Fincraft Resources JSC

International Financial Reporting Standards

Consolidated Financial Statements
Independent Auditor's Report

31 December 2018

Content

Director
IAC Centeraudit – Kazakhstan LLP
(State Audit License MFU No.0000017
dated 27 December 1999)
_______________ V.V. Radostovets
30 April 2019

To Shareholders and the Board of Directors of Fincraft Resources JSC

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the financial statements of Fincraft Resources JSC and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit and 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 financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Material uncertainty as to a going concern

We draw your attention to Note 4 to the consolidated financial statements, which states that as at 31 December 2018, some of the Group's subsidiaries suspended exploration and evaluation activities and that the Group's significant assets were realized in 2018. The Group's uncovered loss as at 31 December 2018 made up 11,007,228 thousand Tenge (31 December 2017 – 18,758,326 thousand Tenge).

These conditions, along with other aspects as set forth in Note 4, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Note 4 to the consolidated financial statements provides an explanation as to how management made a judgment that the use of going concern principle is an acceptable basis for the preparation of the consolidated financial statements. Based on the analysis, the Group's management concluded that the range of possible consequences considered in forming such judgment does not give rise to a material uncertainty as to the Group's ability to continue as a going concern.

Given that this management's estimation is based on circumstances, some of which are not controlled by the Group, there is a risk that the judgment may not be justified.

During the audit procedures, special attention was paid to examining the validity of main assumptions regarding the Group's ability to continue as a going concern. Herewith, production indicators for previous periods, market data and other information from external sources were used. We reviewed the terms of the Group's credit lines focusing on the requirements that can make these credit lines inaccessible throughout the period until 31 December 2019.

In addition, and in order to ensure that this issue has been considered with due attention by management, we requested and received written assurances from management that the possibility of obtaining additional financing and / or, if necessary, restructuring of existing borrowings, is very likely.

We concluded that the Group's going concern assessment and applied underlying assumptions are reasonable. We determined that management's intentions, in case of additional financing and / or restructuring of existing borrowings, are attainable, and therefore the Group's judgment on the absence of material uncertainties to be disclosed is reasonable, and the disclosure in Note 4 to the financial statements is fair.

Key audit matters

In addition to the matter set forth in the section "Material uncertainty with as to a going concern", we have identified the following matters as key audit items to be addressed in our consolidated financial statements. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

Related parties transactions (Note 5)

Risk

The Group carries out a significant amount of related party transactions. The nature and conditions of related party transactions can have a significant effect on the consolidated financial statements.

Scope of audit procedures corresponds to the risk exposure

We examined the list of the Group's related parties. Using the resources available, we checked this list for completeness of presentation. For each of the related parties known we thoroughly examined the nature of transactions and the terms of contracts under which such transactions were conducted. For each significant related party transaction, we verified the existence of written agreements and authorizations for such transactions.

We checked the reliability and consistency of application of the Group's accounting policies with regard to disclosure of related party transactions. We compared information disclosed in the consolidated financial statements regarding related parties to accounts for such transactions.

As a result of our efforts, we have not identified any variances or misstatements relating to accuracy and timely recording of related party transactions and disclosures made with respect to such transactions.

Other information

Management is responsible for other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon. We assume that the annual report will be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do 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 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, during the annual report review, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with corporate governance.

Responsibilities of the Group's management for the consolidated financial statements

Management of the Group 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 misstatement, 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.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material id 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 regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for the auditor's opinion.

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

We also provide those charged with corporate governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Шмидт Ольга Иосифовна
0307
Қазақстан Республикасының Аудиторы

Auditor
(Auditor's Qualification Certificate No. 307, issued on 23 December 1996)

O. I. Shmidt

19, 1 B, Al-Farabi Avenue,
Nurly Tau, Off. 301, 302,
Almaty, Republic of Kazakhstan.

Translated from the Russian original

Fincraft Resources JSC
Consolidated statement of financial position

In thousands of Tenge	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	6	35,966	8,399,020
Exploration and evaluation assets	7	-	-
Investment property	8	-	1,281,941
Intangible assets	9	84	147
Investments to joint ventures and associates	10	-	-
Accounts receivable		4,161,576	-
Deferred tax assets	28	182,298	527,405
Other non-current assets	12	30,433,116	562,586
Total non-current assets		**34,813,040**	**10,771,099**
Current assets			
Inventories	13	14,445	1,948,451
Accounts receivable	14	14,157,692	48,814,130
Other current assets	15	156,821	683,570
Cash and cash equivalents	16	30,770	131,976
Available-for-sale non-current assets	6	345,852	-
Total current assets		**14,705,580**	**51,578,127**
TOTAL ASSETS		**49,518,620**	**62,349,226**
EQUITY			
Share capital	18	29,781,529	27,867,529
Treasury stock	18	(618,111)	(618,111)
Currency translation reserve		(624,475)	(1,102,600)
Other provisions		-	145,880
Additional contributions of shareholders		-	4,608,546
Uncovered loss		(11,007,228)	(18,758,326)
Equity payable to shareholders of the Group		**17,531,715**	**12,142,918**
Non-controlling interest		(69,807)	(1,261,031)
TOTAL EQUITY		**17,461,908**	**10,881,887**
LIABILITIES			
Non-current liabilities			
Provision for field restoration	19	20,619	102,158
Borrowings	20	16,433,351	26,970,351
Deferred income tax liabilities	28	-	128,389
Other non-current liabilities	21	3,718,096	5,394,209
Total non-current liabilities		**20,172,066**	**32,595,107**
Current liabilities			
Borrowings	20	1,221,637	6,189,771
Accounts payables	22	10,663,009	12,682,461
Total current liabilities		**11,884,646**	**18,872,232**
TOTAL LIABILITIES		**32,056,712**	**51,467,339**
TOTAL LIABILITIES AND EQUITY		**49,518,620**	**62,349,226**
Carrying amount of ordinary share, Tenge	18	**0.70**	**1.95**
Carrying amount of preferred share, Tenge	18	**31.53**	**31.53**

Signed on behalf of the Management on 30 April 2019

Қазақстан Республикасы Алматы қаласы АКЦИОНЕРЛІК ҚОҒАМЫ FINCRAFT RESOURCES АКЦИОНЕРНОЕ ОБЩЕСТВО Республика Казахстан город Алматы

Yerlan Sapargaliyevich Idrissov
Chairman of the Management Board

Nadezhda Ivanovna Sharabok
Chief Accountant

Notes on pages 5-66 are an integral part of these consolidated financial statements
Translated from the Russian original

Fincraft Resources JSC
Consolidated statement of profit and loss and other comprehensive income

In thousands of Tenge	Note	2018	2017*
Continuing operations			
Other operating income (net)	23	273,710	706,872
General and administrative expenses	24	1,339,166	(1,192,989)
Other operating expenses (net)	25	(607,004)	(7,421)
Operating income (loss)		**1,005,872**	**(493,538)**
Finance income	26	13,402	8,397
Finance costs	27	(1,764,011)	(1,953,748)
Share in joint ventures' losses	11	(29)	-
Profit (loss) before tax		**(744,766)**	**(2,438,889)**
Income tax recovery (expenses)	28	132,081	340,173
Profit (loss) for the year from continuing operations		**(612,685)**	**(2,098,716)**
Discontinued operations			
Profit / (loss) for the year from discontinued operations	29	5,508,167	2,765,784
Profit (loss) for the year		**4,895,482**	**667,068**
Other comprehensive income (loss)			
Foreign exchange gain (loss) in presentation currency		478,125	11,280
Total comprehensive income for the year		**5,373,607**	**678,348**
Profit (loss) attributable to:			
Shareholders of the Group		4,893,088	678,788
Non-controlling shareholders		2,394	(11,720)
Profit for the year		**4,895,482**	**667,068**
Total comprehensive income (loss) attributable to:			
Shareholders of the Group		5,371,213	690,068
Non-controlling shareholders		2,394	(11,720)
Total comprehensive income for the year		**5,373,607**	**678,348**
Profit /(loss) per share attributable to Shareholders of the Group, basic and diluted (in Tenge per share)			
Ordinary shares		0.68	0.41
Preferred shares		0.37	0.41
Continuing operations-based profit /(loss)			
Ordinary shares	30	(0.08)	(1.29)
Preferred shares	30	(0.05)	(1.29)
Discontinued operations-based profit /(loss)			
Ordinary shares	30	0.76	1.70
Preferred shares	30	0.42	1.70

* Some amounts presented in this column are inconsistent with consolidated financial statements for 2017 because they reflect the adjustments made associated with discontinued operations, the details of which are disclosed in Note 29 to these financial statements.

Signed on behalf of the Management on 30 April 2019

Yerlan Sapargaliyevich Idrissov
Chairman of the Management Board

Республикасы Алматы қаласы * Казақстан
АКЦИОНЕРЛІК ҚОҒАМЫ
FINCRAFT RESOURCES
АКЦИОНЕРНОЕ ОБЩЕСТВО
ЖСН/БИН 060840005025
Республика Казахстан город Алматы

Nadezhda Ivanovna Sharabok
Chief Accountant

In thousands of Tenge	Note	Share capital	Treasury stock	Currency translation reserve	Other reserves	Uncovered loss	Additional contributions of shareholdes	Total	Non-controlling interest	Total
		Attributable to the Shareholders of Group								
Balance at 1 January 2017		**27,867,529**	**(618,111)**	**(1,510,779)**	**145,880**	**(19,891,952)**	**-**	**5,992,567**	**(1,673,182)**	**4,319,385**
Profit for the year		-	-	-	-	678,788	-	678,788	(11,720)	667,068
Other comprehensive income		-	-	11,280	-	-	-	11,280	-	11,280
Total comprehensive income for the year		-	-	11,280	-	678,788	-	690,068	(11,720)	678,348
Other contributions of shareholders	18	-	-		-	-	4,608,546	4,608,546	-	4,608,546
Other (purchase /disposal of subsidiaries)	29	-	-	396,899	-	454,838	-	851,737	423,871	1,275,608
Balance at 31 December 2017		**27,867,529**	**(618,111)**	**(1,102,600)**	**145,880**	**(18,758,326)**	**4,608,546**	**12,142,918**	**(1,261,031)**	**10,881,887**
Profit for the year		-	-	-	-	4,893,088	-	4,893,088	2,394	4,895,482
Other comprehensive income		-	-	478,125	-	-	-	478,125	-	478,125
Total comprehensive income for the year		-	-	478,125	-	4,893,088	-	5,371,213	2,394	5,373,607
Issue of shares		1.914,0000	-	-	-	-	-	1.914,0000	-	1,914,000
Change of equity interest		-	-	-	-	(1,183,513)	-	(1,183,513)	1,188,830	5,317
Other contributions of shareholders		-	-	-	-	(714,432)	-	(714,432)	-	(714,432)
Other (disposal of subsidiaries)		-	-	-	(145,880)	4,755,955	(4,608,546)	1,529	-	1,529
Balance at 31 December 2018		**29,781,529**	**(618,111)**	**(624,475)**	**-**	**(11,007,228)**	**-**	**17,531,715**	**(69,807)**	**17,461,908**

Signed on behalf of the Management on 30 April 2019

Yerlan Sapargaliyevich Idrissov
Chairman of the Management Board

Nadezhda Ivanovna Sharabok
Chief Accountant

Fincraft Resources JSC
Consolidated statement of cash flows

In thousands of Tenge	Note	2018	2017
Cash flows from operating activities			
Cash inflow:			
Sale of goods and rendering of services		5,469,991	26,665,733
Advances received from buyers, customers		65,784	1,508,862
Other additions		3,500,529	1,685,813
Cash outflow:			
Payments to suppliers for goods and services		(9,566,167)	(9,338,123)
Refund of advances		-	(1,191,573)
Advances paid to suppliers for goods and services		(751,611)	(5,302,456)
Payroll payments		(488,571)	(1,895,949)
Payment of interest on loans and bonds		(8,469,884)	(4,697,006)
Corporate income tax and other payments to budget		(382,590)	(1,365,535)
Other disposals		(1,380,066)	(3,723,838)
Net cash flows received from / (used in) operating activities - continuing operations		**(3,863,389)**	**575,081**
Net cash flows received from / (used in) operating activities - discontinued operations		**(8,139,196)**	**1,770,847**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(5,305)	(225,566)
Proceeds from sale of property, plant and equipment		1,077,393	6,506
Advances paid against sale of property, plant and equipment		407,045	-
Payments against other non-current assets		(299,599)	-
Proceeds from sale of subsidiaries less disposed cash	29	1,533,536	4,963,711
Sale of investments		1,000	41
Purchase of investments to subsidiaries from non-controlling shareholders		-	-
Advances paid against purchase of investments		(26,640,983)	-
Proceeds during restructuring		-	229,840
Repayment of loans extended to other companies		27,091,410	5,187,506
Loans extended		(598,992)	(2,559,437)
Cash transfer from deposits		-	-
Transfer to restricted withdrawal cash		-	(1,909)
Other disposals		(601)	(239,179)
Net cash flows received from / (used in) investing activities – continuing operations		**2,564,904**	**7,784,027**
Net cash flows received from / (used in) investing activities - discontinued operations		**-**	**(422,514)**
Cash flows from financing activities			
Shares issue		1,914,000	-
Minority interest contribution to share capital of subsidiaries		14,219	-
Addition of subsidies from DAMU		-	-
Addition of loans and borrowings		9,517,188	3,515,621
Repayments of loans and borrowings		(2,108,937)	(13,908,213)
Other additions		-	791,712
Other disposals		-	(115,058)
Net cash flows received from / (used in) financing activities - continuing operations		**9,336,470**	**(8,293,943)**
Net cash flows received from / (used in) financing activities - discontinued operations		**-**	**(1,421,995)**
Net cash increase (decrease) - continuing operations		**8,037,985**	**65,165**
Net cash increase (decrease) - discontinued operations		**(8,139,196)**	**(73,662)**
Effect of exchange rates against Tenge		**5**	**9,220**
Cash and cash equivalents at the beginning of the year continuing operations	16	131,976	131,253
Cash and cash equivalents at the beginning of the year discontinued operations		-	-
Cash and cash equivalents at the end of the year from discontinued operations	**16**	**30,770**	**131,976**

Significant non-monetary transactions are disclosed in Note 5

Signed on behalf of the Management on 30 April 2019

Yerlan Sapargaliyevich Idrissov
Chairman of the Management Board

Nadezhda Ivanovna Sharabok
Chief Accountant

1 Group and its operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) for the year ended 31 December 2018 to Fincraft Resources JSC (the Company) and its subsidiaries (collectively, the Group).

Corporate background

The Company was incorporated on 18 October 2001 in the form of Limited Liability Partnership, and on 15 August 2006 was re-registered into the Joint Stock Company and namely, SAT & Company JSC in accordance with the legislation of the Republic of Kazakhstan. On 26 September 2018, the Company was re-registered for the second time due to renaming from SAT & Company JSC into Fincraft Resources JSC.

The Company's ordinary and preferred shares and coupon bonds are listed in the Kazakhstan Stock Exchange ("KASE"). As at 31 December 2018, the Company's ordinary and preferred shares are included in the list of shares of a “standard” category, coupon bonds are included in the list of debt securities of the KASE “bonds” category.

Shareholders of the Company

As at 31 December 2018 and 2017 shareholders of the Company (holders of ordinary shares) were represented as follows:

	31 December 2018	31 December 2017
Mr. Kenes Khamituly Rakishev	97.85%	77.72%
Unified Accumulative Pension Fund JSC	1.67%	17.30%
Other	0.48%	4.98%
Total	100.00%	100.00%

The ultimate controlling party of the Company is Mr. Kenes Rakishev.

Main subsidiaries of the Company

The following list represents the Group's subsidiaries and the amount of the Company's direct or indirect interest in their equity in percentage terms:

Shalkiya Zinc N.V. (Shalkiya Zinc NV) (100%): the Company incorporated in the Netherlands and is a holding company. In 2018 business operations of Shalkiya Zinc NV was associated with review of new investment projects.

Trading House CAT LLC (TH SAT) (100%): the Company was registered in the Russian Federation in 2011, core activities of which were a sale of products of metallurgical companies within the territory of the Russian Federation and near-abroad countries. In 2013 the Group decided to suspend business operations of TH SAT. In 2018 TH SAT ceased its activities, and was excluded from the Integrated State Register of Legal Entities.

