, 2018						
Accounts payable	–	4,980,822	–	–	–	**4,980,822**
Loans received	–	–	248,488	570,675	1,151,684	**1,970,847**
Accounts payable for acquisition of subsidiary	–	–	296,761	7,992,400	–	**8,289,161**
	–	**4,980,822**	**545,249**	**8,563,075**	**1,151,684**	**15,240,830**

In thousands of Tenge	On demand	From 1 month to 3 months	From 3 months to 1 year	1 year to 5 years	More than 5 years	**Total**
December 31, 2017						
Accounts payable	–	3,348,854	–	–	–	**3,348,854**
Loans received from the Shareholder	–	–	–	–	7,889,377	**7,889,377**
Loans received	–	–	41,084	605,041	215,635	**861,760**
Accounts payable for acquisition of subsidiary	–	–	–	1,383,300	6,916,500	**8,299,800**
	–	**3,348,854**	**41,084**	**1,988,341**	**15,021,512**	**20,399,791**

28. FINANCIAL INSTRUMENTS, FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

The Group is exposed to credit risk related to financial assets, which include accounts receivable, investment securities, cash and cash equivalents and short-term bank deposits. The risk of the Group is related to the possibility of default of a counterparty, with a maximum exposure equal to the carrying amount of these instruments. The risk of the Group is related to the possibility of the counterparty default, with the maximum risk being equal to the carrying amount of these instruments. The Group is exposed to credit risk as a result of its operating activities and certain investment activities. In the course of its investment activities, the Group mainly places deposits in Kazakhstani banks.

The following table shows the balance of cash, bank deposits placed with banks at the reporting date using the credit ratings of Standard & Poor's and Fitch, less the reserves created:

In thousands of Tenge	**Rating as at December 31, 2018**	**Rating as at December 31, 2017**	**December 31 2018**	**December 31 2017**
Halyk Bank JSC	BB/stable	BB/negative	**4,985,927**	2,429,597
ATF Bank JSC	B/stable	B3/positive	**1,830,323**	4,931,168
Bank CenterCredit JSC	B/stable	B/stable	**1,818,673**	9,378,886
SB Sberbank JSC	BB+/positive	BB+/positive	**33,341**	1,187,207
Forte Bank JSC	B/stable	B/stable	**30,162**	2,562,785
Citibank Kazakhstan JSC	Not applicable	Not applicable	**5,811**	–
Kassa Nova Bank JSC	B/stable	B/negative	**1,990**	3,113,989
Tsesnabank JSC	B-/stable	B+/negative	**1,239**	11,786,198
SB Alfa Bank JSC	BB+/stable	BB+/stable	**288**	–
Eurasian Bank JSC	B/negative	B/negative	**46**	204,180
SB Bank of China in Kazakhstan JSC	Not applicable	Not applicable	**10**	–
Astana Bank JSC	Not applicable	Not applicable	–	2,663,940
Kazkommertsbank JSC	Not applicable	Not applicable	–	37,791
Tengri Bank JSC	B1/stable	B1/stable	–	50,000
Asia Credit Bank JSC	CCC+/negative	CCC+/negative	–	16,588
			8,707,810	**38,362,329**

Currency risk

Currency risk is the risk that the fair value of future cash flows on a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group conducts certain transactions denominated in foreign currency. In this regard, there is a risk of changes in exchange rates.

The carrying amount of the Group's assets and liabilities denominated in foreign currencies as at December 31, 2018 and 2017 is as follows:

In thousands of Tenge	Liabilities		Assets	
	December 31, 2018	December 31, 2017	**December 31, 2018**	December 31, 2017
US Dollar	**(2,131,954)**	(625,683)	**1,833,767**	1,523,545
Euro	**-**	(112,590)	**29,099**	19,238
	(2,131,954)	**(738,273)**	**1,862,866**	**1,542,783**

28. FINANCIAL INSTRUMENTS, FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Currency risk (continued)

The table below represents detailed information of the possible impact of increase and decrease in exchange rate of Tenge by 14% for 2018 and 10%-13.5% for 2017 in comparison to the respective currencies. The sensitivity level of 14% is used in the analysis and preparation of internal currency risk reporting for key executives and reflects management's assessment of reasonably possible changes in exchange rates. The sensitivity analysis of risk considers only balances of monetary items denominated in foreign currency and adjusts the recalculation of these balances at the reporting date based on a 14% change in exchange rates.

