

2016

ANNUAL REPORT



**ON THE WAY TO
ACHIEVING THE GOAL**



ANNUAL REPORT
2016

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REPORT INFORMATION

The integrated report of Tau-Ken Samruk National Mining Company JSC (hereinafter referred to as the Report) provides a holistic review of the results of the Tau-Ken Samruk NMC JSC Group of Companies (hereinafter referred to as the Company) since January 1 through December 31, 2016. [G4-28](#)

This Report was prepared in accordance with the Global Reporting Initiative (GRI) 4.1 (hereinafter referred to as the GRI) principles of the International Committee of Integrated Reporting and International Financial Reporting Standards. The Report

Principles for Defining Report Content

For the purpose of identification of the data to be included in the Report with due account for the Company's activity, its impact as well as expectations and interests of the stakeholders, the Company adhered to the following principles:

Stakeholder Inclusiveness

In preparation of the present Report and determining its content, the Company intended to ensure transparency and accessibility of information with due account for expectations and interests of the stakeholders.

Sustainability Context

The Report provides information in the field of economy, ecology, industrial safety, occupational safety, corporate management and financial activity.

Relevant Aspects and Scope of the Report

Following the relevance principles recommended by GRI, the Company identified the significant matters deserving reflection in the given Report with due account for opinion of the key stakeholders. The responsible persons carried out a poll by means of filling-in the questionnaires and personal interviews both within and outside the organization. Based on the results of the collected data analysis, relevance assessment was conducted based on the aspect significance in the process of economy, ecology and social sphere impact. Thus, based on

preparation was based on the use of the version 4.1 of the GRI Sustainability Reporting Guidelines and Sector Disclosures. The table specifying the layout of the standard elements in the Report is given in the Appendix No.2: GRI Content Index.

The present Report is the first in the history of the Company and includes the indices of sustained development and financial activity of the Tau-Ken Samruk NMC JSC Group of Companies for 2016. In the future, the Company is going to make its Integrated Report yearly. [G4-23](#), [G4-29](#), [G4-30](#)

Materiality

The Company discloses the results of its performance covering the aspects that are relevant and important for the stakeholders and also reflect the Company's significant economic, environmental and social impact on them.

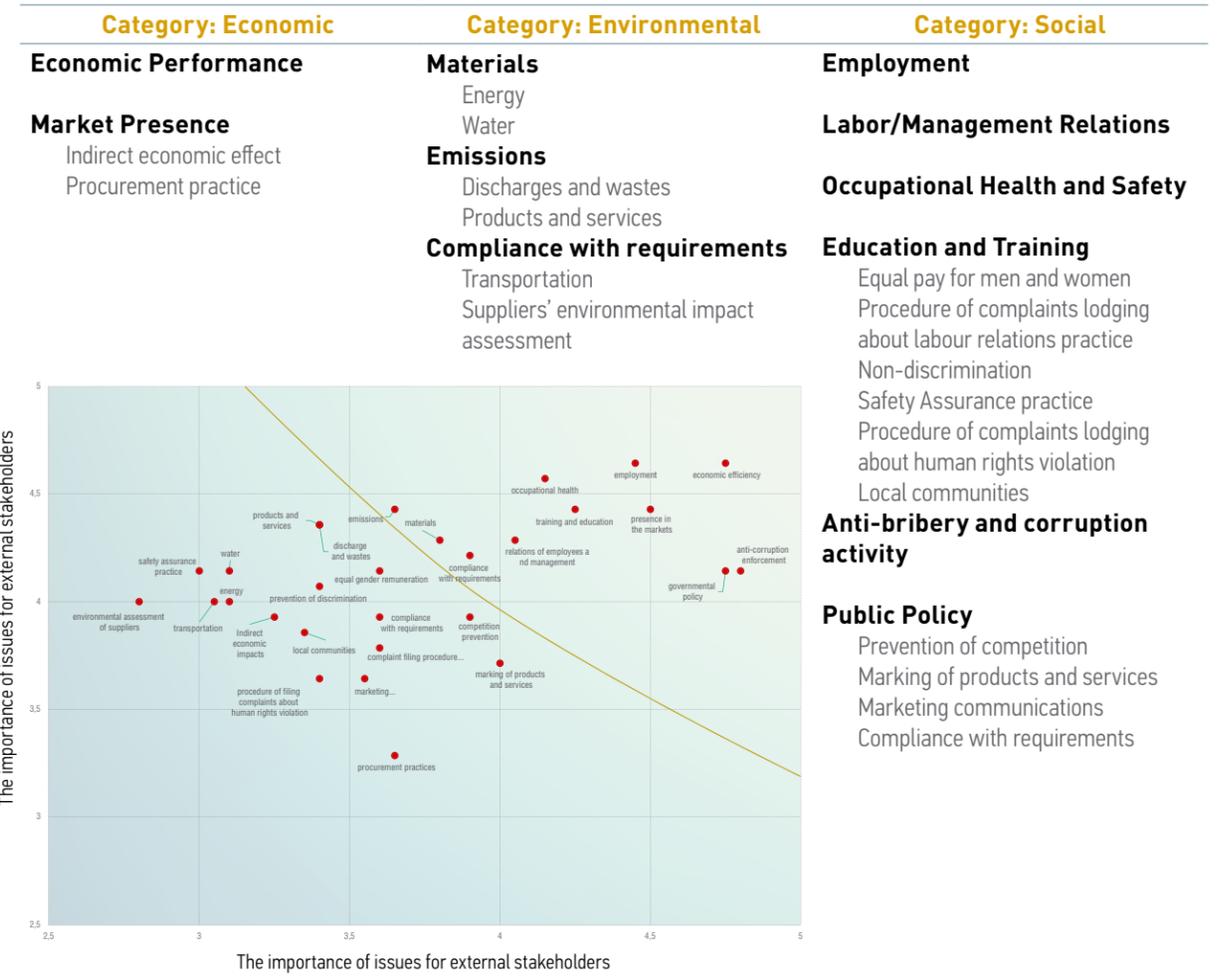
Completeness

In order to provide the stakeholders with opportunity to assess the results of its performance, the Company prepared the consolidated report with due account for financial and non-financial performance of all its subsidiaries over the reporting period. [G4-18](#)

The more detailed information is provided in the corresponding sections of the Report.

the aspects priority matrix used for illustration of relevance assessment, those aspects that are specified in the top relevance area have been selected and specified.

The list of the aspects proposed for consideration and the most important aspects identified by the stakeholders within and outside the organization.



G4-19 G4-20 G4-21

Conclusion on Certification by Independent Party

The submitted report was prepared in accordance with the Core version of the GRI Sustainability Reporting Guidelines and Sector Disclosures. These Guidelines shall not be considered as obliging the company to undergo a procedure of certification by independent experts. Nevertheless, management of the

Company bears responsibility and assures the readers of the given publication about compliance with the applicable international requirements and gives the highest estimate to quality of the Report and information contained therein. [G4-32](#), [G4-33](#)



STATEMENT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear readers,

In 2016, the Company's Board of Directors was focused on enhancement of the corporate management system and achievement of the key objectives of the Company as regards implementation of investment projects.

Taking into account the current economic situation, the Company's Board of Directors came to decision to update the previously approved Company Development Strategy 2013-2022 by setting the new strategic goals.

I would like to note that the Company has prominent results at the year-end 2016, thus, its Tau-Ken Altyn, LLP and Tau-Ken Temir, LLP manufacturing companies achieved their planned indicators in terms of production and sales of end products, sales proceeds of which amount to KZT 166 384 038 thous.

Alaigyr and Shalkiya are our top priority projects that now are on the stage of implementation. Credit line opened to Alaigyr JV, LLP by the Eurasian Bank of Development is the most important achievement of 2016. As regards Shalkiya Project, the bankable feasibility study was completed and beneficiation technology was optimized in accordance with the international standards.

Global social challenges and changing market conditions are the basic factors of being in line with the sustainable development principles. Our Company is steadily moving towards business sustainability in terms of social stability, occupational safety and labour protection. By the corresponding decisions of the Board of Directors, the Company's internal regulations have been amended and responsibilities have been delineated between the Company's Bodies in charge of its Sustainable Development.

As part of transformations in corporate governance of the Company, advanced standards and corporate governance practices are further introduced with due account for new Corporate Governance Code of the Company.

Throughout the year 2016, we continued to pay special attention to human resources development and processes improvement to upgrade quality and performance of team work. We hold on to consistently introduce jobs grading and description based on the entire Group's competence model.

Summarizing the results of the Company's activity for the year 2016, we can confidently say that stage by stage we achieve the ambitious objective to improve our financial and operating performance and achieve the level of our peers in terms of these parameters. In the nearest future, it is important for us to optimize the investment portfolio of the Company by focusing on the priority solid commercial minerals and implement innovative technologies in existing projects.

On behalf of the Company's Board of Directors, I would like to express my appreciation to the Management Board, personnel and Sole Shareholder for joint efforts in developing Tau-Ken Samruk, JSC. [G4-1](#)

Kuanysh Bektemirov,
Chairman of the Board of Directors
of Tau-Ken Samruk NMC JSC

Planned indicators in terms of production and sales of end products were achieved, sales proceeds amount to KZT 166.4 bln.



STATEMENT OF THE CHIEF EXECUTIVE OFFICER

Dear readers,

I can confidently say that the year 2016 was fruitful for our Company. The industry is gradually recovering after the crisis period. We, in turn, actively invested in development of our projects and worked hard on the set objectives.

The gold refinery of Tau-Ken Altyn LLP achieved the planned indicators of fine gold production in the amount of 12 tonnes making 32% of the total fine gold production in Kazakhstan. For the purpose of further increase in production volume, we started the Purchase of Hydrometallurgical Gold Precipitation Equipment Project that will enable processing of additional types of raw materials such as cathode gold, radioelectronic scrap, off-balance tailings as well as solid industrial wastes.

In turn, the silicon plant of Tau-Ken Temir, LLP achieved the planned level of production in full making 19.5 thousand tonnes of metallurgical silicon. The Company is the only manufacturer of this product. In order to provide the Tau-Ken Temir plant with its own raw materials, we acquired 90.1% participation interest in Silicon Mining, LLP that beneficially owns the Aktas quartz deposit in Karaganda region with the total reserves volume exceeding 4 million tonnes.

In addition to achievement of the planned production level, improvement of our plants production performance is of no less importance for our Company. Production line of Tau-Ken Altyn plant was supplemented with the leading-edge innovative Acidless Separation System ensuring the process of acidless separation of gold and silver, vacuum distillation of silver from gold and silver alloys. The Tau-Ken Temir silicon plant started briquetted mono-slag production as a waste management solution.

In 2016, we continued implementation of our production projects. There are two lead and zinc projects in the portfolio of the Company – Shalkiya and Alaigyr. As regards Shalkiya project, previously made mine tunnels, underground infrastructure were restored, geotechnical studies were completed and bankable feasibility study was finished due to which funding from the European Bank of Reconstruction and Development is planned. We optimized the scheme of ore mill in accordance with the new process procedures; auxiliary mining and mobile equipment was purchased and underground repair stations is arranged.

Mining and preparatory works, engineering-geological and engineering-geodesic works at Alaigyr Deposit have been completed. For the first time ever, Tau-Ken Samruk Group attracted the external loan funding for the project from Eurasian Development Bank.

The Company beneficially owns Massalsky iron ore deposit in Akmola region where we actively cooperate with China investors. The process of ore milling and producing concentrates for the blast furnace in CNTIC in cooperation with the Research Institute of Mining and Metals (CRIMM, Changsha) was studied and technological regulations were developed based on the results of studies. The deposit reserves were estimated according to the JORC classification.

Within the framework of expanding the Company's mineral raw materials base, we continued geological gold and copper deposits explorations. We completed works at the Predgornyy Ketmen site in Almaty region. The reserves of the Hajkongon were entered in the State Register of Reserves within the framework of the Spassk Project. The Company and the Ministry of Investments and Development concluded subsoil use contracts relating to Verkhneye Kairakty and Tuyuk.

As a production company, we pay special attention to social aspects of sustainable development in terms of labour protection and occupational safety.

In 2016, there were no fatal accidents in the Group.

Within the framework of improving transparency and efficiency of all managerial bodies, the Company continues introduction of the new Corporate Governance Code.

Summing up the results of the year, I would like to express appreciation to all employees of the Company for their hard work and a major contribution to development of the Company and I am sure that in 2017 we will achieve our goals and success!

Mazhit Turmagambetov,
Chief Executive Officer of
Tau-Ken Samruk NMC JSC

The gold refinery of Tau-Ken Altyn LLP achieved the planned indicators of fine gold production in the amount of 12 tonnes making 32% of the total fine gold production in Kazakhstan.

COMPANY OVERVIEW

Tau-Ken Samruk National Mining Company, JSC is a member of Samruk-Kazyna National Welfare Fund, Joint Stock Company (hereinafter – Samruk-Kazyna JSC), was founded in accordance with the Resolution No.10 of the Government of the Republic of Kazakhstan dated January 15, 2009 to ensure an efficient subsoil management in terms of exploration, development, production, processing and sale of solid commercial minerals (SCM), effective management of the mining and metals companies whose shares are transferred to the Company; development

and introduction of new high-tech and effective technologies in mining and metals industry, replenishment of the mineral reserves base and off-balance reserves development. [G4-3, G4-4, G4-7](#)

The Company is a partner of Glencore International Company and owns 29.8% participation interest in the authorized capital of Kazzinc, LLP.

Mission

The Company's mission is to develop mining and metals industry of the Republic of Kazakhstan by successful implementation of investment projects and efficient use of assets in the priority types of solid commercial minerals in accordance with the sustainable development principles.

Vision

In our vision, the Company acts as an accelerator of the Republic of Kazakhstan mining and metals industry developing important and complex deposits with the use of the best technologies and involvement of the best partners.

Objectives

- Increase of the Company's value for its shareholder;
- Sustainable development of the Company through reinvestments;
- Involvement in development of complex deposits through implementation of new innovative technologies of production and processing of raw materials;
- Direct, indirect and induced creation of new jobs and increase of the national GDP.

Our Development Strategy

The previous strategy of the Company's development was approved by the Board of Directors in 2013.

The approved strategy set the ambitious objectives for the Company but changes in the external circumstances prevented its full implementation. Recent years were characterized by the severe protracted economic crisis, decline in the prices for oil and metals, which limited the funds available for investment in the industry. All those factors affected the achievement of the objectives set by the previous strategy.

In view of the above, the Company's strategy was reconsidered with due account for the following basic provisions:

- There is still the need for the Company to invest in geological exploration (starting from 2019) in order to ensure funds for new deposits at own financial resources with the focus on the priority SCMs such as gold, copper, lead-and-zinc resources.

- Focusing on the development of confirmed reserves/resources projects.
- Transfer to the re-investor model with pragmatic approach to launching the new projects, their development and further sale of assets in full or any participation interest.

[G4-42](#)

The Company's activity is based on the following principles:

- Activity of the Company as an accelerator of the mining and metals sectors of the national economy with involvement of the technological and strategic partners and financial investors.
- Representing the interests of the government, the Company should arrange for the complex, refractory ore and intractable ores to be used in production processes in Kazakhstan and for geological exploration operations to be carried out at complex deposits and also for researches to develop effective technologies for beneficiation and processing of ores.

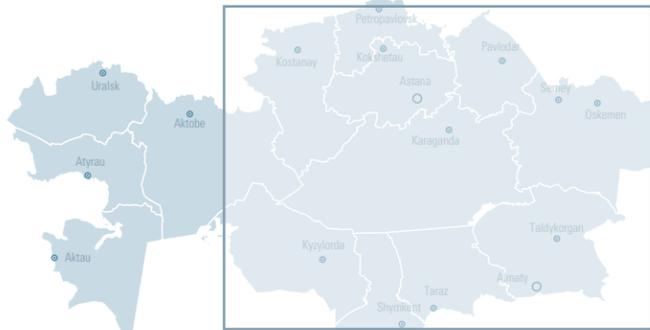


GEOGRAPHY FOOTPRINT

Tau-Ken Samruk NMC JSC has its activity on the territory of the Republic of Kazakhstan and owns:

- 2 manufacturing sites;
- 4 mining projects;
- 7 geological exploration projects.

G4-6, G4-8



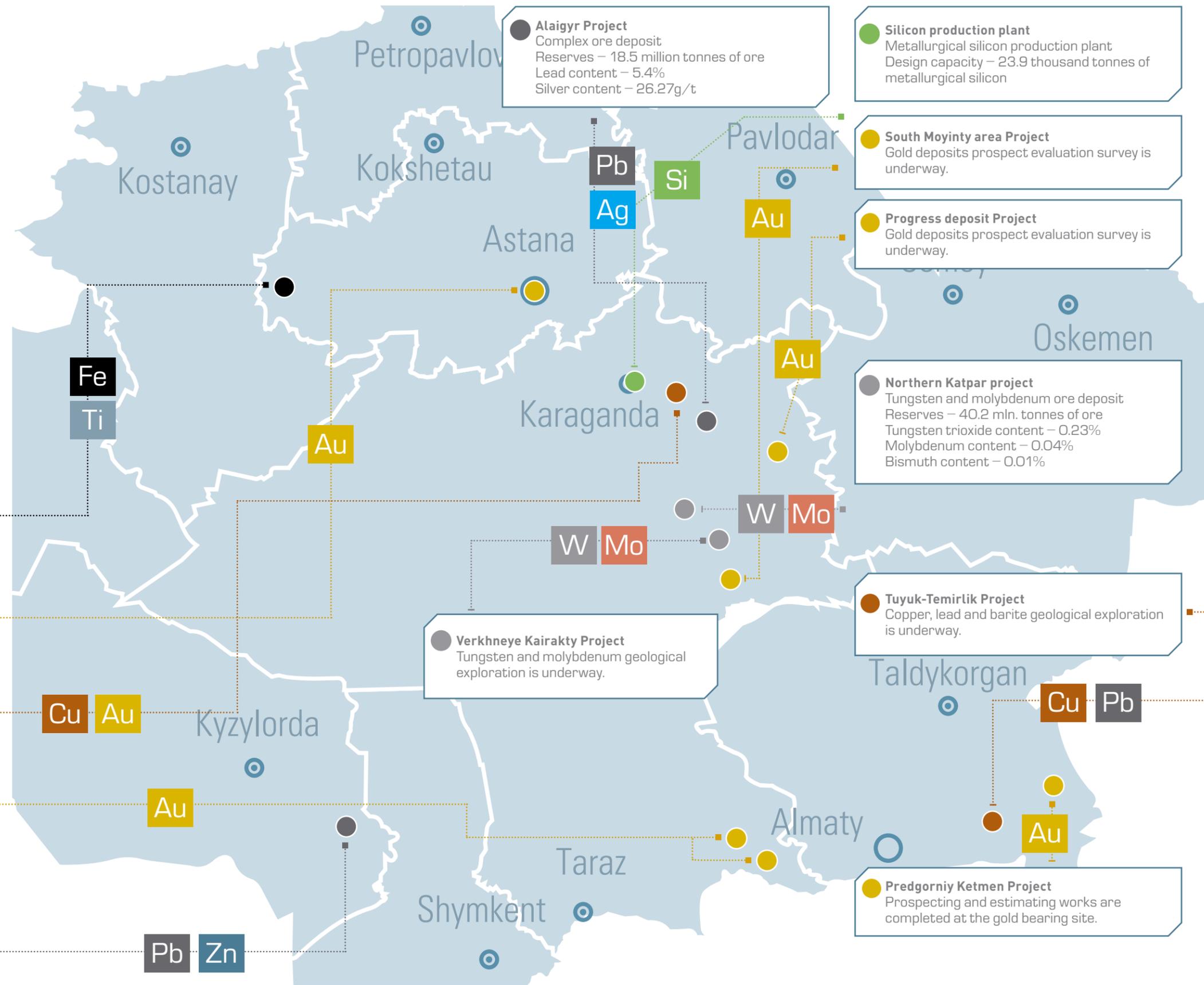
Massalsky Mining and Processing Plant
 Titanium and magnetite ore deposit
 Reserves – 729.2 mln. tonnes of ore
 Iron content – 15.7%
 Titanium oxide content – 2%
 Vanadium pentoxide content – 0.1%

Refinery
 Fine gold production plant
 Design capacity – 25 tonnes of gold

Spassk Project
 Copper, gold and associated components geological exploration is underway.

Shokpar and Gagarinskoye Project
 Gold deposits prospect evaluation survey is underway.

Shalkiya Project
 Complex ore production mine
 The deposit contains 127.5 million tonnes of ore.
 Zinc content is 4.27%.
 Lead content is 1.28%.



OUR PROJECTS

METALLURGY



Refinery

Company built a plant to precess gold-bearing raw materials with the nominal annual production capacity of 25 tonnes of fine gold and 50 tonnes of fine silver; thereat, the own production capacity of the plant is sufficient for production of 70 tonnes of gold and 400 tonnes of silver per a year.

Since 2013, the enterprise has produced more than 28 tonnes of fine gold. 74 people are employed by the enterprise.

Products:

- Fine gold of 99.99% quality in the form of standard bars of 12kg each, gold weighted bullion bars of 100 grams, 250g, 500g, 1,000g and granules;
- Fine silver of 99.99% quality in the form of standard bars of 30kg each, silver weighted bullion bars of 100 grams, 250g, 500g, 1,000g and granules.

The Partnership also renders services of precious metals purification (gold, silver) on give-and-take basis (tolling).
G4-4

More than
28 TONNES
of fine
GOLD WERE PRODUCED

Technology

The refinery uses the electrochemical method of metals refining that enables melting and formation of ingots.

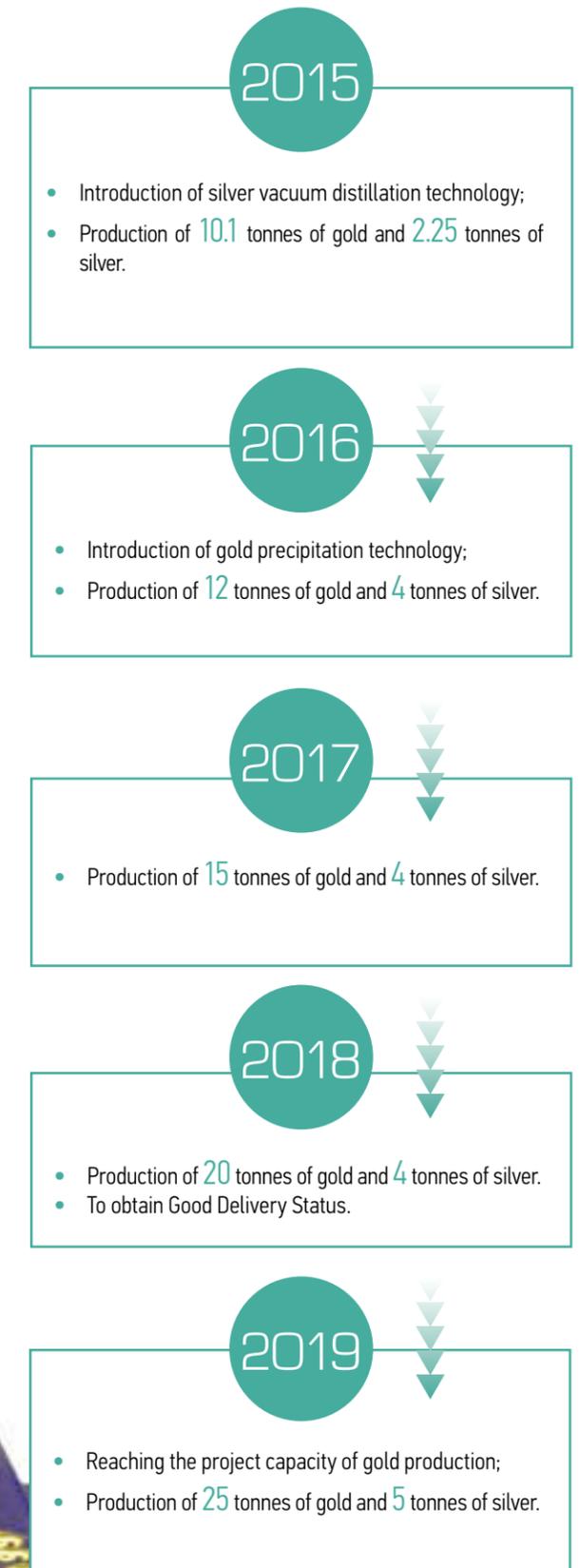
Production line of the enterprise was supplemented with the high-tech innovative Acidless Separation plant ensuring the process of acidless separation of gold and silver and vacuum distillation of silver from gold and silver alloys. The process flow solves a number of important objectives and has an economic advantage due to high speed of gold-and-silver alloy processing, high rate of precious metals extraction, that reduces period of production to 3-4 days.

The technology currently used by the enterprise – electrochemical refining method, is a domestic one developed in accordance with the international innovative methods of precious metals refining. This technology is unique in the CIS countries and is highly competitive with the world leading technologies.

Development Prospects

In the future, refinery is considering the possibility of production of blanks for jewelry and technical industries as well as purchase of a stamping line that will allow us to produce metered ingots of 1 through 100 g for sale to the population as investment gold and to the other industrial sectors.

The Projects Implementation Progress



Silicon Production Plant

Technical silicon production plant was put into operation in 2014 with the production capacity of 24 thousand tonnes of end product per a year. The plant is located in Bukhar-Zhyrau district of Karaganda region in the territory of Saryarka Free Economic Zone.

All products of the plant are sold to the CIS and non-CIS countries including the USA, European Union and Eurasian Economic Union.

Products:

Technical (metallurgical) silicon

Metallurgical silicon is the main product of the plant. Silicon is shipped in the form of pieces of 0 to 20mm, 2 to 10mm, 10 to 60mm and 60 to 100mm.

Silicon Slag

Silicon slag is a by-product of production and refining of technical silicon. Silicon slag is a glass-like, fragile material of dark-green color with inclusions of silicon. An average content of silicon oxide is 70-80%, ferrous oxide – 0.3-0.7%, calcium oxide – 10-15%, aluminium oxide – 5-15%. The product is supplied in bulk in pieces of 0 to 300mm in size.

Silica Fume (Microsilica)

Microsilica is an ultrafine material produced in the course of technical silicon production by furnace exhaust gases treatment.

Microsilica is produced in the form of dark-grey powder with silicon dioxide content of no less than 90%. Microsilica is shipped in big bags of 900 to 1000kg.

G4-4

Technology

Production complex of the enterprise is represented by two ore smelting furnaces with a capacity of 30MVA each produced by SMS SIEMAG, Germany, the leader in the market of submerged-arc furnaces.

Aktas quartz deposit located in the Ulytauskiy district of Karaganda region 130km to the north-west of Zhezkazgan city is the raw materials base of the Company. Crystalline silica (quartz) mined at this deposit is noted for high purity, which makes it the most attractive raw material for smelting of high grade technical silicon. Total reserve of the crystalline silica at this deposit is more than 4 million tonnes at the annual production volume of 72 thousand tonnes of gangue quartz.

The manufacturing plant is equipped with gas treatment equipment allowing for carrying out processes with high rate of exhaust gases treatment and dust arresting efficiency of up to 99%.

Development Prospects

The main objectives of the enterprise development for the period of 2017-2018 are as follows: construction of warehouse, furnace charge preparation, batching and preparation department for production of technical silicon in electric ore smelting furnaces. Implementation of this project will allow to improve the technical and economical parameters of production process and also to increase the furnaces production output due to reduction processes stabilization.

The Project Implementation Progress

2015

- Restoration of ore thermal furnace No.2 operation;
- Creation of a sub-area No.1 "Silicon Valley" of the Saryarka Special Economic Area and obtaining the SEA member status;
- Production of **11.07** thousand tonnes of technical silicon and **14** thousand tonnes of microsilica;
- **10.9** thous. tonnes of silicon and **650** tonnes of microsilica were sold .

2016

- Restoration of auxiliary assemblies of ore thermal furnaces, desing of chemical laboratory;
- Production of **19.5** thousand tonnes of technical silicon and **17.6** thousand tonnes of micro-silica.

2017

- Construction of chemical laboratory;
- Reaching the target production capacity for technical silicon;
- Production of **23.9** thousand tonnes of technical silicon and **20.1** thousand tonnes of micro-silica.





MINING

Commercial development of Shalkiya deposit of polymetallic ores in Kyzylorda region and construction of a processing plant.

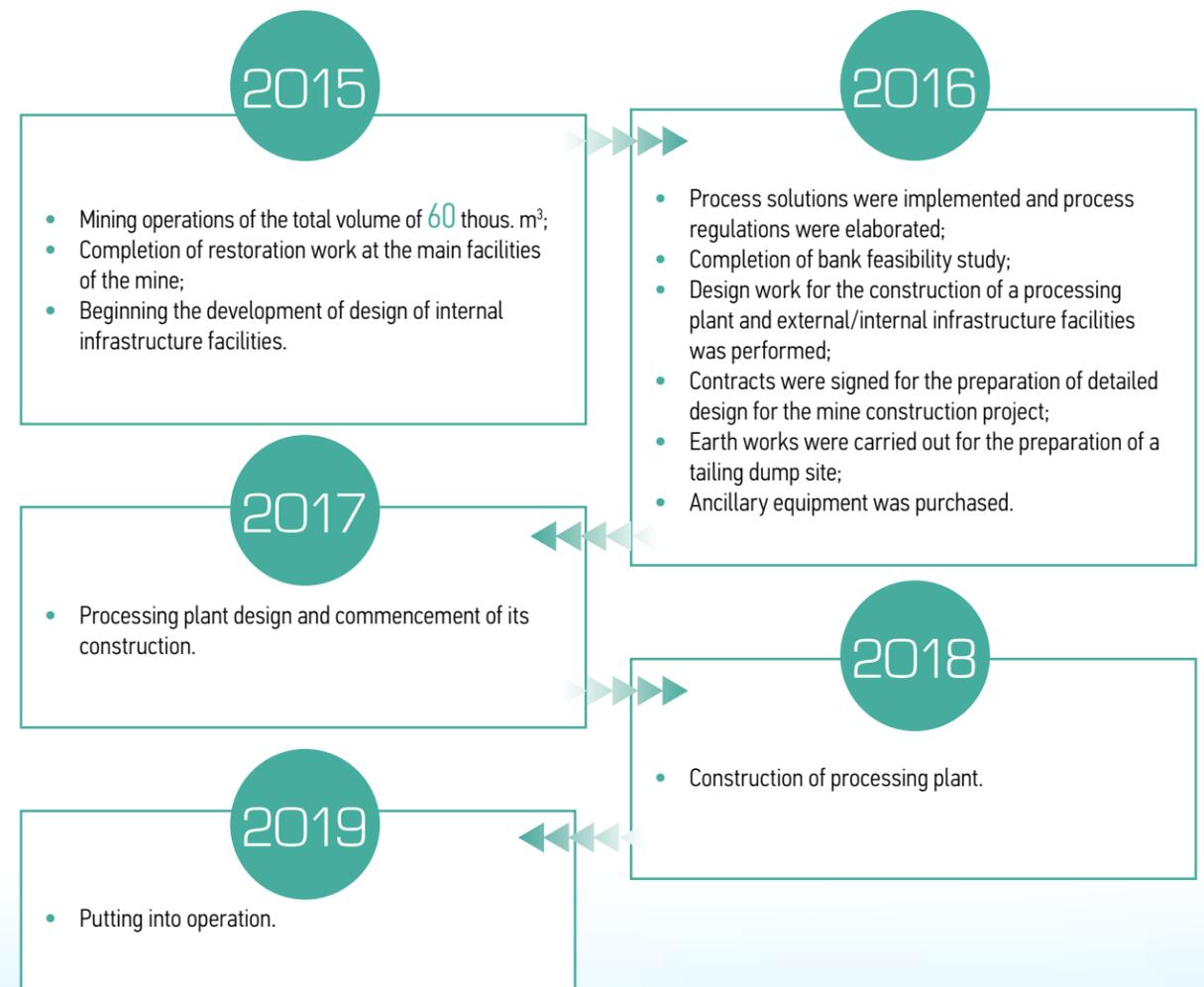
This project implementation was included in the comprehensive plan of the Republic of Kazakhstan mining-and-metals industry development over the period of 2014-2018 and in the Roadmap of Kyzylorda region's mining-and-metallurgy complex development.

The deposit contains 127.5 million tonnes of ore with average zinc content of 4.27% (5.5 million tonnes) and lead content of 1.28% (1.6 million tonnes). The project provides an increase in the production output of the existing mine up to 4 million tonnes

of ore per a year and construction of a processing plant for production of lead and zinc concentrates. Selective floatation method will be used for processing of lead and zinc bearing sulfide ores. The mine operation period is 32 years.

The deposit has its own railway line of 27km, its own electric power supply and distribution lines 16km long, its own power substation with 2 transformers of 40MW each, water supply and a well-developed underground infrastructure.

The Project Implementation Progress



The Project Output Targets



Production of polymetal ores at the Alaigyr deposit in Karaganda region

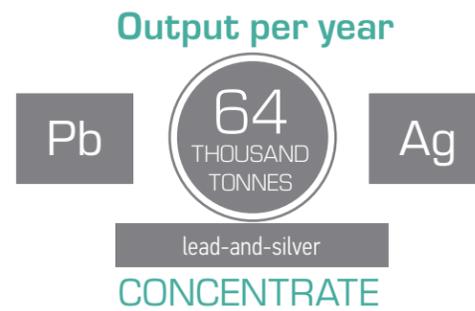
Alaigyr is a new project for putting into operation the polymetal ores deposit located at the boundary of Karkaraly and Shet districts of Karaganda region.

The deposit contains 18.518 million tonnes of ore with an average lead content of 5.4% (1 million tonnes) and silver content of 26.1g/t (483 tonnes). The project provides the construction of a mine and a processing plant for lead and silver concentrates

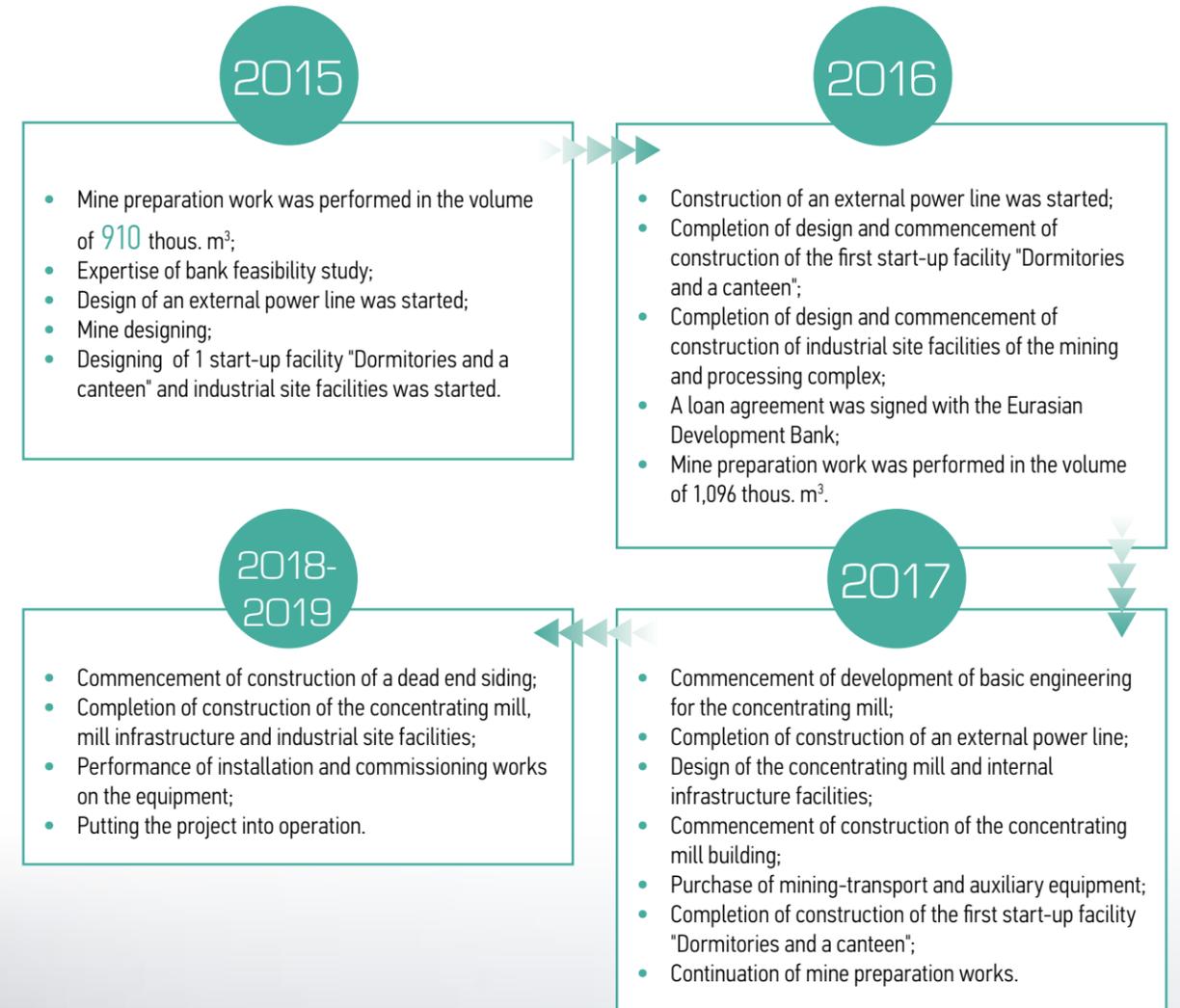
production. The process of combined floatation of sulfide and oxidized lead-bearing minerals will be used for processing of combined (sulfide and oxidized) lead-bearing ore and production of saleable lead concentrate. The mine operation period is 25 years.