Ferronickel Plant Ertis LLP (FNP Ertis) (93.43%): the Company was registered in the Republic of Kazakhstan, core activities of which are development of the Project for Processing of Cobalt-Nickel Ores of Gornostayevskoye field. As at 31 December 2017, the share of participation was 51%; in 2018 the Group increased its share to 93.43% through additional contributions to the equity of FNP Ertis. FNP Ertis owns 100% of Kaznickel LLP’s share capital.

*Kaznickel LLP (Kaznickel) (*93.43%): the Company was registered in the Republic of Kazakhstan engaged in exploration of cobalt-nickel ores of Gornostayevskoye field located at the East Kazakhstan oblast. In 2017, the exploration period was extended for two years. In 2018 a share of the Group's participation was increased from 51 % to 93.43% by additional contributions to the equity of FNP Ertis.

Central Asian Investment Consulting Company LLP (CAICC) (99.91%): the Company was registered in the Republic of Kazakhstan and being a holding company, which in its turn, owned:

Temirtau Electrometallurgical Plant JSC (TEMP): the Company was incorporated in the Republic of Kazakhstan. TEMP’s core activities are the mining of manganese ore at Bogach and Esimal fields, extraction of limestone at the South-Topar field, and the production of calcium carbide and ferroalloy products for metallurgy industry on the basis of chemical-metallurgical plant located in Temirtau, Karaganda oblast. The Group sold a 100% stake in 2017 (Note 29).

1 Group and its activities (continued)

Taraz Metallurgical Plant LLP (TMP) (99.91%): the Company was registered in the Republic of Kazakhstan core activities of which are production of ferroalloy production for metallurgical sector on the basis of the metallurgical plant located in Taraz of the Zhambyl oblast.

On 8 December 2016, CAICC adopted a decision on TMP restructuring in terms of merging of the Company thereto under joint control of SAT Engineering LLP, as well as purchased KazFerro LLP, KazUglerod LLP in 2017. Re-registration was made in February 2017 (Note 17).

The Group realized a 100% participating interest in TMP in 2018 (Note 29).

Arman 100 LLP (Arman 100) (99.91%): the Company was registered in the Republic of Kazakhstan and is mining manganese ores at the West Kamys field, in the Karaganda oblast. The Group realized a 100% participating interest in 2017 (Note 29).

Saryarka Mining LLP (Saryarka Mining) (80%): the Company was incorporated in the Republic of Kazakhstan, which carried out activities of exploration and subsequent extraction of ferromanganese ores at Tuyebay-Syurtysu area in the Karaganda oblast. In 2012, the Group's management decided to suspend the activities of Saryarka Mining for the near future, therefore, the exploration and evaluation activities in 2013-2017 were not carried out. In January 2018, the Subsoil Use Contract was terminated at the initiative of the Ministry of Investment and Development of the Republic of Kazakhstan (MID). In 2018, the Group purchased a 20% participating interest, and as at 31 December 2018 it holds a 100% participating interest.

Karuan LLP (KARUAN) (100%): a subsidiary company was registered in the Republic of Kazakhstan and is carrying out activities for exploration of manganese ores of Aitkokshe field at the Mangistau oblast. In 2012, the Group decided to discontinue operations of KARUAN. The Company's exploration and evaluation activities were completely discontinued during 2012.

Aktau Bitumen LLP (Aktau Bitumen LLP) (100%): a subsidiary was registered in the Republic of Kazakhstan. In 2018, Aktau Bitumen LLP signed an Agreement on the acquisition of rights and property for the exploration and production of gypsum.

Other enterprises: various companies that do not enter into significant transactions and are not important for the Group as a whole.

Unless otherwise stated, the Group had the same ownership interest in the above companies as at 31 December 2017.

Subsoil Use Contracts

The Group operates under the following subsoil use contracts in the Republic of Kazakhstan (as at 31 December 2018):

Contractual territory	Current phase	Mineral raw materials	Date of conclusion	Date of the contract expiration	Company	Share participation
Gornostayevskoye field [1]	exploration	Nickel	26 February 2004	26 February 2026	Kaznickel	93.43%
Tuyebay-Syurtysu area[2]						

[1] On 26 Dec 2017 the exploration period at Gornostayevskoye field was expired. The Group appealed to MID with a request to extend the exploration period and transit to the evaluation phase for a 2-year period of commercial discovery. MID has decided to extend the period of field geological exploration and evaluation of commercial discovery for two years from the date of signing Addendum No. 8 (Addendum No. 8 to Contract No. 1349 dated 07 November 2017).
[2] According to MID's letter No. 27-10-3-232 dated 23 January 2018 the validity of subsoil use contract for Tuyebay-Syurtysu area was unilaterally terminated by MID's order No. 301 dated 26 May 2017.

The Company's registered address

The Company's head office address is as follows: 242, Nursultan Nazarbayev Avenue, Medeu district, Almaty, the Republic of Kazakhstan.

2 Basis of preparation and Summary of significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (the IASB), based on a historical cost basis, except for financial instruments that have been initially measured at fair value. Accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied to all periods presented, unless otherwise specified.

The preparation of the financial statements under IFRSs requires management to make estimates and assumptions. It also requires management to exercise judgements in applying the Group's accounting policies. The areas of higher judgement or complexity, or where assumptions and estimates have a significant impact on the financial statements, are disclosed in Note 4. Actual results could differ from those estimates.

Going concern principle

These consolidated financial statements have been prepared by the Management on a going concern basis. Information on uncertainties relating to events and conditions that may cast significant doubt on the Company's ability to continue as a going concern is disclosed in Note 4.

Consolidated financial statements

(i) Subsidiaries

A company is classified by the Group as a subsidiary if the Group has control over the Company.

The control is exercised in case that the Group is entitled to a variable return on investment or subject to a risk associated with its change and may have an impact on this return due to its powers over an investee. Specifically, the Group controls an investee if, and only if, the following conditions are met:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

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

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

2 Basis of preparation and Summary of significant accounting policies (continued)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary, the Group:

- derecognises the related assets and liabilities of subsidiary (including related business reputation);
- derecognises carrying amounts of non-controlling interests;
- derecognises the cumulative translation differences recorded in equity;
- recognizes the fair value of the consideration received;
- recognizes the fair value of the remaining investment;
- recognizes the surplus or deficit in profit or loss resulting from the transaction;
- reclassifies the parent's share in components previously recognised as a part of other comprehensive income, profit or loss or retained earnings in accordance with IFRSs specific requirements as if the Group would have directly disposed the relevant assets or liabilities.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

The financial statements of subsidiaries are prepared for the same reporting period as the financial statements of the parent company based on the consistent application of accounting policies for all companies of the Group. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Acquisition by the Group of subsidiaries other than those acquired from parties under joint control is accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree.

The Group estimates the non-controlling interest, which is the current ownership interest and entitles the holder to a proportionate share of the net assets in the event of liquidation, individually for each transaction under (a) fair value or (b) at the proportionate share of the acquiree's identifiable net assets falling to its non-controlling shareholders. A non-controlling interest that is not a current ownership interest is measured at fair value.

Goodwill is measured by deducting net assets of the acquired company from the total consideration paid for the acquired company, the non-controlling interest in the acquired company and the fair value of the share in the acquired company that was already owned prior to the acquisition. Any negative amount ("negative goodwill") is recognised in profit or loss after management determines once again whether all assets acquired and all liabilities and contingent liabilities assumed have been identified and assesses whether they have been correctly measured.

The consideration paid for the acquired company is measured at the fair value of the transferred assets, issued equity instruments and liabilities assumed or incurred, including the fair value of the assets or liabilities related to the payment of contingent consideration, but excluding costs associated with the acquisition, such as consulting, legal, valuation and other similar professional services. The costs of the acquisition transaction incurred in issuing the equity instruments are deducted from the amount of equity, the costs of the acquisition transaction incurred in issuing the debt liabilities under the business combination are deducted from their carrying amount, and all other transaction costs associated with the acquisition are expensed.

A non-controlling interest is a portion of the net results of operations and equity of a subsidiary that is attributable to a share not directly or indirectly owned by the Company. The non-controlling interest forms a separate component of the Group's equity.

2 Basis of preparation and Summary of significant accounting policies (continued)

(ii) Acquisition of subsidiaries from entities under joint control

The acquisition of subsidiaries from entities under joint control is accounted for using the predecessor (transferor) valuation method. Under this method, the consolidated financial statements of the combined company are presented as if the business combination had occurred at the beginning of the earliest period reported or, if later, at the date when the acquired companies first came under joint control. Assets and liabilities of a subsidiary transferred between entities under joint control are stated at the carrying amount recorded in the financial statements of the transferring party.

The predecessor company is considered to be the reporting company of the highest level at which the financial information of the subsidiary prepared in accordance with IFRSs has been consolidated. Goodwill arising from the initial acquisition of the company by the transferor is also included in these consolidated financial statements. The difference between the carrying amount of net assets, including the transferring party's goodwill, and the consideration paid is reflected in these consolidated financial statements as an adjustment to other provisions in equity.

(iii) Acquisition and sales of non-controlling interests

The Group uses an economic unit model to account for transactions with non-controlling interest holders. The difference between the consideration paid for the acquisition of a non-controlling interest and its carrying amount is recorded as an equity transaction directly in equity accounts. The Group recognizes the difference between the consideration received for the sale of a non-controlling interest and its carrying amount as the equity transaction in the statement of changes in equity.

(iv) Disposal of subsidiaries

When the Group loses control, the remaining interest in the company is revalued at fair value and changes in carrying amount are recognised in profit or loss. Fair value is an original carrying amount for the purpose to further account for a continuing interest in an associate, joint venture or financial asset. In addition, all amounts previously recognised in other comprehensive income in respect of the company are recorded as if the Group would have directly sold the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are carried forward into profit or loss.

Foreign currency translation

(i) Functional and presentation currency of these financial statements

All quantitative data presented in these consolidated financial statements are expressed in thousands of Tenge except where otherwise indicated.

The functional currency of each consolidated company of the Group is the currency of the prevailing economic environment in which the company operates. The functional currency of the Company and its subsidiaries, excluding Shalkiya Zinc N. V. and TH CAT is Tenge. The functional currencies of Shalkiya Zinc N. V. and TH CAT are US dollar and Russian rouble respectively.

Loans issued and borrowings received between companies within the Group and the resulting exchange rate gains and losses are excluded from consolidation. However, in cases when the issuance and receipt of loan between Group companies with different functional currency, exchange rate gains and losses cannot be excluded completely and are recognised in the consolidated profit or loss, except when it is not expected that the loan will be repaid in the foreseeable future and therefore forms a part of the net investment in foreign operations. In this case, exchange rate gains and losses are recognised as a part of other comprehensive income.

2 Basis of preparation and Summary of significant accounting policies (continued)

The results and items of the statement of financial position of each company of the Group, the functional currency of which is not the presentation currency, are restated as follows:

- assets and liabilities of each statement of financial position are translated at the exchange rate at the end of the respective reporting period;
- gains and losses are translated at the average rate of the relevant period (unless the average rate is an approximate value of the total effect of the rates valid at the dates of the transactions; in this case, gains and losses are translated at the rate as at the date of the transactions);
- components of equity are translated at the initial rate; and
- foreign exchange differences resulting from translation are recognised in other comprehensive income.

In the event of loss of control over a foreign company, previously recognised exchange differences resulting from translation into another presentation currency are reclassified from other comprehensive income to profit or loss for the year in profit or loss on disposal. In the event of a partial disposal of a subsidiary without loss of control, the relevant part of the accumulated foreign exchange differences from currency translation is reclassified to non-controlling interest in equity.

Goodwill and fair value adjustments arising from the acquisition of a foreign company are recognised in the assets and liabilities of the foreign company and translated at the exchange rate as at the reporting date.

(ii) Transactions and balances in foreign currency

Monetary assets and liabilities are translated into the functional currency of each company at the official exchange rate at the relevant reporting dates. Gains and losses arising from the settlement and translation of monetary assets and liabilities into the functional currency of a single company at the official year-end rate are recognised in profit or loss. Year-end exchange rates are not recalculated for non-monetary items measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including investments in equity, are translated using the exchange rates at the date the fair value is determined. The effect of exchange rate fluctuations on changing the fair value of non-monetary items is recognised in profit or loss from changes in fair value.

Official exchange rates used to convert foreign currency balances:

	2018	**2017**
USD		
Year-end exchange rate	384.20	332.33
Average rate for the year	344.90	326.08
RUB		
Year-end exchange rate	5.52	5.77
Average rate for the year	5.50	5.59
EUR		
Year-end exchange rate	439.37	398.23
Average rate for the year	406.77	368.32

The Regulations for Currency Restriction and Control apply to the conversion of Tenge into other currencies.
Currently, Tenge is not a freely convertible currency outside the Republic of Kazakhstan.

2 Basis of preparation and Summary of significant accounting policies (continued)

Property, plant and equipment

(i) Recognition and subsequent measurement

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, where required. Acquisition cost consists of purchase price, including import duties and non-refundable purchase taxes, less trade discounts and rebates, and any costs directly attributable to bringing the asset to the location and working condition necessary for its intended use. The acquisition cost of self-constructed items of property, plant and equipment includes the cost of materials used, performed production works and part of production overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to profit and loss for the reporting period as incurred.

Profit or loss from disposal of property, plant and equipment in the amount of the difference of received compensation and their carrying amount is recognised in profit and loss for the year within other operating income or expenses.

Mining assets are carried at cost less accumulated depreciation and, if required, accumulated impairment loss. Expenses, including evaluation costs, incurred to establish or expand productive capacity, as well as the costs to conduct mining-construction, mining-capital and mining preparation works during the period of reaching a projected production capacity or mine reconstruction phase, are capitalised to mining assets.

(ii) Depreciation

Land is not depreciated. Mining assets are depreciated using unit of production method based on estimated economically viable recoverable reserves to which they relate. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values. Each item's estimated useful life depends both on its own useful life and the current assessment of economically viable recoverable deposit reserves in the territory of which the item of property, plant and equipment is located.

Estimated useful lives are presented in the table below:

	Useful life (years) (years)
Buildings and structures	5-50
Machinery and equipment	4-25
Vehicles	5-10
Other	3-15

The residual value of an asset is the estimated amount that the Group would currently obtain from the sale of the asset less costs to sell, based on the assumption that age and condition of the asset already correspond to the expected ones at the end of its useful life. The residual value of the asset is equal to zero in case when the Group intends to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

(iii) Impairment

At the end of each reporting period the management assesses whether there is any indication of impairment of property, plant and equipment. If such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The asset's carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit and loss for the year. Impairment loss recognised in prior reporting periods is reversed (if necessary), if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

2 Basis of preparation and Summary of significant accounting policies (continued)

Exploration and evaluation assets

(i) Recognition and subsequent measurement

Exploration and evaluation assets are measured at cost less accumulated impairment loss, if appropriate.

Exploration and evaluation assets include the cost of subsoil use (exploration) rights, capitalised expenditures on drilling of exploratory wells, cost of support equipment and facilities, geological and geophysical studies, stripping costs, as well as production and other general overhead costs that are directly attributable to the exploration and evaluation activities. Production and other general overhead costs capitalised within exploration and evaluation assets include salaries of personnel involved in the exploration and evaluation activities and other overhead costs directly related to exploration and evaluation activities.

Exploration and evaluation assets cease to be classified as such when the technical feasibility and commercial viability of extracting mineral resources is demonstrable. Once commercial reserves are found, exploration and evaluation assets are transferred to property, plant and equipment or intangible assets and amortised using unit of production method based on proved and probable mineral reserves.

(ii) Impairment of exploration and evaluation assets

Exploration and evaluation assets are tested by the Group for impairment when such assets are transferred to tangible and intangible development assets or whenever facts and circumstances indicate the assets' impairment. Impairment loss is recognised for the amount by which exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use.

One or more of the following facts and circumstances indicate that the Group should test its exploration and evaluation assets for impairment (the list is not exhaustive):

- the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration and evaluation of mineral reserves in the specific area is neither budgeted nor planned;
- exploration and evaluation of mineral reserves in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Group has decided to cease such operations in the specific area;
- the Group has sufficient data indicating that, although development works in the specific area are likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full resulting from efficient development or by sale.

For the purpose of impairment assessment, the exploration and evaluation assets subject to impairment testing are grouped by projects.

Investment property

Investment property is property held by the Group which is intended to earn rental income or purchased for capital appreciation in the course of time, or both and which is not used by the Group.

Investment property is initially recognised at cost, including costs for acquisition, construction as well as other related costs.