The amounts shown below reflect (decrease)/increase in profits related to the weakening of the Tenge against to relevant currency. Strengthening of exchange rate of Tenge in relation to the relevant currency will have a comparable effect on profit, the amounts indicated below will have the opposite sign.

In thousands of Tenge	Percentage of the ratio of Tenge to the corresponding currency		Effect on profit/ equity			
			Liabilities		Assets	
	2018	2017	**2018**	2017	**2018**	2017
US Dollar	14%	10%	**(298,474)**	(62,568)	**256,727**	152,355
Euro	14%	13.5%	**-**	(15,200)	**4,074**	2,597
			(298,474)	**(77,768)**	**(77,768)**	**154,952**

Fair value of financial instruments

Fair value is determined as the amount at which the instrument could be exchanged between knowledgeable parties on a commercial basis, except for situations with forced or liquidation sale. The Group believes that as at December 31, 2018 and December 31, 2017 the current value of financial assets and liabilities is approximately equal to their fair value.

Procedures for estimating the fair value

The Group uses the following hierarchic structure of valuation methods to determine and disclose information about the fair value of financial instruments:

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities;
- Level 2: valuation models for which all inputs which have significant effect on the recorded in the consolidated financial statements fair value are observable in the market, either directly or indirectly;
- Level 3: valuation models which use inputs that have significant effect on the recorded in the consolidated financial statements fair value that are not based on observable market data.

28. FINANCIAL INSTRUMENTS, FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Procedures for estimating the fair value (continued)

The following table represents an analysis of financial instruments presented in the consolidated financial statements at fair value, in the context of a hierarchy levels of the fair value as at December 31, 2018 and December 31, 2017 as follows:

In thousands of Tenge	**Fair value estimation of as at December 31, 2018**				
	Date of measurement	Level 1	Level 2	Level 3	**Total**
Financial assets					
Financial assets, accounted for at amortised cost					
Investment securities	31.12.2018	–	**5,439,249**	–	**5,439,249**
Total fair value		–	**5,439,249**	–	**5,439,249**

In thousands of Tenge	**Fair value estimation of as at December 31, 2018**				
	Date of measurement	Level 1	Level 2	Level 3	**Total**
Liabilities, which fair value is disclosed					
Accounts payable	31.12.2018	–	**4,980,822**	–	**4,980,822**
Loans received	31.12.2018	–	**1,552,138**	–	**1,552,138**
Accounts payable for acquisition of subsidiary	31.12.2018	–	**5,793,232**	–	**5,793,232**
Total fair value		–	**12,326,192**	–	**12,326,192**

In thousands of Tenge	Fair value estimation of as at December 31, 2017				
	Date of measurement	Level 1	Level 2	Level 3	**Total**
Liabilities, which fair value is disclosed					
Accounts payable	31.12.2017	–	3,348,854	–	**3,348,854**
Loans received from the Shareholder	31.12.2017	–	3,104,963	–	**3,104,963**
Loans received	31.12.2017	–	625,683	–	**625,683**
Accounts payable for acquisition of subsidiary	31.12.2017	–	5,417,568	–	**5,417,568**
Total fair value		–	**12,497,068**	–	**12,497,068**

During 2018 and 2017 there were no transfers between Levels 1, 2 and 3.

28. FINANCIAL INSTRUMENTS, FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The Group manages its capital in order to continue as a going concern together with maximization of profits for stakeholders by optimizing the balance of debt and equity.

Capital management of the Group is strictly dependent on the capital management strategy of Samruk-Kazyna. Most of the decisions on capital management are made in coordination with a relevant committee of the Shareholder. In order to maintain or adjust the capital structure, Samruk-Kazyna may make contributions to the Group's equity, provide debt financing or authorize the Group to obtain debt financing from third parties, providing all essential guarantees for all significant external loans.

The coefficient of debt to equity at the end of the year is as follows:

In thousands of Tenge	**December 31, 2018**	December 31, 2017
Interest-bearing loans and borrowings	**1,552,138**	3,730,646
Equity	**628,582,884**	590,848,470
Debt to equity coefficient	**0.002**	**0.006**

29. RELATED PARTY TRANSACTIONS

Related parties include the entities under common control of the Samruk-Kazyna and/or the Government, as well as entities in which the Samruk-Kazyna and/or the Government have significant or joint control; key management personnel of the Group, entities in which a significant share is directly or indirectly owned by the key management personnel.