The project is noted for its advantageous geographical location: it is located in the area with well-developed industry.

The Project Output Targets



The Project Implementation Progress



Construction of mining and metals complex based on the Massalsky deposit in Akmola region

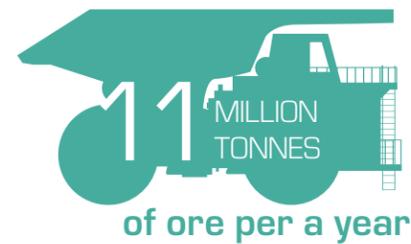
The deposit contains 729.2 million tonnes of ore with an average iron content of 15.82% (115.4 million tonnes), titanium oxide content of 2.05% (14.6 million tonnes) and vanadium pentoxide of 0.11% (0.9 million tonnes). The project provides for construction of mining and processing plant and full-cycle metallurgical plant. Multi-stage magnetic separation method will be used for processing of titanium and black iron ore at the stage of ore

beneficiation; agglomeration method will be used at the stage of iron reduction; converter process will be used at the steel making stage and two continuous rolling lines will be used at the stage of rolling.

The mine operation period is 67 years.

The Project Output Targets

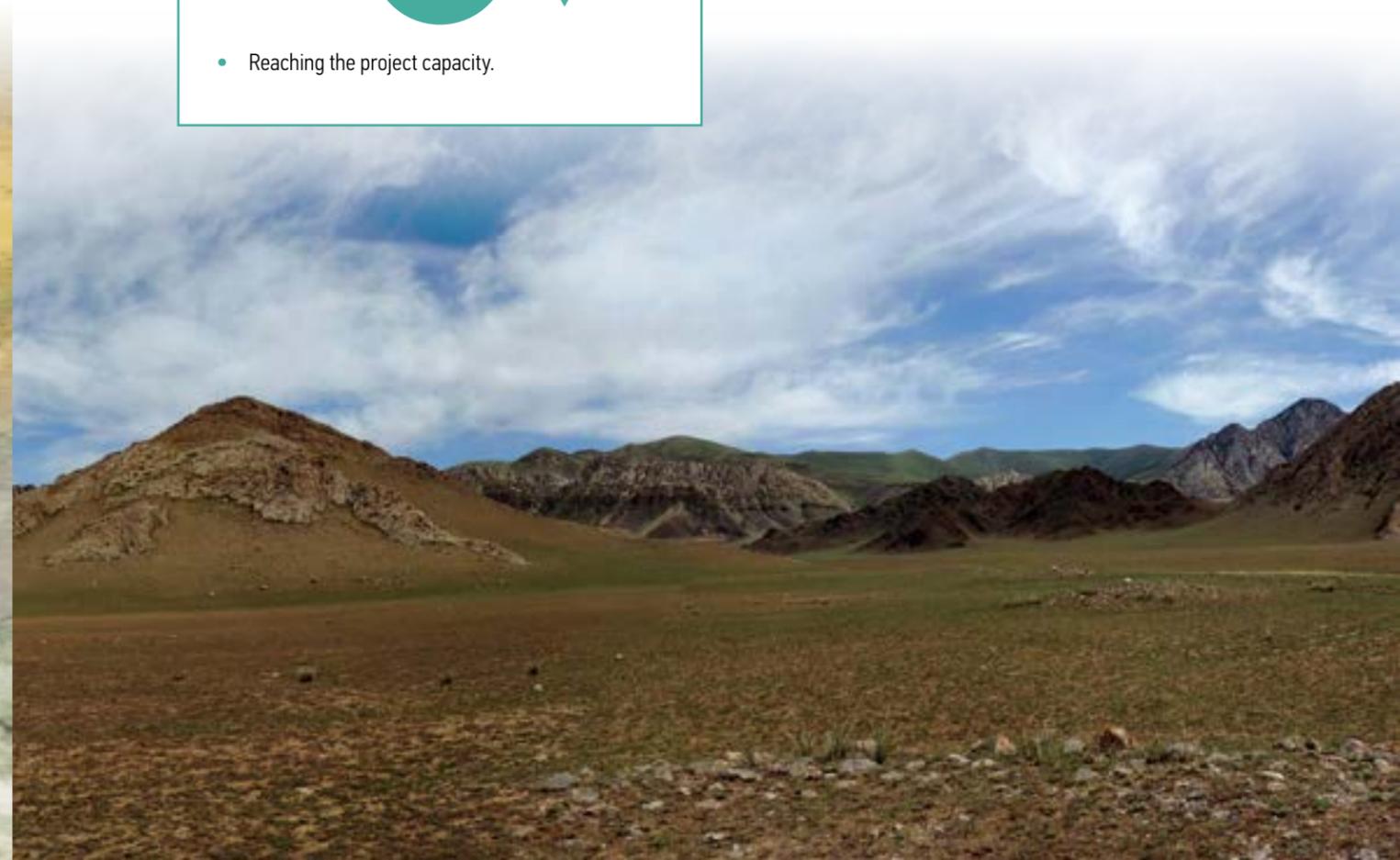
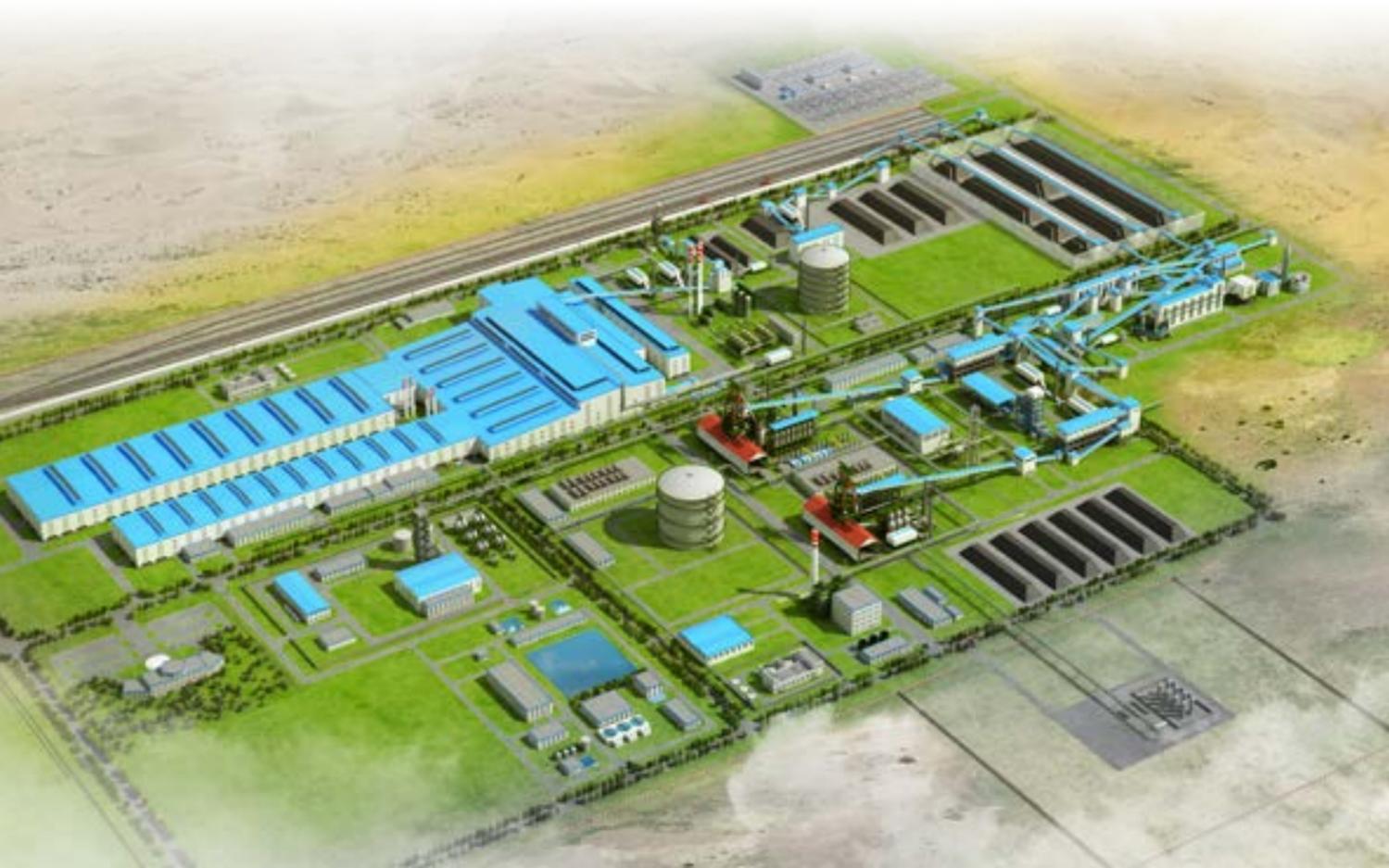
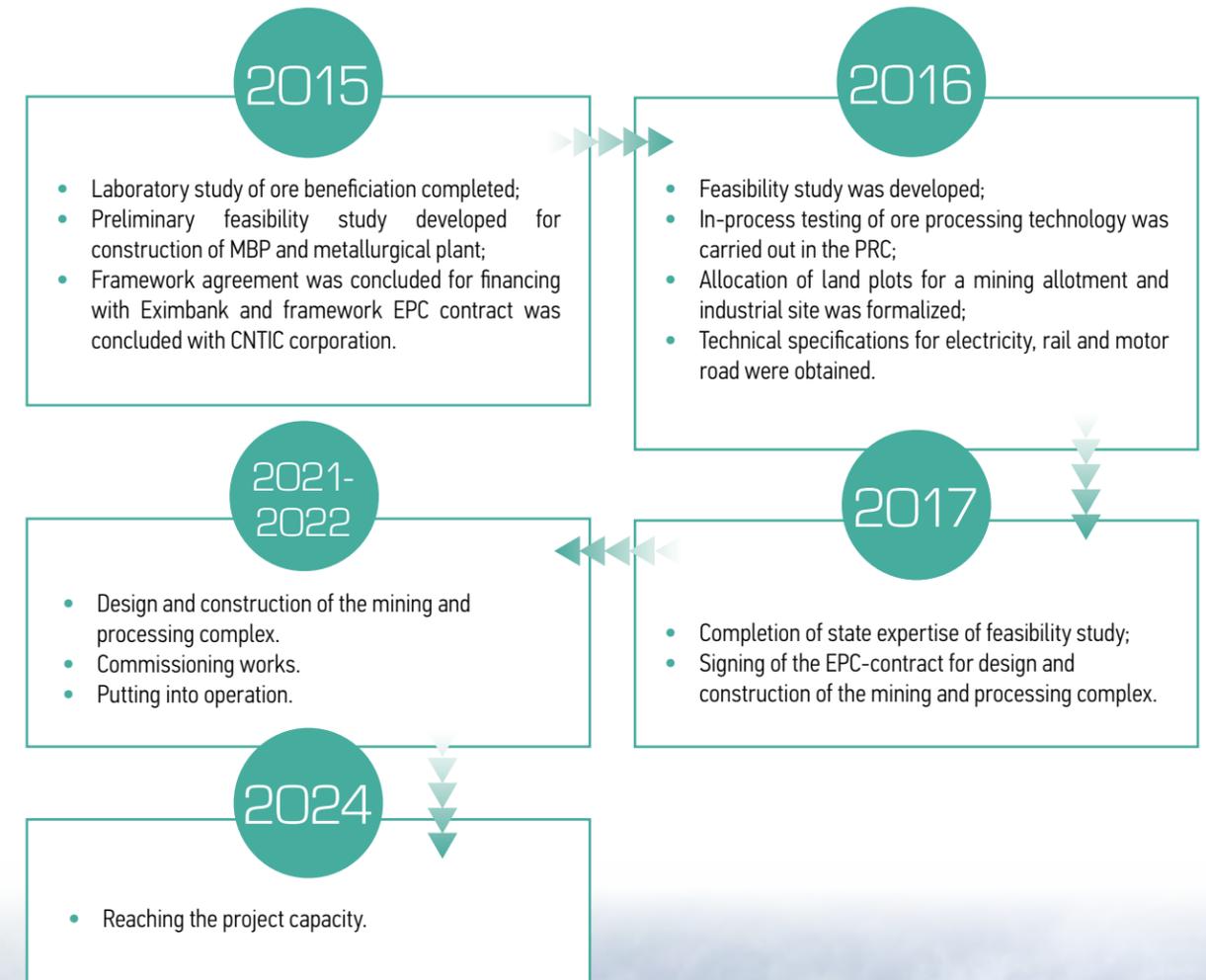
Extraction



Output per year



The Project Implementation Progress



Production of tungsten and molybdenum ores at the Northern Katpar deposit in Karaganda region

The asset was purchased by the Company in 2015. The project is aimed at development of the Northern Katpar deposit and also at increase of the raw materials base and production capacity of the Company. It is planned to introduce new technologies of production of rare metal (tungsten, molybdenum and copper-bismuth) concentrates in the course of the project implementation.

This deposit contains 40.2 million tonnes of ore with an average tungsten trioxide content of 0.225% (90.3 thousand tonnes),

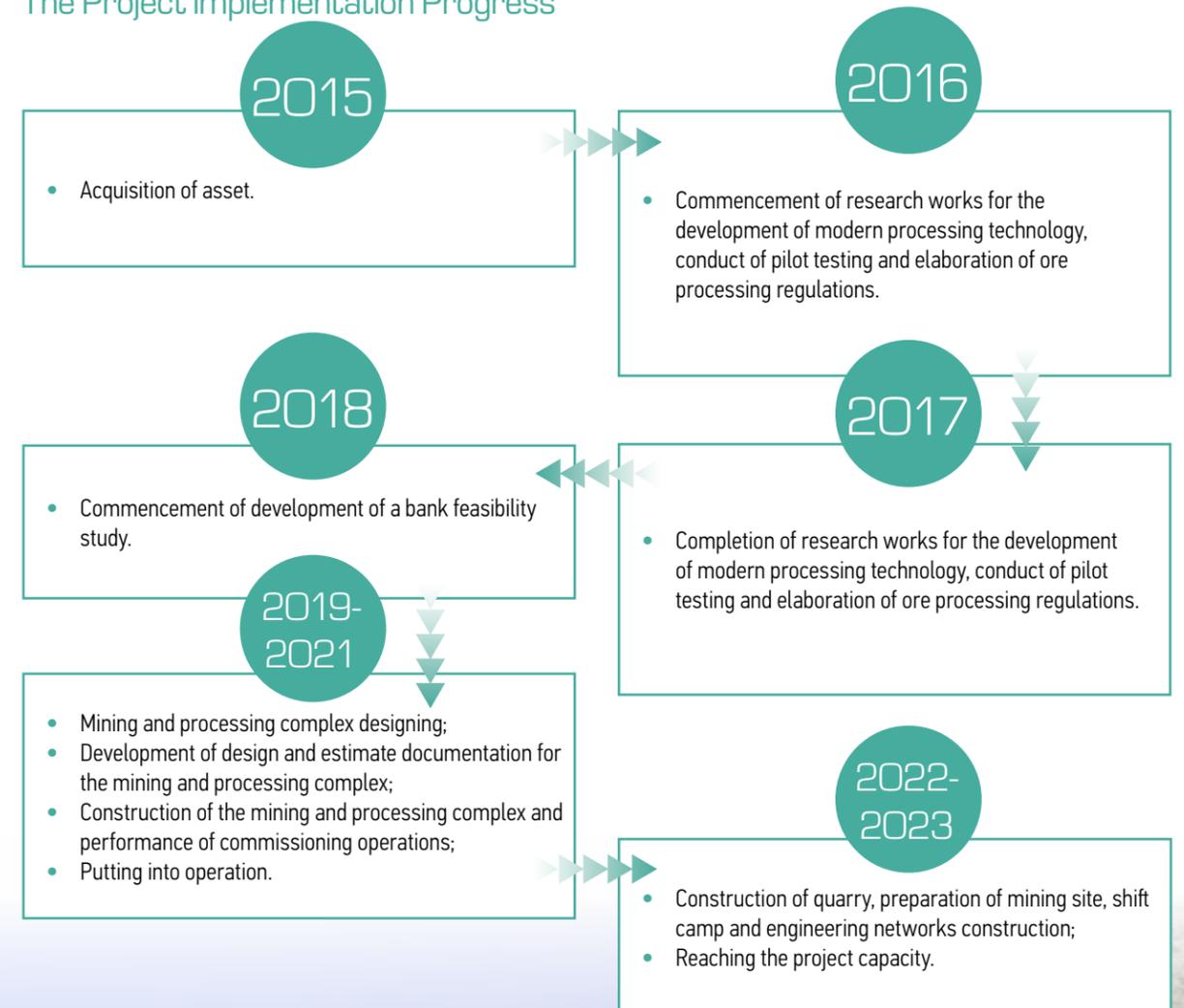
molybdenum content of 0.035% (13.9 thousand tonnes), bismuth content of 0.014% (5.8 thousand tonnes) and copper content of 0.14% (57 thousand tonnes).

The project provides for construction of mining and processing plant. Combined gravitation and floatation method may be used for processing of tungsten and molybdenum ores. The mine operation period is 28 years.

The Project Output Targets



The Project Implementation Progress



OUR PROJECTS

GEOLOGICAL EXPLORATION WORKS

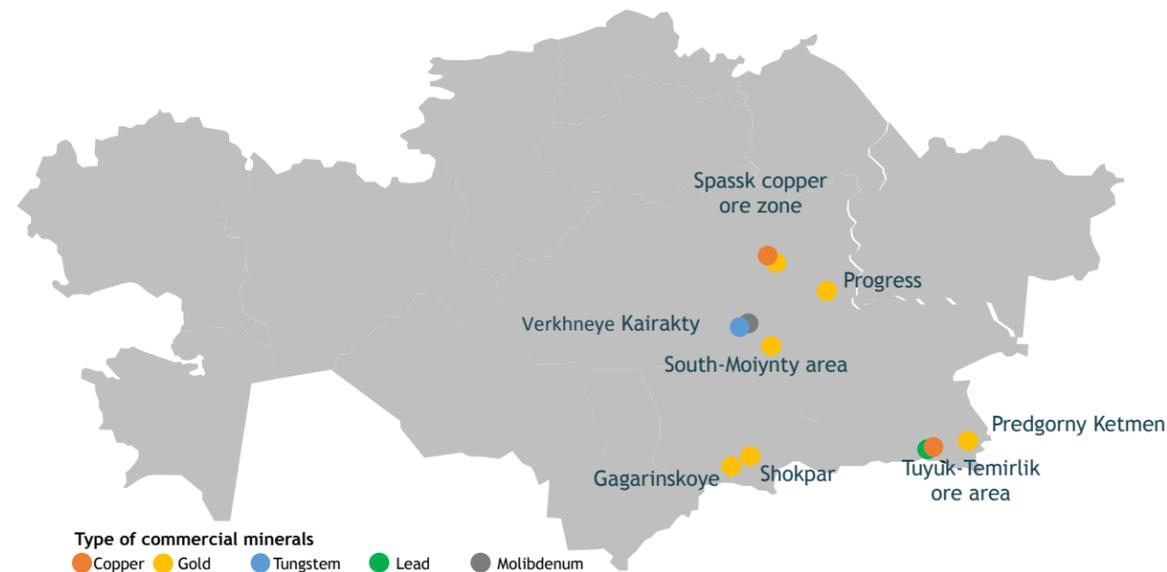


Deposits of gold and copper are the main objects of the geological exploration activity carried out by the Company. Within the year, the Company continued the exploration work at 2 subsurface use facilities (Tuyuk-Temirlik and at the South Moiyntinskaya area); the work carried out within the Spassk copper ore area are at the exploration stage; estimation is carried out at the gold deposits Shokpar, Gagarinskoye and Progress.

According to the year performance results, geological exploration was completed and reserves of the Hajikongan

deposit, located in the territory of the Spassk copper ore area in Karaganda region and reserves of placer gold of C2 category at the Predgorny Ketmen site of Almaty region were included in the State Reserves Register.

Total volume of funds invested in geological exploration activity (for geological exploration work and for registration of subsurface resources management rights) for 2016 amounted to KZT 2.14 billion net of VAT.

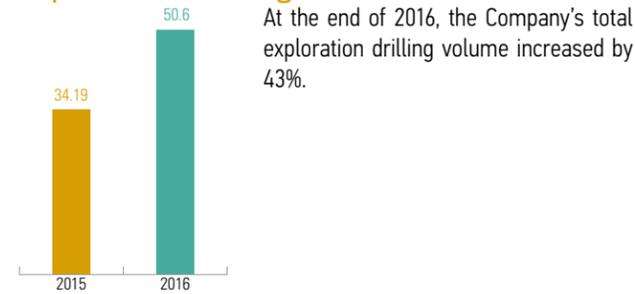


Activity Progress



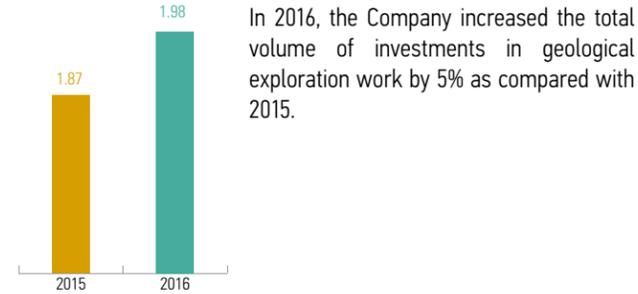
KEY PERFORMANCE INDICATORS

Exploration drilling, l.km



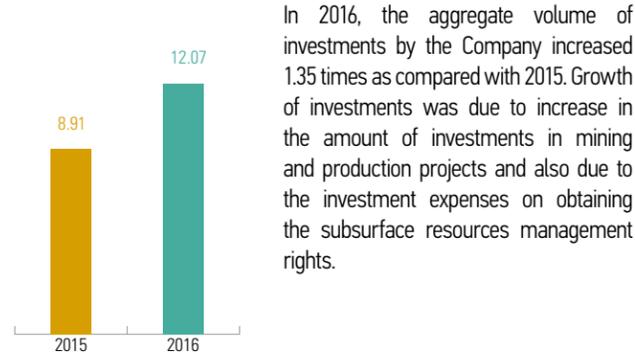
At the end of 2016, the Company's total exploration drilling volume increased by 43%.

Investments in GEW, KZT bln.



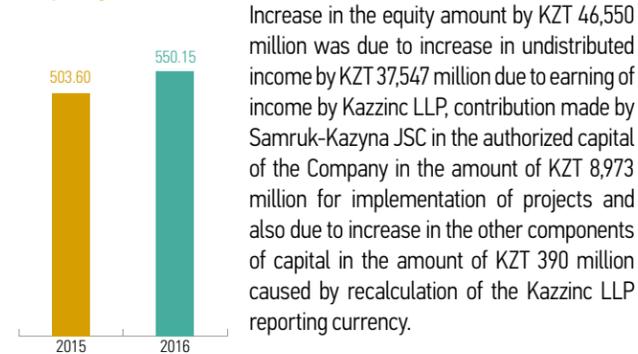
In 2016, the Company increased the total volume of investments in geological exploration work by 5% as compared with 2015.

Total volume of investments, KZT bln.



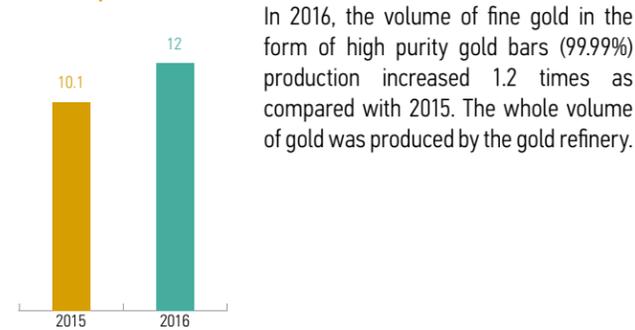
In 2016, the aggregate volume of investments by the Company increased 1.35 times as compared with 2015. Growth of investments was due to increase in the amount of investments in mining and production projects and also due to the investment expenses on obtaining the subsurface resources management rights.

Equity, KZT bln.



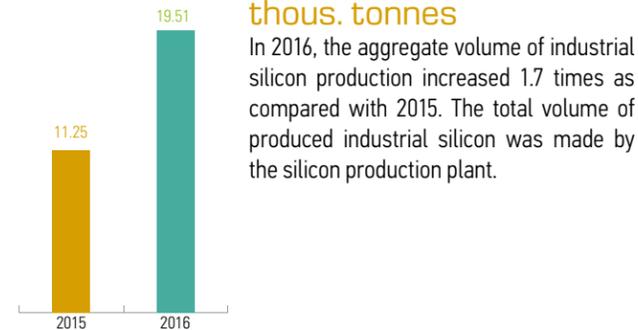
Increase in the equity amount by KZT 46,550 million was due to increase in undistributed income by KZT 37,547 million due to earning of income by Kazzinc LLP, contribution made by Samruk-Kazyna JSC in the authorized capital of the Company in the amount of KZT 8,973 million for implementation of projects and also due to increase in the other components of capital in the amount of KZT 390 million caused by recalculation of the Kazzinc LLP reporting currency.

Gold production, ton



In 2016, the volume of fine gold in the form of high purity gold bars (99.99%) production increased 1.2 times as compared with 2015. The whole volume of gold was produced by the gold refinery.

Production of industrial silicon, thous. tonnes



In 2016, the aggregate volume of industrial silicon production increased 1.7 times as compared with 2015. The total volume of produced industrial silicon was made by the silicon production plant.

EBIDTA, KZT mln.



In 2016, the value of the given parameter that is an income before accrual of interest, taxation, non-monetary component of obligation on social payments for loss of labour capacity, wear and tear, exhaustion, depreciation and commercial minerals production tax, as compared with 2015 decreased due to increase in transportation and sales costs, and general and administrative costs at the increase of the gross income.

Average Personnel number, people



In 2016 Company's average number of employees increased by 41 people compares with 2015. The major reason for that is the increase of production employees in Shalkiya mine, due to opening of shaft-shinking and tunneling site No.2. G4-10

KEY EVENTS OF THE YEAR

In 2016, **TWO NEW CONTRACTS** for production of barite-complex ores and silver at Tuyuk deposit in Almaty region and for combined exploration and production of tungsten and molybdenum ore at the Verkhneye Kairaktinskoye deposit in Karaganda region were concluded between the Company and the RK Ministry for Investments and Development

Production line of the refinery was supplemented with the **leading edge acidless separation innovative system** ensuring the process of acidless separation of gold and silver; vacuum distillation of silver from gold and gold-silver alloys

In December 2016, the Company **acquired 90.1% stake in Silicon Mining LLP**

Hajikongan deposit reserves in the amount of 98.5 thousand tonnes of copper with an average content of 1.8% were put on balance of the State Reserve Register G4-13

Bankable feasibility study of Shalkiya project was completed

On December 30, 2016, Eurasian Development Bank and Alaigr JV LLP **ENTERED INTO LOAN AGREEMENT FOR FUNDING THE PROJECT** of production and processing of polymetallic ore of Alaigr deposit located in Karaganda region

Manufacturing research of ore beneficiation process was conducted for the ore of Massalsky deposit with production of concentrates for blast-furnace smelting in CNTIC (PRC) in cooperation with Research Institute of Mining and Metallurgy (CRIMM, Changsha)

RESULTS OF FINANCIAL AND OPERATING PERFORMANCES



At the year-end
of 2016,

12

TONNES OF GOLD

19.51

THOUSAND TONNES

OF METALLURGICAL SILICON
WERE PRODUCED

Performance indicators

Description	UoM	2015	2016	2017
		Fact	Plan	Forecast
Refined gold production	ton	10.1	12	15
Production of metallurgical silicon	ton	11,249	19,207	23,904

Over the reporting period 12 tonnes of refined gold was produced at the Refinery. The plan of refined gold production for 2016 was 100% fulfilled.

The plan for the production of metallurgical silicon for 2016 at the plant in Karaganda in the reporting period was fulfilled by 102%. [G4-9](#)

Financial indicators

Description	UoM	2015 Fact	2016 Fact
Degree of investment projects implementation	0%	77.4	68.1
EBITDA margin*	0%	0.3	(0.08)
ROACE	%	-2.6	7.1

* – the indicators were calculated using the method approved by the Sole Shareholder

In 2016, the indicator “Degree of Implementation of Investment Projects” was fulfilled by 68%. Incomplete achievement of efficiency level was due to incomplete use of funds allocated for investment projects development: “Industrial development of polymetallic ores of Shalkiya deposit in Kyzylorda region of Kazakhstan with construction of processing plant”, “Production of polymetallic ores at the Alaigyr deposit in Karaganda region”, “Introduction of hydrometallurgical gold precipitation technology by the gold refinery in Astana”.

In 2016, the actual EBITDA margin value was equal to – 0.08%. Reduction of EBITDA margin value comparing to the same period of the past year was due to increase in transportation and distribution costs and general and administrative costs at the increase of gross income. Increase in transportation costs was due to increase in expenses of Tau-Ken Temir LLP for transportation of commercial silicon. Increase in the general and administrative expenses happened due to increase in general and administrative expenses of Massalsky GOK LLP, Alaigyr JV LLP and Severny Katpar LLP due to employment of new workers and beginning of an active stage of investment projects

In 2016 ROACE value was equal to 7.1%. Increase in the value in 2016 as compared to 2015 was due to increase in the net income by KZT 51,467 mln.

implementation by these subsidiaries and affiliates. In turn, increase in the gross income in 2016 happened due to the reason of increase in production volume and sales of commercial silicon as compared to 2015.

In 2016 ROACE value was equal to 7.1%. Increase in the value in 2016 as compared to 2015 was due to increase in the net income by KZT 51,467 mln. basically due to increase in income of Kazzinc LLP accounted using the equity method.

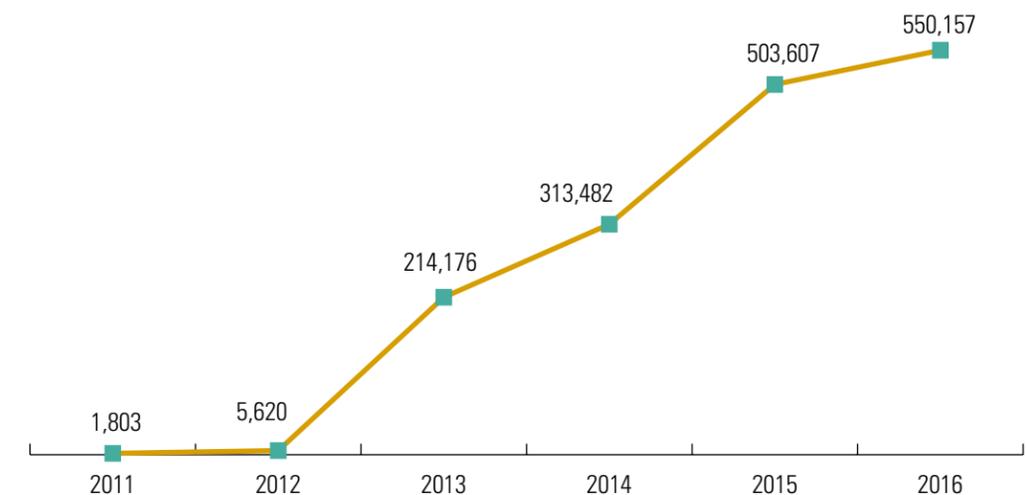
Non-financial Indicators

Involvement index value was 84% vs. the planned one of 70%, which reflects satisfaction of employees with their work,

relations with colleagues and immediate superior as well as technology intensiveness of job places.

Capital adequacy ratio

Equity, KZT mln.



Equity of the Company as of December 31, 2016, amounts to KZT 550,157 million. Increase in the equity by KZT 46,550 million was basically due to the following factors:

- Increase in undistributed profit by KZT 37,547 million due to income earning by Kazzinc LLP in the reporting period;
- Contribution made by Samruk-Kazyna JSC in the authorized capital of the Company in the amount of KZT 8,973 million for implementation of the following projects: “Industrial development of polymetallic ores of Shalkiya deposit in Kyzylorda region”, “Production and processing of polymetal-

lic ores at the Alaigyr deposit in Karaganda region”, “Production and Processing of iron ores of Massalsky deposit in Akmola region” as well as financing of the following geological exploration projects: “Exploration for gold at the Shokpar-Gagarinskoye deposit in the Zhambyl region” and “Exploration for copper, gold and associated components at the Spassk copper ore area in the Karaganda region”;

- Increase in the other equity components in the amount of KZT 390 mln. due to recalculation of the Kazzinc LLP reporting currency. [G4-9](#)

Information on liquidity indicators.

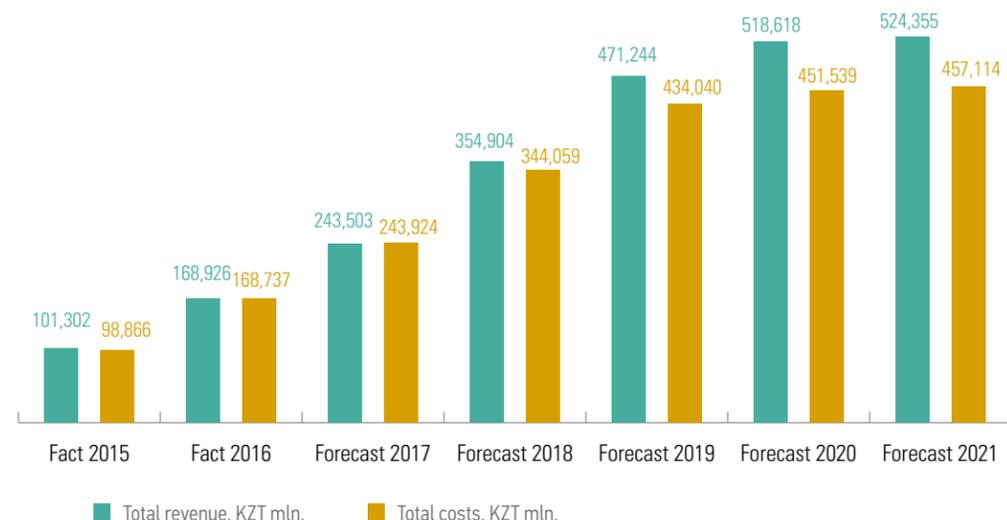
Based on the results of 2016, financial dependence indicator equals to 0.05, equity concentration equals to 0.95, which is characterized with the current financial status of the Company as stable and independent of external creditors.

The current liquidity coefficient value makes 5.07, which positively characterizes the current financial condition of the Company due

to sufficient volume of available resources as regards to the current liabilities.

Forecast of revenue and costs

Total revenue and costs, KZT mln.



Total expenses in the amount of KZT 168,926 mln. consisted basically of income from sale of refined gold in the amount of KZT 155,178 mln., sale of gold to the National Bank of Kazakhstan and sale of metallurgical silicon in the amount of KZT 11,207 mln., financial income in the amount of KZT 2,215 mln. earned as a result of depositing the temporary surplus funds with the second-tier banks as well as earning other income in the amount of KZT 326 mln. [G4-9](#)

Consolidated expenses of the Company in 2016 amounted to KZT 168,737 mln. including, basically, purchase of gold-bearing raw materials and expenses taken into account in production of refined gold as well as expenses of metallurgic silicon production, general and administrative expenses, transportation and sales expenses, other nonoperating expenses.

In 2017, the Company anticipates to earn general income in the amount of KZT 243,503 mln. due to sale of refined gold in the amount of KZT 224,716 mln. to the National Bank of Kazakhstan,

sale of metallurgical silicon in the amount of KZT 16,126 mln., sale of refined silver in the amount of KZT 886 mln. as well as earning of financial income in the amount of KZT 1,716 mln. and other income in the amount of KZT 59 mln.

Company forecasts earning of income over the period of 2017 through 2021 from sale of refined gold and silver, metallurgical silicon and income from sale of lead and zinc concentrate due to putting into operation of Alaigyr and Shalkiya investment projects starting from 2019.

Total expenses of 2017 are planned in the amount of KZT 243,924 mln. and include expenses of purchase of gold-bearing raw materials and expenses of refined gold and metallurgic silicon production in the amount of KZT 237,213 mln., general and administrative expenses (GAC) of the corporate center of the Company and its subsidiaries in the amount of KZT 3,897 mln., sales expenses in the amount of KZT 2,145 mln., other expenses in the amount of KZT 669 mln.



AUTHORIZED CAPITAL STRUCTURE

Ownership Structure of the Company

- Number of issued shares: 400 981;
- Number of outstanding shares: 292 887;
- Number of authorized for issue shares: 108 094;
- Par value of shares: KZT 1,000.00;

Proprietary rights exercise procedure

- Samruk-Kazyna National Welfare Fund JSC is the sole shareholder of the Company and holds 100% of shares;
 - Members of management board and the Board of Directors of Tau-Ken Samruk NMC JSC do not hold any shares (participation interests in authorized capital) in subsidiaries and affiliates of Tau-Ken Samruk NMC JSC.
 - All shares of the Company are common; rights of shareholders meet the requirements of the Article 14 of the RK Law No.41-II "On Joint Stock Companies" dated May 13, 2003. The shareholders have priority right of ownership to the Company's property;
 - Members of the Board of Directors and the Management Board as well as key management personnel do not hold the Company's shares.
- According to the results of 2016, authorized capital of the Company amounted to KZT 252,874,907 thousand, equity of the Company amounted to KZT 550,096,363 thousand.