Following initial recognition, investment property is stated at fair value. Profit or loss arising from the change in the fair value of investment property is included in profit or loss for the reporting year to which they relate.

Investment property is derecognised when either it has been disposed or when the investment property is withdrawn from use and no future economic benefit is expected from its disposal. Profit or loss from disposal or withdrawing from operation of investment property is recognised in profit and loss for the reporting year when such disposal or withdrawal from operation occurred.

2 Basis of preparation and Summary of significant accounting policies (continued)

Transfers to investment property are made if and only if there is a change in the pattern of real estate use. The change in the pattern of real estate use when transferring into investment property is confirmed by cessation of use by the owner, transfer to operational lease. Subsequent expenditures are capitalised in the asset's carrying amount only when it is probable that future economic benefits associated with expenditures will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When the assets previously related to investment property become owner-occupied, they are transferred to property, plant and equipment.

Earned rental income is recorded in profit or loss for the year within the revenue on the production area leased, and within other operating income - on other investment property.

Intangible assets

All the Group's intangible assets have definite useful lives and primarily include capitalised computer software and subsurface use rights (extraction of mineral resources). Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring it to use and is amortised on a straight line basis over useful lives estimated by the management from 3 to 5 years. Subsurface use rights are amortised over the term of relevant subsoil use contracts.

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Financial instruments

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

Financial assets

Initial recognition and measurement

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

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

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

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

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

2 Basis of preparation and Summary of significant accounting policies (continued)

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)
This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

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

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

Derecognition

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

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

- 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 of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.
Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

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

2 Basis of preparation and Summary of significant accounting policies (continued)

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

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.
For debt instruments at fair value through OCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

Financial liabilities

Initial recognition

The Group classifies its financial liabilities within the scope of IFRS 9 as follows:
- financial liabilities at fair value through profit or loss;
- borrowings and payables

The Group's financial liabilities include borrowings and trade payables.

Subsequent measurement

Loans and borrowings
All loans and borrowings are initially recognized at cost, which is the fair value of the funds received, including the cost of its obtaining.
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.
Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.
Loans and borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur.

Trade payables after initial recognition are carried at amortised cost using the EIR method.

Income and expenses are recognised in the profit or loss of the period when borrowings and payables are derecognised, or its impairment is recognised, as well during the amortization process.

Derecognition of financial assets and liabilities

A financial asset is derecognised in the statement of financial position of Group when:
- the rights to receive cash flows from the asset have expired; or
- the Company retains its contractual rights to receive cash flows from the asset but assumed contractual obligation to transfer them in full without material delay to a third party;
- the Company has transferred substantially all the risks and rewards of the asset, or the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2 Basis of preparation and Summary of significant accounting policies (continued)

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

Offsetting of financial instruments

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

Advances and prepayments

Advances to suppliers are carried at cost less provision for impairment. Advances are classified as non-current when the goods or services relating to the advances are expected to be obtained after one year, or when advances relate to assets which will be classified as non-current upon initial recognition. Amount of advances for acquisition of assets is included in the carrying amount of the assets once the Group has obtained control of the assets and it is probable that future economic benefits associated with the assets will flow to the Group. Other advances are written off when the goods or services relating to the prepayments are received. If there is an indication that assets, goods or services relating to advances will not be received, the carrying amount of advances is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Prepaid taxes are recorded at amounts actually paid less provision for impairment.

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventories is determined on the weighted average basis at any issue of inventories to production or other disposal. The cost of finished goods and construction in progress comprises the cost of raw and other materials, direct labour, other direct costs and related production overheads (calculated on the basis of capacity utilization) but excludes borrowing costs. Cost of acquired assets includes the cost of their acquisition and all necessary expenses associated with their purchase, delivery to the place of destination and conditioning. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Value added tax

Value-added tax (“VAT”) related to sales is payable to the tax authorities when goods are shipped or services are rendered. Input VAT can be offset against output VAT upon the receipt of a tax invoice from a supplier. Tax legislation allows the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases is stated in the statement of financial position on a net basis. Recoverable VAT is classified as a non-current asset if its settlement is not expected within one year after the reporting period. Non-current recoverable VAT is measured at discounted value. Discounted value is determined based on estimated dates and the amounts to be offset.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash on current bank accounts. Restricted balances are excluded from cash and cash equivalents for the purposes of preparation of the statement of cash flows. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets; cash restricted for more than three months but less than twelve months after the reporting period are included in other current assets.

2 Basis of preparation and Summary of significant accounting policies (continued)

Non-current assets held for sale and disposal groups

Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the statement of financial position as “non-current assets and assets of disposal groups classified as held for sale” if their carrying amount will be recovered principally through a sale transaction within twelve (12) months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group’s management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price compared to their current fair value; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets and disposal groups classified as held for sale in the current period’s statement of financial position are not reclassified or represented in the comparative statement of financial position to adjust with the classification at the end of the current reporting period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes a portion of cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or received within twelve (12) months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment and intangible assets are not depreciated or amortised.

Liabilities directly associated with the disposal group and transferred in the disposal transaction are reclassified and presented separately in the statement of financial position.

Discontinued operations

A discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Earnings and cash flows from discontinued operations, if any, are disclosed separately from continuing operations with comparatives being represented respectively.

Authorised capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are recorded in equity as deductions from the proceeds, net of taxes.

Preferred shares which carry a mandatory coupon are classified as financial liabilities and are presented in borrowing funds. The dividends on these preferred shares are recognised as interest expenses on an amortised cost basis using the effective interest method.

Dividends

Dividends are recognised as liabilities and are deducted from equity at the end of the reporting period only if they are declared and approved before the end of the reporting period, inclusive. Dividends are disclosed when they are proposed before the end of the reporting period or proposed or declared after the reporting period but before the financial statements are authorised for issue.

2 Basis of preparation and Summary of significant accounting policies (continued)

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses.

Site restoration provision

Site restoration provision includes the landfill site restoration and closure (dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas). Estimated site restoration provisions are formed and recorded in the cost of property, plant and equipment as expensed in the accounting period when the obligation arises from the corresponding land disturbance during excavation, based on the net present value of estimated future costs. Site restoration provisions do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure and restoration plan. The cost estimates are calculated annually during the life of the operation, taking into account known changes, e.g. updated cost estimates and revisions to the estimated lives of operations with official reviews on a regular basis.

Landfill site restoration and closure costs are a normal consequence of mining, and the majority of landfill site restoration and closure expenditures is incurred during the useful life of mines. Although the ultimate cost to be incurred is uncertain, the Group estimates the respective costs based on feasibility and engineering studies using current restoration standards and techniques.

The amount of amortisation or "unwinding" of the discount applied in establishing the net present value of provisions is charged to operating results for each accounting period. The discount amortisation is recognised in finance costs.

Other changes to the provisions for mining assets and waste polygons retirement obligations, resulting from new land disturbance as a result of mine development, updated cost estimates, changes to the estimated lives of operations and revisions to discount rates are capitalised within property, plant and equipment. These costs are then depreciated over the useful lives of the assets to which they relate using the depreciation methods applied to those assets.

Changes in the provisions for asset retirement obligations that relate to land disturbance caused by the production phase are charged to profit or loss for the year.

Where restoration and remediation works are conducted systematically over the life of the operation, rather than at the time of closure, provisions are made for the estimated outstanding continuous remediation work at each balance sheet date and costs are charged to the profit and loss for the year.

Financial guarantees

Financial guarantees are irrevocable contracts that require the Group to make specific payments to reimburse the holder of the guarantee for losses it incurs in case if any of the debtors fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. When the Group issues a premium-free guarantee or a guarantee at a premium different from market premium, fair value is determined using valuation techniques (e.g. market prices of similar instruments, interest rate differentials, etc.). This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) unamortised amount recognised at initial recognition and (ii) the best estimate of amount of expenses required to settle the obligation at the end of the reporting period.

2 Basis of preparation and Summary of significant accounting policies (continued)

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight line basis over the expected lives of the related assets.

Government grants relating to costs are deferred and recognised in profit or loss for the year as other operating income over the period corresponding to the time of occurrence of costs which they are intended to compensate.

Government grants relating to costs or losses already incurred or for the purpose of immediate financial support to the entity without any future costs to be incurred, are recognised as income in the period when the compensation is to be received.

Operating lease

Where the Group is a lessee under lease agreement which does not provide for the transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Employee benefits

(i) Long-term employee benefits

The Group provides to its employees long term benefits before, on and after retirement, in accordance with their collective employment agreements. The agreements, more specifically, provide to employees of the Group one-time retirement benefits, financial aid in case of employees' disability, anniversaries, birth of child and death. The entitlement to some benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

The expected costs for payment of one-time benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit post-employment plans. The Group does not have any funded post-employment plans. Liability recognised at each reporting date represents the present value of pension liabilities. Actuarial gains and losses arising during the year are charged to other comprehensive income (loss). The revaluation result will not be reclassified to profit or loss in subsequent periods.

Other changes in the present value of pension liabilities are recognised in profit and loss, including current service costs.

The most significant assumptions used in accounting for pension obligations are the discount rate and assumption on turnover of employees. The discount rate is used to determine the net present value of future liabilities and each year the unwinding of the discount on those liabilities is charged to profit and loss as finance costs. Assumption on the turnover of employees is used to project the future flow of benefit payments, which is then discounted to arrive at the net present value of liabilities.

Benefits to employees are considered as other long-term employee benefits. These obligations are measured on an annual basis by independent qualified actuaries.

2 Basis of preparation and Summary of significant accounting policies (continued)

(ii) Payroll expenses and related contributions

Expenses for salaries, pension contributions, social tax, contributions to social insurance funds, contributions to the compulsory health insurance fund, paid annual leaves and sick leaves, bonuses, and non-monetary benefits are accrued in the period in which the associated services are rendered by the employees of the Group. The aggregate amount of contributions to pension and social tax and social deductions is 9.5% of the taxable income of the Group's employees, and contributions to the Compulsory Social Health Insurance Fund at the rate of 1.5 %. The Group also withholds mandatory pension contributions in the amount of 10% of salary of its employees to the Unified Accumulative Pension Fund. Upon retirement of employees, the financial obligations of the Group cease and all subsequent payments to retired employees are administered by the Unified Accumulative Pension Fund.

Recognition of revenue

Revenue is recognised by the Group to address that the transfer of promised goods and services to the customers in the amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. When recognizing revenue, the Group applies a five-step model according to requirements of IFRS 15:

- Identification of the contract with the customer;
- Identification of obligations to be performed under the contract;
- Determining the transaction price;
- Distribution of the transaction price on the responsibilities to be performed under the contract;
- Revenue recognition at the time (or to the extent) of the liability to be performed under the contract.

Revenue from contracts with customers

The Group's activities connected with sales of other items of concrete, plaster, and cement ("the goods"). Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, except for the agency services below, because it typically controls the goods or services before transferring them to the customer.

Revenue from sale of equipment is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Payment is usually made before delivery.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of equipment, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Significant financing component

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.
The Group extremely rare receives long-term advances from customers. The transaction price for such contracts is discounted, using the rate that would be reflected in a separate financing transaction between the Group and its customers at contract inception, to take into consideration the significant financing component.

2 Basis of preparation and Summary of significant accounting policies (continued)

Non-cash consideration

The Group applies the requirements of IFRS 13 Fair Value Measurement in measuring the fair value of the non-cash consideration. If the fair value cannot be reasonably estimated, the non-cash consideration is measured indirectly by reference to the stand-alone selling price of the respective goods.

Contract balances

Contract assets
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables
A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section Financial instruments.

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

Income tax

Income taxes have been provided for in these consolidated financial statements in accordance with the legislation of the Republic of Kazakhstan enacted or substantively enacted by the end of the reporting period. Income tax expenses comprise current tax and deferred tax and are recognised in profit or loss for the year except if they are recognised in other comprehensive income or directly in equity because they relate to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the state budget in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their sale. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

2 Basis of preparation and Summary of significant accounting policies (continued)

In determining the tax bases of the restoration and closure costs, added to the cost of property plant and equipment, and site restoration provision, the Group allocates the future tax deductions to the liabilities. Under this approach the initial recognition exemption does not apply. Deferred tax liability is recognised in respect of the taxable temporary difference on the restoration and closure costs added to the cost of property plant and equipment and, subject to recognition criteria mentioned above, a deferred tax asset is recognised in respect of the deductible temporary difference on the site restoration provision.

Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for tax positions that in management's opinion more likely can result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for fines, penalties, and taxes are recognised based on the management's best estimate of expenses required to settle the obligations at the end of the reporting period.

Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to the shareholders of the Company by the weighted average number of profit-sharing shares outstanding during the reporting year.

3 Accounting pronouncements

The Group applied new or revised standards and interpretations IFRIC obligatory to be applied for annual period beginning on or after 1 January 2018.

- IFRS 9 Financial Instruments (issued in 2014 and effective for annual periods beginning on or after 1 January 2018) and replaces IAS 39 Financial Instruments: Recognition and Measurement.
General requirement in IFRS 9 is that the Company must apply IFRS 9 at the date of initial adoption retrospectively without restatement comparatives, with the exception of cases when this is possible without the use of a retrospective approach.

Key changes introduced by the standard

(i) Classification of financial assets

The Standard introduces the following categories of financial assets:
- financial assets at amortised cost;
- financial assets at fair value through profit or loss;
- financial assets at fair value through other comprehensive income.

The classification is made at initial recognition and depends on the Company's business model for managing the financial assets adopted by the Company, and the contractual cash flows from such instruments.

(ii) Impairment of financial assets

IFRS 9 introduces a new model for the determination of the allowance for impairment losses of financial assets – the expected credit loss model method instead of the IFRS (IAS) 39, based on the incurred loss.

(iii) Classification and measurement of financial liabilities

Most of the requirements of IAS 39 for the classification and measurement of financial liabilities have been transferred to IFRS 9 unchanged. Key changes include:
(i) for financial liabilities measured at fair value through profit or loss – recognition of the effects of changes in own credit risk in other comprehensive income and; (ii) for financial liabilities at amortised cost – the effect of the renegotiations which does not result in the derecognition of the liability is recognised immediately in profit or loss.

3 Accounting pronouncements (continued)

(iv) Hedging

With respect to hedge accounting, amendments were aimed at greater consistency with risk management practices.

Effect of this standard adoption on the accounting policies and financial statements of the Group

(i) General information

The Group adopted IFRS 9 Financial Instruments from 1 January 2018, which resulted in changes in the accounting policies.

The Group decided to implement the standard as at 1 January 2018 without restating comparatives. This means that the data presented for 2017 and 2018 is not comparable.

As at the date of these financial statements, the Group has completed the implementation of IFRS 9 and does not expect any further changes in the effect assessment set out below.

(ii) Classification of financial assets

The transition to IFRS 9 did not change the classification of the Group's financial assets. The Group's financial assets are carried at amortized cost.

(iii) Measurement of financial assets

The previous methodology for determination of loss allowance required the Group to assess whether there were objective indications of impairment to estimate the loss allowance based on expected cash flows. On adoption of IFRS 9, new policies were applied and loss allowance was calculated using the expected loss model. The Group believes that the application of IFRS 9 will not result in a significant reduction or increase in previously created allowances.

(iv) Classification and measurement of financial liabilities

The transition to IFRS 9 has not changed the Group's classification and measurement of financial liabilities.

(v) Hedging

The requirements of IFRS 9 for hedging do not apply to the Group because the Group does not apply hedge accounting.

- IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018);
- Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 2, Classification and Measurement of Share-based Payment (effective prospectively for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective depending on the overlay approach selected by an entity);
- IFRIC 22, Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018);
- IAS 40, Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- Annual Improvements 2014-2017 Cycle effective for annual periods beginning on or after 1 January 2018 with respect to the following IFRSs:
    - IFRS 1, First-time Adoption of International Financial Reporting Standards;
    - IAS 28, Investments in Associates and Joint Ventures.

These amendments do not affect the consolidated financial statements of the Group.