Transactions with related parties were conducted on terms agreed between the parties, which were not necessarily carried out at market terms.

As at December 31, 2018 and 2017 related party balances were presented as follows:

Contract liabilities and accounts payable

In thousands of Tenge	Note	**December 31, 2018**	December 31, 2017
Entities related with Samruk-Kazyna:			
NAC Kazatomprom JSC		**65,593**	163
KazMunaiGas JSC		**62,380**	14,792
KEGOC JSC		**42,525**	–
Kazakhtelecom JSC		**1,776**	1,963
Kazpost JSC		**655**	2,495
Air Astana JSC		**790**	–
Samruk-Kazyna Contract JSC		**–**	98
Kazakhstan Temir Zholy JSC		**–**	403
	19	**173,719**	19,914
Entities related with the Government:		–	–
The National Bank of the Republic of Kazakhstan		**2,379,519**	3,655,849
	19	**2,379,519**	3,655,849

29. RELATED PARTY TRANSACTIONS (CONTINUED)

Accounts payable for acquisition of subsidiary

In thousands of Tenge	Note	**December 31, 2018**	December 31, 2017
Entities related with Samruk-Kazyna:			
Investment Fund of Kazakhstan JSC (Note 19)		**5,793,232**	5,417,568
		5,793,232	5,417,568

Advances paid

In thousands of Tenge	**December 31, 2018**	December 31, 2017
Entities related with Samruk-Kazyna:		
NAC Kazatomprom JSC	**34,809**	86,752
Air Astana JSC	**3,237**	2,086
Kazakhstan Temir Zholy JSC	**2,178**	2,046
KazMunaiGas JSC	**2,005**	–
Kazakhtelecom JSC	**224**	–
Kazpost JSC	**161**	232
Samruk-Kazyna Contract JSC	**-**	284
KEGOC JSC	**-**	24,116
	42,614	**115,516**

Purchases

In thousands of Tenge	**2018**	2017
Entities related with Samruk-Kazyna:		
NAC Kazatomprom JSC	**833,469**	297,219
KazMunaiGas JSC	**721,274**	326,612
KEGOC JSC	**689,673**	620,757
Samruk-Kazyna Contract JSC	**69,561**	53,955
Air Astana JSC	**44,679**	18,043
Kazakhstan Temir Zholy JSC	**31,137**	42,359
Kazpost JSC	**25,878**	26,832
Kazakhtelecom JSC	**21,589**	20,926
Samruk-Energy JSC	**-**	440,525
Associates of the Group:		
Kazzinc LLP	**289,029**	405
	2,726,289	1,847,633

29. RELATED PARTY TRANSACTIONS (CONTINUED)

Sales to related parties

In thousands of Tenge	**2018**	2017
Entities related with the Government:		
The National Bank of the Republic of Kazakhstan	**257,215,574**	193,324,860
Entities related with Samruk-Kazyna:		
NAC Kazatomprom JSC	**154,794**	-
Samruk-Kazyna JSC	**15,500**	-
KazMunaiGas JSC	**7**	-
Associates of the Group		
Kazzinc LLP	–	2,338,981
	257,385,875	**195,663,841**

Compensation to key management personnel

The key management personnel as at December 31, 2018 consists of 13 people (as at December 31, 2017: 10 people). For the year ended December 31, 2018, the total compensation of key management personnel included in general and administrative expenses in the consolidated statement of profit and loss and other comprehensive income amounted to 132,063 thousand Tenge (for the year ended December 31, 2017: 371,222 thousand Tenge).

30. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements were approved for issuance by the chief director on business development and chief accountant of the Group on February 27, 2019.

31. EVENTS AFTER THE REPORTING DATE EVENTS

On January 25, 2019, at the general meeting of bondholders of Tsesnabank JSC, the Group, in accordance with the decision of the Shareholder, and other holders of these bonds agreed with the changes in the prospectus of coupon bond issue. As a result, the repayment term of the bonds of Tsesnabank JSC was extended from 10 to 15 years, the coupon interest rate was reduced from 4% to 0.1%. This decision led to a decrease in investment securities and retained earnings in the amount of 1,244,671 thousand tenge.