BRIEF REVIEW OF THE METALS MARKET

**TAU-KEN ALTYN LLP
RELEASED ONE THIRD
OF THE TOTAL VOLUME OF
FINE GOLD PRODUCED IN
KAZAKHSTAN**

Gold Market

Global Gold Reserves

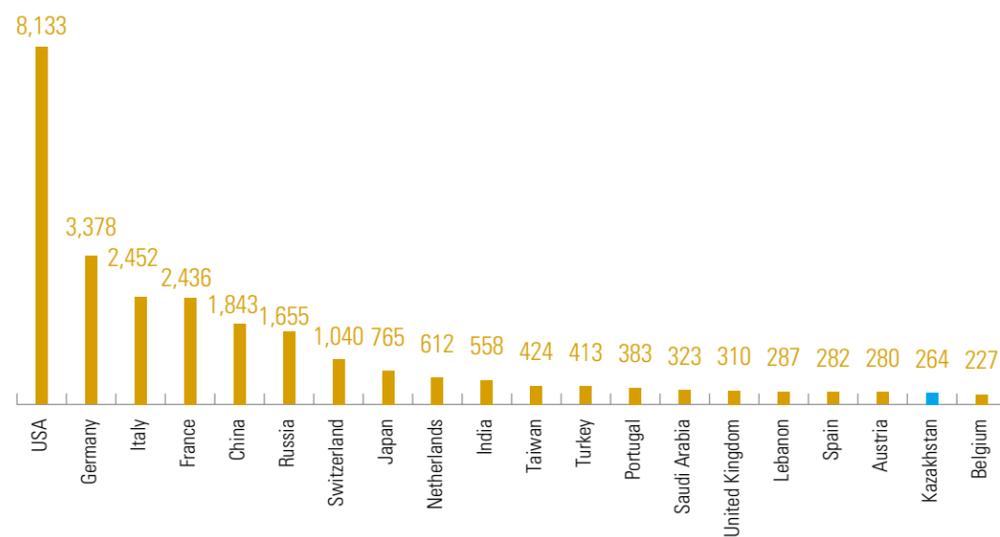
In accordance with the data of the World Gold Council, at the end of 2016, share of gold in the international reserves of the world countries is estimated to be equal to 33,329 tonnes. This volume consists of the gold available at:

- International Monetary Fund – 2,814 tonnes;
- European Central Bank – 10,786 tonnes;
- International Settlements Bank – 104 tonnes;
- Central Bank of Western Africa Counteis – 36.5 tonnes

Global Production Volume

In 2016, totally 3,222.3 tonnes of yellow precious metal were produced in the world. As compared with the previous year, increase in the production volume made 0.4% only. China is the leading manufacturer of gold – 453.5 tonnes, followed by Australia – 253.5 tonnes and Russia – 253.5 t.

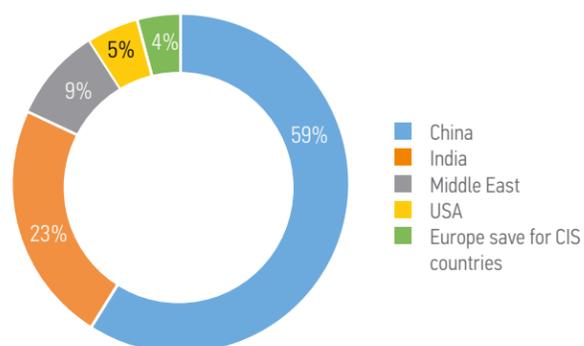
Diagram 1. Top 20 countries by gold reserve, ton



Gold Demand, Ton	2015	2016	Cnahge
Total supply	4,363.08	4,570.77	▲ 207.69
Producion	3,233.04	3,235.99	▲ 2.95
Gold processing	1,116.54	1,308.54	▲ 191.96

Analytical report of GFMS Thomson Reuters report showed excessive supply of gold in the world at the end of 2016 increased by 58% as compared with the previous year – up to 207.69 tonnes.

Gold Consumption Volume



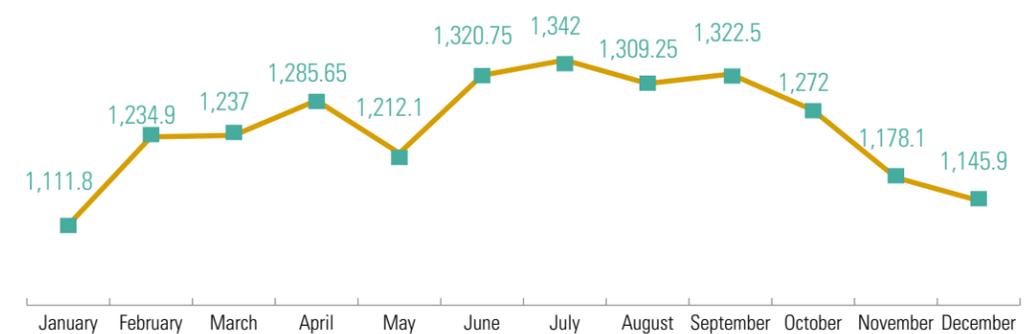
China is the leader of the global gold consumption despite reduction of the gold consumption volume as compared with 2015. China consumed 1,306.06 tonnes of gold in 2016 (2015 consumption volume – 1,565 tonnes).

Production of jewelry products is the main sphere of gold consumption – 47%, followed by investment in gold coins and bars as well as investments in ETF funds – 36%.

	2015	2016	Trend
Jewelry products	2,388.6	2,041.6	▼
Technologies	332.0	322.5	▼
Investments, including:	918.7	1,561.1	▲
Coins and bars	1,047.0	1,029.2	▼
Investment ETF-funds	-128.3	531.9	-
Central banks	576.5	383.6	▼

Source: Metals Focus: World Gold Council

Price Dynamics for the Year, in USD for troy ounce:

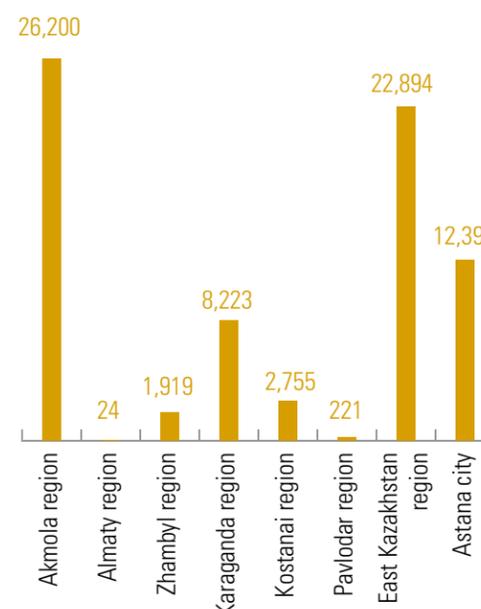


Source: Bloomberg

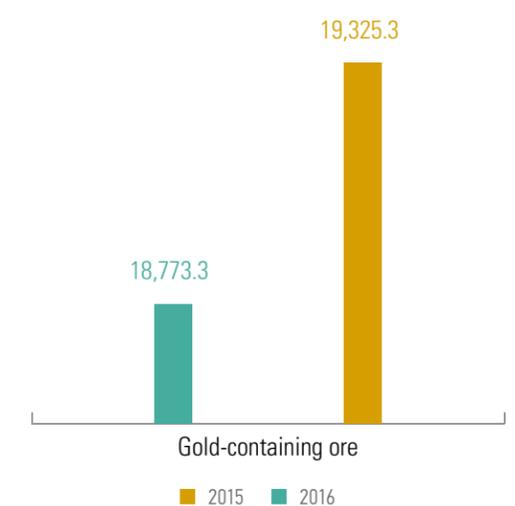
Negative interest rates in the EU, Japan, Great Britain and even the USA (where, despite toughening the monetary policy by FRS,

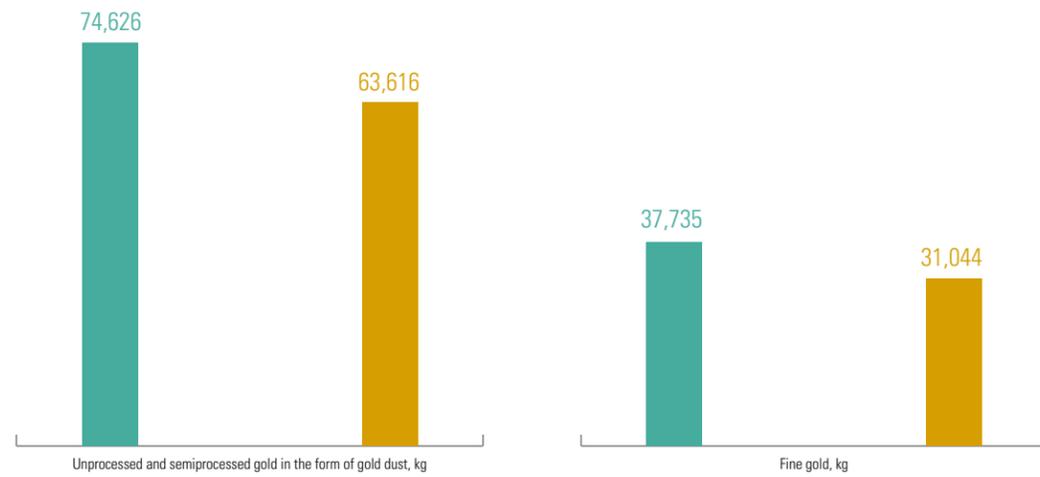
real rates are at the level below zero), speak well for positive dynamics of yellow precious metal.

Unprocessed and semiprocessed gold or in the form of dust, kg



Gold production in Kazakhstan, thous. tonnes





In 2016, companies of Kazakhstan mined 18,733.3 thousand tonnes of gold-bearing ore in the territory of the Republic of Kazakhstan, which was a decrease by 2.9% as compared to the production volume of 2015.

Akmolinskaya and East Kazakhstan regions and city of Astana are the leaders in production of gold products that accounted for 35.1%, 30.7% and 16.6% of the national production volume correspondingly.

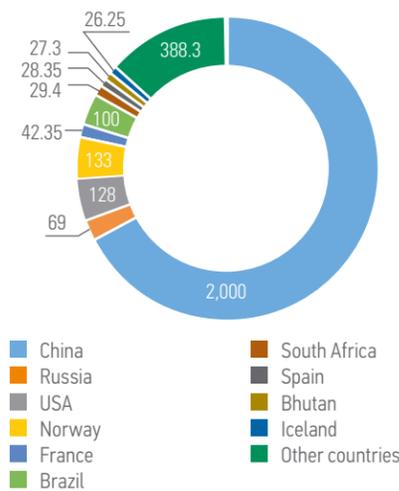
In 2016, the companies of Kazakhstan produced 74,626kg of gold-bearing products (unprocessed and semiprocessed gold or gold dust).

Of the total volume of 74,626kg of gold-bearing products produced in 2016, fine gold made 50.5%, while in 2015 this figure was equal to 48.8%.

Silicon Market

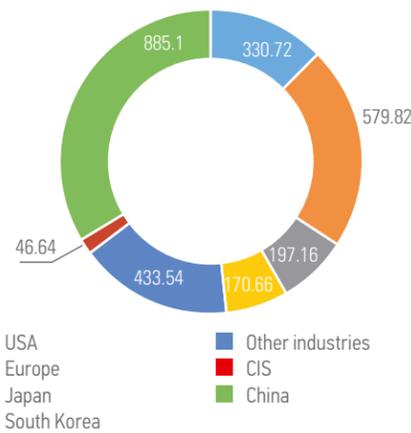
Volume of Silicon Production

In accordance with the U.S. Geological Survey data, approximately 3,000 thousand tones of silicon were produced in 2016 in the world.



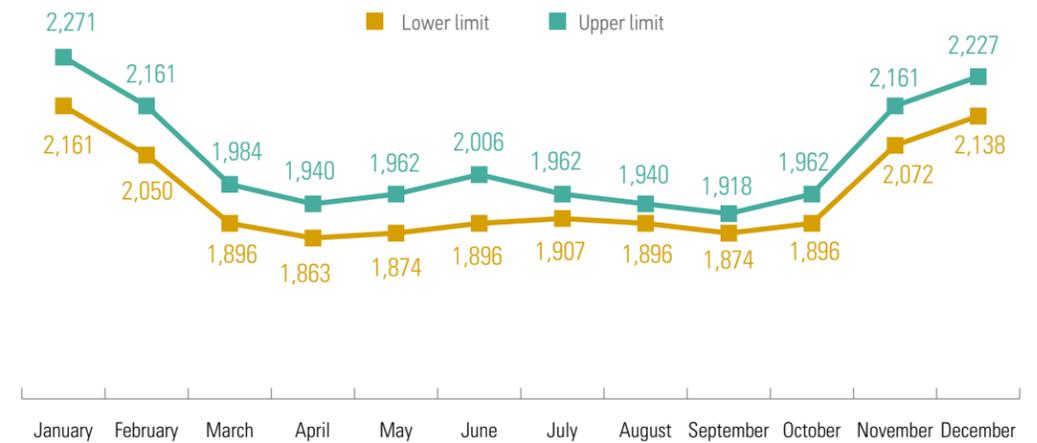
Silicon Demand

In accordance with the data of Itochu Metals Corporation, the global demand for silicon in 2016 was 2,643 thousand tonnes.



Approximately 66% of the global metallurgical silicon was produced by China, while the other countries of the world account for 34% of the global production.

Dynamics of prices for the year, USD:



The main areas, in which metallurgical silicon is used, are the production of aluminum alloys and production of organic silicon compounds.

- The main reason for silicon price reduction is the global overproduction and absence of demand due to slowdown of global economic activity. As a result, some companies decided to suspend production of silicon since production prime cost was above the market price.
- At the end of 2016, silicon prices began to grow because of exhaustion of the stock reserves of cheap silicon and also due to the fact that the largest manufacturer of silicon – Ferroglobe, decided to set the silicon price for the future period and, as a result, increased its stock balance.

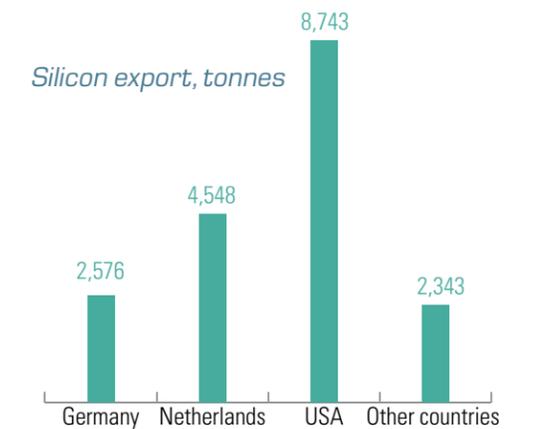
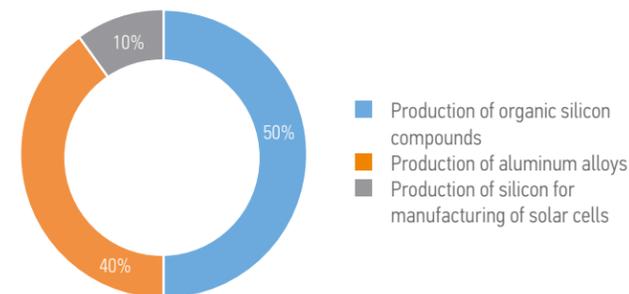
National Silicon Market

In 2016, 19,513 tonnes of metallurgical silicon were produced in Kazakhstan.

Tau-Ken Temir LLP is the main manufacturer of metallurgical silicon in Kazakhstan.

Export Activity:

18,210 tonnes of metallurgical silicon were exported from the Republic of Kazakhstan over 12 months of 2016, namely: 48% – USA, the Netherlands – 25%, Germany – 14%.



Company in the Market

In 2016, the Company earned income from sale of fine gold (92.5%) and metallurgical silicon (6.7%). Over the year, the Company sold 12 tonnes of gold and 20,252 tonnes of silicon. In the past year, proceeds from the sold products increased by 71% and amounted to KZT 166,384,038 thousand. Despite price

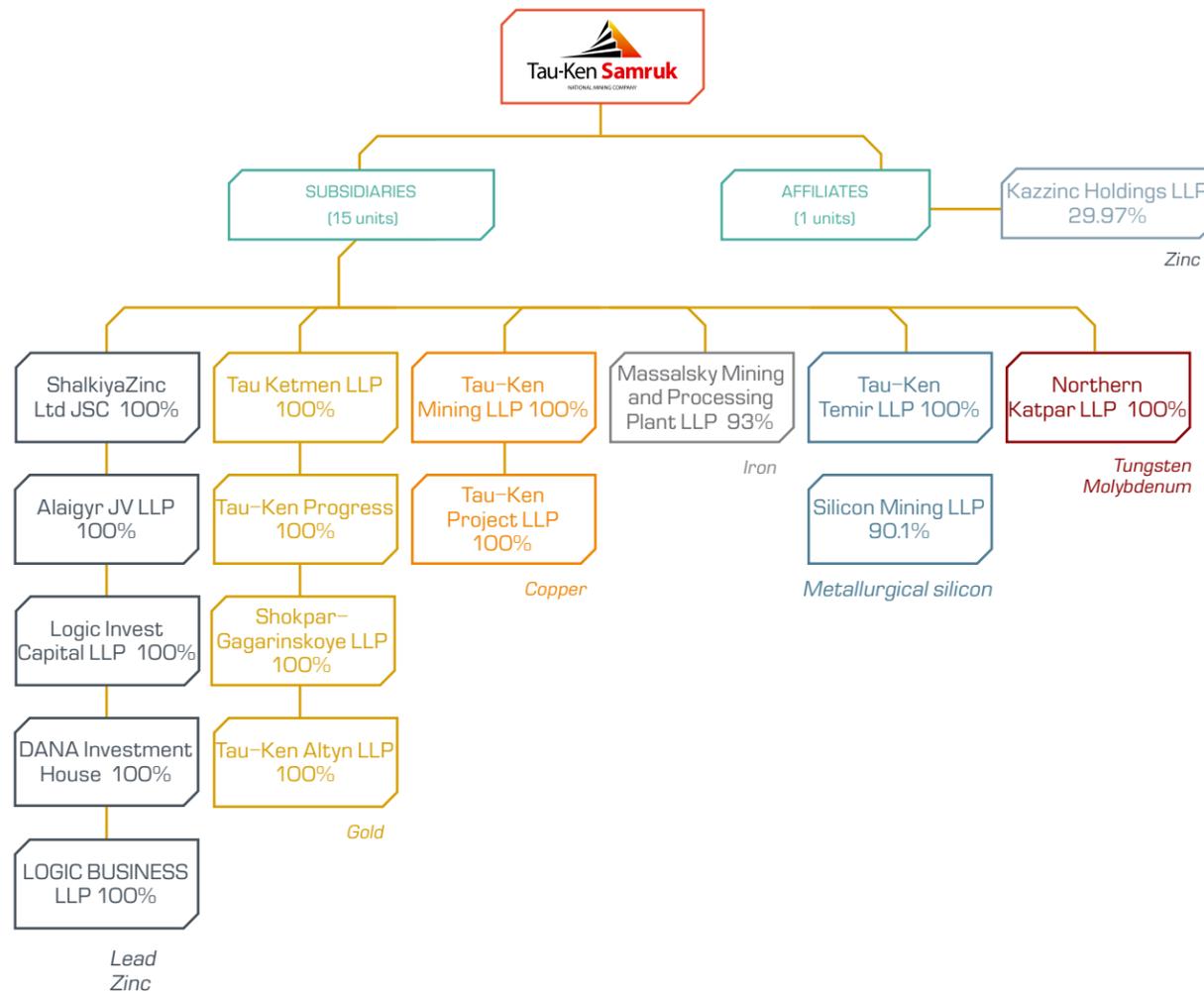
volatility in the commodity markets of gold and silicon, plants of the Company achieved positive results. Tau-Ken Temir LLP accounts for 32% of produced gold in the country. In turn, Tau-Ken Temir LLP is the leader in production of silicon in Kazakhstan.

REVIEW OF INVESTMENT AND PRODUCTION ACTIVITY

TOTAL
INVESTMENTS
AMOUNTED TO
KZT **12** BILLION

Assets structure

As of December 31, 2016, structure of the Company's assets consisted of 15 subsidiaries and one affiliate.
G4-17



Subsurface Resources Management and Land Tenure Activity

Based on the results of 2016, the following subsurface resources management contracts were concluded between the Company and the competent authority represented by RK Ministry for Investments and Development:

- Contract for production of baryte-polymetallic ores and silver at the Tuyuk deposit in Almaty region (registration No.4796-TPI dated March 4, 2016);
- Contract for combined exploration and production of tungsten and molybdenum ores at the Verkhneye Kairakty deposit in Karaganda region (registration No.4838-TPI dated July 4, 2016);

Currently Company is working on subsurface resources management right registration for production of coal at the

opencast coal mine No.3 of the Kushmurun deposit in Kostanai region.

The project of Torgai combined heat-and-power station (CHPS) was included in the concept of the Republic of Kazakhstan fuel and power complex development until 2030.

The project implementation will allow to increase in the volume of production and distribution of the generated electric power, which, in turn, will have a positive effect on development of economic situation in the North Kazakhstan region and will ensure sustainable and reliable power supply in the region.

Concluded supplemental agreements:

Supplemental Agreement No.4 (registration No.4813-TPI dated March 18, 2016) to the Contract No.935 dated May 21, 2002 for production of polymetallic ores at the Shalkiya deposit in the Kyzylorda region in connection with the change in calendar schedule of production.

Supplemental Agreement No.1 (registration No.4847-TPI dated June 1, 2016) to the Contract No.4535-TPI dated February 4, 2015, for exploration of gold bearing ores at the South Moynty area in the Karaganda region in connection with the change in the local content liabilities.

Supplemental Agreement No.1 (registration No.4929-TPI dated July 4, 2016) to the Contract No.4796-TPI dated March 4, 2015 for production of baryte-polymetallic ores and silver at the Tuyuk deposit in the Almaty region in connection with transfer of the subsurface resources right transfer to SAC.

Supplemental Agreement No.2 (registration No.5004-TPI dated November 28, 2016) to the Contract No.4188-TPI dated February 20, 2013, for exploration of copper, gold and secondary components within the Spassk copper ore area in the Karaganda region in connection with the change in the project document.

Supplemental Agreement No.2 (registration No.5005-TPI dated November 28, 2016) to the Contract No.2810 dated October 9, 2008, for production of gangue quartz at the Aktas deposit in the Karaganda region due to changes in the project document and redistribution of social contributions in the region.

Supplemental Agreement No.2 (registration No.5006-TPI dated December 9, 2016) to the Contract No.4187-TPI dated February 20, 2013, for production of polymetallic ores at the Alaigyr deposit in the Karaganda region due to adjustment of the calendar schedule of development and mining allotment.

Land Tenure

Within the framework of combined exploration and production of tungsten and molybdenum ores project implementation at the Verkhneye Kairakty deposit in Karaganda region, permission was issued by the regional executive body (Regulation No.33/3

issued by the Shetskoy District Administration on June 24, 2016) for execution of geological exploration work within the boundaries of the contract territory.



Geological Exploration Activity

Prospecting for copper, gold and associated components within the Spassk copper ore area in Karaganda region.

Type of commercial mineral
Au gold **Cu** copper
and associated components

Contract
No.4188-TPI
dated February 20, 2013
6 years
Term of the Contract

Area
of the contract territory

12,549 km²

Location:
Spassk copper ore area (COA) is located in the northern part of the Central Kazakhstan stretching out over 330km in the east-west direction and 30 to 40km in width.

Project objectives: Search for copper and gold bearing objects, their assessment and inclusion of the reserves in the state register of reserves of the Republic of Kazakhstan.

The project is implemented by the subsidiary – Tau-Ken Project LLP. Geological exploration works are carried out with involvement of contracting organizations.

Predicting and prospecting work have been executed for the whole contract area using the geochemical technology lonex in the scale of 1:200,000. The given type of research is aimed at forecasting and search for open ore-bearing objects. Samples were taken throughout the contract area of 12,548 m² with the grid of 2x2 km.

Performed works:

Type of Work	UoM	Volume
Geological (search) routes	l.km	130.7
Geophysical exploration works	l.km	39
Mining works	m ³	3,171.7
Drilling works	l.m	12,768.9
Laboratory researches	analysis	25,537.8

The funds used for Spassk copper ore area in 2016 amounted to KZT 520.7 mln. net of VAT.

Hajikongan deposit reserves in the amount of 98.5 thousand tonnes of copper with an average content of 1.8% were put on balance of the State Reserve Register.

At every sampling point the following 3 samples were taken: soil sample (for MPF analysis), sample of loose and bed rock (for gross analysis). Totally, 3,637 samples of soil and loose rocks and 1,790 samples of bed rock were taken. The taken soil samples were analyzed for content of weakly-fixed forms of 25 elements (MPF method); rock samples were analyzed for gross content of 33 elements with sensitivity of 3 to 5 times below the clarks of every element. The results of analysis processing and interpretation allowed us to outline the main geochemical structures within the territory of the Spassk COA, to determine the main reasons for identifying potentially promising sites of gold and copper mineralization and to outline the sites for more detailed prospecting.

Geological exploration works are carried out through the whole contract area with detailed research at the Saryadyr, Burnak, Hadjikongan, Spassk, Shaitan, Koktas-Sharykty ore nodes.

Prospecting for and production of copper, lead and baryte in Tuyuk-Temirlik ore area in Almaty region.

Type of commercial mineral
Pb lead **Cu** copper
barite and associated components

Contract
No.4196-TPI
dated March 27, 2013
6 years
Term of the Contract

Area
of the contract territory

161.61 km²

Location:
Almaty region, 186 km away of Almaty.

Objective of the project: conduct of a number of geological exploration work for identification of large and medium-size deposits of copper and associated components within the ore zone.

The project is implemented by the subsidiary organization – Tau-Ken Mining LLP. Geological exploration works were carried out with involvement of contracting organizations.

In 2016, the geological exploration works were mainly conducted at of the center of Tuyuk deposit.

Performed works:

Type of Work	UoM	volume
Drilling of evaluation wells	l.m	1,435
Geophysical studies	l.m	1,435
Laboratory researches	samples	4,485

Currently, the forecasted technical and economical parameters of the project are being updated with due account for the results of conducted exploration operations within the framework of the contract for exploration of the Tuyuk-Temirlik ore region.

In accordance with the contract terms and conditions, a part of the contract area that is not promising in terms of commercial minerals discovery was returned.

In 2016, the funds in the amount of KZT 145.5 mln., net of VAT, were used for Tuyuk-Temirlik ore area.

Prospecting for gold at the Shokpar and Gagarinskoye deposits in Zhambyl area.

Type of commercial mineral
Au gold

Contract
No.4323-TPI
dated December 27, 2013
(Gagarinskoye deposit)

Area
of the contract territory

5 km²

Location:
Zhambyl region, Kordai district, Alga village

4 years
Term of the Contract

Project purpose: Carrying out appraisal work at Gagarinskoye gold field in Zhambyl region.

The project is implemented by the subsidiary organization Shokpar-Gagarinskoye LLP with involvement of contracting organization. At the Gagarinskoye deposit, ditches of the total volume of 1,200 m³ were completed to make the field testing network uniform and rationally sufficient for industrial categories C1+C2, which guarantees objective and most accurate results.

Works performed at Gagarinskoye deposit:

Type of Work	UoM	Volume
Mining works	m ³	1,200
Drilling works	l.m	11,206.1
Geophysical studies	l.m	21,959
Laboratory researches	samples	13,262

Type of commercial mineral **Au gold**

Contract No.4333-TPI dated January 14, 2014

Area of the contract territory 4.2 km²

Location: Zhambyl region, Kordai district, Nogaibai rural district

Term of the Contract 4 years

Project purpose: Carrying out appraisal work at Shokpar gold field in Zhambyl region.

The project is implemented by the subsidiary organization Shokpar-Gagarinskoye LLP with involvement of contracting organizations. For the purpose of recalculation of C1 category

reserves at the Shokpar deposit under the project, 77 wells of the total length of 12,289 l.m. were drilled, tested and registered in 2016. Laboratory research was conducted using ICP-AES method for 35 elements with decomposition into nitric and hydrochloric acid compounds and atomic absorption analysis. A number of physical and mechanical tests were conducted within the limits of 50 samples.

Works performed at Shokpar deposit:

Type of Work	UoM	Volume
Drilling works	l.m	12,289
Drilling of hydrogeological wells	l.m	250
Geophysical studies	l.m	24,089
Laboratory and analytical studies	samples	14,933

Based on the results of work carried out at Shokpar and Gagarinskoye deposits in 2016, laboratory analysis of field materials was carried out.

In 2016, the amount of KZT 478.3 mln. were used for Shokpar deposit and KZT 342.4 mln. for Gagarinskoye deposit, net of VAT.

Prospecting for gold at the Progress deposit in Karaganda region.

Type of commercial mineral **Au gold**

Contract No.4504-TPI dated December 23, 2014

Area of the contract territory 6.41 km²

Location: Karaganda region, Karkaralinsk district

Term of the Contract 5 years

The project is implemented by the subsidiary organization – Tau-Ken Progress LLP with involvement of a contracting organization in geological exploration work.

Objective of the project: appraisal work at the Progress deposit for study and identification of ore bodies within the contract area followed by approval of the reserves.

In 2016, the following geological exploration operations were carried out for the purpose of confirmation and outlining of previously studied and identification of new ore bodies at the northern and southern sites of the deposit:

Performed works

Type of Work	UoM	Volume
Exploration survey routes	km	35
Mining works	m ³	1,165
Drilling works	l.m	7,299.7
Geophysical works	l.m	6,569
Laboratory researches	samples	11,035

The funds used in 2016 for Progress deposit study amounted to KZT 222.9 mln., net of VAT.

Prospecting for gold at the South Moiyny area in Karaganda region:

Type of commercial mineral **Au gold**

Contract No.4535-TPI dated February 4, 2015

Area of the contract territory 234 km²

Location: Karaganda region, Aktogay district

Term of the Contract 6 years

Objective of the project: identification of commercially important object for further involvement in development.

The project implementation is carried out by the Company with involvement of contracting organization.

Performed works:

Type of Work	UoM	Volume
Exploration survey routes	km	160
Mining works	m ³	4,050.87
Drilling works	l.m	3,622.9
Geophysical studies	l.m	3,622.9
Laboratory researches	samples	86,080

Based on the results of geological exploration works, a report is developed with calculation of forecasted resources and reserves, based on the results of which the preliminary assessment of the area prospects and further lines of activity are determined. KZT 213.8 mln., net of VAT, was used under the project in 2016.

Prospecting for gold at the Predgorny Ketmen site in Almaty region.

Type of commercial mineral **Au gold**

Contract No.4134-TPI dated July 31, 2012

Area of the contract territory 17.1 km²

Location: Almaty region, Raiymbek and Uigur districts

Term of the Contract 4.5 years

Objective of the project: execution of a number of geological exploration operations for assessment of placer gold content of the contract area including fine-grade gold.

The project is implemented by the subsidiary of the Company – Tau-Ketmen LLP with involvement of a contracting organization.

In 2016, drilling operations of the total volume of 457.5 l.m were conducted by cable drilling along with technological study within the framework of additional exploration of Predgorny Ketmen and Shalkudesu sites.

Performed works:

Type of Work	UoM	Volume
Thrust boring of prospecting wells	l.m	457.5
Samples taking from the wells	samples	1,113
Laboratory and technological studies	samples	3,411

Based on the results of the conducted exploration, report with estimation of gold reserves and feasibility study conditions at Predgorny Ketmen site in Almaty region was prepared. Report was considered at the Republic of Kazakhstan State Reserves

Committee meeting and placer gold reserves were included in the State Register of Reserves under C2 category.

In 2016, KZT65.2 mln., net of VAT, was used for the project implementation in 2016.

Prospecting and production of tungsten and molybdenum ores at the Verkhneye Kairakty deposit in Karaganda region

Type of commercial mineral



Contract
No.4838-TPI
dated May 27, 2016

Term of the Contract

4 years of exploration

45 years of production

Area
of the contract territory



14,83 km²

Location:
Karaganda region,
Shetskiy district

Objective of the project: geologic and economic revaluation of the deposit and approval of the reserves by the RK SRC followed by involvement in development.

In 2016, the contract was concluded for prospecting and production of tungsten and molybdenum ores at the Verkhneye Kairakty deposit in Karaganda region. In accordance with terms and conditions of the Contract, 4 years of geological exploration work were provided for. Based on the results of execution of the planned geological exploration work, new feasibility study of industrial conditions with due account for the modern market relations and modern prices for the final commercial products

will be developed, based on which the deposit's reserves will be recalculated and their industrial value will be determined followed by entering into the State Register of Reserves. Modern methods for processing of tungsten ore of Verkhneye Kairakty deposit will be implemented with the use of new highly efficient equipment and reagents; process and instrumentation diagram and process procedure with end product out put will be defined.

In general, the geological and economic assessment of the deposit will be carried out in accordance with modern standards, with subsequent preparation for industrial development.

The funds used for Verkhneye Karakty deposit development in 2016 amounted to KZT 90,2 mln. net of VAT.

Information on large transactions

In 2016, large transaction was closed with Kazzinc LLP with the total amount of USD 90,000,000.00 (ninety million dollars)

based on the decision made by the Board of Directors of Tau-Ken Samruk NMC JSC (minutes No.07/16 dated August 26, 2016).

Results of Production Projects Implementation

Commercial development of Shalkiya deposit of polymetallic ores in Kyzylorda region and construction of a processing plant.

The plans of the subsidiary of the Company – ShalkiyaZinc LTD JSC, provide for construction of mining and processing plant with increase of the existing mine production capacity to 4 mln. tonnes with construction of new beneficiation plant. The plant first stage of tender was initiated for selection of contractor for construction of mining and processing complex in accordance with the rules of the European Bank of Reconstruction and Development. EBRD due-diligence process (integrated audit) is carried out simultaneously with tender.

Auxiliary mining equipment and mobile equipment were purchased and operation of underground repair stations were arranged for repair of such equipment.

Residential and administrative buildings were restored at the mining site and the nearby Shalkiya village.

The bankable feasibility study was completed, which included an optimized scheme of ore processing in accordance with the new technological regulations. Within the year, auxiliary mining equipment and mobile equipment was purchased and operation of underground repair stations was completely arranged for repair of such equipment.

Technological studies for optimization of the production process were finished within the framework of activity aimed

Complete restoration of previously made mines and underground infrastructures was carried out in 2016.

at processing prime-cost reduction and improvement of technological parameters (recovery, silica content).

The planned major events for 2017

- Development of processing plant design and commencement of construction;
- Attraction of loans;
- Conclusion of EPC contract for construction of a beneficiation complex, and PC contract for capital mining work execution;
- Preparation for mine openings excavation;
- Commencement of construction of external electric power supply system, gas supply line to the territory of the project site. Construction of a substation;
- Construction of Zhanakorgan – Shalkiya and Kuttykozha – Shalkiya water pipelines;
- Upgrade of fleet of mining equipment;
- Upgrade of warehousing facilities.

Production of polymetallic ores at the Alaigr deposit in Karaganda region

In 2016, the volume of stope development with preparation of sites for infrastructure was 1,096 thousand m³. Mine preparation work Contract was concluded for mining work execution with the use of drilling and explosion work in the volume of 2,500,000 m³.

Geological exploration works were performed for the purpose of revaluation of commercial underground water reserves of Alaigr deposit. Report on the Vostochny site underground water reserves revaluation was developed and submitted to the RK State Reserves Committee. Commercial underground water reserves of the site in the amount of 3.15m³/day were approved for the period of 15 years. Engineering and geodetic study was carried out at the project site of Alaigr deposit.

Contract was signed for supply of the basic production equipment for beneficiation plant (BP) Test laboratory analysis

and floatation tests are being conducted for the purpose of the basic engineering development.

In August, contract was concluded for construction of auxiliary premises (2 hangars): covered parking lot for auxiliary machines and warehouse. Contract was also concluded with for construction of modular buildings (dormitory for technical and engineering employees for 50 men; dormitory for 114 men and canteen for 100 men).

Positive conclusion of Gosexpertiza NPE was received on the project of “Construction of mining and beneficiation plant for production and processing of polymetallic ores of Alaigr deposit of Karaganda region. Shift camp.”

Loan agreement was concluded with the Eurasian Development Bank on December 30, 2016.

Engineering and geodetic studies were carried out at the project site of Alaigyr deposit.

The planned major events for 2017

- Purchase of mining and transportation and auxiliary equipment;
- Completion of electric power transmission line and substation (external electric power transmission line) construction;
- Completion of development of design and estimation documentation for construction of dead-end railway track and commencement of construction;

Construction of mining and metals complex based on the Massalsky deposit in Akmola region.

Technological study of ore beneficiation process was conducted and concentrates were produced for blast-furnace smelting in the China National Technical Import and Export Corporation (CNTIC, PRC) in cooperation with Scientific Research Institute of Mining and Metallurgy (CRIMM, Changsha).