3 Accounting pronouncements (continued)

New IFRSs, amendments to IFRSs and interpretations not effective for annual periods ended 31 December 2018

- IFRS 16 (effective for annual periods beginning on or after 1 January 2019);
- Annual Improvements 2015-2017 Cycle (effective for annual periods beginning on or after 1 January 2019, with earlier application permitted). The improvements apply to the following standards:
    - IFRS 3, Business Combinations. The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business;
    - IFRS 11, Joint Arrangements. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business;
    - IAS 12, Income Taxes. An entity must equally consider all income tax consequences of dividends;
    - IAS 23, Borrowing Costs. The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale;
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (effective for annual periods beginning on 1 January 2019);
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 28 "Non-current Interests in Associates and Joint Ventures" (effective for annual periods beginning on 1 January 2019);
- Amendments to IFRS 9 "Prepayment Features with Negative Compensation" (effective for annual periods beginning on 1 January 2019);
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021);
- Amendments to IFRS 10 / IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (the effective date of the amendments indefinitely until the research project on the equity method has been concluded).

The impact of changes on the Group's financial position and consolidated financial statements is currently being assessed.

4 Significant accounting estimates and judgements

The Group uses estimates and makes assumptions that affect the reported amounts of assets and liabilities within the next reporting year. Estimates and judgments are continually reviewed and are based on the management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also uses certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on indicators recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include the following:

Going concern principle

In 2018 and 2017, the Group's management decided to sell main subsidiaries engaged in the metallurgical industry, the activities of mining companies were suspended (Note 1) due to lower prices on the global metal markets, the demand for significant financial resources for the development of fields and setup of the ore process.

Net loss of the Group from going concern for the year ended 31 December 2018 comprised 612,685 thousand Tenge, in 2017 significant assets of the Group – TEMP and Arman 100 were disposed. Uncovered loss of the Group as at 31 December 2018 comprised 11,007,228 thousand Tenge (as at 31 December 2017: 18,758,326 thousand Tenge). These factors indicate the existence of uncertainty which may cast doubt on the Group's ability to continue as a going concern, and accordingly, its ability to realise its assets and settle its liabilities in the normal course of business.

Management assessed the possible effect of cessation of operations of subsidiaries KARUAN, Saryarka Mining on the financial position of the Group as at 31 December 2018 and 2017. In particular, assets of these subsidiaries were tested for impairment and the obligations were assessed for potential unrecorded liabilities including assessing contractual commitments that will become onerous upon liquidation.

4 Significant accounting estimates and judgements (continued)

Except for the effect of suspension of operations of subsidiaries these consolidated financial statements are free from adjustments of carrying amounts of assets and liabilities, presented amounts of revenue and expenses, as well as used classifications in the consolidated statement of financial position, which can arise due to this uncertainty, and these adjustments can be significant enough.

Management assumed that the Group will continue as a going concern, and in making such judgment management considered current plans, financial position and access to financial resources of the Group. In particular, the following factors were considered in the assessment of the Groups' ability to continue as a going concern:

- Previously, the Group's shareholders identified metallurgy and mining as priority areas of the Group's operations. In this regard, since 2009, the Group has consistently implemented a number of strategic acquisitions and sales in the metallurgical and mining sectors. In 2017, the Group revised its development strategy, sold TEMP and Arman 100, ceased operations of its subsidiaries SatFerro BV, SatFerro Limited, Sat&Co Netherlands. Income from discontinued operations amounted to 2,243,849 thousand Tenge.

- In 2018 the Group sold TMP generating material negative cash flows due to significant borrowings and high financial expenses. Income from discontinued operations totaled to 5,750,603 thousand Tenge.

- Renewal of operations of FNP Ertis and Kaznickel Companies is anticipated.

- The Group's Management of considers new investment projects and areas of activities, in particular, the production and exploration of gypsum in Akzhaik region of West Kazakhstan oblast.
- In 2018 additional share issue in the amount of 1,914,000 thousand Tenge was made.

Management believes that the Group will obtain sufficient financing, and therefore can continue its operations as a going concern in the foreseeable future within at least next twelve months.

Impairment of non-financial assets

At the end of each reporting period management assesses whether there is any indication of impairment of non-financial assets: property, plant and equipment, exploration and evaluation assets, investment property and intangible assets. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The calculation of value in use requires the application of management's estimates and professional judgments which are deemed appropriate under the current circumstances.

In accordance with the accounting policy for the purposes of impairment testing, assets are grouped at the lowest levels at which they generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets ("cash generating units"). In order to assess the presence of impairment indicators and, if necessary, an impairment test management identified the following main cash-generating units ("CGUs"):

Gornostayevskoye

As at 31 December 2014, this CGU was at the exploration stage. Accordingly, management assessed the existence of indicators of impairment of exploration and evaluation assets of this CGU in accordance with the requirements of IFRS 6 "Exploration for and Evaluation of Mineral Resources", and concluded that it is necessary to reflect the impairment of this generating unit due to a material uncertainty regarding fund raising and commencement of commercial production at the Gornostaevskoye field. As at 31 December 2018, this CGU's assets of 1,146,897 thousand Tenge were impaired down to zero.

4 Significant accounting estimates and judgements (continued)

Tuyebay-Syurtysu and Aitkokshe

As disclosed in Note 1, the Group's management decided to cease exploration and evaluation activities at Tuyebay-Syurtysu area and Aitkokshe field, and, accordingly, cease the operations of subsidiaries Saryarka Mining and KARUAN. As at 31 December 2018 and 2017, the assets of these CGUs were impaired down to zero. Due to termination of the sub-soil use contract, as disclosed in Note 1, in 2017 exploration and evaluation assets of Tuyebay-Syurtysu field were written off against the provision for impairment.

Financial guarantees

As at 31 December 2017, the Group is a guarantor or co-borrower with respect to the liabilities of the Group's controlling shareholder Mr. Kenes Rakishev, in the total amount of 31,831,400 thousand Tenge (2017: 7,616,762 thousand Tenge) (Note 31). The Group concluded that at the date of these consolidated financial statements there are no indicators that controlling shareholder of the Company would not be able to perform the above-mentioned obligations, which may otherwise require the Group to repay, fully or partially, the outstanding amount of the controlling shareholder. The loan amount is secured by collateral not belonging to the Group and guarantees of third parties.

Provision for obligations on assets liquidation and recovery

In accordance with the terms of subsoil use contracts and environmental legislation, the Group has a legal obligation to decommission its mining and other production assets, and restore a landfill site after its closure. Provision for mining assets recovery and waste polygons restoration is recognised for the future liquidation and recovery of production assets at the end of their economic lives. The provision is made based on net present value of costs for restoration of sites and production facilities, as well as land restoration as soon as the obligation arises from past activities.

The provision for mining assets liquidation and waste polygons restoration is based on the Group's interpretation of the current environmental legislation in the Republic of Kazakhstan supported by the feasibility study and engineering researches in accordance with current restoration and liquidation standards and techniques.

The provision is estimated on the basis of current legal and constructive requirements, technology and price levels. Since actual costs for liquidation and restoration can differ from estimates due to changes in environmental regulatory requirements and interpretation of the legislation, technology, prices and other conditions, and such costs can be incurred in the distant future, the carrying amount of the provision is regularly reviewed and adjusted for any changes.

Significant judgments used in such estimations include the estimate of discount rate and timing of cash flows. Discount rate is applied to nominal value of works which the management expects to spend on liquidation and restoration of mining assets and waste polygons in the future. Accordingly, the management's accounting estimates based on current prices are inflated using the expected long-term inflation rate depending on the date of liquidation and restoration of mining assets and waste polygons, and subsequently discounted using the discount rate. The discount rate reflects current market estimates of the time value of money and risks specific to liabilities not reflected in the best estimates of costs.

4 Significant accounting estimates and judgements (continued)

Useful lives of other property, plant and equipment

Most of other property, plant and equipment are depreciated using the straight-line method over their estimated useful lives. Useful lives of property, plant and equipment were estimated using a professional judgment based on the experience with similar assets. Future economic benefits associated with these assets will be obtained principally through their use. However, other factors, such as technical or commercial obsolescence and depreciation, often result in the decrease of economic benefits associated with these assets.

Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical depreciation, which depends on operational factors and maintenance program; and (c) technical or commercial obsolescence arising from changes in market conditions.

Provision for impairment of inventories

Inventories are recorded at the lower of cost and net realisable value. The Group generates provisions for impairment of inventories on the basis of regular stock count results and analysis of slow-moving, obsolete and other inventories where the net realisable value falls below their cost. The provision is recorded in profit or loss for the year. Management believes that impairment provisions generated as at 31 December 2018 are sufficient and represent the management's best estimate of impaired inventories (Note 13).

Deferred income tax asset recognition

The recognised deferred tax asset is the amount of income tax that can be offset against future income tax payments and it is recorded in the consolidated statement of financial position. Deferred income tax asset is recognised only when the use of appropriate tax deduction is probable. The determination of future taxable profit and amounts of tax deductions that are likely to be offset in the future is based on the medium term business plan prepared by management and extrapolated results thereafter. Business plan is based on management expectations that are believed to be reasonable under the circumstances.

Initial recognition of related party transactions

In the normal course of business the Group conducts transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Professional judgments are applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analyses. Terms and conditions of related party transactions are disclosed in Note 5.

5 Settlements and transactions with related parties

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Company's ultimate controlling party is disclosed in Note 1.

5 Settlements and transactions with related parties (continued)

The nature of relations with related parties with whom the Group entered into significant transactions or had significant account balances as at 31 December 2018 and 31 December 2017 is presented below.

The following companies were included in other related parties:

- companies under significant influence of the shareholder;
- companies under control or significant influence of close family members of the shareholder;
- other.

As at 31 December 2018, the outstanding balances on related party transactions were as follows:

In thousands of Kazakhstani Tenge	Note	Shareholder	Companies under joint control	Other related parties
Advances and other receivables	14	-	-	45,000
Current receivables	14	2,500,000	4,714,461	10,508,252
Non-current receivables		4,161,576	-	-
Advances paid against non-current assets		26,640,983	-	-
Less: allowance for impairment	14	-	-	(3,628,856)
Debt component of preferred shares		1,226,972	-	-
Dividends on preferred shares payable	22	64,787	-	-
Borrowings	20	417,985	-	-
Accounts payable		-	-	929,000

As at 31 December 2017, the outstanding balances on related party transactions were as follows:

In thousands of Kazakhstani Tenge	Note	Shareholder	Companies under joint control	Other related parties
Advances and other receivables	14	-	-	31,325
Accounts receivable	14	4,377,805	-	44,865,470
Less: allowance for impairment	14	-	-	(4,790,856)
Debt component of preferred shares		1,226,972	-	-
Dividends on preferred shares payable	22	64,787	-	-
Borrowings	20	-	-	25,000

Gross receivables from related parties include the following:

In thousands of Kazakhstani Tenge	2018	2017
SMART GROUP INVESTMENT LLP	9,069,907	43,064,588
Mr. Kenes Rakishev	2,500,000	4,377,805
Dan Construction LLP	286,975	286,975
Fincraft Holdings Ltd	4,714,461	-
Central Asian Institute of Environmental Studies LLP	929,000	929,000
Almatykonstruktivstroy LLP	-	402,384
Telli Kazakhstan LLP	92,600	92,600
Simex LLP		2,678
Rakhat Towers Multifunctional Complex LLP	87,245	87,245
Qlang LLP	33,000	-
Other	9,000	-
Total gross receivables from related parties	**17,722,188**	**49,243,275**

5 Settlements and transactions with related parties (continued)

SMART GROUP INVESTMENT LLP

Accounts receivable of SMART GROUP INVESTMENT LLP is a temporary interest-free financial assistance with on-call maturity. As at 31 December 2018 and 2017, the debt was partially impaired in the amount of 2,224,036 thousand Tenge and 4,324,036 thousand Tenge, respectively.

Fincraft Holdings Ltd

The accounts receivable of Fincraft Holdings Ltd was transferred from SMART GROUP INVESTMENT LLP and represents borrowings which were transferred to Mr. Kenes Rakishev in March 2019.

Mr. Kenes Rakishev

Advances paid against non-current assets

The Group and Mr. Kenes Rakishev entered into a major transaction under the contract of sale of 100 % stake in Fincraft Holdings Ltd on the terms of full prepayment. Fincraft Holdings Ltd, in its turn, owns shares (740,565,485 pieces) of Petropavlovsk PLC, which are listed on the London Stock Exchange in the basic premium listing platform. The transaction is concluded with certain suspensive conditions that are not fulfilled yet as at the date of the financial statements and, accordingly, the shares of Fincraft Holdings Ltd have not been transferred to the Group.

Accounts receivables

Accounts receivable from Mr. Kenes Rakishev represents the assigned debt from SDB Group LLP, SMART GROUP INVESTMENT LLP and other debtors to the Group in the amount of 7,716,698 thousand Tenge as at 31 December 2018. The agreement of the parties defines the Debt Repayment Schedule until 1 December 2021. The face value of long-term debt is 5,216,698 thousand Tenge. The face value of short-term debt to be repaid by 1 July 2019 is 2,500,000 thousand Tenge.

Management believes that the Group will be able to receive the amount receivable in full within the deadline, and accordingly, have not accrued the allowance for impairment losses on debt Mr. Kenes Rakishev. The amount of expected credit losses (ECLs) amounted to 28,707 thousand Tenge.

As at 31 December 2018, the Group is a co-borrower with respect to the obligations of the Group's controlling shareholder, Mr. Kenes Rakishev, in the total amount of 31,831,400 thousand Tenge (2017: 7,616,762 thousand Tenge) (Note 31).

The financial statements for related party transactions for the year ended 31 December 2018 are as follows:

In thousands of Kazakhstani Tenge	**Note**	**Shareholder**	**Companies under joint control**	**Other related parties**
Expected credit losses (ECLs)	27	28,707	-	-
Dividends on preferred shares	27	158,282	-	-
General and administrative expenses	24	-	-	(2,116,933)
Finance income	26	-	1,785	-

Cost of sales, general and administrative expenses and sales expenses represent the acquisition of goods and services. Financial expenses are represented by dividends on preferred shares.

5 Settlements and transactions with related parties (continued)

Items of financial statements on related party transactions for the year ended 31 December 2017 are presented below::

In thousands of Kazakhstani Tenge	Note	Shareholder	Other related parties
General and administrative expenses	24	-	(468,683)
Finance costs	27	129,575	-
Loss from discontinued operations	29	-	(1,309,304)
Purchase of materials		-	33,406

Cost of sales, general and administrative expenses and selling expenses represent acquisition of goods and services. General and administrative expenses also include impairment / reversal of impairment of receivables.

compensation including salaries, bonuses and other short-term employee benefits comprises 114,118 thousand Tenge including to members of the Management Board of 130,964 thousand Tenge, members of the Board of Directors of 13,154 thousand Tenge (2017: 97,659 thousand Tenge including to members of the Management Board of 91,659 thousand Tenge, members of the Board of Directors of 6,000 thousand Tenge). As at 31 December 2018, key management personnel include 8 persons (2017: 8 persons).

6 Property, plant and equipment

Changes in the carrying amount of property, plant and equipment are as follows:

In thousands of Kazakhstani Tenge	**Mining assets**	**Land owned**	**Buildings and structures**	**Machinery and equipment**	**Vehicles**	**Other**	**Construction-in-progress**	**Total**
Cost as at 1 January 2017	906,981	3,241,175	8,539,043	9,376,738	1,799,952	279,823	3,907,024	28,050,736
Accumulated depreciation and impairment	(906,981)	(459,175)	(6,026,523)	(5,852,333)	(1,131,751)	(267,974)	(2,955,042)	(17,599,779)
Carrying amount as at 1 January 2017	**-**	**2,782,000**	**2,512,520**	**3,524,405**	**668,201**	**11,849**	**951,982**	**10,450,957**
Proceeds	-	-	1,989	230,726	4,134	21,684	342,671	601,204
Acquisition at business combinations	-	-	-	1,638	-	5,161	-	6,799
Transfers	-	-	21,842	310,155	8,208	642	(340,847)	-
Depreciation	-	-	(136,862)	(514,854)	(120,173)	3,102	-	(768,787)
Impairment / reversal of impairment	-	459,175	1,089,81	1,332,539	-	1,110	495,988	3,378,623
Disposal	-	-	(10,495)	(21,193)	(17,652)	(13,860)	-	(63,200)
Disposal of subsidiaries	(906,981)	5,934	(4,840,539)	(5,545,955)	(1,710,272)	(160,630)	(3,492,587)	(16,651,030)
Disposal of depreciation and impairment on disposed subsidiaries	906,981	-	4,250,32	2,500,738	1,170,269	157,086	2,459,054	(11,444,454)
Cost as at 31 December 2017	-	3,247,109	3,711,840	4,352,109	84,370	132,821	416,261	11,944,510
Accumulated depreciation and impairment	-	-	(823,248)	(2,533,910)	(81,655)	(106,677)	-	(3,545,490)
Carrying amount as at 31 December 2017	**-**	**3,247,109**	**2,888,592**	**1,818,199**	**2,715**	**26,144**	**416,261**	**8,399,020**
Proceeds	-	-	-	358	4,550	4,898	18,223	28,029
Acquisition at business combinations	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-
Depreciation	-	-	542,302	(87,362)	(397)	38,078	-	492,621
Transferred to non-current assets held for sale	-	-	(456,472)	-	-	-	-	(456,472)
Disposal	-	-	(703,949)	(3,771)	-	(52,765)	-	(760,485)
Disposal of subsidiaries	-	(3,247,109)	(3,007,891)	(4,347,393)	(81,207)	(52,315)	(416,261)	(11,152,176)
Disposal of depreciation and impairment on disposed subsidiaries	-	-	737,418	2,620,388	79,370	48,253	--	3,485,429
Cost as at 31 December 2018	-	-	-	1,303	7,713	32,639	18,223	59,878
Accumulated depreciation and impairment	-	-	-	(884)	(2,682)	(20,346)	-	(23,912)
Carrying amount as at 31 December 2018	**-**	**-**	**-**	**419**	**5,031**	**12,293**	**18,223**	**35,966**

In 2017 reversal of impairment / (impairment) of property, plant and equipment in the amount of 3,378,623 thousand Tenge is attributable to the cash-generating unit of TMP.

The Group's management made a decision to sell Company's office building in Almaty of the carrying amount of 450,898 thousand Tenge. As at 31 December 2018, the expected sale price determined in the course of preliminary negotiations with the buyer was lower than carrying amount by 105,046 thousand Tenge. The Group decided to reflect a loss on the decrease in the fair value of non-current assets held for sale in the amount of 105,046 thousand Tenge (Note 24).

7 Exploration and evaluation assets

Exploration and evaluation assets include the following capitalised costs:

In thousands of Kazakhstani Tenge	**2018**	**2017**
Subsoil use rights (exploration and evaluation)		
- Gornostayevskoye	435,417	435,417
Total subsoil use rights	*435,417*	*435,417*
Geological and geophysical works	56,362	56,362
Exploratory drilling	406,301	406,224
Payroll and related expenses	101,639	101,639
Depreciation	-	-
Laboratory works	50,264	50,264
Other	96,914	96,552
Impairment	(1,146,897)	(1,146,458)
Total exploration and evaluation assets	**-**	**-**

8 Investment property

In thousands of Kazakhstani Tenge	**2018**	**2017**
Carrying amount as at 1 January	1,281,941	1,281,941
Sold	(1,281,941)	-
Carrying amount as at 31 December	**-**	**1,281,941**

In 2014, the Group acquired commercial areas of Almaty Towers Multifunctional Complex which were provided in operating rent.

In 2018, the investment property facilities were sold. Loss on disposal amounted to 319,724 thousand Tenge (Note 25).

9 Intangible assets

In thousands of Kazakhstani Tenge	Subsoil use rights	Other	Total
Cost as at 1 January 2017	2,270,465	75,428	2,345,893
Accumulated depreciation and impairment	(952,546)	(65,995)	(1,018,541)
Carrying amount as at 1 January 2017	**1,317,919**	**9,433**	**1,327,352**
Depreciation	(3,230)	(19)	(3,249)
Disposal of subsidiaries	(2,270,465)	(28,176)	(2,298,641)
Depreciation of disposed assets	955,776	18,909	974,685
Cost as at 31 December 2017	-	47,252	47,252
Accumulated depreciation and impairment	-	(47,105)	(47,105)
Carrying amount as at 31 December 2017	**-**	**147**	**147**
Addition	-	478	478
Depreciation	-	(9)	(9)
Disposal of subsidiaries	-	(532)	(532)
Cost as at 31 December 2018	-	47,730	47,730
Accumulated depreciation and impairment	-	(47,646)	(47,646)
Carrying amount as at 31 December 2018	-	**84**	**84**

10 Investments to joint ventures and associates

Sat Logistics

Sat Logistics
In 2015, the Group acquired 50% interest in Sat Logistics for 1 thousand Tenge. Sat Logistics incurred loss for 2015 and, accordingly, investment was impaired to zero. In 2018 the share of participation was sold for 25 thousand Tenge.
In the current period, the Group acquired a 30% share of participation in Qlang LLP for 29 thousand Tenge. Qlang LLP received a loss; respectively the investment is impaired to zero.
Presented below is the summarized financial information of Qlang LLP at 31 December 2018 and of Sat Logistics as at 31 December 2017 for the periods then ended:

In thousands of Kazakhstani Tenge	Total assets	Total liabilities	Revenue	Profit / (loss) for the year
2017				
Sat Logistics	12,511	(22,163)	62,508	603
2018				
Qlang LLP	22,230	(33,079)	3,278	(10,635)

11 Significant part-owned subsidiaries

Below is the information on subsidiaries with substantial non-controlling interests therein:

Share in capital held by non-controlling interests:

	Country of incorporation and business	**2018**	**2017**
FNP Ertis	Republic of Kazakhstan	6.57%	49%
Kaznickel	Republic of Kazakhstan	6.57%	49%
Saryarka Mining	Republic of Kazakhstan	0%	20%

Accumulated balances on substantial non-controlling interest:

In thousands of Kazakhstani Tenge	**2018**	**2017**
Accumulated non-controlling interests:		
Kaznickel	(491,109)	(479,064)
FNP Ertis	(648,958)	(648,864)
Saryarka Mining	(120,964)	(121,383)
Change of interest:		
Kaznickel	458,843	-
FNP Ertis	611,639	-
Saryarka Mining	118,348	-
Loss charged to substantial non-controlling interest:		
Kaznickel	(933)	(12,045)
FNP Ertis	712	(94)
Saryarka Mining	2,616	419

Below is the summarized financial information on these subsidiaries. This information is based on the amounts before exclusion of intercompany transactions of the Group.

Summarized statement of profit and loss:

	2018			**2017**		
In thousands of Kazakhstani Tenge	**Kaznickel**	**FNP Ertis**	**Saryarka Mining**	**Kaznickel**	**FNP Ertis**	**Saryarka Mining**
Other operating income	17	10,998	13,634	2,664	-	2,687
General and administrative expenses	(16,031)	(166)	(437)	(17,841)	(192)	(591)
Other operating expenses	3,165	-	(119)	-	-	-
Finance costs	(1,353)	-	-	(1,498)	-	-
Income tax expenses	-	-	-	(7,906)	-	-
Income (loss) before tax	**(14,202)**	**10,832**	**13,078**	**(24,581)**	**(192)**	**2,096**
Total comprehensive income	**(14,202)**	**10,832**	**13,078**	**(24,581)**	**(192)**	**2,096**
Attributable to non-controlling interests	(933)	712	2,616	(12,045)	(94)	419

12 Significant part-owned subsidiaries (continued)

Summarized statement of financial position as at 31 December:

	2018			2017		
In thousands of Kazakhstani Tenge	**Kaznickel**	**FNP Ertis**	**Saryarka Mining**	**Kaznickel**	**FNP Ertis**	**Saryarka Mining**
Property, plant and equipment	22,870	-	-	172	-	-
Other non-current assets	6,651	291	-	4,134	298	-
Accounts receivable	313	1,275,452	-	661	1,274,641	-
Cash and cash equivalents	19	3	-	466	4	-
Other current assets	742	75,169	2,500	348	5	2,613
Non-current liabilities	(20,619)	-	-	(22,431)	-	-
Accounts payable	(1,486,819)	(2,582,550)	(226,871)	(1,445,991)	(2,599,233)	(240,062)
Total equity	**(1,476,843)**	**(1,231,635)**	**(224,371)**	**(1,462,641)**	**(1,324,285)**	**(237,449)**
Attributable to						
Shareholders of the Group	(1,443,643)	(1,195,028)	(224,371)	(971,532)	(675,327)	(116,485)
Non-controlling shareholders	(33,200)	(36,607)	-	(491,109)	(648,958)	(120,964)

12 Other non-current assets

In thousands of Kazakhstani Tenge	Note	2018	2017
Restricted cash		3,854	4,478
Total non-current financial assets		*3,854*	*4,478*
Prepayments to related parties against acquisition of investments	5	26,640,983	-
Prepayments for non-current assets		3,580,523	225,076
Non-current VAT recoverable		207,729	333,032
Other		27	-
Total non-current assets		**30,433,116**	**562,586**

Restricted cash include special bank deposits placed in accordance with subsoil use contracts.

Prepayments for non-current assets are advances for the acquisition of subsoil use rights for the combined exploration and production of gypsum dumps in the Akzhaik region of the West Kazakhstan oblast, for land, movable and immovable property associated with the production of gypsum.

Fair value of non-current financial assets is approximately equal to their carrying amounts. Non-current financial assets of the Group are denominated in Tenge.

Non-current VAT recoverable represents VAT offset recognised as a result of purchase of goods and services in the territory of the Republic of Kazakhstan.

13 Inventories

In thousands of Kazakhstani Tenge	2018	2017
Raw and other materials	809	710,668
Goods	10,288	-
Finished goods	-	1,228,502
Other	3,348	12,388
Less: allowance for impairment	-	(3,107)
Total inventories	**14,445**	**1,948,451**

13 Inventories (continued)

Changes in the allowance for impairment of inventories are presented below:

In thousands of Kazakhstani Tenge	Note	2018	2017
Balance as at 1 January		3,107	263,049
Accrual for the year		-	3,107
Derecognition due to disposal of subsidiaries	29	(3,107)	(263,049)
Balance as at 31 December		**-**	**3,107**

14 Accounts receivable

In thousands of Kazakhstani Tenge	Note	2018	2017
Temporary financial aid rendered to related parties	5	13,007,726	49,243,275
Other financial accounts receivable		106,910	-
Debt from buyers and customers		102,084	2,176,542
Other financial receivables		4,715,006	2,776,632
Less: allowance for impairment		(3,824,657)	(5,795,585)
Total financial receivables		*14,107,069*	*48,400,864*
Advances to suppliers		8,444	205,076
Advances to related parties		45,000	-
Other receivables		788	216,099
Less: allowance for impairment		(3,609)	(7,909)
Total accounts receivable		**14,157,692**	**48,814,130**

Financial receivables of the Group are denominated in the following currencies:

In thousands of Kazakhstani Tenge	2018	2017
Tenge	14,107,069	46,503,469
US Dollar	-	1,880,627
Russian Rouble	-	16,768
Total financial receivables	**14,107,069**	**48,400,864**

14 Accounts receivable (continued)

Analysis of financial assets by credit quality is presented below:

In thousands of Kazakhstani Tenge	**2018**	**2017**
Current and not impaired		
Kazakhstani buyers and customers	4,729,156	2,393,152
Foreign buyers and customers	-	-
Total current and not impaired	*4,729,156*	*2,393,152*
Past due but not impaired		
- from 30 to 90 days	15,356	733,135
- from 90 to 180 days	12,792	2,350
- from 180 to 360 days		2,250,328
- above 360 days	-	4,378,069
Total past due but not impaired	*28,148*	*7,363,882*
Individually impaired (gross amount)	13,174,422	44,439,415
Less: allowance for impairment	(3,824,657)	(5,795,585)
Total financial receivables	**14,107,069**	**48,400,864**

Current and not impaired receivables are represented by existing buyers and related parties with good credit history. All past due but not impaired receivables relate to consumers in respect of which the debt is expected to be repaid during 2019.

Buyers experiencing unexpected economic difficulties represent most of the impaired receivables.

15 Other current assets

In thousands of Kazakhstani Tenge	**2018**	**2017**
Short-term deposits	2,500	2,500
Total other financial current assets	*2,500*	*2,500*
VAT recoverable and prepaid taxes	146,618	675,252
Other	7,703	5,818
Total other current assets	**156,821**	**683,570**

16 Cash and cash equivalents

In thousands of Kazakhstani Tenge	2018	2017
Cash on term deposits, in Tenge	3,000	2,296
Cash on current bank accounts, in Tenge	24,481	68,509
Cash on current bank accounts, in foreign currency	1,537	20,667
Cash on hand	1,752	3,504
Cash in transit	-	37,000
Total cash and cash equivalents	**30,770**	**131,976**

All bank account balances are neither past due, nor impaired. The credit quality analysis of bank account balances is shown in the table below:

		2018		2017	
In thousands of Kazakhstani Tenge	**Rating (Moody's)**	**Current bank accounts**	**Term deposits**	**Current bank accounts**	**Term deposits**
Sberbank of Russia	Ba3	-	-	5	-
Halyk Bank	Ba2	24,025	-	986	-
ATF Bank	Caa1	107	-	554	-
Eurasian Bank	B2	28	3,000	4,198	-
Bank of Astana	B	51	-	21	-
Kazkommertsbank	B2	-	-	42,232	2,296
Tengri Bank	None	11	-	62,165	-
Other	None	1,796	-	16,015	-
Total		**26,018**	**3,000**	**126,176**	**2,296**

Term deposits have contractual maturity of less than three months and are repayable on call.

17 Business combinations

In February 2017, the Group acquired a 100% holding in KazFerro LLP and KazUglerod LLP. The main activity of KazFerro LLP is the production and sale of ferrosilicon manganese, KazUglerod LLP - production and sale of electrode paste. In February 2017, the acquired companies and SAT Engineering were reorganized by joining to TMP.

Below is the information on acquired identifiable net assets and liabilities of KazFerro LLP and KazUglerod LLP, as well as goodwill arising in connection with the acquisition.

	Fair value of assets and liabilities	
	KazFerro LLP	**KazUglerod LLP**
Property, plant and equipment	2,925	1,215
Inventories	2,081,470	17,577
Accounts receivable	2,337,724	713,280
Loans extended	111,779	23,009
Other non-current assets	1,730,992	606,908
Cash and cash equivalents	229,599	241
Total assets	**6,494,489**	**1,362,230**
Accounts payables	6,743,232	1,465,778
Total liabilities	**6,743,232**	**1,465,778**
Total net assets	**(248,743)**	**(103,548)**
Goodwill associated with acquisition	248,913	103,733
Total cost of acquisition	**170**	**185**
Impairment of goodwill	**(248,913)**	**(103,733)**

Having analyzed the activities of the acquired companies, the Group's management concluded that goodwill arising from the acquisition should be impaired in full.

18 Equity

Share capital

As at 31 December the shareholders (owners of ordinary shares) of the Company were as follows:

	2018	2017
Mr. Kenes Khamituly Rakishev	97.85%	77.72%
Unified Accumulative Pension Fund JSC	1.67%	17.30%
Other	0.48%	4.98%
Total	**100.00%**	**100.00%**

As at 31 December the owners of preferred shares of the Company were as follows:

	2018	2017
Unified Accumulative Pension Fund JSC	66.98%	66.98%
Mr. Kenes Khamituly Rakishev	33.02%	33.02%
Total	**100.00%**	**100.00%**

Presented below is the information on the Company's placed shares:

	2018		2017	
	Number of shares	**Value, thousands of Tenge**	**Number of shares**	**Value, thousands of Tenge**
Ordinary shares	12,846,773,954	21,314,715	1,246,773,954	19,400,715
Preferred shares	392,649,871	12,184,910	392,649,871	12,184,910
Share capital, including debt component of preferred shares		**33,499,625**	**1,639,423,825**	**31,585,625**
Less: debt component of preferred shares		(3,718,096)		(3,718,096)
Total share capital		**29,781,529**		**27,867,529**

As at 31 December 2018, total number of authorised ordinary shares is 30,000,000,000 shares (31 December 2017: 3,000,000,000 shares).

All issued ordinary shares are fully paid. Each ordinary share carries one voting right.

As at 31 December 2018, total number of authorised preferred shares is 750,000,000 shares (2017: 750,000,000 shares). All issued preferred shares are fully paid.

Both ordinary and preferred shares do not have an authorised face value.

Preferred shares give pre-emptive rights compared to the ordinary shares in the event of the Company's liquidation. Preferred shares give its holders the right to participate in General Shareholders' Meetings without voting rights except for cases where decisions are made in relation to restructuring and liquidation of the Company, and restricting the rights of holders of preferred shares.

18 Equity (continued)

Dividends on preferred shares are set at the amount of 1 Tenge per share. Dividends on preferred shares shall not be authorised in the amount lower than the amount declared by holders of ordinary shares. If dividends on preferred shares are not paid in full within three months from the date of expiry of the period set for payment of such dividends, preferred shares holders get voting rights until the dividends are actually paid.