Technological study of the beneficiation process was conducted in three stages:

- Laboratory study;
- Pilot industrial test in continuous mode;
- Production of a pilot lot of concentrate in the volume of 4 tonnes for its testing for caking capacity (agglomeration). The researches were conducted for development of technically effective production scheme for ore processing of Massalsky deposit for confirmation of production solutions included in the feasibility study of the project and submission of technological groups by CNTIC.

Research and test of the agglomeration process were conducted separately at the base and by specialists of the Department of Metallurgy of the Southern Central State University in Changsha and Beijing Shougang International Engineering Technology Co., Ltd. (BSIET) Company, PRC. Test of agglomeration process was completed in December of 2016 based on the intermediate results of which production capacity of agglomeration machine was adjusted. Furthermore it is necessary to carry out tests of metallurgical properties of the produced agglomerate and to

- Completion of the 1st start-up complex “Shift Camp” and mining and beneficiation complex facilities “working documentation project development”;
- Completion of construction of the 1st start-up complex “Shift Camp”;
- Completion of the mining and beneficiation complex site facilities construction;
- Completion of the basic engineering and beneficiation plant’s internal infrastructure facilities;
- Completion of the beneficiation plant design development;
- Commencement of the beneficiation plant and its infrastructure design development;
- Commencement of the beneficiation plant and its infrastructure construction;
- Development of the telecommunication system for the project;
- Continuing with mine preparation work.

model metallurgical process of smelting, the results of which will be included in the final process procedure.

The process procedure was developed based on the obtained results of research conducted by CNTIC.

Feasibility study was developed and conclusion on the examined feasibility study will be obtained in 2017.

Land plots were allotted for construction of production facilities of the enterprise including the land plot for mining operation.

Massalsky deposit resources were estimated in accordance with international classification of JORC and made 524 mln. tonnes with an average iron content of 15.6%.

Massalsky deposit resources were estimated in accordance with international classification of JORC.

The planned major events for 2017

- Development of design and estimate documentation for infrastructure, temporary buildings and structures;
- Registration of land plots for external infrastructure;
- Introduction of changes in technical project of deposit development as well as in the terms and conditions of the subsurface resources use contract;

Production of tungsten and molybdenum ores at the Northern Kaptar deposit in Karaganda region

Contract was concluded for execution of the scientific research project “Development of the modern industrial technology for beneficiation, pilot industrial test and development of the process regulations for beneficiation plant design development and that of hydrometallurgical process of tungsten-molybdenum-copper-bismuth ore of the Northern Kaptar deposit”.

Mapping survey of the deposit and the adjacent land plots allotted for infrastructure construction was conducted with the scale of 1:1000.

The planned major events for 2017

- The scientific research was conducted for development of the modern beneficiation technology, pilot production tests and development of the process procedure regulations for development of beneficiation plant design and hydrometallurgical process of tungsten-molybdenum-bismuth-copper ore of the Northern Kaptar deposit;

- Preparation and signing of the contract for design development, construction and supply of equipment for MBC and metallurgical complex;
- Preparation and signing of the loan agreement.

- Preparation of the report on laboratory, technical, hydrometallurgical studies with recommendations on selection of equipment;
- Preparation of report on conducted pilot production tests;
- Development of a process procedure for beneficiation plant design development;
- Development of the project of follow-up exploration of the Northern Kaptar deposit for tungsten and molybdenum ores within the framework of reserves revaluation in accordance with the JORC 2012 Code;
- Geological exploration work in accordance with the JORC 2012 Code;
- Engineering and geological study conduct;
- Conduct of a preliminary bankable feasibility study with report on the mineral resources in accordance with the JORC 2012 Code;
- Preparation of report on the mineral resources in accordance with the JORC 2012 Code;
- Development of a preliminary bankable feasibility study.

Results of Manufacturing Activity

Results of Tau-Ken Altyn LLP

In 2016, the refinery of the Partnership achieved the planned level of end products production and sales. Totally, 12 tonnes of refined gold and 3.8 tonnes of refined silver were produced. The volume of chemically clean gold and silver in the gold-bearing raw materials planned for supply in accordance with the preliminary forecasts of the suppliers, has main effect on the production volume. Thus, in 2016, the Partnership concluded contracts for supply of raw materials with 31 counterparties, under which it purchased 12.5 tonnes of gold and 3.3 tonnes of silver in raw materials.

Over the reporting period, the Partnership made efforts for attraction of imported gold-bearing raw materials resulting in supply of Iranian gold in the total amount of 100kg as well as supply gold-bearing raw materials from Russia in the total amount of 399.87kg. [G4-12](#)

Below is the information on the product sold in Kazakhstan as refined gold:

- National Bank of Kazakhstan – 11.2 tonnes;
- Jewelry companies including products manufactured from the raw materials on the give-and-take basis (tolling) – 0.9 tonnes;
- Jewelry companies of Kazakhstan – approximately 17kg of refined gold.

According to the RK National Bank’s Regulation “On Approval of the Rules of Exercise by the Government of the First Refusal Right to Purchase of the Refined Gold to Replenish Assets in Precious Metals”, the procedure of preliminary payment by the National Bank for the future supplies of refined gold as the method of mutual settlements with refineries was approved.

The project of purchase of the process equipment for hydrometallurgical gold sedimentation has been commenced to ensure processing of additional types of raw materials such as cathode gold, radioelectronic wastes, off-balance tailings as well as solid manufacturing wastes (garbage). An anticipated

The project of purchase of the process equipment for hydrometallurgical gold sedimentation has been commenced to ensure processing of additional types of raw materials

advantage of inclusion of the hydrometallurgical sedimentation line in the existing system consists in possibility of selection of a process operation in accordance with quality and type of raw materials loaded for processing, which will result in reduction of expenses on chemical reagents, materials and electric power. All the above in aggregate will have positive effect on the efficiency of refinery performance including achievement of designed capacity. The Partnership plans to complete the project in the first half of 2017.

The planned major events for 2017

- Production of refined gold in the amount of 15 tonnes and 4.4 tonnes of refined silver;
- Supply of the necessary raw materials to the refinery;
- Commissioning of the equipment for hydrometallurgical gold precipitation process and training of personnel to operate such equipment.

Results of Tau-Ken Temir LLP performance

Based on the results of 2016, Tau-Ken Temir LLP silicon manufacturing plant produced 19,513 tonnes of metallurgical silicon (0-300mm fraction) making 101.6% of the planned volume.

To date, contracts have been concluded with traders from the USA and Europe, under which it is planned to sell the whole volume of manufactured products. Over the period of 12 months of 2016, 20,252 tonnes of silicon were sold. Moreover, Company is working on sales of additional products, such as micro-silica, slag, aspiration fines, etc. [G4-12](#)

In accordance with the decision made by the Investment Committee of the Company and the Fund, implementation of the first stage of the Partnership's investment program for 2016 (development of design, construction and assembly work, available equipment upgrade, purchase and installation of an additional equipment, purchase of special-purpose machines) was negotiated and approved.

In 2016, the Partnership carried out upgrade and restoration of belt conveyor 2BC121 system, restoration of video surveillance, fencing of territory, reconstruction of bus line of the ignition device, planning of CAO (construction of CLP (central laboratory of plant), reconstruction of aspiration systems, upgrade of ICS (industrial control system)), installation of equipment (connection of water supply system, lighting of the production area and land plots); special-purpose machines were purchased including dump truck, automatic hoisting machine, tractor, frontal loader, manipulator, equipment (self-propelled carriage and industrial vacuum-cleaner) and charging machine.

Currently, Tau-Ken Temir LLP is working on implementation of the innovative project for development of industrial technology of silicon (micro-silica) production wastes processing with production of briquetted mono-slag.

The project's objective consists in development of industrial technology for production of briquetted mono-slag used in smelting of technical silicon with the use of new carbonaceous reducing agent – carbonated direxile and production wastes – fine dust of gas treatment process of production capacity up to 30,000 tonnes of briquetted non-slag per a year.

In the long run, the Company is considering possibility of creation of silicon cluster including the innovative closed-loop cycle production chain, that production of polycrystalline silicon and solar batteries make a part of. The production processes based on cluster type will allow for using the full industrial potential of the region. The given project is also socially oriented since new jobs will be created as a result of its implementation.

On December 9, 2016, the Company underwent the process of re-registration in connection with purchase by the Company of 90.1% of participation interest in the authorized capital of Silicon Mining LLP from Investment Fund of Kazakhstan JSC.

The planned major events for 2017

- Renewal and upgrade of ore thermal treatment main and auxiliary equipment for silicon production;
- Reconstruction of chemical laboratory and accreditation of laboratory in accordance with the provisions of ISO 17025-2009 standard "General Requirements to Competence of Test and Calibration Laboratories";
- Introduction of exhaust gases heat recuperation for the purpose of heat supply to production and administrative premises;
- Reaching production capacity level of 22 thousand tonnes of technical silicon and 18.4 thousand tonnes of micro-silica.





INNOVATIVE ACTIVITY

Introduction of New Technologies

Production line of the refinery was supplemented with the advanced innovative system of acidless separation ensuring the process of acidless separation of gold and silver, vacuum distillation of silver from gold and silver alloys. The production process allows for solution of a number of the most important tasks and ensures economic advantage achieved through high rate of processing of gold and silver alloy, high rate extraction of precious metals, which allowed for reduction of production cycle to 3-4 days.

Based on the results of the National Industry Competition Golden Hephaestus 2016 as part of an annual International Mining and Metallurgy Congress and Exhibition Astana Mining and Metallurgy, Tau-Ken Altyn LLP won an award in the nomination "Year Leader in Innovations" for introduction of silver vacuum distillation technology.

Development of Scientific and Production Center

To implement the strategy the Company works on establishment of its Scientific and Production Center (hereinafter referred to as the SPC) that we plan to use for laboratory, integrated and semi-industrial research for processing of solid commercial minerals, training and advance training of specialists in mining and metallurgy sphere.

For the purpose of the fulfillment of the step 63 Of the President "National Plan – 100 exact steps for implementation of five institutional reforms" the joint work was commenced with Nazarbayev University: business plan and investment memorandum were drawn-up for the project and joint working group was set up together with the NURIS Private Institution for project implementation, technical specification for feasibility study was developed.

The project implementation will allow for establishment of the Shared Center for laboratory and pilot industrial tests for the entire chain of mining and smelting operations in accordance with the applicable international standards.

CORPORATE MANAGEMENT

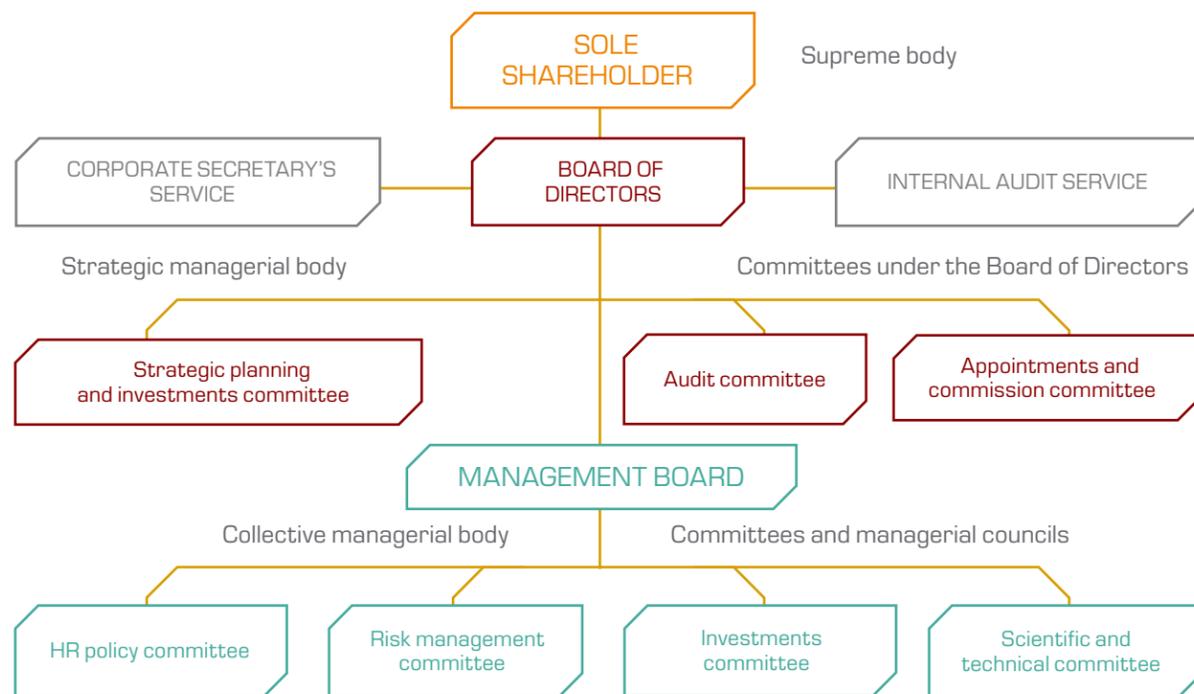


Corporate Management Structure

Tau-Ken Samruk NMC JSC corporate management structure

In accordance with the Company's Charter approved by the Sole Shareholder, the managerial bodies of the Company are as follows:

1. Supreme body – the Sole Shareholder;
2. Managerial body – Board of Directors;
3. Executive body – Management Board.



The Sole Shareholder

The Company is a vertically-integrated company established in accordance with the Republic of Kazakhstan government's resolution of January 15, 2009.

Samruk-Kazyna Sovereign Wealth Fund Joint Stock Company is the Sole Shareholder of the Company.

Board of Directors

The Board of Directors is in charge of general management of the Company save for the issues referred by the law "On Joint Stock Companies" and the Charter of the Company to the exclusive terms of reference of the Sole Shareholder and the executive body of the Company.

The Board of Directors of the Company consists of five directors. Members of the Board of Directors of the Company shall be elected by the Sole Shareholder.

In accordance with the advance practice of the corporate management, there should be directors independent of the Sole Shareholder and the Company's management, which guarantees making objective decisions meeting the interests of the Company to the maximum possible extent. In accordance with the Republic of Kazakhstan law "On Joint Stock Companies", number of independent directors of the Company shall be no less than one third of the number of the Board of Directors' members.

Procedure of the Board of Directors members election

Candidates for the Board of Directors membership and members of the Board of Directors shall have necessary experience, knowledge, qualification, positive achievements in business and (or) industry, necessary for due discharge of his/her duties and arranging an efficient work of the Board of Directors on the whole for the best interests of the Sole Shareholder and the Company.

more than one year prior to making the decision on forced winding up or stock redemption or temporary suspension of activity of another legal entity declared bankrupt in accordance with established procedure. The above specified requirement shall be applicable within the period of five years after the date of making a decision on forced winding up or stock redemption or temporary suspension of activity of another legal entity declared bankrupt in accordance with established procedure.

The below listed persons cannot be elected as members of the Board of Directors:

- 1) A person with criminal history on record or unquashed conviction;
- 2) A person who previously acted as the chairman (woman) of the Board of Directors, CEO (president), deputy president, chief accountant of any other legal entity for the period of no

Independence criteria were determined by the RK legislation, Charter and Regulations on the Board of Directors.

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Board of Directors members

Members of the Board of Directors as of December 31, 2016:



Bektemirov Kuanysh Abdugaliyevich, Chairman of the Board of Directors

Date of Birth: May 24, 1970

Qualification:

- Graduated from Kazakh State University named after Al-Farabi in 1993, physicist.
- Graduated from Kazakh National University of Agriculture in 2004, electrical engineer.

Work experience:

- Since January 2012 and till the present time – Managing Director of Samruk-Kazyna JSC, Chief Director of Samruk-Kazyna JSC.
- 2011-2012 – Director General of Astanaenergocontract.
- 2009-2010 – Deputy, First Deputy Director General of Kazgidromet NSE.
- 2008-2009 – Head of the State Enterprise “South Kazakhstan Region Energy and Public Services Administration”.
- 2004-2008 – Director of Astanaenergosbyt LLP, Astana.

Chairman of the Board of Directors of Samruk-Energy JSC and KEGOC JSC as well as a

member of the Board of Directors of NAC Kazatomprom JSC.

Shares of the Company held: none

Shares of suppliers and competitors of the Company, number of shares of affiliates held: none.

Tutkushev Yerzhan Beksultanovich

Representative of the Sole Shareholder, Member of the Board of Directors



Date of Birth: December 10, 1981

Qualification:

- In 2004 graduated from the St. Petersburg State University of Economy and Finance with specialization in Financial Analysis and Accounting.
- In 2007 graduated the Master’s degree program of the Illinois University at Urbana-Champaign, Master of Finance.

Work experience:

- Since 2014 – Deputy Chief Director of Business Development of Samruk-Kazyna JSC and co-managing director for development of new industries.
- 2012-2014 – manager of the Consulting Services Department of PricewaterhouseCoopers Tax and Advisory LLP.
- 2011-2012 – Director of the Department of Fuel and Energy Sector Projects Development of Samruk-Kazyna Invest LLP.
- 2008-2011 – Senior Advisor of Ernst and Young – Consulting Services LLP.

Chairman of the Supervisory Board of United Chemical Company LLP, member of Supervisory Board of Samruk-Kazyna Invest LLP, member of the Board of Directors of “Kazakhstan

Engineering NC” JSC, Real Estate Fund “Samruk-Kazyna” JSC.

Shares of the Company held: none

Shares of suppliers and competitors of the Company, number of shares of affiliates held: none.

Arslanova Zarina Fuatovna

Independent Member of the Board of Directors
Chairwoman of the Audit Committee and Strategic
Planning Committee

Date of Birth: December 22, 1962

Qualification:

- Graduated from the Kazakh State University named after S.M. Kirov with specialization in economy, Cand. Economic Science.
- 1992-1996 – study in the Institute of Economic Education of the World Bank.

Work experience:

- Since 2015 – Counsellor, member of the management board of Dala Mining LLP.
- Since 2009 – Managing partner of RKF Astana LLP.
- Since 2007 – President of AXIS Corporation LLP.

Independent Director of Kazatomprom NNC JSC, International University of Information Technologies JSC.

Shares of the Company held: none.

Shares of suppliers and competitors of the Company, number of shares of affiliates held: none.



Argingazin Arman Anuarbekovich

Independent Director, Chairman of the Appointments and
Compensations Committee

Date of Birth: December 1, 1978

Qualification:

- Graduated from Boston University of the USA in 2000 with Bachelor’s Degree in Business Administration.

Work experience:

- In 2012, appointed to the position of the managing director of UBS in Kazakhstan.
- Since 2004 – worked in different positions for ABN AMRO Bank Kazakhstan including the position of the Head of Department of Mining Industry and Metals and Director of Astana Branch.

Work for and membership in the Boards of Directors of other organizations: none.

Shares of the Company held: none.

Shares of suppliers and competitors of the Company, number of shares of affiliates held: none.



Turmagambetov Mazhit Abdykalikovich

Chairman of the Management Board, Member of the Board
of Directors

Date of Birth: February 1, 1961

Qualification:

- Graduated from the Moscow High Technical College named after N.E. Bauman in 1984, mechanic engineer.

Work experience:

- Since January 2012 – current time – Chairman of the management board of Tau-Ken Samruk NMC JSC.
- 2009 – Vice-Minister of RK Environmental Protection Ministry.
- 2008-2009 – Deputy Governor of South Kazakhstan region.
- 2008 – Director of Regional Investment Center Maximum LLP.

Chairman of the Board of Directors of Shalkiya Zinc LTD JSC, member of the Board of Directors of Kazatomprom NNC JSC, Kazzinc LLP, Non-profit making KazNITU named after K.I. Satpayev JSC.

Shares of the Company held: none.

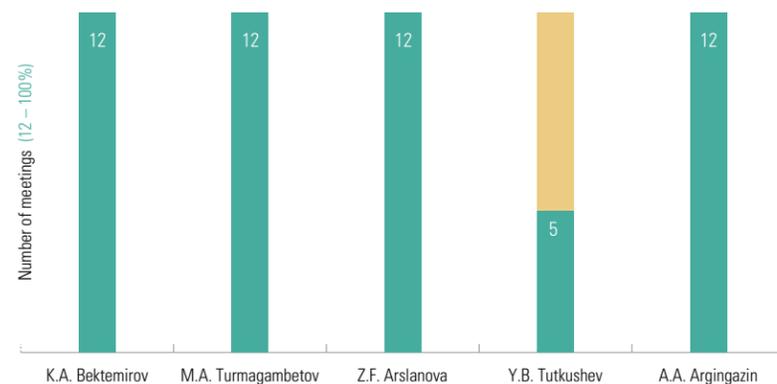
Shares of suppliers and competitors of the Company, number of shares of affiliates held: none.



Information on the Board of Directors performance

In 2016, the Board of Directors held 12 meetings including 7 in-person meetings and 5 in-absentia meetings.

Participation by the Board of Directors members in meetings of the Board of Directors of Tau-Ken Samruk NMC JSC



By the decision of the management board of Samruk-Kazyna JSC dated September 26, 2016, Tutkushev Yerzhan Beksultanovitch was elected as a member of the Board of Directors. Since the moment of election as a member of the Board of Directors of the Company, Y.B. Tutkushev took part in 5 meetings out of 5 planned for that period.

Information on the issues considered in 2016

The Board of Directors of the Company holds its meetings on the regular basis in accordance with an annual plan of operation of the Board of Directors as well as otherwise may be necessary.

In general, in 2016, the Board of Directors made decisions on 154 issues including 1 abstain vote on 2 issues. As for all the other issues, the Board of Directors of the Company voted unilaterally. Within the year, the Board of Directors considered the issues such as adjustment of budget, investment projects, assessment of performance of management members, reports of the management and internal audit service, changes in the membership of Committees and Management of the Company at its meetings on periodical basis.

In January, the head of the internal audit service of the Company was elected, plan of actions for management of critical (key) risk of the Company for 2016 was considered and decision was made on consolidation of Kazakhstan Silicon LLP with Tau-Ken Temir LLP and on liquidation of TKS-Kostanai LLP.

In March, an annual report of the Board of Directors for 2015 was approved and report on transparency and efficiency of the Company's information disclosure processes in 2015 was considered.

In April, annual financial statements of Tau-Ken Samruk NMC JSC for 2015 performance were preliminarily approved; report of monitoring of Tau-Ken Samruk NMC JSC investment program implementation for 12 months of 2015 was taken into account.

In May, a decision was made on placing the authorized shares of JSC OGK Tau-Ken Samruk; report on implementation of Tau-Ken Samruk NMC development plan implementation in 2015 was considered; changes were introduced in the organizational structure of the Company.

In June, members of Tau-Ken Samruk NMC JSC management board were re-elected.

In August, changes were made in the membership of the Company's Committee for Strategic Planning and Investments; performance of the members of the Company's management board was assessed based on the degree of achievement of the key performance indicators in 2015.

In November, the Company's Board of Directors approved business-plan (Plan of Development) of the Company for 2017-2021 and new version of the accounting policy of the Company; the issue of a credit line opening by Alaigyr JV LLP was considered; information on introduction of growing companies' investment projects monitoring was taken into account.

In December, the target organizational structure of the Company and the target schedule of Alaigyr project implementation were considered; Register and map of Tau-Ken Samruk NMC JSC risks for 2017 were approved.

Information on the Board of Directors performance assessment policy

Regulations on assessment of the Company's Board of Directors performance were approved by the Company (Minutes No.3/11 dated September 19, 2011). Changes in the Regulations on assessment of the Company's Board of Directors performance by the decision of the Board of Directors No.12/16 dated December 28, 2016, in particular, assessment process was described in details, assessment criteria were supplemented and changes were made in the process of assessment of the Company's Board of Directors performance by the Chairman of the Appointments and Compensations Committee.

In accordance with the provisions of the Regulations on assessment of the Company's Board of Directors performance, necessary measures for preparation to assessment of the Company's Board of Directors performance are currently being taken.

Information on compensations due to the members of the Board of Directors

As per the Company's Charter, fixing the amount and terms of compensation payment to the members of the Board of

Directors is referred to the exclusive terms of reference of the Sole Shareholder.

Payment of compensation to the independent directors of the Company shall be made based on the rules of compensation payment and reimbursement of the Company's independent directors for their costs.

In accordance with the above specified Rules, payment of compensation to the independent directors shall be made subject to the following conditions:

- 1) Due discharge by a member of the Board of Directors of his job duties with the use of the ways that secure the Company's interests in the best possible way;
- 2) Observance of the RK legislation, Charter and by-laws of the Company in decision making;
- 3) Participation in meetings of the Board of Directors save for the events of disease, vacation or business trips.

See the corporate web-site www.tks.kz for more detailed information on the procedure of making decision on amount of compensation and its payment to the Board of Directors members in the "Corporate Management" section.

Committees of the Board of Directors

For the purpose of maintaining the Board of Directors activity, the Company formed the following committees in charge of consideration of issues and working-out recommendations on one issue or another within the framework of its terms of reference:

- Audit Committee;
- Appointments and Compensations Committee;
- Strategic Planning and Investments Committee.

In accordance with the Regulations on the Board of Directors Committees, each one of the Committees submits the Board of Directors with the report on its performance on an annual basis.

Audit Committee

Activity of the Committee is aimed at rendering of assistance to the Board of Directors on the issues of financial reporting, internal control and risk management, external and internal

audit, observance of legislation as well as on the other issues based on corresponding instructions of the Board of Directors.

The Audit Committee reports directly to the Board of Directors of the Company and acts within the framework of the terms of reference granted to it by the Company's Board of Directors.

The Company's Audit Committee under the Board of Directors consists of the following members:

- Z.F. Arslanova – Chairwoman of the Audit Committee under the Board of Directors of Tau-Ken Samruk NMC JSC, independent director;
- A.A. Argingazin – a member of the Audit Committee under the Board of Directors of Tau-Ken Samruk NMC JSC, independent director;
- A.B. Sagadibekov – an expert of the Audit Committee.

Number of Meetings and Visits by Every Director

Personal participation by the members of the Audit Committee in its meetings of 2016 was as follows:

Item No.	Date of Meeting	A.A. Argingazin	Z.F. Arslanova	A.B. Sagadibekov
1.	January 28	+	+	+
2.	April 6	+	+	+
3.	May 17	+	+	+
4.	June 29	+	+	+
5.	Autust 26	+	+	-
6.	November 4	+	+	-
7.	December 23	+	+	-
		100%	100%	57%

Information on the issues considered in 2016

In 2016, the Audit Committee held 7 attendee meetings, at which it considered 53 issues proposed to consideration by the Board of Directors of the Company.

In particular, the following issues were considered:

1. Mid-term program of Tau-Ken Samruk NMC JSC group of companies corporate management system improvement for the period of 2016-2018;
2. On approval of additional limits set for counterparty banks;
3. Consideration of the corrective actions plan for improvement of efficiency of the processes related to information technologies and information security of Tau-Ken Samruk NMC JSC for the period of 2016-2018;
4. Approval of separate and consolidated financial statements of Tau-Ken Samruk NMC JSC for 2015;
5. Approval of the report on risks of Tau-Ken Samruk NMC JSC for 2015;
6. Approval of consolidated key risk indicators of Tau-Ken Samruk NMC JSC for 2016;
7. Approval of risk-appetites of Tau-Ken Samruk NMC JSC subsidiaries at consolidated and non-consolidated level for 2016;
8. Consideration of the report on the results of Tau-Ken Samruk NMC JSC Internal Audit System performance efficiency assessment;
9. Consideration of the plan for Tau-Ken Samruk NMC JSC group of companies corporate management system improvement for the period of 2016-2018;
10. Approval of the report on risks of Tau-Ken Samruk NMC JSC for 2016;
11. Approval of the plan of actions for management of critical (key) risk indicators of Tau-Ken Samruk NMC JSC for 2017;
12. Approval of consolidated risk appetite of Tau-Ken Samruk NMC JSC for 2017;
13. Consideration of the risk matrix and control of procurement process of Tau-Ken Samruk NMC JSC;
14. Approval of the risk matrix and control of Tau-Ken Samruk NMC JSC at corporate level.

15. Approval of the Register and Map of risks of Tau-Ken Samruk NMC JSC for 2017.

See more detailed information on the issues considered by the Audit Committee under the Board of Directors in the Corporate Management section of the Tau-Ken Samruk NMC JSC corporate web-site www.tks.kz.

Appointments and Compensations Committee

This committee is a consulting and deliberative body of the Company's Board of Directors in charge of the issues of HR policy and motivation policy, consideration of the issues on appointments and compensations included in the terms of reference of the Board of Directors as well as control over proper execution of decisions made by the Board of Directors of the Company.

The Appointment and Compensation Committee was set up for consideration and preparation of recommendations to the Board of Directors on the issues of qualified management involvement to the Company including the Board of Directors, management board and the other positions in the Company; appointed by the Board of Directors of the Company as well as on the issues of compensation payment to the members of the Board of Directors, members of the management board and other employees of the Company appointed by the Board of Directors of the Company.

The members of the Committee are as follows:

- 1) Arman Anuarbekovich Argingazin – an independent director, chairman of the Appointments and Compensations Committee under the Board of Directors of Tau-Ken Samruk NMC JSC;
- 2) Zarina Fuatovna Arslanova – an independent director, member of the Appointments and Compensations Committee under the Board of Directors of Tau-Ken Samruk NMC JSC;
- 3) Almaz Boranbaiuly Sagadibekov – an expert of the Committee.

Number of Meetings and Attendances by Every Director

Personal participation by the members of the Appointments and Compensations Committee in its meetings of 2016 was as follows:

Item No.	Date of Meeting	A.A. Argingazin	Z.F. Arslanova	A.B. Sagadibekov
1.	January 28	+	+	+
2.	April 6	+	+	+
3.	April 19	+	+	+
4.	May 17	+	+	+
5.	June 29	+	+	+
6.	August 26	+	+	-
7.	September 20	+	+	-
8.	November 4	+	+	-
9.	December 23	+	+	-
		100%	100%	55%

Over the reporting period, all members participated in all meetings of the committee. In the reporting period, the Appointments and Compensations Committee held 9 attendee meetings, at which it considered and gave its recommendations on 34 issues.

In particular, the following issues were considered:

1. Consideration of the key performance indicators of Tau-Ken Samruk NMC JSC and their target values for 2016;
2. Appointment of Tau-Ken Samruk NMC JSC ombudsman;
3. Re-election of Tau-Ken Samruk NMC JSC management board members;
4. Approval of the new version of key performance indicators of Tau-Ken Samruk NMC JSC management board and their target values for 2016;
5. Assessment of performance of Tau-Ken Samruk NMC JSC management board in 2015 based on the KPI data;
6. Approval of assessment of Tau-Ken Samruk NMC JSC management board members' positions (grades);
7. Approval of official salaries of Tau-Ken Samruk NMC JSC management board members;
8. Chairman of Alaiyr JV LLP management board;
9. Assessment of Tau-Ken Samruk NMC JSC management board performance based on the 2016 KPI data;
10. Preterm termination of powers of ShalkiyaZinc LTD JSC Board of Directors members and election of new members of the Board of Directors;
11. Approval of the Plan of Operation of Appointments and Commissions Committee under the Board of Directors of the Company for 2017;
12. Consideration of the report on activity of Tau-Ken Samruk NMC JSC Corporate Secretary in 2016.

See more detailed information on the issues considered by the Appointments and Compensations Committee under the Board of Directors in the Corporate Management section of the Tau-Ken Samruk NMC JSC corporate web-site www.tks.kz.

Strategic Planning and Investments Committee.

The Committee is a consulting and deliberative body under the Board of Directors of the Company set up for the purpose of development and provision the Board of Directors with recommendations on the issues of the Company's strategic development including implementation of investment activity and the other issues included in the terms of reference of the Committee.

Strategic Planning and Investments Committee is as follows:

- 1) Zarina Fuatovna Arslanova – an independent director, chairwoman of the Strategic Planning and Investments Committee under the Board of Directors of Tau-Ken Samruk NMC JSC;
- 2) Arman Anuarbekovich Argingazin – an independent director, member of the Strategic Planning and Investments Committee under the Board of Directors of Tau-Ken Samruk NMC JSC;
- 3) Alexei Yuriyevich Repin – an expert of the Strategic Planning and Investments Committee under the Board of Directors of Tau-Ken Samruk NMC JSC;
- 4) Yelzhas Muratovich Otyynshiyev – Director of Samruk-Kazyna JSC New Projects Development Department, expert of the Committee;
- 5) Marzhan Bekturganovna Dukenova – senior manager of Samruk-Kazyna JSC New Projects Development Department, expert of the Committee.

Number of Meetings and Attendances by Every Director

Personal participation by the members of the Committee in the meetings held over the reporting period is as follows:

Item No.	Date of Meeting	A.A. Argingazin	Z.F. Arslanova	A.Y. Repin	Y.M. Otyynshiyev*	M.B. Dukenova*
1.	January 28	+	+	+	Is not an expert of the Committee	Is not an expert of the Committee
2.	April 6	+	+	-		
3.	May 17	+	+	+		
4.	August 26	+	+	-		
5.	November 4	+	+	-	+	+
6.	December 23	+	+	-	+	+
		100%	100%	33%	100%	100%

* Y.M. Otyynshiyev, M.B. Dukenova were elected as members of the Strategic Planning and Investment Committee (August 26, 2016, Minutes 07/16).

Over the reporting period, the Appointments and Compensations Committee held 6 attendee meetings, at which it considered and gave its recommendations on 21 issues.

In particular, the following issues were considered:

1. Additional funds allocation to the project of copper, gold and associated components prospecting within the Spassk copper ore area of Karaganda region;
2. Approval of investment memorandum (business-plan) and additional funds provision for the preparation stage of investment project "Construction of mining and metals complex based on the Massalsky iron ore deposit in Akmola region;
3. Consideration of the report on monitoring of implementation of Tau-Ken Samruk NMC JSC investment program over 12 months of 2015;
4. Withdrawal from the project "Production and processing of natural stones" along with KazSamotsvety LLP and termination of Agreement for joint implementation of the project of production and processing of natural stones;

5. Consideration of the report on implementation of Tau-Ken Samruk NMC JSC development strategy in 2015;
6. Contribution of the subsurface resources management rights under the contract for production of barite-polymetallic ores and silver of Tuyuk deposit in Almaty region into authorized capital of Tau-Ken Mining LLP;
7. Conclusion of a Supplementary Agreement No.1 to the Sale and Purchase Contract for sale of 90.1% participation interest in the authorized capital of Silicon Mining LLP concluded in the city of Astana (Republic of Kazakhstan) on December 2, 2015, by and between Investment Fund of Kazakhstan JSC and Tau-Ken Samruk NMC JSC;
8. Consideration of the issue of a credit line opening by Alaigyr JV LLP;
9. Update Tau-Ken Samruk National Mining Company Joint Stock Company development strategy. [G4-42](#)

See more detailed information on the issues considered by the Strategic Planning and Investment Committee under the Board of Directors in the Corporate Management section of the Tau-Ken Samruk NMC JSC corporate site.



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ЭСТАКАДА Г/П.7Т

Management Board

Management Board is a collective body of the Company that has the right to make decisions on any issues of the Company's activity not referred to the terms of reference of the Sole

Shareholder and the Board of Directors of the Company and shall bear responsibility to the Sole Shareholder and Director for accomplishment of imposed tasks.

Members of the Management Board



Turmagambetov Mazhit Abdykalikovich
Chairman of the Management Board, Member of the Board of Directors

Date of Birth: February 1, 1961

Qualification:

- Graduated from Moscow Higher Technical College named after N.E. Bauman in 1984, Mechanic Engineer.
- 2012 – present time – Chairman of the Management Board of Tau-Ken Samruk NMC JSC.
- 2009 – Vice-Minister of the Republic of Kazakhstan Ministry of Environmental Protection.
- 2008-2009 – Deputy Head of the South-Kazakhstan region administration.
- 2008 – Director of the Maximum Regional Investment Center LLP.



Bigozhin Talgat Zhanbolatovich

Managing Director for Economy Affairs

Date of Birth: August 16, 1974

Qualification:

- Graduated from the Karaganda State University in 1996, major subject "Finance and Credit".

Work experience:

- 2012-2015 – Deputy Chairman of Tau-Ken Samruk JSC Management Board.
- Since 2008 – managing positions in Kazakhstan Development Bank JSC, KazMunaiGas Trading House, JSC, Kazaeroservice JSC, Kazhydromet NPE, Astanaenergocontract LLP, Prodcorporation NC JSC.

Karim Damir Amangeldyuly

Managing Director for Strategy and Business Transformation

Date of Birth: November 20, 1972

Qualification:

- Graduated from the Karaganda State Technical University in 1997, specialization – engineer-economist.
- In 2011 graduated from the Kazakh State Academy of Law, layer.

Work experience:

- In 2015, graduated from the Karaganda State Technical University, Bachelor Degree in Engineering and Technology.
- Since May 2015 – Managing director in strategy of Tau-Ken Samruk NMC JSC business transformation.
- 2013-2014 – managing director in finance of Tau-Ken Samruk NMC JSC.
- 2009-2013 – managing director of Budget Planning and Treasury of Tau-Ken Samruk NMC JSC.



Arshabekov Alibek Nurgaliyevich

Managing Director for Business Development

Date of Birth: May 9, 1987

Qualification:

- Graduated from Moscow State University named after M.V. Lomonosov, Department of Economy, Bachelor of Economy (2004-2008).
- University of Warwick, Warwick Business School, Great Britain – Master of Finance and Economics (2008-2009).

Work experience:

- 2016-2017 – managing director for business development of Tau-Ken Samruk NMC JSC.
- 2014-2016 – Managing director for investments of Tau-Ken Samruk NMC JSC.
- 2014 – Managing director for business development of Tau-Ken Samruk NMC JSC.
- 2013 – Managing director for strategic development of Tau-Ken Samruk NMC JSC.



Information on the Management Board performance

Number of Meetings Held by the Management Board		
	2016	2015
Number of Meetings	87	97
Number of considered issues	398	410

Management Board Members Compensation Policy

The policy of compensation payment to the members of the Company's management board shall be implemented in accordance with the rules of performance assessment and compensation of executive and management employees of Tau-Ken Samruk NMC JSC developed in accordance with the Republic of Kazakhstan legislation and payment of compensation to the executive employees of Samruk-Kazyna JSC.

Management board employees performance assessment shall be based on motivational key performance indicators (KPI) characterizing an efficiency of financial and economic activity of the Company and degree of achievement by a member of the Company's managerial board of high results of his/her performance.

The given rules determine terms and procedure of performance assessment and payment of compensation to the executive and management employees of the Company.

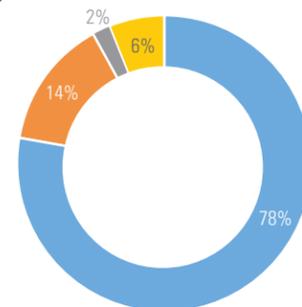
Based on the results of the Managerial Board members KPI assessment, compensation shall be paid to them for the reporting year subject to the condition of achievement of KPI approved in accordance with established procedure calculated with due account for the amount planned for compensation payment.

Information on Observance by the Company of the Corporate Management Principles

Based on the corresponding decision of the Company's Board of Directors dated May 26, 2017, report on observance/non-observance of the principles and provisions provided for by the Corporate Governance Code of the Tau-Ken Samruk NMC JSC. As per the results of the conducted analysis, the Company

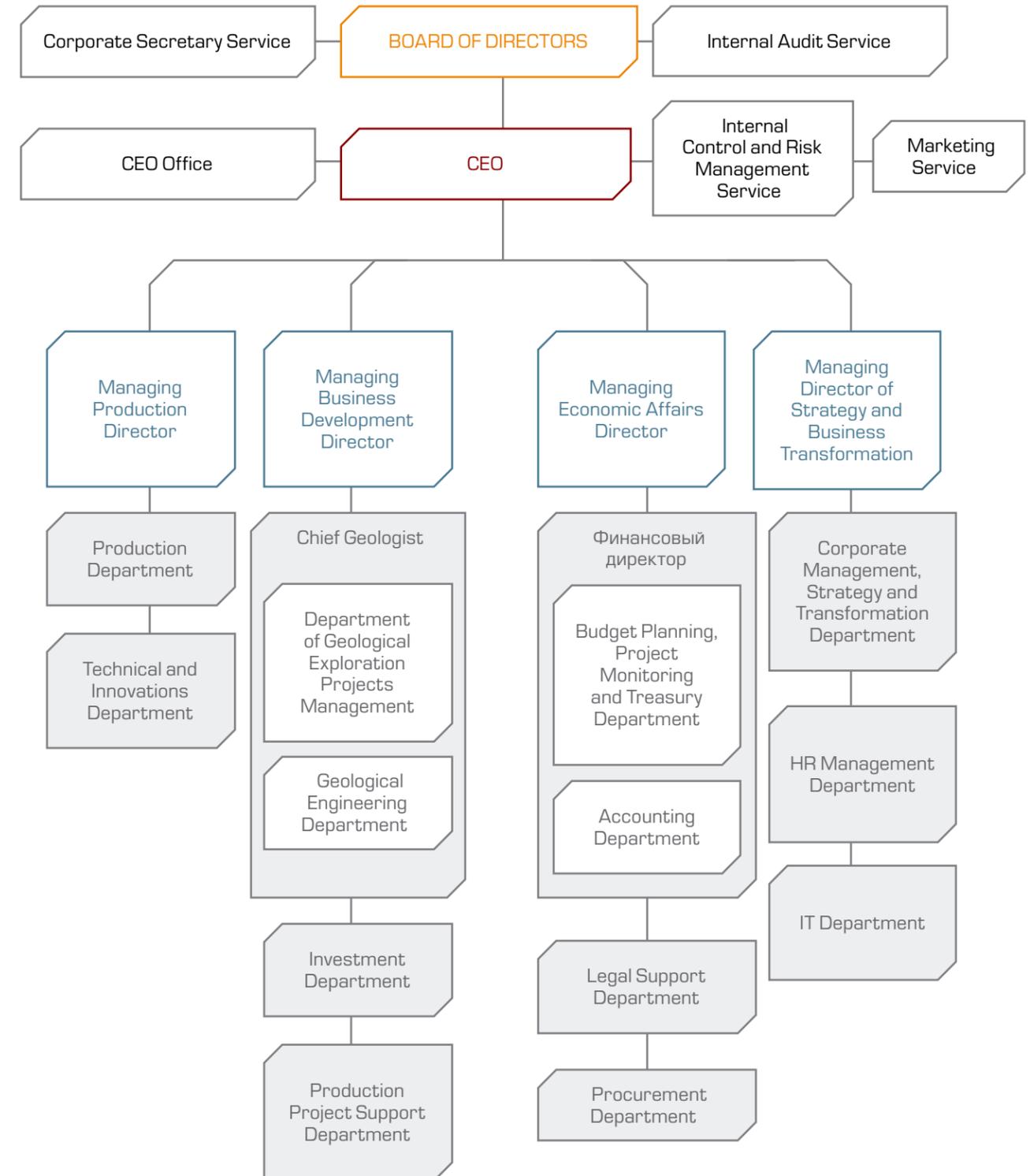
practically observes 78% of the Code's provisions; 14% of the Code's provisions it observes partially (with explanation of the reasons), 2% of provisions are not observed and 6% of the Code's provisions are not applicable to Tau-Ken Samruk NMC JSC.

	%	Qty
Complies	78	346
Partially complies	14	63
Does not comply	2	8
Not applicable	6	27
Total number of the analysis provisions		444



More detailed results of compliance/non-compliance with the Code's provisions is described by sections at the corporate web-site of the Company as well as in the Appendix No.1 to the present Report where the main reasons for non-compliance with the principles are specified.

Tau-Ken Samruk National Mining Company JSC Organizational Chart



- Total number of employees: 104 people G4-9, G4-10

THE COMPANY IS AWARE OF THE IMPORTANCE OF RISK MANAGEMENT AS A KEY COMPONENT OF THE CORPORATE GOVERNANCE SYSTEM

RISK MANAGEMENT SYSTEM

In the course of its activity, Tau-Ken Samruk NMC JSC comes up against various risks that have effect on achievement of planned indices and objectives, efficiency of made decisions and activity on the whole to one extent or another. Thus, the Company realizes the importance of the risk management as

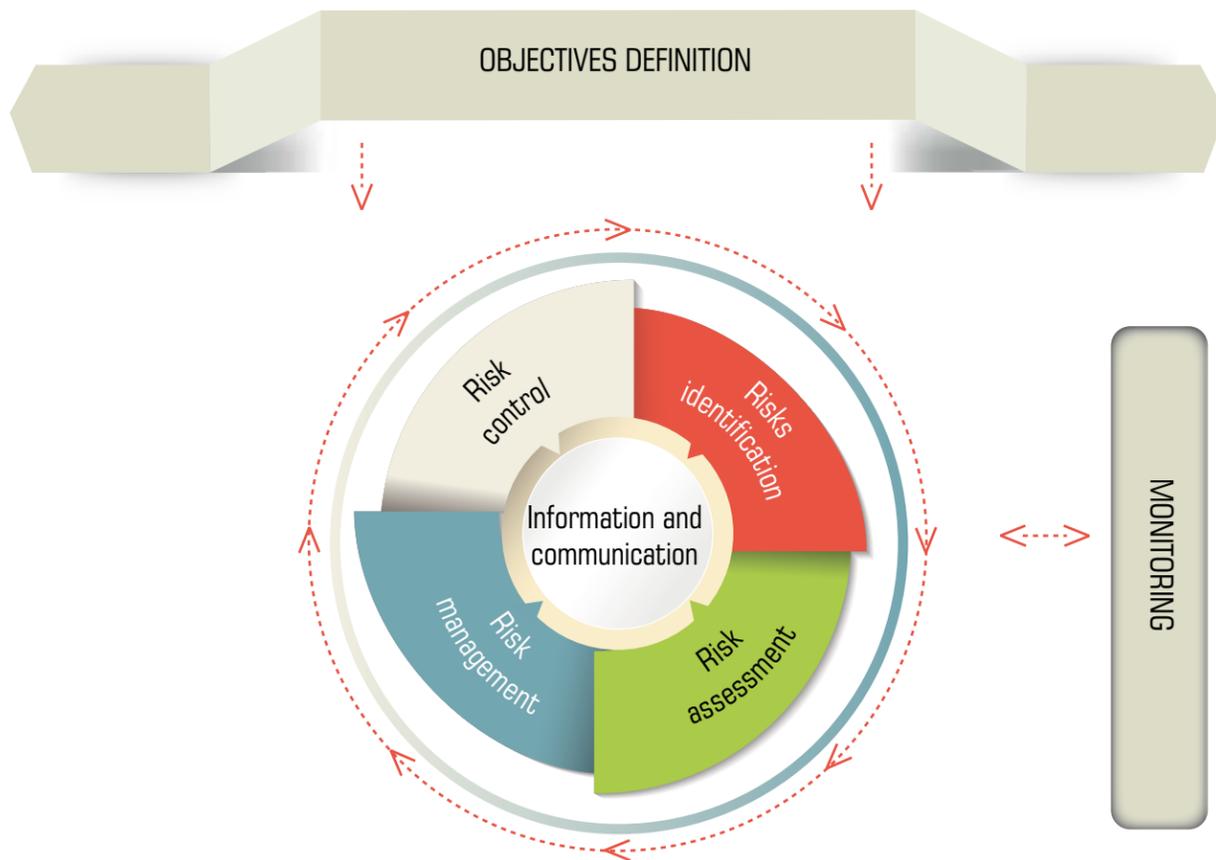
the key component of corporate management system aimed at identification, assessment and monitoring of all existing risks and for measures taken for risks mitigation that may have negative effect on value of and image of the Company and its subsidiaries. [G4-14](#)

Risk Management System

The Board of Directors of the Company has approved the Company's risk management policy that provides for the main components of the risk management process, risk management system's structure and ensures systematic and consistent approach to the process of risk management by the Company and its subsidiaries.

The Company has its own corporate risk management system (CRMC) that ensures permanent and uninterrupted risk management process including identification, assessment, monitoring and control of risks.

Corporate Risk Management System

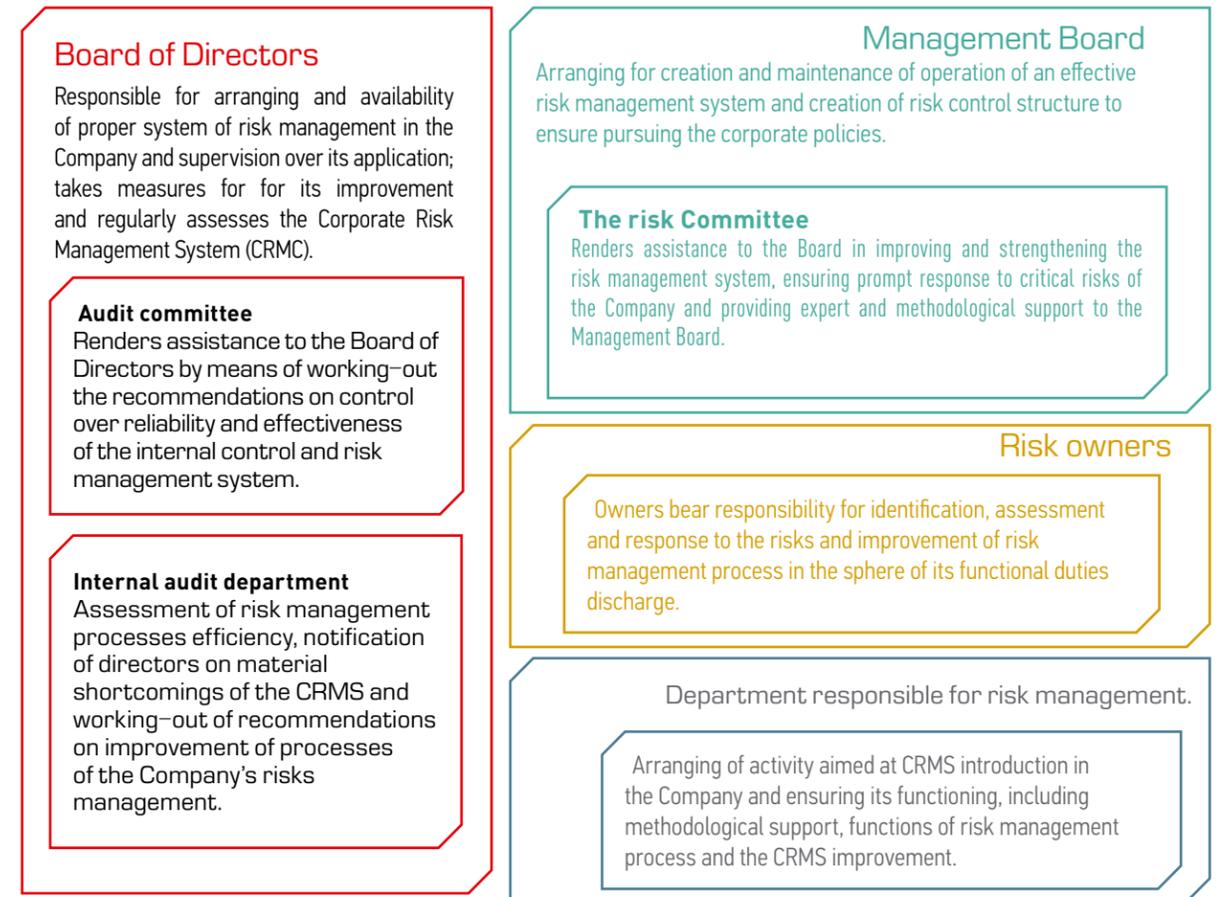


Risk Management Structure

Structure of the Company's risk management system is represented by risk management at several levels with involvement of the Board of Directors, Audit Committee,

Management Board, Risk Committee of the Company its business units responsible for risk management and internal audit. [G4-45](#)

Risk Management System's Structure



Board of Directors

Responsible for arranging and availability of proper system of risk management in the Company and supervision over its application; takes measures for for its improvement and regularly assesses the Corporate Risk Management System (CRMC).

Audit committee

Renders assistance to the Board of Directors by means of working-out the recommendations on control over reliability and effectiveness of the internal control and risk management system.

Internal audit department

Assessment of risk management processes efficiency, notification of directors on material shortcomings of the CRMS and working-out of recommendations on improvement of processes of the Company's risks management.

Management Board

Arranging for creation and maintenance of operation of an effective risk management system and creation of risk control structure to ensure pursuing the corporate policies.

The risk Committee

Renders assistance to the Board in improving and strengthening the risk management system, ensuring prompt response to critical risks of the Company and providing expert and methodological support to the Management Board.

Risk owners

Owners bear responsibility for identification, assessment and response to the risks and improvement of risk management process in the sphere of its functional duties discharge.

Department responsible for risk management.

Arranging of activity aimed at CRMS introduction in the Company and ensuring its functioning, including methodological support, functions of risk management process and the CRMS improvement.

The Company's Risk Map

The Company forms the register and maps of risks for the upcoming year on an annual basis that is subject to approval by the Board of Directors and update upon changes in the Company's Risk Register, within which the business units identify and assess all risks inherent to the Company's activity.

Identified risks of the Company are assessed by the degree of effect, probability of occurrence and time of effect followed by

Indication of risks on the Risk Map

For the purpose of proper implementation of critical risks management and ensuring efficiency of the given process, the Company develops the plan of actions for management of the critical (key) risks that shall be annually approved by the Board of

their display on the risk map of the Company. For example, in accordance with the Register and Map of risks of the Company for 2016, risk of fraudulence and corrupt activities on the part of the personnel or third parties was assessed by the risk owners as the risk of an average probability of occurrence, i.e. risk is located in the yellow zone of the risk map and its importance is assessed as medium. There were no events of the given risk occurrence over the reporting period. G4-S03, G4-S05

Directors of the Company and is mandatory for implementation by the risk owners.

THE BASIC RISKS INHERENT TO THE COMPANY'S ACTIVITY

Risk Description	Risk Factors (Internal/External)
STRATEGIC RISKS	
<i>Raw Materials Price Appreciation Risk</i>	<ul style="list-style-type: none"> - Market instability; - Political instability; - Disbalance of demand and supply; - New technology; - Absence of hedging mechanisms.
<i>Risk of Reduction of Prices for the Finished Products</i>	<ul style="list-style-type: none"> - Deterioration of demand for finished products and decline in economic activity; - Market instability; - Political instability; - Disbalance of demand and supply; - New technology; - Absence of hedging mechanisms.
<i>Risk of Underfunding of the Projects</i>	<ul style="list-style-type: none"> - Insufficient experience of design developer; - Limited financial resources of the Company and the Sole Member; - Inflation; - Absence of specific and approved long-term program of financing of geological exploration work at new deposits; - Mistakes in development of design and construction of facilities.
INVESTMENT RISKS	
<i>Risk of Failure to Confirm the Forecasted Resources and the Level of Metal Content in Ore</i>	<ul style="list-style-type: none"> - Failure to provide the governmental authorities with all the necessary geological information on the subsurface resources facility; - Low or incomplete degree of study of the deposit by the predecessors; - Low quality of GEW; - Improper analysis of GEW results.
<i>Risk of failure to achieve the planned production capacity</i>	<ul style="list-style-type: none"> - Shortage of raw materials; - Time factor; - Failure to supply raw materials in due time; - Low or incomplete degree of study of the deposit by the predecessors; - Failure to carry out activities in accordance with the project implementation schedule; - Unscheduled downtime of equipment (accidents, wear and tear, etc.) - Wrong selection of markets for products sale; - Wrong determining the strategy of market transactions; incorrect estimation of market capacity; - Incorrect determining the production capacity; - Shortage of qualified workforce; - Absence of local personnel experience in imported equipment operation.
<i>Risk of insufficiency of raw materials base or scope of work</i>	<ul style="list-style-type: none"> - Deficit of raw materials/rendered services, work; - Export of the necessary raw materials beyond the RK boundaries; - Political factors; - Absence or impossibility to introduce restrictive measures through law; restricted control; - Unreliable analysis of raw materials market upon drawing-up of strategy/ plan development; - Unattractive conditions for raw materials suppliers; - Low competitive strength comparing to the similar companies of other countries; - Absence of penalty sanctions in the event of violation of contractual conditions.

Risk of Untimely Putting the Project into Operation or Untimely entering the Reserves into the State Register of Reserves

- Insufficient qualification of the contracting organization's employees;
- Appreciation of the project value due to increase in price increase, taxes, etc.;
- Natural cataclysm (lengthy rains, hurricanes, etc.);
- Project examination of poor quality; failure to carry out activities in accordance with the project implementation schedule;
- Mistakes in developed design.

OPERATING RISKS

Environmental Risk

- Natural disasters;
- Failure to observe the safety measures and technology;
- Exceeding the quota;
- Absence of control;
- Violation of the environmental protection legislation;
- Excess atmospheric emissions may result in harm to environment and suspension of activity;
- Occupational accidents resulting in environmental harm caused to environment.

Risk of Equipment Failure

- Defective equipment;
- Incorrect operation of equipment;
- Use of equipment for purposes other than intended;
- Failure to take into account geographical location upon equipment selection (i.e. wrong selection of technologies).

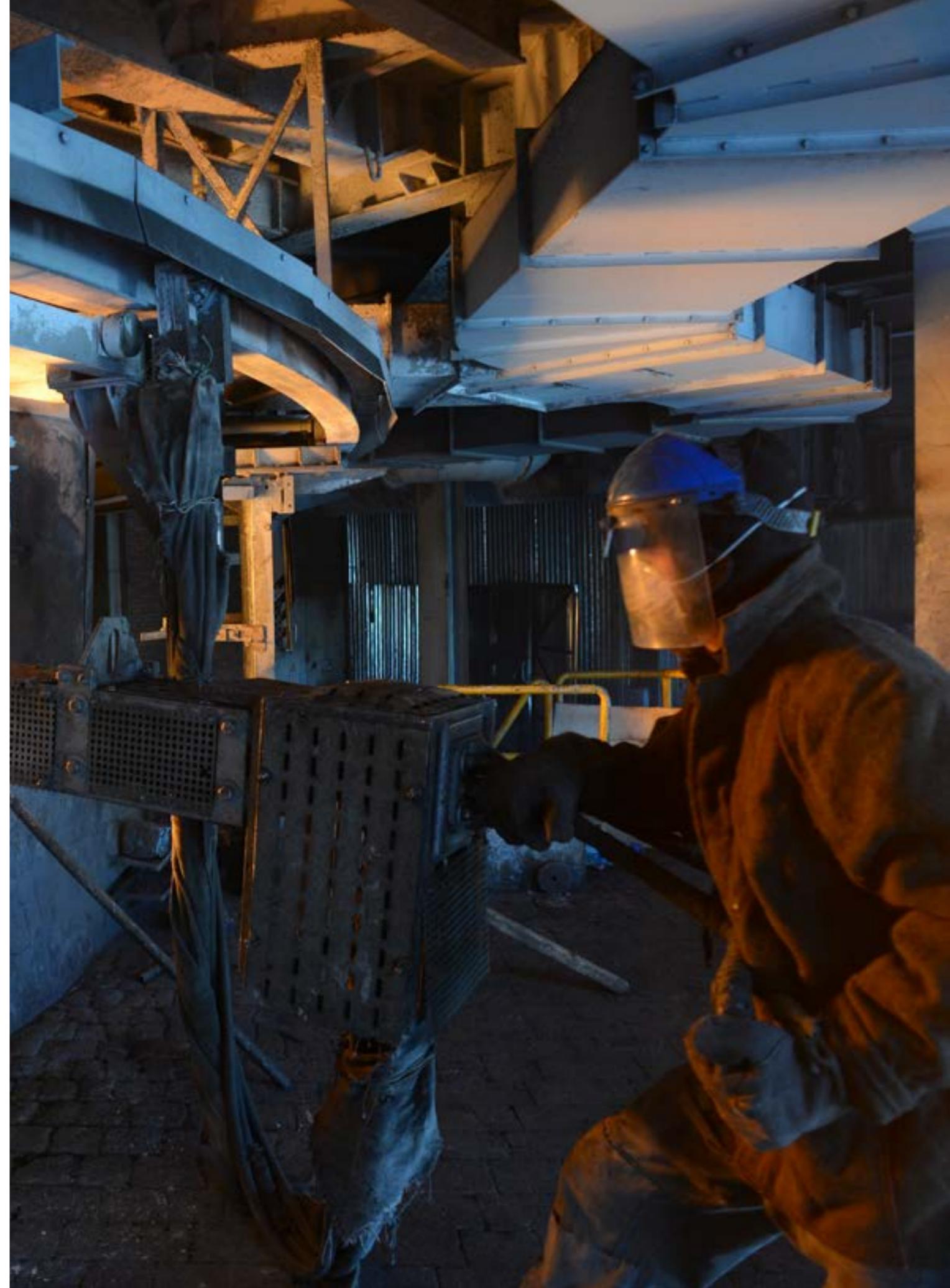
FINANCIAL RISKS

Credit Risk

- Financial stability of the STB;
- Deterioration of the international rating or cancellation of the rating previously assigned by the rating agency;
- Ignoring the risks identified by the STB;
- Interests lobbying.

Liquidity Risk

- Deterioration of the market conditions resulting in income reduction;
- Crisis in the national banking sector (absence of financing sources);
- Deterioration of the national currency exchange rate;
- Inefficient operating activity that may result in reduction of financial indices and failure to fulfill covenants and preterm withdrawal of borrowed funds.



INFORMATION ON THE NATURE OF INFLUENCE BY THE GOVERNMENT INCLUDING THE LIST OF ISSUES REQUIRING COORDINATION WITH THE GOVERNMENTAL AGENCIES

In accordance with the Republic of Kazakhstan legislation in the sphere of subsurface resources management, Tau-Ken Samruk NMC JSC applied to the competent authority (Ministry of Investments and Development of the Republic of Kazakhstan) and other governmental agencies including local executive bodies for granting the subsurface resources management right, execution and examination of documentation, allotment of land plots and other issues for the purpose of exploration and production of commercial minerals. The Company coordinates with the competent governmental authority transfer of the subsurface resources management contracts to the subsidiary (affiliate) organization, and also upon purchase and sale of the subsurface resources management right and facilities connected with the subsurface resources management right.

In accordance with the Republic of Kazakhstan Commercial Code, the Company shall apply to the anti-monopoly agency with request for issue of consent for setting-up subsidiaries including the purpose of proper fulfillment of agreements on mutual activity with strategic partners and also for obtaining consent for economic concentration upon closing the transaction for acquisition of mining assets (participation interests, stock of shares).

Republic of Kazakhstan Law "On Subsurface Resources and Their Management" governs activity of the Company as the national subsurface user with the right of direct negotiations for the right of subsurface resources management and priority right for the alienated subsurface resources management right (objects connected with the subsurface resources management rights). In connection therewith, Ministry of Investment and Development of the Republic of Kazakhstan may have effect on activity of the Company as regards the status and powers through initiation of changes in legislation or management decisions making. Governmental agencies may have effect on activity of the Company in accordance with the provisions of the current legislation of the Republic of Kazakhstan governing business activity of legal entities.

Also, in 2016, the Company, being a member of the National Association of Mining and Metallurgical Enterprises, took an active part in working out a draft Code "On Subsurface Resources and Their Management" aimed at improvement of legislation in the sphere of subsurface resources management, improvement of investment climate, ensuring replenishment of mineral raw materials base for sustainable economic development of country within the framework of execution of the country's president and the 74th and 75th steps of the Nation Plan. [G4-16](#)

BUSINESS ETHICS CODE

The Company adopted the Business Ethics Code approved by the corresponding decision of the Board of Directors. The objective of the business ethics code consists in improvement of systematization and regulation of the Company relations aimed at improvement of efficiency of corporate management and contribution to successful interaction with employees, customers, suppliers, business partners, shareholders, stakeholders and competent governmental agencies by means of application of the generally accepted standards and business conduct rules. In accordance with the Code, employees of the Company undertake the commitment to observe the Code's provisions.

The position of ombudsman was introduced in the company. Responsibility of ombudsman included contribution to introduction, observance and explanation of the Business Ethics Code as well as collection and consideration of information on its violation.

In 2016, there were no notifications on the facts of non-observance and/or violation of the Business Ethics Code, provisions of the Republic of Kazakhstan legislation and other internal regulatory documents.

Business ethics code was developed in accordance with provisions of the RK legislation with due account for the requirements of the International Labour Organization, Charter, Corporate Management Code and other internal documents of the Company and is a collection of rules and principles followed by the employees.

The following mechanisms are used by the Company to ensure observance of the Business Ethics Code:

1. Instructions on ensuring confidentiality of service and commercial secrets are used in the Company for the purpose of ensuring confidentiality of information within the Company. Every employee of the company signs a non-disclosure agreement upon employment by the Company;

2. In the sphere of the conflict of interests, the Company follows the provisions of the conflict of interest settlement rules of Tau-Ken Samruk NMC JSC;
3. For the purpose of fight against corruption and the other illegal actions, the Company adopted the policy of notification on alleged violations;
4. In order to observe corporate culture provisions, the Company adopted internal code of conduct;
5. Security, labour protection and environmental protection are governed by the Policy in the sphere of security and occupational safety and by the environmental protection policy;
6. The Company has its own information policy governing the issues of the public relations;
7. The Company also introduced the position of ombudsman to deal with the events of the business ethics code; activity of the ombudsman is governed by the regulations on the ombudsman;
8. The Company has its own corporate web-site: www.tks.kz;
9. Telephone hotline number: +7(7172) 55-93-30;
10. The system of control measures provides for consideration of any violations of business ethics and measures taking at the level of the HR Committee under the Management Board and the Board of Directors of the Company;
11. Stake holders have the right to notify the Board of Directors on illegal and unethical actions of the Management Board through the Corporate Secretary and their rights should not be derogated in the event of any such notification. The Board of Directors reconsiders and improves the provisions of the Code on a regular basis and analyses the extent to which such provisions are practically implemented and, if necessary, makes alterations and addenda thereto;
12. Every employee is responsible for observance of ethic norms within the framework of his/her conduct. Observance of the Code provisions is the mandatory for all officials and employees of the Company. Violation of the Code provisions results in the disciplinary liability in accordance with established procedure. [G4-56](#)

Employees and Management Relations

Relations of employees and management of Tau-Ken Samruk NMC JSC are based on the mutual trust, respect, accountability and control. The Company acts in strict compliance with legislation of the Republic of Kazakhstan, generally accepted principles of business ethics and internal documents of the Company.

For the purpose of employees notification, the Company follows the provisions of the Business Ethics Code and the Corporate Management Code governing the policy in the sphere of conflict of interest. The standard agreement contains obligations of the employees on observance of provisions of the above specified Codes. [G4-41](#)

The practice for prevention of conflict of interest occurrence is strictly observed by all employees irrespective of their status and position and covers all aspects of the Company's activity starting from personnel employment and ending with procurement process. Deliberate acts aimed at violation of the Business Ethics Code is considered by the Company as a disciplinary

offense that may result to bringing to responsibility provided for by the current legislation of the Republic of Kazakhstan. Thus, no events of the conflict of interests have been registered in the group of Tau-Ken Samruk NMC JSC companies over the reporting period.

For the purpose of maintaining satisfaction and motivation of the employees in the course of implementation of the significant changes in its activity, the Company's management ensures timely discussion, involvement of employees in negotiations, subject to preliminary notification of employees, as minimum, two weeks prior to significant changes in economic activity that may touch upon their interest in material way. There is no practice of collective contracts conclusion in the Company. [G4-LA4 G4-11](#)

INTERNAL AUDIT SERVICE

Internal audit service (hereinafter referred to as the Service) is a body of the Company organizationally accountable to the Chairman of the Management Board and functionally accountable to the Board of Directors. The Company's Audit Committee under the Board of Directors supervises activity of the Service.

The Service's mission consists in rendering the necessary assistance to the Board of Directors and management board in discharge of their job duties aimed at achievement of the strategic objectives of the Company.

The main objective of the Service's activity consists in provision of the Board of Directors with independent and objective guarantees and advices aimed at improvement of risk management systems as well as systems of internal control and corporate management system of the Company.

In development of an annual audit plan, the Service uses risk oriented approach. Audits are conducted based on the annual audit plan approved by the Audit Committee and approved by the Board of Directors of the Company.

In accordance with the main objectives and tasks set by the Board of Directors of the Company for the Service, the following actions were performed by the Service in 2016:

- Assessment of Tau-Ken Samruk NMC JSC internal audit system's performance efficiency;
- Assessment of Tau-Ken Samruk NMC JSC corporate management system's performance efficiency;
- Audit of investment management project (refinery in the city of Astana), Tau-Ken Altyn LLP;

- Audit of investment project of production of polymetallic ores at the Alaigyr deposit in Karaganda region by Alaigyr JV, LLP;
- Audit of management of the investment project of commercial development of Shalkiya deposit of polymetallic ores in Kyzylorda region by ShalkiyaZinc LTD JSC;
- Audit of the end products sale, provision of raw materials and investments in increase of production capacity of Tau-Ken Temir LLP.

Based on the results of audits, the Service provided 194 recommendations aimed at improvement of internal control in different processes.

In 2016, monitoring of implementation of recommendations made both by the Service and an independent auditor was conducted on quarterly basis.

For the purpose of coordination of activity ensuring proper coverage and minimization of double work, the Service provided information on the internal audit system of the Company to an independent auditor.

In order to ensure an uninterrupted professional development and enrichment of knowledge, skills and competence in the reporting period, members of the Service participated in the training activities.

In 2016, the Audit Committee and the Board of Directors of the Company carried out audit of the Service's performance efficiency on quarterly basis.



SUSTAINABLE DEVELOPMENT

НАЧАЛЬНИК ЦУЗ КОКСЕГЕНОВА О.

FOLLOWING GRI PRINCIPLES, THE COMPANY REVEALED SIGNIFICANT ISSUES, WHICH SHOULD BE PRESENTED IN THIS REPORT CONSIDERING THE OPINIONS OF ITS KEY STAKEHOLDERS

Interaction with the Stakeholders

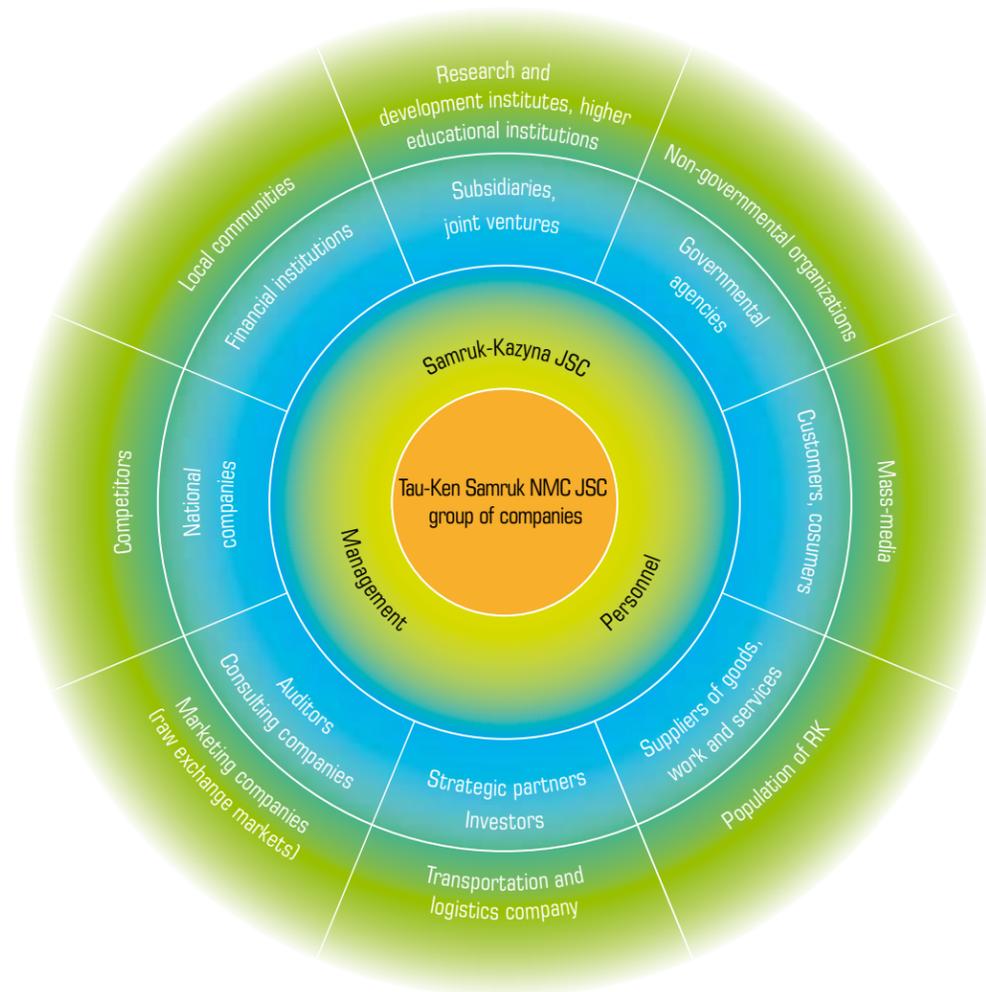
Tau-Ken Samruk NMC JSC attaches special importance to all factors of the Company's sustainable development and sees social responsibility as one of the key principles of its activity. Realizing its responsibility for contribution in sustainable development, the Company undertakes voluntary obligations of socially responsible conduct to the wide circle of parties, interests of which are influence by its activity and strives to make its contribution to development of sustainable global development.

Thus, on February 21, 2013, the Company undertook obligation and joint the voluntary initiative of the Global Treaty of the United Nations. The Global Treaty of the UN is both a political platform and practical basis for activity of companies committed to idea

of sustainable development and practice of responsible relations in business environment. [G4-15](#)

Interaction with the stakeholders is the necessary precondition for development of the Company and achievement of its strategic objectives. Protection of interests of the Sole Shareholder and those of stakeholders is the principle of interaction with stakeholders.

The Company considers its stakeholders as a group of individuals or legal entities that influence activity of the Company or are exposed to effect on the part of the Company. The table below reflects the stakeholders.



G4-24, G4-25

The Company determines a system approach, principles and forms of interactions with stakeholders ensuring feedback and allowing for timely identification of potential risks and new opportunities for an effective activity of the group of companies.

The main forms of interaction with the stakeholders are as follows: joint programs and projects, memorandums of cooperation, joint work groups, reports on activity, meetings, publications, interview.

Listed below are the main spheres of interaction with stakeholders: strategic planning, financing activity, project management, environmental safety, supply of goods, work and services, lawmaking activity, operating activity, interaction with mass-media.

Effective interaction with stakeholders will allow for:

- Combining of resources (knowledge, personnel, money and technologies) for solution of problems and achievement of objectives;
- Assessment of environment, including market development and determining new strategic opportunities;

- Improvement of business processes;
- Pursuing the policy of openness and transparency of activity. [G4-26, G4-27](#)

Management Board and the Board of Directors of the Company set the objective of stable company establishment. The "stable" term means an effective use of resources both of Tau-Ken Samruk NMC JSC and the public ones.