Preferred shares are compound financial instruments that contain both share and debt components. The Group measured the fair value of the debt component of preferred shares by applying the relevant effective interest rate of 10.56% to the amount of mandatory annual dividends, using the net present value formula in perpetuity. The amortised cost of the debt component of preferred shares was included in other non-current liabilities (Note 21).

As at 31 December 2018, the number of repurchased shares comprised:

- 10,445,774 ordinary shares totaling 618,111 thousand Tenge;

As at 31 December 2017, the number of repurchased shares comprised:

- 10,445,774 ordinary shares totaling 618,111 thousand Tenge;
- 2 preferred shares totaling 60 Tenge.

On 8 November 2010, new KASE listing requirements came into effect requiring the Group to disclose the following information: total assets less total intangible assets, total liabilities and non-voting preferred shares (included in equity) divided by the number of issued ordinary shares at the end of the year. As at 31 December 2018, this indicator calculated by the management of the Group on the basis of data from these consolidated financial statements comprised 0.70 Tenge (20167: (1.95) Tenge. The Group is also required to disclose dividends payable to holders of non-voting preferred shares, non-voting preferred shares (included in equity) debt component of non-voting preferred shares divided by the number of issued non-voting preferred shares. As at 31 December 2018, this indicator was 31.53 Tenge (31 December 2017: KZT 31.53).

During 2018 and 2017, the Group neither accrued nor paid dividends on ordinary shares. In 2018, the Group accrued dividends on preferred shares in the amount of 392,650 thousand Tenge, and paid them in the amount of 392,650 thousand Tenge.

19 Provision for site restoration

The Group has a legal obligation to restore lands disturbed during the mining operations and to decommission mining equipment after expected closure of contractual territories.

Changes in the provision for site restoration are presented below:

In thousands of Kazakhstani Tenge	**Note**	**2018**	**2017**
Carrying amount as at 1 January		152,102	2,021,469
Change in estimates recorded to:			
- property, plant and equipment	6	-	1,114
- current expenses	24,25,27	(14,162)	(590,338)
Unwinding of the present value discount	26,27	1,353	6,445
Disposal due to discontinued operations	29	(118,674)	(1,286,588)
Carrying amount as at 31 December		**20,619**	**152,102**
Non-current portion		20,619	102,158
Current portion	22	-	49,944

19 Provision for site restoration (continued)

The amount of site restoration provision was calculated using nominal prices effective at the reporting dates, applying the forecasted inflation rate for expected period of mining operations and discount rate at the end of the reporting period. Uncertainties in estimation of such expenditures include potential changes in requirements of environmental legislation, volumes and alternative methods of restoration activities, discount level and inflation rates.

Underlying assumptions used in estimation of provision for site restoration are presented below:

	2018	**2017**
Discount rate	6.03	5%-7.22%
Inflation index	7.22%	7%

Carrying amount of site restoration provision by fields is presented below:

In thousands of Kazakhstani Tenge	**Expected closure year**	**2018**	**2017**
Inventory waste landfills	2015	-	83,455
Gornostayevskoye	2026	20,619	22,431
Tuyebay-Syurtysu	2017	-	10,997
Sludge collector reclamation (TMP)	2026	-	35,219
Total		**20,619**	**152,102**

20 Borrowings

In thousands of Kazakhstani Tenge	**2018**	**2017**
Non-current portion		
Bonds issued	13,015,366	12,969,154
Sberbank of Russia JSC	-	13,323,064
Bank CenterCredit	3,000,000	-
Mr. Kenes Rakishev	417,985	-
Halyk Savings Bank of Kazakhstan JSC	-	678,133
Total borrowings – non-current portion	**16,433,351**	**26,970,351**
Current portion		
Sberbank of Russia JSC	-	4,405,483
Halyk Savings Bank of Kazakhstan JSC	-	381,798
Bonds issued	1,221,637	1,377,490
Other loans	-	25,000
Total borrowings – current portion	**1,221,637**	**6,189,771**
Total borrowings	**17,654,988**	**33,160,122**

20 Borrowings (continued)

Bonds issued

On 3 January 2008, the Group issued amortised bonds in the amount of 15,000,000 thousand Tenge (“2008 Bonds”), which were officially listed on KASE.

Bonds 2008 were to be repaid after 7 years from the date of issue. In 2014, the Group made changes and additions to the Prospectus of Bonds Issue and extended 2008 Bonds expiry date until December 2021.

Interest rate on 2008 Bonds is a floating rate and is determined as an increase/decrease in consumer price index published by the Statistics Agency of the Republic of Kazakhstan for the last 12 months preceding the month of the corresponding coupon period plus fixed margin of 2%, but no more than 14% per annum, and not less than 7% per annum of the nominal value of bonds.

In 2012, the Group announced the First Bond Program in the total amount of 30,000,000 thousand Tenge.

On 3 August 2012, coupon bonds of the first issue within this program in the amount of 6,000,000 thousand Tenge (“2012 Bonds”) were officially listed on KASE.

Bonds 2012 are unsecured and were to be repaid after 7 years from the date of issue. In 2014, the Group made changes and additions to the Prospectus of Bonds Issue and extended 2012 Bonds expiry date until December 2021.

Interest rate on Bonds 2012 is fixed at 12% in the first year. Starting from the second year, a floating rate is used which is determined every 6 months as an increase/decrease in consumer price index published by the Statistics Agency of the Republic of Kazakhstan for the last 12 months preceding the month of the corresponding coupon period plus fixed margin of 3%, but not more than 12% per annum and not lower than 3% per annum of the nominal value of bonds.

Coupon interests on 2008 Bonds and 2012 are paid once a year.

As at 31 December 2018, the carrying amount of bonds comprises 13,015,366 thousand Tenge (as at 31 December 2017 -12,969,154 thousand Tenge).

Sberbank of Russia

Until 31 December 2016 the Group participated in the Post-Crisis Recovery Program (recovery of competitive enterprises) and entered into agreement with Rehabilitation and Asset Management Company JSC (“RAMC”) and SB Sberbank of Russia JSC, pursuant to which RAMC subsidized interest. The subsidized portion of the loan interest rate was 4.39%.
In 2017 the management of the Group decided to restructure the debt to SB Sberbank of Russia JSC under a credit line, wherefore, in August 2017, guarantee contract No. AF03/05-14 was signed by SB Sberbank of Russia JSC and KROSST LLP, which acted as a guarantor for payment of TMP’s liabilities to SB Sberbank of Russia JSC in the amount of USD 18,000,000.
In November 2017, claim assignment agreement was concluded between SB Sberbank of Russia JSC and Bank of Astana JSC, pursuant to which SB Sberbank of Russia JSC assigns to Bank of Astana JSC some of the rights of claim for liabilities of TMP for the amount of 25,796,367 US Dollars or 8,522,862 thousand Tenge. Under the terms of the contract, the assignment of the rights of claim to Bank of Astana JSC will take place only after total payment to SB Sberbank of Russia JSC in the amount of 8,522,862 thousand Tenge.
As at 31 December 2017, the carrying amount of the liability under these credit lines is 47,817,346 US dollars (17,728,547 thousand Tenge, including accrued interest of 18,398 thousand Tenge and accrued fines and penalties of 1,154,350 thousand Tenge). In 2018, due to the sale of subsidiary - TMP, the above-mentioned liabilities of the Group were terminated.

20 Borrowings (continued)

Halyk Savings Bank of Kazakhstan JSC

On 20 January 2014, the Group signed a Credit Line Agreement with Halyk Savings Bank of Kazakhstan JSC totaling 2,331,344 thousand Tenge for the purchase of commercial space of Almaty Towers Multifunctional Complex, with a total area of 5,046.2 square meters, located at the following address: 280, Baizakov Str., Almaty, Republic of Kazakhstan. Principal amount received under the credit line is paid on a monthly basis and accrued interest at the rate of 10% per annum is payable on a monthly basis at the end of the grace period with duration of 18 months starting from the date of financing under this agreement. The effective interest rate under this line of credit is 10.3% per annum.

As at 31 December 2017, the carrying amount of the liability under this credit line comprises 1,059,931 thousand Tenge including current portion of 363,853 thousand Tenge, unpaid interest of 17,945 thousand Tenge. The collateral under this agreement includes commercial areas of Almaty Towers Multifunctional Complex acquired by the Group and office premises located at the address: 241, Mukanov Str., Almaty, Republic of Kazakhstan. As at 31 December 2018 the loan was repaid in full.

Mr. Kenes Rakishev

As part of the Financial Assistance Agreement in 2017, Mr. Kenes Rakishev received cash in the amount of 2,125,270 thousand Tenge, and the Group's liabilities to SB Sberbank of Russia JSC totaling 2,483,276 thousand Tenge were repaid. Under the Debt Forgiveness Agreement, the Group's obligations to Mr. Kenes Rakishev in the amount of 4,608,546 thousand Tenge were written off in 2017. The amount of the written-off obligation is recognised as additional contributions from shareholders as a part of equity.

In 2018, within the framework of the Financial Assistance Agreement, Mr. Kenes Rakishev issued funds in the amount of 580,530 thousand Tenge. The difference between the face value and the fair value at recognition was recorded as additional paid-in capital in the amount of 162,545 thousand Tenge.

Bank CenterCredit JSC

In December 2018 in the frameworks of the credit line opened by Bank CenterCredit JSC, the Group received loans in the amount of 3,000,000 thousand Tenge for the purpose of acquisition of facilities related to exploration and production of gypsum deposits in Akzhaik region of the West Kazakhstan oblast. The annual effective interest rate on the loan is 12.7% per annum. The loan is repaid starting from the thirteenth period since the date of the loan receipt.

20 Borrowings (continued)

Changes in liabilities arising from financial activities

In thousands of Kazakhstani Tenge	2018	2017
Balance as at 1 January	33,160,122	46,409,055
Received by cash	9,517,188	3,515,621
Interest paid	(8,469,884)	(4,697,006)
Payment of principal	(2,108,937)	(13,908,213)
Accrued interest	1,733,883	3,677,210
Accrued fines, penalties	-	1,041,128
Discount amortization	(9,011)	40,716
Accrued interest in discontinued operations	779,566	-
Discount at initial recognition	(162,545)	-
Writing off of liabilities	(25,000)	(4,608,546)
Offsets	(129,372)	4,094,298
Disposed due to sale of subsidiaries	(16,631,022)	(2,404,141)
Balance as at 31 December	17,654,988	33,160,122
Current portion	1,221,637	6,189,771
Non-current portion	16,433,351	26,970,351

The Group's loan maturities are shown below:

In thousands of Kazakhstani Tenge	2018	2017
Loans with maturity		
- on call	-	1,197,748
- less than 6 months	1,221,637	1,395,435
- from 6 months to 1 year	-	3,596,588
- from 1 year to 3 years	13,015,366	8,124,285
- over 3 years	3,417,985	18,846,066
Total borrowings	**17,654,988**	**33,160,122**

The Group's borrowings are denominated in the following currencies:

In thousands of Kazakhstani Tenge	2018	2017
US Dollar	-	16,574,197
Tenge	17,654,988	16,585,925
Total borrowings	**17,654,988**	**33,160,122**

20 Borrowings (continued)

The analysis of carrying amount and fair value of borrowings is as follows:

	2018		2017	
In thousands of Kazakhstani Tenge	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Bonds issued (including interest)	14,237,003	14,237,003	14,346,644	13,222,085
Sberbank of Russia	-	-	17,728,547	17,728,547
Halyk Savings Bank of Kazakhstan JSC	-	-	1,059,931	1,059,931
Mr. Kenes Rakishev	417,985	417,985	-	-
Bank CenterCredit	3,000,000	3,000,000	-	-
Other borrowings	-	-	25,000	25,000
Total	**17,654,988**	**17,654,988**	**33,160,122**	**32,035,563**

21 Other non-current liabilities

In thousands of Kazakhstani Tenge	**Note**	**2018**	**2017**
Debt component of preferred shares	18	3,718,096	3,718,096
Non-current payables		-	-
Total financial non-current liabilities		*3,718,096*	*3,718,096*
Deferred income on government grants		-	1,676,113
Total other non-current liabilities		**3,718,096**	**5,394,209**

Deferred income on government grants

In accordance with the investment contract between TMP and the Committee on Investments of the Ministry of Industry and Trade of the Republic of Kazakhstan dated 20 June 2007, the Group undertook to provide investments for upgrade of the metallurgical plant in the total amount of not less than 3,597,008 thousand Tenge. In August 2011, upon fulfillment of the terms of the investment contract TMP received a government grant in the form of the land plot where the plant is located. The Group recognised this government grant as deferred income in the consolidated statement of financial position which is carried to profit and loss over the expected useful life of the main buildings and structures of the plant (15 years) within other operating income. In 2018 in connection with the disposal of inventories the deferred revenue was derecognised (Note 29).

The Group recognised government grants in deferred income as follows:

In thousands of Kazakhstani Tenge	**Note**	**2018**	**2017**
Deferred income as at 1 January		1,894,736	2,113,359
Discontinued operations	29	(1,894,736)	(218,623)
Deferred income as at 31 December		**-**	**1,894,736**
Classified as:			
Long-term		-	1,676,113
Short-term	22	-	218,623

22 Accounts payable

In thousands of Kazakhstani Tenge	Note	2018	2017
Debt to suppliers and contractors		52,874	881,224
Debt on dividends on preferred shares	18	196,325	196,325
Other financial payables		9,989,907	10,686,441
Total financial payables		*10,239,106*	*11,763,990*
Advances received		407,165	492,275
Accrued provisions for unused leaves		12,184	44,832
Payroll and pension contributions payable		1,659	53,906
Provisions for uncertain tax positions		-	-
Taxes payable		2,360	17,151
Deferred income on government grants	21	-	218,623
Provision for site restoration	19	-	49,944
Other payables		535	41,740
Total accounts payable		**10,663,009**	**12,682,461**

In 2017, other financial payables in the amount of 9,060,906 thousand Tenge were incurred as a result of the assignment of debt of SMART GROUP INVESTMENT LLP to LogoTranscomServiceIndustry LLP. As at 31 December 2018, the debt has not been repaid.

Financial payables of the Group are denominated in the following currencies:

In thousands of Kazakhstani Tenge	2018	2017
Tenge	10,236,801	11,271,401
Russian Rouble	-	24,380
US Dollar	-	1,618
Euro	2,305	466,591
Total financial accounts payable	**10,239,106**	**11,763,990**

23 Other operating income

In thousands of Kazakhstani Tenge	2018	2017
Income less losses from exchange rate difference	162,331	12,462
Income from writing off of other liabilities	50,063	574,888
Income less losses from disposal of property, plant and equipment	-	3,284
Income from lease	51,398	108,303
Other	9,918	7,935
Total other operating income	**273,710**	**706,872**

24 General and administrative expenses

In thousands of Kazakhstani Tenge	Note	2018	2017
Salary and related costs		362,186	305,152
Consulting services		28,448	49,544
Depreciation of property, plant and equipment and intangible assets	6,9	32,900	34,793
Taxes and levies		50,291	32,258
Security services		14,299	30,720
Materials		12,261	6,648
Travel and representative expenses		8,585	5,934
Bank services		4,911	3,178
Lease		6,270	2,807
Communication services		4,995	3,882
Fines and penalties		214	340
Provision for impairment of receivables	12,14	(1,922,837)	650,427
Other		58,311	67,306
Total general and administrative expenses		**(1,339,166)**	**1,192,989**

25 Other operating expenses

In thousands of Kazakhstani Tenge	2018	2017
Loss less income from disposal of property, plant and equipment	35,044	300
Loss on recognition of non-current assets held for sale at fair value	105,046	-
Loss from sale of materials	10,010	-
Debt writing off	140,849	-
Loss from disposal of investment property	319,724	-
Other	(3,669)	7,121
Total other operating income	**607,004**	**7,421**

26 Finance income

In thousands of Kazakhstani Tenge	2018	2017
Unwinding of present value discount on non-current financial assets	9,011	8,068
Interest income on bank deposits	2,606	329
Other	1,785	-
Total finance income	**13,402**	**8,397**

27 Finance costs

In thousands of Kazakhstani Tenge	Note	2018	2017
Interest expenses:		1,341,233	1,555,116
- bonds issued		1,288,347	1,438,921
- bank and other borrowings		52,886	116,195
Fine for late payment of interest		68	833
Dividends on preferred shares		392,650	392,650
Losses less gains from exchange difference		-	81
Unwinding of present value discount:			
- provision for site restoration	19,29	1,353	1,498
Expected credit losses (ECLs)		28,707	-
Other		-	3,570
Total finance costs		**1,764,011**	**1,953,748**

28 Income Tax

Income tax recovery (expenses) include:

In thousands of Kazakhstani Tenge	**2018**	**2017**
Deferred income tax related to continuing operations	132,081	340,173
Deferred income tax related to discontinued operations	-	(1,069,121)
Income tax recovery (expenses)	**132,081**	**(728,948)**

Reconciliation between the estimated and the actual income tax savings is presented below:

In thousands of Kazakhstani Tenge	**2018**	**2017**
IFRS loss before tax	**(744,766)**	**(2,438,889)**
Estimated income tax recovery (expenses) at the effective rate of 20% (2017: 20%)	148,953	487,778
Tax effect of nondeductible or nontaxable items:		
Change in unrecognized deferred income tax assets	(8,259)	(629,668)
Accruals of provision (net of recovery) for impairment of financial aid granted	(384,567)	122,398
Loss on changes in the expected realisable value of non-current assets held for sale	21,009	-
Loss from disposal of investment property	63,945	-
Change in estimates	291,000	(709,456)
Total income tax recovery (expenses)	**132,081**	**(728,948)**

28 Income Tax (continued)

In thousands of Kazakhstani Tenge	31 December 2017	Charged to profit and loss	Charged to equity	31 December 2018
Tax effect of deductible temporary differences				
Deferred income on government grants	378,947	(348,947)	-	-
Tax losses of previous years	468,189	(468,189)	-	-
Provision for site restoration	23,725	(23,725)	-	-
Accounts receivable	-	-	178,606	178,606
Investment property	-	1,354	-	1,354
Other	10,752	(8,414)	-	2,338
Gross deferred income tax assets	**881,613**	**(877,921)**	**178,606**	**182,298**
Less offset with deferred income tax liabilities	(354,208)	354,208	-	-
Recognised deferred income tax assets	**527,405**	**(523,713)**	**178,606**	**182,298**
Tax effect of taxable temporary differences				
Property, plant and equipment	352,193	(352,193)	-	-
Investment property	130,404	(130,404)	-	-
Gross deferred income tax liabilities	**482,597**	**(482,597)**	**-**	**-**
Less offset with deferred income tax assets	(354,208)	354,208	-	-
Recognised deferred income tax liabilities	**128,389**	**(128,389)**	**-**	**-**
Continuing operations		*132,081*	*178,606*	
Discontinued operations		*(527,405)*	-	

28 Income Tax (continued)

In thousands of Kazakhstani Tenge	31 December 2016	Charged to profit and loss	31 December 2017
Tax effect of deductible temporary differences			
Deferred income on government grants	422,672	(43,725)	378,947
Tax losses of previous years	1,522,727	(1,054,538)	468,189
Inventories	17,296	(17,296)	-
Site restoration provision	145,403	(121,678)	23,725
Other	178,983	(168,231)	10,752
Gross deferred income tax assets	**2,287,081**	**(1,405,468)**	**881,613**
Less offset with deferred income tax liabilities	(1,020,041)	665,833	(354,208)
Recognised deferred income tax assets	**1,267,040**	**(739,635)**	**527,405**
Tax effect of taxable temporary differences			
Property, plant and equipment	717,221	(365,028)	352,193
Intangible assets	333,334	(333,334)	-
Investment property	108,562	21,842	130,404
Gross deferred income tax liabilities	**1,159,117**	**(676,520)**	**482,597**
Less offset with deferred income tax assets	(1,020,041)	665,833	(354,208)
Recognised deferred income tax liabilities	**139,076**	**(10,687)**	**128,389**
Continuing operations		(728,948)	

As at 31 December 2018, the Group did not recognise deferred tax asset totaling 517,217 thousand Tenge (as at 31 December 2017: 1,144,749 thousand Tenge).

In the context of the Group's current structure, tax losses and current tax assets of different companies of the Group cannot be offset with the current tax liabilities and tax income of other companies of the Group, and accordingly, taxes can be assessed even in the case of consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only if they relate to the same taxable company.

29 Discontinued operations

Profit (loss) for the year from discontinued:

In thousands of Kazakhstani Tenge	2018	2017
TEMP	-	2,489,468
Arman 100	-	1,063,685
SatFerro BV	-	(3,303)
SatFerro Limited	-	(1,023,978)
SAT&Co Netherlands	-	(282,023)
TMP	5,750,603	521,935
Astananeftekhim	(303,219)	-
TH CAT	60,783	-
Total (loss) / profit for the year from discontinued operations	**5,508,167**	**2,765,784**

29 Discontinued operations (continued)

TEMP
In August 2017, the Group sold 100% shareholdings of TEMP for 4,450,192 thousand Tenge. Income of TEMP before the date of disposal amounted to 1,288,524 thousand Tenge.

Arman 100
In December 2017, the Group sold 100% interest in Arman 100 for 525,305 thousand Tenge. Income of Arman 100 before the date of disposal amounted to KZT 405,546 thousand Tenge.

SatFerro BV, SatFerro Limited, SAT&Co Netherlands
During 2017, the Group closed its subsidiaries registered outside the Republic of Kazakhstan and recognized net losses from discontinued operations in the amount of 1,309,304 thousand Tenge.

TMP
In April 2018, the Group sold 100% participating interest in TMP for 1,700,000 thousand Tenge. TMP loss of before the date of disposal amounted to 137,769 thousand Tenge. The results of operations for the 2017 - income 521,935 thousand Tenge reclassified to discontinued operations.

Analysis of the results of discontinued operations for 2018 and 2017 is presented below:

	2018			
In thousands of Kazakhstani Tenge	**TMP**	**Astananeftekhim**	**TH CAT**	**Total**
Income	7,040,342	-	-	7,040,342
Expenses	(7,178,111)	(194)	-	(7,178,305)
Profit before tax from discontinued operations	(137,769)	(194)	-	(137,963)
Profit / (loss) for the year from discontinued operations	(137,769)	(194)	-	(137,963)

	2017			
In thousands of Kazakhstani Tenge	**TEMP**	**Arman 100**	**TMP**	**Total**
Income	12,165,375	882,477	16,713,587	29,761,439
Expenses	(10,270,580)	(476,931)	(15,122,531)	(25,870,042)
Profit before tax from discontinued operations	1,894,795	405,546	1,591,056	3,891,397
Income tax expenses	(606,271)	-	(1,069,121)	(1,675,392)
Profit / (loss) for the year from discontinued operations	**1,288,524**	**405,546**	**521,935**	**2,216,005**

29 Discontinued operations (continued)

Below is the calculation of income from disposal and result of discontinued operations for 2018 and 2017:

2018				
In thousands of Kazakhstani Tenge	**TEMP**	**Astananeftekhim**	**TH CAT**	**Total**
Total remuneration	1,700,000	1,000	-	1,701,000
Less: net assets value at the date of disposal	(4,188,372)	304,025	(62,312)	(3,946,659)
Reclassified from other comprehensive income	-	-	1,529	1,529
Income (loss) from disposal	**5,888,372**	**(303,025)**	**60,783**	**5,646,130**
Income/(loss) for the year before the date of disposal	(137,769)	(194)	-	(137,963)
Total income (loss) for the year from discontinued operations	**5,750,603**	**(303,219)**	**60,783**	**5,508,167**
To shareholders of the Group	5,750,603	(303,219)	60,783	5,508,167
To non-controlling shareholders				

Net assets at the date of sale are represented by the following assets and liabilities of disposal companies:

In thousands of Kazakhstani Tenge	**TEMP**	**Astananeftekhim**	**TH CAT**	**Total**
Non-current assets				
Property, plant and equipment	7,666,747	-	-	7,666,747
Deferred tax assets	527,405	-	-	527,405
Intangible assets	532	-	-	532
Other non-current assets	225,075	299,644	-	524,719
Current assets				
Accounts receivable	2,560,725	-	-	2,560,725
Inventories	1,596,469	-	-	1,596,469
Other current assets	2,446,001	4,367	-	2,450,368
Cash and cash equivalents	167,450	14	-	167,464
Total assets	15,190,404	304,025	-	15,494,429
Non-current liabilities				
Borrowings	16,624,938	-	-	16,624,938
Long-term provisions	79,727	-	-	79,727
Deferred tax liabilities	1,676,112	-	-	1,676,112
Current liabilities				
Borrowings	6,084	-	-	6,084
Accounts payable	991,915	-	62,312	1,054,227
Financial guarantees	-	-	-	-
Total liabilities	19,378,776	-	62,312	19,441,088
Total net assets	**(4,188,372)**	**304,025**	**(62,312)**	**(3,946,659)**

29 Discontinued operations (continued)

				2017		
In thousands of Kazakhstani Tenge	**TEMP**	**Arman 100**	**SatFerro BV**	**SatFerro Limited**	**SAT&Co Netherlands**	**Total**
Total remuneration	4,450,192	525,305	-	-	-	4,975,497
Less: net assets value at the date of disposal	3,249,248	(132,834)	3,303	1,023,978	282,023	4,425,718
Income (loss) from disposal	**1,200,944**	**658,139**	**(3,303)**	**(1,023,978)**	**(282,023)**	**549,779**
Income/(loss) for the year before the date of disposal	1,288,524	405,546	-	-	-	1,694,070
Total income (loss) for the year from discontinued operations	**2,489,468**	**1,063,685**	**(3,303)**	**(1,023,978)**	**(282,023)**	**2,243,849**
To shareholders of the Group	**2,489,468**	**1,063,685**	**(3,303)**	**(1,023,978)**	**(282,023)**	**2,243,849**
To non-controlling shareholders						

Net assets at the date of sale are represented by the following assets and liabilities of disposal companies

In thousands of Kazakhstani Tenge	**TEMP**	**Arman 100**	**Total**
Non-current assets			
Property, plant and equipment	4,322,980	883,596	5,206,576
Investments accounted for by equity method	9,256	-	9,256
Intangible assets	1,318,954	11	1,318,965
Other non-current assets	17,301	251,543	268,844
Current assets			
Accounts receivable	49,144	173,110	222,254
Inventories	2,702,746	129,179	2,831,925
Other current assets	2,283,549	170	2,283,719
Cash and cash equivalents	11,691	95	11,786
Total assets	10,715,621	1,437,704	12,153,325
Non-current liabilities			
Borrowings	(470,126)	-	(470,126)
Long-term provisions	(693,894)	(592,694)	(1,286,588)
Current liabilities			
Borrowings	(1,934,015)	-	(1,934,015)
Accounts payable	(4,368,338)	(864,557)	(5,232,895)
Financial guarantees	-	(113,287)	(113,287)
Total liabilities	(7,466,373)	(1,570,538)	(9,036,911)
Total net assets	**3,249,248**	**(132,834)**	**3,116,414**

29 Discontinued operations (continued)

Net cash flows:

In thousands of Kazakhstani Tenge	2018	
	TMP	**Astananeftekhim**
Cash remuneration received in the current period	1,700,000	1,000
Less: disposed cash and cash equivalents	(167,450)	(14)
Net cash outflow	**1,532,550**	**986**

In thousands of Kazakhstani Tenge	2017	
	TEMP	**Arman 100**
Cash remuneration received in the current period	4,450,192	525,305
Less: disposed cash and cash equivalents	(11,691)	(95)
Net cash outflow	**4,438,501**	**525,210**

30 Earnings / (loss) per share

Basic earnings/(loss) per share are calculated by dividing the profit or loss attributable to the shareholders of the Group by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares.

The Company has no potentially diluted ordinary shares; therefore, the diluted earnings per share are equal to the basic earnings per share.

(Loss) /earnings per share from continuing operations are calculated as follows:

	2018	**2017**
Earnings/(loss) for the year from continuing operations attributable to holders of ordinary shares, in thousands of Tenge	(594,500)	(1,529,840)
Earnings/(loss) for the year from continuing operations attributable to holders of preferred shares, in thousands of Tenge	(18,185)	(505,876)
Earnings/(loss) for the year from continuing operations, in thousands of Tenge	(612,685)	(2,098,716)
Weighted average number of outstanding ordinary shares, in thousands	7,052,219	1,236,328
Weighted average number of outstanding preferred shares, in thousands	392,650	392,650
Basic and diluted earnings/(loss) per ordinary share from continuing operations, Tenge per share	(0.08)	(1.29)
Basic and diluted earnings/(loss) per preferred share from continuing operations, Tenge per share	(0.05)	(1.29)

30 Earnings / (loss) per share (continued)

Earnings / (loss) per share from discontinued operations are calculated as follows:

	2018	2017
Earnings / (loss) for the year from discontinued operations attributable to holders of ordinary shares, in thousands of Tenge	5,344,679	2,099,118
Earnings / (loss) for the year from discontinued operations attributable to holders of preferred shares, in thousands of Tenge	163,488	666,666
Earnings / (loss) for the year from discontinued operations, in thousands of Tenge	5,508,167	2,765,784
Weighted average number of outstanding ordinary shares, in thousands	7,052,219	1,236,328
Weighted average number of outstanding preferred shares, in thousands	392,650	392,650
Basic and diluted earnings / (loss) per ordinary share from discontinued operations, Tenge per share	0.76	1.70
Basic and diluted earnings / (loss) per preferred share from discontinued operations, Tenge per share	0.42	1.70

31 Contingencies, commitments and operating risks

Political and economic situation in the Republic of Kazakhstan

Kazakhstan continues economic reforms and the development of legal, tax and administrative infrastructure that would meet the requirements of a market economy. The stability of Kazakhstan's economy in the future will largely depend on the progress of these reforms, as well as on the effectiveness of measures taken by the government in the area of economy, financial and monetary policy.

The decline in oil prices is of a negative impact over the Kazakhstani economy. Interest rates in Tenge remain high. The combination of these factors has led to a decrease in the availability of capital and an increase in its value, as well as increased uncertainty regarding further economic growth, which may adversely effect the financial position, results of operations and economic prospects of the Group.

Moreover, mining sector in Kazakhstan is still influenced by political, legislative, tax and regulatory changes. The prospects for economic stability in Kazakhstan are largely dependent on the effectiveness of economic measures undertaken by the government, together with legal, regulatory and political system developments, i.e. circumstances that are beyond the Group's control.

Management is unable to predict neither extent nor duration of changes in the Kazakhstani economy and consequently the effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

31 Contingencies, commitments and operating risks (continued)

Taxation

Kazakhstani tax legislation and practice are in the state of continuous development and therefore are subject to varying interpretations and frequent changes, which may be retroactive. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Group may not coincide with that of the management. As a result, certain transactions may be challenged by tax authorities and the Group may be assessed additional taxes, fines and penalties. Tax periods remain open to retroactive review by the tax authorities for five years.

The Group's management is sure that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. In the opinion of the Group's management, no material losses will be incurred in respect of existing and potential tax claims in excess of provision that have been made in these consolidated financial statements.

Legal proceedings

From time to time and in the normal course of business, the Group may have claims. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

Environmental matters

The enforcement of environmental regulation in the Republic of Kazakhstan is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations associated with environmental regulations. Once obligations are determined, they are recognised in the accounting immediately.

Potential liabilities, which may arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. Nevertheless, according to the current interpretation of the existing legislation, management believes that there are no significant liabilities in addition to the amounts already accrued and recorded in these consolidated financial statements that could adversely affect operational results or financial position of the Group.

Provision for site restoration

The Group's subsidiaries have a legal obligation for restoration of lands disturbed in the course of mining operations and retirement of mining equipment after the planned completion of operations at the contractual fields.

Kazakhstani legislation and legal practice are continuously evolving, which may result in varying interpretations of the existing legislation, as well as introduction of new laws and regulations. Management believes that sufficient provisions have been recorded in these consolidated financial statements with respect to obligations for assets recovery and retirement arising from requirements of existing legislation and operations of the Group. However, changes in the legislation or its interpretation, as well as changes in management's estimates may require the Group to revise its estimates and create an additional provision for assets recovery and retirement obligations.