For these purposes, some enterprises introduced integrated management systems, carried out technical reequipping of stations and raised requirements to personnel and suppliers. Thereat, much attention is paid to economic aspects since the projects in the sphere of corporate social responsibility, improvement of environment and growth of the company are financed from the own operating profit of the group of Tau-Ken Samruk NMC JSC.

In accordance with the above said, all the other aspects of sustainable development are analyzed by management for economic efficiency.

I. Economic Development

Economic Performance Efficiency

Consolidated income of the Company amounted to KZT 37,839 mln. in 2016. Reduction of aggregate income as compared with the similar period of the past year was due to increase in transportation and general and administrative costs at the increase in gross income by KZT 449 mln. In turn, increase in the gross income in 2016 happened due to the reason of increase in

production volume and sales of commercial silicon as compared to 2015.

Economic activity efficiency gives an insight into creation of material values by the Company for the stakeholders.

Table 1. Created and distributed direct economic value in accordance with the requirements of GRI disclosure, KZT thous.*

Indicator	2016	2015	Change, %
Created economic value			
Income	168,925,540	99,834,326	69
Disributed economic value			
Operating Costs	7,926,565	2,967,960	167
Salary and other payments and bonuses of Employees	2,559,054	2,248,424	14
Taxes	31,871	6,871	364
CIT	197,808	119,898	65
Payments to capital providers	191,843	93,524	105

Indicator	2016	2015	Change, %
Funds provided by the government	–	–	–
Investment in local communities	–	–	–
Undisributed economic value			
	158,018,399	94,397,649	67

*Information obtained from the audited consolidated financial statements of the Company for 2016 G4-EC1, G4-EC4

Detailed information on financial and economic results of the Company's activity in 2016 was provided in audited financial statements in appendix to the present Report as well as in the "Investor Information" section of the corporate site of the Company. G4-17

Tau-Ken Samruk NMC JSC is exposed to the following risks due to the use of the financial instruments:

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

Risk management policy of the Company established for determining and analysis of risks that the Company comes across for determining the proper limits and means of risk control for monitoring of risk and limits observance. The policies and systems of risk management are provided on regular basis in order to reflect market conditions and activity of the Group. G4-EC2

II. Environmental responsibility

Compliance with requirements

Extending the scale of its activity, Tau-Ken Samruk NMC JSC develops its rational strategy of responsible natural resources.

The Company updated corporate environmental policy of Tau-Ken Samruk NMC JSC that reflected the Company's standpoint in respect of its role and obligations in preservation of favorable environment in the regions of activity of the Company and its subsidiaries. G4-DMA

In planning and carrying out its activity, the Company follows the following basic principles:

- Ensuring compliance with requirements and rules set by the environmental protection legislation of the Republic of Kazakhstan;
- Mandatory nature of measures for prevention of environmental pollution and damage in any forms;
- Permanent improvement of existing and introduction of new technologies ensuring environmental safety;
- System and integrated solution of issues ensuring environmental safety and nature preservation activity;
- Openness and availability of environmental information.

For the purpose of elimination of possible environmental risks, Tau-Ken Samruk NMC JSC keeps accounts and records of environmental protection activity of their subsidiaries.

The company takes measures for regular internal control of observance of the Republic of Kazakhstan environmental

protection legislation and comparison of the results of production environmental control with conditions of environmental and other solutions.

In the course of internal inspections the following is controlled:

- measures provided for by the program of production environmental control;
- following the industrial instructions and rules related to environmental protection;
- observance of terms and conditions of environmental and other permissions;
- observance of the rules of accounting and reporting;

Additionally, all subsidiaries and affiliates connected with production activity are subject to mandatory environmental insurance for the purpose of elimination of risks connected with potential damage to ecology and environment.

In 2016, scheduled inspections of the environmental protection activity of ShalkiyaZinc LTD JSC and Tau-Ken Temir LLP were conducted by the regional ecology departments.

Based on the results of conducted inspection, a fine of KZT 200,382.00 was imposed on Tau-Ken Temir LLP.

Inspections did not reveal any violations on the part of ShalkiyaZinc LTD JSC. G4-EN29

Materials Used

Subsidiaries of Tau-Ken Samruk NMC JSC basically executed project, geological exploration, repair and restoration, construction and mining preparation work in 2016.

Currently, the Company has only two production facilities: refinery and silicon manufacturing plant. In this respect, information on the use of materials was provided for these two facilities only.

Table 2. Materials used by the Company's subsidiaries and affiliates in 2016

Materials	UoM	Volume
Gold in raw materials (Dore bead, cathode gold etc.)	Ton	120.554
Quartz	Ton	63,924
Charcoal	Ton	12,878
Black coal	Ton	18,208
Wood chips	Ton	15,260
Petroleum coke	Ton	360
Special coke	Ton	5,489
Carbone electrode	Ton	2,262
Packing of end products (big-bags)	Pcs.	20,250

No processed or recyclable wastes are used in the given production processes.

EN-1, EN-2, G4-EN2

Emissions

Currently, silicon manufacturing plant of Tau-Ken Temir LLP is the main source of greenhouse gases emission. Greenhouse gases emission by Tau-Ken Altyn LLP and ShalkiyaZinc LTD JSC is connected with operation of its own boiler house and is insignificant making approximately 600 and 1,110 tonnes correspondingly.

Greenhouse gases emission by the silicon manufacturing plant in 2016 amounted to approximately 115,000 tonnes. Calculation is preliminary and is based on the method of the intergovernmental

panel of experts on the climate change (IGPCC). The final volume will be known after completion of inventory taking and greenhouse gases verification.

At the same time, it is necessary to mention that the Environmental Code provisions on the governmental control in the sphere of emissions and greenhouse gases absorption were suspended by the RK law No.491-V dated April 8, 2016 until January 1, 2018.

G4-EN16

III. Social Responsibility

Employees of the Company are the main value and the key resource. Team approach to work is at the heart of all achievements of Tau-Ken Samruk NMC JSC. The Company is moving toward achievement of common goal and every employee is important on the way.

Not only results but also methods of achievement are important for the Company. The key principle of the corporate social policy of the Company is the principle of social responsibility that implies that the Company:

- forms its strategy with due account for the interests of the civil society on the whole;
- observes the legislation;
- follows the generally accepted moral and ethic rules;

Employment

The Company has its own approved HR policy providing for the system of management as well as the key lines and approaches to human resources management.

Objective of HR policy consists in maintaining an optimum balance of the processes of renewal and preservation of quantitative and qualitative composition of the Company's personnel in its development in accordance with requirements

Employees of the Company are the main value and the key resource.

- respects human rights;
- strains after ensuring balance of interests of the stakeholders: shareholders, employees, partners, consumers and other social groups that are connected with activity of the Company in one way or another;
- takes into account interests of future generations and uses natural resources with maximum possible care aspiring to improve living conditions of population;
- works consistently on ensuring safety and protection of health of the Company's employees.

of the Company, requirements of the current legislation and labour market condition.

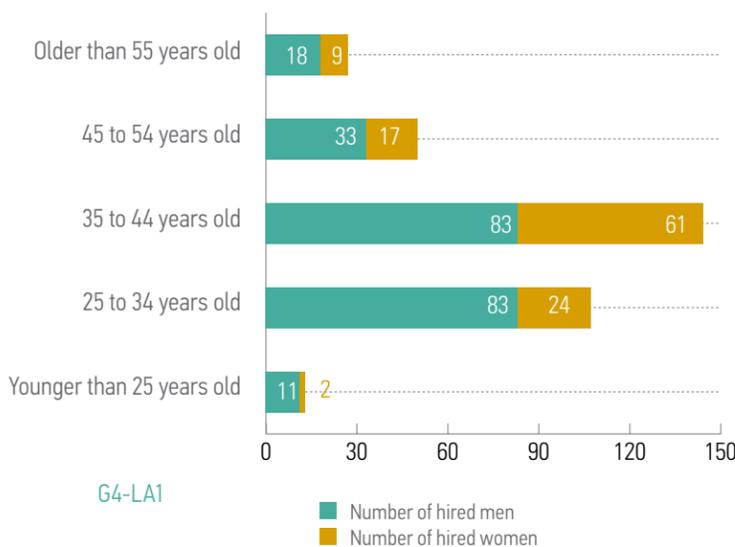
The Company introduced the principles of competitive selection and employment of personnel to fill the vacant positions. Rules of employees selection regulate the process of competitive selection of candidates based on testing the professional knowledge and business qualities of candidates. [G4-DMA](#)

Table 3. Average number of employees with breakdown by regions and sex

Region	Number of employees, people	Men	Women
Astana	218	138	80
Karaganda region	396	315	81
Kyzylorda region	369	304	65
Total	983	757	226

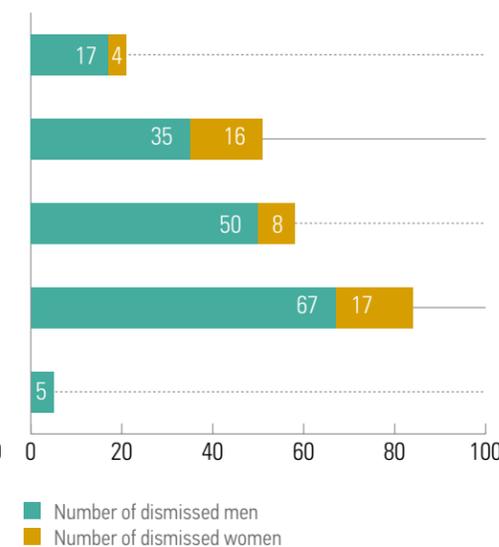
G4-10

Diagram 1. Number of newly hired employees in 2016



G4-LA1

Diagram 2. Number of Employees retired in 2016



There is no difference between salaries of men and women in the Company and its subsidiaries. Ratio of the initial level standard salary of employees to the set minimum salary in the significant

spheres of the company's activity is specified for the regions where the main production facilities with the main production personnel are located.

Table 4. Average fixed minimum salary for the Group of Companies in the regions of its activity in 2016, KZT

Minimum wage in Kazakhstan in 2016	Minimum level of subsistence in Kazakhstan in 2016	Average minimum wage in significant regions of the Company's activities	Deviation, %
22,859	22,859	106,926	167.7

G4-EC5

Table 5. Bonuses provided to the employees working on full-time and part-time conditions

Provided bonuses	Full-time Employees	Part-time Employees
<i>Life Insurance</i>	Mandatory insurance of civil liability	Mandatory insurance of civil liability
<i>Health care</i>	Provided for CO TKS	
<i>Incapacity compensation</i>	Sick list payment	Sick list payment
<i>Maternity leave</i>	As per the RK Labour Code	As per the RK Labour Code
<i>Provision of pension</i>	As per the RK legislation	As per the RK legislation
<i>Financial Aid</i>	<ul style="list-style-type: none"> - payments on birth/adoption of a child at the rate of 1MDO but no more than 100 MCI; - payment in the event of death of an employee at the rate of 1MDO but no more than 200 MCI; - of an employee's spouse, child, parent – at the rate of 1MDO but no more than 100 MCI; - payment for treatment of disease. 	<ul style="list-style-type: none"> - payments on birth/adoption of a child at the rate of 1MDO but no more than 100 MCI; - payment in the event of death of an employee at the rate of 1MDO but no more than 200 MCI; - of an employee's spouse, child, parent – at the rate of 1MDO but no more than 100 MCI; - payment for treatment of disease.

G4-LA2

Table 6. Maternity leave practice

Maternity/Paternity leave	Total	Men	Women
Total number of employees having the right for maternity/paternity leave (whose child was born in 2016)	28	18	10
Total number of employees who took maternity/paternity leave	10		10
Total number of employees who returned to work after the end of maternity/paternity leave and continued to work 12 months after return to work	1		1

G4-LA3

Occupational Health and Safety

In accordance with provisions of the Republic of Kazakhstan Labour Code, conciliation commissions were set up in the company and its subsidiaries for settlement of labour disputes and issues; members are elected from among employees by the voting of employees. G4-LA5

By the nature of activity, subsidiaries of the Company are industrial enterprises, in the territory of which there are various dangerous production facilities including mines, open cast mines, metallurgical furnaces, warehouses of fuel and lubrication materials, warehouses of virulent poisonous substances, warehouses of explosive substances, hydrotechnical facilities as well as dangerous technical devices – hoisting mechanisms,

pressure tanks as well as boilers and elevators. Dangerous production facilities and technical devices, in turn, are the sources of harmful production factors. G4-LA7

For avoidance of various traumatic events, permanent control, monitoring and analysis of safety and occupational protection is carried out. No injuries or occupational disease events have been registered in the Company by the moment. For prevention of injuries and professional diseases a comprehensive plan for labour conditions improvement is drawn-up on annual basis. Internal industrial control over observance of requirements in the sphere of occupational safety and protection is also exercised. G4-LA4

Education and Training

Tau-Ken Samruk NMC JSC provides for the programs of development of skills and life-long education ensuring required skills for employees to continue their employment. The Company

arranges various professional trainings and advance training seminars for its employees.

Table 6. Average annual number of hours of one employee training

Employee Category	Average annual number of training hours for one employee in 2016	
	Men	Women
Administrative and Management Personnel, including:	157	50
<i>Managers (from CEO to the head of department)</i>	151	9
<i>Specialists</i>	164	91
Production Personnel, including:	806	241
<i>Engineering and technical personnel</i>	718	186
<i>Workers</i>	893	294

G4-LA9

Within a year, the Company carries out an annual assessment of performance of employees in accordance with approved rules to identify the needs in training and development and to

be impulsive force in improvement of individual performance indicators. The process of performance efficiency assessment is based on honest and fair feedback and is based on trust. G4-LA11

Table 8. Number of the Company's employees who passed an official performance efficiency assessment in 2016

Employee Category	Number (share) of employees undergoing regular assessments of performance efficiency and career development (*)		
	Total	Men	Women
Administrative and Management Personnel, including:	109	68	41
<i>Managers (from CEO to the head of department)</i>	26	22	4
<i>Specialists</i>	83	46	37
Production Personnel, including:	396	333	63
<i>Engineering and technical personnel</i>	80	65	15
<i>Workers</i>	316	268	48

G4-LA10





INDEPENDENT AUDITOR INFORMATION

Grant Thornton LLP has been an auditor of Tau-Ken Samruk NMC JSC since 2016.

Grant Thornton LLP was established in 2011. In the same year, it joint Grant Thornton International. It renders services of audit, taxation, accounting services outsourcing, project financing,

cost estimation and assessment advising, risk management and restructuring. The customers of the company include governmental agencies and international ones including transnational companies involved in all basic industries of economy.

External audit policy

In involvement of external audit firms, the Company follows the provisions of audit services outsourcing policy of Tau-Ken Samruk NMC JSC approved by the Board of Directors on July 2, 2015 (minutes No.06/15). The basic provisions of the Policy

provide the Company with opportunity of involving auditors for rendering audit and non-audit services without prejudice to objectivity or independence of auditor and for prevention of conflict of interest.

Selection of auditor

In order to ensure audit financial statements and intermediate financial statements with auditor's opinion of the results of activity for the reporting period within a year and conduct of further activities in accordance with applicable provisions of the Republic of Kazakhstan, auditor selection procedure developed by Samruk-Kazyna JSC, internal documents.

The main criteria determining selection of Auditor are as follows:

1. Quality of auditor's services determined by the following factors:
 - level of specialists' qualification;
 - experience of work both in the local and international market;
 - promptness in rendering of services;
 - knowledge of business;
2. Cost of services.

Project partners rotation

The Company regularly changes external auditor and/or project partner responsible for audit report preparation.

Succession plan for achievement of that result should be prepared by auditor and submitted to the Audit Committee for consideration no later than one year prior to rotation.

Term of rotation of the Company's external auditor (i.e. period of time, upon expiration of which the Company has to change its external auditor) makes no more than 5 (five) consecutive years.

Independent auditor's commission fee amount:

Period	Service Description	Amount of Compensation, VAT inclusive, KZT
2016	Audit of annual and review of six-month separate and consolidated financial statements	6,357,266

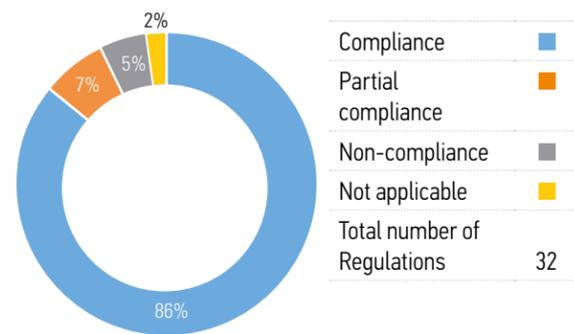
Non-audit services:

Period	Service Description	Amount of Compensation, VAT Inclusive, KZT
2016	Training Services	2,626,064.00

Appendix No.1 Report on Observance of the Corporate Governance Code Principles

Given below are the results of the Corporate Governance Code Principles with Breakdown by the Sections of the Code.

Government

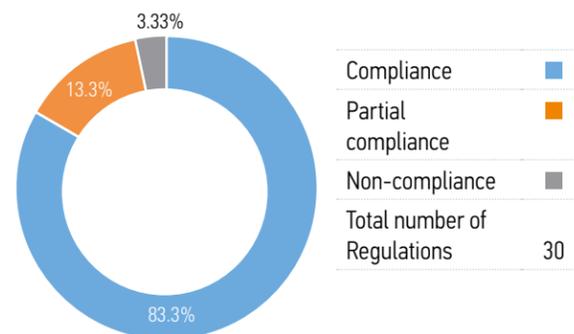


Based on the results of the conducted analysis, the current corporate governance practice in the Tau-Ken Samruk NMC JSC under the given section is in compliance with the Code requirements by 86% at the total number of provisions of 32.

Nevertheless, the conducted analysis also revealed that the current corporate governance practice does not comply with the below specified basic requirements of the new Code by 5% and partially complies with it by 7% and the following measures are suggested for the corporate governance practices bringing to compliance with the provisions of the new Code.

No.	Areas of non-compliance with key requirements of the Code	Explanations and/or Measures for Implementation
1	Upon establishment of the Organization in the form of Limited Liability Partnership, members independently make decision on the need for setting-up of supervisory boards and advisability of election of independent members depending on the scale and specifics of activity of established Organization. Supervisory Board was established only in Massalsky GOK LLP, Silicon Mining LLP and Northern Katpar LLP.	In the other subsidiaries and affiliates, decision on setting up a supervisory board were not made due to the absence of the need (the Company's representatives were determined or the Company is the only member).
2	Provision on Ombudsman does not meet the requirements of the code in full	Reconsider Provision on Ombudsman as regards extension of functions and labour conditions in 2017.

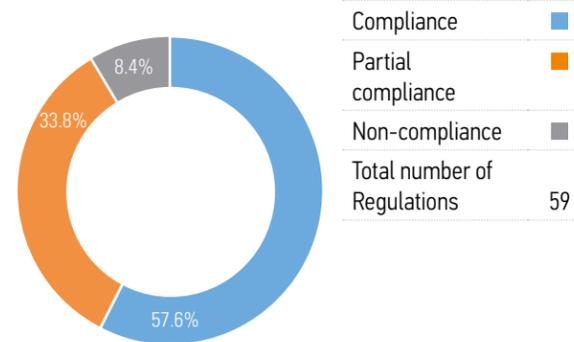
Interaction of the Fund and organizations. Role of the Fund as the National Managing Holding



The results of the conducted analysis revealed that the current practice of the Tau-Ken Samruk NMC JSC corporate management in the given section meet the requirements of the Code by 83% and partially meets for 13.3% at the total number of the Code's provisions of 30. The current practice of the corporate management of Tau-Ken Samruk NMC JSC also partially met the below specified requirements of the new Code and suggests the following measures for bringing the current corporate governance practices in accordance with the provisions of the Code:

Item	Areas of non-compliance with key requirements of the Code	Explanations and/or Measures for Implementation
1	At the end of 2016, not all expectations of the shareholder were met due to the objective reasons (3 clauses of the plan of actions aimed at meeting the expectations of the sole shareholder are currently being fulfilled).	Ensure meeting the shareholder's expectations in 2017.
2	For the purpose of improvement of the system of management of subsidiaries, Tau-Ken Samruk NMC JSC subsidiaries and affiliates management regulations approved by the decision of the Tau-Ken Samruk NMC JSC No.09/14 dated July 16, 2014 needs to be updated.	In 2017 Alterations are planned in the regulations of the Company's subsidiaries and affiliates with due account of the new Code of corporate governance.
3	The Company did not introduce other possible mechanisms of management of the Holding Company's group of companies including centralization of some functions (planning, treasury, accounting, information technologies, legal support, internal audit, etc.).	Due to the fact that the subsidiaries of the Company are at different stages of life cycle (geological exploration stage, feasibility study, capital construction, operating activity), presence of the functions suggested for centralization are different depending on the stage of the project implementation. It should be noted that at the current moment Samruk-Kazyna JSC performs measures in respect of its subsidiaries including the Companies for centralization of some functions in corporate center of the Fund. Completion of the work is approximately expected at the second quarter of 2017.

Sustainable Development

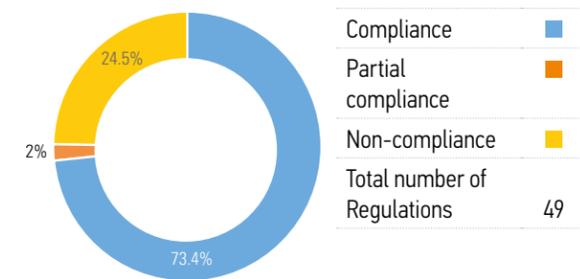


Nevertheless, the results of analysis of the current practice of the corporate governance code in Tau-Ken Samruk NMC JSC did not meet the requirements of the new Code by 8.4% and partially complied with it by 33.8% and the following measures are suggested for bringing the corporate governance code in compliance with the provisions of the new Code.

The results of the analysis revealed that the current practice of Tau-Ken Samruk NMC JSC corporate governance under the present section meet the provisions of the Code by 57.6% at the total number of provisions of the code – 59.

No.	Areas of non-compliance with key requirements of the Code	Explanations and/or Measures for Implementation
1	For the purpose of developing a dialogue with Stakeholders, a corruption indicator is expected to be one of the key ones in the sustainable development reporting. Monitoring and evaluation of activities in the field of sustainable development as well as assessment of achievement of objectives and KPI shall be carried out in the framework of sustainable development reporting.	Starting from 2017, the Company is planning to issue annually a report on sustainable development as part of the annual report of the Company, which includes information on corruption and monitoring of activities in the field of sustainable development, as well as assessment of achievement of the set goals. For the purpose of developing a dialogue with Stakeholders, the report will be posted on the Company's corporate website.
2	Each employee shall act in accordance with the highest principles of business ethics, commitment to development of business and society as a whole.	For the purpose of further promotion and implementation of sustainable development, activities in the field of sustainable development are systematized and popularized in the Company's Group as well as on a centralized basis.

Rights of Shareholders (Members) and Fair Treatment of Shareholders (Members)

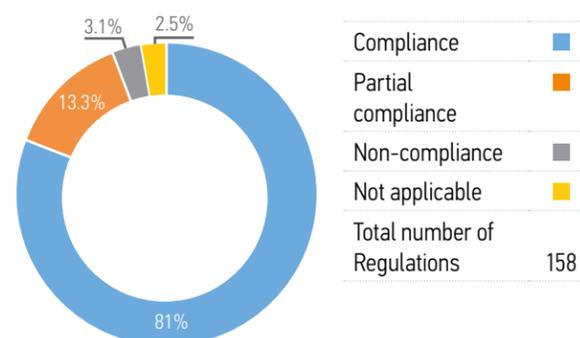


The results of the analysis revealed that the current practice of Tau-Ken Samruk NMC JSC corporate governance under the present section meet the provisions of the Code by 73.4% at the total number of provisions of the code – 49.

Nevertheless, the results of analysis of the current practice of the corporate governance code in Tau-Ken Samruk NMC JSC did not meet the requirements of the new Code by 2% and the following measures are suggested for bringing the corporate governance code in compliance with the provisions of the new Code.

No.	Areas of non-compliance with key requirements of the Code	Explanations and/or Measures for Implementation
1	The unified dividend policy for the group of companies has not been developed.	The company developed the dividend policy of Tau-Ken Samruk NMC JSC for subsidiaries with changes approved by the Management Board of the Company on April 3, 2017 (Minutes No.22-17).

Efficiency of the Board of Directors and Executive Body Performance

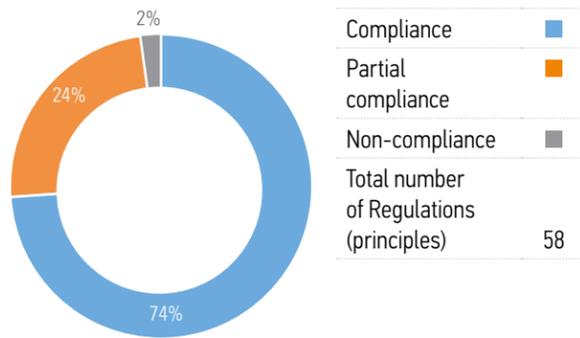


The results of the analysis revealed that the current practice of Tau-Ken Samruk NMC JSC corporate governance under the present section meet the provisions of the Code by 81% at the total number of provisions of the code – 158.

Nevertheless, the results of analysis of the current practice of the corporate governance code in Tau-Ken Samruk NMC JSC did not meet the requirements of the new Code by 3% and partially meets the provisions of the new Code requirements by 13.3% the following measures are suggested for bringing the corporate governance code in compliance with the provisions of the new Code.

No.	Areas of non-compliance with key requirements of the Code	Explanations and activities for implementation
1	Chairman of the Board of Directors is elected from among its members by a majority vote of the total number of members of the Board of Directors by secret voting. There is no senior independent director in the Company.	Election of the Senior Independent Director is scheduled for 2017.
2	Simultaneous holding of the position of Chairman of the Board of Directors is allowed in two legal entities only.	K.A. Bektemirov was elected as Chairman of the Board of Directors of Samruk-Energo JSC, and on April 30, 2015, by the decision of the General Meeting of Shareholders of KEGOC JSC (Minutes No. 1) he was elected as Chairman of the Board of Directors of KEGOC JSC. Pursuant to the decision of the Board of Directors of Tau-Ken Samruk NMC JSC dated February 26, 2015 (Minutes No. 01/15), A.K. Bektemirov was elected as Chairman of the Board of Directors of Tau-Ken Samruk NMC JSC. This decision was made on the basis of recommendations of Samruk-Kazyna JSC dated January 29, 2015 (Minutes No. 01/15).
3	The Company does not have a succession plan for members of the Board of Directors of the Company.	Development of the succession plan for members of the Board of Directors of the Company is planned for 2017.
4	There is no Safety and Environmental Protection Committee in the Company.	Issues of sustainable development are attributed to the competence of the Strategic Planning and Investment Committee of the Board of Directors of the Company.
5	In accordance with the Regulations of the Board of Directors, a Member of the Board of Directors shall be responsible for ensuring non-disclosure of confidential information of the Organization by former members of the Board of Directors after termination of their membership in the Board of Directors for at least 3 years; it is required to specify at least 5 years in the Company's documents.	Necessary amendments were introduced to the Regulations of the Board of Directors of the Company (approval of the Regulation of the Board of Directors by the Sole Shareholder is planned for 1-2 quarter of 2017).
6	The Regulations of the Board of Directors do not provide for auditing of the adopted decisions.	Necessary amendments were introduced to the Regulations of the Board of Directors of the Company (approval of the Regulation of the Board of Directors by the Sole Shareholder is planned for 1-2 quarter of 2017).
7	As for the Corporate Secretary, the Company does not have an induction and succession planning program.	This item is provided for in the Regulations on the Corporate Secretary as amended and supplemented on November 8, 2016, Minutes of the Board of Directors of Tau-Ken Samruk NMC JSC No. 09/16. An induction and succession planning program for the Corporate Secretary will be developed in 2017.
8	It is necessary to ensure diversity of the Board of Directors in terms of experience, personal characteristics and gender composition.	In 2016, the Nomination and Remuneration Committee of the Company acting together with the Fund carried out search for candidates to the Board of Directors of Tau-Ken Samruk NMC JSC, who should have experience in the mining sector, but until now the Board of Directors has not been fully staffed; there is 1 vacancy. Election of members of the Board of Directors of the Company is within the competence of the Sole Shareholder.
9	The Board of Directors, committees and members of the Board of Directors shall be evaluated on an annual basis within the framework of a structured process approved by the Board of Directors of the Organization. This process shall be in line with the methodology of the Fund. At the same time, at least once every three years the evaluation should be conducted with the involvement of an independent professional organization. The last independent evaluation of the Company's Board of Directors was carried out in 2012.	The Board of Directors made necessary amendments to the Company's internal documents. An independent evaluation of the Company's Board of Directors is planned for 2018.

Risk Management, Internal Control and Audit



The results of the analysis revealed that the current practice of Tau-Ken Samruk NMC JSC corporate governance under the present section meet the provisions of the Code by 74% at the total number of provisions of the code – 58.

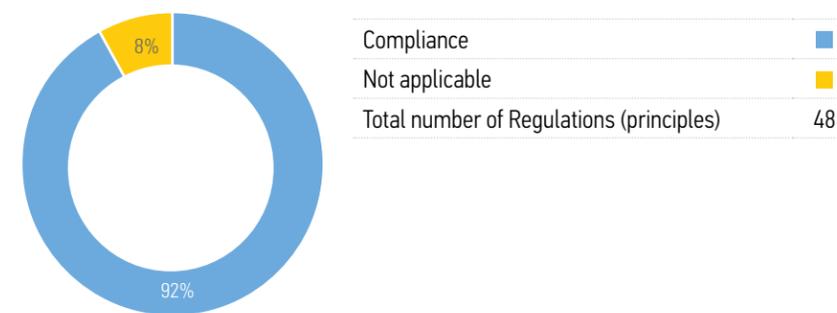
Nevertheless, the results of analysis of the current practice of the corporate governance code in Tau-Ken Samruk NMC JSC did not meet the requirements of the new Code by 2% and partially meet the provisions by 24%. The following measures are suggested for bringing the corporate governance code in compliance with the provisions of the new Code.

No.	Areas of non-compliance with key requirements of the Code	Explanations and/or activities for implementation
1	The executive bodies of the Fund and Organizations shall ensure the creation and maintenance of an effective risk management and internal control system. The risk management process shall be integrated with the processes of planning (strategy and Business Plan (Development Plans, annual budget) and evaluation of the Organization's performance (management reporting). Each officer of the Fund or the Organization shall ensure proper addressing of risks when making decisions.	The Regulations on the Company's Management Board were amended with regard to the need for submission of a risk-related opinion when making investment decisions (Minutes of the Board of Directors of the Company No. 04/17 dated May 17, 2017).
2	The Fund and the Organizations shall develop, approve, formalize and document the control procedures in the following three key areas: operational activities, preparation of financial statements and compliance with the legislative requirements of the Republic of Kazakhstan and internal documents.	Approval of at least one risk matrix for the investment process is planned for 2017.
3	The Regulations on the IAS are typical. The responsibility of the Board of Directors to ensure full compliance of the Regulations on the IAS with specific business needs is not specified in internal documents. The Regulations on the IAS shall specify the deadlines and procedure for submission of reports to the Committee and the Board of Directors. The IAS shall report at least quarterly to the Board of Directors on the implementation of the annual audit plan, on the audit results, key findings and recommendations provided. The Board of Directors shall ensure timely review of the IAS reports, monitoring of compliance of audit recommendations with the internal audit goals and objectives.	Introduction of amendments to the Regulations on the IAS taking into account specific business needs is expected till the end of 2017.
4	Despite the fact that the IAS employees meet the established qualification requirements, the IAS is short of professional having an industry-specific experience.	In 2017, when recruiting new employees, a preference will be given to candidates having an industry-specific experience.

No.	Areas of non-compliance with key requirements of the Code	Explanations and/or activities for implementation
5	There are no regulations for certain issues relating to the IAS activities, such as: personnel selection; labor remuneration and bonus payment; evaluation of employee performance. The methodology for evaluating the performance of the Company's IAS and its Head does not provide for the procedure for evaluating the performance of IAS employees.	New rules for labor remuneration and bonus payment to employees of Tau-Ken Samruk NMC JSC, providing for the procedure for labor remuneration and bonus payment to IAS employees, were developed and approved. Development of a relevant internal document relating to the order of selection of IAS personnel is expected by the end of 2017. In addition, in 2017, amendments will be introduced to the Methodology for Evaluating the Performance of the Company's IAS and its Head, which establish the procedure for evaluation of the IAS staff performance.

Transparency

The results of the analysis revealed that the current practice of Tau-Ken Samruk NMC JSC corporate governance under the present section meet the provisions of the Code by 92%.



Appendix No.2. Consolidated financial statements

For the year ended December 31, 2016



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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

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, 2016, and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards (“IFRS”).

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

- selecting of proper accounting principles and their 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;
- 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 for the year ended December 31, 2016 were approved by management of the Group on February 27, 2017.

Chief Financial Officer Bigozhin T.Zh.

Chief accountant Seitova A.B.

INDEPENDENT AUDITOR'S REPORT

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

Report on the audit of the consolidated financial statements

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 of December 31, 2016, and the 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 of December 31, 2016, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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

The audit of the Group's consolidated financial statements as of December 31, 2015 and for the year then ended was performed by another auditor who expressed unqualified opinion on those consolidated financial statements on March 4, 2016.

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, corporate information, evaluation of mineral resources, the significant events after the reporting date, operations, financial and economic indicators, risks, uncertainties and internal control, social responsibility and environmental protection, corporate governance, key tasks for 2017 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.

If reading the other information, we conclude that there is a material misstatement therein, we shall to communicate the matter to the Corporate management officers.

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 objective is 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.

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 the Group'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.

We communicate with those charged with governance of 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.

Yerzhan Dossymbekov

General Director
Grant Thornton LLP

Certified Auditor of the Republic of Kazakhstan
Certificate #MF-0000069 dated January 20, 2012
Republic of Kazakhstan

State license for providing audit services on the territory of the Republic of Kazakhstan: series MFU-2, #0000087, issued by the Ministry of Finance of the Republic of Kazakhstan on June 21, 2012.

February 27, 2017
Almaty, the Republic of Kazakhstan

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands Tenge	Notes	December 31, 2016	December 31, 2015
Non-current assets			
Property, plant and equipment	7	33,629,121	24,654,013
Intangible assets	8	52,602,114	52,669,419
Exploration and evaluation assets	9	5,854,548	4,055,998
Investments in associates	10	434,888,968	410,903,918
Advances paid, non-current portion		2,506,038	103,064
Corporate income tax prepayment		599,694	369,911
Taxes recoverable		2,840,008	1,480,628
Other non-current assets		287,801	218,915
		533,208,292	494,455,866
Current assets			
Inventories	11	19,210,875	11,704,188
Accounts receivable	12	2,394,484	3,626,221
Advances paid, current portion		828,093	452,649
Other current assets		884,552	771,467
Short-term bank deposits	13	2,759,054	2,082,088
Cash and cash equivalents	13	17,389,910	14,201,847
		43,466,968	32,838,460
Assets held for sale	6	327,931	172,921
TOTAL ASSETS		577,003,191	527,467,247
Equity and liabilities			
Equity			
Authorised capital	14	252,874,907	243,901,772
Retained earnings		63,599,488	26,052,495
Other components of equity		233,621,968	233,232,318
Equity attributable to equity holder of the Parent		550,096,363	503,186,585
Non-controlling interest	14	60,260	420,197
TOTAL EQUITY		550,156,623	503,606,782

In thousands Tenge	Notes	December 31, 2016	December 31, 2015
Non-current liabilities			
Loans received from the Shareholder	5	2,898,365	2,707,686
Accounts payable for acquisition of subsidiary	5, 15	5,057,154	4,719,995
Deferred tax liability		10,193,607	10,126,538
Other non-current liabilities		126,128	113,727
		18,275,254	17,667,946
Current liabilities			
Accounts payable	15	7,633,815	5,620,171
Taxes payable		428,503	163,526
Due to employees		248,597	228,048
Provisions for obligations under subsoil use contracts		139,276	55,655
Other current liabilities		119,207	123,231
		8,569,398	6,190,631
Liabilities directly associated with assets held for sale	6	1,916	1,888
TOTAL LIABILITIES		26,846,568	23,860,465
TOTAL EQUITY AND LIABILITIES		577,003,191	527,467,247

Notes on pages 7 to 52 are an integral part of these consolidated financial statements.

Chief Financial Officer Bigozhin T.Zh.

Chief accountant Seitova A.B.