31 Contingencies, commitments and operating risks (continued)

Obligations under subsoil use contracts

In accordance with the terms of subsurface use contracts (Note 1), the Group has the following obligations:

- to fulfil minimum work program, which specifies volume of capital expenditures, geological, production and processing expenditures, and their estimated cost that should be completed during the term of subsoil use contracts;
- to finance certain social infrastructure projects;
- to finance professional training of Kazakhstani personnel;
- to pay commercial discovery bonus in the case of commercial discovery;
- to reimburse historical costs incurred by the state associated with geological information;
- to comply with the requirement for minimal local content in purchased goods and services.

In accordance with the Law of the Republic of Kazakhstan on Mineral Resources and Subsoil Use, the Ministry of Investment and Development is entitled to terminate subsurface use contracts unilaterally in case of material breach of obligations stipulated by subsoil use contracts and work program.

The Group is subject to periodic reviews by governmental authorities with respect to its compliance with the requirements of respective subsurface use contracts. Management cooperates with state authorities to agree on remediation actions necessary to resolve any issues resulting from these reviews. Failure to comply with the contractual terms could result in fines, penalties, restriction, suspension or termination of the contract. The Group's management believes that any matters of non-compliance will be resolved through negotiations or corrective actions without any material effect on the Group's financial position.

Minimum work program

The table below shows the minimum volume of capital and geological expenditures that shall be executed during the effective period of subsoil use contracts, as well as an unperformed portion of minimum work program as at 31 December 2018:

Contractual area	Work program period	Minimum volume for 2018	Unperformed portion of minimum work program as at 31 December 2018	Amount to be executed in 2019
Gornostayevskoye	2017 - 2019	301,887	-	300,284
Total		**301,887**	**-**	**300,284**

On 26 December 2017, the exploration period at Gornostaevskoe field expired. The Company applied to MID with a request to extend the exploration period and move to the evaluation stage for a period of 2 years to assess commercial discovery. In accordance with Addendum No.8 dated 7 November 2017 to Contract No.1349, the period for geological survey and commercial discovery assessment was extended for two years starting from the date of Addendum No.8.

31 Contingencies, commitments and operating risks (continued)

Social projects obligations

In accordance with the terms of subsurface use contracts, the Group is obliged to finance certain social infrastructure projects on an annual basis. The fulfilment of such obligations may be in the form of cash payments. Obligations represent a fixed amount or 1% of the budgeted operating costs for the year. The Management believes that the Group meets the requirements of the minimum work program under subsoil use contracts.

Training of Kazakhstani personnel

In accordance with the terms of subsoil use contracts, the Group is obliged to finance professional training of Kazakhstani personnel on an annual basis at the amount not less than 0.1%-1.0% of total operating costs approved by the annual minimum work program. The Management believes that the Group fully meets the requirements of the minimum work program under subsoil use contracts.

Minimum percentage of Kazakhstani content in purchased goods and services

In accordance with the terms of subsoil use contracts, the Group is obliged to purchase certain percentage of total volume of goods and services purchased from Kazakhstani companies. The Management believes that the Group fully meets the requirements of the minimum work program under subsoil use contracts.

Guarantees

Guarantees represent irrevocable obligations of the Group to make payments in the event of default by other party. The Group is a guarantor or co-borrower with respect to the following obligations of related parties:

In thousands of Kazakhstani Tenge	**2018**	**2017**
Mr. Kenes Rakishev	31,831,400	7,616,762

Mr. Kenes Rakishev
In 2012, the Group acted as a co-borrower under the line of credit limited to 62,900 thousand US dollars, obtained by Mr. Kenes Rakishev from Tsesnabank JSC. During 2013, an additional agreement was signed to increase the limit of the credit line up to 115,000 thousand US dollars.
As at 31 December 2018, the amount of debt comprised 31,831,400 thousand Tenge (2017: 7,616,762 thousand Tenge).

The Group concluded that at the date of these consolidated financial statements there were no indicators that the controlling shareholder of the Company would not be able to fulfil the above mentioned obligations, which may otherwise require the Group to repay fully or partially the controlling shareholder's debt. The loan amount is secured by collateral not belonging to the Group and guarantees of third parties.

Management believes that as at 31 December 2018 and 2017 the fair value of provided guarantees is insignificant for the purposes of these consolidated financial statements.

32 Financial instruments by categories

In thousands of Kazakhstani Tenge	Note	2018	2017
Borrowings and receivables			
Financial non-current receivables		4,161,576	-
Other non-current financial assets	12	3,854	4,478
Financial current receivables	14	14,107,069	48,400,864
Other current financial assets	15	2,500	2,500
Cash and cash equivalents	16	30,770	131,976
Total financial assets		**18,305,769**	**48,539,818**
Financial liabilities carried at amortised cost			
Borrowings	20	17,654,988	33,160,122
Other non-current financial liabilities	21	3,718,096	3,718,096
Trade and other financial payables	22	10,239,106	11,763,990
Total financial liabilities		**31,612,190**	**48,642,208**

33 Financial risk management

Financial risk factors

The Group’s activities expose it to a variety of financial risks: market risk (including currency risk and risk of effect of interest rate changes), credit risk and liquidity risk. The Group’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group’s financial performance. The Group does not use derivative financial instruments to hedge risk exposures.

Risk management is carried out by management in accordance with policies approved by the Board of Directors of the Company, which provide for risk management principles, covering specific areas, such as credit risk, liquidity risk and market risk.

(a) Credit risk

The Group is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to fulfil its obligation. Credit risk mainly arises from provided guarantees, non-current and current financial receivables, other current financial assets, restricted cash and cash and cash equivalents. The carrying amount of non-current and current financial receivables, other current financial assets, restricted cash and cash and cash equivalents represent the maximum amount of credit risk exposure.

33 Financial risk management (continued)

The table below shows credit ratings (if available) at the end of the relevant reporting period:

In thousands of Kazakhstani Tenge	**Rating (Moody's)**	**2018**	**2017**
Current financial receivables	None	14,107,069	48,400,864
Non-current financial receivables	None	4,161,576	-
Restricted cash	None	3,854	4,478
Cash and cash equivalents			
Tengri Bank JSC	Baa3	11	62,165
Sberbank of Russia JSC	Ba3	-	5
Halyk Savings Bank JSC	Ba2	24,025	986
ATF Bank JSC	Caa1	107	554
Eurasian Bank JSC	B2	3,028	4,198
Kazkommertsbank JSC	B2	-	44,528
Other	None	1,847	16,036
Total cash on term deposits and current bank accounts		29,018	128,472
Total maximum exposure to credit risk		**18,301,517**	**48,533,814**

The information on credit quality of receivables is presented in Note 14.

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties when fulfilling its financial liabilities. The Group manages the liquidity risk using short-term (monthly) forecasts of the expected cash flows from operating activities. The Group has developed a range of internal regulations aimed at establishing control procedures for appropriate placement of temporarily available cash, invoice processing and payments, as well as preparation of operational budgets. The Group’s objective is to maintain the balance between the continuous financing and flexibility using bank deposits.

33 Financial risk management (continued)

The following table summarises the Group's financial liabilities by maturities, indicating periods remaining as at the reporting date till maturity dates stipulated by contracts terms.

In thousands of Kazakhstani Tenge	**On call and less than 1 month**	**1 to 6 months**	**6 to 12 months**	**12 months to 3 years**	**Over 3 years**
As at 31 December 2018					
Borrowings	-	1,221,637	-	13,015,366	3,417,985
Other non-current liabilities	-	-	392,650	1,177,950	2,355,899
Financial payables	10,042,781	196,325	-	-	-
Financial guarantees	31,831,400	-	-	-	-
Total financial liabilities	**41,874,181**	**1,417,962**	**392,650**	**14,193,316**	**5,773,884**
As at 31 December 2017					
Borrowings	1,197,748	1,395,435	3,596,588	8,124,285	19,060,105
Other non-current liabilities	-	-	392,650	1,177,950	2,748,549
Financial payables	10,891,667	872,323	-	-	-
Financial guarantees	7,616,762	-	-	-	-
Total financial liabilities	**19,706,177**	**2,267,758**	**3,989,238**	**9,302,235**	**21,808,654**

In the table above the amount of provided financial guarantees is related to the earliest period when these guarantees may be claimed (Note 31).

Management estimates that the financial aid given to related parties can be returned in cash within a month in order to prevent unexpected liquidity problems.

(c) Market risk

Interest rate risk

Income and operating cash flows of the Group are not exposed to changes in market interest rates because interest rates on all loans are fixed. Bond interest rates are floating and depend on index of changes in consumer prices, but as stated in Note 20, bond issue conditions provide for an upper and lower limit of changes in bond interest rates.

Herewith, the Group is exposed to fair value changes in interest rates.

The Group has no formal agreements for the analysis and reduction of risks associated with changes in interest rates.

Currency risk

Currency risk arises when future currency inflows or recognised assets and liabilities are denominated in currencies other than the functional currency of the Group's companies.

33 Financial risk management (continued)

The Group is exposed to currency risk mainly in respect of loans and debts to suppliers and contractors, denominated in US Dollars. Exposure to currency risk in respect of cash and cash equivalents is insignificant, because they are mainly denominated in Tenge (Note 16). Due to the fact that the variety of financial derivative instruments on the Kazakhstani market is limited and these instruments are rather expensive, management decided not to hedge the Group's currency risk, as benefits from such instruments do not cover the related costs. Nevertheless, the Group continues monitoring changes in financial derivatives market so that to implement hedging structure in future or as needed.

The table below shows total amounts of monetary assets and liabilities denominated in foreign currency that expose to currency risk:

In thousands of Kazakhstani Tenge	**US Dollar**	**Euro**	**Russian Rouble**	**Total**
As at 31 December 2018				
Assets	-	1,537	-	1,538
Liabilities	-	(2,305)	-	(2,305)
Net position	**-**	**(768)**	**-**	**(767)**
As at 31 December 2017				
Assets	1,885,489	15,620	16,953	1,918,062
Liabilities	(16,575,815)	(466,591)	(24,380)	(17,066,786)
Net position	**(14,690,326)**	**(450,971)**	**(7,427)**	**(15,148,724)**

As at 31 December 2018, the Group was not exposed to currency risk. As at 31 December 2017, if Tenge had depreciated by 5% against US Dollar, with all other variables held constant, loss for the year would have increased by 734,516 thousand Tenge; if Tenge had appreciated by 5% against US Dollar, loss for the year would have decreased by 734,516 thousand Tenge.

Price risk

The Group is not exposed to price risk of equity securities since it does not have any portfolio of quoted equity securities.

Capital management

The Group's objectives with respect to capital management are to ensure the Group's ability to continue as a going concern in order to provide profit for shareholders and benefits for other concerned parties, and to maintain an optimal capital structure to reduce the cost of capital. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return equity to the shareholders or sell assets to reduce debts.

33 Financial risk management (continued)

Consistent with others in the industry, the Group monitors its capital structure on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total amount of loans (including short-term loans and long-term loans recognised in the consolidated statement of financial position) less cash and cash equivalents. Total amount of capital is defined as “Total equity” recognised in the consolidated statement of financial position plus net debt.

In thousands of Kazakhstani Tenge	**Note**	**2018**	**2017**
Total borrowings	20	17,654,988	33,160,122
Less: cash and cash equivalents	16	(30,770)	(131,976)
Net debt		17,624,218	33,028,146
Total own equity		17,461,908	10,881,887
Total equity		35,086,126	43,910,033
Gearing ratio		**50%**	**75%**

34 Fair value of financial instruments

Fair value measurement

Fair value is the amount for which a financial instrument could be sold or paid when a liability is transferred between knowledgeable, willing parties in an arm’s length transaction at the measurement date. The best evidence of fair value is price quotations in an active market.

The estimated fair value of financial instruments has been determined by the Group using available market information, if any, and appropriate valuation techniques. However, professional judgements are necessarily required to interpret market data to determine the estimated fair value. The economy of the Republic of Kazakhstan continues to display some characteristics of emerging markets and economic conditions continue to limit the volume of activity in financial markets. Market quotations may be outdated or reflect cost of sales at cut prices and therefore not represent fair values of financial instruments. Management uses all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on the credit risk of the counterparty.

Financial liabilities carried at amortised cost

The estimated fair value of instruments with fixed interest rate and stated maturity, in respect of which there is no market quotation, is based on estimated cash flows discounted using current interest rates for new instruments with similar credit risk and remaining maturity.

The hierarchy of fair value measurement sources

The Group uses the following hierarchy for determining the fair value of financial instruments broken down by valuation models:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

34 Fair value of financial instruments (continued)

Level 2: inputs which have a significant effect on the reflected fair value and other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);

Level 3: methods that use inputs which have a significant effect on the reflected fair value and that are not based on observable market data.

Presented below is the quantitative information on the hierarchy of fair value measurement sources of the Group's assets and liabilities (valuation date: 31 December 2018):

			Fair value measurement using	
In thousands of Kazakhstani Tenge	***Note***	**Total**	**significant observable inputs (Level 2)**	**significant unobservable inputs (Level 3)**
Assets with disclosed fair value				
Current financial receivables	**14**			
Temporary financial aid issued to related parties		9,183,069	-	9,183,069
Debt from buyers and customers		102,084	-	102,084
Other financial receivables from related parties		4,715,006	-	4,715,006
Other financial receivables		106,910	-	106,910
Other non-current financial liabilities				
Other non-current financial receivables from related parties		4,161,576	-	4,161,576
Restricted cash	**12**	3,854	-	3,854
Other current financial assets	**15**			
Short-term deposits		2,500	-	2,500
Liabilities with disclosed fair value				
Borrowings	**20**			
Bonds issued		14,237,003	14,237,003	-
Borrowings from Bank Centercredit		3,000,000	-	3,000,000
Borrowings from Mr. Kenes Rakishev		417,985	-	417,985
Other non-current financial liabilities	**21**			
Debt component on preferred shares		3,718,096	-	3,718,096
Trade and other financial payables	**22**			
Payables to suppliers and contractors		52,874	-	52,874
Dividends on preferred shares payable		196,325	-	196,325
Other financial payables		9,989,907	-	9,989,907

34 Fair value of financial instruments (continued)

Presented below is the quantitative information on the hierarchy of fair value measurement sources of the Group's assets and liabilities (valuation date: 31 December 2017):

			Fair value measurement using	
In thousands of Kazakhstani Tenge	***Note***	**Total**	**significant observable inputs (Level 2)**	**significant unobservable inputs (Level 3)**
Assets with disclosed fair value				
Current financial receivables	**14**			
Temporary financial aid issued to related parties		44,452,419	-	44,452,419
Debt from buyers and customers		2,176,542	-	2,176,542
Other financial receivables		1,771,903	-	1,771,903
Other non-current financial assets	**12**			
Restricted cash		4,478	-	4,478
Other current financial assets	**15**			
Short-term deposits		2,500	-	2,500
Liabilities with disclosed fair value				
Borrowings	**20**			
Bonds issued		13,222,085	13,222,085	-
Borrowing from Sberbank of Russia		17,728,547	-	17,728,547
Borrowing from Halyk Bank		1,059,931	-	1,059,931
Other borrowings		25,000	-	25,000
Other non-current financial liabilities	**21**			
Debt component on preferred shares		3,718,096	-	3,718,096
Trade and other financial payables	**22**			
Payables to suppliers and contractors		881,224	-	881,224
Dividends on preferred shares payable		196,325	-	196,325
Other financial payables		10,686,441	-	10,686,441

35 Events after the reporting period

Ertis Ferronickel Plant LLP and and Kaznickel LLP

The Group resumed operations of FNP Ertis and Kaznickel for the further development of the project of mining and processing of cobalt-nickel ores of Gornostayevskoye field.

In 2018, it was decided to choose a new strategy for the development of the field by application of new technologies not applied before in the field of nickel production, and namely, the method of drillhole in situ leaching. At the beginning of 2019, the partner-investor was attracted to implement this project; an approval from the competent authorities on the application of the method of drillhole in situ leaching was obtained; the additional agreement to the Contract for Pilot Production is under conclusion.

Aktau Bitumen LLP

To secure operations of Aktau Bitumen LLP the right of subsoil use and all property, plant and equipment for which payment was processed in 2018 became the property of Aktau Bitumen LLP. In April 2019 a pilot launch of the plant was successfully conducted. The official launch is scheduled for 23 May 2019.

For effective implementation of operations of Aktau Bitumen LLP the Group signed the Contract for acquisition in leasing of five dump trucks which will ensure continuous delivery of a gypsum stone from the field to plant, and governmental support in the terms of subsidy to a portion of the interest rate on borrowings received for acquisition of property, plant and equipment, and the right of subsoil use was obtained through DAMU Entrepreneurship Development Fund JSC.