February 27, 2017
Astana, the Republic of Kazakhstan

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In thousands Tenge	Notes	2016	2015
Continuing operations			
Sales proceeds	16	166,384,038	97,379,655
Cost of goods sold	17	(163,736,853)	(95,181,150)
Gross profit		2,647,185	2,198,505
General and administrative expenses	18	(2,537,203)	(2,255,539)
Selling and transportation expenses		(969,577)	(357,241)
Operating loss		(859,595)	(414,275)
Finance income	19	2,215,378	1,754,145
Finance costs		(541,925)	(108,935)
Share in profit/(loss) of joint ventures and associates	10	37,390,949	(16,340,246)
Gain from subsidiary bargain purchase		–	464,338
Other non-operating income		326,124	700,526
Other non-operating expenses		(229,975)	(568,599)
Loss on impairment		(221,827)	(394,537)
Foreign exchange (loss)/gain, net		(499,343)	1,003,834
Profit/(loss) before income tax for the year from continuing operations		37,579,786	(13,903,749)
Corporate Income tax expense	20	(197,808)	(119,898)
Profit/(loss) for the year from continuing operations		37,381,978	(14,023,647)
Discontinued operations			
Net profit after tax for the year from discontinued operations	6	67,876	6,423
Profit/(loss) for the year		37,449,854	(14,017,224)
Profit/(loss) for the year attributable to:			
Equity holder of the parent company		37,458,628	(14,016,647)
Non-controlling interest	14	(8,774)	(577)
Other comprehensive income			
Currency translation adjustment		389,650	194,960,348
Total comprehensive income for the year		37,839,504	180,943,124
In thousands Tenge	Notes	2016	2015
Total comprehensive income/(loss) for the year attributable to:			
Equity holder of the parent company		37,848,278	180,943,701
Non-controlling interest	14	(8,774)	(577)

Notes on pages 7 to 52 are an integral part of these consolidated financial statements.

Chief Financial Officer Bigozhin T.Zh.

Chief accountant Seitova A.B.

February 27, 2017
Astana, the Republic of Kazakhstan

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands Tenge	Notes	2016	2015
Cash flows from operating activities:			
Profit/(loss) before tax from continuing operations		37,579,786	(13,903,749)
Profit after tax from discontinued operations		67,876	6,423
Profit/(loss) before tax		37,647,662	(13,897,326)
Adjustments for:			
Depreciation of property, plant and equipment and amortization of intangible assets	7,8	992,710	771,372
Finance income	19	(2,215,378)	(1,754,145)
Finance costs		541,925	108,935
Share in (profit)/loss of joint ventures and associates	10	(37,390,949)	16,340,246
Gain from subsidiary bargain purchase		–	(464,338)
Provision for obsolete and slow-moving inventories	11	11,962	402,050
Impairment of VAT receivable		195,049	189,061
Impairment of subsoil use contracts		14,866	–
Income from the disposal of 50% share in joint ventures	6	(58,459)	–
Income from the disposal of 100% share in subsidiary	6	(16,708)	–
Gain on disposal of property, plant and equipment		(670)	–
Loss on disposal of exploration and evaluation assets		9,564	–
Foreign exchange loss/(gain), net		499,343	(1,003,849)
Other		(118,340)	(31,259)
Cash flows from operating activities before changes in working capital		112,577	660,747
Change in inventories		(7,486,367)	(1,820,275)
Change in accounts receivable		1,230,420	(1,072,418)
Change in advances paid		(2,810,144)	(131,372)
Change in other current assets		383,294	(576,762)
Change in taxes recoverable		(1,708,336)	(571,688)
Change in other non-current assets		(103,788)	(89,943)
Change in accounts payable		(569,472)	577,035
Change in taxes payable		283,929	84,863
Change in advances received		2,687,246	–
Change in due to employees		(93,040)	20,883
Change in other current liabilities		(75,659)	(104,431)
Change in obligations under subsoil use contracts		210,374	–
Change in other non-current liabilities		12,401	55,401
Cash flows from operating activities after changes in working capital		(7,926,565)	(2,967,960)
Interest received		1,853,349	1,745,849
Corporate income tax paid		(216,912)	2,438,552
Cash (used in)/received from operating activities		(6,290,128)	1,216,441

In thousands Tenge	Notes	2016	2015
Cash flows from investing activities:			
Acquisition of property, plant and equipment		(9,006,263)	(6,443,518)
Acquisition of other non-current assets		(3,448,868)	621
Proceeds from disposal of property, plant and equipment		–	310,787
Acquisition of intangible assets		(36,651)	(58,986)
Proceeds from disposal of intangible assets		–	14,426
Acquisition of exploration and evaluation assets		–	(1,969,854)
Dividends received from associates	10	13,795,549	1,882,401
Acquisition of subsidiary, net of cash received	5	–	(13,451,134)
Proceeds from disposal of subsidiary	6	186,000	–
Proceeds from disposal of joint ventures	6	60,200	–
Placement of bank deposits		(30,281,249)	(24,492,268)
Withdrawal of bank deposits		29,444,223	23,684,804
Cash received from/(used in) investing activities		712,941	(20,522,721)
Cash flows from financing activities:			
Issue of shares	14	8,973,135	13,515,519
Loans received from the Shareholder		–	7,733,640
Dividends paid	14	–	(22,067)
Repayment of loans received		(80,058)	–
Cash received from financing activities		8,893,077	21,227,092
Effect of change in foreign exchange rates on cash and cash equivalents		(127,827)	351,273
Net change in cash and cash equivalents		3,315,890	1,920,812
Cash and cash equivalents at the beginning of the period		14,201,847	11,929,762
Cash and cash equivalents at the end of the period	13	17,389,910	14,201,847

Notes on pages 7 to 52 are an integral part of these consolidated financial statements.

Chief Financial Officer Bigozhin T.Zh.

Chief accountant Seitova A.B.

February 27, 2017
Astana, the Republic of Kazakhstan

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands Tenge	Notes	Equity attributable to shareholder of the parent company			Non-controlling interest	Total equity	
		Share capital	Other equity components	Retained earnings			
As of December 31, 2014		230,386,253	38,271,970	44,403,415	313,061,638	420,774	313,482,412
Loss for the year		–	–	(14,016,647)	(14,016,647)	(577)	(14,017,224)
Other comprehensive income		–	194,960,348	–	194,960,348	–	194,960,348
Total comprehensive income for the year		–	194,960,348	(14,016,647)	180,943,701	(577)	180,943,124
Issue of shares	14	13,515,519	–	–	13,515,519	–	13,515,519
Acquisitions		–	–	(9,431,684)	(9,431,684)	–	(9,431,684)
Discount on loan received from Samruk-Kazyna	5	–	–	5,119,478	5,119,478	–	5,119,478
Dividends declared		–	–	(22,067)	(22,067)	–	(22,067)
As of December 31, 2015		243,901,772	233,232,318	26,052,495	503,186,585	420,197	503,606,782
Profit for the year		–	–	37,458,628	37,458,628	(8,774)	37,449,854
Other comprehensive income		–	389,650	–	389,650	–	389,650
Total comprehensive income for the year		–	389,650	37,458,628	37,848,278	(8,774)	37,839,504
Acquisition of non-controlling interest	14	–	–	331,236	331,236	(331,236)	–
Issue of shares	14	8,973,135	–	–	8,973,135	–	8,973,135
Acquisitions	5	–	–	(242,871)	(242,871)	(19,927)	(262,798)
As of December 31, 2016	14	252,874,907	233,621,968	63,599,488	550,096,363	60,260	550,156,623

Notes on pages 7 to 52 are an integral part of these consolidated financial statements.

Chief Financial Officer Bigozhin T.Zh.

Chief accountant Seitova A.B.

February 27, 2017
Astana, the Republic of Kazakhstan

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Tau-Ken Samruk National Mining Company 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 of December 31, 2016 and December 31, 2015 the sole shareholder of the Company was National Welfare Fund Samruk-Kazyna JSC (hereinafter – “Samruk-Kazyna” or

“Shareholder”). The sole shareholder of Samruk-Kazyna is the Government of the Republic of Kazakhstan.

The consolidated financial statements include the financial statements of the Company and its subsidiaries (hereinafter together – the “Group”).

As of December 31, 2016, and 2015, the following companies were subsidiaries of the Group:

Company	Type of operations	Region	December 31, 2016	December 31, 2015
Logic Business LLP	Management of investment in Kazzinc LLP	Astana	100%	100%
Logic Invest Capital LLP	Management of investment in Kazzinc LLP	Astana	100%	100%
Investing house Dana LLP	Management of investment in Kazzinc LLP	Astana	100%	100%
ShalkiyaZinc, LTD JSC	Exploration, mining and processing of mixed lead-zinc ore	Kyzylorda region	100%	100%
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%	100%
Severnyi Katpar LLP	Extraction of tungsten	Karaganda region	100%	100%
Tau-Ken Mining LLP	Exploration of non-ferrous metals	Almaty region	100%	100%
Tau-Ken Temir LLP	Metallurgical silicon and by-products production	Karaganda region	100%	100%
JV Alaigyr LLP	Extraction of polymetallic ores	Karaganda region	100%	100%
JV Tau-Ken Project LLP	Exploration of copper, gold and associated components	Karaganda region	100%	100%
Tau Ketmen LLP	Exploration for gold ore	Almaty region	100%	100%
Shokpar-Gagarinskoye LLP	Extraction of gold ore	Jambyl region	100%	100%
Tau-Ken Progress LLP	Exploration of non-ferrous metals	Astana	100%	100%
Massalsky GOK LLP	Development and extraction of iron ore	Akmola region	98.58%	93%
Silicon Mining LLP	Mining of quartz	Astana	90.1%	–
Kremnyi Kazakhstan LLP (Note 6)	Plant for the production of metallurgical silicon and by-products	Karaganda region	–	100%
TKS-Kostanay LLP (Note 6)	Exploration of non-ferrous metals	Astana	–	100%

1. GENERAL INFORMATION *(continued)*

The consolidated financial statements include the results of operations of the Company and its wholly controlled subsidiaries.

The Company's legal address is Dinmukhamed Kunaev str., 8, block "B", Astana, Republic of Kazakhstan.

As of December 31, 2016 number of employees of the Group was 1,090 people (December 31, 2015: 1,001 people).

2. BASIS OF PREPARATION

Statement of compliance

These 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.

Basis of preparation

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments.

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 associates, whose 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.

Accrual basis

These consolidated financial statements were prepared on the accrual basis. The accrual basis assumes recognition of the results of business operations, as well as events when they occurred, regardless of the time of payment. Transactions and events are recorded in the accounting and included in the consolidated financial statements for the periods to which they relate.

Principal activities

The principal activities of the Group, among others, include:

- Exploration, development, extraction, processing activities and sale of solid minerals;
- Restoration of mineral resources of the Republic of Kazakhstan;
- Development of mining industry of the Republic of Kazakhstan through introduction of new technologies and improvement of the efficiency of a state participation in the subsoil use projects.

Recognition of the elements of consolidated financial statements

These consolidated financial statements include all assets, liabilities, equity, revenues and expenses, which are the elements of the consolidated financial statements. All elements of the consolidated financial statements are presented on a linear basis. The inclusion of several elements of the consolidated financial statements into a single line item is made taking into account their characteristics (functions) in the Group's operations. Each material class of similar items is presented separately in the consolidated financial statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

Foreign currency translation

Weighted average exchange rates resulted on 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:

	December 31, 2016	December 31, 2015
US Dollar	333.29	340.01
Euro	352.42	371.46

Basis of consolidation

These consolidated financial statements include the financial statements of the Company and entities controlled by the Company (subsidiaries). An entity is assumed to be controlled by the Company, if the Company has the right to determine financial and operating policy of the entity with the purpose of receiving benefits from its activities.

Income and expenses of the subsidiaries acquired or disposed during the period are included in the consolidated statement of profit or loss and other comprehensive income beginning from the date of acquisition or until the date of disposal, respectively.

Financial statements of subsidiaries are corrected, if it is necessary, to align their accounting policies in conformity with accounting policy of the Group.

All intercompany transactions within the Group, balances and unrealized gains and losses on transactions within the Group are eliminated on consolidation.

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to benefit from its activities. Except for acquisitions between entities under common control, subsidiaries are consolidated from the acquisition date, which is the date the Group obtains control over them, until the date that such control ceases. Upon acquisition of a subsidiary, the cost of acquisition is allocated to the assets and liabilities based on their fair value at the acquisition date. The financial statements of subsidiaries are prepared for the same reporting period as the Group's consolidated financial statements, using consistent accounting policies.

All intragroup balances and transactions, including unrealized gains arising from intragroup transactions were eliminated in full from the consolidated financial statements. Unrealized losses are eliminated in the same manner as unrealized gains except that they are excluded only to the extent that there is no evidence of impairment.

Investments in joint ventures and associates

The Group has interests in joint ventures in the form of jointly controlled entities where participants have entered into a contractual arrangement that establishes joint control over the economic activities of the entities. The Group also has interests in associates in which it has significant influence over their economic activities. The Group's investments in joint ventures and associates are accounted for using the equity method.

Under the equity method, investments in joint ventures/associates are initially recorded at cost in the consolidated statement of financial position including the changes arising after the acquisition, in the share of net assets of joint ventures/associates of the Group. Goodwill relating to the joint ventures/associates is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of profit or loss and other comprehensive income reflects the Group's share of the financial results of operations of the joint ventures or associates. If there has been a change recognized directly in the equity of the joint ventures/associates, the Group recognizes its share

of any changes and discloses this fact, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and its joint ventures/associates are eliminated to the extent of the Group's interest in the joint ventures/associates.

The share in profit of joint ventures/associates is shown on the face of the consolidated statement of profit or loss and other comprehensive income. Which represents the profit attributable to participants of a joint ventures/associates, and thus determined as profit after tax and noncontrolling interests in subsidiaries joint ventures/associates.

The financial statements of the joint ventures/associates are prepared for the same reporting period as the Group's consolidated financial statements. Where necessary, adjustments are made to bring their accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investments in the joint ventures/associates. At each reporting date, the Group determines whether there is objective evidence that the investments in the joint ventures/associates is impaired.

If such evidence exists, the Group calculates amount of impairment as the difference between the recoverable value of the investment in the joint ventures/associates and its carrying amount and recognizes related loss in the consolidated statement of profit or loss and other comprehensive income.

Upon loss of joint control over the joint ventures or significant influence over the associate, the Group measures and recognizes any retained investments at its fair value. Upon loss of joint control or significant influence any difference between the carrying amount and the fair value of the retained investments of the joint ventures/associates and proceeds from disposal is recognized in 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.

2. BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

Business combinations *(continued)*

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 IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value, changes in fair value recognized either in either profit or loss or as a change in other comprehensive income. If the contingent consideration is not within the scope of IAS 39, 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.

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.

The consolidated financial statements, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the predecessor.

3. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards and interpretations adopted this year

In 2016, the Group applied for the first time certain standards and amendments to existing standards which are effective for annual periods beginning on or after January 1, 2016. The nature and the impact of each new standard or amendment is described below:

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires

disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Group is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard does not apply to the consolidated financial statements.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, (including the reporting entity), are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. These amendments do not have any impact on the consolidated financial statements of the Group as there has been no interest acquired in a joint operation during the period.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are applied prospectively. The amendments do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 Agriculture. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation

model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are applied retrospectively. The amendments do not have any impact on the consolidated financial statements of the Group as it does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively. Entities that firstly applying IFRS and electing to use the equity method in their separate financial statements are required to apply this method from the date of transition to IFRS.

These amendments do not have any impact on the Group's consolidated financial statements.

Annual Improvements IFRS, 2012–2014

These amendments are effective for annual periods beginning from January 1, 2016 or after this date. These improvements were included in the document:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. Therefore, there is, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be made retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

3. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

IFRS 7 Financial Instruments: Disclosures *(continued)*

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively.

These amendments do not have any impact on the consolidated financial statements of the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- the materiality requirements in IAS 1;
- that specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements;
- that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associates or joint ventures to its interests in subsidiaries.

In addition, the amendments clarify the requirements that apply when additional interim consolidated amounts are presented in the statement of financial position and the statement of profit or loss and other comprehensive income. These amendments are effective for annual periods beginning on or after 1 January 2016, earlier application permitted. The amendments do not affect the consolidated financial statements of the Group.

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):

- IFRS 15 Revenue from Contracts with Customers¹;
- IFRS 16 Leases²;
- IFRS 9 Financial instruments¹.

The Group's management believes that the adoption of IFRS 9 Financial Instruments and IAS 15 Revenue from Contracts with Customers in the future may have a significant effect on the amounts of financial assets and liabilities of the Group. However, it is not possible to assess the impact of adoption of IFRS 9 Financial Instruments and IAS 15 Revenue from Contracts with Customers until a detailed analysis is performed.

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.

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 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	8–100 years
Machinery and equipment	3–50 years
Vehicles	3–50 years
Computers	3–20 years
Other	3–20 years

¹ Effective for annual periods beginning on or after January 1, 2018, with permission of early adoption.

² Effective for annual periods beginning on or after January 1, 2019, with permission of early adoption.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration and evaluation assets (continued)

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.

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.

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

Financial instruments

Financial assets and financial liabilities are recognized using the transaction date principle.

Financial assets and financial liabilities are initially measured at cost, which is determined as fair value of consideration received or paid, including or deducting transaction costs directly attributable to the transaction, and are subsequently measured at fair value or amortized cost.

Fair value is generally determined by reference to the official market quotes. If quoted market prices are not available, fair value is determined using conventional methods of assessment, such as discounting future cash flows that are based on market data.

Amortized cost is estimated using the effective interest rate method. The effective interest rate is the discount rate of estimated future cash receipts (including all fees paid or received on debt instrument that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the carrying amount of the debt instrument at initial recognition.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets, except for those identified and recognized as hedging instruments, are classified into the following categories at initial recognition:

- loans and receivables;
- financial assets measured at fair value through profit or loss (FVTPL);
- held-to-maturity (HTM) investments;
- available-for-sale (AFS) financial assets.

All financial assets except those measured at FVTPL to be assessed for impairment at least at each reporting date to determine objective evidence that a financial asset or group of financial assets is impaired. To assess impairment, different criteria for each category of financial assets are applied, which are described below.

All income and expenses relating to financial assets which are recognized in profit or loss for the period are presented in finance costs, finance income or other finance accounts, except for impairment of receivables which is subject to disclosure in general and administrative expenses.

The Group does not have financial assets designated by it at initial recognition as revalued at fair value through profit or loss, held to maturity and available-for-sale.

Loans and accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, such financial assets are measured at amortized cost using the method of effective interest rate, less any impairment losses. Amortized cost is calculated taking into account discounts or premiums at acquisition, as well as commission costs or other costs that are an integral part of the effective interest rate. Amortization using the effective interest rate is included in finance income in the consolidated statement of profit or loss and other comprehensive income. Expenses related to impairment are recognized in the consolidated statement of profit or loss and other comprehensive income as finance cost.

Financial assets

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash on current accounts and bank deposits, with maturity during 90 (ninety) days from the date of formation and is not burdened with any contractual obligations.

Short-term bank deposits

Short-term bank deposits comprise deposits with an original maturity more than 3 (three) months but less than 12 (twelve) months.

Accounts receivable

Accounts receivable recognized and disclosed in the statement of financial position based on the amounts of issued invoices less the provision for doubtful debts.

Derecognition

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

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and

- either (a) the Group has transferred substantially all the risks and rewards from the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards from the asset, but has transferred control over the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all the risks and rewards from the asset nor transferred control over the asset, the new asset is recognized to the extent of the Group's continuing involvement in the transferred asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of two values: the initial carrying amount of the asset or the maximum amount of consideration that the Group could be required to pay.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired only when there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event'), which has an impact on expected future cash flows from the financial asset or the group of financial assets that can be reliably measured. Evidences of impairment may include indications that the debtor or group of debtors are experiencing significant financial difficulties, cannot serve its debt or delinquency in payment of interest or debt principal amount, as well as the likelihood that they will enter into bankruptcy or other type of financial reorganization. In addition, such evidences include observable data indicating the presence of a measurable decrease in estimated future cash flows of financial instrument, in particular, such as change in volume of past due debts or economic conditions that correlate with failure to fulfill its obligations to pay the debts.

Reversal of previously recognized impairment loss is recorded when the decrease in impairment loss can be objectively related to the event occurring after decrease in cost.

For financial assets carried at amortized cost, the amount of impairment is represented by the difference between carrying amount of the asset and present value of estimated future cash flows, discounted at the original effective interest rate.

Carrying value of financial asset is reduced by impairment loss directly for all financial assets, except for trade accounts receivable, carrying amount of which is reduced through use of an allowance for doubtful debts. The Group accrues the allowance for doubtful debts in case of nonpayment of receivables within terms specified in a contract.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets *(continued)*

Allowance for doubtful debts is reviewed periodically and, if there is a need for adjustments, the corresponding amounts are recognized in statement of profit or loss and other comprehensive income of the reporting period, in which the need was revealed. Bad debts are written off to the extent it is detected by source of previously recognized allowance.

If during the next year the amount of the estimated impairment loss decreases because of the event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying value of the asset at the date the impairment does not exceed the amount that amortized cost could comprise if no impairment had been recognized.

Financial liabilities

Accounts payable

Accounts payable are initially measured at fair value and subsequently at amortized cost using the effective interest rate method.

Loans received from the Shareholder

Loans and borrowings are initially recognized at cost, being the fair value of cash plus costs associated with the attraction of these funds.

After initial recognition, interest bearing loans and borrowings are measured at amortized cost using the effective interest rate method.

Derecognition

A financial liability is derecognized in the consolidated statement of financial position when the liability is settled, cancelled or expired.

Offsetting

Financial assets and financial liabilities may be offset and the net amount may be disclosed in the consolidated statement of financial position only when there is a legal enforceable right for set-off of recognized amounts and the Group intends either to offset or to realize the asset and settle the liability simultaneously.

Fair value of financial instruments

Fair value of financial instruments traded in active markets is determined at each reporting date, based on quoted market

prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, fair value is determined using appropriate valuation techniques. Such techniques may include using prices of recent arm's length market transactions, using current fair value of similar instruments; discounted cash flow analysis or other valuation models.

Principles of consolidation

These consolidated financial statements include financial statements of the Company and its subsidiaries, controlled by the Company (subsidiaries) (Note 1).

Subsidiaries are consolidated from the date control is transferred to the Group and cease to be consolidated from the date of loss of control over it by the Group. In particular, income and expenses of subsidiaries disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date of receipt until the moment of loss of control.

The Group holds the control, if:

- possesses imperious powers over the entity;
- bears the risks and have rights to the variable results of performance; and
- may use powers of authority for influence on variable results of performance.

The Group re-evaluates the presence or absence of controls, if the facts or circumstances indicate a change in one or more elements of controls.

The Group controls the subsidiary, without having the majority of the votes, if the existing voting rights allow having the ability to the sole control of the significant performance of subsidiary. In making the assessment of adequacy of voting rights for controls, the Group considers all relevant facts and circumstances for powers of authority, including:

- share of voting rights of the Group in comparison with shares and allocation of shares of other shareholders;
- potential voting rights belong to the Group, other shareholders and others;
- rights based on agreement; and
- any additional facts and circumstances indicating that the Group possesses the ability to control the significant performance at time to accept the management decision including the information about allocation of voting rights on previous meetings.

Gains and losses and each component of other comprehensive income are allocated between owners and non-controlling owners. Total comprehensive income or loss of the subsidiary is distributed between owners and non-controlling owners, even if it leads to a negative balance of non-controlling ownership interests.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies for the Group. All intergroup transactions, outstanding balances and unrealized gains/(losses) on transactions are eliminated in consolidation.

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.

Changes in ownership by the Group

Changes in ownership by the Group in subsidiaries, not leading to the loss of control, are recorded in equity. The carrying amount of the Group' shares and non-controlling interest are adjusted proportionally to the changes in shares. Any difference between non-controlling interest adjustment amount of and the fair value of paid or received interest are recognised in the equity of the Group.

If the Group loses the control over subsidiaries, gains or losses on disposal are recognized in the consolidated statement of profit or loss and other comprehensive income, and accounted as difference between the fair value of the outstanding shares and carrying value of assets (including goodwill) and liabilities of subsidiaries, and the non-controlling interest. All amounts recognized earlier in other comprehensive income with regard to subsidiary are recorded as if the Group sold directly relevant assets or liabilities of the subsidiaries. The fair value of the remaining investments in former subsidiary on the date of the loss of control is recognized as the fair value of financial asset at initial recognition in compliance with IAS 39 financial instrument or as initial cost in associated company or joint ventures.

Investments in associates

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.

The Group accounts investments in associates using the equity method. Under the equity method investments in associates are

initially recognized in the consolidated statement of financial position at cost and adjusted thereafter based on the Group's share in profit or loss and other comprehensive income of the associate.

In cases where the Group's share in the losses of these organizations exceeds the Group's ownership interest (which includes any long-term ownership interests that in effect form part of the Group's net investment), the Group ceases to recognize its share of the further losses. The Group's share of the profits and losses in associates is recognized in the consolidated statement of profit or loss and other comprehensive income of the Group. Additional losses are recognized only if the Group has an obligation to reimburse the excess of the loss or if the Group has made payments on behalf of the associates.

The adjustment to the fair value of interest-free financial aid issued to associates is accounted as an increase in the value of these investments in the consolidated financial statements.

If the Group decreases its share in associates but continues to apply the equity method, the Group reclassifies to profit or losses a portion of the amounts previously recognized in other comprehensive income or loss if such reclassifications were required under the sale of the related assets or liabilities.

Assets held for sale

Non-current assets and groups of disposable assets are classified as held for sale if their carrying amount is recovered mainly due to sale and not in the course of production activities. This condition is considered fulfilled if the asset (a group of disposable assets) can be sold in the current state in accordance with the generally accepted terms of sale of such assets (group), and the probability of sale is high. Management has to complete sale of assets during year from the moment of classification as held for sale. Under the influence of events or circumstances, the sale completion period may exceed one year. The increase in the period required to complete the sale does not preclude the classification of the asset (or disposal group) as held for sale if the reason for the delay are events or circumstances not controlled by the entity and there is sufficient evidence that the entity will continue to implement the plan related to the sale of asset (or disposal group).

If the Group has adopted a plan to sell a controlling interest in a subsidiary, all of its assets and liabilities are reclassified as held for sale if the above criterias are met, regardless of the Group's non-controlling interest in the former subsidiary after the sale. If the Group follows a sales plan that involves the sale of an investment or part of an investment in an associate, the investment or part of the investment is classified as held for sale in accordance with the above criterias, and the Group ceases to apply the equity method to the investment classified as held for sale.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Assets held for sale *(continued)*

The remaining portion of the investment in the associates is not classified as held for sale and continues to be accounted using the equity method. The Group ceases to use the equity method at the moment when the disposal results in losing significant influence by the Group over the associates.

After disposal, the Group reflects the remaining interest in the former associate organization in accordance with IAS 39. If the organization continues to be an associate, the Group continues to apply the equity method.

Non-current assets (disposal group) classified as held for sale are measured at the lower of (a) the carrying amount at the moment of the reclassification, and (b) fair value less costs to sell.

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

Revenues are recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenues can be reliably measured, regardless of the time of payment. Revenues are measured at the fair value of the consideration received or receivable by taking into account terms of payment determined in contract, and net of taxes or duties.

The Group assesses its agreements, related to revenue generation, in accordance with certain criteria in order to determine whether it is acting as principal or agent.

Interest income

Income is recognised as interest accrued, using the effective interest rate method, i.e. the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset. The interest income is recorded as part of finance income in the consolidated statement of profit or loss and other comprehensive income.

Dividends

Dividend income is recognized when the Group's right to receive payment is established, which usually occurs when shareholders approve dividends.

Expenses

Expenses are accounted for at the time of actual receipt of the related goods or services, regardless of when cash or its equivalents are paid, and are reported 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.

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.

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 Company'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

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 11% of salaries and other payments to employees, including other benefits. Part of the amount of social tax is transferred to the Social Insurance State Fund JSC.

The Group also withholds up to 10% in 2016 (2015: 10%) from the salaries of its employees as contributions to the Single accumulative pension fund JSC.

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 settlement of VAT on sales and purchases on a net basis.

VAT payable

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

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 statement until the accounts receivable is written off for tax purposes.

VAT recoverable

VAT recoverable relates to purchases, which have not been settled at the reporting date. VAT recoverable is reclaimable against the amount of VAT payable related to sales upon payment for purchases.

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.

Significant accounting judgments and estimates

Preparation of 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:

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting judgments and estimates (continued)

Control over Tau Ketmen LLP

Management of the Group is considering a sale of 100% share in the charter capital of Tau Ketmen LLP to a potential buyer TAU INTERINVEST KAZ LLP, a third party, at a price of 429,441 thousand Tenge as highly probable. Accordingly, it classifies the investment in this subsidiary as assets held for sale with the carrying amount of 327,931 thousand Tenge at the date of reclassification. As at December 31, 2016, control over subsidiary was held by the Group.

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, intangible assets and exploration and evaluation assets, investments in subsidiaries, joint ventures and associates.

As at December 31, 2016 and 2015, management of the Group did not indicate 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.

Provision for doubtful debts

The Group recognizes provision for doubtful accounts receivable, advances given and other receivables. Doubtful accounts are estimated taking into account previous and expected performance results of the customer. Changes in the economy, the sector, or the specific characteristics of the customer may require adjustments in the provision for doubtful debts reflected in these consolidated financial statements.

Evaluation of 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 is about 2.5 of the refinancing rate of the National Bank of the Republic of Kazakhstan of the amount of untimely paid tax. As a result, fines and penalties may significantly exceed the amount of additional taxes.

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.

Fair Value Estimation

Management uses valuation techniques to determine the fair value of financial instruments (in the absence of market offers), as well as for non-financial assets. It includes the determination of estimates and assumptions in accordance with financial instruments estimation by market participants.

Management's assumptions are based on the observed data to the extent that is possible, but they are not always available. In this case, management uses the most relevant information among the available. The estimated fair value may differ from the actual prices that would have been set as a result of transactions between independent parties at the reporting date.

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, defined by Global Insight agency used in the calculation varies in the range from 2.8% to 14.5% per annum, and the discount rate used to determine the liabilities as at December 31, 2016 is equal to 7.11% (in 2015: 5.6% and 7.12%, respectively).

5. BUSINESS COMBINATION

Acquisition of Kremniy Kazakhstanana LLP and transfer to Tau-Ken Temir LLP

Based on the decision of the Board of Directors of the Company dated January 28, 2016 (Minutes No. 01/16) on the reorganization through merger, Tau-Ken Temir LLP and Kremniy Kazakhstanana LLP agreed to conduct a voluntary reorganization in which Kremniy Kazakhstanana LLP is merging with Tau-Ken Temir LLP. Based on the foregoing and based on the Order of the RSU "Justice Department" No.3-4 / 1779-01 dated May 12, 2016 on excluding the Kremniy Kazakhstanana LLP from the state register by joining with Tau-Ken Temir LLP, the Company made a transfer of investment in Kremniy Kazakhstanana LLP to Tau-Ken Temir LLP for the amount of 10,022,393 thousand Tenge.

In accordance with the purchase and sale agreement of 100% interest in the charter capital of Kremniy Kazakhstanana LLP between NMC Tau-Ken Samruk JSC and Investment Fund of Kazakhstan JSC on December 25, 2015 the Group obtained control over the plant producing metallurgical silicon and by products. The main activity of Kremniy Kazakhstanana LLP is the implementation of a set of measures for the project "Production of metallurgical silicon from quartz in the Karaganda region." The value of transaction amounted to 13,607,532 thousand Tenge with maturity of the last payment on December 31, 2024. As at December 31, 2015 the Group paid 5,307,732 thousand Tenge, the remaining amount of 8,299,800 thousand Tenge was recognized at fair value of 4,714,661 thousand Tenge determined at a rate

ranging from 5.41% to 7.91%. As at December 31, 2016 the amount of discount was 3,242,646 thousand Tenge (December 31, 2015: 3,579,805 thousand Tenge).

For the year ended December 31, 2016 and December 31, 2015, the amortization of the discount was 337,159 thousand Tenge and 5,334 thousand Tenge, respectively, and was recognized as part of finance costs in the consolidated statement of profit or loss and other comprehensive income.

Acquisition of Silicon Mining LLP

On December 9, 2016 the Group acquired 100% interest in the charter capital of Silicon Mining LLP from Investment Fund of Kazakhstan JSC in accordance with purchase and sale agreement #88 dated December 2, 2015. The main activity of Silicon Mining LLP is the exploration of solid and wide-spread minerals, the development of all types of exploration projects, the export and sale of processed products and production wastes, the design and exploitation of mining operations, the design of solid and wide-spread minerals extraction. On December 9, 2016, the Group received the Aktas quartz deposit in the Karaganda region. The transaction value amounted to 93,382 thousand Tenge, which was not paid as at December 31, 2016 and was recognized in the accounts payable for the acquisition of a subsidiary in the consolidated statement of financial position.

5. BUSINESS COMBINATION (continued)

Acquisition of Silicon Mining LLP (continued)

Since the acquisition of Silicon Mining LLP is a combination of organizations under common control, these consolidated financial statements have been prepared using the predecessor's accounting method. Accordingly, these consolidated financial statements are presented in the same way as if the acquisition of Silicon Mining LLP occurred on the date of the earliest period presented, while the comparative information for the year ended December 31, 2015 does not require recalculation, since the effect of this transaction is not material for the purposes of the consolidated financial statements.

Acquisition of Severnyi Katpar LLP

On June 26, 2015 the Group acquired 100% share in the charter capital of Severnyi Katpar LLP from three individuals Aubakirova K.Y, Chi A.Y. and Zhumabekova G.E. The main activity of Severnyi Katpar LLP is the production of tungsten in accordance with the Contract of production of tungsten on a Severnyi Katpar deposit in Karaganda region, which was signed between the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan and Severnyi Katpar LLP. Transaction value amounted to 7,733,640 thousand Tenge, which was fully paid as at December 31, 2015.

In order to purchase the 100% share in the charter capital of Severnyi Katpar LLP the Company concluded a loan agreement with Samruk-Kazyna for a total amount of 7,770,000 thousand Tenge with a maturity of 20 years from the date of receipt of one-time installment. The installment on this loan for the amount of 7,733,640 thousand Tenge was received on July 7, 2015. Interest on this loan will comprise 0.1% per annum for ten year grace period, at the end of the grace period the interest will comprise

2% per annum. The fair value of the loan received amounted to 2,614,162 thousand Tenge which was determined using the rate of 6.93%. The difference between the nominal and fair value in the amount of 5,119,478 thousand Tenge at the date of recognition was recognized as transactions with the Shareholder in the consolidated statement of changes in equity.

As at December 31, 2016 the fair value of loans received and accrued interest amounted to 2,894,591 thousand Tenge and 3,774 thousand Tenge, respectively (December 31, 2015: 2,703,915 thousand Tenge and 3,771 thousand Tenge, respectively). As at December 31, 2016, the withholding tax related to accrued interest on the loan amounted to 1,164 thousand Tenge (December 31, 2015: nil).

For the year ended December 31, 2016 and December 31, 2015 the amortization of discount amounted to 184,085 thousand Tenge and 89,753 thousand Tenge, respectively and was recognized in finance costs in the consolidated statement of profit or loss and other comprehensive income.

For the year ended December 31, 2016 and December 31, 2015 interest expense amounted to 7,755 thousand Tenge and 3,771 thousand Tenge, respectively and was recognized in finance costs in the consolidated statement of profit or loss and other comprehensive income.

The acquisition of share in Severnyi Katpar LLP was recorded using the acquisition method. The fair value of the identifiable assets and liabilities of Severnyi Katpar LLP at acquisition date is presented below:

In thousands Tenge	Fair value at acquisition date
Assets	
Property, plant and equipment	21,582
Intangible assets	9,878,507
Other current assets	89
Cash and cash equivalents	1
	9,900,179
Liabilities	
Deferred tax liability	(1,646,418)
Other current liabilities	(55,783)
	(1,702,201)
Total identifiable net assets at fair value	8,197,978
Consideration paid at acquisition	(7,733,640)
Gain from bargain purchase	464,338
Net cash acquired with the subsidiary	1
Consideration paid	(7,733,640)
Net cash outflow	(7,733,639)

The above indicated fair value of acquired intangible assets in the amount of 9,878,507 thousand Tenge mainly includes the subsoil use rights at Severnyi Katpar deposit.

Gain from bargain purchase in the amount of 464,338 thousand Tenge has arisen due to the fact that the Group acts on behalf of the Government of the Republic of Kazakhstan and, accordingly, has the right to act as the main buyer when owners sell their subsoil use rights.

From the date of acquisition contribution of Severnyi Katpar LLP to the Group's revenue amounted to nil Tenge, and a net loss to 107,249 thousand Tenge. If the acquisition had occurred at the beginning of the 2015, the Group's revenue would not change due to absence of revenue from Severnyi Katpar LLP and Group's net loss from continuing operations for 2015 comprised 14,313,151 thousand Tenge.

6. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

TKS-Zhaksylyk LLP

In accordance with the sale and purchase agreement of 100% share in charter capital of TKS-Zhaksylyk LLP dated November 18, 2015 between NMC Tau-Ken Samruk JSC and KazCuprum

LLP, TKS-Zhaksylyk LLP was recognized within discontinued operations. On February 17, 2016 the full legal re-registration of ownership rights in TKS-Zhaksylyk LLP was conducted.

In thousands Tenge	February 17, 2016
Consideration received	186,000
Net assets disposed	(169,292)
	16,708

Income generated from discontinued operations during the reporting period is presented below:

In thousands Tenge	For period from January 1, 2016 to February 17, 2016	For the year ended December 31, 2015
Gain on disposal of subsidiary	16,708	–
Income for the period	–	–
	16,708	–

The main categories of assets and liabilities of TKS-Zhaksylyk LLP at the date of disposal are presented below:

In thousands Tenge	Assets and liabilities as at February 17, 2016	Assets and liabilities as at December 31, 2015
Assets		
Exploration and evaluation assets	158,357	158,357
Other non-current assets	1,564	1,564
Other current assets	19	19
Cash and cash equivalents	11,240	11,240
Assets held for sale	171,180	171,180
Liabilities		
Other current liabilities	(1,888)	(1,888)
Liabilities directly associated with assets held for sale	(1,888)	(1,888)
Net assets	169,292	169,292

6. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

TKS-Zhaksylyk LLP (continued)

In thousands Tenge	For period from January 1, 2016 to February 17, 2016	For the year ended December 31, 2015
General and administrative expenses	–	(23)
Operating loss	–	(23)
Finance income	–	43
Other non-operating income	–	7,642
Profit before income tax from discontinued operations	–	7,662
Corporate income tax expense	–	–
Net profit from discontinued operations	–	7,662

Net cash flows of TKS-Zhaksylyk LLP are presented below:

In thousands Tenge	For period from January 1, 2016 to February 17, 2016	For the year ended December 31, 2015
Operating activities	–	(230)
Investing activities	–	(13,239)
Financing activities	–	16,000
Net cash inflow for the period	–	2,531

JV Tau Gold Copper LLP

In accordance with the sale and purchase agreement of 50% share in charter capital of JV Tau Gold Copper LLP dated October 28, 2015 between NMC Tau-Ken Samruk JSC and Algold LLP,

JV Tau Gold Copper LLP was recognized within discontinued operations. On March 15, 2016 the full legal re-registration of ownership rights in JV Tau Gold Copper LLP was conducted.

In thousands of Tenge	March 15, 2016
Consideration received	60,200
Net assets disposed	(1,741)
	58,459

Income generated from discontinued operations during the reporting period is presented below:

In thousands Tenge	For period from January 1, 2016 to March 15, 2016	For the year ended December 31, 2015
Gain on disposal of joint ventures	58,459	–
	58,459	–

The main categories of assets and liabilities of JV Tau Gold Copper LLP at the date of disposal are presented below:

In thousands Tenge	Assets and liabilities as at March 15, 2016	Assets and liabilities as at December 31, 2015
Assets held for sale	1,741	1,741
Net assets	1,741	1,741

In thousands Tenge	For period from January 1, 2016 to March 15, 2016	For the year ended December 31, 2015
Share in loss of joint ventures	–	(1,239)
Loss before income tax from discontinued operations	–	(1,239)
Corporate income tax expense	–	–
Net loss from discontinued operations	–	(1,239)

For the period from January 1, 2016 to March 15, 2016 and for the year ended December 31, 2015 no cash flows occurred.

Tau Ketmen LLP

According to the decision of the Board of Directors of the National Mining Company Tau-Ken Samruk JSC dated November 4, 2016 (Minutes No. 08/16), a decision was made to dispose of 100% share in the charter capital of Tau Ketmen LLP to a potential buyer of TAU INTERINVEST KAZ LLP at a price of 429,441 thousand Tenge. The purchase sale contract of 100% share is at the approval stage and management of the Company believes

that the transaction will be completed by the end of 2017. Management of the Group is considering sale as highly probable. Accordingly, classifies the investment in this subsidiary as assets held for sale with a carrying amount of 327,931 thousand Tenge at the date of reclassification. In 2016, the Group recognized the result of the activities of Tau Ketmen LLP for the year ended December 31, 2016 in profit from discontinued operations.

Loss from discontinued operations during the reporting period is presented below:

In thousands Tenge	2016
Loss on disposal of assets and liabilities relating to discontinued operations	(6,715)
Total	(6,715)

Assets and liabilities classified as held for sale

The results of the discontinued operations of a subsidiary classified as assets and liabilities held for sale included in the

consolidated statement of profit or loss and other comprehensive income are as follows:

In thousands Tenge	2016
General and administrative expenses	(152)
Selling and transportation expenses	–
Operating loss	(152)
Finance income	765
Finance costs	(90)
Loss on impairment	(7,238)
Loss before income tax	(6,715)
Corporate income tax expense	–
Loss for the year	(6,715)
Other comprehensive loss	–
Total comprehensive loss	(6,715)

6. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

Assets and liabilities classified as held for sale (continued)

The assets and liabilities of the subsidiary classified as assets and liabilities held for sale as at December 31, 2016 are as follows:

In thousands Tenge	December 31, 2016
Assets	
Exploration and evaluation assets	323,448
Other non-current assets	4,298
Other current assets	153
Cash and cash equivalents	32
Assets held for sale	327,931
Liabilities	
Other current liabilities	(1,916)
Liabilities directly associated with assets held for sale	(1,916)
Net assets	326,015

Cash flows from discontinued operations for a subsidiary, classified as assets and liabilities held for sale are as follows:

In thousands Tenge	2016
Net cash flows:	
Operating activities	(179)
Investing activities	(71,895)
Financing activities	40,755
Net cash outflow for the period	(31,319)

Discontinued operations

TKS-Kostanay LLP

In accordance with the Decree of the Government of the Republic of Kazakhstan No. 1141 dated December 30, 2015 "On issues of privatization for 2016–2020", TKS-Kostanay LLP was included in the recommended list to the Fund for transfer to a competitive environment in priority order or conducting reorganization

or liquidation without bidding due to economic non-viability. On January 28, 2016, the Board of Directors of NMC Tau-Ken Samruk JSC made a decision to liquidate TKS-Kostanay LLP (Minutes #01/16). On August 11, 2016, the Ministry of Justice of the Republic of Kazakhstan the Justice Department of the Yesil district of the Justice Department of Astana issued an order #1039 on registration of termination TKS-Kostanay LLP activities. In accordance with this order, a loss from discontinued operations in the amount of 576 thousand Tenge was recognized in the consolidated financial statements for 2016.

In thousands Tenge	August 11, 2016
Consideration received	–
Net assets disposed	(576)
	(576)

Loss from discontinued operations during the reporting period is presented below:

In thousands Tenge	For period from January 1, 2016 to August 11, 2016	For the year ended December 31, 2015
Loss on disposal of joint ventures	(576)	–
Loss for the year	–	(570)
	(576)	(570)

In thousands Tenge	For period from January 1, 2016 to August 11, 2016	For the year ended December 31, 2015
General and administrative expenses	–	(570)
Operating loss	–	(570)
Loss before income tax from discontinued operations	–	(570)
Income tax expense	–	–
Loss from discontinued operations	–	(570)

The main asset categories of TKS-Kostanay LLP at the date of disposal are as follows:

In thousands Tenge	Assets and liabilities as at August 11, 2016	Assets and liabilities as at December 31, 2015
Assets		
Net assets	576	4

Net cash flows of TKS-Kostanay LLP are as follows:

In thousands Tenge	For period from January 1, 2016 to August 11, 2016	For the year ended December 31, 2015
Operating activities	–	(570)
Investing activities	–	–
Financing activities	–	391
Net cash inflow for the period	–	179

7. PROPERTY, PLANT AND EQUIPMENT

In thousands Tenge	Land	Mining assets	Buildings and constructions	Machinery and equipment	Vehicles	Computers	Other	Construction in progress	Total
Historical cost:									
As at December 31, 2014	598,666	221,908	4,039,220	7,914,101	388,568	66,737	589,770	4,732,875	18,551,845
Additions	-	1,734,189	35,929	1,193,746	348,252	20,156	48,180	3,633,693	7,014,145
Acquisitions through business combinations (Note 5)	-	-	-	-	-	-	2,064	19,518	21,582
Transfers from inventories	-	-	4,801	-	-	-	-	395,045	399,846
Internal transfers	5,786	325,939	164,737	221,593	-	-	15,162	(733,217)	-
Disposals	-	(11,518)	-	(4,759)	-	-	(546)	(235,986)	(252,809)
As at December 31, 2015	604,452	2,270,518	4,244,687	9,324,681	736,820	86,893	654,630	7,811,928	25,734,609
Additions	-	2,916,433	538,925	515,062	174,226	3,149	169,127	5,582,030	9,898,952
Acquisitions through business combinations	-	-	4,690	2,931	-	335	22	-	7,978
Internal transfers	-	(32,910)	1,801,046	382,572	(69,797)	-	27,601	(2,108,512)	-
Transfers from inventories	-	-	-	38	-	-	-	52,996	53,034
Disposals	-	-	(298)	(4,429)	-	-	(645)	-	(5,372)
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
Accumulated depreciation:									
As at December 31, 2014	-	-	(25,123)	(227,434)	(2,331)	(28,926)	(39,953)	-	(323,767)
Charge for the year	-	-	(178,752)	(494,406)	(38,948)	(12,215)	(36,282)	-	(760,603)
Depreciation on disposals	-	-	-	3,289	-	-	485	-	3,774
As at December 31, 2015	-	-	(203,875)	(718,551)	(41,279)	(41,141)	(75,750)	-	(1,080,596)
Charge for the year	-	-	(176,703)	(625,429)	(99,985)	(17,158)	(60,301)	-	(979,576)
Depreciation on disposals	-	-	-	-	-	-	92	-	92
As at December 31, 2016	-	-	(380,578)	(1,343,980)	(141,264)	(58,299)	(135,959)	-	(2,060,080)
Net book value:									
As at December 31, 2015	604,452	2,270,518	4,040,812	8,606,130	695,541	45,752	578,880	7,811,928	24,654,013
As at December 31, 2016	604,452	5,154,041	6,208,472	8,876,875	699,985	32,078	714,776	11,338,442	33,629,121

Depreciation charge for the year ended December 31, 2016 includes 619,238 thousand Tenge (year ended December 31, 2015: 626,009 thousand Tenge) recognized in cost of goods sold, 96,362 thousand Tenge recognized in general and administrative expenses (year ended December 31, 2015: 58,909 thousand Tenge). The depreciation expenses for the year ended December

31, 2016 in the amount of 263,976 thousand Tenge (year ended December 31, 2015: 75,685 thousand Tenge) were capitalized to mine development costs.

As at December 31, 2016 and December 31, 2015 the property, plant and equipment of the Group were not pledged as collateral.

8. INTANGIBLE ASSETS

In thousands Tenge	Subsoil use rights	Other	Total
Historical cost:			
As at December 31, 2014	42,723,214	36,221	42,759,435
Additions	-	57,059	57,059
Excess of acquisition value over net asset value (Note 5)	9,878,507	-	9,878,507
As at December 31, 2015	52,601,721	93,280	52,695,001
Additions	-	56,028	56,028
Acquisitions through business combinations	-	321	321
Disposals	(97,268)	(13,252)	(110,520)
As at December 31, 2016	52,504,453	136,377	52,640,830
Accumulated depreciation:			
As at December 31, 2014	-	(14,813)	(14,813)
Depreciation charge for year	-	(10,769)	(10,769)
As at December 31, 2015	-	(25,582)	(25,582)
Depreciation charge for year	-	(13,134)	(13,134)
As at December 31, 2016	-	(38,716)	(38,716)
Net book value:			
As at December 31, 2015	52,601,721	67,698	52,669,419
As at December 31, 2016	52,504,453	97,661	52,602,114

Amortization of intangible assets for the year ended December 31, 2016, includes 36 thousand Tenge (year ended December 31, 2015: 12 thousand Tenge) recognized in cost of goods sold, 9,859 thousand Tenge in general and administrative expenses (year ended December 31, 2015: 1,681 thousand Tenge). The amortization expenses for the year ended December 31, 2016 in

amount of 3,239 thousand Tenge (year ended December 31, 2015: 9,076 thousand Tenge) were capitalized to mine development costs.

As at December 31, 2016 and December 31, 2015 intangible assets of the Group were not pledged as collateral.

9. EXPLORATION AND EVALUATION ASSETS

In thousands Tenge	Exploration and evaluation assets
As at December 31, 2014	2,367,773
Additions	1,870,839
Disposals	(182,614)
As at December 31, 2015	4,055,998
Additions	2,188,968
Disposals	(403,153)
Acquisition through business combinations	27,601
Impairment	(14,866)
As at December 31, 2016	5,854,548

The exploration and evaluation assets include the following capitalized costs:

In thousands Tenge	December 31, 2016	December 31, 2015
Geological and geophysical works	5,129,469	3,484,434
Subscription bonus	334,049	275,446
Services for preparation of project feasibility study	129,137	81,831
Payroll and related expenses	76,267	65,774
Contributions to social-economic regional development and development of its infrastructure	48,105	43,016
Geological information	5,177	12,882
Other	132,344	92,615
	5,854,548	4,055,998

The change in the provision for impairment of exploration and evaluation assets for the year ended December 31, 2016 is as follows:

In thousands Tenge	2016
As at January 1	–
Accrued	14,866
As at December 31	14,866

10. INVESTMENTS IN ASSOCIATES

In thousands Tenge	December 31, 2016		December 31, 2015	
	Share	Amount	Share	Amount
Kazzinc LLP	29.8221%	434,888,968	29.8221%	410,903,918

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

Movements in investments in associates are presented as follows:

In thousands Tenge	
As at January 1, 2015	234,169,197
Share in loss of joint ventures and associates	(16,340,246)
Dividends	(1,882,401)
Reclassification of investments in joint ventures into assets held for sale	(2,980)
Foreign currency translation	194,960,348
As at December 31, 2015	410,903,918
Share in profit of joint ventures and associates	37,390,949
Dividends	(13,795,549)
Foreign currency translation	389,650
As at December 31, 2016	434,888,968

Kazzinc LLP

In accordance with the decision of the general meeting of owners of Kazzinc LLP dated 16 April 2016, the order of distribution of net income of Kazzinc LLP based on the 2015 results was approved. The total amount of dividends declared to the owners of Kazzinc LLP for the year ended December 31, 2016 was equal to 46,259,480 thousand Tenge, 13,795,549 thousand Tenge out of total amount of dividends were distributed to the Group and were paid in cash.

The total amount of dividends declared to the owners of Kazzinc LLP for the year ended December 31, 2015 amounted to 6,312,100 thousand Tenge, 1,882,401 thousand Tenge out of total amount of dividends were distributed to the Group and was fully paid in cash.

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

In thousands Tenge	December 31, 2016	December 31, 2015
Current assets	342,470,403	294,221,137
Non-current assets	1,480,808,619	1,503,257,029
Current liabilities	(110,925,882)	(168,414,600)
Non-current liabilities	(254,070,772)	(251,208,568)
Equity	1,458,282,368	1,377,854,998
Book value of investment	434,888,968	410,903,918

In thousands Tenge	2016	2015
Revenue	882,390,026	495,309,015
Net profit/(loss)	125,379,647	(54,792,591)
The Group's share of net profit/(loss) for the year	37,390,949	(16,340,246)

11. INVENTORIES

In thousands Tenge	December 31, 2016	December 31, 2015
Work-in-progress	10,845,698	3,478,889
Finished goods	6,882,460	7,158,393
Supplies and materials	1,681,198	1,070,075
Goods	9,154	193,405
Less: provisions for obsolete and slow moving inventories	(207,635)	(196,574)
	19,210,875	11,704,188

The movement in provision for obsolete and slow moving inventories for the year ended December 31 is presented below:

In thousands Tenge	2016	2015
As at January 1	196,574	430,153
Accrued	11,962	402,050
Written off	(901)	–
Recovered	–	(635,629)
As at December 31	207,635	196,574

The Group's 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.

12. ACCOUNTS RECEIVABLE

In thousands Tenge	December 31, 2016	December 31, 2015
Accounts receivable from third parties	1,295,172	702,767
Accounts receivable from related parties (Note 23)	1,107,040	2,923,454
Less: provision for doubtful debts	(7,728)	–
	2,394,484	3,626,221

The movement in provision for doubtful debts for year ended December 31 is presented below:

In thousands Tenge	2016	2015
As at January 1	–	–
Accrued	7,728	–
As at December 31	7,728	–

13. CASH AND CASH EQUIVALENTS AND SHORT-TERM BANK DEPOSITS

In thousands Tenge	December 31, 2016	December 31, 2015
Bank deposits, Tenge	11,652,110	8,121,081
Bank deposits, US Dollar	2,809,397	5,466,189
Bank deposits, Euro	210,796	–
Current bank accounts in Tenge	2,696,901	149,151
Current bank accounts in US Dollars		
Current bank accounts in Euro	5,059	87,118
Current bank accounts in other currencies	51	1,731
Cash in transit	8	102,518
Cash on hand	869	1,437
	17,389,910	14,201,847

As at December 31, 2016 short-term bank deposits were placed in second-tier Kazakhstani banks with a weighted average interest rate of 8.4% per annum (December 31, 2015: 10%).

In thousands Tenge	December 31, 2016	December 31, 2015
Current bank deposits, US Dollar	2,579,054	1,736,969
Current bank deposits, Tenge	180,000	345,119
	2,759,054	2,082,088

14. SHARE CAPITAL

Share capital

Movements in the share capital are as follows:

In thousands Tenge	Ordinary shares	
	Quantity	Quantity
As at January 1, 2015	292,617	230,386,253
Issue of shares	170	13,515,519
As at December 31, 2015	292,787	243,901,772
Issue of shares	100	8,973,135
As at December 31, 2016	292,887	252,874,907

The Company's share capital comprises of ordinary shares. Each ordinary share gives a right for one vote.

In May 2016 the Group additionally issued 100 ordinary shares with placement value of 89,731 thousand Tenge per share, which were placed and purchased by Samruk-Kazyna in the total amount of 8,973,135 thousand Tenge. Payment for the additionally issued shares was made in cash.

During 2015 the Company made an additional issue of 170 ordinary shares, which were placed and purchased by Samruk-Kazyna in the amount of 13,515,519 thousand Tenge. Payment for additionally issued shares was made in cash.

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

14. SHARE CAPITAL *(continued)*

Dividends

Based on the results of 2015 the Group has not paid dividends to Samruk-Kazyna due to a consolidated net loss for the year.

Based on the results of 2014 the Group declared dividends to Samruk-Karyna comprising 15% of the consolidated net income in the amount of 22,067 thousand Tenge. Based on the 2014 results the dividends per an ordinary share of the Group was equal to 75.41 Tenge. As at December 31, 2015 the Group fully paid dividends to Samruk-Kazyna.

Non-controlling interest in Massalsky GOK LLP and Silicon Mining LLP

In thousands Tenge	2015
As at January 1	420,774
Total comprehensive loss for the period attributable to non-controlling interests	(577)
As at December 31	420,197

In thousands Tenge	2016
As at January 1	420,197
Acquisition of non-controlling interest	(331,236)
Adjustment of the comprehensive loss for the previous period attributable to non-controlling interest	(19,927)
Total comprehensive loss for the period attributable to non-controlling interest	(8,774)
As at December 31	60,260

15. ACCOUNTS PAYABLE

In thousands Tenge	December 31, 2016	December 31, 2015
Accounts payable to third parties	4,489,170	3,103,752
Accounts payable to related parties (Note 23)	3,051,263	2,516,419
Accounts payable for the acquisition of a subsidiary	5,150,536	4,719,995
	12,690,969	10,340,166

16. REVENUES FROM GOODS SOLD

In thousands Tenge	2016	2015
Sale of gold	154,041,621	92,200,032
Sale of silicon	11,206,525	5,179,108
Sale of silver	1,069,078	–
Refining services	66,814	515
	166,384,038	97,379,655

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 2016 the Company sold finished goods with a total weight 11,204 kg, during 2015 10,009 kg, respectively.

17. COST OF GOODS SOLD

In thousands Tenge	2016	2015
Materials and raw materials	167,988,284	94,676,720
Depreciation and amortization	619,274	626,021
Payroll and related taxes	936,615	735,585
Inventories	681,388	–
Other	602,168	362,772
Change in finished goods and work in progress	(7,090,876)	(1,219,948)
	163,736,853	95,181,150

18. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands Tenge	2016	2015
Payroll and related taxes	1,622,439	1,512,839
Rent expenses	209,195	188,719
Business trip expenses	137,717	116,594
Depreciation and amortization	106,221	60,590
Professional and consulting services	90,805	130,829
Other services	62,335	42,877
Utilities	43,886	39,534
Taxes other than CIT	31,871	6,871
Communication services	24,884	15,210
Representative expenses	7,094	6,397
Provisions	17,093	–
Other	183,663	135,079
	2,537,203	2,255,539

19. FINANCE INCOME

As at December 31, 2016 short-term bank deposits were placed for various periods, from 3 (three) months to 1 (one) year, depending on urgent needs of the Group in cash. Short-term deposits are placed in second-tier Kazakhstani banks with a weighted average interest rate of 8.4% per annum (for the

year ended December 31, 2015: 10%). Accrued interest on bank deposits for the year ended December 31, 2016 amounted to 2,215,378 thousand Tenge (2015: 1,754,145 thousand Tenge) and was recognized as finance income in the consolidated statement of profit and loss and other comprehensive income.

20. CORPORATE INCOME TAX

As at December 31, 2016 and 2015, the Group is subject to corporate income tax at the official rate of 20%.

In thousands Tenge	2016	2015
Current corporate income tax	(111,062)	(85,379)
Adjustments to current corporate income tax of prior year	(19,677)	(2,749)
Deferred corporate income tax	(67,069)	(31,770)
	(197,808)	(119,898)

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, 2016 and 2015 is presented below:

In thousands Tenge	2016	2015
Profit/(loss) before income tax	37,579,786	(13,903,749)
Statutory tax rate	20%	20%
Corporate income tax expense/(benefits) at the statutory rate	7,515,957	(2,780,750)
Change in unrecognised deferred tax assets	721,244	(489,311)
Share in profit/(loss) of joint ventures and associates	(7,478,190)	3,268,049
Other	(956,819)	(117,886)
Corporate income tax expense	(197,808)	(119,898)

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

In thousands Tenge	2016	Changes recognized in the statement of profit or loss and other comprehensive income	2015	Changes recognized in the statement of profit or loss and other comprehensive income	2014
Deferred corporate income tax assets					
Tax loss carryforward	784,185	136,546	647,639	(519,938)	1,167,577
Capitalized expenses in tax accounting	533,193	533,193	–	–	–
Accrued obligations on due to employees	39,287	25,400	13,887	(5,877)	19,764
Provision for doubtful debts	1,546	1,546	–	–	–
Accrued liabilities under subsoil use contracts	65,684	54,553	11,131	11,102	29
Accrued obligations on audit services	929	–	929	34	895
Taxes recoverable	50,258	1,663	48,595	(10,686)	59,281
Other assets	44,194	(31,657)	75,851	36,054	39,797
	1,519,276	721,244	798,032	(489,311)	1,287,343
Deferred corporate income tax liabilities					
Property, plant and equipment	(67,069)	(35,299)	(31,770)	(31,770)	–
Assessment of Intangible assets at fair value	(10,126,538)	(31,770)	(10,094,768)	–	(8,448,350)
	(10,193,607)	(67,069)	(10,126,538)	(31,770)	(8,448,350)
Less: unrecognised deferred income tax assets	(1,519,276)	(721,244)	(798,032)	489,311	(1,287,343)
Net deferred tax liabilities	(10,193,607)	(67,069)	(10,126,538)	(31,770)	(8,448,350)

Reconciliation of deferred income tax liabilities, net:

In thousands Tenge	2016	2015
As at January 1	10,126,538	8,448,350
Income tax expense for the period recognized as loss	67,069	31,770
Deferred taxes acquired in business combinations (Note 5)	–	1,646,418
As at December 31	10,193,607	10,126,538

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, 2016 unrecognised deferred tax assets were equal to 1,519,276 thousand Tenge (2015: 798,032 thousand

Tenge) and were mainly attributed to the tax loss carried forward for 2016 and 2015, respectively. 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.

21. CONTRACTUAL AND CONTINGENT LIABILITIES

Environment in which 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 2.5. As a result, the amount of fines and penalties may significantly exceed the amount of additionally imposed taxes.

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, 2016, 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, 2016 its interpretation of the relevant legislation is appropriate and it is probable that the Group's tax position will be sustained.

In July and August 2016, an unscheduled customs inspection was carried out for the associated company Kazzinc LLP to check whether the terms of customs procedures are complied. As a result of inspection, the customs duties, taxes and penalties in the amount of USD 20,658 thousand (6,885,064 thousand Tenge*) were assessed for illegally obtaining exemption from customs duties payments and taxes on foreign goods imported for processing. Kazzinc LLP did not agree with the additional charge and sent a complaint regarding the results of the inspection to the Committee of State Revenues of the Ministry of Finance of the Republic of Kazakhstan. At the reporting date, no reply was received from the Committee.

* All amounts in Tenge for associate are provided solely for the convenience of users and are not part of the consolidated financial statements

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 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 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.

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, 2016 the Group's insurance program was in compliance with the main terms of the subsoil use contracts.

Obligations under subsoil use contracts

As at December 31, 2016 the Group has the following obligations under subsoil use contracts:

In thousands Tenge	Settlement of obligations for the year ended December 31, 2016	Obligations under working program			
		2016	2017	2018	2019
Alaigyr deposit	4,447,338	278,662	20,218,000	6,141,000	2,560,000
Spasskaya CMZ deposit	698,191	–	561,880	89,991	–
Tuyuk-Temirlik deposit	2,556,439	–	2,406,802	–	–
Tuyuk deposit	71,754	–	117,867	92,263	919,292
Predgornyi Ketmen deposit	72,495	–	–	–	–
Massalsky deposit	986,826	824,874	17,256,000	17,796,000	3,652,000
Gagarinskoe deposit	610,708	–	371,058	–	–
Severnyi Katpar deposit	294,492	–	313,711	140,755	6,789,227
Shokpar deposit	614,704	–	310,587	–	–
Progress deposit	283,428	691	254,029	204,431	68,937
South-Moiynty area deposit	238,699	10,989	302,018	257,013	256,032
Verhniye Kayrakty deposit	175,210	476,188	201,043	490,349	81,133
Aktas deposit	321,256	293,750	754,633	1,111,494	490,538
	11,371,540	1,885,154	43,067,628	26,323,296	14,817,159

In accordance with the working program under the subsoil use contract for Shalkiya deposit at ShalkiyaZinc LTD JSC has the following contractual obligations:

In thousands Tenge	The term of the working program, years	The minimum volume for the 2016 year	Uncompleted part of the minimum working program as at December 31, 2016	
			The volume to be executed during 2016–2017 years	The volume to be executed during 2016–2017 years
The subsoil use Contract				
Shalkiya deposit	2002–2047	12,143,119	6,208,871	1,021,655,048

21. CONTRACTUAL AND CONTINGENT LIABILITIES (continued)

Obligations under subsoil use contracts (continued)

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 of 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.

Operating lease agreements

As at December 31, 2016 and 2015 the Group has no non-cancellable operating lease agreements.

Investment related agreements

As at December 31, 2016 and 2015 the Group has no investment related agreements.

22. FINANCIAL INSTRUMENTS, FINANCIAL RISK MANAGEMENT

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 risk

Interest rate 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 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, 2016						
Accounts payable	-	4,404,066	-	-	-	4,404,066
Loans received from the Shareholder	-	-	-	-	7,889,377	7,889,377
Accounts payable for acquisition of subsidiary	-	-	-	1,383,300	6,916,500	8,299,800
	-	4,404,066	-	1,383,300	14,805,877	20,593,243

In thousands 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, 2015						
Accounts payable	-	4,998,020	-	-	-	4,998,020
Loans received from the Shareholder	-	-	-	-	7,889,377	7,889,377
Accounts payable for acquisition of subsidiary	-	-	-	1,383,300	6,916,500	8,299,800
	-	4,998,020	-	1,383,300	14,805,877	21,187,197

Credit risk

The Group is exposed to credit risk related to financial assets, which include accounts receivable, 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 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, 2016 and 2015 is as follows:

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.

In thousands Tenge	Liabilities		Assets	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
US Dollar	(22,352)	(247,065)	6,033,512	8,148,889
Euro	(3,090)	(11,926)	883,309	119,241
	(25,442)	(258,991)	6,916,821	8,268,130

The table below represents detailed information of the possible impact of increase and decrease in exchange rate of Tenge by 13% – 15% for 2016 and 60% for 2015 in comparison to the respective currencies. The sensitivity level of 13% – 15% 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 13% – 15% 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 Tenge	Percentage of the ratio of Tenge to the corresponding currency		Effect on profit			
	2016	2015	Liabilities		Assets	
			2016	2015	2016	2015
US Dollar	13%	60%	(2,906)	(148,239)	784,357	4,889,333
Euro	15%	60%	(464)	(7,156)	132,496	71,545
			(3,370)	(155,395)	916,853	4,960,878

22. FINANCIAL INSTRUMENTS, FINANCIAL RISK MANAGEMENT (continued)

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, 2016 and December 31, 2015 the current value of financial assets and liabilities is approximately equal to their fair value.

- 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.

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;

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, 2016 and December 31, 2015 as follows:

Fair value estimation of as at December 31, 2016					
In thousands Tenge	Date of measurement	Level 1	Level 2	Level 3	Total
Assets, which fair value is disclosed					
Cash and cash equivalents	31.12.2016	17,389,910		-	17,389,910
Short-term bank deposits	31.12.2016	-	2,759,054	-	2,759,054
Accounts receivable	31.12.2016	-	2,394,484	-	2,394,484
Total fair value		17,389,910	5,153,538	-	22,543,448
Liabilities, which fair value is disclosed					
Accounts payable	31.12.2016		4,404,066	-	4,404,066
Loans received from the Shareholder	31.12.2016	-	2,898,365	-	2,898,365
Accounts payable for acquisition of subsidiary	31.12.2016	-	5,057,154	-	5,057,154
Total fair value		-	12,359,585	-	12,359,585
Fair value estimation of as at December 31, 2015					
In thousands Tenge	Date of measurement	Level 1	Level 2	Level 3	Total
Assets, which fair value is disclosed					
Cash and cash equivalents	31.12.2015	14,201,847	-	-	14,201,847
Short-term bank deposits	31.12.2015	-	2,082,088	-	2,082,088
Accounts receivable	31.12.2015	-	3,626,221	-	3,626,221
Total fair value		14,201,847	5,708,309	-	19,910,156
Liabilities, which fair value is disclosed					
Accounts payable	31.12.2015	-	4,998,020	-	4,998,020
Loans received from the Shareholder	31.12.2015	-	2,707,686	-	2,707,686
Accounts payable for acquisition of subsidiary	31.12.2015	-	4,719,995	-	4,719,995
Total fair value		-	12,425,701	-	12,425,701

During 2016 and 2015 there were no transfers between Levels 1, 2 and 3.

Capital management

The Group manages its capital in order to continue as a going concern together with maximization of revenue 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 Tenge	December 31, 2016	December 31, 2015
Interest-bearing loans and borrowings	7,955,519	7,427,681
Equity	550,156,623	503,606,782
Debt to equity coefficient	1.45	1.47

23. 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, 2016 and December 31, 2015 related party balances were presented as follows:

Accounts receivable

In thousands Tenge	Note	December 31, 2016	December 31, 2015
Entities related with the Government:			
The National Bank of the Republic of Kazakhstan	12	1,107,040	2,923,454
		1,107,040	2,923,454

Accounts payable

In thousands Tenge	Note	December 31, 2016	December 31, 2015
Entities related with Samruk-Kazyna:			
KazMunayGas JSC		18,615	15,477
Kazakhtelecom JSC		1,914	1,588
Kazpost JSC		548	471
Samruk-Kazyna Contract JSC		541	785
NAC Kazatomprom JSC		300	218
Associates of the Group:			
Kazzinc LLP		-	2,497,880
Entities related with the Government:			
The National Bank of the Republic of Kazakhstan		3,029,345	-
	15	3,051,263	2,516,419

23. RELATED PARTY TRANSACTIONS *(continued)*

Advances paid

In thousands Tenge	December 31, 2016	December 31, 2015
Entities related with Samruk-Kazyna:		
Samruk-Energy JSC	40,155	61,595
KEGOC JSC	5,717	9,136
Kazakhstan Temir Zholy JSC	1,335	2,180
Air Astana JSC	1,139	–
Samruk-Kazyna Contract JSC	142	142
Kazpost JSC	50	34
Kazakhtelecom JSC	5	–
	48,543	73,087

Transactions with related parties for the year ended December 31, 2016 and 2015 are as follows:

Purchases

In thousands Tenge	2016	2015
Entities related with Samruk-Kazyna:		
Samruk-Energy JSC	2,114,014	979,944
KEGOC JSC	654,163	330,715
KazMunayGas JSC	290,645	206,585
Kazakhstan Temir Zholy JSC	61,594	24,983
Samruk-Kazyna Contract JSC	39,508	21,667
Kazakhtelecom JSC	19,646	16,693
Kazpost JSC	19,457	20,780
Air Astana JSC	9,456	–
Kazakhstan Engineering JSC	1,145	–
NAC Kazatomprom JSC	871	2,059
Associates of the Group:		
Kazzinc LLP	31,657	45,830,870
	3,242,156	47,434,296

Sales to related parties

In thousands Tenge	2016	2015
Entities related with the Government:		
The National Bank of the Republic of Kazakhstan	153,807,752	92,200,032
Kazgeology JSC	–	12,880
Associates of the Group:		
Kazzinc LLP	1,068,449	–
	154,876,201	92,212,912

Compensation to key management personnel

The key management personnel as at December 31, 2016 consists of two independent directors, the chairman of the management board, the managing director for economics, the production managing director, the managing director for the strategy and business transformation, the managing director for investments, the managing director for project implementation,

chief financial officer and chief geologist together in total consist of 10 people (as at December 31, 2015: 7 people, including two independent directors). For the year ended December 31, 2016, 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 119,787 thousand Tenge (for the year ended December 31, 2015: 106,499 thousand Tenge).

24. EVENTS AFTER THE REPORTING PERIOD

Based on the decision of the Board of Directors of the Company dated February 10, 2017 (Minutes # 01/17), the increase in the loan amount under the loan agreement with Kazzinc LLP dated

21 September 2016, an associate, in favor of the Company was approved from 90,000 thousand US Dollar to 180,000 thousand US Dollar.

25. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements were approved for issuance by the chief financial officer and chief accountant of the Group on February 27, 2017.

Appendix No.3. Table of GRI Content Index

Index of content of the general standard GRI G4 disclosures in the report

General Standard Disclosures	Page	External Assurance
STRATEGY AND ANALYSIS		
G4-1	6	–
COMPANY'S PROFILE		
G4-3	9	–
G4-4	9	–
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G4-7	9	–
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G4-10	85	–
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G4-13	25	–
G4-14	71	–
G4-15	80	–
G4-16	75	–
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES		
G4-17	36, 82	–
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G4-19	4	–
G4-20	4	–
G4-21	4	–
G4-22	-	Consequences of revision of all indices published in the previous reports not applied
G4-23	2	–
STAKEHOLDER ENGAGEMENT		
G4-24	80	–
G4-25	80	–
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G4-27	81	–
REPORT PROFILE		
G4-28	2	–
G4-29	2	–
G4-30	2	–
G4-31	107	–

General Standard Disclosures	Page	External Assurance
G4-32	4, 104	–
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CORPORATE MANAGEMENT		
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ETHICS AND INTEGRITY		
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Index of content of the specific standard disclosures of GRI G4 in the report

Material Aspects	DMA and Indicators	Page	External Assurance
ECONOMY			
Aspect: economic performance efficiency			
G4-DMA	Disclosures on management approach	80	–
G4-EC1	Direct economic value generated and distributed	81	–
G4-EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	82	–
Aspect: Presence in the market			
G4-DMA	Disclosures on management approach	86	–
G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	86	–
ENVIRONMENTAL			
Aspect: Materials			
G4-DMA	Disclosures on management approach	83	–
G4-EN1	Materials used by weight or volume	84	–
G4-EN2	Percentage of materials used that are recycled input materials	84	–
Aspect: Emissions			
G4-DMA	Disclosures on management approach	83	–
G4-EN16	Energy indirect greenhouse gas (GHG) emissions (scope 2)	84	–
Aspect: Compliance			
G4-DMA	Disclosures on management approach	83	–
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	83	–
SOCIAL: LABOR PRACTICES AND DECENT WORK			
Aspect: Employment			
G4-DMA	Disclosures on management approach	85	–
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	86	–
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	87	–
G4-LA3	Return to work and retention rates after parental leave, by gender	87	–

Material Aspects	DMA and Indicators	Page	External Assurance
Aspect: Labor/Management Relations			
G4-DMA	Disclosures on management approach	87	–
G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements.	88	–
Aspect: Occupational Health and Safety			
G4-DMA	Disclosures on management approach	87	–
G4-LA5	Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programs	87	–
G4-LA7	Workers with high incidence or high risk of diseases related to their occupation	87	–
Aspect: Training and Education			
G4-DMA	Disclosures on management approach	88	–
G4-LA9	Average hours of training per year per employee by gender, and by employee category	88	–
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	88	–
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	88	–
SOCIAL: Society			
Aspect: Anti-corruption			
G4-DMA	Disclosures on management approach	72	–
G4-S03	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	72	–
G4-S05	Confirmed incidents of corruption and actions taken	72	–
Aspect: Public Policy			
G4-DMA	Disclosures on management approach	This parameter is not applicable to the Company	
G4-S06	Total value of political contributions by country and recipient/beneficiary		

Contact Information



Detailed information on the last events and activity of the Company is published on our web-site: www.tks.kz

The latest information on Tau-Ken Samruk NMC JSC as well as detailed information for investors and mass-media is posted on our corporate web-site.

WWW.TKS.KZ

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Registrar

Integrated Securities Registrar JSC (Certificate of Shareholders Register No.225 dated January 1, 2014).

